



LITTLE SUNSHINE'S
**PLAYHOUSE
& PRESCHOOL**

**FRANCHISE DISCLOSURE DOCUMENT
LITTLE SUNSHINE'S ENTERPRISES, INC.**

(a Missouri corporation)

2925 E. Battlefield Road, Suite 225B

Springfield, Missouri 65804

(417) 887-4242

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The franchise relates to the operation of pre-schools ("Schools") that offer child-care and related services under the Little Sunshine's Playhouse and Preschool trade name and business system.

The total investment necessary to begin operation of your School is from \$380,700 to \$486,500. This includes \$84,500 to \$105,100 that must be paid to us or our affiliates. If you sign a development agreement for the right to develop three Schools, you must pay us \$180,000 when you sign the Development Agreement, but you will not have to pay us an initial franchise fee when you sign individual franchise agreements. The total investment necessary to begin operation of your business under the Development Agreement is \$180,000, all of which must be paid to us.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Nicole Carr at 2925 E. Battlefield Road, Suite 225B, Springfield, Missouri 65804, (417) 887-4242.

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

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

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

Issuance Date: January 28, 2014

STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state. **REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.**

Call the state franchise administrator listed in **Exhibit D** for information about the franchisor, or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY MEDIATION AND IF NO SETTLEMENT IS ACHIEVED THROUGH MEDIATION, THEN BY ARBITRATION ONLY IN SPRINGFIELD, MISSOURI. IF ARBITRATION IS NOT APPLICABLE, THEN ANY LITIGATION UNDER THE FRANCHISE AGREEMENT MUST BE BROUGHT IN THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF MISSOURI, SOUTHERN DIVISION. OUT-OF-STATE MEDIATION, ARBITRATION OR LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO MEDIATE, ARBITRATE OR LITIGATE WITH US IN MISSOURI THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT STATES THAT MISSOURI LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. WE ARE A DEVELOPMENT STAGE COMPANY. OUR LIMITED OPERATING HISTORY WILL BE OF LITTLE ASSISTANCE TO PROSPECTIVE FRANCHISEES IN DETERMINING WHETHER TO INVEST.
4. YOU WILL BE REQUIRED TO MAKE AN ESTIMATED INITIAL INVESTMENT RANGING FROM \$380,700 TO \$486,500. THIS AMOUNT EXCEEDS THE FRANCHISOR'S STOCKHOLDERS' EQUITY AS OF DECEMBER 31, 2013, WHICH IS \$100,938.
5. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

We use the services of one or more FRANCHISE BROKERS or referral sources to assist us in selling our franchise. A franchise broker or referral source represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of this franchise.

Effective Date: See the next page for state effective dates

STATE EFFECTIVE DATES

The following states require that the disclosure document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

State	Effective Date
California	March 5, 2014
Hawaii	February 4, 2014
Illinois	January 29, 2014
Indiana	January 29, 2014
Maryland	March 4, 2014
Minnesota	February 11, 2014
New York	April 2, 2014
North Dakota	February 26, 2014
Rhode Island	February 13, 2014
South Dakota	January 29, 2014
Virginia	March 14, 2014
Washington	March 26, 2014
Wisconsin	January 29, 2014

In the states listed below, the effective date of this disclosure document is the issuance date of January 28, 2014.

Alabama	Kentucky	North Carolina
Alaska	Louisiana	Ohio
Arizona	Maine	Oklahoma
Arkansas	Massachusetts	Oregon
Colorado	Michigan	Pennsylvania
Connecticut	Mississippi	South Carolina
Delaware	Missouri	Tennessee
District of Columbia	Montana	Texas
Florida	Nebraska	Utah
Georgia	Nevada	Vermont
Idaho	New Hampshire	West Virginia
Iowa	New Jersey	Wyoming
Kansas	New Mexico	

**NOTICE REQUIRED
BY
STATE OF MICHIGAN**

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

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

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

**THE MICHIGAN NOTICE APPLIES ONLY TO FRANCHISEES WHO ARE
RESIDENTS OF MICHIGAN OR LOCATE THEIR FRANCHISES IN MICHIGAN.**

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

(i) The failure of the proposed transferee to meet the franchisor's then-current reasonable qualifications or standards.

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

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

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

The fact that there is a notice of this offering on file with the attorney general does not constitute approval, recommendation, or endorsement by the attorney general.

Any questions regarding this notice should be directed to the Department of Attorney General, State of Michigan, 670 Williams Building, Lansing, Michigan 48913, telephone (517) 373-7117.

THE MICHIGAN NOTICE APPLIES ONLY TO FRANCHISEES WHO ARE RESIDENTS OF MICHIGAN OR LOCATE THEIR FRANCHISES IN MICHIGAN.

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ITEM 1

THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

Little Sunshine's Enterprises, Inc. offers the franchises we describe in this disclosure document. For simplicity, we refer to Little Sunshine's Enterprises, Inc. as "Little Sunshine's" or by a first person plural pronoun ("we" or "us"). "You" means the individual or business entity (corporation, partnership, etc.) that buys a franchise or has the franchise assigned to it.

Franchisor, Parent and Affiliates and Prior Experience. We are a Missouri corporation with our home office at 2925 E. Battlefield Road, Suite 225B, Springfield, Missouri 65804. We do business under our corporate name; we do not operate or conduct business under any other name. We were incorporated in Missouri on September 14, 2005, and began offering franchises in November 2005, but we ceased offering franchises from 2009 to 2011 and began offering franchises again in January 2012. We have never engaged in any business except owning, operating and franchising Little Sunshine's Playhouse and Preschool® school, franchising and providing services to school franchisees.

Rochette Dahler created the Little Sunshine's Playhouse and Preschool® concept and opened the first School on Chestnut in Springfield, Missouri in June 2002. Little Sunshine's Playhouse and Preschool, Inc. ("LSPPI") currently operates that School. Mrs. Dahler and LSPPI are our predecessors. Her business and mailing address are the same as ours. Mrs. Dahler, individually, has never offered franchises in any line of business, or under any other business affiliate.

Our affiliate, LSP Claremont Inc., acquired and reopened a Little Sunshine's Playhouse and Preschool® school on Claremont in Springfield, Missouri in April 2009. Our affiliate, LSP Cardinal Inc. acquired and reopened a school on Cardinal in Springfield, Missouri in April 2010. Our affiliate, LSP Rogers Inc., acquired and reopened a school in Rogers, Arkansas in June 2010. Our affiliate, LSP Scottsdale Inc., opened a school in Scottsdale, Arizona in September 2010. These five schools are collectively referred to as our "Affiliate-Owned Schools." These affiliates share our business office at 2925 E. Battlefield Road, Suite 225B in Springfield, Missouri.

Our affiliate, Playhouse Development, LLC, ("Playhouse Development") with a principal business address at 2925 E. Battlefield Road, Suite 225B, Springfield, Missouri 65804 offers leasing opportunities for Little Sunshine's Playhouse and Preschool® school locations. Where available, franchisees may elect to sublease the premises for a Little Sunshine's Playhouse and Preschool® location. A copy of the Sublease Agreement is included as Exhibit G.

The affiliates described above are collectively referred to as our "Affiliates." None of our Affiliates have offered franchises in this or any other line of business.

We have no other predecessors, parents or affiliates required to be disclosed in this Item 1.

Our Business and Description of the Franchise. We offer franchises to operate educational pre-schools offering childcare and learning services under the Little Sunshine's Playhouse and Preschool trade name and business system ("Schools"); under our standard franchise agreement (the "Franchise Agreement") attached as Exhibit B. The various forms of agreement we have used in the past may have terms and conditions different from the current form. We also reserve the right to change the form and terms of the agreement used in the future. We do not engage in or franchise any other line or type of business. As of the date of this disclosure document, there are two franchised Schools and five Affiliate-Owned Schools in operation, as described above.

Schools market childcare and learning services for infants, toddlers, and pre-school aged children. The services provided at the Schools are used by parents seeking skilled, clean, safe child-care. The Schools operate under the Little Sunshine's Playhouse and Preschool® trade name and use a distinctive logo, which appears on the cover page of this document. We obtain background checks on you and you must pay us our costs to obtain those screenings.

If you sign a franchise agreement with us ("Franchise Agreement"), you will operate one School at an approved site within a specified area ("Trade Area"). If you sign a development agreement with us ("Development Agreement"), you will receive the right to develop more than one School, pursuant to individual Franchise Agreements, under a set development schedule. A copy of the Franchise Agreement is included as Exhibit B and a copy of the Development Agreement is included as Exhibit C.

You must operate your School(s) under the business system and operating procedures we have developed and continue to develop, as described in our operations manual (the "Operations Manual"). We have developed and continue to develop a proprietary system to guide and govern the design, furnishing and operation of the School(s) which you must follow (the "System"). As described in Item 8, you must buy your furniture and equipment from us or another supplier we designate. Unless you are an individual who will operate your own School(s), you must hire a full-time program administrator, whom we refer to as a "Program Director," who meets our eligibility standards and residency requirements. If you do not hire a Program Director, you must meet our eligibility standards and residency requirements.

Schools are designed to be located in areas where a significant number of mothers work outside the home. The Schools typically occupy from 6,500 to 9,000 square feet of interior space in a free-standing building. Schools include multiple outdoor playground facilities that contain various centers or stations that complement the educational programs. The typical School, depending on market factors, will accommodate from 72-150 children, as we determine. However, each state or local jurisdiction will make the final determination of a School's license/enrollment capacity. In certain situations we may approve a larger building.

Schools market their services predominantly to families living or working within the area. The Schools operate year-round with the exception of certain national holidays.

The market for child care services is well-developed. Schools compete generally with all other kinds of childcare establishments, including those operating for-profit and those operating as not-for-profit. Competing childcare establishments may be affiliated with national chains or local operations, or be church, school, and home-based childcare providers. Some community-sponsored facilities may cater only to specified population groups.

Industry-Specific Regulation. The child care industry is heavily regulated by local, state, and federal governments. Licensing, facilities (including building, furnishings, fixtures and equipment), curriculum and associated materials and supplies, transportation of children, staff educational and experience qualifications, food programs, and health, fire and safety procedures are some of the regulated aspects of School operations. Your Program Director, whether it be you or someone employed by you, will usually be required by law to have at least a bachelor's-level degree in Early Childhood Development or a related field. We also require you or your Program Director to have prior business administration experience.

In addition, you should be aware that there are general laws and regulations that apply to your School's construction and you should make further inquiries to find out about these laws and regulations as a part of your decision making process, and throughout the construction of your building to ensure ongoing compliance. The laws and regulations may change from year to year. We recommend that you

check with your state and local agencies to determine which laws apply to the operation of a School in your area. You should consider these laws and regulations when evaluating your purchase of a franchise.

ITEM 2

BUSINESS EXPERIENCE

Chief Executive Officer and President: Rochette Dahler

Rochette Dahler developed the first Little Sunshine's Playhouse and Preschool® School in 2002 and currently operates five Schools as separate corporations. She incorporated Little Sunshine's Enterprises, Inc. in 2005 to offer and service Little Sunshine's Playhouse and Preschool® franchises, and has served as our chief executive officer and member of our Board of Directors since that time. Mrs. Dahler has also served as the President, CEO, and a member of the Board of Directors of each of our Affiliates in Springfield, Missouri since their respective inception dates: LSPPI since May 2002; LSP Claremont, Inc. since April 2009; LSP Cardinal, Inc. since April 2010; LSP Rogers Inc. since May 2010; LSP Scottsdale Inc. since March 2009; and Playhouse Development, LLC since February 2012. Mrs. Dahler is a Certified Franchise Executive.

Vice President and Franchisee Admissions Coordinator: Matthew Dahler

Matthew Dahler has served as our Vice President and Franchisee Admissions Coordinator since June 2008. Mr. Dahler also serves as Vice President and a member of the Board of Directors of LSPPI since June 2008 and each of our other Affiliates in Springfield, Missouri, since their respective inception dates: LSP Claremont, Inc. since April 2009; LSP Cardinal, Inc. since April 2010; LSP Rogers Inc. since May 2010; LSP Scottsdale Inc. since March 2009; and Playhouse Development, LLC since February 2012. From June 2009, Mr. Dahler also served as a Manager/Sales at Wyndham Vacation Resorts in Honolulu and Princeville, Hawaii. From 2007 to 2008, he held a sales position with Sport Boats USA in Ozark, Missouri.

Chief Operating Officer: Nicole Carr

Nicole Carr has been with Little Sunshine's Enterprises since July 2008 and became our Chief Operating Officer in June 2013. Prior to holding this position, Ms. Carr served as our Corporate Manager from June 2009 to June 2013, and our Operations Manager from July 2008 to June 2009.

Senior Operations Executive: Mackenzy Longley

Mackenzy Longley has served as Little Sunshine's Enterprises Senior Operations Executive since February 2013. Ms. Longley served as Program Director for Little Sunshine's Playhouse and Preschool® from April 2010 to February 2013, and as an Assistant Director/Assistant Teacher for Little Sunshine's Playhouse and Preschool® from March 2009 to April 2010. From June 2007 through March 2009, Ms. Longley was self-employed as an in-home child care provider.

ITEM 3

LITIGATION

No litigation is required to be disclosed in this Item.

ITEM 4

BANKRUPTCY

No bankruptcies are required to be disclosed in this Item.

ITEM 5

INITIAL FEES

You must pay us an “Initial Franchise Fee” of \$70,000 for your School when you sign the Franchise Agreement for a School.

If you sign a Development Agreement, you will receive a discounted multiple School Initial Franchise Fee in exchange for your commitment to open three Schools. The total multiple School Initial Franchise Fee for this program is \$180,000. This Initial Franchise Fee is payable in full at the time you sign the Development Agreement for the three Schools and the Franchise Agreement for the first School and is not refundable under any circumstances. You will sign a separate Franchise Agreement for each School. Each Franchise Agreement will be amended to provide that you will not be required to pay us an additional initial franchise fee under any of the Franchise Agreements. You must sign the then-current Franchise Agreement for the second School within six months after the opening of your first School, and you must sign the then-current Franchise Agreement for the third School within six months after the opening of your second School.

Other than stated above, the Initial Franchise Fees described in this Item 5 are uniform in all cases. We do not refund Initial Franchise Fees, under any circumstances.

You must pay us our costs to obtain a background and credit check on you. You must pay us an estimated background/credit check fee before you sign the Franchise Agreement, but after we determine that you meet all other franchise requirements. The fee is typically \$2,500 and will generally pay for background/credit checks for two people. If more than two people will be signing the Franchise Agreement as franchisees or we estimate the amount our third-party vendor will charge will exceed \$2,500, due to international background checks or other reasons, you must pay us any additional costs we estimate when we request. If the actual cost is less than we estimate you will be refunded the difference and if the actual cost is more than our estimates you must promptly pay the difference to us upon your receipt of an invoice. The payment of these costs is otherwise not refundable.

In connection with your initial furniture, fixtures and equipment package (“FFE Package”), you must pay to us \$10,000 to inventory and install the FFE Package. This installation charge is non-refundable and payable at the time you place your order for the FFE Package.

As soon as you open enrollment at your School, you must begin paying us the Software Licensing Fee described in Item 6 below. Typically, a School will begin accepting enrollment 4 months before the School opens and will pay us \$2,000 in Software Licensing Fees before the School is open. The Software Licensing Fee is not refundable.

You may choose to sublease the premises of your School from our Affiliate, Playhouse Development. The option to sublease your School premises is subject to property availability and the willingness and ability of Playhouse Development to enter into a prime lease agreement for the premises. If this occurs, you will be required to pay a security deposit to Playhouse Development at the time you sign the Sublease Agreement in the amount of \$20,000. The security deposit is returned at the expiration of the lease term in accordance with the terms of the prime lease.

You must successfully complete our initial training program as described in Item 11 before beginning operations. If you are unable to successfully complete the initial training program you may re-enroll in the program at our current tuition charge. You may also enroll others in the training program for initial or refresher training at our current tuition charge. Currently our tuition charge is \$600 per person. This charge is not refundable.

You will bear the cost of and must pay any sales tax, use tax, gross receipts tax, excise tax, or other similar tax on your payments to us. We may collect these taxes from you for transmittal to the taxing authority. You will reimburse us for any taxes we must pay directly to any taxing authority. These payments are not refundable.

ITEM 6

OTHER FEES

Type of Fee⁽¹⁾	Amount	Due Date	Remarks
Royalties ⁽²⁾⁽³⁾	7% of Gross Revenues.	Payable monthly from the tuition payments we receive from parents at your School through an ACH automatic debit process. See Note 2.	Gross Revenues includes all revenue or other considerations of any kind from your School, but excludes sales tax, and coupon credits. See Notes 2 and 3.
Ad Fund ⁽³⁾⁽⁴⁾	\$1,000 a month for small Schools licensed capacity for fewer than 90 students. \$2,000 per month for mid-sized Schools licensed capacity for 90 to 130 students. \$3,000 per month for large Schools licensed capacity for more than 130 students.	Payable monthly and automatically debited from our collection of tuition each month. See Note 2.	We may direct you to pay the Ad Fund contributions to an affiliate. We have the right to increase the contribution; provided, however, that the amount of any increase may not exceed 10% per year.
Telephone Directory Charges	Varies.	Upon billing by service providers to Us or the Vendor.	If more than one franchisee shares the Directory advertising, the cost will be apportioned on an equal basis based on the number of Schools.

Type of Fee⁽¹⁾	Amount	Due Date	Remarks
Additional In Office Training Fee	Currently \$600 per person for both Franchisee and Program Director to attend in office two-day training program, if requested after initial training is complete or requested for new Program Director. This fee is subject to annual increase of 10%.	Payable when you schedule training.	If there is space available in a scheduled two-day training course, you may enroll or re-enroll others in our initial training program for our then-current fee. This training is required for all new Program Directors before they can officially assume that position. Franchisee must accompany each new Program Director to training.
Supplier Approval Fee	Varies depending on the situation. Estimated to range from \$500 to \$1,500.	When invoiced.	We have the right to charge you a fee to review a proposed alternative item or supplier. This fee will be charged if we incur any expenses in reviewing your proposed supplier.
Indemnification	Unlimited.	When we demand.	You must indemnify us and our Affiliates from liability for any claim based on or arising from your operation of your School or your use of our Web site or Intranet.
Audit Fees	Cost of audit, including travel, meal and lodging expenses of auditor.	When invoiced.	Payable only if you understate your Gross Revenues or if you fail to produce all books and records to be audited at the time specified by us.
Interest/ Late Charges	Penalty on past-due obligations to us and our Affiliates is \$25 per day. If you default in paying your insurance premiums or other similar obligations, and we must pay, you will be charged a 10% handling fee.	Due upon invoice if you pay obligations more than five business days late.	Interest to be charged will not exceed the maximum amount permitted under applicable state law.
Renewal Fee	\$7,000.	Payable when you sign a renewal franchise agreement in then-current form.	
Transfer Fee and Sales Commission	\$7,000 transfer and assignment fee; 7% sales commission on purchase price.	Before the transfer.	Transfer fee is payable by the seller when the Franchise Agreement or any interest in the franchise is transferred to cover our reasonable legal and accounting fees, internal staffing costs. The sales commission is due only if we obtain the purchaser.

Type of Fee⁽¹⁾	Amount	Due Date	Remarks
Transfer Initial Advertising Contribution	\$10,000.	Upon signing Franchise Agreement.	Payable by buyer and is to be paid to us to purchase advertising and promotional materials.
Additional On-Site Training Upon Transfer (approx. one week) or at Any time Upon Franchisee Request	\$2,000 (per location). Subject to annual increase of 10%.	Before attending training.	If we require or the franchisee/transferee requests on-site training, the franchisee/transferee will pay \$2,000 plus our travel and living expenses.
Transfer Fees – Development Agreement	\$10,000.		
Transfer Background/ Credit check fee	\$2,500 estimated for two persons.	Before effective date of transfer.	Payable whether or not the transfer becomes effective, if we incurred the cost.
Software Licensing Fee ⁽⁵⁾	Then-current fee, currently \$500 per month.	Must begin paying when enrollment opens; Payable Monthly.	See Note 5.
Litigation Expenses	Our attorneys' fees, court costs, expert fees and litigation expenses.	As incurred.	We may recover our costs in any action to enforce or defend our rights under the Franchise Agreement.
Taxes	Amount of Tax.	As incurred.	If any taxing authority imposes any sales, gross receipts or other tax, levy or assessment on any payments you make to us, you must pay the amount assessed, or reimburse us if we must pay it directly.
Maintenance/ Refurbishing/ Replacement ⁽⁶⁾	As specified.	Maintenance as needed; Refurbishing at our request but not more than once every three years.	See note 6.
Sublease	Rent and fees due under Prime Lease, plus \$10,000 annually. See note 7.	Monthly	See note 7.

Notes:

(1) We refund no fees. Except as noted, you pay all fees to us and all fees are uniformly imposed.

(2) As part of the Software Licensing Fee, we will provide you with tuition billing services. We will collect, through our billing software, all ACH e-check processing data to complete monthly financial transactions. We will notify you of any bounced check and remit to you by the 19th of each month all amounts collected, less the Royalty Fee, Ad Fund Fee, Software Licensing Fee, and any other fee you owe to us. We collect Royalty Fees on all Gross Revenues received, including tuition collected and any other payment received.

(3) If you sign a Development Agreement, you will pay the royalty rate and ad fund contribution stated in the first franchise agreement you sign with us for each franchise agreement under the Development Agreement.

(4) Your advertising contributions do not pay for your telephone directory advertising, or other optional promotions that you decide to participate in locally. Your directory costs, including any Internet based advertising, are in addition to the royalty fees and advertising contributions you pay to us. If you share the telephone directory advertising with other franchisees, the costs will be apportioned among all participating franchisees on an equal basis.

(5) You must pay to us a monthly Software Licensing Fee for access to our software to process all student tuition payments and perform other tasks such as bill pay, payroll, payroll taxes, profitability report management, quarterly payroll tax reporting, and year-end employee W-2's. We will not file your annual Federal and State tax returns, and we recommend that your CPA or Personal Accountant Review your accounting file periodically. You will oversee and authorize all payments before they process to vendors, payroll submission to Intuit, and you will view and sign all tax reports; so that you can personally manage all withdraws from your company checking account; and you ultimately retain responsibility regarding accuracy of your bookkeeping and accounting file. You will have continual access to the accounting file and should supervise all bookkeeping.

(6) Maintenance may include periodic repainting, repairs and replacement of impaired or obsolete existing improvements, indoor and outdoor equipment and signs. Refurbishing may include structural changes, remodeling, redecorating, replacements, modifications and additions to existing improvements, indoor and outdoor equipment and signs to conform to our then-current standards and trade dress. These amounts will be payable to us or third parties as incurred. You must perform routine needed maintenance and make safety improvements or replacements at any time as needed. The specified equipment required for your School, under normal wear and tear will need frequent replacement/repair; it is not intended to last the life of your franchise agreement term.

(7) You may choose to sublease the premises of your School from our Affiliate, Playhouse Development. The option to sublease your School premises is subject to property availability, as well as the willingness and ability of Playhouse Development to enter into a prime lease agreement for the premises. If you sublease the premises of your School from Playhouse Development, you must sign a standard Sublease Agreement in the form included in Exhibit G of this disclosure document. Playhouse Development also has the right to require execution of a personal guaranty in the form attached to the Sublease Agreement. The rent and other amounts due under the Sublease Agreement will be equal to the rent and other amounts due from the tenant under Playhouse Development's lease (the "Prime Lease") of the premises from the landlord plus an additional \$10,000 annually payable in twelve equal monthly installments. The rent due will vary with the location of the premises. Typically, monthly rental payments will be based on the cost of the new construction project for the School including land, brokers' fees, soft costs, materials, subcontractors' labor, general conditions, contractors' fees, site work and all other fees associated with construction of the School. You must pay the monthly rent under the Sublease Agreement directly to Playhouse Development, as designated by Playhouse Development, and Playhouse Development will then pay the rent to the landlord under the Prime Lease. Playhouse Development will require you to pay a security deposit in the amount of \$20,000. You must obtain Playhouse Development's prior written consent to transfer, assign or sublet your interests under the Sublease Agreement.

ITEM 7

ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount⁽¹⁾	Method of Payment	When Due	To Whom Payment Is to Be Made
Franchise Fee ⁽²⁾	\$70,000	Each in Lump Sum	Signing of Franchise Agreement	Us (non-refundable)
Initial Leasing Costs 3 months and Security Deposit ⁽³⁾	\$65,000-\$95,000	Lump Sum	Monthly	Landlord or our Affiliate
Purchase Price of School Site ⁽⁴⁾ Optional	Varies	Lump Sum	Over the term of the mortgage or lease	Developer or Land Owner or Us
FFE Package ⁽⁵⁾	\$70,000-\$120,000	Lump Sum	When FFE Package is ordered	Approved Independent Suppliers
Computer Hardware and Communication	\$10,000	Lump Sum	When Computer Hardware and Communication Package is ordered	Approved Independent Suppliers
FFE Package and Computers Installation Fee ⁽⁵⁾	\$10,000	Lump Sum	When FFE Package is ordered	Us
Software Licensing Fee	\$2,000	Monthly Payment	When enrollment opens	Us
Operating Permits for Occupancy and Licensing	\$200-\$2,000	Lump sum	Upon Receipt	Government Authority
Opening Inventory	\$2,000-\$3,000	Vendor's Terms	Vendor's Terms	Approved Independent Suppliers
Signage	\$10,000	Vendor's Terms	Vendor's Terms	Approved Independent Supplier
School Opening Campaign ⁽⁶⁾	\$25,000-\$40,000	Lump Sum	Upon executing an approved lease agreement	Approved Independent Supplier
Ad Fund monthly contribution (3 months)	\$3,000-\$9,000	Lump Sum	Monthly with Royalty	Us
Logo Items Package/Customized Items/ Branded Merchandise	\$7,000	Lump Sum	Upon executing an approved lease agreement	Approved Independent Supplier
Background/Credit Checks ⁽⁷⁾	\$2,500	Lump Sum	Before you sign Franchise Agreement	Us
Prepaid Expenses ⁽⁸⁾	\$4,000-\$6,000	Vendor's Terms	Before School Opens	Independent Vendors

Type of Expenditure	Amount ⁽¹⁾	Method of Payment	When Due	To Whom Payment Is to Be Made
Additional Funds – 3 Months ⁽⁹⁾	\$100,000	Cash	As Needed for Operations	Various
TOTALS⁽¹⁰⁾	\$380,700- \$486,500			

Notes to Item 7:

(1) Except where otherwise noted, we do not offer direct or indirect financing to franchisees for any items. Except where otherwise noted, all amounts that you pay to us or our Affiliates are nonrefundable. Third-party suppliers will decide if payments to them are refundable.

(2) See Item 5 for a description of the Initial Franchise Fees.

(3) If you elect to lease the site for the School, we estimate that the security deposit for the School will range from \$15,000 to \$20,000. You will pay the security deposit and rental payments to the landlord unless you sublease the site for the School from Playhouse Development. In that case, you will make these payments to Playhouse Development. The rent due will vary with the location of the site and the size of the School. Typically, monthly base rental payments will be based on factors such as the current market value of similar properties and the perceived market value of your School based on its location and traffic patterns, sales volumes, construction costs, and so forth. We recommend that you research these rental costs, and ensure that you can contract with a landlord or third party who can adequately finance the building project, and lease the space to you, as a part of your due diligence, before you purchase a franchise from us. The estimated monthly base rent does not include other fees due under the Lease, including property taxes and assessments. Property taxes vary widely depending on municipalities, but we estimate that it could range from \$400 to \$5,000 per month. Fixtures and systems that install fully or partially behind the walls will be included in your construction costs and therefore amortized into your lease. Those include, but are not necessarily limited to fences and gates, landscaping, safety ground cover, playground equipment that is fixed into the ground or on concrete pads, appliances (refrigeration, washer/dryer, dishwashing, stove, microwave, fire systems, security systems, video camera system and television monitor, intercom systems, and speaker system for center-wide music). You will incur expenses for an attorney to review and negotiate the Lease and make revisions on your behalf.

(4) If you elect to purchase the site (including the land and building) for the School, we estimate that the cost of the land and building including soft costs will range from \$1,800,000 to \$3,200,000. This estimate can vary widely based on market factors, size of building, construction costs, and so forth. We recommend that you research these costs, and ensure that you can adequately finance the building project as a part of your due diligence, before you purchase a franchise from us. Because of variances, there can be no assurances that your School could actually be purchased or constructed for an amount equal to or less than the provided estimate. See Items 5, 6 and 8 for more information. Fixtures and systems that install fully or partially behind the walls will be included in your construction costs. Those include, but are not necessarily limited to fences and gates, landscaping, safety ground cover, playground equipment that is fixed into the ground or on concrete pads, appliances (refrigeration, washer/dryer, dishwashing, stove, microwave, fire systems, security systems, video camera system and television monitor, intercom systems, and speaker system for center-wide music). Property taxes vary widely depending on municipalities, but we estimate that it could range from \$400 to \$5,000 per month.

(5) You currently must purchase the FFE Package from our designees. The estimated high and low amounts represent the price to buy (not lease) new equipment. The FFE package includes furniture, fixtures and equipment that you must use in your School, such as lobby, classroom, office and kitchen

furniture, classroom toys and books, sporting goods, etc. You must pay us or our designee \$10,000 to install the FFE and Computer Package. The FFE and Computer Package will be installed at a time agreed upon by us, before you begin accepting enrollment.

(6) You must spend at least \$25,000 on a School Opening Campaign. Depending on the size of your School's community, you may spend up to \$40,000. You and we will develop a written advertising plan prior to the commencement of the School Opening Campaign.

(7) You must pay our costs to obtain a background/credit check on each individual franchise applicant. We typically collect an estimated background/credit check fee of \$2,500 prior to signing the Franchise Agreement with you. This amount will generally pay for background/credit checks for two people. If more than two people will be signing the Franchise Agreement or we estimate the amount our third-party vendor will charge will exceed \$2,500, due to international background checks or other reason, you must pay us any additional costs we estimate when we request. If the cost of the background check is less than \$2,500 or any higher estimate we collect from you we will refund the excess to you.

(8) You must pay all deposits such as utility deposits, insurance and phone before you open your School.

(9) The Additional Funds item estimates your initial start-up expenses for a three-month period. The estimate assumes you will require the indicated amounts for property taxes, utilities, wages, material purchases, employee training, insurance premiums, debt service, legal and accounting expenses and other expenses during the initial phase of your School's operation, which we estimate to be three months and includes salary, travel, lodging, meal and incidental expenses for trainees to attend our required training program, and the pre-opening wages of hourly employees. The amount does not include any salary for you.

These costs are an estimate and we cannot guarantee you will not have additional expenses starting the School. Your costs will depend on how well you follow our methods and procedures; your management skill, experience and business acumen; local economic conditions; the local market for your services; the prevailing wage rate; competition; the enrollment level you reach during the initial period and whether you perform services personally or hire managers for your School.

To cover these Additional Funds expenses for a three-month period and beyond, and to cover rent and other costs, we require that you have initial working capital of at least \$100,000 for a School. The time period of three months and recommended levels of working capital are not representations of when you should expect to break even, if ever. You should deposit this amount into your School-specific checking account before the scheduled opening of the School. In some instances, the amounts required to meet your working capital needs will vary significantly.

(10) We have relied on our officers' and franchisees' experience in operating Schools. These amounts may vary considerably in other areas of the country. You should review these figures carefully with a business advisor before making any decision to enter into the Franchise Agreement. You are cautioned to allow for inflation, discretionary expenditures, fluctuating interest rates and other costs of financing, and local market conditions, which can be highly variable and can result in substantial, rapid and unpredictable increases in costs. You must bear any deviation or escalation in costs from the estimates in this Item 7 or estimates that we give during any phase of the development process.

The amounts listed are applicable to our typical prototype building of 6,500 square feet to 9,000 square feet. In special circumstances we may approve larger buildings. In this case, you should expect an additional \$100,000-\$150,000 initial investment depending upon market factors and the building size.

YOUR ESTIMATED INITIAL INVESTMENT IF YOU SIGN A DEVELOPMENT AGREEMENT WITH US

Type of Expenditure	Amount⁽¹⁾	Method of Payment	When Due	To Whom Payment Is to Be Made
Franchise Fee ⁽²⁾	\$180,000	Each in Lump Sum	Signing of Franchise Agreement	Us (non-refundable)
TOTAL	\$180,000			

Notes:

- (1) Except where otherwise noted, we do not offer direct or indirect financing to franchisees for any items. Except where otherwise noted, all amounts that you pay to us or our Affiliates are nonrefundable.
- (2) If you sign a Development Agreement, you will receive a discounted multiple School Initial Franchise Fee in exchange for your commitment to open three Schools. The total multiple School Initial Franchise Fee for this program is \$180,000. The Initial Franchise Fee is in addition to the total initial investment of your first School to be developed under the Development Agreement. See Item 5. These costs will likely increase over time and it may cost more to develop your second and third School.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

To ensure a uniform image and uniform quality of products and services throughout the System, you must maintain and comply with our quality standards. You must build out your School in accordance with our construction specifications and recommendations. You also must purchase the FFE Package from our designee. You also must use equipment (including hardware, software and related equipment for the computer system), signs, furnishings, furniture, products, services, advertising, marketing and sales promotion materials that meet our specifications and/or standards.

Designated Sources. As of the date of this disclosure document, we are currently the only designated supplier of the FFE Package Installation. We have the right, however, to designate another supplier or suppliers of these items in the future. We have the right to periodically designate, as applicable, the specific brand and/or manufacturer, and/or the single source or sources of supply (which may be or include us or one of our Affiliates), of the following: (1) the equipment and related accessories used in the School; (2) the branded merchandise and other items; (3) uniforms for your employees; (4) certain mandatory or optional advertising, marketing and sales promotion materials we make available to you for purchase; (5) the computer system (and any components that make up the computer system, including proprietary software and electronic applications); (6) signs for your School; and (7) materials used in the operation of the School including curriculum, books, lesson plans, music, toys, and learning aids. We will periodically notify you of these requirements, and changes to these requirements, through the Operations Manual, the Approved Supplies List or the Approved Suppliers List (as described below) or other means. We, our Affiliates and our designees may derive revenue on your purchase of the items described in this paragraph and the paragraph above because we, our Affiliates or our designee, as applicable, have the right to sell them to you for more than we, our Affiliates or our designees purchase them.

Approved Supplies and Suppliers. You must offer and sell from your School, all products and services, and only those products and services, we periodically approve as being suitable for sale and meeting our standards of quality and uniformity for the System (“Approved Products and Services”), and may not offer or sell any other product or service from your School without our prior written approval. Currently, our Approved Products and Services include childcare and learning services. In addition, you must use the Approved Products and Services, equipment (including hardware, software and related equipment for the computer system), decorating materials, signs, furnishings, furniture, advertising, marketing and promotional materials, and any other items we periodically approve and require as part of the maintenance and operation of your School (collectively, “Approved Supplies”).

We will provide you with a list of Approved Supplies (“Approved Supplies List”) and a list of approved suppliers (“Approved Supplier List”). We have the right to periodically revise the Approved Supplies List and Approved Suppliers List, as we deem appropriate. We have the right to approve the brand, manufacturer, supplier and/or distributor of any of the Approved Supplies. For some Approved Supplies and approved suppliers, however, we may only describe the specifications and/or standards they must meet, without reference to a particular brand, manufacturer, supplier and/or distributor. In addition, as further described above, we have the right to designate a single source or sources from whom you must purchase certain Approved Supplies and other products and services, and we and/or our Affiliates may be that single source (if we only designate a single source) or one or more of the sources (if we designate more than a single source). For certain Approved Supplies and other products and services, we, an affiliate or a third-party manufacturer, supplier or distributor may be the only approved supplier even though we have not designated a single source of supply for those items. As noted above, we are currently the only Approved Supplier of the FFE Package Installation. We or our affiliates are not the only Approved Supplier

Additionally, Yates Promotion is currently the only Approved Supplier of branded merchandise. All products, services, inventory, materials and other items and supplies used in the operation of the School that are not included in the Approved Supplies List or Approved Suppliers List must conform to any specifications and standards we periodically establish.

If we have not designated the brand and/or manufacturer, or the source or sources, of any of the Approved Supplies, you may request that we approve an alternative to that item, or an alternative supplier for that item. In that case, you must first notify us in writing and provide us (upon our request) sufficient specifications, photographs, drawings and other information or samples for us to determine whether the alternative item complies with our specifications and standards, or the alternative supplier meets our approved supplier criteria. We will notify you in writing as to whether or not the proposed alternative item or supplier is approved within 30 days. We may develop procedures for the submission of requests for approved alternative items or suppliers, and obligations that approved suppliers must assume (which may be incorporated in a written agreement to be signed by approved suppliers). We will have the right to charge you and/or each proposed supplier a fee in reviewing a proposed alternative item or supplier. We may impose limits on the number of alternative items and/or suppliers to be used by you for your School and/or within the System. We may revoke an approval of any supplier or supply with 30 days’ written notice to you.

We apply certain general criteria in approving (or revoking) a proposed supplier, including the supplier’s quality and pricing of products, reputation, ability to provide products/services that meet our specifications, responsiveness, ability to provide products/services within the parameters required by the System, quickness to market with new items, financial stability and insurance coverage, credit program for franchisees, freight costs and the ability to provide support to the System.

You may lease your School from a third-party landlord or from us or our affiliate (where we or our affiliate owns or holds the prime lease for the premises) or you may purchase your School from a third party or from us or our affiliate. In addition, as described in Item 6, if you sublease your School from us or our affiliate, the rent may exceed the amount paid by us or our affiliate to the prime landlord and thus we or our affiliate may derive revenue from the sublease of your School. The lease, sublease or sale agreements for your School must be submitted to us for approval before you sign them. We and affiliates of ours may in the future offer to provide construction services to you and may make a profit.

If you lease the School premises, you must sign the Lease Addendum to the Franchise Agreement and the landlord must sign the consent and agreement of lessor in the form we require. If you sublease the School premises from Playhouse Development, you must sign the Sublease Agreement in Exhibit G. We and our Affiliates may recognize revenue as a result of a sublease arrangement.

As described in Item 7 above, you must purchase your initial FFE Package and Computer Systems package from our various designated suppliers and your FFE Package Installation from us or our designated supplier.

Insurance. The Operations Manual requires that you purchase various kinds of liability and workers' compensation insurance. We do not specify the companies from which you may purchase your insurance, but you must use an insurance representative we designate or approve to obtain your insurance. We only require that your insurance carrier have an A.M. Best's rating of A/VIII or better, and that you insure yourself, us and our Affiliates. Currently, we require that:

Property insurance requirements with special causes of loss form with replacement cost coverage, personal property (contents) limit equal to cost to replace all business personal property with new equipment, income/extra expense limit equal to 80% of annual gross revenue, separate playground, fence and outdoor sign limits if not adequately coverage by endorsement; windstorm covered peril, and building limit written with 80% or 90% coinsurance factor and inflation guard protection.

General liability insurance requirements with separate minimum limits of \$1,000,000 per occurrence, \$2,000,000 in the aggregate, \$1,000,000 in personal & advertising, \$1,000,000 per occurrence and \$1,000,000 in the aggregate for abuse/molestation, \$100,000 fire legal and \$5,000 medical payments, separate professional liability limit with \$1,000,000 per occurrence and \$1,000,000 aggregate minimum, and defense expense/cost outside the limit of liability, preferably without limit, yet no limit less than \$1,000,000.

Auto insurance requirements with \$1,000,000 combined single limit of liability for operation of all vehicles, regardless of whether or not transportation of children is involved, including hired & non-owned (business use of a personal auto) exposure, \$1,000,000 combined single limit of liability for uninsured and underinsured limits, personal injury protection or medical payments coverage as required by state law and physical damage (comp & collision) coverage for any vehicle with a third-party interest.

Umbrella insurance requirements with \$1,000,000 umbrella policy for general and auto liability exposures, and defense expense/cost outside the limit of liability, preferably unlimited, yet no limit less than \$1,000,000.

Workers compensation insurance with minimum \$500,000 per person per injury/\$500,000 per disease per person/\$500,000 per disease for group employer liability limits (required for \$1,000,000 umbrella limit) and any additional insurance required by law.

Employer practices liability insurance with minimum coverage of \$1,000,000 per occurrence and \$1,000,000 in the aggregate.

Additional Disclosures. We and our Affiliates have the right to receive rebates, commissions, revenues or other consideration from any supplier of 1% to 10% or more of the purchase price of goods or services sold to you or other franchisees. The payment of these rebates, commissions, revenues or other consideration may or may not be reasonably related to the services that we or our Affiliates provide to the suppliers.

We are not aware of any purchasing cooperatives serving our franchise system. We may negotiate purchase arrangements with suppliers for the benefit of our franchisees as a group. We do not provide material benefits to you based on your purchase of particular products or services, or your use of our designated approved suppliers.

We estimate that between 50% to 70% of the cost to establish your School will be on required purchases and leases, and that between 40% and 60% of the cost to operate your School will be on required purchases and leases.

During our fiscal year ended on December 31, 2013, we received no revenue as a result of franchisee purchases of goods, products and services. Our affiliate, Playhouse Development, received \$230,128.33 in revenue as a result of franchisee purchases of goods, products and services. This amount includes security deposits and rent. As disclosed in Item 6, the rent Playhouse Development receives includes the rent due under the Prime Lease plus an additional \$10,000 per year.

Other than our officer's ownership interest in us, our officers otherwise currently do not own an equity interest in any supplier.

ITEM 9

FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Agreement(1)	Disclosure Document Item
a. Site selection & acquisition/lease	FA: Sections 2 and 5(a); Lease Addendum DA: Section 1 Sublease Agreement	Item 9
b. Pre-opening purchases/leases	FA: Sections 5(a), 6(b) and 6(c), 7(b) and 7(c); Lease Addendum Sublease Agreement	Items 5, 7 and 8
c. Site development & other pre-opening requirements	FA: Sections 5 and 6 DA: Sections 1, 3, 4, and 5	Items 5, 7 and 11
d. Initial & ongoing training	FA: Sections 5 and 6	Item 11
e. Opening	FA: Sections 5, 6 and 8(c)	Item 11
f. Fees	FA: Sections 3, 8, 10, 13 DA: Sections 2 and 10(e) Sublease Agreement: Sections 5 and 6	Items 5, 6 and 11

Obligation	Section in Agreement(1)	Disclosure Document Item
g. Compliance with standards and policies/ Operating Manual	FA: Sections 2(b), 4, 5, 6, 7, 9, 11 and 12	Item 11
h. Trademarks and proprietary information	FA: Sections 2, 7(c), 8, 9, 11, 16, and 17 DA: Section 7	Items 13 and 14
i. Restrictions on products/ services offered	FA: Sections 2, 3, 4, 5, 6, 7 and 11	Items 8 and 16
j. Warranty & customer service requirements	FA: Section 7(c) DA: Sections 7 and 26	None
k. Territorial development and sales quotas	FA: Sections 4 and 7(c) DA: Section 1	Item 12
l. Ongoing product/ service purchases	FA: Sections 5, 6 and 7(c)	Items 6 and 8
m. Maintenance, appearance and remodeling requirements	FA: Sections 7(c) and 10(b) Sublease Agreement: Sections 1(A) and 3	Item 17
n. Insurance	FA: Section 7(c) Sublease Agreement: Section 1(D)	Item 6
o. Advertising	FA: Sections 8 and 9	Items 6 and 11
p. Indemnification	FA: Section 7(c) Sublease Agreement: Section 1(B)	Item 6
q. Owner's participation/ management/staffing	FA: Section 7(c)	Item 15
r. Records and reports	FA: Sections 7, 8 and 11	Items 6 and 17
t. Transfer	FA: Section 12 DA: Section 10 Sublease Agreement: Section 7	Item 17
u. Renewal	FA: Section 10 Sublease Agreement: Section 2	Item 17
v. Post-termination obligations	FA: Sections 10, 11 and 16 DA: Section 11	Item 17
w. Non-competition covenants	FA: Sections 16 and 17(a) DA: Section 11	Item 17
x. Dispute resolution	FA: Section 23 DA: Section 11	Item 17
y. Other	Not Applicable.	Not Applicable.

“FA” refers to the Franchise Agreement, “DA” refers to the Development Agreement.

ITEM 10

FINANCING

Except as described below, neither we nor an Affiliate offer direct or indirect financing. Neither we nor an Affiliate guarantee your note, lease or obligation.

Our affiliate, Playhouse Development may sublease the premises of your School to you. In that case, you must sign a standard form of Sublease Agreement included in Exhibit G to this disclosure document. If you are a business entity, Playhouse Development may also require each owner to sign a personal guaranty in the form attached to the Sublease Agreement.

You must pay monthly rent and other amounts due under the Sublease Agreement in amounts equal to the rent and other amounts due from the tenant under Playhouse Development's lease (the "Prime Lease") of the premises from the landlord plus an additional \$10,000 annually payable in twelve equal monthly installments. You must always pay Playhouse Development, as directed by Playhouse Development, the full amount of all rental payments due. You may not deduct any amount for any claim you may have against us, Playhouse Development or any of our other Affiliates. The rent due will vary with the location of the premises, and neither we nor our Affiliates can estimate that amount. Typically, monthly rental payments will be based on the total new construction project costs.

Playhouse Development will require you to pay a security deposit under the Sublease Agreement. The security deposit will be equal to \$20,000. No additional security interest is required. The Sublease Agreement does not contain any prepayment penalties. We and our affiliates do not intend to sell, assign or discount to a third party all or part of the Sublease Agreement.

If you breach any term, covenant or condition of the Sublease, Playhouse Development will have all of the rights and remedies against you as those available to the landlord under the Prime Lease, which may include the right to re-enter the School premises and the right to relet the premises either with or without terminating the Sublease Agreement. If a dispute arises regarding the Sublease Agreement, Playhouse Development may be entitled to recover reasonable attorney's fees and costs.

The Sublease Agreement does not require you to waive any defenses or other legal rights, and does not bar you from asserting a defense against Playhouse Development, an assignee of Playhouse Development, or us.

Your breach of the Sublease Agreement or loss of possession of the School premises is also a default under the Franchise Agreement and would permit us to terminate the Franchise Agreement.

ITEM 11

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

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

Pre-Opening Assistance. Between the time you sign a Franchise Agreement and the time your School opens:

(1) You will purchase from our designated suppliers, the FFE Package, Computer Package, Logoed Items Package, and Signage Package that you must use in your School as described in Item 5 and Item 7. We will assist you in installing the FFE and Computer Package for an installation fee. (Section 5(b)(2) of the Franchise Agreement.)

(2) We will furnish you lists of the inventory, supplies and materials you will need to stock, furnish, equip and operate your School, together with the names of any suppliers we have designated or approved, including us and our Affiliates. (Section 5(b)(3) of the Franchise Agreement.)

(3) We will provide you a list of the qualifications a Program Director should possess. (Section 5(b)(4) of the Franchise Agreement.)

(4) We will provide a training program at our office in Springfield, Missouri, as described below. (Section 5(b)(5) of the Franchise Agreement.)

(5) We will provide you with access to the Operations Manual when you arrive for the training program and during the term of the Franchise Agreement. The Table of Contents to the Operations Manual appears as Exhibit E to this disclosure document. Currently, the Operations Manual has a total of 790 pages. (Section 5(b) of the Franchise Agreement.)

(6) We will provide you with access to our online forum where you can access promotional literature that is customizable for your individual School location. These materials include postcards, brochures, folders, flyers, door hangers, letter head, magnets, etc. We will also grant you access to the promotional store within the online forum so that you can order standard logoed items such as hats, shirts, aprons for your staff uniform, children's items, giveaways, table cloths, balloons, etc. from our designated supplier.

(7) We will consult with you on the application for any license that you will need to operate a School in the Trade Area. (Section 5(b)(7) of the Franchise Agreement.)

(8) We will send one of our representatives to your School for at least one week around when the School opens for business to verify that you are operating the School in accordance with the System Standards and to provide on-the-job training, as described below. (Section 5(c)(1) of the Franchise Agreement.) There is no fee for this assistance.

(9) Once we and you agree upon a site for the School, we will work with you to ensure your building's conformity to our requirements for overall appearance and function and to approve your lease agreement. (Section 5(a) of the Franchise Agreement.)

(10) We provide you with a sample School lay-out, utility requirements and signs. (Section 5(a) of the Franchise Agreement.)

Operational Assistance. We provide you the following assistance after your School opens:

(1) We will make our staff accessible to you for consultation by telephone, fax, written communication, email and other forms of electronic communication. (Section 5(c)(2) of the Franchise Agreement.)

(2) We will occasionally visit your School to conduct quality assurance reviews and to consult with your Program Director regarding standards compliance, but do not provide a specific schedule for routine field supervision. (Section 5(c)(3) of the Franchise Agreement.)

(3) We will provide you with access to updates to the Operations Manual as it becomes available, via the online LSP Forum. (Section 5(c)(4) of the Franchise Agreement.)

(4) So long as you comply with your financial, operational and reporting obligations under your Franchise Agreement, we will invite you to attend (at your expense) all conventions, seminars and other franchisee-oriented functions that we plan and sponsor. (Section 5(c)(6) of the Franchise Agreement.)

(5) We will host and supervise the System website, online forum and set the standards and specifications for any social media pages, in accordance with Sections 9(a) and (b) of the Franchise Agreement.

(6) We will provide you with a page on our Website that includes information about your School. (Section 9(a)(2) of the Franchise Agreement.)

Advertising Assistance and Ad Fund. You must pay us \$1,000 to \$3,000 for advertising contributions. You will pay \$1,000 per month if you operate a small School with a licensed capacity for fewer than 90 students. You will pay us \$2,000 per month if you operate a mid-sized School with a licensed capacity for 90 to 130 students, and you will pay us a \$3,000 a month if you operate a large School with a licensed capacity for more than 130 students. We will spend all advertising contributions for advertising and promotion, in the ways we deem appropriate to enhance our System's image including maintaining our website and social media pages. Funds may be used for operating costs and proportionate compensation of our employees. (Sections 5 and 8 of the Franchise Agreement).

We will spend these advertising contributions, but we are not obligated to spend the advertising contribution during the year in which you contribute. In addition, we are not obligated to develop, implement or administer these programs to ensure that expenditures which are proportionate or equivalent to your contributions are made for a particular School or that your School will benefit directly or pro rata from the placement of advertising. No percentage of the funds collected is focused for advertising that is principally solicitation for the sale of franchises but we reserve the right to include a message or statement in any advertisement indicating that franchises are available for purchase and related information. The media we use for advertising includes TV, radio, print advertising, and Internet. Advertising will be conducted on a local and regional basis, however, we will move toward national opportunities as our company grows and we deem that is appropriate. We will compensate our employees or our marketing suppliers for costs and expenses associated with formulation, development, and production of advertising and promotion (including operating expenses and the proportionate compensation of our employees who devote time and render service in the conduct, formation, development and production of advertising and promotion programs or who administer these funds). We do not use advertising contribution to pay for your telephone directory advertising or other local promotional efforts you may opt to engage in. You may have to purchase advertising materials produced by these funds or by us; we may make a profit on the sale. (Sections 5 and 8 of the Franchise Agreement). We do not audit the use of the advertising contributions, but we will make available an annual unaudited statement of receipts and disbursements for any advertising contributions payable under the Franchise Agreement.

All advertising by you in any medium is subject to our written approval (which we are not obligated to provide); it must be dignified and must conform to our standards and specification. You must submit to us, for our approval, samples and description of all advertising and promotional plans, electronic content, emails, materials and methods of delivery that have not been prepared or previously approved by us or which were approved by us more than 12 months before the proposed use. You may not develop, own or operate any website, webpage, domain name, email address or other identification of your School, without our prior written consent, which we are not obligated to provide. These advertising restrictions include any electronic media for communication, including websites, web pages, email, texting, blogs and social networking sites.

As described in Item 6, you must pay us a continuing monthly advertising contribution based upon the enrollment capacity of your School. We may increase the minimum dollar amount of your advertising contribution and you must pay these increased amounts under the Franchise Agreement. The amount of these increases will not exceed 10% per year. All our franchisees are currently obligated to contribute at the same rate except there is one franchisee that is under a previous version of the Franchise Agreement who will contribute at a different rate. Any Schools we or our Affiliates operate will contribute at the same rate as you. During the year ended December 31, 2013, the advertising contributions were spent as follows: 52% on local market online listings (i.e. Google); 8% on the website; 20% on design services and administrative expenses; 14% on local print and mail/email lists; 19% on secrete shopper programs; 4% on local social media (i.e. Facebook); and 1% on local events/expos.

We do not have advertising cooperatives or an advertising council.

School Opening Campaign. We will work with you to develop a written media plan for your School Opening Campaign, and you must spend at least \$25,000 in this Campaign before your School opens. (Section 8(c) of the Franchise Agreement.)

Internet Advertising. We advertise Little Sunshine's services and Schools through a Website that we maintain at www.littlesunshine.com. We have set up pages on the Website that show the addresses and telephone numbers of Schools in the System. You may not use the Little Sunshine's Playhouse & Preschool name or trademarks on the Internet in any other way, unless you request and receive our written permission (which we are not obligated to provide). We may use part of the contributions to our Ad Fund to maintain and upgrade those parts of our Website that do not advertise the availability of Little Sunshine's Playhouse & Preschool® franchises. (Section 8(c) of the Franchise Agreement.)

Little Sunshine's Forum. We maintain a Forum facility through which members of the System may communicate with each other, through which parents and guardians of School children may observe their children through the "Kiddie Cam" System and through which we may disseminate updates to the Operations Manual and other confidential information. We will have no obligation to maintain the Little Sunshine's Forum indefinitely. We will establish policies and procedures for the Little Sunshine's Forum's use. These policies, procedures and other terms of use will address issues such as (a) restrictions on the use of abusive, slanderous or otherwise offensive language in electronic communications; (b) restrictions on communications that endorse or encourage breach of any franchisee's franchise agreement; (c) confidential treatment of materials that we transmit via the Forum; (d) password protocols and other security precautions; (e) grounds and procedures for our suspending or revoking a franchisee's access to the Little Sunshine's Forum; and (f) a privacy policy governing our access to and use of electronic communications that franchisees post on the Little Sunshine's Forum. The Little Sunshine's Forum facility and all communications that are posted to it will become our property. You must purchase and install all necessary additions to your School's information system (if any) and establish and continually maintain electronic connection with the Little Sunshine's Forum that allows us to send messages to and receive messages from you. Your obligation to maintain connection with the Little Sunshine's Forum will continue until your Franchise Agreement's expiration or termination (or, if earlier, until we dismantle the facility).

Computer Hardware and Software. The Franchise Agreement obligates you to install an electronic information system that is equipped and configured to our specifications. (Section 7(c)(21) of the Franchise Agreement.) The system includes a modem-equipped IBM compatible PC that has Internet access capability and other peripheral hardware and software that we require. We reserve the right to independently access and administer the information on the electronic information system, including financial and customer information. There are no contractual limits on our right to access this information.

In addition, you must lease or purchase a full-color camera for each classroom and, if necessary, additional full-color cameras that enable viewing of the entire interior and exterior of the School. The required camera equipment will enable pictures to be broadcast live on a secure Internet site and accommodate high-speed Internet access. As described in Item 7, the total cost of the Computer Hardware and Communication Package is \$10,000. The camera equipment, security equipment, fire system, intercom system and speaker system for music will be included in the construction costs and therefore amortized into your lease, as described in Note 3 to Item 7. We reserve the right to specify the brand or supplier of the "Kiddie Cam" system. The current supplier of the "Kiddie Cam" system is WatchMeGrow, Inc. We estimate that the annual cost of maintenance of the "Kiddie Cam" system will be less than \$1,500 excluding hardware replacements for faulty or broken equipment and a monthly hosting fee to the designated service provider to live stream the video between \$100-300.

We reserve the right and discretion to modify the equipment standards to require the use of new or different electronic data processing and communications equipment and facilities, and you must update or upgrade your computer and other electronic equipment at our request. (Section 7(c) of the Franchise Agreement.) If we adopt changes to the equipment standards that necessitate the addition of upgraded equipment or the removal of obsolete equipment, we will establish a schedule for you to implement the change. (Section 5(c) of the Franchise Agreement.) There is no limit on the cost to bring the equipment to the level of compliance with the modified equipment standards. However, the costs will be taken into consideration when establishing the schedule for you to implement the change. We estimate that the annual cost of maintenance of the electronic information system will be less than \$200-\$500 per year. In addition, you will pay us a monthly Software Licensing Fee, which is currently \$500 per month.

Location Selection. You will find a site for the School that we approve. We will provide you with our general site selection and evaluation criteria. You are solely responsible, however, for locating and obtaining a site which meets our standards and criteria and that is acceptable to us. We will consider many factors in approving a site including general location and neighborhood, availability of parking and ability for proposed location to meet our School standards and specifications. You must complete your location selection and approval obligations within 180 days after the effective date of your Franchise Agreement or we have the right to terminate the Franchise Agreement.

Typical Time Required. We estimate that the length of time between execution of the Franchise Agreement and the opening of your School will be between 18 and 36 months. Factors affecting this length of time include the selection and approval of the School site, time required to obtain necessary permits, construction or remodeling of the facility, local ordinance and/or building code compliance, installation of equipment and signs, completion of our training program, delivery and stocking of inventory, and delaying events arising from factors outside your control. The process of applying and qualifying for a franchise, locating and negotiating for the purchase or lease of a site, securing the appropriate financing, closing the necessary contracts and obtaining the necessary business licenses, permits and approvals to open a School takes a substantial period of time and involves risk and expenses. You are required to open the School for business no later than 30 days after all construction and opening requirements have been met to our satisfaction.

Training. We will provide you with an initial training program. Our training programs are conducted as needed, but we usually offer at least three training programs a year. We will provide training without tuition charge for you and your Program Director (or for you and one other individual if you will act as the Program Director). You and your Program Director must successfully complete our training program to our satisfaction before you open your School. Subject to availability of pupil space, current training schedule and to payment of a reasonable tuition charge, you may re-enroll or enroll others in the training program for initial or refresher training. Currently our tuition charge per person is \$600 for you and the Program Director to attend. In all cases, you must pay the travel, lodging and incidental expenses that you or the Program Director and your other trainees incur to attend the training program.

The following table describes our training program which predominantly covers marketing, operation and management of your School. The times indicated in the Hours of Training column are estimates; we plan to spend as much or little time on a particular topic as our students need to master the topic. Currently, Nicole Carr supervises and conducts the training program. Ms. Carr has been with Little Sunshine's Enterprises since July 2008 and became our Chief Operating Officer in June 2013. Your training materials will include the Operations Manual and other written materials. Your training will take place approximately three to six months prior to receiving your certificate of occupancy permit. You must have your Program Director hired at this time, and they must accompany you to training. You and your Program Director must plan ahead and make yourself available for undisturbed training and

travel time. Your Program Director must sign the confidentiality and non-compete agreement in the form we prescribe prior to arriving for training.

You will bear all the expenses related to your training including travel, room, board, and wages for your Program Director, etc.

You must attend, at our request, supplemental and refresher training programs, sales meetings, operations meetings, advertising meetings and conventions which may be offered by us periodically at various locations or via Internet, webinar or other form of electronic communication, determined by us during the term of the franchise. We will not charge any fee for these programs, however you must pay the cost of travel, room, board and wages for your Program Director (if applicable).

TRAINING PROGRAM⁽¹⁾

Subject	Hours of Classroom Training	Hours of On-The-Job Training⁽³⁾	Location⁽²⁾
The Little Sunshine’s Playhouse & Preschool® Brand	2 hours	Determined based on need	Springfield, Missouri, and your School
The Business	8 hours	Determined based on need	Springfield, Missouri, and your School
The School Set-up	8 hours	Determined based on need	Springfield, Missouri, and your School
Your People	8 hours	Determined based on need	Springfield, Missouri, and your School
Regulatory Agencies	3 hours	Determined based on need	Springfield, Missouri, and your School
Operations	8 hours	Determined based on need	Springfield, Missouri, and your School
Education Procedure	3 hours	Determined based on need	Springfield, Missouri, and your School
Little Sunshine’s Playhouse & Preschool® Success Factor	1 hour	Determined based on need	Springfield, Missouri, and your School
Totals	41 hours	Approximately 40 hours	

- (1) This table applies to training for new franchisees and Program Directors. For new Program Directors you hire, the training will be condensed to two days, but include all of these topics.
- (2) Classroom training takes place in Springfield, Missouri. On-the-job training takes place at your School.
- (3) On-the-job training will occur at your School for at least one week around when the School opens for business. Training will be provided for approximately 40 hours total. Time will be allocated to the outlined subjects in accordance with your specific needs as we assess at that time. There is no fee for on-the-job training.

ITEM 12

TERRITORY

The Franchise Agreement provides you competitive protection, with some exceptions, in a Trade Area around your School in which we will not open or grant a franchise for another School. The trade area is a three-mile radius around the School.

The Franchise Agreement does not allow you to open more than one School in your Trade Area or to relocate your School within your Trade Area without our written permission.

The competitive protection the Franchise Agreement provides relates to competing Schools and not to a School in a Special Venue that we or our Affiliates, another franchisee or a licensee operates. The Franchise Agreement defines "Special Venues" as a manufacturing plant, corporate headquarters building, college or university campus or similar facility that limits access or provides programming or benefits to a limited group of constituents. The Franchise Agreement expressly permits us and our Affiliates to grant franchises, licenses and other concessions for Schools located in Special Venues, after first determining your interest and qualifications to develop and operate a School in a Special Venue, even if these establishments offer the same products and services that your School offers.

The Franchise Agreement expressly permits us and our Affiliates to market our proprietary services and products into your School's Trade Area through catalogues, the internet or any other developed electronic platform, telemarketing campaigns and other direct-order techniques. We and our Affiliates are permitted to distribute catalogues and promotional materials in your School's Trade Area, broadcast television and radio commercials into the Trade Area and initiate telephone contact with and accept applications from residents of the Trade Area, without in any such case infringing your competitive protection rights. We have no obligation to compensate you for those or share in any profit derived from those.

There is no limitation on the geographic area in which you may advertise and promote the School. Although there are no restrictions on the customers or trade area you may serve from your School, as a practical matter you will be limited to serving customers who choose to visit the School and to those living or working in the neighborhoods around the School. You may not advertise and promote the School through other channels of distribution such as the internet, catalog sales or telemarketing.

Continuation of the competitive protection the Franchise Agreement provides for your School's Trade Area is not dependent on your achieving or satisfying contingencies such as sales volumes, market penetration or other goals.

You may alter the boundaries of your School's Trade Area or relocate your School only with our written permission. The Franchise Agreement permits you to relocate your franchise upon condemnation, eminent domain, fire or another casualty if you follow the same procedures you follow to select a site. The new location may not infringe upon another School's trade area. You must re-open in a temporary location within 60 days after your School closes. There are no circumstances that permit us to modify your Trade Area under the Franchise Agreement. We set no minimum sales quota, nor do we revise any of your rights if the population increases in your Trade Area.

The Franchise Agreement grants you no rights to acquire additional franchises. If you enter into a Development Agreement, we and you will have agreed to a "Development Area" which identifies the time frame and the area in which the Schools will be developed. We will evaluate a proposed site for a School and deliver a Franchise Agreement for an additional School if, at the time of your request: (1) you


receive our consent to the proposed School site; (2) you meet the minimum financial standards we require for new Little Sunshine’s Playhouse & Preschool® franchisees; (3) you fully comply with all obligations, including all amounts owed to us, and are in good standing under each existing Franchise Agreement between you and us for individual Schools; and (4) you are not in default under the Development Agreement. You will not receive any rights of first refusal under the Development Agreement. Under the Development Agreement, your territorial rights are not dependent upon achievement of a certain sales volume, market penetration or any other contingency, and there are no circumstances that permit us to modify your Trade Area under the Development Agreement. During the term of the Development Agreement, if you are in compliance with the Development Agreement, we will not sell and operate or authorize others to operate a School within the Development Area. We may sell and operate, and authorize others to sell and operate, Schools outside the Development Area. Further, we may sell and operate and authorize others to operate a School at a Special Venue or through alternative channels of distribution.

You will not receive an exclusive territory under the Franchise Agreement or the Development Agreement. You may face competition from other franchisees, from outlets that we own or from other channels of distribution or competitive brands that we control.

ITEM 13

TRADEMARKS

The following identifies the principal trademarks and service marks we license you to use:

TRADEMARK	U.S. REG. or SERIAL NO.	REGISTRATION/ APPLICATION DATE
LITTLE SUNSHINE’S PLAYHOUSE & PRESCHOOL	3145030	September 19, 2006
CREATIVELY SHINE	4466394	January 14, 2014
	4474704	January 28, 2014

Little Sunshine’s Playhouse & Preschool, Inc. owns the principal trademark and has filed all required affidavits.

Little Sunshine’s Playhouse and Preschool, Inc. has licensed us the perpetual right to sublicense the principal to others to operate Schools under a trademark agreement effective July 11, 2008. Little Sunshine’s Playhouse and Preschool, Inc. may terminate the trademark agreement if any misuse of the principal trademarks materially impairs the goodwill associated with those trademarks, if we violate any provision under this agreement or we do not comply with Little Sunshine’s Playhouse and Preschool, Inc.’s instruction concerning the quality of the trademark. If the trademark agreement is terminated, any then-existing sublicenses (franchises) will continue for the term of the sublicenses provided that the franchisees comply with all other terms of their franchise agreements. The trademark agreement contains no other limitations.

Other than as described above, there are no agreements in effect that limit our rights to use or license the use of our trademarks. The Franchise Agreement contains several restrictions on your right to use the trademarks. You may not use them to offer or distribute any goods or services we have not approved, nor as part of your company's name. You must use the trademarks only in the precise form we prescribe. You must stop using any trademark that we determine is obsolete or does not represent the image we want to project.

You must report to us any infringing uses of the trademarks or any uses, or claims of rights to, a trademark identical to or confusingly similar to ta trademarks of which you become aware, but we have no obligation to take affirmative action when notified of these claims. We reserve the right to make a final decision to pursue infringement actions or other litigation, to control all legal proceedings relating to the trademarks, and to settle all infringement claims. We have no obligation to defend you in infringement or unfair competition actions arising out of your use of the trademarks or to indemnify you for any claims as a result of your use of the trademarks.

You are obligated to conform to changes we may adapt to the System, concept or image, either voluntarily or as a result of our losing an infringement action.

There are no currently effective determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court that might affect our ownership, use or licensing of any of the trademarks we currently use. Further, there are no pending interference, opposition or cancellation proceedings, and no pending litigation involving any of our principal trademarks that might affect our ownership, use or licensing of them. We have no knowledge of any superior prior rights or of any infringing uses of any of our principal trademarks.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We claim common law copyrights in our Operations Manual, in promotional literature or other advertising related to our franchise program, our architectural plans and designs, written materials, website, webpages, videos and related materials. The Franchise Agreement contains a definition of "copyrighted materials." See Item 11 for limitations on your use of the Operations Manual. We own no other patents or copyrights that are material to our franchisees.

The Franchise Agreement's Glossary contains a definition of "trade secrets." Trade secrets means our proprietary services and products, the components of our business system, the contents of the Operations Manual and of all memoranda and bulletins through which we convey changes in our Operations Manual, all training materials and computer programs we develop, and all confidential information we impart to you with respect to your School's operation and management.

There are no current material determinations by or proceedings pending in the USPTO or a court regarding a copyright. We are not aware of any current infringing uses of any of our copyrights or trade secrets. Our right to use or license copyrighted materials and trade secrets is not materially limited by any agreement.

We are not obligated to protect any patent or copyright or defend you against claims from your use of a patent or copyright. You must notify us if you become aware of infringements on the use of our Operations Manual or our trade secrets. You have the same obligations and restrictions on your use of the copyrighted materials as apply to your use of our trademarks. You must modify or discontinue using any

patent or copyright we own upon our request. The same provisions regarding infringement of our trademarks apply to our copyrighted materials and trade secrets. See Item 13.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

We strongly encourage you to manage your School personally, but do not require that you do. If you wish to manage the School personally, you must meet our eligibility and residency requirements. If you choose not to manage your School, you must appoint an individual, called a Program Director, to assume personal responsibility for managing the School's day-to-day operations. Your Program Director must be a full-time employee who satisfies our eligibility standards and residency requirements. You will screen and test the Program Director in accordance with our policies. The Program Director must also complete our training program before you open your School. You must ensure that each successive Program Director also meets our residency, educational and background requirements and completes the training program. You or an approved Program Director must manage the day-to-day operations of the School at all times. We must approve each Program Director. Even if the School is operated by a Program Director, you still are ultimately responsible for the School.

All your staff must sign a confidentiality and non-compete agreement with you under which they agree to hold our trade secrets and the contents of our Operations Manual in strict confidence, and places limits on their ability to compete with you and other Schools during their employment and for a prescribed time period thereafter. If you are a business entity, each person who owns 15% or more of your equity must agree to be bound by certain provisions of the Franchise Agreement, including those relating to confidential treatment of our trade secrets (see Item 14) and to non-competition (see Item 17). These requirements apply whether or not an equity owner is involved in your School's management.

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

The Franchise Agreement obligates you to offer childcare and learning services, and all products and services we periodically approve as suitable for sale, using our proprietary System. You may offer only those products and services we approve as part of our System, as periodically revised. We impose these requirements to control the quality and uniformity of the services you and other franchisees may offer through use of our trade name and trademarks.

Although there are no restrictions on the customers or trade area you may serve from your School, as a practical matter you will be limited to serving customers who choose to visit the School and to those living or working in the neighborhoods around the School. See Item 12. We do not set the prices, rates or tuition that you must charge for any products and services offered through your School.

We have the right to add and delete services items from the School System, and to add or delete items from the list of approved School merchandise. There are no limits on our right to make these changes.

ITEM 17

RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this disclosure document.

Provision	Section of Franchise or Other Agreement(1)	Summary
a. Length of the franchise term	<p>FA: Section 10(a)</p> <p>DA: Section 8</p> <p>Sublease Agreement: Section 2</p>	<p>FA: Commences on the effective date of the Franchise Agreement and ends: (a) if you own the premises, 10 years after Franchisee is allowed to take possession of the premises of the School; or (b) if you lease the premises, 10 years after the day your lease is effective, but no more than 10 years and 36 months after the effective date of the FA.</p> <p>DA: Starts when you sign the Development Agreement and ends on the last scheduled School opening as stated on the Development Schedule.</p> <p>Sublease Agreement: Initial term is 10 years, commencing the date the Prime Lease commences.</p>
b. Renewal or extension of the term	<p>FA: Section 10(a)</p> <p>Sublease Agreement: Section 2</p>	<p>FA: One additional 10-year term.</p> <p>Sublease Agreement: One additional 5 year term, and thereafter an option to renew for two additional 10 year terms.</p>
c. Requirements for franchisee to renew or extend	<p>FA: Section 10(b)</p> <p>Sublease Agreement: Section 2</p>	<p>FA: You must give timely notice of your intent to renew, sign a current franchise agreement (which may contain materially different terms and conditions than your original franchise agreement), remodel to our new specifications, pay a \$7,000 renewal fee, not be in default under an agreement between you and us, satisfy all monetary obligations to us, affiliates and third parties, renew the lease, complete any required training, and have principal owners sign a general release.</p> <p>Sublease Agreement: You must be in compliance with the terms of the Sublease, and a franchisee in good standing under the then-current form of franchise agreement.</p>
d. Termination by franchisee	<p>FA: Not Applicable</p> <p>DA: Section 9</p>	<p>FA: Not Applicable.</p> <p>DA: You may terminate at any time with written notice.</p>

Provision	Section of Franchise or Other Agreement(1)	Summary
e. Termination by franchisor without cause	Not Applicable	Not Applicable
f. Termination by franchisor with cause	FA: Section 15 DA: Section 9 Sublease Agreement: Sections 1(B) and 8	FA/DA: We can terminate the franchise only if you default. Sublease Agreement: The sublease may be terminated if you perform any act that would give the Prime Landlord the right to terminate the Prime Lease, or if you perform any act that would give us the right to terminate the Franchise Agreement.
g. "Cause" defined – curable defaults	FA: Section 15 DA: Section 9	FA: 30 days to cure all defaults, except for monetary defaults which you will have 10 days to cure health and safety and those non-curable defaults listed in h. below which you will have 24 hours to cure. DA: 30 days to cure except for non-curable defaults listed in h. below.
h. "Cause" defined – non-curable defaults	FA: Section 15 DA: Section 9	FA: Material misrepresentation or omission in your franchise application, falsification of financial data, voluntary abandonment, loss of lease, failure to cure default under lease, loss of right of possession of School, closing of School by government authorities for health or safety, unauthorized use of copyright materials or trade secrets, insolvency, assignment for the benefit of creditors, conviction or felony or misdemeanor that impairs the goodwill of the trademarks of system, intentional underreporting of Gross Revenue, unauthorized transfer, use of School for illegal uses, you are suspected terrorist or associated with terrorist activities, any default that is the 2nd similar defaults in any 12-month period or 4th default of any type in 24 months, breach of non-compete, or tamper or disable School's information system. DA: Repeated failures to comply with one or more material representations, nature of breach value, if not curable, bankruptcy, insolvency, conviction of law or attempt to subfranchise.
i. Franchisee's obligations on termination/non-renewal	FA: Sections 16(a)-(i)	FA: Obligations include de-identification, return of Operations Manual and other printed materials, payment of all sums due, assignment of phone numbers and honor our purchase option.
j. Assignment of contract by franchisor	FA: Section 12(g)	FA/L: No restriction on right to assign.

Provision	Section of Franchise or Other Agreement(1)	Summary
k. "Transfer" by franchisee – defined	FA: Section 12(a) DA: Section 10	FA: Includes any transfer of any interest in School, the franchise or you. DA: Transfer of interest in Development Agreement.
l. Franchisor approval of transfer by franchisee	FA: Section 12 DA: Section 10 Sublease Agreement: Section 7	FA/DA: We have the right to approve all transfers. Sublease Agreement: The sublease may not be assigned or sublet without prior written consent from Playhouse Development and Prime Landlord.
m. Conditions for franchisor approval of transfer	FA: Section 12(b) DA: Section 10	FA: Compliance with the FA; must offer your complete interest in the franchise. Your buyer must qualify as a new franchisee, pay the transfer fee and sign our current franchise agreement, you provide us with requested information about the sale, sign a release, buyer signs a personal guaranty, complete training, pay a transfer fee and assign lease. DA: Compliance with DA, buyer approved by us, complete required training, assignment of interest in all FAs and pay transfer fee.
n. Franchisor's right of first refusal to acquire franchisee's business	FA: Section 12(e)	FA: We have 30 days to accept or reject matching offers and 30 days to close the transaction; applies if you die or become disabled under certain circumstances.
o. Franchisor's option to purchase franchisee's business	FA: Section 12(f)	FA: Applies only if your heirs do not meet our requirements. See "p" below.
p. Death or disability of franchisee	FA: Section 12(f)	FA: Management personnel evaluated for 120 days. If approved, new owners must sign a new guarantee. If not approved, new owners must present a qualified buyer within 120 days.
q. Non-competition covenants during the term of the franchise	FA: Section 17(a) DA: Section 11	FA/DA: You must have no involvement in a competing business anywhere.
r. Non-competition covenants after the franchise is terminated or expires	FA: Section 17(a) DA: Section 11	FA/DA: For two years after the franchise ends, you must have no involvement in a competing business in your DMA or in any other DMA where a School exists or is under development.
s. Modification of the agreement	FA: Section 25(b) DA: Section 11 Sublease Agreement: Section 9(D)	FA/DA/Sublease Agreement: No modifications without a written agreement.
t. Integration/merger clause	FA: Section 26(a) DA: Section 12 Sublease Agreement: Section 9(D)	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.

Provision	Section of Franchise or Other Agreement(1)	Summary
u. Dispute resolution by arbitration or mediation	FA: Section 23	FA/DA: Parties must use best efforts to resolve and settle disputes by private negotiations, non-binding mediation or binding arbitration, except for intellectual property matters and for collection of royalties and other amounts you owe us.
v. Choice of forum	FA: Section 23 DA: Section 11	FA/DA: Arbitration must take place in Springfield, Missouri, and litigation in Springfield, Missouri (subject to state law).
w. Choice of law	FA: Section 23 DA: Section 11	FA/DA: Missouri law applies, except for U.S. Arbitration Act and Lanham Act (subject to state law).

(1) “FA” refers to the Franchise Agreement; “DA” refers to the Development Agreement.

ITEM 18

PUBLIC FIGURES

We do not employ any public figure or celebrity in our management, nor do we use a public figure or celebrity to promote our franchises, at this time.

ITEM 19

FINANCIAL PERFORMANCE REPRESENTATION

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

The table below presents information about the actual revenues and expenses of the Schools that were in operation for at least 18 months as of December 31, 2013, for the 2012 and 2013 calendar years. This information is not audited. Written substantiation for the financial performance representation will be made available to the prospective franchisee upon reasonable request. Our Affiliates operate five Schools of the seven currently in operation.

The first Affiliate School opened in 2002 and has been in continuous operation since that time. All the Affiliate Schools operate year-round.

As of December 31, 2013, there are two franchised Schools. One School has been in operation since 2005 and the other School has been in operation since 2012. The data from the first School is not included in this financial performance representation because it is unlike the Affiliate Schools and the future franchised Schools. This School was not constructed according to our standards and specifications, the size of the School is smaller than our prototype School building and the market is smaller than our

recommended market. The other franchised School was not included in this financial performance representation because it has not been in operation for a full 18 months as of December 31, 2013.

If you are a new Little Sunshine’s franchisee, your School’s financial results are likely to differ from those of the affiliate Schools.

We caution you to keep the following points in mind when reviewing the table below. We also urge you to discuss and analyze this information with your own business, financial and legal advisers.

(1) We derived all Affiliate School revenue and expense data from information in our affiliate’s possession. This information is unaudited, but we believe that the information is accurate and reliable.

(2) The Chestnut Springfield School is located in a low-income residential neighborhood, which we assume is a factor in the revenues attained. This location generates some government-provided revenue that allows low-income parents to afford sending their children to our School and may have increased the number of eligible families in the area surrounding the Chestnut Springfield School.

For many reasons, the operating results you experience in your School may differ significantly from our experience with the Affiliates’ Schools and from the information contained in the table below. Among other factors, our Affiliates’ Schools are operated by owners that have vast experience in School management. The Affiliates’ Schools do not pay the royalty on revenues that franchisees pay on their revenues, and during the 2012 calendar years these Schools did not contribute to the Ad Fund, although they did conduct their own advertising and those expenses are included below and they contributed to the Ad Fund in the 2013 calendar year.

Affiliate-Owned Schools	January - December 2012			January - December 2013		
	Total Revenue ⁽¹⁾	Total Operating Expenses ⁽²⁾	EBITDA ⁽³⁾	Total Revenue ⁽¹⁾	Total Operating Expenses ⁽²⁾	EBITDA ⁽³⁾
Chestnut Springfield School ⁽⁴⁾	\$1,009,338	\$774,326	\$235,012	\$914,386	\$764,094	150,292
Claremont Springfield School ⁽⁵⁾	\$662,046	\$552,725	\$109,321	\$787,337	\$620,948	\$166,389
Cardinal Springfield School ⁽⁶⁾	\$773,819	\$592,081	\$181,738	\$770,360	\$600,425	\$169,935
Rogers Arkansas School ⁽⁷⁾	\$820,976	\$665,809	\$155,167	\$947,549	\$699,163	\$166,389
Scottsdale Arizona School ⁽⁸⁾	\$984,082	\$665,278	\$318,804	\$1,129,840	\$669,091	\$460,749
AVERAGE for Affiliate-Owned Schools⁽⁹⁾	\$850,052	\$650,043	\$200,008	\$909,894	\$670,744	\$239,150

(1) Total Revenue, as reflected in this table, generally includes all tuition and other enrollment expenses received from parents of children at these Schools, and also may include state or federal subsidies paid to the School for tuition payments for low-income students.

(2) Total Operating Expenses, as reflected in this table, generally include the following, less interest, taxes, depreciation and amortization: salaries for Program Director and all other employees of the School, employer expenses for FICA, Medicare, and employee benefits, food expenses, expenses related to the security of the School, printing and advertising expenses, legal and accounting expenses, utility expenses such as trash, water, telephone, and building maintenance, insurance expenses, equipment expenses, pest control and other general operating expenses, such

as mileage reimbursement, membership dues, magazine subscriptions, postage, office supplies, and miscellaneous toys, books and equipment. Our Affiliate-Owned Schools do not pay royalties and did not contribute to our Ad Fund in 2012, although they did advertise individually and those costs are included above, and they did contribute to the Ad Fund in 2013.

- (3) EBITDA is defined as “Earnings Before Interest, Taxes (income tax), Depreciation and Amortization.”
- (4) The Chestnut Springfield School was opened by our affiliate, Little Sunshine’s Playhouse and Preschool Inc., in 2002 and provides services to low-income students and families. If you provide services to high-income student and families, you will likely not receive subsidies from state or federal programs. Most or all of your income will come from tuition that you charge the parents of the students. See Note (2) under the Item 19 heading above.
- (5) Two out of the five, or 40%, of the Affiliate-Owned Schools performed at or above the average Total Revenue and EBITDA for all Schools for the 2012 calendar year. Three out of the five, or 60%, of the Affiliate-Owned Schools performed at or above the average Total Revenue for all Schools for the 2013 calendar year and one out of the five, or 20%, of the Affiliate-Owned Schools performed at or above the average EBITA for all Schools.

Affiliate-Owned Schools	Total Licensed Capacity ⁽¹⁾	January 1 - December 31, 2012	January 1 - December 31, 2013
		Average Annual Enrollment as a Percentage of Licensed Capacity	Average Annual Enrollment as a Percentage of Licensed Capacity
Chestnut Springfield School	110	104%	95%
Claremont Springfield School	68	99%	107%
Cardinal Springfield School	72	108%	104%
Rogers Arkansas School	96	90%	101%
Scottsdale Arizona School	79	84%	94%
AVERAGE for Affiliate-Owned Schools:⁽³⁾	85	97%	100%

- (1) Total Licensed Capacity, as reflected in this table, represents the number of students each School is licensed, by the state licensing authority, to enroll each day. This number may be updated only after expansion, depending on the state.
- (2) Average Annual Enrollment as a Percentage of Licensed Capacity is calculated by averaging the weekly percentage of enrollment for each week in the year. The weekly percentage of enrollment is calculated by taking the number of students enrolled by the licensed capacity. It is possible to have the weekly percentage of enrollment exceed 100%, because Schools may enroll more students than their licensed capacity provided that on any given day there are no more students attending than the School’s licensed capacity.
- (3) Four out of the five, or 80%, of the Affiliate-Owned Schools performed at or above the Average Annual Enrollment as a Percentage of Licensed Capacity for all Schools for the 2012 calendar year and three out of the five, or 60%, of the Affiliate-Owned Schools performed at or above the

Average Annual Enrollment as a Percentage of Licensed Capacity for all Schools for the 2013 calendar year.

The revenue, sales, costs, income, gross profits and net profits of your School and other franchised Schools may vary widely from the Affiliate School and any other franchised and company-owned Schools we or our Affiliates develop in the future for a number of reasons, including differences in operational experience and ability, capital, financing, training, region of the country, location and site criteria, demographics, physical condition and size of your School, whether your School provides services to low-income or high-income students, the number of Program Directors and other employees you hire, the salaries, wages and other benefits you pay to them and how many of them are full-time and part-time employees, the salaries and wages you pay your owners, amounts spent on local marketing, advertising and promotion, varying costs of equipment and related accessories, the payment of royalty fees to us (which company-owned and affiliate-owned Schools do not pay), and the payment of any marketing contributions to us.

You are responsible for developing your own business plan for your School franchise, including capital budgets, financial statements, projections, pro forma financial statements and other elements appropriate to your particular circumstances. In preparing your business plan, we encourage you to consult with your own accounting, business and legal advisors to assist you to identify the expenses you likely will incur in connection with your School franchise, to prepare your budgets, and to assess the likely or potential financial performance of your School franchise. In developing the business plan for your School franchise, you are cautioned to make necessary allowance for changes in financial results to income, expenses or both that may result from operation of your School franchise during periods of, or in geographic areas suffering from, economic downturns, inflation, unemployment, or other negative economic influences.

Some Schools have attained the results described above. Your individual results may differ. There is no assurance you will do as well.

We will, on reasonable demand, provide to you written substantiation for all information illustrated in this Item 19.

Other than the preceding financial performance representation, we do not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future revenue and/or income, you should report it to the franchisor's management by contacting Rochette Dahler at 2925 E. Battlefield Road, Suite 225B, Springfield, Missouri 65804, (417) 887-4242, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20

OUTLETS AND FRANCHISEE INFORMATION

**TABLE NUMBER 1
System-wide School Summary
For Years 2011 to 2013**

School Type	Year	Schools at the Start of the Year	Schools at the End of the Year	Net Change
Franchised	2011	1	1	0
	2012	1	2	+1
	2013	2	2	0
Company-Owned⁽¹⁾	2011	5	5	0
	2012	5	5	0
	2013	5	5	0
Total Schools	2011	6	6	0
	2012	6	7	+1
	2013	7	7	0

(1) As described in Item 1 and Table 5, the Company-Owned Schools are owned and operated by our Affiliates.

**TABLE NUMBER 2
Transfers of Schools From Franchisee to New Owners (Other than the Franchisor)
For Years 2011 to 2013**

State	Year	Number of Transfers
TOTAL	2011	0
	2012	0
	2013	0

TABLE NUMBER 3
Status of Franchised Schools
For Years 2011 to 2013

State	Year	Schools at the Start of the Year	Schools Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations / Other Reasons	Schools at the End of the Year
Kansas	2011	0	0	0	0	0	0	0
	2012	0	1	0	0	0	0	1
	2013	1	0	0	0	0	0	1
Missouri	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
TOTAL	2011	1	0	0	0	0	0	1
	2012	1	1	0	0	0	0	2
	2013	2	0	0	0	0	0	2

TABLE NUMBER 4
Status of Company-Owned Schools
For Years 2011 to 2013⁽¹⁾

State	Year	Schools at the Start of the Year	Schools Opened	Schools Reacquired From Franchisees	Schools Closed	Schools Sold to Franchisees	Schools at the End of the Year
Arizona	2011	1	0	0	0	0	1
	2012	1	0	0	0	0	1
	2013	1	0	0	0	0	1
Arkansas	2011	1	0	0	0	0	1
	2012	1	0	0	0	0	1
	2013	1	0	0	0	0	1
Missouri	2011	3	0	0	0	0	3
	2012	3	0	0	0	0	3
	2013	3	0	0	0	0	3
TOTAL	2011	5	0	0	0	0	5
	2012	5	0	0	0	0	5
	2013	5	0	0	0	0	5

(1) As described in Item 1 and Item 19, all of the Company-Owned Schools are owned and operated by our Affiliates.

TABLE NUMBER 5
Projected Openings
As of December 31, 2013

State	Franchise Agreements Signed But School Not Opened	Projected New Franchised Schools in the Next Fiscal Year	Projected New Company- Owned Schools in the Next Fiscal Year
Arizona	1	0	0
Colorado	2	0	0
Illinois	0	1	0
Kansas	0	1	0
Missouri	1	0	0
Nevada	0	1	0
Texas	1	2	0
Utah	0	1	0
TOTAL	5	6	0

A list of all current Little Sunshine’s Playhouse and Preschool® franchisees is included below. No franchisee has had a franchise terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under a Franchise Agreement during our last fiscal year, ending on December 31, 2013. As of the date of this disclosure document, no franchisee has ceased communicating with us. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

Franchisees as of December 31, 2013:

Angela and Daniel Jaworowski*
1180 E. Hampton Ln.
Gilbert, AZ 85295
480-233-1966
AngelaJ@littlesunshine.com

Terrence and Aubrie Limebrook*
32 Ripple Court
Pagosa Springs, CO 81147
808-722-7022
AubrieL@littlesunshine.com

Jordon and Chelsea Dizon*
5176 Kaunaloa St.
Hanapepe, HI 96716
313-977-0388
ChelseaD@littlesunshine.com
(School to be developed in Colorado)

Joyce Harrington
4910 N. 21st Street
Ozark, Missouri 65721
417-581-7713
JoyceH@littlesunshine.com

Brad and Dennis Dahler
2854 E. Cherry Bark Lane
Springfield MO 65804
417-838-6822
BradD@littlesunshine.com
(School operated in Kansas)

Andy and Nicole Carr*
Lilly and Michael McCown
2811 W. Westview
Springfield MO 65807
417-459-6512
NicoleC@littlesunshine.com

Justin Bates*
110 Pickett Ridge Ct.
Kirbyville, Missouri 65679
417-598-0636
JustinB@littlesunshine.com
(School to be developed in Texas)

*Franchise Agreement signed but School not open.

During the last three fiscal years, no current or former franchisees have signed confidentiality clauses that restrict them from discussing with you their experiences as a franchisee in our System.

We have no knowledge of any trademark-specific franchisee organization.

ITEM 21

FINANCIAL STATEMENTS

The audited financial statements of Little Sunshine's Enterprises, Inc. as of December 31, 2013, December 31, 2012, and December 31, 2011, appear in Exhibit A to this disclosure document.

ITEM 22

CONTRACT

The Franchise Agreement is attached to this disclosure document as Exhibit B. The Development Agreement is attached as Exhibit C. The Sublease Agreement and Sublease Guaranty are attached as Exhibit G.

ITEM 23

RECEIPTS

The execution copies of this receipt are attached as the last two pages of this disclosure document as Exhibit I.

EXHIBIT A
FINANCIAL STATEMENTS

LITTLE SUNSHINE'S ENTERPRISES, INC.

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

DECEMBER 31, 2013 AND 2012

**LITTLE SUNSHINE'S ENTERPRISES, INC.
DECEMBER 31, 2013 AND 2012**

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Independent Auditors' Report

To the Stockholders
Little Sunshine's Enterprises, Inc.
Springfield, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Little Sunshine's Enterprises, Inc. which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little Sunshine's Enterprises, Inc. as of December 31, 2013 and 2012, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fritz, Nippes + Associates, LLC

Springfield, Missouri

January 8, 2014

LITTLE SUNSHINE'S ENTERPRISES, INC.
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents - Note 1	\$ 312,071	\$ 95,016
Due from franchisees	78,505	-
Total Current Assets	390,576	95,016
Property and Equipment		
Property and equipment - Note 2	99,659	87,864
Less accumulated depreciation - Note 2	(77,136)	(66,300)
Net Property and Equipment	22,523	21,564
Other Assets		
Security deposits	750	-
Total Other Assets	750	-
Total Assets	\$ 413,849	\$ 116,580
 Liabilities and Stockholder's Equity		
Current Liabilities		
Accounts payable	\$ 9,962	\$ 7,923
Accrued expenses	1,115	-
Due to related party - Note 3	21,834	21,834
Deferred revenue - Note 4	280,000	140,000
Total Current Liabilities	312,911	169,757
Total Liabilities	312,911	169,757
Stockholder's Equity		
Common stock, \$1 par value; 30,000 shares authorized, 30,000 shares issued and outstanding	30,000	30,000
Additional paid-in capital	99,629	99,629
Retained earnings	(28,691)	(182,806)
Total Stockholder's Equity	100,938	(53,177)
Total Liabilities and Stockholder's Equity	\$ 413,849	\$ 116,580

See Independent Auditors' Report and Notes to the Financial Statements

LITTLE SUNSHINE'S ENTERPRISES, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Revenues		
Franchise Fees	\$ 70,000	\$ -
Royalties	67,347	318
Advertising fees	67,000	-
Bookkeeping fees	33,500	500
Miscellaneous income	458	-
New school setup fees	-	10,000
Total Revenues	238,305	10,818
 Operating Expenses		
Advertising	29,273	17,899
Bank charges	856	308
Depreciation	10,836	14,545
Dues and subscriptions	1,654	3,571
Franchise expenses	6,920	5,933
Furniture and fixtures	252	-
Meals and entertainment	2,448	1,151
Miscellaneous expenses	3,220	1,109
Office expenses	12,179	4,983
Payroll, taxes and benefits	150,316	448
Professional fees	30,154	27,226
Rent	9,000	-
Repairs and maintenance	56	-
Research and development	1,540	-
Staff training	1,728	7,352
Taxes and licenses	100	225
Telephone	6,569	137
Travel expenses	22,087	5,823
Total Operating Expenses	289,188	90,710
 Income (Loss) From Operations	(50,883)	(79,892)
 Other Expenses		
Interest expense	(2)	(1,061)
Total Other Expenses	(2)	(1,061)
 Net Income (Loss)	\$ (50,885)	\$ (80,953)

See Independent Auditors' Report and Notes to the Financial Statements

**LITTLE SUNSHINE'S ENTERPRISES, INC.
STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Retained Earnings, Beginning	\$ (182,806)	\$ (95,989)
Net Income (Loss)	(50,885)	(80,953)
Shareholder Contributions (Distributions)	<u>205,000</u>	<u>(5,864)</u>
Retained Earnings, Ending	<u>\$ (28,691)</u>	<u>\$ (182,806)</u>

See Independent Auditors' Report and Notes to the Financial Statements

LITTLE SUNSHINE'S ENTERPRISES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities		
Net income (loss)	\$ (50,885)	\$ (80,953)
Non-cash items included in net income (loss)		
Depreciation	10,836	14,545
(Increase) decrease in operating assets		
Security deposits	(750)	600
Due from franchisees	(78,505)	-
Increase (decrease) in operating liabilities		
Due to related party	-	21,834
Accounts payable	2,039	7,923
Accrued expenses	1,115	-
Deferred revenue	140,000	140,000
Net Cash Provided (Used) by Operating Activities	23,850	103,949
Cash Flows From Investing Activities		
Purchase of equipment	(11,795)	(3,069)
Net Cash Provided (Used) by Investing Activities	(11,795)	(3,069)
Cash Flows From Financing Activities		
Shareholder contributions (distributions)	205,000	(5,864)
Net Cash Provided (Used) by Financing Activities	205,000	(5,864)
Net Increase (Decrease) in Cash	217,055	95,016
Cash at Beginning of Year	95,016	-
Cash at End of Year	\$ 312,071	\$ 95,016
Additional Cash Flow Information		
Cash paid for interest	\$ 2	\$ 1,061

See Independent Auditors' Report and Notes to the Financial Statements

LITTLE SUNSHINE’S ENTERPRISES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

The Company is engaged in the selling of child care and preschool franchises. The Company is headquartered in Southwest Missouri. Franchise locations may be granted in any state nationally that Little Sunshine’s Enterprises, Inc. has become registered or is exempt from registration.

Basis of Accounting

The Company maintains its records using the accrual method of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

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.

Property and Equipment

Purchases of property and equipment are recorded at cost. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of income. Depreciation is computed under the straight-line method over the estimated useful lives of the assets. The estimated useful lives used in computing depreciation are:

Furniture and fixtures	5 - 10 years
Office equipment	5 - 7 years
Vehicles	5 years

Advertising

The Company expenses costs of advertising as incurred. Advertising expense for the years ended December 31, 2013 and 2012 was \$29,273 and \$17,899, respectively.

**LITTLE SUNSHINE’S ENTERPRISES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income Taxes

The Company, with the consent of all its shareholders, elected to be treated as a “small business corporation” for income tax purposes under subchapter “S” of the Internal Revenue Code. In making this election, shareholders individually and not the corporation are liable for income taxes imposed by Federal and State authorities. For this reason, no liability for Federal or State income taxes is shown on the accompanying financial statements.

Subsequent Events

Subsequent events have been evaluated through January 8, 2014, which is the date the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

NOTE 2: PROPERTY AND EQUIPMENT

The following summarizes property and equipment as of December 31, 2013 and 2012:

	<u>December 31, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2013</u>
Furniture and fixtures	\$ 30,846	\$ 11,795	\$ -	\$ 42,641
Office equipment	19,518	-	-	19,518
Vehicles	37,500	-	-	37,500
	<u>87,864</u>	<u>11,795</u>	<u>-</u>	<u>99,659</u>
Accumulated depreciation	(66,300)	(10,836)	-	(77,136)
Total	<u>\$ 21,564</u>			<u>\$ 22,523</u>

Depreciation expense for the years ended December 31, 2013 and 2012 was \$10,836 and \$14,545, respectively.

NOTE 3: RELATED PARTY TRANSACTIONS

As a franchisor, the Company regularly conducts business with certain other corporate-owned (not franchised) Little Sunshine companies. Accordingly, the Company shares certain labor, general, and administrative costs with other non-franchised Little Sunshine Companies. At December 31, 2013 and 2012, amounts due to related corporate-owned Little Sunshine entities were \$21,834 and \$21,834, respectively.

LITTLE SUNSHINE'S ENTERPRISES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 4: REVENUE RECOGNITION

The Company accounts for revenue from franchise sales using the method prescribed under the Financial Accounting Standards Board (FASB) Accounting Standards Codification 952 (ASC 952). This method requires the postponement of revenue recognition until "substantially all of the initial services of the franchisor required by the franchise agreement have been performed." In general, the commencement of operations by the franchisee is presumed to be the earliest point at which substantial performance has occurred, as the franchisor provides ongoing support and service throughout the period that begins with a signed franchise contract and ends at the commencement of franchisee business operations. Accordingly, the Company acknowledges the sale of franchises at the time the sale contract is signed, but defers revenue recognition on these sales until commencement of operations by the franchisee. The company had deferred franchise sale revenues of \$280,000 and \$140,000 at December 31, 2013 and 2012, respectively.

NOTE 5: FRANCHISE FEES AND ROYALTIES

The Company generates revenues from franchising through individual franchise sales and development agreements. In general, the Company's franchise agreements provide for the payment of a franchise fee for each opened franchised school of \$70,000. Franchise fee revenue is recognized when substantially all of the initial services relating to the sale have been performed by the Company. The franchise agreements also generally require the franchisees to pay the Company a royalty of 7% of gross revenues, advertising fees of \$1,000 - \$3,000 per month (based on enrollment capacity), and bookkeeping/software fees of \$500 per month.

NOTE 6: LONG-TERM LEASES

During the year ended December 31, 2013, the Company leased an office in Springfield, Missouri. Under the terms of the lease, the rent payment is \$750 per month. The lease began on February 1, 2013 and will terminate on January 1, 2016. The Company holds a 1 year option to renew upon expiration of the lease.

LITTLE SUNSHINE'S ENTERPRISES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 6: LONG-TERM LEASES - continued

Total rent paid under the lease for the year ended December 31, 2013 was \$9,000. Future minimum lease payments are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2014	\$ 9,000
2015	9,000
2016	750
Total	<u>\$ 18,750</u>

NOTE 7: UNCERTAIN TAX POSITIONS

The Company has adopted the provisions of FASB ASC 740-10-25, formerly FIN 48. Under FIN 48, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of FIN 48 had no impact on the Company's financial statements. The Company does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. For the year ended December 31, 2013 and 2012, there were no interest or penalties recorded in the financial statements.

The Company's Form 1120S filings are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those returns. In general, each return has a three year statute of limitations. There are no pending tax examinations by the federal or state tax authorities. The Company's management is not aware of any other uncertain tax positions.

NOTE 8: SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Company maintains cash balances at a financial institution in Southwest Missouri. The Company's bank account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2013 and 2012, the Company had cash balance in excess of FDIC coverage totaling \$62,071 and \$0, respectively. Uninsured balances are generally secured by pledged securities by the financial institution in which the deposits are maintained.

LITTLE SUNSHINE'S ENTERPRISES, INC.

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

DECEMBER 31, 2012 AND 2011

**LITTLE SUNSHINE'S ENTERPRISES, INC.
DECEMBER 31, 2012 AND 2011**

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Independent Auditors' Report

To the Stockholders
Little Sunshine's Enterprises, Inc.
Springfield, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Little Sunshine's Enterprises, Inc. which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income, retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little Sunshine's Enterprises, Inc. as of December 31, 2012 and 2011, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fritz, Nippes + Associates, LLC

Springfield, Missouri
January 8, 2013

LITTLE SUNSHINE'S ENTERPRISES, INC.
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents - Note 1	\$ 95,016	\$ -
Total Current Assets	95,016	-
Property and Equipment		
Property and equipment - Note 2	87,864	84,795
Less accumulated depreciation - Note 2	(66,300)	(51,755)
Net Property and Equipment	21,564	33,040
Other Assets		
Security deposits	-	600
Total Other Assets	-	600
Total Assets	\$ 116,580	\$ 33,640
 Liabilities and Stockholder's Equity		
Current Liabilities		
Accounts payable	\$ 7,923	\$ -
Due to related party - Note 3	21,834	-
Deferred revenue - Note 4	140,000	-
Total Current Liabilities	169,757	-
Total Liabilities	169,757	-
Stockholder's Equity		
Common stock, \$1 par value; 30,000 shares authorized, 30,000 shares issued and outstanding	30,000	30,000
Additional paid-in capital	99,629	99,629
Retained earnings	(182,806)	(95,989)
Total Stockholder's Equity	(53,177)	33,640
Total Liabilities and Stockholder's Equity	\$ 116,580	\$ 33,640

See Independent Auditors' Report and Notes to the Financial Statements

LITTLE SUNSHINE'S ENETERPRISES, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Revenues		
New school setup fees	\$ 10,000	\$ -
Bookkeeping fees	500	-
Royalties	318	-
Total Revenues	10,818	-
Operating Expenses		
Advertising	17,899	-
Bank charges	308	1,478
Depreciation	14,545	14,681
Dues and subscriptions	3,571	-
Franchise expenses	5,933	-
Meals and entertainment	1,151	-
Miscellaneous expenses	1,109	-
Office expenses	4,983	-
Professional fees	27,226	-
Salaries and wages	-	1,080
Staff appreciation	448	-
Staff training	7,352	-
Taxes and licenses	225	-
Telephone	137	-
Travel expenses	5,823	-
Total Operating Expenses	90,710	17,239
Income (Loss) From Operations	(79,892)	(17,239)
Other Expenses		
Interest expense	(1,061)	(163)
Total Other Expenses	(1,061)	(163)
Net Income (Loss)	\$ (80,953)	\$ (17,402)

See Independent Auditors' Report and Notes to the Financial Statements

LITTLE SUNSHINE'S ENTERPRISES, INC.
STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Retained Earnings, Beginning	\$ (95,989)	\$ (113,225)
Net Income (Loss)	(80,953)	(17,402)
Shareholder Contributions (Distributions)	<u>(5,864)</u>	<u>34,638</u>
Retained Earnings, Ending	<u>\$ (182,806)</u>	<u>\$ (95,989)</u>

See Independent Auditors' Report and Notes to the Financial Statements

LITTLE SUNSHINE'S ENTERPRISES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities		
Net income (loss)	\$ (80,953)	\$ (17,402)
Non-cash items included in net income (loss)		
Depreciation	14,545	14,681
(Increase) decrease in operating assets		
Security deposits	600	-
Due from related party	-	563
Increase (decrease) in operating liabilities		
Due to related party	21,834	-
Accounts payable	7,923	(23,853)
Accrued expenses	-	(849)
Deferred revenue	140,000	-
Net Cash Provided (Used) by Operating Activities	103,949	(26,860)
Cash Flows From Investing Activities		
Purchase of equipment	(3,069)	-
Net Cash Provided (Used) by Investing Activities	(3,069)	-
Cash Flows From Financing Activities		
Shareholder contributions (distributions)	(5,864)	34,638
Principal payments on long-term debt	-	(2,691)
Net Cash Provided (Used) by Financing Activities	(5,864)	31,947
 Net Increase (Decrease) in Cash	 95,016	 5,087
Cash at Beginning of Year	-	(5,087)
Cash at End of Year	\$ 95,016	\$ -
 Additional Cash Flow Information		
Cash paid for interest	\$ 1,061	\$ 163

See Independent Auditors' Report and Notes to the Financial Statements

LITTLE SUNSHINE’S ENTERPRISES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

The Company is engaged in the selling of child care and preschool franchises. The Company is headquartered in Southwest Missouri. Franchise locations may be granted in any state nationally that Little Sunshine’s Enterprises, Inc. has become registered or is exempt from registration.

Basis of Accounting

The Company maintains its records using the accrual method of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

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.

Property and Equipment

Purchases of property and equipment are recorded at cost. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of income. Depreciation is computed under the straight-line method over the estimated useful lives of the assets. The estimated useful lives used in computing depreciation are:

Furniture and fixtures	5 - 7 years
Office equipment	5 - 7 years
Vehicles	5 years

Advertising

The Company expenses costs of advertising as incurred. Advertising expense for the years ended December 31, 2012 and 2011 was \$17,899 and \$0, respectively.

**LITTLE SUNSHINE'S ENTERPRISES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income Taxes

The Company, with the consent of all its shareholders, elected to be treated as a "small business corporation" for income tax purposes under subchapter "S" of the Internal Revenue Code. In making this election, shareholders individually and not the corporation are liable for income taxes imposed by Federal and state authorities. For this reason, no liability for Federal or state income taxes is shown on the accompanying financial statements.

Subsequent Events

Subsequent events have been evaluated through January 8, 2013, which is the date the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

NOTE 2: PROPERTY AND EQUIPMENT

The following summarizes property and equipment as of December 31, 2012 and 2011:

	<u>December 31, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2012</u>
Furniture and fixtures	\$ 30,846	\$ -	\$ -	\$ 30,846
Office equipment	16,449	3,069	-	19,518
Vehicles	37,500	-	-	37,500
	<u>84,795</u>	<u>3,069</u>	<u>-</u>	<u>87,864</u>
Accumulated depreciation	(51,755)	(14,545)	-	(66,300)
Total	<u>\$ 33,040</u>			<u>\$ 21,564</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$14,545 and \$14,681, respectively.

NOTE 3: RELATED PARTY TRANSACTIONS

As a franchisor, the Company regularly conducts business with certain other corporate-owned (not franchised) Little Sunshine companies. At December 31, 2012 and 2011, amounts due to related corporate-owned Little Sunshine entities were \$21,834 and \$0, respectively.

LITTLE SUNSHINE'S ENTERPRISES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 4: DEFERRED REVENUE

During 2012, the Company sold two franchises for which their initial services obligation was not met. Accordingly, there was no franchise fee revenue recognized during 2012. The amount of deferred franchise fee revenue at December 31, 2012 and 2011 was \$140,000 and \$0, respectively.

NOTE 5: FRANCHISE FEES AND ROYALTIES

The Company generates revenues from franchising through individual franchise sales and development agreements. In general, the Company's franchise agreements provide for the payment of a franchise fee for each opened franchised school of \$70,000. Franchise fee revenue is recognized when substantially all of the initial services relating to the sale have been performed by the Company. The franchise agreements also generally require the franchisees to pay the Company a royalty of 7% of gross revenues, advertising fees of \$1,000 - \$3,000 per month (based on enrollment capacity), and bookkeeping/software fees of \$500 per month.

NOTE 6: UNCERTAIN TAX POSITIONS

The Company's Form 1120S filings are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those returns. In general, each return has a three year statute of limitations. The Company's management is not aware of any other uncertain tax positions.

NOTE 7: SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Company maintains cash balances at a financial institution in Southwest Missouri. The Company's bank account is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2012 and 2011, the Company did not have a cash balance in excess of the FDIC insurance limit.

EXHIBIT B

FRANCHISE AGREEMENT

EXHIBIT B

LITTLE SUNSHINE’S ENTERPRISES, INC.

**FRANCHISE AGREEMENT
FOR A**

LITTLE SUNSHINE’S PLAYHOUSE & PRESCHOOL

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GLOSSARY OF TERMS

EXHIBITS:

- A DESCRIPTION OF APPROVED LOCATION AND TRADE AREA
- B AUTHORIZATION AGREEMENT FOR PREAUTHORIZED PAYMENTS
- C LEASE ADDENDUM
- D ASSIGNMENT OF TELEPHONE NUMBER(S)
- E GUARANTY AND ACKNOWLEDGMENT

**FRANCHISE AGREEMENT
FOR A
LITTLE SUNSHINE'S PLAYHOUSE & PRESCHOOL**

THIS AGREEMENT is entered into between Little Sunshine's Enterprises, Inc., a Missouri corporation ("Company"), and _____ ("Franchisee"). Certain terms are used in this Agreement with the meanings assigned in the Glossary of Terms appended to this Agreement. That Glossary is incorporated into and made an integral part of this Agreement by reference.

1. Recitals.

Company has developed a System to guide and govern the operation of Little Sunshine's Playhouse & Preschool® schools that care for infants, toddlers, preschool, and after-school aged children; and operate under the Little Sunshine's Playhouse & Preschool trade name. Company operates and franchises the operation of Little Sunshine's Playhouse & Preschool® schools. Franchisee has applied for a franchise to operate a School, and Company has approved the application. The parties are now ready to embark on a franchise relationship and have entered into this Agreement to evidence the terms and conditions of their relationship.

2. Grant of Franchise.

(a) Subject to the terms, conditions and limitations of this Agreement, Company grants Franchisee a franchise to operate a School at the Approved Location as described in Exhibit A. Alternatively, Franchisee and Company will complete and sign Alternative Exhibit A, in which Franchisee and Company agree upon a geographic area in which the School will be established. The designation of the geographic area in Alternative Exhibit A does not confer any territorial rights upon Franchisee, and Company and its Affiliates reserve all territorial rights within that geographic area, including without limitation the right to establish and operate, and grant franchises and licenses to others to establish and operate, Little Sunshine's Playhouse & Preschool® schools. Once the Franchisee selects a site and Company approves the Approved Location, as described in Section 5(a), within the geographic area described in Alternative Exhibit A, Company and Franchisee will sign Exhibit A and determine the Trade Area. If Company and Franchisee cannot agree upon a site for the School within 180 days after the Effective Date of this Agreement, Company may terminate this Agreement. Franchisee's use of any of the Marks or any element of the System in the operation of a business at any other site without Company's express written authorization will constitute willful infringement of Company's rights in the Marks and the System.

(b) The franchise includes the following rights and licenses:

(1) Authorization to operate the School under the Little Sunshine's Playhouse & Preschool trade name, in association with the Marks and in accordance with the System;

(2) Authorization to install the Trade Dress and exterior and interior signs bearing the Little Sunshine's Playhouse & Preschool name and logo at the School.

(3) Authorization to use the Marks to identify, advertise and promote the School's services.

(c) Franchisee shall acquire no rights or authority under this Agreement or as an element of the franchise:

(1) To offer any services at the School other than those specifically authorized in writing by Company;

(2) To provide child care services at a site other than the Approved Location;

(3) To advertise or promote the School's services on the Internet, except as provided in Section 9(a);

(4) To sell Little Sunshine's Playhouse & Preschool® logo items (hats, T-shirts, etc.) or other merchandise from the School, catalogues or an Internet website, or to the operator of a retail outlet without Company's express prior written permission; or

(5) To sublicense or subfranchise any of Franchisee's rights under this Agreement.

(d) **Reservation of Rights.** Company reserves all rights that this Agreement does not expressly grant to or confer upon Franchisee. Without limiting the proceeding sentence, Company and Affiliates specifically reserve the right, from any location at any time, without any compensation to Franchisee or other franchisees and regardless of whether it competes with the School: this Agreement does not prohibit or restrict Company or Affiliates:

(1) To own and operate, and grant franchises or licenses to others to own and operate, Little Sunshine's Playhouse & Preschool® schools outside of the Trade Area;

(2) To offer, market, sell or distribute, or grant franchises or licenses to others to offer, sell or distribute any materials Company develops, including without limitation educational and instructional materials, books, workbooks, teaching methods, parent notification or communication systems, systems and techniques and any other products or services associated with Company, its trademarks, service marks, logos or other commercial symbols through other channels and methods of distribution, within or outside the Trade Area, including sales to daycare or child care facilities, parents or students, schools, educational facilities and distributed through, without limitation wholesale, resale, the internet, through an electronic or mobile application, by website or any other existing or future form of electronic commerce;

(3) To distribute catalogues and promotional materials in the Trade Area, broadcast television and radio commercials into the Trade Area, and initiate telephone or electronic contact with and accept applications from residents of the Trade Area, without in any such case infringing Franchisee's competitive protection rights; and

(4) To advertise the System on the internet (or any other existing or future form of electronic commerce) and to create, operate, maintain and modify, or discontinue the use of a website or electronic medium using the Marks.

3. Fees and Payments.

(a) **Initial Franchise Fee.** Franchisee must pay to Company a nonrefundable initial franchise fee of \$70,000, payable in full when Franchisee signs this Agreement and earned upon receipt.

(b) **Background/Credit Check Fee.** To the extent not previously paid, a non-refundable background fee in the amount Company estimates when Franchisee signs the Franchise Agreement. Company typically estimates \$2,500 for complete background checks of two people, and may charge additional amounts for each additional partner or Program Director.

(c) **Royalty Fee.** During the term of this Agreement and in consideration of the rights granted to Franchisee, Franchisee must pay to Company a royalty fee equal to 7% of Gross Revenues. The Royalty Fee is due and payable as described in Section 3(g).

(d) **Ad Fund Fee.** Franchisee must pay to Company a monthly ad fund fee (“Ad Fund Fee”) of \$1,000 per month if the School is licensed for fewer than 90 students; \$2,000 per month if the School is licensed for 90 to 130 students; or \$3,000 a month if the School is licensed for more than 130 students. The Ad Fund Fee is subject to annual increases not to exceed 10%, as further described in Section 8(a). This Ad Fund Fee paid to Company is not held by Company in trust and becomes Company’s property to be spent in accordance with Section 8(a). The Ad Fund Fee is due and payable as described in Section 3(g).

(e) **Software Fee.** Franchisee must pay to Company its then-current monthly fee for access to Company’s electronic bookkeeping and processing software (“Software Licensing Fee”). The Software Licensing Fee is due and payable as described in Section 3(g). Franchisee must begin paying Company the monthly Software Licensing Fee in the first month that Franchisee begins enrollment for the School.

(f) **Installation Fee.** Franchisee must pay to Company an installation fee (the “Installation Fee”) for the installation of the designed FFE Package as described in Section 5(b)(2). The Installation Fee is due and payable at the time Franchisee places its order for the FFE Package.

(g) **Computation and Collection of Fees.** As further described in Section 5(d), Company will collect all tuition payments for all services Franchisee offers and additional fees Franchisee assesses and deposits in an account owned by Company. Company has the right to periodically determine whether this account is an interest bearing account and agrees to pass on to Franchisee any interest earned from any tuition or other fee collection. By the 19th of each month, Company will compute and provide Franchisee with an invoice of all tuition collected and will transmit to Franchisee all amounts collected, less the Royalty Fee, Ad Fund Fee, Software Licensing Fee and any other fees Franchisee owes to Company or Affiliates, less any refunds. Company will not collect Royalty Fees on any unpaid or uncollected tuition owed to Franchisee. If Company issues a refund to a parent for any reason after payment has been sent to Franchisee, Franchisee must pay Company for the amount refunded upon Company’s request or, at Company’s sole option, it may elect to deduct that amount from the next payment Company sends to Franchisee. Franchisee must sign any electronic transfer of funds authorization and other documents as Company periodically designates to authorize all bank transfers, either electronically or through some other method of payment Company designates, directly to Franchisee’s account all amounts Company owes to Franchisee. Company has the right to conduct periodic accountings and, as a result of those accountings, to pay Franchisee any amounts Company determines are due and owing to Franchisee from Company or Affiliates, or to bill Franchisee any

amounts Company determines are due and owing to Company or Affiliates from Franchisee. Franchisee agrees to execute and complete the form Authorization Agreement attached as Appendix A to this Agreement and/or such other documents as Company may require periodically, to authorize and direct Franchisee's bank or financial institution to pay and deposit directly to Company's account, and to charge to Franchisee's account, any amounts Company determines are due and owing to Company or Affiliates from Franchisee. Franchisee agrees to pay to Company or Affiliates any amounts Company bills or charges to Franchisee in accordance with this Section.

(h) **Application of Payments.** To the extent Franchisee owes any amount of money to Company or Affiliates, Company has the right to: (i) apply against such amount, in any manner Company determines, any payments Company receives from Franchisee, and (ii) offset from such amount any amounts Company or Affiliates owes to Franchisee.

(i) **Withholding Payments Unlawful.** Franchisee agrees that it will not withhold payment of any fees or any other amounts due to Company or Affiliates under this Agreement, and that the alleged non-performance or breach of any of Company's obligations under this Agreement or any other agreement do not establish a right at law or in equity to withhold payment to Company of any fees or any other amounts due to Company or Affiliates under this Agreement.

(j) **Interest Charges; Late Payment Service Charges.** Any and all amounts that Franchisee owes to Company or Affiliates will bear interest at the rate of 1½% per month or the maximum contract rate of interest permitted by governing law, whichever is less, from and after the date of accrual. In addition to interest charges on late fee payments, Franchisee must pay to Company a service charge of up to \$25 per day for each delinquent payment, due when the delinquent payment is due, and up to \$100 for each delinquent report, due when the delinquent report is due. Company will continue to charge a late fee for each period that the report remains delinquent. A payment is delinquent if Company does not receive the payment on or before the date due. A report is delinquent if Company does not receive it on or before the due date and remains delinquent for each designated period until Company receives it. The service charge is not interest or a penalty, it is only to compensate Company for increased administrative and management costs due to late payment or reporting.

(k) **Payment of Debts.** Franchisee agrees to pay promptly when due: (i) all payments, obligations, assessments and taxes due and payable to Company and Affiliates, vendors, suppliers, manufacturers, distributors, landlords, lessors, federal, state and local governments, and creditors in connection with Franchisee's School; (ii) all liens and encumbrances of every kind and character created or placed upon or against any of the property used in connection with the School; and (iii) all accounts and other indebtedness of every kind incurred by Franchisee in the conduct of the School. In the event Franchisee defaults in making any such payment, Franchisee must notify Company within 30 days and Company is authorized, but not required, to pay the same on Franchisee's behalf and Franchisee agrees to promptly to reimburse Company on demand for any such payment.

(l) **Tax Indemnification.** Franchisee will indemnify Company and reimburse Company for all income, capital, gross receipts, sales, and other taxes that the state in which the School is located imposes as a result of Franchisee's operation of the School or the license of any of Franchisee's intangible property in the jurisdiction in which the School is located. If more than one Little Sunshine's Playhouse & Preschool® franchisee is located in such jurisdiction, they will share the liability in proportion to their Gross Sales from the franchised business, except in the case of sales taxes and gross receipts taxes, which will be divided in proportion to taxable sales to the franchisees. If applicable, this payment is in addition

to the royalty fee and Ad Fund contributions described above.

4. Trade Area.

(a) Company does not grant exclusive territories at this time, but does provide its franchisees protection against some forms of competition inside the geographic Trade Area. Exhibit A describes the Trade Area that Company has assigned to the School. Franchisee will enjoy competitive protection in the Trade Area to the extent the following paragraphs of this Section 4 expressly provide.

(b) Except as provided in Section 4(c), Company will not open or authorize anyone except Franchisee to operate a Little Sunshine's Playhouse & Preschool® school in the Trade Area.

(c) Company's commitment under Section 4(a)(2) will not apply to, and Franchisee will have no competitive protection from, a school in a Special Venue in the Trade Area that Company, another franchisee or a licensee operates. If an opportunity arises to develop a school in a Special Venue, Company will not pursue or authorize anyone else to pursue the opportunity without first determining Franchisee's interest in the project, evaluating Franchisee's qualifications to pursue it, and determining whether Franchisee satisfies any financial, experience or organizational standards the Special Venue's owner or operator has set. In evaluating Franchisee's qualifications to develop and operate a Little Sunshine's Playhouse & Preschool® school in the Special Venue, Company will take into account Franchisee's financial strength, management and organizational capabilities, Franchisee's prior performance as a Little Sunshine's Playhouse & Preschool® franchisee, the Special Venue's criteria for school operators, and other factors Company considers relevant to a sound business decision. Company will exercise reasonable business judgment in conducting its evaluation, but its decision regarding Franchisee's qualifications will be final and conclusive. If Company decides that Franchisee is qualified to pursue the opportunity, Company and Franchisee will, at Company's option, sign either an amendment to this Agreement or a separate agreement that evidences the nature and extent of Franchisee's rights to operate a school in the Special Venue. If Company decides that Franchisee is not qualified to pursue the opportunity, Company will be free to pursue it, either directly or through another franchisee or licensee.

(d) Franchisee will have no protection against competition from Little Sunshine's Playhouse & Preschool® schools located anywhere outside the Trade Area's physical boundaries, whether or not these establishments market their services in or draw customers from the Trade Area. There will be no limitation on the geographic area in which Franchisee may advertise and promote the School. It is the nature of the childcare business that customers generally make decisions based on geographic location, and Company does not recommend advertising for students in areas not adjacent to or geographically close to the center.

(e) Franchisee acknowledges and agrees that Company has no express obligation or implied duty to insulate or protect Franchisee's revenues from erosion as the result of the School's competing with other Little Sunshine's Playhouse & Preschool® schools and with Little Sunshine's Playhouse & Preschool® schools in Special Venues in the ways and to the extent this Section 4 provides or contemplates. Franchisee expressly waives and relinquishes any right to assert any claim against Company based on the existence, actual or arguable, of any such obligation or duty.

5. Site Development and Operational Assistance.

(a) Location Selection, Acquisition and Opening.

(1) Once Franchisee has identified a site for the School and Franchisee has obtained Company's approval of the site, Franchisee will construct the School according to Company's standards and specifications.

(2) Franchisee agrees that Company's approval of a site for the School does not constitute a warranty of any kind, express or implied, as to the suitability of the site for a School. Company's approval of the site indicates only that the site meets Company's general criteria for site acceptability as of the time it approves the site. Company will not be responsible for the School's economic potential or performance, or its failure to meet Franchisee's economic expectations.

(b) School Development Assistance. Company will provide the following services and assistance to Franchisee before Franchisee opens the School.

(1) Company will furnish Franchisee with a sample layout of a typical School's interior, and work with Franchisees Architects and Engineers to ensure a timely approval of documents.

(2) Company will furnish Franchisee a list that describes or shows the specifications for the furniture, fixtures and equipment (FFE Package) that Franchisee must use in the School, together with information about approved suppliers, and Company, an Affiliate or a designee will assist Franchisee with the installation of the FFE Package for the Installation Fee described in Section 3(f).

(3) Company will furnish Franchisee lists of the supplies and materials needed to operate the School, together with the names of approved suppliers.

(4) Company will provide Franchisee a list of the qualifications a Program Director must possess.

(5) Company will provide a training program at its training facility in Springfield, Missouri. Company will provide training without tuition charge for Franchisee and the Program Director (or for Franchisee and one other individual, if Franchisee will act as the Program Director). Subject to availability of pupil space and to payment of a reasonable tuition charge, Franchisee may re-enroll themselves or the Program Director in the training program from time to time for refresher training. In all cases, Franchisee must pay the travel, lodging and incidental expenses that Franchisee and the Program Director incur to attend the training program.

(6) Company will provide Franchisee with access to the Operations Manual.

(7) Company will consult with Franchisee to fill out the application for any license or accreditation that Franchisee will need to operate the School in the Trade Area.

(8) Company will identify and help Franchisee make contact with community partners in the Trade Area who will act as resources and referral sources for Franchisee.

(9) Company will provide Franchisee with access, either in print or online, to approved promotional literature to be used by Franchisee to advertise and publicize the School.

(c) **Operational Assistance.** Company will provide the following services and assistance to Franchisee after the School opens.

(1) Company will send a representative to the School for one week around when the School opens to assist Franchisee and to verify that Franchisee is organized and staffed and is operating the School in accordance with the System standards.

(2) Company will make its staff accessible to the Franchisee for consultation by telephone, fax, written communication, email and other forms of electronic communication.

(3) Company will occasionally visit the School to conduct Quality Assurance Reviews and to consult with the Program Director regarding standards compliance, but is not required to provide routine field supervision, though it may choose to do so.

(4) Company will provide Franchisee with access to additions and supplements to the Operations Manual as they become available.

(5) So long as Franchisee complies with Franchisee's financial, operational and reporting obligations under this Agreement, Company will invite Franchisee to attend (at Franchisee's expense) all conventions, seminars, supplemental training programs and other Franchisee-oriented functions that Company from time to time plans and sponsors.

(6) Company will host and supervise the LSP Website and Social Media, and the LSP Forum in accordance with Sections 9(a) and 9 (b).

(7) Company will provide Franchisee with a list of Approved Supplies and a list of Approved Suppliers. Company has the right to periodically revise the lists, as Company deems appropriate. Company has the right to approve the brand, manufacturer, supplier and/or distributor of any of the Approved Supplies. Company also has the right to require Franchisee to use Approved Suppliers. In addition, Company has the right to designate the specific brand and/or manufacturer of any of the Approved Supplies. Further, Company has the right to designate a single source or sources from whom Franchisee must purchase any Approved Supplies, and Company and/or its Affiliates may be that single source (if Company only designates a single source) or one or more of the sources (if Company designates more than a single source). Under all circumstances and without limiting the above, Company has the right to designate, as applicable, the specific brand and/or manufacturer, and/or the single source of supply (which may be or include Company or one of its Affiliates), of any Approved Suppliers, including the following: (i) the equipment and related accessories used in the School; (ii) the branded merchandise and other items; (iii) uniforms for Franchisee's employees; (iv) certain mandatory or optional advertising, marketing and sales promotion materials Company makes available to Franchisee for purchase; (v) the Information System (and any components that make up the Information System, including proprietary software or applications); (vi) signs for the School; and (vii) materials used in the operation of the School including curriculum, books, lesson plans, music, toys, and learning aids. Company will periodically notify Franchisee of these requirements, and changes to these requirements, through the Operations Manual, or otherwise in

writing. All products, services, inventory, materials and other items and supplies used in the operation of the School that are not included in the list of Approved Supplies or list of Approved Suppliers must conform to any specifications and standards Company periodically establishes.

If Company has not designated a single Approved Supplier or the brand and/or manufacturer of any of the Approved Supplies, Franchisee may request that Company approve an alternative to that item, or an alternative supplier for that item. In such case, Franchisee must first notify Company in writing and provide Company (upon Company's request) sufficient specifications, photographs, drawings and other information or samples for Company to determine whether the alternative item complies with Company's specifications and standards, or the alternative supplier meets Company's approved supplier criteria. Company will notify Franchisee in writing as to whether or not the proposed alternative item or supplier is approved. Company may develop procedures for the submission of requests for approved alternative items or suppliers, and obligations that approved suppliers must assume (which may be incorporated in a written agreement to be signed by approved suppliers). Company will have the right to charge Franchisee and/or each proposed supplier a fee in reviewing a proposed alternative item or supplier. Company may impose limits on the number of alternative items and/or suppliers to be used by Franchisee for the School and/or within the System.

ALTHOUGH APPROVED BY COMPANY, COMPANY AND ITS AFFILIATES MAKE NO WARRANTY OF ANY KIND, WHETHER EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, AND EXPRESSLY DISCLAIM ALL WARRANTIES, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE AND NON-INFRINGEMENT, WITH RESPECT TO ALL PRODUCTS, SERVICES, EQUIPMENT (INCLUDING THE INFORMATION SYSTEM), SUPPLIES, FIXTURES, FURNISHINGS OR OTHER ITEMS THAT ARE MANUFACTURED OR DISTRIBUTED BY THIRD PARTIES AND THAT COMPANY APPROVES FOR USE IN THE SYSTEM. COMPANY MAKES NO PROMISES OR GUARANTEES AS TO THE EFFECTIVENESS OF ANY PRODUCTS AND SERVICES PROVIDED UNDER THIS AGREEMENT, EITHER WITH RESPECT TO FRANCHISEE OR ANY OF ITS CUSTOMERS.

(d) **Tuition Collection.** As part of the Software Licensing Fee, Company will provide tuition billing services to Franchisee. Company will collect, through its billing software, all Automated Clearing House (ACH) e-check processing data to complete monthly financial transactions for all tuition payments at Franchisee's School. Franchisee may not accept payments for services, late fees, or other fees collected from parents at the School. Company will conduct all collection procedures and in the event Company cannot collect from an account, Company will notify Franchisee of the payment failure. Franchisee must notify Company, through its billing software, of any additional fee assessed to an individual account immediately after the fee is assessed. Franchisee must provide Company with the roster for each week as described in the Operations Manual. Company will provide Franchisee with a full, itemized account of all collections by the 19th of each month for the previous month. All School tuition and other fees must be collected as described in the Operations Manual, and Franchisee agrees to assist Company in its collection of School tuition and other fees as described in this Section 5(c). Franchisee agrees that all parents at the School will enter into contracts directly with the Franchisee that allow Company to collect School tuition and other fees from the parents, but that the parents at the School will not enter into any contract with the Company.

6. Operational Standards and Requirements, Services and Products.

(a) **Specifications, Standards and Procedures.** Franchisee acknowledges and agrees that Company has the right to establish quality standards regarding the appearance and operation of the School to protect the distinction, goodwill and uniformity symbolized by the Marks and the System. Franchisee acknowledges and agrees that each and every detail of the appearance and operation of the School is important to Company and other Little Sunshine's Playhouse & Preschool® schools. Franchisee acknowledges and agrees that Company may periodically modify and add to these specifications, standards and operating procedures, and that Franchisee is obligated to conform to any mandatory modified or additional specifications, standards or operating procedures. Franchisee further acknowledges and agrees that any required specifications, standards and operating procedures exist to protect our interest in the System and the Marks and not for the purpose of establishing any control or duty to take control over those matter reserved to Franchisee. If Company abandons elements of or adopts changes in the System, including the operating concept, curriculum or activities that necessitate the addition or removal of furniture, fixtures, equipment, signs or Trade Dress items, Company may instruct Franchisee to adapt its School to the changes through the Operations Manual or otherwise in writing. Company, in consultation with Franchisee, will establish a written schedule for Franchisee to implement the changes that will depend, among other factors, on the School's size, age, and the amount Franchisee has spent in recent periods to refurbish and upgrade the School. Franchisee will remove from the School any facilities and equipment items Company designates as obsolete and will purchase and install any different or additional items Company specifies as meeting its new standards, all in accordance with the schedule Company establishes for Franchisee's School.

(b) Company reserves the right to modify and update the specifications, standards and procedures, including without limitation:

(1) To modify the System, including the Little Sunshine's Playhouse & Preschool® concept, curriculum, Trade Dress and indoor and outdoor facilities from time to time for a variety of reasons. These reasons include the need (i) to respond to changes in consumer expectations and lifestyles, (ii) to seize efficiencies made possible by growth of the LSP Network, (iii) to implement efficiencies made possible by technological advances or as a result of Company's research and development activities, (iv) to implement co-branding alliances with other companies, and (v) to meet competition;

(2) To modify or change any curricula, subject matters, Trade Dress and other features of Little Sunshine's Playhouse & Preschool® schools, including without limitation (i) to add new and different curricula and activities to the list of authorized services; (ii) to withdraw or change subject matters and activities from the list of authorized services; (iii) to change Trade Dress, equipment and configuration standards; (iv) to abandon the use of certain equipment, fixtures and furnishings for any activity that Company withdraws from the list of authorized services; and (v) to require the use of new or different Information System components.

(3) To add new and different curricula and activities to the list of authorized services, to withdraw subject matter and activities from the list of authorized services, or to change their names, definitions and image, to change the Trade Dress, equipment and configuration standards for Little Sunshine's Playhouse & Preschool® schools, to abandon the use of equipment, fixtures and furnishings for any activity that Company withdraws from the list of authorized services, and to require the use of new or different Information System components.

(c) **Products and Services.** Franchisee must offer and sell from its School, all products and services, and only those products and services, Company periodically approves as being suitable for sale and meeting Company's standards of quality and uniformity for the System ("Approved Products and Services"), and may not offer or sell any other product or service from Franchisee's School without Company's prior written approval. Franchisee must use only Approved Supplies from Approved Suppliers furnished by Company through the Operations Manual.

(d) **Computer System and Applications.** Franchisee must purchase, use and maintain any computer system (including without limitation all hardware, software, related equipment and associated services) Company specifies for the School including all future updates, supplements, modifications and substitutions Company designates (the "Computer System"). Franchisee must ensure that the Computer System is continuously operational according to our standards and specifications. Franchisee must also purchase, use and maintain any form of electronic communication Company designates for communication with parents, including mobile applications or other medium developed by Company or a third-party vendor.

(e) **Curriculum.**

(1) Franchisee must offer Company's curriculum, as set forth in the Operations Manual. Company has the right to designate the specific Curriculum that Franchisee is required to use in its School and periodically update as Company deems necessary. Company as the right to designate the source from whom Franchisee must purchase any materials needed to implement the Curriculum.

(2) If the addition of a curriculum subject or activity to the list of authorized services would not require the installation of new fixtures or equipment, Company may instruct Franchisee to begin offering the new subject or activity as of a date Company specifies in the Operations Manual or otherwise in writing. Similarly, if the deletion of a subject or activity from the list of authorized services would not require the removal of fixtures or equipment, Company may direct Franchisee to cease offering the service as of a date Company specifies in a supplement to the Operations Manual or otherwise in writing. Franchisee will comply with Company's instructions as of the date Company specifies, which need not be more than 30 days after Company notifies Franchisee.

(3) If Company develops an evaluation program of any Curriculum, Franchisee shall implement any educational screening program or other evaluative tools required by Company, as described in the Operations Manual.

(4) If Company allows the School to participate in a test of any new curriculum subject or activity, Franchisee will participate in the test in accordance with Company's standards and specifications and will discontinue offering any subject or activity that Company decides not to add permanently to the authorized list of School services.

(f) **Franchisee Development.** If Franchisee develops or suggests an innovation or improvement that Company decides to incorporate into the System, either temporarily or permanently, the innovation or improvement will become Company's property without compensation other than Company's giving Franchisee recognition and credit for the innovation or improvement in announcing it to members of the LSP Network. Franchisee hereby assigns each such innovation or improvement to Company and agrees

to execute and deliver all such additional instruments and documents as Company may request to evidence the assignment and Company's ownership of the innovation or improvement.

(g) **Student Data.** At Company's request, Franchisee must provide Company with up-to-date student and parent data, including student's names, ages, parental contact information and other enrollment information in the format Company prescribes in the Operations Manual ("Student Data"). Company has the right to contact Franchisee's former and current students to ascertain their level of satisfaction. Company also has the right to contact Franchisee's former, current and prospective student or parent referral sources. During the term of this Agreement, Company and Franchisee jointly own the Student Data Franchisee and Company collect. Franchisee may not use Student Data for any purpose whatsoever other than in the normal conduct of the School, and may not sell, loan or give Student Data, including without limitation student and parent referral source lists or accounts, to anyone without Company's prior written permission. Further, Company has the right to periodically establish other policies respecting Franchisee's use of the Student Data during the term of this Agreement. Upon termination or expiration of this Agreement, Franchisee must promptly deliver to Company all Student Data in its possession, including without limitation lists (with addresses and telephone numbers) of all former, current and prospective student and parental data, without retaining any copies of that Student Data, including without limitation any hard or electronic copies. In addition, upon termination or expiration of this Agreement Franchisee's right, title and interest in and to all Student Data automatically will be assigned to Company and Franchisee agrees to sign any documents Company prescribes to evidence this assignment.

7. Franchisee's Obligations.

(a) **Business Entity Requirements.** Franchisee must be a Business Entity and meet the following requirements:

(1) Franchisee must be newly organized and its Charter Documents must provide that Franchisee's purposes and activities are restricted exclusively to operating the School.

(2) Before Company signs this Agreement, Franchisee must furnish to Company true, complete and duly authenticated copies of Franchisee's Charter Documents and of a resolution of Franchisee's board of directors, general partner or other managing body authorizing Franchisee to enter into and perform this Agreement.

(3) Franchisee's Charter Documents must impose transfer restrictions that give effect to Section 13(a) of this Agreement, and each certificate representing an ownership interest in Franchisee shall contain or have conspicuously noted on its face a statement in a form satisfactory to Company to the effect that any assignment or transfer of the certificate or related ownership interest is subject to all restrictions this Agreement imposes on transfers and assignments.

(4) Franchisee shall maintain a list of all record and beneficial owners of ownership interests in Franchisee and shall furnish a current version of the list to Company upon request.

(b) School Opening.

(1) Franchisee will open the School for business not later than 30 days after Company has approved the improvements to the Location and all construction and opening requirements have

been met to Company's satisfaction. Franchisee will operate the School continuously throughout the entire term of the franchise solely under the Little Sunshine's Playhouse & Preschool trade name and System.

(2) Franchisee agrees not to open the School for business until (a) the pre-opening training of Franchisee and the Program Director has been completed to Company's satisfaction; (b) Company has received copies of all insurance policies required by this Agreement, or such other evidence of insurance coverage and payment of premiums as Company may request; and (c) all inspections, licenses, and occupancy requirements are completed and fulfilled, as required by law.

(3) If Franchisee enters into a lease for the School premises, Franchisee must provide Company with the proposed lease and receive Company's prior written approval of the proposed lease before Franchisee signs it. In addition, Franchisee and the landlord of the School premises must sign a "Lease Addendum" in the form attached to this Agreement as Exhibit C.

(c) **Operations.** In connection with the operation of the School, Franchisee agrees to fulfill the requirements, to perform the obligations and to observe the restrictions stated in this Section 7(c).

(1) Franchisee will obtain and maintain in effect, all permits, licenses, certifications and approvals necessary for the operation of the School;

(2) Franchisee will obtain all accreditations, as required by Company, from an approved accreditation agency.

(3) Franchisee will equip, furnish and decorate the School with Approved Supplies in compliance with Company's standards and specifications and will purchase the Approved Supplies from Approved Suppliers, including the initial purchase of the fixture, furniture and equipment package ("FFE Package") from Approved Suppliers, which may include Company or its Affiliates. Franchisee must also purchase the electronic surveillance package from Company's Approved Suppliers for installation in all classrooms. Franchisee will not alter its fixtures, equipment, signs or Trade Dress in any fashion without Company's express prior written permission.

(4) Franchisee will purchase, and have on hand, reasonable quantities of the materials and supplies required to operate the School in accordance with System standards.

(5) Franchisee will affix to a wall of the School's foyer or public reception area a sign containing the following statement: "This school is independently owned and operated by [Franchisee's name] under a license from Little Sunshine's Enterprises, Inc." and never make a statement or representation to any Person that is contrary to or inconsistent with Section 21 of this Agreement.

(6) Unless Franchisee is owned by a sole shareholder who will operate and manage the School personally, Franchisee will recruit and hire a full-time Program Director who satisfies Company's eligibility standards and residency requirements and has successfully completed a two-day Director Training Program in Springfield, Missouri accompanied by Franchisee, as stated in the Operations Manual. Franchisee will screen and test the Program Director in

accordance with Company policy. Franchisee will ensure that each new Program Director is employed on a full-time basis and is properly screened, tested and trained before assuming the Program Director's duties. If the initial or any successor Program Director resigns or otherwise leaves Franchisee's employment, Franchisee will notify Company promptly and will recruit and hire a suitably qualified replacement Program Director within a reasonable time, which will in no case exceed 60 days. If Franchisee, or one of Franchisee's owners, will operate and manage the School, Franchisee or one of Franchisee's owners must meet eligibility standards and residency requirements. Any new Program Director must attend the director training program at a location designated by Company and Franchisee must pay all travel, lodging and incidental expenses, including compensation to the Program Director. Any new Program Director must meet all standards and specifications and complete the training program to Company's satisfaction before assuming the role of Program Director at the School.

(7) Franchisee will attend and send the Program Director to the training program described in Section 6(a)(3). Franchisee and the Program Director must both complete Company's training program with a passing grade before Company will authorize Franchisee to open the School for student enrollment.

(8) As soon as Franchisee obtains a telephone number for the School, Franchisee will sign and deliver to Company an Assignment of Telephone Number for the number in the form attached to this Agreement as Exhibit D. If the School's telephone number changes during the franchise's term, or if Franchisee adds additional lines for a telecopier, modem or other purposes, Franchisee will promptly sign and deliver to Company a new Assignment of Telephone Number for the new or additional number(s).

(9) Franchisee will comply with and adhere to the policies and procedures set forth in the Operations Manual, as revised and supplemented from time to time.

(10) Franchisee will provide appropriate training, supervision and security for all personnel employed in the School, maintain appropriate security for all students of the School, maintain standards of prompt and courteous customer service, and instruct all employees of the School in the proper use and display of the Marks and the confidential handling of the Trade Secrets and the Operations Manual, as stated in Section 11. Without limiting the generality of this requirement, Franchisee will ensure that the Company's designated observation system and the keypad security system are fully functional at all times and remain in continuous operation.

(11) Franchisee will ensure that all the School's teachers and other employees follow Company's grooming and dress code and wear uniform items Company develops or approves.

(12) Without prior permission of the affected employer, Franchisee will not, directly or through others, contact, solicit or offer any inducements to any current or former employee of Company, a Company Affiliate or another Little Sunshine's Playhouse & Preschool® franchisee for the purpose of persuading or attempting to persuade the employee to accept employment by Franchisee in any capacity.

(13) Franchisee will purchase letterhead, business forms, business cards, marketing materials and other items imprinted with the Little Sunshine's Playhouse & Preschool® logo only from Company or from suppliers Company designates or approves.

(14) Franchisee will maintain the School's classrooms, playgrounds, special activity facilities, kitchen, restrooms and garbage disposal area in a safe and sanitary condition at all times and in compliance with guidelines set forth by federal, state, or local law; to ensure good business practice.

(15) Franchisee will maintain the physical appearance and structural integrity of the School in accordance with the repair, refurbishing and remodeling standards stated in the Operations Manual.

(16) Franchisee will permit Company representatives to conduct unannounced Quality Assurance Reviews at any time during School hours. Franchisee will promptly correct any condition noted as "unsatisfactory" or "needs improvement" in a Quality Assurance Review report.

(17) Franchisee will maintain School hours and days of operation including Holiday Closures, in accordance with System standards, unless Company grants a written exception.

(18) Franchisee will comply strictly with all federal, state and local laws and government regulations applicable to the operation of the School, including those relating to student and teacher security, childcare licensing, taxation, employment practices, employee wages, education and training for teachers and Program Directors, child and immigrant labor, disabled persons, workers' compensation, truth-in-advertising, occupational safety and health, and sanitation.

(19) Franchisee will promptly furnish to Company copies of all complaints that any parent, guardian or government official lodges against the School, its administrators or staff, and of all licensing visit reports (or comparable reports- sanitation, fire, accreditation, etc.) issued to the School by the licensing agency in the state where the School is located.

(20) Franchisee will (i) adopt and follow Company's fiscal year for accounting purposes, (ii) adopt and follow the accounting principles, policies and practices Company prescribes, including use of Company's standard chart of accounts, (iii) acquire, install and use the Information System that Company specifies from time to time in the Operations Manual, (iv) install and continually maintain a dedicated telephone line that facilitates communication between Company's computer system and Franchisee's Information System, and (v) furnish Company the dedicated line's telephone number or other access number, as originally assigned and as changed from time to time.

(21) Franchisee will accurately calculate and report Gross Revenues to Company at the times and through the procedures Company from time to time specifies (which may include a web-based reporting system and a daily reporting requirement). Franchisee agrees to use Company's bookkeeping software and allow Company full access to the School's Information System, Gross Revenues, tuition payments and all other financial information stored using Company's bookkeeping software. Franchisee agrees to maintain continual data network access to the School's Information System for use by Company and purchase and maintain all required hardware and software for the School, as set forth in the Operations Manual. Franchisee acknowledges that Company may share this information within the System, and disclose this information to prospective franchisees, within any future publication of the FDD. Franchisee's school may be identifiable in these shared transmissions.

(22) At Company's request, Franchisee will furnish Company copies of all federal and state income and sales tax returns filed by Franchisee with respect to the School's income or sales or any income tax returns filed by Franchisee's Principal Owners.

(23) Franchisee will permit Company, at any time during the term of the franchise and for three years after it expires or terminates, to conduct a special audit of Franchisee's books and records relating to the School's operation. To assist Company in planning and conducting its audit program, Franchisee expressly authorizes Company to obtain from any vendor with which Franchisee does business copies of invoices and other sales data related to Franchisee's account with the vendor. If an audit establishes that Franchisee's royalty/marketing fee reports or profit and loss statements have understated Gross Revenues for any fiscal year by more than 1%, Franchisee shall pay the audit's cost, including the travel, lodging and meal expenses of the individuals who conduct the audit. Otherwise, Company will bear the audit's entire cost. Franchisee shall promptly pay Company any royalty and marketing fee deficiencies established by an audit, together with interest as provided in Section 14.

(24) Franchisee will maintain complete and accurate books and records relating to the operation of the School in accordance with Section 7(b)(21), permit Company representatives to inspect such books and records at reasonable times and, within 45 days after the end of each fiscal year of the School, submit to Company a balance sheet, income statement and statement of cash flow for the year then ended. These financial statements shall disclose separately the items specified by Company on forms it provides, and shall be prepared in accordance with the accounting principles and practices Company prescribes. If Franchisee is at any time required to furnish any lender, landlord, government agency or other Person audited financial statements with respect to the School, Franchisee shall concurrently furnish Company a copy of such audited financial statements.

(25) Franchisee will carry continuously during the term of the franchise insurance of the types (including worker's compensation and various special liability coverages), in the amounts no less than and with the coverages the Operations Manual specifies as amended from time to time. Each policy must (1) be obtained from an insurance carrier that has and maintains a Best's Insurance Reports rating of A, Class VIII, or better; (2) name Company, and any other affiliates Company designates as an additional insured and afford separate coverage to each named insured; (3) provide for a deductible of not more than \$500 per occurrence; (4) contain no provision that limits or reduces Franchisee's coverage on account of a claim against Franchisee by Company, LSP and any other affiliates Company designates; (5) provide for not less than 30 days' prior notice to Company of cancellation or non-renewal; and (6) obtained through an insurance broker approved or designed by Company. Franchisee shall furnish Company certificates of insurance to prove that such insurance coverage is in effect, both prior to the opening of the School and within 10 days after each policy renewal date. If Franchisee fails to maintain the required insurance, Company may obtain coverage on Franchisee's behalf and charge the cost to Franchisee. Franchisee agrees to reimburse Company for the premium costs it incurs to provide such coverage, plus five percent handling fee, within ten days after Company submits a statement for its costs.

(26) Franchisee will indemnify, hold harmless and timely defend Company, Company's Affiliates and their respective officers, directors, shareholders, employees, agents, successors and assigns (collectively, "Indemnified Parties") from and against any and all claims, demands, legal

proceedings, administrative inquiries, investigations and proceedings, damages, losses, judgments, settlements, fines, penalties, remedial actions, costs and expenses (including attorneys' fees) asserted against, incurred or sustained by any Indemnified Party, whether or not separately insured, that arise out of or are attributable to Franchisee's operation of the School or use of any Internet location or Forum network Company develops. Company may elect (but under no circumstance will be obligated) to undertake or assume the defense of any such claim, demand, inquiry, investigation or proceeding (an "Indemnified Matter"), and to conduct and supervise all settlement negotiations related to any Indemnified Matter. Company will pay the legal fees and other expenses it incurs in connection with the investigation, defense and settlement of any Indemnified Matter it undertakes to defend or assumes. If a proposed settlement of any Indemnified Matter will result in an admission of liability or financial contribution by Franchisee, Company will not settle the Indemnified Matter without Franchisee's participation and concurrence. Otherwise, Company's election to undertake or assume the defense or settlement of an Indemnified Matter will in no way or circumstance extinguish or diminish Franchisee's obligation to indemnify and hold the Indemnified Parties harmless.

8. Advertising and Promotions.

(a) Ad Fund.

(1) Company will establish a separate and segregated advertising fund ("Ad Fund") for the purpose of enhancing the goodwill and public image of the Little Sunshine's Playhouse franchise system through advertising and promotions. All Little Sunshine's Playhouse & Preschool® schools, both Company-operated and franchised, will be obligated to make contributions to the Ad Fund. Franchisee agrees to make contributions to the Ad Fund at the time, in the manner (including payment by automatic debit), and at the rate Company establishes.

(2) Company will use the Ad Fund (i) to create brochures and other marketing materials relating to the System and the services Little Sunshine's Playhouse & Preschool® schools provide, (ii) to place and run advertisements, commercials and promotional materials in local, regional and national media, (iii) to pay for public relations projects (including sponsorships) intended to enhance the goodwill and public image of the Little Sunshine's Playhouse franchise system, and (iv) to reimburse Company or its Affiliates (based on reasonable allocations calculated by Company's management) (a) for salaries and other overhead expenses that are directly related to projects of a character described in clauses (i), (ii) and (iii), and (b) for part of the cost of maintaining the LSP Website, as described in Section 9(a). However, Company will not use Ad Fund contributions to pay for those components of the LSP Website that publicize the Little Sunshine's Playhouse & Preschool® franchise program or the sale of Little Sunshine's Playhouse & Preschool® franchises.

(3) Company reserves the right to allocate Ad Fund contributions to various permitted uses as it sees fit. Company cannot guarantee that all schools will receive identical media exposure or equal advertising benefits in view of regional differences in media costs, varying degrees of market penetration in different DMAs and other relevant factors.

(4) The Ad Fund contribution rate may be increased by up to 10% each year upon 60 days' written notice to Franchisee.

(5) Company reserves the right to structure the Ad Fund's organization and administration in ways that, in Company's judgment, most effectively and efficiently accomplish the Ad Fund's objectives.

(b) **Approved Materials.** Franchisee must use only such advertising materials as Company furnishes, approves or makes available, and the materials must be used only in a manner that Company prescribes. Furthermore, any promotional activities Franchisee conducts in connection with the School are subject to Company's approval. Franchisee may use only advertising agencies that meet our then-current standards and specifications to create and place local marketing, advertising and promotion. Franchisee must obtain Company's approval (in writing) of all marketing, advertising and promotional materials before use, including without limitation any of Franchisee's own materials, at least 10 business days prior to the deadline for running or using the marketing, advertising or promotional materials. Any marketing, advertising or promotional materials not approved by Company within 10 business days shall be deemed to be disapproved. At any time, Company may require Franchisee to stop any marketing, advertising or promotion. Franchisee must use marketing, advertising and promotional materials that depict any of the Marks only in connection with Franchisee's sale of approved services and products in connection with the School. Any marketing, advertising and promotional materials used by Franchisee must be current, in good taste and in good condition, and communicate the brand position and character that Company has established for Little Sunshine's Playhouse & Preschool® schools. Company may periodically make available for purchase from Company or Affiliates, or designed or approved suppliers, certain advertising, marketing and promotional materials at Company's cost, plus shipping and handling, and a markup.

(c) **School Opening Campaign.** Franchisee must develop and conduct a school opening campaign prior to the opening of the school, as approved by Company ("School Opening Campaign"). Franchisee agrees to spend at least \$25,000 in the School Opening Campaign, though Company estimates that school opening campaigns will range from \$25,000 to \$40,000. In developing the School Opening Campaign, Franchisee must use only approved promotional materials and must develop a written opening campaign plan approved in writing by Company at least 30 days prior to the start of the School Opening Campaign.

(d) **System-Wide Promotions.** Franchisee agrees to participate in all system-wide promotions Company originates. Franchisee also agrees to participate in all system-wide advertising campaigns Company creates.

9. Concerning the Internet and Electronic Platforms.

(a) **LSP Website and Social Media.**

(1) Company has established and plans to maintain the LSP Website to provide information about the Little Sunshine's Playhouse & Preschool® concept and the products and services that Little Sunshine's Playhouse & Preschool® schools offer. Company will have sole discretion and control over the LSP Website's design and contents. Company will have no obligation to maintain the LSP Website indefinitely, but may dismantle it at any time without liability to Franchisee.

(2) The LSP Website includes a series of interior pages that identify participating Little Sunshine's Playhouse & Preschool® schools by name, address, telephone number and email

address. Company will include information about Franchisee's School in those pages.

(3) Company will have exclusive control and discretion over the use of all trademarks and services marks related to "Little Sunshine's Playhouse & Preschool" on any electronic medium, including without limitation social network sites, business development sites, websites, blogs, and microblogs. Franchisee may not develop pages, accounts or blogs without the prior written permission of Company or as described in the Operations Manual.

(4) If Franchisee fails to pay when due any fees or other amounts payable to Company under this Agreement, Company may remove information about Franchisee's School from the LSP Website until such time as Franchisee pays its outstanding obligation in full.

(5) Franchisee will have no right, license or authority to use any of the Marks on or in connection with the Internet, except as stated in and permitted by this Section 9(a).

(b) LSP Forum.

(1) Company has established and maintained a Forum through which members of the LSP Network may access forms and other LSP success tools, through which parents and guardians of School children may observe their children at the school on-line, and through which Company may disseminate updates to the Operations Manual and other confidential information. Company will have no obligation to maintain the LSP Forum indefinitely, but may dismantle or replace it at any time without liability to Franchisee.

(2) Company established policies and procedures for the LSP Forum's use. These policies, procedures and other terms of use address issues such as (a) restrictions on the use of abusive, slanderous or otherwise offensive language in electronic communications; (b) restrictions on communications between or among Franchisees that endorse or encourage breach of any Franchisee's Franchise Agreement; (c) confidential treatment of materials that Company transmits via the Forum; (d) password protocols and other security precautions; (e) grounds and procedures for Company's suspending or revoking a Franchisee's access to the LSP Forum; and (f) a privacy policy governing Company's access to and use of electronic communications that franchisees post on the LSP Forum. Franchisee acknowledges that, as administrator of the LSP Forum, Company can technically access and view any communication that anyone posts on the LSP Forum. Franchisee further acknowledges that the LSP Forum facility and all communications that are posted to it will become Company's property, free of any claims of privacy or privilege that Franchisee or any other Person may assert.

(3) Franchisee agrees to purchase and install all necessary additions to the School's Information System, if necessary, and to establish and continually maintain electronic connection with the LSP Forum that allows Company to send messages to and receive messages from Franchisee. Franchisee's obligation to maintain connection with the LSP Forum will continue until the Franchise Agreement's expiration or termination (or, if earlier, until Company dismantles the facility).

(4) If Franchisee fails to pay when due any amount payable to Company under the Franchise Agreement, or if Franchisee fails to comply with any policy or procedure governing the LSP Forum, Company may temporarily suspend Franchisee's access to any email system, chat

room, bulletin board, list serve or similar feature the LSP Forum includes until such time as Franchisee fully cures the breach.

10. Term and Renewal.

(a) The initial term of this Agreement will begin on the Effective Date and will expire: (1) if Franchisee owns the School premises, 10 years after Franchisee is allowed to take possession of the premises of the School; or (2) if Franchisee leases the School premises, 10 years after the date the lease term commences, but no later than 10 years and 36 months after the Effective Date. The initial term of this Agreement is subject to earlier termination in accordance with Sections 15 and 16.

(b) Franchisee shall have the option to renew the franchise for an additional term of 10 years if, upon expiration of the initial term, Franchisee complies with the following conditions:

(1) Franchisee notifies Company of Franchisee's intention to renew not earlier than 180 days nor later than 90 days before the primary term's scheduled expiration date.

(2) Franchisee signs Company's then-current renewal form of Franchise Agreement (which will define Franchisee's subsequent renewal rights).

(3) No later than 30 days before the primary term's scheduled expiration date, Franchisee completes the remodeling, refurbishing and modernizing of the School's interior and exterior, including its furniture, fixtures, signs, equipment, Information System and Trade Dress, to conform to the standards Company then stipulates.

(4) Franchisee pays Company a renewal fee of \$7,000.

(5) Franchisee is not in default of any provision of this Agreement or any other agreement between Franchisee and Company or Company's Affiliates, and has, on a timely basis, substantially complied with all of the terms and conditions of this Agreement and any of these other agreements during their respective terms.

(6) Franchisee has satisfied all monetary obligations owed by Franchisee to Company and its Affiliates, and has timely met those obligations throughout the term of this Agreement and any other agreement between Franchisee and Company or its Affiliates.

(7) If leasing the School premises, Franchisee has renewed the lease and has provided written proof of its ability to remain in possession of the premises throughout the renewal period.

(8) If Company requires, Franchisee complies with Company's then-current training requirements, and Franchisee must pay for travel, lodging and incidental expenses of its attendees.

(9) Franchisee and its Principal Owners execute a general release of claims in a form Company prescribes.

(10) Franchisee is current in its payments to its landlord, suppliers and any others with whom Franchisee does business.

(c) If Franchisee does not qualify to renew, or elects not to renew, the franchise and this Agreement expires, then immediately after expiration, Franchisee must comply with the requirements of Section 16(a), and Company will have the rights and remedies provided in Sections 16(a) through 16(j).

11. Use of Intellectual Property.

(a) **Marks and Copyrighted Materials.** Franchisee acknowledges that Company is authorized by law to prevent the unauthorized use of the Marks, to control the quality of goods and services associated with the Marks, and to control the copying and distribution of the Copyrighted Materials. Recognizing the importance to Company and other members of the Little System of the protection and preservation of the Marks and Copyrighted Materials, Franchisee agrees to perform and abide by the following provisions:

(1) Franchisee acknowledges that Company is the lawful and rightful owner of each and all of the Marks and the Copyrighted Materials, that Franchisee's interest in the Marks and the Copyrighted Materials is solely that of a licensee, and that all uses of the Marks and the Copyrighted Materials by Franchisee will be attributed to Company for purposes of trademark and copyright law. Franchisee unconditionally disclaims any ownership interest in any of the Marks and the Copyrighted Materials.

(2) Franchisee shall not use "Little Sunshine's Playhouse," "Little Sunshine's," "Sunshine's" or any abbreviation, acronym, easily confused word(s) or a variation of those words as part of its name or as part of the name of any Business Entity in which Franchisee owns or holds an interest. However, Franchisee may, if required by law, file an assumed name or fictitious name certificate to the effect that Franchisee is operating the School under a trade name that includes the Little Sunshine's Playhouse service mark.

(3) Franchisee shall not copy, distribute or otherwise disseminate any of the Copyrighted Materials in violation of the restrictions and limitations imposed by this Agreement.

(4) Franchisee shall (i) adopt and use all additional trade names, trademarks, brand names, copyrighted materials, slogans, commercial symbols and logos Company develops from time to time, (ii) use all the Marks in the precise form Company prescribes, and (iii) observe Company directions regarding the use, copying and distribution of the Copyrighted Materials, the presentation of the Marks and the manner of the Marks' display and use. Franchisee shall promptly abandon and discontinue the use of any Mark or Copyrighted Materials that Company judges to be obsolete or no longer characteristic of the image Little Sunshine's Playhouse & Preschool® schools should project.

(5) Franchisee shall not use any of the Marks on any goods for any services or in connection with the advertisement or promotion of the School otherwise than in compliance with specifications Company issues from time to time, and with such other quality control measures that Company may adopt to promote and defend the goodwill associated with the Marks.

(6) Franchisee shall not knowingly permit, and shall promptly report to Company, any apparently unauthorized use of a Mark and any apparently unauthorized use or copying of any Copyrighted Materials by any Person, or the use by any Person of a trade name, trademark, service mark or symbol that might be construed as an infringement of any Mark or as unfair

competition or passing-off at common law, and shall actively cooperate with the Company in the investigation of infringement claims and in discovery and trial proceedings related to infringement actions. Company reserves the right to make the final determination of infringement or other unlawful use, to conduct all legal proceedings relating to the Marks and the Copyrighted Materials, and to compromise or settle all infringement claims.

(7) At no time shall Franchisee make any written or oral admission that a Mark or any of Company's copyrights is in any way invalid or infringes the rights of any Person or is open to any other form of attack, but shall promptly notify Company of any allegation of invalidity or infringement of which Franchisee becomes aware.

(8) Upon the expiration or termination of the franchise, Franchisee shall immediately discontinue all further uses of the Marks and Copyrighted Materials and shall take appropriate action to remove the Marks from the premises in which the School is located, to cancel any advertising relating to Franchisee's use of the Marks or the Copyrighted Materials, including yellow pages listings, and to cancel or withdraw any assumed or fictitious name filings covering Franchisee's use of Company's trade name. Franchisee acknowledges and agrees that failure or refusal to comply fully with these requirements will constitute willful trademark and copyright infringement.

(b) The System, Trade Secrets and Operations Manual. Franchisee acknowledges that the System and the Trade Secrets belong exclusively to Company and that the ideas and information in the Operations Manual are Company's sole and exclusive property. Franchisee further acknowledges that the unauthorized disclosure or use of any confidential element of the System, any Trade Secret or any other information the Operations Manual contains may adversely affect the business, competitive position and goodwill of Company and its franchisees. Accordingly, Franchisee agrees to perform and abide by the following provisions and restrictions, each of which shall survive the expiration or termination of this Agreement and shall be perpetually binding upon Franchisee.

(1) Franchisee shall hold the elements of the System, the Trade Secrets and the contents of the Operations Manual in strict confidence, shall not disclose any Trade Secret or any operating or management procedure to any Person other than Franchisee's Program Director and bona fide employees of the School to whom such disclosure is necessary in relation to their job duties, and shall instruct and routinely remind Franchisee's employees that the System, the Trade Secrets and the contents of the Operations Manual are confidential and may not be disclosed or appropriated. Franchisee will not disclose any element of the System, any of the Trade Secrets or the contents of the Operations Manual, or make the Operations Manual available, to any shareholder, director, officer, partner, member or manager of Franchisee other than its Program Director and other senior executive officers, if any, who are actively and regularly involved in the School's management.

(2) Franchisee shall not use any element of the System, any of the Trade Secrets, Marks or the operating, management or marketing procedures the Operations Manual contains in connection with the operation of any establishment or enterprise other than the School, and shall promptly discontinue use of the System, Marks, the Trade Secrets and the operating, management and marketing procedures the Operations Manual contains upon the expiration or termination of the franchise.

(3) Franchisee shall not, without Company's prior written consent, copy or permit any Person to copy or reproduce any part of the Operations Manual and any other printed, graphic or audio/visual item designated by Company as containing Trade Secrets or otherwise permit their use or inspection by any Person other than Franchisee, the Program Director, bona fide employees of the School to whom such disclosure is necessary in relation to their job duties, and authorized Company representatives.

(4) Franchisee acknowledges and agrees that the version of the Operations Manual on file in Company's offices constitutes the standard, official version for purposes of resolving any question or dispute concerning the Operations Manual's contents.

(5) Franchisee shall obtain from each of Franchisee's Program Directors, supervisors and managerial level employees of the School a confidentiality agreement that is valid and enforceable under the laws of the state in which the School operates and that imposes the restrictions and limitations of this Section 11(b) on each such individual for the longest period applicable law permits. Each confidentiality agreement shall designate Company as a third-party beneficiary and shall entitle Company to enforce its provisions directly against the signatory Program Director, supervisor or manager.

(6) Franchisee shall keep the Operations Manual and any other printed, graphic or audio/visual item designated by Company as containing Trade Secrets in the School at all times and shall promptly return them to Company upon the expiration or termination of the franchise.

(7) Franchisee expressly acknowledges that all employee training materials (including video cassettes, electronic podcasts, and CD-ROM disks) and all computer programs developed by Company or in accordance with its specifications contain information, embody procedures or facilitate business practices that are proprietary to Company and fall within the parameters of its Trade Secrets. These materials may not be duplicated in anyway. Additional materials, if needed, may be purchased for a reasonable fee from Company.

(c) **Internet Domain Name, Electronic and Forum Networks.** Franchisee acknowledges that Company is the lawful, rightful and sole owner of the www.littlesunshine.com domain name and unconditionally disclaims any ownership interest in that phrase, any colorably similar, or easily confused with Internet domain name. Franchisee acknowledges that Company has the sole right to use all trademarks and services marks related to "Little Sunshine's Playhouse & Preschool" on any electronic medium, including without limitation social network sites, business development sites, websites, blogs, and microblogs. Franchisee agrees not to register any Internet domain name, blog, microblog or social media page in any class or category that contains the words "Little Sunshine's Playhouse & Preschool," "Little Sunshine's Playhouse," "Little Sunshine's," "Sunshine's," or any abbreviation, acronym or variation of those words, without prior written permission of Company or as established in the Operations Manual. Franchisee agrees to use the facilities of the LSP Forum in strict compliance with the standards, protocols and restrictions Company includes in the Operations Manual and/or the Terms of Use that Company adopts to govern the LSP Forum's use.

12. Transfers.

(a) **Limitations on Transfer.** Franchisee acknowledges that the integrity of the Little Sunshine's Playhouse & Preschool® school concept and the stability of the LSP Network depend on the business

qualifications, financial capabilities, honesty and integrity of Company's franchisees. Franchisee further acknowledges that Company's lack of opportunity to evaluate and approve each potential franchisee's qualifications and the terms of each proposed transfer could irreparably damage the Little Sunshine's Playhouse franchise system. Consequently, Franchisee agrees not to sell, assign, transfer, give away, pledge, mortgage or otherwise dispose of any interest in the School or the franchise or Franchisee's rights under this Agreement, in any such case without Company's prior written consent. If Franchisee is a Business Entity, any sale, transfer or other disposition of any equity interest in Franchisee shall be considered a transfer covered by and subject to the terms and conditions of this Section 13. Any transfer lacking Company's prior written consent or that otherwise violates the restrictions in this Section 12 will be ineffective against Company and will constitute a default under Section 15(c)(2).

(b) Conditions to Voluntary Transfer of Rights. Franchisee may not assign or transfer the franchise before the School opens for business under any circumstances except those described in Section 12(d). After the School opens, Franchisee (and its Principal Owners) will not transfer (whether voluntary or involuntary), in one or more transactions, Franchisee's business, the School, substantially all or all of the assets of Franchisee's business, or this Agreement or allow a change of control unless Franchisee obtains Franchisor's prior written consent. Company will not unreasonably withhold its consent to transfer, provided Company determines that all of the following conditions have been satisfied.:

(1) At the time of transfer, Franchisee is in full compliance with Franchisee's obligations under this Agreement and any other agreement between Franchisee and Company or its Affiliates, including payment of all monetary obligations due Company or its Affiliates.

(2) The proposed transfer or other disposition involves the complete disposition of the franchise, and Franchisee relinquishes the franchise and related rights under this Agreement in writing.

(3) Franchisee returns the Operations Manual and all Copyrighted Materials to Company or, at Company's option, transfers those materials to the transferee.

(4) The transferee meets Company's then-current standards for qualifying as a new School Franchisee.

(5) Franchisee furnishes Company a copy of the contract of sale, including price and payment terms, and any other information Company reasonably requires.

(6) The transferee executes the then-current forms of Franchise Agreement (which will limit the term of the transferee's franchise to the unexpired term of Franchisee's franchise), Assignment of Telephone Number(s), Authorization Agreement for Preauthorized Payments, and other collateral agreements Company may then require.

(7) The transferee provides Company a waiver and release with respect to liability for any financial data, earnings claims, representations and other information Franchisee or its representatives provided the transferee.

(8) Each Principal Owner executes and delivers a Guaranty to Company.

(9) The transferee and the transferee's Program Director satisfactorily complete

Company's training program. If the transferee requests or Company requires on-site training a fee of \$2,000 per week, plus reasonable traveling expenses, will be charged to transferee.

(10) Company receives a \$7,000 transfer fee from either the transferor or the transferee.

(11) Where Company recruited and secured the transferee, Company receives 7% of the total sale price for the business.

(12) Franchisee and its Principal Owners execute a general release of claims in a form Company prescribes.

(13) If Franchisee leases the premises for the School, Franchisee assigns its rights under the Lease Agreement to the transferee. If Franchisee owns the premises of the School, Franchisee must sell the land and the School building to the transferee.

(c) **Waiver of Interference Claims.** Franchisee acknowledges that Company has legitimate reasons to evaluate the qualifications of potential transferees and to analyze and critique the terms of their purchase contracts with Franchisee. Franchisee also acknowledges that Company's contact with potential transferees for the purpose of protecting its business interests will not constitute improper or unlawful conduct. Franchisee expressly authorizes Company to investigate any potential transferee's qualifications, to analyze and critique the proposed purchase terms with the transferee, and to withhold consent to economically questionable transactions. Franchisee waives any claim that action Company takes in relation to a proposed transfer to protect its business interests constitutes tortious interference with contractual or business relationships. If seller finances any part of the sale, seller agrees to a subrogation agreement that Buyer will pay Company first. If the Buyer defaults in franchise agreement with us, the franchise reverts back to seller.

(d) **Special Transfers.**

(1) If a Franchisee transfer by this Section 12(d)(1) would not individually or cumulatively result in a Change of Control, Company will consent to assignments and transfers of ownership interests among Franchisee's original stockholders, partners or members upon its receipt of such documentation and information concerning the assignment or transfer and the resulting ownership of Franchisee as Company may reasonably request. The required documentation will include, without limitation, a Guaranty signed by each holder of an equity interest in Franchisee who has not previously signed a Guaranty. If Franchisee properly notifies Company of its equity owners' intent to make the transfer and each equity owner promptly signs and returns a Guaranty (if required) and the other documentation Company requires, Company will waive payment of a transfer fee and its right of first refusal under Section 13(e). If Company agrees to release any retiring stockholder, partner or member from further liability under a Guaranty, the retiring stockholder, partner or member must also give Company an unconditional, general release of any claims the stockholder, partner or member may have against Company. Franchisee's equity owners will be eligible to effect transfers under this Section 12(d)(2) only if, at the time of the proposed transfer, the same people or Business Entities who owned 100% of the equity interests that Franchisee initially issued are still Franchisee's only equity owners.

(2) If the Franchisee transferred contemplated by this Section 12(d)(2) would not individually or cumulatively result in a Change of Control, each of Franchisee's equity owners

may transfer a cumulative total of not more than 49% of his or her ownership interest in Franchisee to any combination of the person's spouse, natural or adopted children or an inter vivos trust created for the benefit of the person's spouse and/or children. Company will consent to the transfer upon its receipt of such documentation and information concerning the transfer and the resulting ownership of Franchisee as Company may reasonably request. The required documentation will include, without limitation, (i) a certified list of the Franchisee's equity owners (designating the amount and percentage of stock or member interests each person owns), and (ii) a Guaranty signed by each holder of Franchisee's equity who has not previously signed a Guaranty. If Franchisee properly notifies Company of its equity owners' intent to make a transfer and each new equity owner promptly signs and returns a Guaranty (if required) and the other documentation Company requires, Company will waive payment of a transfer fee and its right of first refusal under Section 12(e).

(3) Any transfer that does not meet all of the eligibility requirements set forth in one of the preceding subsections of this Section 12(d) will be subject to all the requirements of Section 12(b).

(4) Franchisee may grant a security interest in this Agreement or the franchise to the limited extent permitted by Section 9-408 of the Uniform Commercial Code. Any such security interest may only attach to an interest in the proceeds of the School's operations and may not under any circumstances entitle or permit the secured party to take possession of or operate the School or to transfer Franchisee's interest in the franchise without Company's express prior written consent. The grant of a security interest in a manner consistent with this Section 12(d) will not be subject to the prohibition in Section 12(a).

(e) **Right of First Refusal.** Notwithstanding Section 12(b), Franchisee may not voluntarily or involuntarily transfer or otherwise dispose of any interest in the franchise or permit the sale, assignment or transfer of a controlling equity interest in Franchisee without first offering in writing to sell the interest to Company upon the terms and conditions, including price and payment terms, that are recited in a bona fide written offer the proposed seller obtains. Franchisee must furnish Company a copy of the written offer, together with (1) a recent balance sheet of the School (or of Franchisee if it is a Business Entity), (2) copies of Franchisee's building and equipment leases, (3) a schedule of notes and trade accounts then payable by Franchisee, and (4) copies of any other information that Franchisee or the proposed seller furnishes to the offeror. Company shall have 30 days following its receipt of Franchisee's written offer and related information to accept or reject it, and at least 30 additional days to consummate the purchase.

(f) **Purchase Upon Franchisee's Death or Disability.**

(1) This Section 13(f) applies only if (i) the beneficial owner of 50% or more of the outstanding equity securities of a Business Entity Franchisee dies or becomes disabled during the term of the franchise, and (ii) the death or disability results in a change in executive-level responsibility for managing the franchised business.

(2) During the first 120 days after the death or disability occurs, Company will evaluate the new management's willingness and ability to operate the School in compliance with this Agreement. By the end of the 120-day evaluation period, Company will decide whether the new management is qualified to manage the School and will notify management of its decision. As conditions to continuing the franchise relationship, each new proprietor, general partner or

beneficial owner of 15% or more of Franchisee's equity must furnish Company a signed Guaranty, and any deficiency in Franchisee's compliance with the requirements of this Agreement must be cured. Further, Company may require the new management to attend and satisfactorily complete the training program provided under Section 7.

(3) If any of the conditions stated in Section 12(f)(2) are not satisfied, or if Company decides that the new management has not adequately demonstrated its business qualifications or commitment to the franchise relationship, the owners of the franchise will have 120 days after delivery of Company's notice to sign a binding contract to sell the franchise to a buyer approved by Company in accordance with, and in a transaction structured to comply with, Section 12(b), whichever applies. The proposed sale will be subject to Company's right of first refusal under Section 12(e).

(4) If any of the franchise's owners fail to sign a binding contract of sale before the 120-day selling period expires, or if a contract is signed, but the proposed sale is not concluded within 30 days after Company relinquishes its option under Section 12(e), Company will have an additional option during the next 30 days to purchase the interest in the franchise or in the Franchisee the deceased or disabled person held at the date of death or disability. The purchase price for the interest will be its fair market value, determined through negotiations or by appraisal. Unless otherwise agreed by the parties, the purchase price will be payable in cash at closing. If Company delivers written notice of its intention to exercise the option within the 30-day period, the option will be considered effectively exercised whether or not the purchase is actually consummated within the 30-day period.

(5) If the parties fail to agree on a purchase price for the interest within 21 days after delivery of Company's notice, the issue will be submitted as promptly as possible to a group of three appraisers who are experienced in valuing similar franchises, one of whom will be selected by Company, another by the decedent's estate, and the third by the first two appraisers. All parties agree to submit to such appraisal proceedings, to be bound by the decision of a majority of the appraisers and to share payment of the appraisers' fees and expenses equally.

(g) Assignment by Company. Company may assign this Agreement and its rights and obligations as franchisor of the Little Sunshine's Playhouse & Preschool® franchise system to any assignee who, in Company's sole judgment and discretion, is capable of performing Company's obligations under this Agreement in a reasonably competent manner. Nothing in this Agreement will be interpreted to place any restrictions on the issuance, sale or transfer of any shares of Company's capital stock.

13. Interest on Delinquent Accounts.

If Franchisee fails to make any royalty, marketing fee, Ad Fund contribution or trade account payment to Company within five business days after it is due, a \$25 a day late fee will be applied, or in the case of insurance payments, etc., a 10% handling fee will be assessed. Nothing in this Agreement shall obligate Franchisee or any guarantor of Franchisee's obligations to pay, or entitle Company to collect, interest in excess of the maximum rate applicable law permits. If, for any reason, Company charges or receives interest in excess of the maximum rate permitted by applicable law, the excess shall be applied as a payment against the principal amount of Franchisee's other obligations under this Agreement. If no other obligations are due, Company shall promptly refund the excess payment to the

party that paid it.

14. School Relocation.

If Franchisee loses possession of the original School's premises on account of condemnation, eminent domain proceedings, fire or other casualty, within 60 days after the original School closes, Franchisee must locate a temporary site for the School and reopen. Franchisee also must immediately initiate the relocation procedure and open the new School for business in accordance with Section 6(a) of this Agreement.

15. Termination by Us.

(a) **Termination of Franchise Agreement - Grounds.** In the event any of the following defaults occur, Company may, at its option, terminate this Agreement as provided herein: (1) any material misrepresentation or omission in Franchisee's franchise application; (2) any falsification of financial data submitted to Company; (3) Franchisee's voluntary abandonment of this Agreement or the Approved Location; (4) the loss of Franchisee's lease; (5) the failure to timely cure a default under the lease; (6) the loss of Franchisee's right of possession or failure to reopen or relocate; (7) the closing of the School by any state or local authorities for health or public safety reasons; (8) any unauthorized use of the Copyrighted Materials or Trade Secrets; (9) insolvency of Franchisee, a Principal Owner, or guarantor; (10) Franchisee, a Principal Owner, or guarantor making an assignment or entering into any similar arrangement for the benefit of creditors; (11) arrest or conviction of Franchisee, any Principal Owners or guarantors of (or pleading no contest to) any felony or misdemeanor that brings or tends to bring any of the Marks into disrepute or impairs or tends to impair Franchisee's reputation or the goodwill of the Marks or the School, including any offense involving sexual misconduct with a child, whether or not a student at the School; (12) intentionally understating or underreporting Gross Revenue, royalty fees or Ad Fund contributions; (13) any unauthorized transfer or assignment in violation of Section 12; (14) Franchisee's use of the School for any illegal or unauthorized use; (15) Franchisee are a suspected terrorist or otherwise associated directly or indirectly with terrorist activities; (16) any default by Franchisee that is the second same or similar default within any 12-month consecutive period or the fourth default of any type within any 24-month consecutive period; (17) Franchisee, its Principal Owners or Guarantors breach of any non-competition covenant described in Section 17(a); (18) Franchisee tampers with or disables the School's Information System or Company's ability to access the System or refuses to permit Company to conduct a Quality Assurance Review; (19) Franchisee (or any managing Principal Owner) fails to satisfactorily complete the initial training program or fails to open and commence operations of the School at such time as provided in this Agreement; (20) Franchisee violates any material provision or obligation of this Agreement; (21) Franchisee fails to conform to the material requirements of the System or the material standards of uniformity and quality for the services as described in the Operations Manual or as Company has established in connection with the System; (22) Franchisee fails to timely pay amounts due under this Agreement or any other obligations or liabilities due and owing to Company or its Affiliates, or Approved Suppliers designated by Company as a source for required items, or fails to timely submit required reports to Company; (23) Franchisee is involved in any act or conduct which materially impairs or otherwise is prejudicial to the goodwill associated with the Company's name or any of the Marks or the System; (24) Franchisee develops or uses an unapproved website or social media medium in connection with the School or otherwise conducts any unauthorized activity on the Internet in violation of Section 9 above; or (25) Franchisee violates any health safety or sanitation law, regulation, code or ordinance violates any system standard as to cleanliness, health and sanitation, or if the operation of the School presents a health or safety hazard to Franchisee's customers or to the public. The term "abandon"

means Franchisee's failure to operate the School during regular business hours for a period of five consecutive days without Company's prior written consent unless such failure is due to an event of "*force majeure*" as further described in Section 25(c) below.

(b) **Procedure.** Except as described below, Franchisee will have 30 days, or such longer period as applicable law may require, after its receipt from Company of a written Notice of Termination within which to remedy any default hereunder, and to provide evidence thereof to Company. If Franchisee fails to correct the alleged default within that time, this Agreement will terminate without further notice to Franchisee effective immediately when the 30-day period, or such longer period as applicable law may require, expires. Franchisee will have 10 days after its receipt from Company of a written Notice of Termination, or such longer period as applicable law may require, to remedy any default under items (12) or (22) in Section 15(a) above and to provide evidence thereof to Company. If Franchisee fails to correct the alleged default within that time, this Agreement will terminate without further notice to Franchisee, effective immediately when the ten-day period expires, or such longer period as applicable law may require. Company may terminate this Agreement immediately upon delivery of written notice to Franchisee, with no opportunity to cure, if the termination results from any of the following: (1) Franchisee fails to comply with one or more material requirements of this Agreement on three separate occasions within any 12-month period; (2) the nature of Franchisee's breach makes it not curable; (3) any default under items (1) through (18) inclusive and (23) through (25) inclusive in Section 15(a) above.

(c) **Applicable Law.** If the provisions of this Section 15 are inconsistent with applicable law, the applicable law will apply.

16. Termination; Other Remedies.

(a) Upon termination or expiration of the franchise, Franchisee's right and privilege to use the Marks, the Copyrighted Materials, the Trade Secrets and all components of the Operations Manual shall absolutely and unconditionally cease. Franchisee shall immediately:

(1) discontinue use of the Marks, the Copyrighted Materials, the System and the Trade Secrets;

(2) return to Company the entire Operations Manual and any other printed, graphic or audio/visual item designated by Company as containing Trade Secrets;

(3) upon the Company's request, remove from the School's premises all interior and exterior Little Sunshine's Playhouse & Preschool® signs and other uses of the Marks; and

(4) upon the Company's request, alter the School's interior to remove all Trade Dress items and otherwise eliminate the distinctive features of the Little Sunshine's Playhouse & Preschool® school concept.

(b) Upon the franchise's termination or expiration, Franchisee shall take all steps necessary to contact any and all of the School's telephone service providers and immediately assign to the Company all telephone numbers used by the School or associated with the School, including fax and cell phone numbers. In addition, Company may immediately file with Franchisee's local telephone company all Assignments of Telephone Number(s) that Franchisee provided Company in accordance with Section 7, and may instruct the telephone company to transfer use and control of the School's telephone number(s)

to Company or its designee. Franchisee irrevocably constitutes and appoints Company and its designees as Franchisee's agent and attorney-in-fact to affect the transfer of the School's telephone number(s), including authority to execute and deliver on Franchisee's behalf any Transfer of Service Agreement the telephone company requires, and to revoke any call-forwarding or similar instructions Franchisee has given the telephone company. Company shall have no liability to Franchisee on account of or arising from any action it authorizes or takes to effect the transfer of the School's telephone number(s) in accordance with this Section 16(b). In addition, Company shall be entitled to injunctive or similar relief, without bond, against Franchisee and any other Person bound under Section 23 to enforce compliance with these requirements.

(c) If Franchisee does not comply with the requirements of Section 17(a) within seven days after the franchise's termination or expiration, Company may, at Franchisee's expense, enter the School's premises and effect Franchisee's compliance with all of that Section's requirements, including removal and storage of Franchisee's signs, and alteration or removal and storage of Trade Dress items. Franchisee irrevocably constitutes and appoints Company and its designees as Franchisee's agent and attorney-in-fact to effect compliance with Section 17(a)'s requirements, and Company shall have no liability to Franchisee, in trespass or otherwise, on account of or arising from any action it authorizes or takes to effect Franchisee's compliance. In addition, Company shall be entitled to injunctive or similar relief, without bond, against Franchisee and any other Person bound under Section 23 to enforce compliance with these requirements.

(d) In addition to the preceding rights and remedies (and in lieu of immediately exercising its rights under Section 16(a)), Company may notify each distributor of Little Sunshine's Playhouse brand products and merchandise that Franchisee is no longer authorized to purchase these items or any paper goods imprinted with any of the Marks, and that sales of such merchandise to Franchisee must therefore be discontinued until further notice from Company.

(e) In addition to the preceding rights and remedies, Company may recover all royalties, marketing fees, Ad Fund contributions and trade obligations due Company, plus interest under Section 14, with or without terminating the franchise. If any such obligation is referred to an attorney for collection or is collected in whole or in part through a judicial proceeding, Franchisee agrees to pay Company's reasonable attorneys' fees and costs of collection, plus a reasonable charge for the staff and administrative time Company expends to enforce its claims.

(f) In addition to the preceding rights and remedies, Company may cancel Franchisee's account on the LSP Forum and deny Franchisee further access to communication via the LSP Forum, with or without terminating the franchise.

(g) In addition to the preceding rights and remedies, Company may obtain injunctive relief, without bond, against Franchisee and/or any other Person bound under Section 23 restraining the unauthorized or violative use of any Mark, item of Copyrighted Materials or Trade Secret, with or without terminating the franchise.

(h) In addition to the preceding rights and remedies, Company may recover damages from Franchisee and any other Person bound under Section 23 for the unauthorized use of any Mark and/or Trade Secret or the unauthorized use, copying or distribution of any item of Copyrighted Materials, and for any loss of customer or future Franchisee goodwill in the School's Trade Area.

(i) In addition to the preceding rights and remedies, Company shall have an option (but no obligation) to assume the lease to the premises on which the School is located, to purchase all or any part of the School's signs, equipment, fixtures and useable inventory from Franchisee for 60 days after the franchise expires or is terminated. The purchase price for signs and equipment will equal their net book value (cost, less depreciation) or fair market value, whichever is lower; the purchase price for useable inventory will equal its invoiced cost to Franchisee. The purchase price will be payable in cash (except that Company may assume any note or lease covering signs, equipment or fixtures). Franchisee agrees to provide Company the information necessary to establish the purchase price, to sign and deliver to Company a bill of sale or an assignment of lease, and otherwise to cooperate with Company in its taking title to and delivery of the items

Company purchases. If Franchisee fails or refuses to comply with its obligations under this Section during the option period, Company's option will be extended until 15 days after Franchisee complies.

17. Special Representations, Warranties and Covenants.

(a) **Covenant Against Competition.** In consideration of Company's providing operations and management training to Franchisee and disclosing to Franchisee the System and other Trade Secrets, Franchisee covenants and agrees that, during the term of this Agreement and for two years after its expiration or termination for any reason, Franchisee will not own, operate, associate with, consult with or be employed by, directly or indirectly, any business, enterprise or facility that offers learning programs for preschool children and/or child-care services, except as a franchisee of Company. During the term of this Agreement, Franchisee's covenant not to compete will apply universally. For the two-year period after this Agreement expires or is terminated for any reason, Franchisee's covenant not to compete will apply within a radius of 20 miles around the location of the Franchisee's School, as well as 20 miles around any other School in operation at the time of termination or expiration, whether Company-owned or franchised. For purposes of calculating the duration of the two-year period, any time during which Franchisee is in violation or breach of the covenant shall be excluded. Franchisee acknowledges that Franchisee's covenant not to compete is reasonable and necessary to protect the Company's legitimate business interests and the goodwill of the Little Sunshine's Playhouse franchise system and to prevent misappropriation or other unauthorized use of the System and Company's other Trade Secrets. Franchisee acknowledges and confirms that Franchisee possesses the education, training and experience necessary to earn a reasonable livelihood apart from operating a business that offers learning programs for preschool children and/or child-care services.

(b) **Terrorist and Money Laundering Activities.** Franchisee represents and warrants to Company that neither Franchisee, nor any owner of an equity interest in Franchisee, nor any executive officer of Franchisee, nor any of their respective Affiliates is identified, either by name or an alias, pseudonym or nickname, on the lists of "Specially Designated Nationals" or "Blocked Persons" maintained by the U.S. Treasury Department's Office of Foreign Assets Control (texts available at www.treas.gov/offices/enforcement/ofac/). Further, Franchisee represents and warrants that neither it nor any equity owner, executive officer or Affiliate referred to above has violated and agrees not to violate any law prohibiting corrupt business practices, money laundering or the aid or support of Persons who conspire to commit acts of terror against any Person or government, including acts prohibited by the U.S. Patriot Act (text available at <http://www.epic.org/privacy/terrorism/hr3162.html>), U.S. Executive Order 13244 (text available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/terrorism.html>), or any similar law. The foregoing constitute continuing representations and warranties, and Franchisee shall immediately notify Company in writing of the occurrence of any event or the development of any

circumstance that might render any of the foregoing representations and warranties false, inaccurate or misleading.

18. Partial Invalidity.

The provisions of this Agreement are severable, and if any provision is held illegal, invalid or unenforceable, the holding shall not affect the legality, validity or enforceability of any other provision. Any illegal, invalid or unenforceable provision shall be reformed to the minimum extent necessary to render it legal, valid and enforceable and, as so reformed, shall continue in full force and effect.

19. Notice of Potential Profit.

Company and/or its Affiliates may periodically make available to Franchisee goods, products and/or services, software or other electronic applications for use in the School on the sale of which Company and its Affiliates may make a profit. Further, Company and its Affiliates may periodically receive consideration from suppliers and/or manufacturers in respect to sales of goods, products or services to Franchisee or in consideration of services rendered or rights licensed to such persons. The consideration may or may not be related to services performed. Franchisee agrees that Company and/or its Affiliates are entitled to said profits and/or consideration.

20. Notices.

All notices or demands required or permitted under this Agreement shall be in writing and shall be delivered either by certified or registered mail, first class postage prepaid, by commercial courier, telecopier or electronic mail. Notices delivered by mail or courier shall be addressed to Company at 2925 E. Battlefield Road, Suite 225B, Springfield, Missouri 65804 and Franchisee at _____, or at the electronic address of _____@_____ except that either party may at any time change its address for notices by giving the other party at least 10 days' prior notice in accordance with this Section 21. Notices delivered by mail will be deemed delivered three business days after deposit with the United States Postal Service, first class postage prepaid, certified or registered mail, return receipt requested; notices delivered by courier will be deemed delivered on the delivery date shown in the courier's records; notices delivered by telecopier will be deemed delivered at the time the recipient's fax machine acknowledges receipt; notices delivered by electronic mail will be deemed delivered on the day in which they were sent.

21. Status of Parties.

This Agreement is not intended to create, and shall not be interpreted or construed as creating, a partnership, joint venture, agency, employment, personal services, fiduciary or other "special" relationship between Company and Franchisee, and no representation to the contrary shall be binding upon Company.

22. Binding Effect.

This Agreement shall be binding upon and inure to the benefit of Company and Franchisee and their respective successors, assigns, executors, heirs and personal representatives. If Franchisee is, or subsequently transfers the franchise to, a Business Entity, each Principal Owner must sign a Guaranty and will be bound by the terms of this Agreement.

23. Law Governing; Dispute Resolution.

(a) Except as otherwise stipulated in Sections 23(d), or unless expressly prohibited by the franchising statutes of the state in which the School is located, this agreement shall for all purposes be governed by and interpreted and enforced in accordance with the laws of the state of Missouri, except that its choice of law and conflict of law rules shall not apply.

(b) The parties agree to use their best efforts to resolve and settle by direct, private negotiation any claim, controversy or dispute (a “Dispute”) that arises under or in relation to this Agreement or that concerns the relationship created by this Agreement.

(c) If the parties cannot resolve and settle a Dispute by private negotiation within 60 days after one party gives the other written notice that a Dispute exists, the parties mutually agree to submit the Dispute to non-binding mediation, as follows:

(1) Mediation shall occur in Springfield, Missouri, before a single mediator, using the facilities and mediation rules of a professional dispute-resolution organization selected by Company and reasonably acceptable to Franchisee (the “Mediation Organization”). If the parties cannot agree on a Mediation Organization, they will use mutually agreeable facilities and mediation rules of the National Franchise Mediation Program administered by the International Institute for Conflict Prevention & Resolution.

(2) The parties shall jointly select a mediator from the panel of mediators maintained by the Mediation Organization. The mediator must be either a retired judge or an individual with at least five years’ experience in franchising or franchise law who has no prior social, business or professional relationship with either party. If the parties are unable to agree on a mediator within 30 days after the Dispute is submitted to mediation, the Mediation Organization will select a mediator who possesses the indicated qualifications.

(3) The parties will split the filing fee and mediator’s fees equally, but will otherwise separately bear their own costs and expenses (including legal fees) of participating in the mediation process. Each party agrees to send at least one representative to the mediation conference who has authority to settle the dispute and enter into binding contracts on that party’s behalf. Each party further agrees to sign a mediation agreement that acknowledges the confidentiality of the mediation proceedings and exempts the mediator from disclosing, orally or in writing, any information the other party discloses to the mediator in confidence at any stage of the mediation process.

(4) If either party fails or refuses to participate in mediation in accordance with this Section 23(c), the other shall be entitled to immediately submit the Dispute to binding arbitration in accordance with Section 23(d).

(d) If the parties cannot fully resolve and settle a Dispute through mediation within 30 days after the mediation conference concludes, all remaining issues must be resolved exclusively by binding arbitration pursuant to the Federal Arbitration Act, 9 U.S.C. § 1 et seq. (“FAA”), as follows:

(1) Either party may make a demand for arbitration. The party who demands arbitration shall pay the arbitration filing fee, but the parties will otherwise separately bear their own costs

and expenses (including legal fees) of participating in the arbitration process. Responsibility for the arbitrator's fees and expenses shall be determined as part of the arbitrator's award.

(2) Arbitration proceedings shall be conducted exclusively in Springfield, Missouri, before a single arbitrator, using mutually agreeable facilities and the commercial arbitration rules of the Mediation Organization or another professional dispute-resolution organization selected by Company and reasonably acceptable to Franchisee (the "Arbitration Organization"). If Company selects an Arbitration Organization other than the Mediation Organization and Franchisee asserts a reasonable objection to Company's choice, the parties must use the American Arbitration Association and the AAA Commercial Arbitration Rules.

(3) The parties shall jointly select an arbitrator from the panel of arbitrators maintained by the Arbitration Organization. The arbitrator must be either a retired judge or an attorney with a minimum of five years' experience in the practice of franchise law who has no prior social, business or professional relationship with either party. If the parties are unable to agree on an arbitrator within 30 days after the arbitration demand is filed, the Arbitration Organization will select an arbitrator who possesses the indicated qualifications.

(4) The proceedings will be conducted under the rules of the Arbitration Organization that the parties agree upon in writing; to the extent such rules are not inconsistent with the provisions of this arbitration provision or the Federal Arbitration Act. However, the arbitrator is not authorized and may not under any circumstances: (i) stay the effectiveness of any pending termination of this Agreement; (ii) assess punitive or exemplary damages against any party; or (iii) make any award which extends, modifies, suspends or is inconsistent with any lawful term of this Agreement or any reasonable standard of business performance set by Franchisor. This Section 23 will survive termination or nonrenewal of this Agreement under any circumstances.

(5) The arbitrator's award shall be final and binding on all parties, and neither party shall have any right to contest or appeal the arbitrator's award except on the grounds expressly provided by the FAA.

(6) The procedures contemplated by and the enforceability of this Section 23(d) shall be governed by the FAA and shall be interpreted and enforced in accordance with United States federal judicial interpretations of the FAA.

Notwithstanding Sections 23(c) and 23(d), the parties mutually agree that Company will not be obligated to mediate or arbitrate any claim: 1) arising from Franchisee's alleged infringement of the Marks or the Copyrighted Materials; 2) alleging misappropriation of Company's intellectual property; 3) arising from Franchisee's failure to pay when due any royalty or other monetary obligation to Company; 4) enforcing any post expiration or termination obligation; or 5) requesting injunctive relief. All such claims shall be litigated exclusively in the United States District Court for the Western District of Missouri, Southern Division. The parties further agree to submit to the personal jurisdiction and venue of this Federal District Court and waive any objection to personal jurisdiction or venue in Missouri.

24. Condition Precedent.

This Agreement will not be binding on Company and no franchise will be granted unless and until each Principal Owner executes and delivers a Guaranty to Company.

25. Miscellaneous.

(a) The term “Franchisee” includes the plural as well as the singular, the masculine and feminine genders, and Business Entities as well as individuals. In the event Franchisee is a Business Entity, “Franchisee” shall include all of its officers, directors, shareholders, members, guarantors and/or partners.

(b) Except as provided in Section 8(a)(4), this Agreement may not be amended, modified or rescinded, or any performance requirement waived, except by a written document signed by Company and Franchisee. The parties expressly agree that this Agreement may not be amended or modified, or any performance standard changed, by course of dealing or inference from a party’s conduct. This provision does not apply to changes in the Operations Manual, which Company may modify unilaterally.

(c) Neither party will be responsible for any failure or delay in the performance of all or any part of this Agreement caused by acts of God and nature, intervention of government, war or threat of war, acts of terrorism, conditions similar to war, sanctions, blockades, material or product shortages, embargoes, strikes, lockouts or other causes or circumstances which cannot reasonably be prevented by the party whose performance is delayed. However, the party so affected shall use commercially reasonable efforts to promptly give written notice to the other party whenever such contingency or other act becomes reasonably foreseeable, and shall use commercially reasonable efforts to overcome the effects of the contingency as promptly as possible, and shall promptly give written notice to the other party of the cessation of such contingency. Neither party shall be required to resolve a strike, lockout or other labor problem in a manner which it alone does not, in the party’s sole discretion, deem reasonably proper and advisable.

26. Franchisee’s Acknowledgments.

(a) Franchisee acknowledges and agrees that this Agreement, together with any duly executed amendment or addendum attached to this Agreement contains the entire agreement between the parties with respect to Franchisee’s franchise for the School, and that it supersedes any prior or contemporaneous agreements between the parties, written or oral, with respect to the franchise for the School. Nothing in this Agreement is intended to disclaim any representation Company made to Franchisee in its Franchise Disclosure Document that company delivered to Franchisee. _____ **[Franchisee’s Initials]**

(b) Franchisee confirms and acknowledges that no written or oral agreements, promises, commitments, undertakings or understandings were made to or with Franchisee that are not expressly set forth in this Agreement and any duly executed amendment or addendum attached to this Agreement. _____ **[Franchisee’s Initials]**

(c) Franchisee confirms and acknowledges that except for any information disclosed in Item 19 of the Franchise Disclosure Document no Person representing Company made any oral, written or visual claim, presentation or representation to Franchisee that stated or suggested that Franchisee’s School might attain any actual, projected or forecasted level of sales, income or profits. _____

[Franchisee's Initials]

(d) Franchisee confirms and acknowledges that no representation, warranty, guaranty or promise other than those expressly set forth in this Agreement and in the Franchise Disclosure Document was made by Company or any other Person to induce Franchisee to sign this Agreement. Franchisee recognizes that neither Company nor any other party can guarantee Franchisee's business success or state the exact costs of opening and operating the School, and that such success and costs will depend primarily upon Franchisee's own efforts and business ability. Franchisee also recognizes that any new business venture is speculative. _____ **[Franchisee's Initials]**

(e) Franchisee acknowledges that this Agreement creates an arm's length commercial relationship that cannot and will not be transformed into a fiduciary or other "special" relationship by course of dealing, by any special indulgences or benefits that Company bestows on Franchisee, or by inference from a party's conduct. _____ **[Franchisee's Initials]**

**LITTLE SUNSHINE'S ENTERPRISES,
INC.**

FRANCHISEE

By: _____
(Rochette Dahler)

Business Entity

Title: _____

By: _____

Title: _____

Date: _____

★Date: _____

★The Effective Date of this Agreement

Subscribed and sworn to before me this
____ day of _____, 20__.

Notary Public

GLOSSARY OF TERMS

The following terms are used in the preceding Franchise Agreement (“Agreement”) with the meanings assigned in this Glossary.

Ad Fund has the meaning assigned in Section 8(c)(1) of the Agreement.

Affiliate means a Person that controls, is controlled by or is under common control with another Person, either by virtue of equity ownership, by contract or by other means.

Approved Location means the location described in Exhibit A where the School will be located.

Approved Products and Services means all products and services, and only those products and services, Company periodically approves as being suitable for sale from Little Sunshine’s Playhouse & Preschool® schools and meeting Company’s standards of quality and uniformity for the System.

Approved Supplies means the Approved Products and Services, equipment (including the Information System), decorating materials, signs, fixtures, furnishings, furniture, advertising, marketing and promotional materials, and any other items Company periodically approves and require as part of the construction, maintenance and operation of the School.

Approved Suppliers means those suppliers Company designates from which Franchisee may purchase Approved Supplies.

Arbitration Act means the United States Arbitration Act.

Arbitration Organization has the meaning assigned in Section 24(d)(2) of the Agreement.

Business Entity means a corporation, a general or limited partnership, or a limited liability company.

Change of Control means a transaction or series of transactions that result in a change in the right or authority to set policy for and/or manage the business and affairs of Franchisee. A Change of Control may occur by transfer of equity interests, by contract or by change in a Business Entity’s Charter Documents.

Charter Documents means a corporation’s articles of incorporation, by-laws and shareholders agreement (if any); a partnership’s partnership agreement and, in the case of a limited partnership, its articles of limited partnership; a limited liability company’s articles of association and regulations or operating agreement; and comparable governing documents of any other type of business entity.

Copyrighted Materials refers to and includes all versions, variations and adaptations of the following materials in tangible form, either produced by Company, produced on its behalf as works for hire, or derived from works produced by or on behalf of Company: (i) all manuals used in a Little Sunshine’s Playhouse & Preschool® school’s development, operation and marketing activities, including but not limited to the Operations Manual, (ii) training materials (including printed, audio, video or electronic materials), (iii) School plans and specifications that are works for hire, (iv) advertising and marketing materials, (v) business forms provided by Company, (vi) any computer software or mobile

applications developed by Company or as works for hire for use in the operation of Little Sunshine's Playhouse & Preschool® schools, and (vii) any other materials protected by copyright law or marked or identified by Company as protected by copyright.

Dispute has the meaning assigned in Section 24(b) of the Agreement.

DMA means Designated Market Area, an advertising term that Neilson Rating Service uses to demarcate the primary coverage of broadcast and print media in given markets. The boundaries of a particular DMA will be determined by reference to television coverage.

Effective Date means the date Company signs the Agreement, as indicated in its signature block.

Gross Revenues means the aggregate revenues the School receives for student tuition and fees (including subsidy payments or grants for tuition and fees from public agencies or private organizations), whether for cash or on credit, less applicable sales taxes Franchisee collects and remits, but without deduction of any other costs or expenses whatsoever.

Guaranty means a Guaranty and Acknowledgement in the form appended to the Agreement.

Indemnified Matter has the meaning assigned in Section 7(c)(27).

Indemnified Party has the meaning assigned in Section 7(c)(27).

Information System means the computer hardware, software, Internet connectivity facilities and related electronic systems the School's personnel use to compile, store and transmit information with respect to the School's students, personnel and financial performance.

LSP Forum means a web-based communications network that permits members of the LSP Network to communicate electronically with each other, that permits parents and guardians of Little Sunshine's Playhouse & Preschool® School children to observe their children through a video network, and through which Company may, at its option, make the Operations Manual accessible to franchisees and deliver training materials and official notices to franchisees.

LSP Network means the entire network of Little Sunshine's Playhouse & Preschool® Little Sunshine's Playhouse & Preschool® schools, both franchised and company-operated.

LSP Website means an Internet Website or any other electronic medium, such as social networking sites or forums, which Company develops or maintains to advertise and promote the LSP Network and the services that Little Sunshine's Playhouse & Preschool® Little Sunshine's Playhouse & Preschool® schools offer. Company may, at its option, expand the Website to include and facilitate the sale of franchises for Little Sunshine's Playhouse & Preschool® schools.

Marks refers to and includes (i) the Little Sunshine's Playhouse service mark and logo, (ii) the Little Sunshine's Playhouse & Preschool trade name, (iii) the elements and components of a Little Sunshine's Playhouse & Preschool® school's Trade Dress, and (iv) any and all additional or different trade names, trademarks, service marks, logos and slogans that Company adopts to identify a Little Sunshine's Playhouse & Preschool® School and the products and services Little Sunshine's Playhouse & Preschool® schools offer.

Mediation Organization has the meaning assigned in Section 24(c)(1) of the Agreement.

Operations Manual means and collectively includes all manuals, policy statements, directives, bulletins and memoranda that contain prescribed or recommended specifications, standards, procedures, policies, forms and advice relating to a Little Sunshine's Playhouse & Preschool® School's operation and management. The Operations Manual discloses the principle elements of Company's proprietary System, and its contents are and shall remain Company's exclusive property.

Person means an individual or a Business Entity.

Principal Owner means any person or entity who directly or indirectly owns a 10% or greater interest in Franchisee. If any corporation, limited liability company or partnership, or other entity other than a partnership is a Principal Owner, a "Principal Owner" also will mean a shareholder or owner of a 10% or greater interest in such corporation, limited liability company or partnership, or other entity. If a partnership is a Principal Owner, a "Principal Owner" also will mean each general partner of such partnership and, if such general partner is an entity, each owner of a 10% or greater interest in such general partner. If Franchisee is one or more individuals, each individual will be deemed a Principal Owner of Franchisee. Franchisee must have at least one Principal Owner.

Program Director means an individual appointed by Franchisee to supervise and manage all aspects of the School's day-to-day operations and with whom Company and its staff may deal exclusively for purposes of administering and coordinating the franchise relationship.

Quality Assurance Reviews means physical, on-site visits to the School during which Company's representatives conduct either (i) formal inspections to determine the degree to which the School's operation satisfies Company's quality, service and cleanliness standards, or (ii) informal reviews to evaluate the staff's compliance with Company's operations policies and procedures.

School means the facility that Franchisee will operate pursuant to this Agreement that offers childcare and school readiness programs for infants, toddlers and preschool children on a year-round basis and operates under the Little Sunshine's Playhouse & Preschool trade name and System.

Special Venue means a manufacturing plant, corporate headquarters building, college or university campus or similar facility that limits access or provides programming or benefits to a limited group of constituents.

System means the combination of a Little Sunshine's Playhouse & Preschool® school's design and layout, educational philosophy, curricula, personnel policies, operating policies and procedures, marketing concepts, and communications methods and procedures that Company has developed or adopted to govern the construction and operation of Little Sunshine's Playhouse & Preschool® schools.

Trade Area means the area described in Exhibit A in which Franchisee will enjoy the competitive protection described in Section 4 of the Agreement.

Trade Dress means decorative, non-functional components of a Little Sunshine's Playhouse & Preschool® School that provide the establishment a distinctive, memorable appearance.

Trade Secrets means the components of the System, the contents of the Operations Manual and

of all employee training materials and computer programs developed by Company or in accordance with its specifications, and any other confidential information that Company imparts to Franchisee with respect to a Little Sunshine's Playhouse & Preschool® School's operation or management, whether through the Operations Manual or otherwise.

**EXHIBIT A
TO FRANCHISE AGREEMENT**

APPROVED LOCATION AND TRADE AREA

This Exhibit is attached to and is an integral part of the Little Sunshine Playhouse & Preschool® Franchise Agreement between Franchisee and Company with an Effective Date of _____, 20__ (the “Franchise Agreement”).

1. Approved Location. Franchisee and Company agree that the School will be located at the following premises: _____

2. Trade Area. The Designated Area will be a radius of three miles from the Approved Location of the School, as described in Section 1.

3. Defined Terms. All capitalized terms contained in this Exhibit and not defined in this Exhibit will have the same meaning as provided in the Franchise Agreement.

**LITTLE SUNSHINE’S ENTERPRISES,
INC.**

FRANCHISEE

By: _____
(Rochette Dahler)

Business Entity

Title: _____

By: _____

Title: _____

Date: _____

★Date: _____

★The Effective Date of this Agreement

Subscribed and sworn to before me this
____ day of _____, 20__.

Notary Public

**ALTERNATIVE EXHIBIT A
TO FRANCHISE AGREEMENT**

**APPROVED LOCATION
(ALTERNATIVE)**

This Exhibit is attached to and is an integral part of the Little Sunshine Playhouse & Preschool® Franchise Agreement between Franchisee and Company with an Effective Date of _____, 20__ (the “Franchise Agreement”).

1. Geographic Area For Approved Location. Within 180 days after the Effective Date of the Franchise Agreement, Franchisee will select and obtain Company’s approval of the School site in accordance with the provisions of Section 6(a) of the Franchise Agreement within the following geographical area (the “Area”): _____

2. Termination of Franchise Agreement. Company has the right to terminate the Franchise Agreement, effective upon delivery of notice of termination to Franchisee, if Franchisee does not identify and receive Company’s approval (in writing) of a location for the School within 180 days after the Effective Date of the Franchise Agreement.

3. Defined Terms. All capitalized terms contained in this Exhibit and not defined in this Exhibit will have the same meaning as provided in the Franchise Agreement.

**LITTLE SUNSHINE’S ENTERPRISES,
INC.**

FRANCHISEE

By: _____
(Rochette Dahler)

Business Entity

Title: _____

By: _____

Title: _____

Date: _____

★Date: _____

★The Effective Date of this Agreement

Subscribed and sworn to before me this
____ day of _____, 20__.

Notary Public

EXHIBIT B

**AUTHORIZATION AGREEMENT
FOR PREAUTHORIZED PAYMENTS**

LITTLE SUNSHINE'S ENTERPRISES, INC. ("COMPANY")
ID NUMBER: 75-2681763

The undersigned ("DEPOSITOR") authorizes COMPANY to initiate debit entries to the Checking Account indicated below at the DEPOSITORY named below, and authorizes DEPOSITORY to debit to such account all entries COMPANY initiates.

DEPOSITORY NAME _____
BRANCH _____
CITY STATE _____
CHECKING ACCOUNT NO. _____
ROUTING NUMBER _____

DEPOSITOR agrees that this authorization will remain in full force and effect until DEPOSITOR has given COMPANY written notice of its revocation in such time and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on the notice.

DEPOSITOR'S NAME _____
ID NUMBER _____
DEPOSITOR'S SIGNATURE _____
TITLE OF PERSON SIGNING (if signed in a representative capacity) _____
DATE _____

NOTE: ALL WRITTEN DEBIT AUTHORIZATIONS MUST PROVIDE THAT THE DEPOSITOR MAY REVOKE THE AUTHORIZATION ONLY BY NOTIFYING THE DEBIT ORIGINATOR (COMPANY) IN THE MANNER SPECIFIED IN THE AUTHORIZATION.

Subscribed and sworn to before me this
_____ day of _____, 20____.

Notary Public

EXHIBIT C

LEASE ADDENDUM

This Lease Addendum is entered into as of the date of the Lease Agreement by and between _____ (“Landlord”) and _____ (“Tenant”).

Landlord and Tenant are parties to that certain Lease of even date (the Lease) covering the premises located at _____ (“Premises”), which Tenant will use to operate a Little Sunshine’s Playhouse & Preschool® school under a Franchise Agreement between Tenant and Little Sunshine’s Enterprises, Inc. (“Franchisor”). Landlord and Tenant desire to amend the Lease to protect the various interests of Franchisor.

In consideration of the foregoing and the promises contained in the Lease, the parties agree as follows:

1. Permitted Use. Landlord and Tenant agree that so long as the Franchise Agreement remains in effect, Tenant may use the Lease premises only for a Little Sunshine’s Playhouse & Preschool® school (“School”) and Tenant may operate the School to offer care for infants, toddlers, preschool, and after-school aged children and offer other products and services which Franchisor approves.

2. Notice of Default. Landlord will provide Franchisor, by certified U.S. mail or a recognized overnight delivery service at the address provided in Section 8, a minimum 30-day notice of any default under the Lease before Landlord initiates any action to terminate the Lease or exercise any remedy for such default.

3. Cure. Either Tenant or Franchisor may cure defaults under the Lease and Landlord will accept performance of obligations due under the Lease, as specified in the Lease, by either Franchisor or Tenant. Franchisor will not, however, be under any obligation to cure any default and nothing herein will require Franchisor at any time to comply with or take any action under the provisions of the Lease.

4. Rights of Franchisor After Cure. If Franchisor commences cure of any default under the Lease within the 30-day notice period described in Section 2, and if Franchisor thereafter diligently completes cure, Franchisor may, but will not be obligated to, give notice to Landlord and become Tenant under the Lease, in which event Landlord will not be entitled to terminate the Lease.

5. Assignment and Renewal. Landlord consents to an assignment or transfer of Tenant’s rights under the Lease to Franchisor at any time during the term of the Lease. Landlord will give Franchisor notice of expiration of the term of the Lease at least three months in advance thereof and grant Franchisor the right, but not the obligation, to exercise any then-existing renewal rights under the Lease.

6. Right of Entry and Subordination. Landlord will give Franchisor access to the School at reasonable times on not less than 24 hours’ notice (or such shorter notice as may be reasonable when circumstances dictate) either to inspect the School for compliance with Company’s requirements, to remove from the School any items bearing Company’s marks or logos or to take other action permissible under the Agreements between Tenant and Franchisor. Landlord specifically subordinates any lien it may

have in such items to Franchisor's rights as licensor of the marks or logos displayed on items.

7. Vacating Premises. Upon vacating the Lease premises, or termination of the Franchise Agreement or Lease (whichever occurs first), Tenant must remove all signs and materials bearing any of the marks or logos. Tenant must remove all Trade Dress, as defined in the Franchise Agreement, and otherwise eliminate the distinctive features of the Little Sunshine's Playhouse & Preschool® school concept.

8. Post-Termination Use of Premises. For a period of two years following the expiration or termination of the Lease, Landlord agrees not to operate, or lease to any other entity to operate, a childcare or preschool concept on the Premises.

9. Notices. Any notices to Franchisor hereunder will be sent to:

Little Sunshine's Enterprises, Inc.
2925 E. Battlefield Road, Suite 225B
Springfield, Missouri 65804

10. Benefit. Landlord and Tenant acknowledge that they enter into this Agreement for the express benefit of us and that Company are an intended beneficiary hereof.

11. Supremacy. This Addendum shall control and supersede any inconsistent provision of the Lease.

The parties have signed this Agreement the day and year first above written.

LANDLORD:

TENANT:

By _____
Its _____

By _____
Its _____

Subscribed and sworn to before me this
_____ day of _____, 20__.

Subscribed and sworn to before me this
_____ day of _____, 20__.

Notary Public

Notary Public

EXHIBIT D

ASSIGNMENT OF TELEPHONE NUMBER(S)

This Assignment relates to:

Name of Franchisee: _____

Address of School: _____

Telephone Number(s):(____)_____ ; (____)_____ ; (____)_____

For valuable consideration, the Franchisee identified above (“Franchisee”) assigns and transfers to Little Sunshine’s Enterprises, Inc. (“Company”) all of Franchisee’s rights and interests in each and all of the telephone numbers listed above (the “Numbers”).

Franchisee authorizes Company to file this Assignment with the telephone company that issued the Numbers for the purposes of establishing Company’s claim to and right to designate the user of the Numbers.

Franchisee irrevocably constitutes and appoints Company as Franchisee’s agent and attorney-in-fact for the purposes of (i) signing and delivering any Transfer of Service Agreement or comparable document the telephone company requires to transfer the rights in the Numbers from Franchisee to Company or its designee, and (ii) canceling and revoking any call-forwarding or similar instructions Franchisee has issued to the telephone company with respect to any of the Numbers, with full power to sign Franchisee’s name and otherwise to act in Franchisee’s name, place and stead.

Franchisee agrees to reimburse Company the full amount of any local service and long distance charges the telephone company requires that Company paid to obtain the Numbers, together with interest as provided in the Franchise Agreement for the School.

Franchisee represents and warrants to Company that Franchisee obtained the Numbers in his or her own name, and that Franchisee is the person of record the telephone company will recognize as registered user or “owner” of the Numbers.

Franchisee’s signature

Franchisee’s name, printed

Subscribed and sworn to before me this
_____ day of _____, 20____.

Notary Public

EXHIBIT E

GUARANTY AND ACKNOWLEDGMENT

In consideration of the execution by Little Sunshine's Enterprises, Inc. ("we" or "us") of the Little Sunshine's Playhouse & Preschool® Franchise Agreement (the "Franchise Agreement") with _____ ("Franchisee"), which has an Effective Date of _____, 20___, and for other good and valuable consideration, the undersigned ("Guarantors" and each a "Guarantor"), for themselves, their heirs, successors, and assigns, do jointly, individually and severally hereby become surety and guarantor for the payment of all amounts and the performance of the covenants, terms and conditions in the Franchise Agreement, to be paid, kept and performed by Franchisee, including without limitation the arbitration and other dispute resolution provisions of the Franchise Agreement.

Further, the Guarantors, individually and jointly, hereby agree to be personally bound by each and every condition and term contained in the Franchise Agreement, including without limitation the non-compete provisions contained in Sections 14.2 and 14.3, and agree that this Guaranty will be construed as though each of the Guarantors executed a Franchise Agreement containing the identical terms and conditions of this Franchise Agreement.

Each of the Guarantors waives: (1) acceptance and notice of acceptance by us of the foregoing undertaking; (2) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; (3) protest and notice of default to any party respecting the indebtedness or nonperformance of any obligations hereby guaranteed; and (4) any right he/she may have to require that an action be brought against the Franchisee or any other person as a condition of liability.

In addition, each of the Guarantors consents and agrees that:

(1) Guarantor's liability under this undertaking will be direct and independent of the liability of, and will be joint and several with, Franchisee and Franchisee's other Guarantors;

(2) We may proceed against Guarantor and Franchisee jointly and severally, or we may, at our option, proceed against Guarantor, without having commenced any action, or having obtained any judgment against you or any other Guarantor;

(3) Guarantor will make any payment or perform any obligation required under the Franchise Agreement upon demand if Franchisee fails to do so;

(4) Guarantor's liability hereunder will not be diminished, relieved or otherwise affected by Franchisee's insolvency, bankruptcy or reorganization of Franchisee or any assignee or successor, the invalidity, illegality or unenforceability of all or any part of the Franchise Agreement, or the amendment or extension of the Franchise Agreement with or without notice to Guarantor;

(5) Guarantor's liability will not be diminished, relieved or otherwise affected by any extension of time or credit which we may grant to you, including the acceptance of any partial payment or performance, or the compromise or release of any claims; and

(6) Guarantor will pay all attorneys' fees and all costs and other expenses we incur in enforcing this Guaranty against Guarantor or any negotiations relative to the obligations hereby

guaranteed.

It is further understood and agreed by the Guarantors that the provisions, covenants and conditions of this Guaranty will inure to the benefit of our successors and assigns.

FRANCHISEE: _____

GUARANTORS:

Individually

Print Name

Address

City State Zip Code

Telephone

Individually

Print Name

Address

City State Zip Code

Telephone

Individually

Print Name

Address

City State Zip Code

Telephone

Individually

Print Name

Address

City State Zip Code

Telephone

Subscribed and sworn to before me this
____ day of _____, 20____.

Notary Public

EXHIBIT C

DEVELOPMENT AGREEMENT

LITTLE SUNSHINE'S PLAYHOUSE & PRESCHOOL®
DEVELOPMENT AGREEMENT

THIS AGREEMENT is made and entered into as of the ____ day of _____, 20____
between Little Sunshine's Enterprises, Inc., a Missouri corporation ("Company") and _____
_____ ("Franchisee").

BACKGROUND:

Company and Franchisee are, on this day, entering into a Little Sunshine's Playhouse & Preschool® Franchise Agreement (the "Initial Franchise Agreement"), under which Franchisee will be granted the right to operate a Little Sunshine's Playhouse & Preschool® school in the trade area described in Exhibit A of the Initial Franchise Agreement. Franchisee desires to obtain the right to develop two additional Little Sunshine's Playhouse & Preschool® schools pursuant to Company's standard Franchise Agreement within a specified territory. Company is willing to grant such rights pursuant to the provisions stated below.

AGREEMENTS:

The Company and Franchisee agree as follows:

1. Development Rights. Subject to the provisions stated below, Company grants to Franchisee the right to establish and operate for its own account, but not to subfranchise, sublicense or resell, three Little Sunshine's Playhouse & Preschool® schools, including the first school developed under the Initial Franchise Agreement, (individually the "School" and collectively "Schools") pursuant to individual Little Sunshine's Playhouse & Preschool® Franchise Agreements ("Franchise Agreements") in the form then currently used by Company at the time of issuance, as amended by Section 2 of this Agreement. For purposes of clarification, the term "Franchise Agreement" includes the Initial Franchise Agreement. Franchisee's rights to establish and operate Schools under this Agreement will be limited to the area(s) described in Exhibit A attached hereto (the "Development Area"). If Franchisee is in full compliance with the conditions contained in this Agreement, including the satisfaction of all development obligations, and is in full compliance with all obligations under each Franchise Agreement entered into between Company and Franchisee; then, during the term of this Agreement, Company will not sell and operate, and authorize others to sell and operate, any Little Sunshine's Playhouse & Preschool® school within the Development Area, except franchises granted to Franchisee under this Agreement. If Franchisee fails to comply with this Agreement, Company may terminate the Agreement or grant individual or multiple unit franchises within the Development Area to third parties. Company reserves the right to sell and operate Little Sunshine's Playhouse & Preschool® schools at Special Venues (as defined in the Initial Franchise Agreement) and through alternative channels of distribution including direct sales and the internet. Further, Company may sell and operate, and authorize others to sell and operate, Little Sunshine's Playhouse & Preschool® schools outside the Development Area.

2. Fees.

(a) **Initial Fees.** For the rights described in Section 1 above, Franchisee will pay Company an "Initial Fee" of \$180,000 for all Schools (including the School being developed pursuant to the Initial Franchise Agreement) to be developed pursuant to this Agreement. All Initial Fees will be payable when Franchisee executes this Agreement. The Initial Fees are not refundable under any circumstances. Each Franchise Agreement

will be amended to provide that Franchisee will not be required to pay Company an initial franchise fee.

(b) Royalties; Ad Fund Contribution. For each Franchise Agreement to be executed hereunder, Franchisee will be obligated to pay Company royalties at the same percentage rate as provided in the Initial Franchise Agreement and Ad Fund contributions at the monthly amount set in the initial Franchise Agreement and each additional Franchise Agreement. Each Franchise Agreement will be amended, as necessary, to provide for those percentage rates and Ad Fund contributions.

3. Conditions to Development of Additional School. Company will be obligated to enter into a Franchise Agreement for the development of a School under this Agreement only if, at the time Franchisee intends to enter into a Franchise Agreement for such School: (1) Franchisee meets the minimum capital and other financial standards Company requires for new Little Sunshine's Playhouse & Preschool® franchisees and Franchisee provides Company with any information it requires in connection with this requirement; (2) Franchisee is in compliance with the Development Schedule (as described in Section 5 and Exhibit B); (3) all amounts due and owing by Franchisee to Company or its affiliates under or relating to any Franchise Agreement are paid in full and Franchisee otherwise is in good standing under such Agreements; and (4) Franchisee is not in default for any reason stated in Section 9 below for which Franchisee has received written notice.

4. Development Procedure. Each School to be developed pursuant to this Agreement will be governed by the terms of the Franchise Agreement that Company and Franchisee will execute for such School. Franchisee will not develop any School at any site which Company has not approved or for which there is no Franchise Agreement between the parties.

5. Minimum Development Schedule.

(a) Franchisee's rights under this Agreement are conditioned upon its active development of the Development Area. Franchisee agrees to open for business and maintain in operation within the Development Area a cumulative number of Schools by the time periods described in Exhibit B ("Development Schedule"). If Franchisee fails at any time to meet any of the Development Schedule, Company has the right to terminate this Agreement in accordance with Section 9.

(b) Franchisee's right to develop Schools in the Development Area is limited to the three Schools described on the Development Schedule.

6. Individual Franchise Agreements. All individual Franchise Agreements that Company and Franchisee sign for Schools within the Development Area are independent of this Agreement. The continued effectiveness of any individual Franchise Agreement, does not depend on the continued effectiveness of this Agreement. If any conflict arises between this Agreement and any individual Franchise Agreement, as to any individual School, the individual Franchise Agreement will control.

7. Marks. Franchisee acknowledges that is has no interest in or to the Marks (as defined in the Initial Franchise Agreement) and any right to use the Marks is derived solely from the individual Franchise Agreements entered into between Company and Franchisee. Franchisee agrees that all use of the Marks and any goodwill established exclusively benefits Company. Franchisee agrees that after termination or expiration of this Agreement, Franchisee will not, except with respect to Little Sunshine's Playhouse & Preschool® schools Franchisee operates under individual Franchise Agreements, directly or

indirectly, identify itself or any business as a franchisee or former franchisee of, or otherwise associated with, us or use in any manner any Mark or trade dress of a Little Sunshine's Playhouse & Preschool® school or any colorable imitation of a Little Sunshine's Playhouse & Preschool® school.

8. Term. Subject to earlier termination as provided herein, this Agreement is for a term commencing on the date executed and expiring on the last day of the last scheduled School opening as stated in the Development Schedule.

9. Default and Termination.

(a) Franchisee may terminate this Agreement at any time with or without cause by delivering written notice to Company. Franchisee will be in default, and Company may at its option, terminate this Agreement, as provided herein, if: (1) Franchisee fails to meet the minimum development schedule stated herein, (2) Franchisee violates any other material provision of this Agreement, (3) Franchisee violates any material provision of the Initial Franchise Agreement or any additional Franchise Agreement issued hereunder, (4) Franchisee is declared bankrupt or becomes insolvent, (5) Franchisee is convicted of violating any law, ordinance or regulation relating to Franchisee's operation of any School referenced or developed under this Agreement, or (6) Franchisee attempts to subfranchise in any manner all or part of its rights under this Agreement.

(b) Except as described below, Franchisee will have 30 days, or such longer period as applicable law may require, after its receipt from Company of a written notice of termination within which to remedy any default under this Agreement, and to provide evidence of such a default to Company. If Franchisee fails to correct the alleged default within that time (or such longer period of time as applicable law may require), this Agreement will terminate without further notice to Franchisee effective immediately upon the expiration of the 30-day period (or such longer period as applicable law may require). Company may terminate this Agreement immediately upon delivery of written notice to Franchisee, with no opportunity to cure, if the termination results from any of the following: (1) Franchisee repeatedly fails to comply with one or more material requirements of this Agreement; (2) the nature of Franchisee's breach makes it not curable; or (3) any default under items (4), (5) or (6) in Section 9(a) above.

(c) During the period from the date Company sends a notice of default until all violations and defaults specified therein are cured by Franchisee or this Agreement is terminated, Company will not be obligated to enter into any Franchise Agreement with Franchisee or otherwise perform any obligations pursuant to this Agreement. Upon termination or expiration of this Agreement, all rights licensed herein will automatically revert to Company and Franchisee's right to develop Schools within the Development Area will cease. Termination or expiration of this Agreement will not affect Franchisee's rights under any individual Franchise Agreements in effect at that time.

10. Transfers. Franchise Agreements may be transferred only pursuant to their respective terms. Franchisee represents and warrants to Company that it intends to develop, manage, and operate all of the School to be developed hereunder for its own benefit and not for the purpose of or with a view towards resale or redistribution of the franchises to be issued hereunder. This Agreement cannot be pledged, transferred or sold in whole or in part by Franchisee without Company's prior written consent. Company may impose conditions to any proposed transfer or assignment including the following:

(a) Franchisee is in complete compliance with the terms of this Agreement and all other agreements between the parties;

(b) The proposed transferee has been approved by Company as meeting Company's then-current standards for multiple school franchisees (if applicable);

(c) The proposed transferee has completed Company's training program;

(d) Franchisee assigns to the proposed transferee its interest in the individual Franchise Agreements for all Schools located in the Development Area and pays the transfer fees due under each Franchise Agreement; and

(e) Franchisee pays a transfer fee of \$10,000.

This Agreement may be assigned and transferred by Company and will benefit Company's successors and assigns. Any such assignment or transfer will require the assignee to fulfill Company's obligations under this Agreement.

11. Enforcement. This Agreement, and any dispute arising hereunder, will be governed by those provisions found in the Initial Franchise Agreement respecting indemnification, non-competition, mediation, arbitration, governing law and injunctive relief.

12. Miscellaneous. This Agreement represents the entire Agreement of the parties relative to its subject and cannot be waived, altered or rescinded in whole or in part except by an express writing by the parties. Nothing in this Agreement is intended to disclaim the representations Company made in the franchise disclosure document Company provided to Franchisee. The provisions of this Agreement are severable and the invalidity or unenforceability of any of them will not affect the remainder of this Agreement.

Company and Franchisee have executed this Agreement as of the date first written above.

"COMPANY"

"FRANCHISEE"

LITTLE SUNSHINE'S ENTERPRISES, INC.,

(Print Corporate Name)

By _____
Its _____

By _____
Its _____

Subscribed and sworn to before me this
_____ day of _____, 20____.

Notary Public

EXHIBIT A
TO DEVELOPMENT AGREEMENT

FRANCHISEE'S DEVELOPMENT AREA

This Exhibit is attached to and is an integral part of the Little Sunshine's Playhouse & Preschool® Development Agreement dated _____, 20__, between Company and Franchisee.

The development rights and obligations of Franchisee to timely develop and open Schools will be within the following described area (Select A or B):

_____ A. General Development Area within which all Schools will be developed:

OR

_____ B. Development Area for each School to be developed:

School 1: _____

School 2: _____

School 3: _____

“COMPANY”

LITTLE SUNSHINE’S ENTERPRISES, INC.,

“FRANCHISEE”

If “Franchisee” is a corporation,

(Print Corporate Name)

By _____
Its _____

By _____
Its _____

Subscribed and sworn to before me this
_____ day of _____, 20__.

Notary Public

EXHIBIT B
TO DEVELOPMENT AGREEMENT

FRANCHISEE'S DEVELOPMENT SCHEDULE

This Exhibit is attached to and is an integral part of the Little Sunshine's Playhouse & Preschool® Development Agreement dated _____, 20__, between Company and Franchisee.

Franchisee agrees to timely sign each Franchise Agreement in compliance with the following development schedule.

SCHOOL	DATE BY WHICH THE FRANCHISE AGREEMENT MUST BE SIGNED	DATE OF SCHOOL OPENING	CUMULATIVE NUMBER OF SCHOOLS TO BE OPENED
1	At the time you sign the Development Agreement	30 days after you are informed that the improvements on the School site have been substantially completed pursuant to the Lease or Purchase Agreement	1
2	6 months after you open your 1st School	30 days after you are informed that the improvements on the School site have been substantially completed pursuant to the Lease or Purchase Agreement	2
3	6 months after you open your 2nd School	30 days after you are informed that the improvements on the School site have been substantially completed pursuant to the Lease or Purchase Agreement	3

“COMPANY”

LITTLE SUNSHINE'S ENTERPRISES, INC.,

By _____
Its _____

“FRANCHISEE”

If “Franchisee” is a corporation,

(Print Corporate Name)

By _____
Its _____

Subscribed and sworn to before me this
____ day of _____, 20__.

Notary Public

EXHIBIT D

**LIST OF STATE ADMINISTRATORS;
AGENTS FOR SERVICE OF PROCESS**

STATE	STATE ADMINISTRATOR/AGENT	ADDRESS
California	Commissioner of Business Oversight California Department of Business Oversight	320 West 4 th Street, Suite 750 Los Angeles, CA 90013-2344 1-866-275-2677
Hawaii (State Administrator)	Commissioner of Securities Dept. of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch	335 Merchant Street Room 203 Honolulu, HI 96813
Illinois	Illinois Attorney General	500 South Second Street Springfield, IL 62706
Indiana (State Administrator)	Indiana Securities Commissioner Securities Division	302 West Washington Street, Room E111 Indianapolis, IN 46204
Indiana (Agent)	Indiana Secretary of State	302 West Washington Street, Room E018 Indianapolis, IN 46204
Maryland (State Administrator)	Office of the Attorney General Division of Securities	200 St. Paul Place Baltimore, MD 21202-2020
Maryland (Agent)	Maryland Securities Commissioner	200 St. Paul Place Baltimore, MD 21202-2020
Michigan	Michigan Department of Attorney General Consumer Protection Division	G. Mennen Williams Building, 1 st Floor 525 West Ottawa Street Lansing, MI 48933
Minnesota	Commissioner of Commerce Minnesota Department of Commerce	85 7 th Place East, Suite 500 St. Paul, MN 55101-2198
New York (State Administrator)	New York State Department of Law Bureau of Investor Protection and Securities	120 Broadway, 23rd Floor New York, NY 10271
New York (Agent)	Secretary of State of the State of New York	41 State Street, Second Floor Albany, NY 12231
North Dakota	Securities Commissioner North Dakota Securities Department	600 East Boulevard Avenue State Capitol, Fifth Floor, Dept. 414 Bismarck, ND 58505-0510
Rhode Island	Director, Department of Business Regulation, Securities Division	1511 Pontiac Avenue John O. Pastore Complex – Building 69-1 Cranston, RI 02920
South Dakota	Department of Labor and Regulation Division of Securities	445 East Capitol Avenue Pierre, SD 57501-3185
Virginia (State Administrator)	State Corporation Commission Division of Securities and Retail Franchising	1300 East Main Street, 9 th Floor Richmond, VA 23219 804-371-9051
Virginia (Agent)	Clerk of the State Corporation Commission	1300 East Main Street, 1st Floor Richmond, VA 23219-3630
Washington	Department of Financial Institutions Securities Division	150 Israel Road SW Tumwater, WA 98501 360-902-8760
Wisconsin	Commissioner of Securities	Department of Financial Institutions Division of Securities 201 W Washington Avenue, Suite 300 Madison, WI 53703

EXHIBIT E

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TABLE OF CONTENTS OF OPERATIONS MANUAL

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EXHIBIT F
STATE ADDENDA

**ADDENDUM TO
LITTLE SUNSHINE'S DISCLOSURE DOCUMENT
FOR THE STATE OF CALIFORNIA**

To the extent the California Franchise Investment Law, Cal. Corp. Code §§ 31000-31516 or the California Franchise Relations Act, Cal. Bus. & Prof. Code §§20000-20043 applies, the terms of this Addendum apply.

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AND COMPLAINTS CONCERNING THE CONTENTS OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT WWW.DBO.CA.GOV.

Item 1, Additional Disclosure:

You should consider applicable California laws and regulations when evaluating your purchase of a franchise. California maintains specific licensing and operational requirements for those businesses that are considered Child Care Centers. For more detailed information, visit <http://cclld.ca.gov/PG492.htm> and <http://www.cdss.ca.gov/ord/PG587.htm>.

Item 3, Additional Disclosure:

Neither we nor any person described in Item 2 of the Disclosure Document is subject to any currently effective order of any National Securities Association or National Securities Exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq. suspending or expelling such persons from membership in such association or exchange.

Item 17, Additional Disclosures:

The franchise agreement requires franchisee to execute a general release of claims upon renewal or transfer of the franchise agreement. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order there under is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 – 20043).

The franchise agreement requires application of the laws of Missouri. This provision may not be enforceable under California law.

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

The franchise agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. §101 et seq.)

The franchise agreement requires binding arbitration. The arbitration will occur in Springfield, Missouri with the cost being borne by the parties as determined by the arbitrator. Prospective franchisees are encouraged to consult with private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

The franchise agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.

Item 19, Additional Disclosures:

The earnings claims figures do not reflect the costs of interest, taxes, depreciation and amortization that must be deducted from the gross revenue or gross sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your franchise business. Franchisees or former franchisees, listed in the offering circular, may be one source of this information.

**ADDENDUM TO
LITTLE SUNSHINE'S FRANCHISE AGREEMENT
FOR THE STATE OF CALIFORNIA**

To the extent the California Franchise Investment Law, Cal. Corp. Code §§ 31000-31516 or the California Franchise Relations Act, Cal. Bus. & Prof. Code §§20000-20043 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

The Franchise Agreement requires franchisee to execute a general release of claims upon renewal or transfer of the franchise agreement. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order there under is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 – 20043).

The Franchise Agreement requires application of the laws of Missouri. This provision may not be enforceable under California law.

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. The Federal Bankruptcy Code also provides rights to franchisee concerning termination of the Franchise Agreement upon certain bankruptcy-related events. If the Franchise Agreement is inconsistent with the law, the law will control.

The Franchise Agreement requires binding arbitration. The arbitration will occur in Springfield, Missouri with the cost being borne by the parties as determined by the arbitrator. Prospective franchisees are encouraged to consult with private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.

2. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

3. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date Franchisor signs below.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO
LITTLE SUNSHINE'S DISCLOSURE DOCUMENT
FOR THE STATE OF ILLINOIS**

The following information applies to franchises and franchisees subject to the Illinois Franchise Disclosure Act of 1987. Item numbers correspond to those in the main body.

Item 5 and Note 2 to Item 7

Based on our financial condition, the Illinois Attorney General's Office has imposed an escrow requirement with respect to initial franchise fees for franchises governed by Illinois law. Therefore, if your franchise is governed by Illinois law, you must deposit your payment of the \$70,000 Initial Franchise Fee for the operation of a single School with First Mid-Illinois Bank and Trust until we have completed all of our initial obligations under the Franchise Agreement or other agreements, and you have commenced operations of your Little Sunshine's Playhouse and Preschool® School under the Franchise Agreement. If you sign a Development Agreement with us, you must deposit your payment of the \$180,000 Initial Franchise Fee for the operation of all Schools under the Development Agreement with First Mid-Illinois Bank and Trust until we have completed all of our initial obligations under the Franchise Agreement for the operation of the first School and you have commenced operations of your first Little Sunshine's Playhouse and Preschool® School under that Franchise Agreement. Payments for all inventory and installation of your FFE Package, however, must be made in accordance with the terms described in Item 5 and the Franchise Agreement for your first School regardless of whether you purchase these items before or after we have completed all of our initial obligations under that Franchise Agreement or other agreements, and you have commenced operations of your first Little Sunshine's Playhouse and Preschool® School under the Franchise Agreement.

Item 17

For Illinois franchisees, Illinois law governs the franchise agreement. The conditions under which the franchise can be terminated and rights upon nonrenewal may be affected by Illinois law. Any provision in a franchise agreement that designates exclusive jurisdiction or venue in a forum outside of Illinois is void.

**ADDENDUM TO LITTLE SUNSHINE'S
FRANCHISE AGREEMENT
FOR THE STATE OF ILLINOIS**

This Addendum relates to franchises sold in Illinois and is intended to comply with Illinois statutes and regulations. In consideration of the execution of the Franchise Agreement, we and you agree to amend the Franchise Agreement as follows:

1. Initial Franchise Fee. Based on our financial condition, the Illinois Attorney General's Office has imposed an escrow requirement with respect to initial franchise fees for franchises governed by Illinois law. Therefore, if your franchise is governed by Illinois law, you must deposit your payment of the \$70,000 Initial Franchise Fee for the operation of a single School with First Mid-Illinois Bank and Trust until we have completed all of our initial obligations under the Franchise Agreement or other agreements, and you have commenced operations of your Little Sunshine's Playhouse and Preschool® School under the Franchise Agreement. Payments for all inventory and installation of your FFE Package, however, must be made in accordance with the terms described in Item 5 and the Franchise Agreement regardless of whether you purchase these items before or after we have completed all of our initial obligations under the Franchise Agreement or other agreements, and you have commenced operations of your Little Sunshine's Playhouse and Preschool® School under the Franchise Agreement.

2. Venue. Section 23(d) of the Franchise Agreement is amended to provide that any claims will be litigated exclusively in Illinois.

3. Governing Law. Section 23(a) of the Franchise Agreement is amended to provide that any provision that designates governing law to be other than Illinois is void under the Illinois Franchise Disclosure Act of 1987.

4. Construction. In all other respects, the Franchise Agreement will be construed and enforced with its terms.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO LITTLE SUNSHINE'S
DEVELOPMENT AGREEMENT
FOR THE STATE OF ILLINOIS**

This Addendum relates to development agreement arrangements sold in Illinois and is intended to comply with Illinois statutes and regulations. In consideration of the execution of the Development Agreement, we and you agree to amend the Franchise Agreement as follows:

1. Initial Franchise Fee. Based on our financial condition, the Illinois Attorney General's Office has imposed an escrow requirement with respect to initial franchise fees for franchises governed by Illinois law. Therefore, if your franchise is governed by Illinois law, you must deposit your payment of the \$180,000 Initial Franchise Fee for the operation of all Schools under the Development Agreement with First Mid-Illinois Bank and Trust until we have completed all of our initial obligations under the Franchise Agreement for the operation of the first School and you have commenced operations of your first Little Sunshine's Playhouse and Preschool® School under that Franchise Agreement. Payments for all inventory and installation of your FFE Package for the first School, however, must be made in accordance with the terms described in Item 5 and your initial Franchise Agreement regardless of whether you purchase these items before or after we have completed all of our initial obligations under your initial Franchise Agreement, the Development Agreement or other agreements, and you have commenced operations of your Little Sunshine's Playhouse and Preschool® School under the Franchise Agreement.

2. Venue and Governing Law. Section 11 of the Development Agreement is amended to provide that to the extent Illinois law applies, any claims will be litigated exclusively in Illinois and any provision that designates governing law to be other than Illinois is void under the Illinois Franchise Disclosure Act of 1987.

3. Construction. In all other respects, the Franchise Agreement will be construed and enforced with its terms.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO
LITTLE SUNSHINE'S DISCLOSURE DOCUMENT
FOR THE STATE OF MARYLAND**

To the extent the Maryland Franchise Registration and Disclosure Law applies, the terms of this Addendum apply.

Item 17. Additional Disclosures:

Our termination of the Franchise Agreement because of your bankruptcy may not be enforceable under applicable federal law (11 U.S.C.A. 101 et seq.).

You may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

The general release required as a condition of renewal, sale and/or assignment/transfer will not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Franchisee Acknowledgment / Compliance Certification:

The representations under this Franchise Acknowledgment/Compliance Certification are not intended, nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

**ADDENDUM TO LITTLE SUNSHINE'S
FRANCHISE AGREEMENT
FOR THE STATE OF MARYLAND**

To the extent the Maryland Franchise Registration and Disclosure Law applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

The general release required as a condition of renewal, sale and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Nothing in the Franchise Agreement prevents the franchisee from bringing a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

Nothing in the Franchise Agreement operates to reduce the 3-year statute of limitations afforded to a franchisee for bringing a claim arising under the Maryland Franchise Registration and Disclosure Law. Further, any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

The Federal Bankruptcy laws may not allow the enforcement of the provisions for termination upon bankruptcy of the franchisee.

All representations requiring prospective franchisees to assent to a release, estoppel, or waiver of liability are not intended to nor shall they act as a release, estoppel, or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

2. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

3. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date Franchisor signs below.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO
LITTLE SUNSHINE'S DISCLOSURE DOCUMENT
FOR THE STATE OF MINNESOTA**

To the extent the Minnesota Franchise Act, Minn. Stat. §§80C.01 – 80C.22 applies, the terms of this Addendum apply.

State Cover Page and Item 17, Additional Disclosures:

Minn. Stat. Sec. 80C.21 and Minn. Rule 2860.4400J prohibit us from requiring litigation to be conducted outside of Minnesota, requiring waiver of a jury trial or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Disclosure Document shall abrogate or reduce any of your rights as provided for in Minn. Stat. Sec. 80C, or your rights to any procedure, forum or remedies provided for by the laws of the jurisdiction.

Franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. A court will determine if a bond is required.

Item 13, Additional Disclosures:

The Minnesota Department of Commerce requires that a franchisor indemnify Minnesota Franchisees against liability to third parties resulting from claims by third parties that the franchisee's use of the franchisor's trademark infringes upon the trademark rights of the third party. The franchisor does not indemnify against the consequences of a franchisee's use of a franchisor's trademark except in accordance with the requirements of the franchise agreement, and as the condition to an indemnification, the franchisee must provide notice to the franchisor of any such claim immediately and tender the defense of the claim to the franchisor. If the franchisor accepts tender of defense, the franchisor has the right to manage the defense of the claim, including the right to compromise, settle or otherwise resolve the claim, or to determine whether to appeal a final determination of the claim.

Item 17, Additional Disclosures:

Any condition, stipulation or provision, including any choice of law provision, purporting to bind any person who, at the time of acquiring a franchise is a resident of the State of Minnesota or in the case of a partnership or corporation, organized or incorporated under the laws of the State of Minnesota, or purporting to bind a person acquiring any franchise to be operated in the State of Minnesota to waive compliance or which has the effect of waiving compliance with any provision of the Minnesota Franchise Law is void.

We will comply with Minn. Stat. Sec. 80C.14, subs. 3, 4 and 5, which requires, except in certain specified cases, that a franchisee be given 90 days' notice of termination (with 60 days to cure), 180 days' notice for nonrenewal of the Franchise Agreement, and that consent to the transfer of the franchise will not be unreasonably withheld.

Minnesota Rule 2860.4400D prohibits a franchisor from requiring a franchisee to assent to a general release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statute §§80C.01 – 80C.22.

The limitations of claims section must comply with Minn. Stat. Sec. 80C.17, subd. 5.

**ADDENDUM TO LITTLE SUNSHINE'S
FRANCHISE AGREEMENT
FOR THE STATE OF MINNESOTA**

To the extent the Minnesota Franchise Act, Minn. Stat. §§80C.01 – 80C.22 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

With respect to franchises governed by Minnesota Franchise Law, franchisor shall comply with Minn. Stat. Sec. 80C.14, subd. 4 which requires that except for certain specified cases, that franchisee be given 180 days' notice for non-renewal of this Franchise Agreement.

The Minnesota Department of Commerce requires that franchisor indemnify franchisees whose franchise is located in Minnesota against liability to third parties resulting from claims by third parties that the franchisee's use of franchisor's trademarks ("Marks") infringe upon the trademark rights of the third party. Franchisor does not indemnify against the consequences of a franchisee's use of franchisor's trademark but franchisor shall indemnify franchisee for claims against franchisee solely as it relates to franchisee's use of the Marks in accordance with the requirements of the Franchise Agreement and franchisor's standards. As a further condition to indemnification, the franchisee must provide notice to franchisor of any such claim immediately and tender the defense of the claim to franchisor. If franchisor accepts tender of defense, franchisor has the right to manage the defense of the claim, including the right to compromise, settle or otherwise resolve the claim, or to determine whether to appeal a final determination of the claim.

Franchisee will not be required to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statute §§ 80C.01 – 80C.22.

With respect to franchises governed by Minnesota Franchise Law, franchisor shall comply with Minn. Stat. Sec. 80C.14, subd. 3 which requires that except for certain specified cases, a franchisee be given 90 days' notice of termination (with 60 days to cure). Termination of the franchise by the franchisor shall be effective immediately upon receipt by franchisee of the notice of termination where its grounds for termination or cancellation are: (1) voluntary abandonment of the franchise relationship by the franchisee; (2) the conviction of the franchisee of an offense directly related to the business conducted according to the Franchise Agreement; or (3) failure of the franchisee to cure a default under the Franchise Agreement which materially impairs the goodwill associated with the franchisor's trade name, trademark, service mark, logo type or other commercial symbol after the franchisee has received written notice to cure of at least twenty-four (24) hours in advance thereof.

According to Minn. Stat. Sec. 80C.21 in Minnesota Rules or 2860.4400J, the terms of the Franchise Agreement shall not in any way abrogate or reduce your rights as provided for in Minn. Stat. 1984, Chapter 80C, including the right to submit certain matters to the jurisdiction of the courts of Minnesota. In addition, nothing in this Franchise Agreement shall abrogate or reduce any of franchisee's rights as provided for in Minn. Stat. Sec.

80C, or your rights to any procedure, forum or remedy provided for by the laws of the State of Minnesota.

Any claims franchisee may have against the franchisor that have arisen under the Minnesota Franchise Laws shall be governed by the Minnesota Franchise Law.

The Franchise Agreement contains a waiver of jury trial provision. This provision may not be enforceable under Minnesota law.

Franchisee consents to the franchisor seeking injunctive relief without the necessity of showing actual or threatened harm. A court shall determine if a bond or other security is required.

The Franchise Agreement contains a liquidated damages provision. This provision may not be enforceable under Minnesota law.

Any action pursuant to Minnesota Statutes, Section 80C.17, Subd. 5 must be commenced no more than 3 years after the cause of action accrues.

2. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

3. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date Franchisor signs below.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO
LITTLE SUNSHINE'S DISCLOSURE DOCUMENT
FOR THE STATE OF NEW YORK**

To the extent the New York General Business Law, Article 33, §§680 - 695 applies, the terms of this Addendum apply.

Item 3, Additional Disclosure. The last sentence in Item 3 is deleted and replaced with the following:

Other than as described in Item 3, neither we, nor our predecessor, a person identified in Item 2, or an affiliate offering franchises under our principal trademark:

A. Has an administrative, criminal or civil action pending against that person alleging: a felony; a violation of a franchise, antitrust or securities law; fraud, embezzlement, fraudulent conversion, misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations, or has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations..

B. Has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten-year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud or securities law; fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices or comparable allegations.

C. Is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

Item 4, Additional Disclosure. Item 4 is deleted and replaced with the following:

Neither we nor any of our predecessors, affiliates, or officers, or general partners during the 10-year period immediately before the date of the Disclosure Document: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the Bankruptcy Code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within one year after the officer or general partner of the franchisor held this position in the company or partnership.

Item 5, Additional Disclosure. Item 5 of the disclosure document is amended to add the following:

The franchise fee may, in part, be profit to us, and is, in part used to pay our following expenses or costs: (1) employee salaries and benefits; (2) sales, administrative and operation expenses; (3) legal and accounting fees; (4) expenses of technical assistance, service and support; (5) protection of our trademarks; and (6) other operational expenses incurred by us or our affiliates relating to franchising.

Item 17(d). Item 17(d) of the disclosure document is amended to provide that you may terminate the Franchise Agreement on any grounds available by law.

Item 17(j). Item 17(j) of the disclosure document is amended to provide that no assignment will be made by us, except to an assignee who, in our good faith judgment, is willing and financially able to assume our obligations under the Franchise Agreement.

Item 17(w). Item 17(w) of the disclosure document is amended to add the following:

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business law of the State of New York.

**ADDENDUM TO LITTLE SUNSHINE'S
FRANCHISE AGREEMENT
FOR THE STATE OF NEW YORK**

To the extent the New York General Business Law, Article 33, §§680 - 695 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

Any provision in the Franchise Agreement that is inconsistent with the New York General Business Law, Article 33, Section 680 - 695 may not be enforceable.

Any provision in the Franchise Agreement requiring franchisee to sign a general release of claims against franchisor does not release any claim franchisee may have under New York General Business Law, Article 33, Sections 680-695.

The New York Franchise Law shall govern any claim arising under that law.

2. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

3. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date Franchisor signs below.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO
LITTLE SUNSHINE'S DISCLOSURE DOCUMENT
FOR THE STATE OF NORTH DAKOTA**

To the extent the North Dakota Franchise Investment Law, N.D. Cent. Code, §§51-19-01 – 51-19-17 applies, the terms of this Addendum apply.

Item 17. Additional Disclosures. The following statements are added to Item 17:

Any provision requiring franchisees to consent to the jurisdiction of courts outside North Dakota or to consent to the application of laws of a state other than North Dakota may be unenforceable under North Dakota law. Any mediation or arbitration will be held at a site agreeable to all parties. If the laws of a state other than North Dakota govern, to the extent that such law conflicts with North Dakota law, North Dakota law will control.

Any general release the franchisee is required to assent to as a condition of renewal is not intended to nor shall it act as a release, estoppel or waiver of any liability franchisor may have incurred under the North Dakota Franchise Investment Law.

Covenants not to compete during the term of and upon termination or expiration of the franchise agreement are enforceable only under certain conditions according to North Dakota law. If the Franchise Agreement contains a covenant not to compete that is inconsistent with North Dakota law, the covenant may be unenforceable.

The Franchise Agreement includes a waiver of exemplary and punitive damages. This waiver may not be enforceable under North Dakota law.

The Franchise Agreement stipulates that the franchisee shall pay all costs and expenses incurred by franchisor in enforcing the agreement. For North Dakota franchisees, the prevailing party is entitled to recover all costs and expenses, including attorneys' fees.

The Franchise Agreement requires the franchisee to consent to a waiver of trial by jury. This waiver may not be enforceable under North Dakota law.

The Franchise Disclosure Document and Franchise Agreement state that franchisee must consent to the jurisdiction of courts outside that State of North Dakota. That requirement may not be enforceable under North Dakota law.

The Franchise Disclosure Document and Franchise Agreement may require franchisees to consent to termination or liquidated damages. This requirement may not be enforceable under North Dakota law.

The Franchise Agreement requires the franchisee to consent to a limitation of claims within one year. To the extent this requirement conflicts with North Dakota law, North Dakota law will apply.

**ADDENDUM TO LITTLE SUNSHINE'S
FRANCHISE AGREEMENT
FOR THE STATE OF NORTH DAKOTA**

To the extent the North Dakota Franchise Investment Law, N.D. Cent. Code, §§51-19-01 – 51-19-17 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

Any release executed in connection with a renewal shall not apply to any claims that may arise under the North Dakota Franchise Investment Law.

Covenants not to compete during the term of and upon termination or expiration of the franchise agreement are enforceable only under certain conditions according to North Dakota law. If the Franchise Agreement contains a covenant not to compete that is inconsistent with North Dakota law, the covenant may be unenforceable.

The choice of law other than the State of North Dakota may not be enforceable under the North Dakota Franchise Investment Law. If the laws of a state other than North Dakota govern, to the extent that such law conflicts with North Dakota law, North Dakota law will control.

The waiver of punitive or exemplary damages may not be enforceable under the North Dakota Franchise Investment Law.

The waiver of trial by jury may not be enforceable under the North Dakota Franchise Investment Law.

The requirement that arbitration be held outside the State of North Dakota may not be enforceable under the North Dakota Franchise Investment Law. Any mediation or arbitration will be held at a site agreeable to all parties.

The requirement that a franchisee consent to termination or liquidated damages has been determined by the Commissioner to be unfair, unjust and inequitable within the intent of the North Dakota Franchise Investment Law. This requirement may not be enforceable under North Dakota law.

The Franchise Agreement states that franchisee must consent to the jurisdiction of courts located outside the State of North Dakota. This requirement may not be enforceable under North Dakota law.

The Franchise Agreement requires the franchisee to consent to a limitation of claims within one year. To the extent this requirement conflicts with North Dakota law, North Dakota law will apply.

Franchise Agreement stipulates that the franchisee shall pay all costs and expenses incurred by Franchisor in enforcing the agreement. For North Dakota franchisees, the prevailing party is entitled to recover all costs and expenses, including attorneys' fees.

2. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

3. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date Franchisor signs below.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO
LITTLE SUNSHINE'S DISCLOSURE DOCUMENT
FOR THE STATE OF RHODE ISLAND**

To the extent the Rhode Island Franchise Investment Act, R.I. Gen. Law ch. 395 §§19-28.1-1 – 19-28.1-34 applies, the terms of this Addendum apply.

Item 17, Additional Disclosure. The following statement is added to Item 17:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that: “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.”

**ADDENDUM TO LITTLE SUNSHINE'S
FRANCHISE AGREEMENT
FOR THE STATE OF RHODE ISLAND**

To the extent the Rhode Island Franchise Investment Act, R.I. Gen. Law ch. 395 §§19-28.1-1 – 19-28.1-34 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that: “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.”

2. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

3. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date Franchisor signs below.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO LITTLE SUNSHINE'S
ADDENDUM TO
LITTLE SUNSHINE'S DISCLOSURE DOCUMENT
FOR THE STATE OF VIRGINIA**

To the extent the Virginia Retail Franchising Act, Va. Code §§13.1-557 – 13.1-574 applies, the terms of this Addendum apply.

Item 17, Additional Disclosures:

Any provision in any of the contracts that you sign with us which provides for termination of the franchise upon the bankruptcy of the franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. 101 et. seq.).

“According to Section 13.1 – 564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the franchise agreement does not constitute “reasonable cause,” as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.”

**ADDENDUM TO LITTLE SUNSHINE'S
FRANCHISE AGREEMENT
FOR THE STATE OF VIRGINIA**

To the extent the Virginia Retail Franchising Act, Va. Code §§13.1-557 – 13.1-574 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

“According to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any ground for default or termination stated in the franchise agreement does not constitute “reasonable cause,” as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.”

2. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

3. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date Franchisor signs below.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO
LITTLE SUNSHINE'S DISCLOSURE DOCUMENT
FOR THE STATE OF WASHINGTON**

To the extent the Washington Franchise Investment Protection Act, Wash. Rev. Code §§19.100.010 – 19.100.940 applies, the terms of this Addendum apply.

Items 5 and 7:

The State of Washington requires the deferral of the Initial Franchise Fee, based on the financial condition of the franchisor. Payment of the Initial Franchise Fee will be deferred until our obligations to assist you in establishing and opening your School have been fulfilled and we have authorized you to commence doing business.

Item 17, Additional Disclosure:

The state of Washington has a statute, RCW 19.100.180 which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.

A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel.

Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

**ADDENDUM TO LITTLE SUNSHINE'S
FRANCHISE AGREEMENT
FOR THE STATE OF WASHINGTON**

To the extent the Washington Franchise Investment Protection Act, Wash. Rev. Code §§19.100.010 – 19.100.940 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

The State of Washington requires the deferral of the Initial Franchise Fee, based on the financial condition of the franchisor. The Franchise Agreement is modified such that payment of the Initial Franchise Fee shall be deferred until Franchisor's obligations to assist Franchisee in establishing and opening the School have been fulfilled and Franchisee has been authorized to commence doing business.

The state of Washington has a statute, RCW 19.100.180 which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.

A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

2. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

3. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date Franchisor signs below.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO LITTLE SUNSHINE'S
DEVELOPMENT AGREEMENT
FOR THE STATE OF WASHINGTON**

This Addendum relates to franchises sold in Washington and is intended to comply with Washington statutes and regulations. In consideration of the execution of the Development Agreement (the "Agreement"), Franchisor and Franchisee agree to amend the Agreement as follows:

1. The State of Washington requires the deferral of the Initial Fee, based on the financial condition of the franchisor. The Development Agreement is modified such that payment of the Initial Fee shall be deferred until Franchisor's obligations to assist Franchisee in establishing and opening the first School have been fulfilled and Franchisee has been authorized to commence doing business.

2. Release. The Washington Franchise Investment Protection Act prohibits a franchisor from requiring a franchisee to assent to a release, assignment, novation, or waiver which would relieve any person from liability imposed by this chapter, except as otherwise permitted by RCW 19.100.220.

3. Construction. In all other respects, the Agreement will be construed and enforced with its terms.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

**ADDENDUM TO
LITTLE SUNSHINE'S DISCLOSURE DOCUMENT
FOR THE STATE OF WISCONSIN**

To the extent the Wisconsin Franchise Investment Law, Wis. Stat. §§553.01 – 553.78 or Wisconsin Fair Dealership Law, Wis. Stat. §§135.01 – 135.07 applies, the terms of this Addendum apply.

Item 17, Additional Disclosures:

For all franchisees residing in the State of Wisconsin, we will provide you at least 90 days' prior written notice of termination, cancellation or substantial change in competitive circumstances. The notice will state all the reasons for termination, cancellation or substantial change in competitive circumstances and will provide that you have 60 days in which to cure any claimed deficiency. If this deficiency is cured within 60 days, the notice will be void. If the reason for termination, cancellation or substantial change in competitive circumstances is nonpayment of sums due under the franchise, you will have 10 days to cure the deficiency.

For Wisconsin franchisees, Ch. 135, Stats., the Wisconsin Fair Dealership Law, supersedes any provisions of the Franchise Agreement or a related contract which is inconsistent with the Law.

**ADDENDUM TO
LITTLE SUNSHINE'S FRANCHISE AGREEMENT
FOR THE STATE OF WISCONSIN**

To the extent the Wisconsin Franchise Investment Law, Wis. Stat. §§553.01 – 553.78 or Wisconsin Fair Dealership Law, Wis. Stat. §§135.01 – 135.07 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

To the extent any of the provisions regarding notice of termination or change in dealership are in conflict with Section 135.04 of the Wisconsin Fair Dealership Law, the Wisconsin law shall apply.

2. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

3. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date Franchisor signs below.

WE: LITTLE SUNSHINE'S ENTERPRISES, INC. YOU:

By _____
Its _____

By _____
Its _____

Date: _____

Date: _____

EXHIBIT G

SUBLEASE AGREEMENT; SUBLEASE GUARANTY

SUBLEASE AGREEMENT

This Sublease Agreement is made and entered into by and between Playhouse Development, LLC, a Missouri limited liability company (“Sublandlord”) and _____, (“Subtenant”).

WHEREAS, pursuant to that certain Lease Agreement between Sublandlord and _____), (“Prime Landlord”) dated _____, the Sublandlord has leased from Prime Landlord certain demised premises more particularly defined in the Prime Lease; and

WHEREAS, the Subtenant desires to sublease the entire demised premises from the Sublandlord, and

WHEREAS, the parties desire to provide for certain further additional terms and conditions.

NOW, THEREFORE, for good and valuable consideration as contained herein the parties agree as follows:

1. THE PRIME LEASE.

A. Incorporation of Prime Lease: The Prime Lease is attached hereto and incorporated herein by reference. Sublandlord’s rights in and to the demised premises are governed by the Prime Lease. This Sublease and the Subtenant’s rights under this Sublease shall at all times be subject and subordinate in all respects to the Prime Lease, and all of the terms, covenants and conditions of the Prime Lease are hereby incorporated by reference into this Sublease as if completely set forth herein. Except as modified otherwise as set forth specifically in this Sublease, the Subtenant shall keep, observe and perform or caused to be kept observed or performed all of those terms, covenants and conditions required of the Sublandlord under the Prime Lease with respect to the demised premises. If Subtenant breaches any term, covenant or condition of this Sublease, Sublandlord shall have all of the rights and remedies against Subtenant as would be available to Prime Landlord under the Prime Lease.

B. Termination of Prime Lease: Subtenant shall not cause or permit any act which would give Prime Landlord the right to terminate the Prime Lease. Subtenant shall

indemnify and hold harmless Sublandlord from and against any loss, liability, claim, cost or expense (including reasonable attorney's fees) incurred by Sublandlord as a result of any termination or attempted termination of the Prime Lease resulting from any such act or omission by Subtenant. The Sublease shall automatically terminate in the event of termination of the Prime Lease.

C. Right to Premises: Notwithstanding any provision contained herein to the contrary, during the term, the Subtenant shall have no greater rights in and to the demised premises than Sublandlord shall have under the terms of the Prime Lease.

D. Insurance: Subtenant shall name Sublandlord as an additional insured on each policy required by the Prime Lease.

2. TERM. The initial term of this Sublease shall be ten (10) years, commencing the date the Prime Lease commences. Subtenant shall have the option to renew for an additional five (5) year term, and thereafter an option to renew for two additional ten (10) year terms. Subtenant's right to exercise the option is conditioned upon Subtenant being in full compliance with the terms of this Sublease, and remaining a franchisee of Little Sunshine's Enterprises, Inc. in good standing under the then current franchise agreement.

3. CONDITION OF PREMISES. Sublandlord shall deliver to the Subtenant the demised premises in its "as is, where is" condition as of the date hereof. Subtenant acknowledges that Sublandlord has no obligation to improve or renovate the demised premises or contribute to the cost thereof.

4. USE. Use of the demised premises shall be in accordance with the use requirements set forth in the Prime Lease.

5. RENT. Rent payable by Subtenant to Sublandlord during the initial term and any option periods shall be equivalent to that rent required from Sublandlord to Prime Landlord plus an additional Ten Thousand Dollars (\$10,000.00) of annual rent payable in equal monthly installments.

6. SECURITY DEPOSIT. Subtenant shall pay to Sublandlord a security deposit in the amount of Twenty Thousand Dollars (\$20,000.00) due and payable upon the execution of this Sublease.

7. ASSIGNMENT AND SUBLETTING. This Sublease may not be assigned or sublet without Sublandlord's and Prime Landlords prior written consent.

8. BREACH OF FRANCHISE AGREEMENT. Subtenant shall not cause or permit any act which would give Sublandlord's affiliate, Little Sunshine's Enterprises, Inc. ("Affiliate"), the right to terminate the franchise agreement between Subtenant and Affiliate (the "Franchise Agreement"). Subtenant shall indemnify and hold harmless Sublandlord from and against any loss, liability, claim, cost or expense (including reasonable attorney's fees) incurred by Sublandlord as a result of any termination or attempted termination of the Franchise Agreement resulting from any such act or omission by Subtenant. The Sublease shall automatically terminate in the event of termination of the Franchise Agreement.

9. MISCELLANEOUS.

- A. All obligations of Sublandlord as contained in the Prime Lease shall be obligations of Subtenant to Sublandlord under the terms of this Sublease. All obligations of Prime Landlord under the terms of the Prime Lease shall be the obligations of Sublandlord under the terms of this Sublease.
- B. All rights of Sublandlord as contained in the Prime Lease shall be the rights of Subtenant under the terms of this Sublease. All rights of Prime Landlord as contained in the Prime Lease shall be the rights of Sublandlord under the terms of this Sublease.
- C. The covenants, conditions, agreements, terms and provisions herein contained are binding upon and to the extent assignable shall inure to the benefit of the parties respective personal representatives, successors, heirs, executors, administrators and assigns.
- D. This Sublease constitutes the entire agreement between the parties and may only be amended by execution of a written modification signed by both parties.
- E. If any dispute arises concerning this Sublease the prevailing party in such dispute shall be entitled to recover reasonable attorney's fees and costs.

PLAYHOUSE DEVELOPMENT, LLC
SUBLANDLORD

By _____

Rochette Dahler – Managing Member

Date _____

SUBTENANT _____

By _____

Name/Title _____

Date _____

SUBLEASE GUARANTY

In order to induce Playhouse Development, LLC a Missouri limited liability company, its successors and assigns, ("**Sublandlord**") to enter into that certain Sublease Agreement dated _____, (the "**Sublease**") with _____, ("**Subtenant**"), and in consideration of the benefits inuring to the undersigned (the "**Guarantor**") under said Sublease, the receipt and sufficiency of which are represented by the Guarantor to Sublandlord to be sufficient and adequate, the Guarantor hereby unconditionally guarantees the performance of all of Subtenant's obligations under the Sublease, including, without limitation, the payment of rental as provided therein. This Guaranty shall remain in full force throughout the original Sublease term and any renewals or option terms thereof and any extension or renewal hereinafter agreed upon by Subtenant and Sublandlord.

Guarantor hereby waives notice of acceptance of this Guaranty agreement and all other notices in connection herewith or in connection with the liabilities, obligations and duties guaranteed hereby, including notices to it of default by Subtenant under the Sublease, and hereby waives diligence, presentment, protest and suit on the part of Sublandlord in the enforcement of any liability, obligation or duty guaranteed hereby.

Guarantor further agrees that Sublandlord shall not be first or concurrently required to enforce against Subtenant or any other person, any liability, obligation or duty guaranteed hereby before seeking enforcement thereof against Guarantor. The liability of Guarantor shall not be affected by any indulgence, compromise, settlement, or variation of terms which may be extended to Subtenant by Sublandlord, or agreed upon by Sublandlord or Subtenant, and shall not be affected by any assignment or Sublease by Subtenant of its interest in the Sublease, nor shall the liability of the Guarantor be affected by the insolvency, bankruptcy (voluntary or involuntary), or reorganization of Subtenant, nor by the voluntary or involuntary liquidation, sale or other disposition of all or substantially all of the assets of Subtenant or by action of Sublandlord, including but not limited to any assignment, pledge, conveyance or transfer of the Sublease. Sublandlord and Subtenant, without notice to or consent by Guarantor, may at any time or times enter into such modifications, extensions, amendments, or other covenants respecting the Sublease as they may deem appropriate and Guarantor shall not be released thereby, but shall continue to be fully liable for the performance of all obligations and duties of Subtenant under the Sublease as so modified, extended or amended.

Guarantor further agrees: (1) to indemnify, defend and hold Sublandlord harmless from and against any claims, damages, expenses or losses, including to the extent permitted by law, the reasonable fees of an attorney, resulting from or arising out of any breach of the Sublease or any term of the Sublease by Subtenant or by reason of Subtenant's failure to perform any of its obligations thereunder; and (2) to the extent permitted by law, to pay any costs or expenses, including the reasonable fees of an attorney, incurred by Sublandlord in enforcing this Guaranty or the Sublease. The Guarantor acknowledges that Sublandlord will or may assign its rights under the Sublease to anyone as security for a loan to be made by such institutional investor to Sublandlord OR FOR ANY OTHER REASON, and as long as any indebtedness of Sublandlord shall be outstanding AND/OR such assignment of the Sublease shall exist, such lender or any assignee shall be entitled to bring any suit, action or proceeding against the undersigned for the enforcement of any provision of this Guaranty and it shall not be necessary in any such suit, action or proceeding to make Sublandlord a party thereto. This Guaranty may not be modified or amended without the prior written consent of such assignee of Sublandlord's interest in the Sublease and any attempted modification or amendment without such consent shall be void. This Guaranty shall be binding upon Guarantor, his/her/their heirs, legal representatives, successors and assigns, and shall inure to the benefit of Sublandlord and its successors and assigns. This Guaranty shall be governed by and construed and enforced in accordance with the laws of the State of Missouri. If there is more than one Guarantor, the liability of each Guarantor shall be joint and several.

IN WITNESS WHEREOF, Guarantor has caused this instrument to be executed this _____
day of _____, 20__.

"PERSONAL GUARANTOR"

Signature _____

Print name: _____

Address: _____

SSN #: _____

Date Executed: _____

EXHIBIT H

GENERAL RELEASE FORM

RELEASE OF CLAIMS

THIS IS A CURRENT RELEASE FORM THAT GENERALLY WILL BE USED WITH OR INCORPORATED INTO A SEPARATE AGREEMENT. THIS FORM IS SUBJECT TO CHANGE OVER TIME.

For and in consideration of the Agreements and covenants described below, Little Sunshine’s Enterprises, Inc. (“Franchisor”) and _____ (“Franchisee”) enter into this Release of Claims (“Agreement”).

RECITALS

A. Franchisor and Franchisee entered into a Little Sunshine Franchise Agreement dated _____, ____.

B. [NOTE: Describe the circumstances relating to the release.]

AGREEMENTS

1. **Consideration.** [NOTE: Describe the consideration paid.]

2-3. [NOTE: Detail other terms and conditions of the release.]

4. **Release.** Franchisee hereby releases Franchisor, its officers, directors, shareholders, and agents, and their respective successors, assigns, heirs, and personal representatives, from all debts, representations, agreements, liabilities, actions, and causes of action of every kind and nature arising out of or relating to the Franchise Agreement between Franchisor and Franchisee, the offer and sale of that franchise and the franchise relationship between the parties.

5. **General.** No amendment to this Agreement or waiver of the rights or obligations of either party shall be effective unless in writing signed by the parties. This Agreement is governed by the laws of the State of _____ without regard to conflicts of laws principles. If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. This Agreement contains the entire agreement and understanding of the parties concerning the subject matter of this Agreement. [NOTE: Detail other miscellaneous provisions.]

FRANCHISEE:

LITTLE SUNSHINE’S ENTERPRISES, INC.

BY: _____

BY: _____

ITS: _____

ITS: _____

DATE: _____

DATE: _____

EXHIBIT I

RECEIPTS

Receipt

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Little Sunshine's Enterprises, Inc. offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us or our affiliate in connection with the proposed franchise sale. Iowa, New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days (or 14 calendar days in Iowa) before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Little Sunshine's Enterprises, Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency identified on Exhibit D.

The franchisor is Little Sunshine's Enterprises, Inc. located at 2925 E. Battlefield Road, Suite 225B, Springfield, Missouri 65804. Its telephone number is (417) 887-4242.

Issuance Date: January 28, 2014

Our franchise sellers involved in offering and selling the franchise to you are Rochette Dahler and Matt Dahler with a mailing address of 2925 E. Battlefield Road, Suite 225B, Springfield, Missouri 65804, (417) 619-0808. Any additional franchise sellers are listed below (with address and telephone number), or will be provided to you separately before you sign a franchise agreement:

_____.

I have received a disclosure document dated January 28, 2014, that included the following Exhibits:

- | | |
|--|--|
| A. Financial Statements | F. State Addenda |
| B. Franchise Agreement | G. Sublease Agreement; Sublease Guaranty |
| C. Development Agreement | H. General Release Form |
| D. List of State Administrators; Agents for Service of Process | I. Receipts |
| E. Table of Contents of Operations Manual | |

Date: _____
(Do not leave blank)

Signature of Prospective Franchisee

Print Name

Copy for Franchisee

Receipt

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Little Sunshine’s Enterprises, Inc. offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us or our affiliate in connection with the proposed franchise sale. Iowa, New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days (or 14 calendar days in Iowa) before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Little Sunshine’s Enterprises, Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency identified on Exhibit D.

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_____.

I have received a disclosure document dated January 28, 2014, that included the following Exhibits:

- | | |
|--|--|
| A. Financial Statements | F. State Addenda |
| B. Franchise Agreement | G. Sublease Agreement; Sublease Guaranty |
| C. Development Agreement | H. General Release Form |
| D. List of State Administrators; Agents for Service of Process | I. Receipts |
| E. Table of Contents of Operations Manual | |

Date: _____
(Do not leave blank)

Signature of Prospective Franchisee

Print Name

Copy for Little Sunshine’s Enterprises, Inc.

Please sign and date both copies of this receipt, keep one copy (the previous page) for your records, and mail one copy (this page) to the address listed on the front page of this disclosure document or send to Matt Dahler by email to mattd@littlesunshine.com or by fax to (417) 887-9696.