

- (f) Franchisee and any Affiliates that are parties to this Agreement have signed a general release of claims in a form satisfactory to Franchisor with respect to its past dealings with Franchisor and its Affiliates.

Franchisor will charge Franchisee a fee of One Thousand and 00/100 Dollars (\$1,000.00) to reimburse Franchisor for the cost of renewal.

Franchisee understands that the terms of the standard franchise agreement in use by Franchisor at the time of any renewal may be materially different from those contained in this Agreement.

5. OBLIGATIONS OF FRANCHISOR

Franchisor agrees to perform the following services for Franchisee, at locations selected by Franchisor, provided that at the time when service is to be rendered Franchisee is in Good Standing under this Agreement and any other agreement with Franchisor or an Affiliate of Franchisor:

5.1. Layout and Decor

Franchisee is free to operate the Franchised Business out of its personal residence and is not required to acquire an office for the site of the Franchised Business or a Fixed Retail Site. Should Franchisee elect to establish a site other than at the personal residence of Franchisee, or elect to establish a Fixed Site, Franchisor will give Franchisee a prototype of sample plans and specifications, or plans and specifications for one or more existing company units or franchised businesses, to guide Franchisee in constructing tenant improvements, furnishing, and equipping its Franchised Business or Fixed Site. Franchisee will, at its own expense, tailor the plans and specifications provided by Franchisor for individual use by the Franchisee and shall submit the customized plans and specifications to Franchisor for written approval, which approval shall not be unreasonably withheld.

5.2. Training

5.2.1. Initial Training. Before the opening of the Franchised Business, Franchisor will conduct an initial training program in the operation of a Franchised Business under the System for no more than two (2) members of Franchisee's management. The Designated Manager for each Approved Location will attend and successfully complete the training program to the satisfaction of Franchisor before Franchisee may open a Franchised Business at such location. The training program will take place within the thirty (30) days prior to opening day of the Franchised Business and will take place at the training facility of Franchisor in Minneapolis, Minnesota or some other facility selected by Franchisor, and will not exceed eighty (80) hours of training. The content of the initial training program will include all of the issues discussed in the Training Program Pamphlet attached hereto as Attachment D. The instructors are service

technicians who have been tested on and advised of current developments in processes of the Franchisor, and who have regularly performed the painting process in their employment with Franchisor for at least one (1) year. There is no fee charged for the initial training program, however, Franchisee is responsible to pay for all food, lodging, travel and other expenses incurred as a result of attending the initial training program. If the employment of a Designated Manager is terminated, Franchisee shall employ a new Designated Manager within thirty (30) days who must successfully complete the initial training program before starting work. Franchisor may charge a fee payable by Franchisee equal to the cost of Franchisor plus forty percent (40%) to train the new Designated Manager.

5.2.2. Continuing Education. Franchisor may offer continuing education programs on matters related to the operation or promotion of the Franchised Business on an optional or mandatory basis, as it deems appropriate. Such continuing education programs shall be made available subject to the fees and expenses payable by Franchisee as set forth in Section 6.6 of this Agreement.

5.3. Consultation

Franchisor, for no additional charge, will make its personnel available to Franchisee for up to eighty (80) hours of consultation, by telephone, email, telecopier, or in person if Franchisor deems it necessary during the first thirty (30) days after this Agreement has been signed by both parties. On request by Franchisee, Franchisor will use its best efforts to make its personnel available to Franchisee for additional consultation at an hourly or daily fee, plus reimbursement of costs as described in Section 6.7 of this Agreement.

5.4. Manual

Franchisor does not presently have a manual to assist Franchisee in the operation of the Franchised Business. Franchisee will receive a training outline at the time that Franchisor trains Franchisee as obligated herein, and such training outline contains the present policies and procedures of Franchisor. Franchisor reserves the right to draft a manual when and if Franchisor deems it necessary to dictate uniform standards for the franchise network and will distribute such manual to Franchisee. Franchisee understands that the manual would contain trade secrets and information that may now or in the future be protected by applicable patent, trademark and copyright law, and any disclosure of its contents to any person or entity other than its employees will result in automatic termination of the franchise and all rights thereunder.

5.5. Approval of Suppliers

Franchisor will generally make available to Franchisee all supplies needed to operate the franchise. Franchisor is not obligated to provide, and Franchisee is not obligated to acquire any supplies, with the exception of the Remover as provided in Section 5.6 below, from Franchisor. Franchisee must acquire the approval of Franchisor to use any supplier other than Franchisor. In approving for Franchisee any supplier which meets its standards and specifications,

Franchisor expressly disclaims any warranties or representations as to the condition of the goods or services sold by such suppliers, including, without limitation, express or implied warranties as to merchantability or fitness for any intended purpose. Franchisee agrees to look solely to the manufacturer of goods or the supplier of services for the remedy for any defect in the goods or services.

5.6. Proprietary Product Availability

Franchisor will use its best efforts to ensure that Franchisor, its Affiliate, or a designated supplier will at all times have a readily available supply of the Remover or other Proprietary Product for sale to Franchisee.

6. PAYMENTS BY FRANCHISEE

6.1. Initial Fee

Upon signing this Agreement, Franchisee will pay Franchisor in cash or other form of payment acceptable to Franchisor an initial fee of _____ Dollars (\$_____) for the Territory. The initial fee is nonrefundable. Franchisee is further required prior to operating the Franchised Business to purchase an approved van, van equipment, and supplies for performing the painting process. The van equipment must be purchased from Franchisor at a cost of Twelve Thousand Dollars (\$12,000.00), which includes installation by Franchisor of the equipment into the van. The van and the supplies, except the "Remover," may be purchased from other sources approved by Franchisor.

6.2. Royalties

On or before the 15th day of each month during the term of this Agreement, Franchisee will pay Franchisor a monthly royalty of Seven percent (7%) of the Gross Revenue of the Franchised Business. Gross Revenue is defined in Section 3.12 of this Agreement. The royalty fees are non-refundable and must be received in the business office of Franchisor by the fifteenth (15th) day of the month following that month in which the revenue was earned. Franchisee will submit to Franchisor with each royalty payment a monthly Statement of Operations and Operational Royalty Report as specified by Franchisor (See Attachments E & F).

6.3. Commencement of Payment of Royalties

The obligation of Franchisee to pay ongoing monthly royalties will start on the Commencement Date. If the Commencement Date is on any day other than the 15th of the month, the minimum royalties for that first month will be prorated based on the number of days from the Commencement Date to the fifteenth (15th) day of the following month.

6.4. Audit

Franchisor has the right during normal working hours, at the Franchised Business premises or at another location designated by Franchisor, to audit the books and records, including the tax returns of the Franchisee for the Franchised Business. If an audit discloses an underpayment of royalties, Franchisee will immediately pay these amounts to Franchisor together with accrued interest on the amount underpaid in accordance with Section 6.11 of this Agreement. In addition, if the underpayment exceeds three percent (3%) of the total royalty payable for any period covered by the audit, Franchisee will reimburse Franchisor for all expenses incurred by Franchisor in connection with the audit including, but not limited to, accountants and attorney fees, costs of transportation and related expenses.

6.5. Cost of Site Inspection

If Franchisee selects a Fixed Retail Site for its Franchised Business, Franchisee shall reimburse Franchisor for its expenses in inspecting the proposed site of Franchisee for its Franchised Business. Franchisor will submit an invoice to Franchisee for these expenses. Payment is due on presentation of the invoice. Franchisor will not charge any fee for inspecting any personal residence-based franchise or for any mobile-based site.

6.6. Training Fees and Costs

Franchisor will not charge a fee for the initial training program or for training of the initial Designated Manager for each additional Approved Location. However, if a replacement Designated Manager is employed, Franchisor may charge a training fee for his or her training at cost plus a forty percent (40%) administrative fee. Franchisor may also charge a training fee for continuing education programs at cost plus a twenty percent (20%) administrative fee. For all training offered by Franchisor, travel, lodging, meals and other incidental expenses of Franchisee shall be paid by Franchisee.

6.7. Consulting Fees

As described in Section 5.3 of this Agreement, Franchisor will, at no additional charge to Franchisee, make its personnel available to Franchisee for consultation for up to eighty (80) hours at the training facility of Franchisor in Minneapolis, Minnesota, or some other facility selected by Franchisor during the first thirty (30) days after this Agreement is signed by both parties. Thereafter, Franchisor will use its best efforts to make its personnel available to Franchisee for additional consultation in a timely manner at an hourly fee of _____ Dollars (\$_____) or, if an employee of Franchisor renders more than eight (8) hours of consulting services within a day, a daily fee of _____ Dollars (\$_____), plus all incidental expenses incurred by Franchisor in rendering consulting services, including, but not limited to, business class transportation, lodging, meals, and telephone, telecopier and courier charges.

6.8. Payment for Proprietary Product

Franchisor is currently charging Thirty-one Dollars (\$31.00) per gallon for its Proprietary Product known as "Remover". Franchisor is entitled to adjust its prices on _____ of each year to correspond to the increase in the Index for the immediately preceding calendar year. Franchisee will submit a check within ten (10) days of placing the order for the full purchase price, plus an additional amount to cover the costs of shipping, freight insurance and any applicable sales or use tax, as specified by Franchisor, together with each order for Proprietary Product. Franchisor has the right to require payment in cash, cashier's check, or other means of making funds immediately accessible to Franchisor if, in the reasonable discretion of Franchisor, the payment practices or financial status of Franchisee make it advisable.

6.9. Renewal Fee

There is a \$1,000.00 charge or fee to the Franchisee for renewing the franchise.

6.10. Transfer Fee

There is no charge or fee to the Franchisee for transferring the Franchised Business.

6.11. Interest on Late Payments

Any payment not received by Franchisor when due will bear interest at eighteen percent (18%) per annum or at the highest rate allowed by applicable law on the date when payment is due. Interest charges on late payments are intended to partially compensate Franchisor for loss of use of the funds and for internal administrative costs resulting from late payment which would otherwise be difficult to measure with precision. The fact that such charges are imposed should not be construed as a waiver of the right of Franchisor to receive timely payment.

6.12. Application of Funds

Franchisor shall have the right to determine, in its sole discretion, the application of payments received from Franchisee. Acceptance by Franchisor of partial payment by Franchisee will not operate as a waiver of any kind for Franchisee to pay and Franchisor to demand the full indebtedness due.

7. OBLIGATIONS OF FRANCHISEE

7.1. Use of Trade Name and Marks

7.1.1. Context. Franchisee will use the Trade Name and Marks only in the operation of a Franchised Business at an Approved Location. Franchisee may not use any other trade name or marks in connection with the Franchised Business.

7.1.2. Changes in Trade Name and Marks. Franchisor has invested substantial time, energy, and money in the promotion and protection of its Trade Name and other Marks as they

exist on the Commencement Date. It has no present intention of altering them. However, both parties recognize that rights in intangible property such as the Trade Name and Marks are often difficult to establish and defend and that changes in the cultural and economic environment within which the System operates may make changes in the Trade Name and Marks desirable or necessary. Franchisee understands that Franchisor therefore reserves the right to change its Trade Name and Marks and the specifications for each when and if Franchisor believes that such changes will benefit the franchise network. Franchisee agrees that it will promptly conform, at its own expense, to any such changes.

7.1.3. Advertising Materials. Franchisee agrees not to use any advertising materials which have not been previously approved by Franchisor. Franchisee agrees to submit to Franchisor copies of all advertising materials that it proposes to use at least thirty (30) days before the first time they are broadcast or published. Franchisor will review the materials within a reasonable time and will promptly notify Franchisee in writing, whether it approves or rejects them. Silence may not be construed as consent. Franchisor will not withhold its approval unreasonably. For purposes of this section, advertising materials that differ from previously approved materials only in such variables as date, price, or names of products will be considered to be previously approved. However, even if Franchisor has approved specified materials, it may later withdraw its approval if it reasonably believes such withdrawal is necessary to make the advertising conform to changes in the System or to correct unacceptable features, including, but not limited to, intentional or negligent misrepresentation.

7.1.4. Legal Protection. Franchisee agrees to notify Franchisor immediately, not exceeding five (5) days, in writing if it becomes aware of any unauthorized use of the Trade Name, Marks, or System. Franchisee will within five (5) days promptly notify Franchisor in writing of any claim, demand, or suit against Franchisee or against its principals based on or arising in connection with the use by Franchisee of the Trade Name, Marks or System. In any action or proceeding arising from or in connection with any such claim, demand, or suit, Franchisee agrees that Franchisor may select legal counsel and has the right to control the proceedings and in such event Franchisee agrees to cooperate with Franchisor and its legal counsel in any such action or proceeding.

7.2. Fixed Site Selection

If Franchisee desires to establish a Fixed Site, Franchisee must, at its own risk and expense, locate, obtain and occupy the Fixed Site for the Franchised Business. The prior approval of Franchisor of the proposed site must be obtained in writing. Franchisor will not withhold its approval unreasonably. Franchisee shall advise Franchisor in writing of the street address of the proposed site. By approving a particular site for the premises of a Franchised Business, Franchisor does not warrant that the business operating at that location will be successful. Franchisor will base its approval on the following criteria:

- (a) The site must be suitable for the Franchised Business and present a professional appearance to the retail customers.
- (b) The lease with respect to such location must contain language satisfactory to Franchisor providing that Franchisor is granted an option, without cost or expense to Franchisor, to assume, or authorize its designee to assume, such lease if the Franchise Agreement is terminated for any reason or if Franchisee should be in default under the lease.

The requirements of this Section 7.2 shall not apply if the Franchised Business is operated from the personal residence of Franchisee or from a site which only houses Mobile Units.

7.3. Development of Territory

Franchisee will adhere to the Development Schedule attached to this Agreement as Attachment B. If Franchisee does not cure any default in its performance of the obligations set forth in the Development Schedule within thirty (30) days after written notice of default has been given by Franchisor to Franchisee, Franchisor will have the right either to grant a franchise for the undeveloped portion of the Territory to another franchisee or to develop the Territory itself. Franchisee acknowledges that its failure to adhere to the Development Schedule gives the Franchisor the right to reduce and re-establish the Territory originally granted to Franchisee pursuant to Section 4.2 of this Agreement to allow for the development of that portion of the Territory that Franchisee failed or refused to develop as obligated.

7.4. Quality Control

7.4.1. Opening. Franchisee may not open the Franchised Business to the public until Franchisor certifies in writing that, in the view of its management, Franchisee and Franchisee's employees are prepared for the opening. By so certifying, Franchisor does not warrant that the Franchised Business will be successful.

7.4.2. Compliance with Standards. Franchisee will operate the Franchised Business in complete compliance with the standards and specifications set out by Franchisor or as later required in any manual delivered by Franchisor. Franchisor may make changes and specifications, when, in the reasonable discretion of Franchisor, change is needed for the continued success and development of the franchise network. Such changes may necessitate the purchase of equipment, supplies, furnishings or other goods, completion of additional training by employees of Franchisee, or other costs to Franchisee. Franchisee will promptly conform to the modified standards and specifications at its own expense. Franchisee must at all times keep its copy of the standards adopted by Franchisor current by inserting revised pages given to Franchisee by Franchisor and deleting superseded pages. If there is any dispute as to the standards required by Franchisor at any point in time, the terms of the master copy of the standards maintained by Franchisor will control.

7.4.3. Products and Services Offered. Franchisee will offer and sell all the products and services and only the products and services that Franchisor has authorized Franchisee to provide. Except for the Proprietary Product and the painting equipment to be installed in Mobile Units, Franchisee may purchase products that are to be sold or used in the Franchised Business from any source, as long as the supplier is approved by Franchisor and meets the standards established by Franchisor and the products meet the specifications established by Franchisor which are in effect from time to time. If Franchisee wishes to use any product (a) which has not previously been certified by Franchisor as meeting the specifications of Franchisor, or (b) which is sold by a supplier not previously approved by Franchisor, then Franchisee will advise Franchisor of this fact and, on the request of the Franchisor, will give Franchisor product specifications, sample products, and/or information about the supplier. Franchisor will promptly communicate to Franchisee either its approval or its reasons for withholding its approval. Silence may not be construed as consent. As a condition of approving a supplier or product, Franchisor will require Franchisee to reimburse it for any expenses reasonably incurred by Franchisor in inspecting the premises of the supplier, checking the credentials of the supplier, and/or testing the product.

7.4.4. Inspections. Franchisor may conduct periodic quality control inspections of the Franchised Business or of any service Franchisee has or is providing to any customer during normal business hours. Quality control inspections may be made with or without prior notice. Franchisee will promptly correct any deficiencies in its operation of which it is advised in writing by Franchisor. If Franchisee does not take immediate, effective steps to bring its operation up to the standards of Franchisor within the time period specified in the notice of deficiency, its failure to do so will constitute a material breach of this Agreement.

7.4.5. Use of Proprietary Product. The Proprietary Product, the "Remover", used in the Franchised Business is unique and its formula and manufacturing process constitute trade secrets integral to the success of the System. The Proprietary Product must be used in the Franchised Business as prescribed by the Franchisor. Franchisee may purchase the Proprietary Product only from Franchisor or its Affiliate. Use or sale of any substitute for the Proprietary Product is a material breach of this Agreement and will result in its immediate Termination.

7.4.6. Notification of Complaints. Franchisee will notify Franchisor in writing within five (5) days if Franchisee is served with a complaint in any legal proceeding that is in any way related to the Franchised Business or if Franchisee becomes aware that it or the Franchised Business is the subject of any complaint to or investigation by a governmental licensing authority or consumer protection agency.

7.5. Personnel

7.5.1. Management. The Designated Manager of Franchisor will devote his or her full time and effort to the management and operation of the Franchised Business. A Designated Manager or another employee who has successfully completed the initial training program of

Franchisor must be present at the Approved Location whenever the Franchised Business is open for business. If Franchisee operates more than one Franchised Business, an additional Designated Manager should be employed for each. If Franchisor, in its sole discretion, determines that a Designated Manager is not properly performing his duties, Franchisor will advise Franchisee and Franchisee will immediately take steps to correct the situation. Franchisee will keep Franchisor informed as to the identity of its Designated Manager(s). On the termination of employment of a Designated Manager, Franchisee will appoint a successor within thirty (30) days. Any successor Designated Manager must complete the training program conducted by Franchisor before starting work in the Franchised Business.

7.5.2. Employees. Franchisee shall maintain at all times a staff of trained employees in sufficient numbers to operate the Franchised Business in compliance with the standards and specifications of Franchisor.

7.6. Financial Information

7.6.1. Records. Franchisee must record all sales and all receipts of revenue on individual invoices. Franchisee must retain daily sales reporting forms and accompanying invoices for at least three years after the dates of sale. All used, unused, voided or destroyed invoices must be accounted for and maintained by the Franchisee for a period of three years.

7.6.2. Reports. Franchisee will submit to Franchisor, on or before the 15th day of each month, financial reports on the income and expenses of the Franchised Business for the prior month in the format specified by Franchisor. In addition, Franchisee will submit to Franchisor other reports concerning financial, promotional and operational aspects of the Franchised Business in the form and at the intervals specified by Franchisor. All reports will be signed by Franchisee and verified in accordance with the requirements of Franchisor. Franchisee will maintain its books and records in the form prescribed by Franchisor and will retain these records for a period of at least four (4) years after their preparation. Franchisor requires Franchisee to purchase or lease computer and/or communications equipment and software to facilitate the creation of standardized financial records and their transmittal to Franchisor. Franchisee will also submit to Franchisor, at the time of filing, copies of all federal, state and local income, sales, and property tax returns relating to the franchise. Franchisor will use this data to confirm that Franchisee is complying with its obligations under this Agreement.

7.7. Insurance

Franchisee must purchase and maintain a policy or policies of comprehensive public liability insurance, including product liability coverage, covering all Franchised Business assets, personnel, and activities on an occurrence basis with a combined single limit for bodily injury, death or property damage of not less than One Million Dollars (\$1,000,000.00). Franchisor may increase the minimum coverage requirement annually if necessary to reflect inflation or other changes in circumstances. Franchisee must also carry (a) casualty insurance in a minimum amount equal to the replacement value of the interest of Franchisees in the

Franchised Business premises, including furniture, fixtures and equipment, and (b) if Franchisee establishes a Fixed Site, Franchisee must carry business interruption insurance in an amount sufficient to cover the rent of the Franchised Business premises, salary or wages of key personnel, and other fixed expenses. In addition, Franchisee will maintain policies of worker's compensation insurance, disability insurance, and all other types of insurance required by applicable law. Each insurance policy that is required under this Agreement will contain a provision that the policy cannot be canceled without thirty (30) days' written notice to Franchisor; it must be issued by an insurance company of recognized responsibility, designate Franchisor and the officers and directors of Franchisor as additional named insured, and be satisfactory to Franchisor in form, substance and coverage. Franchisee will deliver a certificate of the issuing insurance company marked "premiums paid" evidencing each policy to Franchisor within ten (10) days after the policy is issued or renewed.

7.8. Financial and Legal Responsibility

7.8.1. Compliance with Law. Franchisee shall comply with all federal, state and local laws and regulations pertaining, directly or indirectly, to the Franchised Business. Franchisee shall keep current all licenses, permits, bonds, and deposits made to or required by any governmental agency in connection with the operation of the Franchised Business.

7.8.2. Payment of Indebtedness. Franchisee must pay promptly when due all taxes and debts that it incurs in the conduct of its business.

8. RELATIONSHIP OF PARTIES

8.1 Interest in Marks and System

Franchisee will not at any time do or cause to be done anything contesting or impairing the interest of Franchisor in its Trade Name, Marks, or System. Franchisee acquires no rights in any of these things except for the right of Franchisee to use them in accordance with the express terms of this Agreement. Any and all improvements by Franchisee relating to the Trade Name, Marks or System will become the sole property of Franchisor who has the exclusive right to register and protect all such improvements in its name. Franchisor retains the right to grant other franchises or licenses to use the Trade Name, Marks, and System on any terms that Franchisor wishes, subject only to the territorial rights of Franchisee described in Article 4 of this Agreement.

8.2. Independent Status

Franchisee is an independent legal entity and will make this fact clear in its dealings with suppliers, lessors, government agencies, employees, customers and others. Franchisee will rely on its own knowledge and judgment in making business decisions, subject only to the requirements of this Agreement and the standards of Franchisor. Franchisee may not expressly or impliedly hold itself out as employee, partner, shareholder, joint venturer or representative of

Franchisor, nor may it expressly or impliedly state or suggest that it has the right or power to bind Franchisor or to incur any liability on behalf of Franchisor. If Franchisee is a corporation or a partnership, it will not use the Trade Name as part of its corporate name.

8.3. Display of Disclaimer

Franchisee will conspicuously display a sign stating “THIS AERO-COLOURS MOBILE UNIT IS A FRANCHISED BUSINESS OWNED AND OPERATED INDEPENDENTLY OF AERO-COLOURS, INC.” on all mobile units. If Franchisee establishes a Fixed Site, Franchisee must conspicuously display a sign clearly visible to all customers stating “THIS AERO-COLOURS FACILITY IS A FRANCHISED BUSINESS OWNED AND OPERATED INDEPENDENTLY OF AERO-COLOURS, INC.” The Franchisee must also include the applicable disclaimer on all stationary, purchase order forms, invoices, leases, and other documents used by Franchisee in its business dealings with suppliers, lessors, government agencies, employees and customers and must clearly identify Franchisee as an independent legal entity.

8.4. Confidentiality

Franchisee acknowledges and agrees that as a condition to the execution and delivery of this Agreement, Franchisee will execute and deliver to Franchisor a Non-Competition and Non-Disclosure Agreement in the form attached hereto as Exhibit G, and Franchisee further agrees to comply with all terms and conditions set forth in such agreement. Franchisee further agrees to obtain and deliver to Franchisor for Franchisee’s and Franchisor’s benefit, as a condition to employment of each employee of Franchisee, a confidentiality agreement in form and substance satisfactory to Franchisor. Franchisee hereby guarantees the performance by each of its employees of the obligations of each such employee under its respective non-competition agreement. Franchisee further agrees to promptly obtain and deliver such additional documents as Franchisor may reasonably request to enable Franchisor to protect and enforce its rights under this Section 8.4 with respect to Affiliates and employees of Franchisee.

8.5. Indemnification

Franchisee will indemnify and hold Franchisor harmless from all expenses or liabilities of any kind arising from or in any way connected to any activity of Franchisee. If Franchisor is made a party to a legal proceeding in connection with any act by Franchisee, Franchisor may hire counsel to protect its interests and bill Franchisee for all costs and expenses incurred in doing so. Franchisee will promptly reimburse Franchisor within fifteen (15) days of the date stated on the statement of Franchisor.

8.6. Covenant Not To Compete

Franchisee acknowledges and agrees that as a condition to the execution and delivery of this Agreement, Franchisee will execute and deliver to Franchisor a None-Competition and Non-Disclosure Agreement in the form attached hereto as Exhibit G, and Franchisee further acknowledges and agrees to comply with all terms and conditions set forth in such agreement.

Franchisee further agrees to obtain and deliver to Franchisor for Franchisee's and Franchisor's benefit, as a condition to employment of each employee of Franchisee, a non-competition agreement in form and substance satisfactory to Franchisor and Franchisee hereby guarantees the performance by each of its employees of the obligations of each such employee under its respective non-competition agreement.

9. TRANSFER OF FRANCHISE

9.1. Purpose of Conditions for Approval of Transfer

The grant of this franchise by Franchisor is made in reliance on the integrity, ability, experience and financial resources of Franchisee. Neither the franchise nor the Franchised Business operated under it may be Transferred unless Franchisee has first obtained the written consent of Franchisor, which consent will not be unreasonably withheld. To ensure that no Transfer jeopardizes the Trade Name, the Marks, or the interest in the successful operation of the Franchised Business of Franchisor, Franchisor will consent to a Transfer only if Franchisee complies with the provisions of sections 9.2 and 9.3 of this Agreement and if the conditions described in section 9.4 are fulfilled.

9.2. Notice of Proposed Transfer

If Franchisee wishes to Transfer this franchise, Franchisee will submit to Franchisor: (a) the form of franchise purchase application currently in use by Franchisor completed by the prospective transferee; and (b) a written notice, setting forth all the terms and conditions of the proposed Transfer.

9.3. Consent by Franchisor; Right of First Refusal

Franchisor must respond to the written notice of Franchisee within sixty (60) days after receipt of the notice, or, if Franchisor requests additional information, within the later date of thirty (30) days after receipt of the additional information or the final day of the original sixty (60) day period. Franchisor may either consent to the Transfer, state its reason for refusing to consent, or purchase the Franchised Business itself on the same terms and conditions as those offered by the third party, modified only by permitting Franchisor to extend the date when the sale will close to a date up to thirty (30) days later than that originally agreed upon to allow completion of the Transfer in a manner more convenient to Franchisor. Silence will not be construed as consent to the transfer. If Franchisor consents to the Transfer, then Franchisee may Transfer the interest described in the notice only to the named transferee and only on the terms and conditions set forth in the notice. Consent by Franchisor to a particular Transfer will not constitute consent to any other or subsequent Transfer.

9.4. Conditions for Consent to Transfer

The consent of Franchisor is subject to certain conditions, as follows:

- (a) Satisfaction of Franchisor that the proposed transferee meets all of the criteria of character, business experience, financial responsibility, net worth and other standards and Franchisor customarily applies to new franchisees at the time of Transfer;
- (b) Payment of all outstanding debts of Franchisee owed to Franchisor;
- (c) Cure of all defaults under the Franchise Agreement, any other agreement between Franchisor and Franchisee;
- (d) Signing by the transferee of the then-current form of Franchise Agreement, as amended, if Franchisor elects, to shorten the term to the remainder of the current term of Franchisee and to waive payment of an initial fee by the proposed transferee, together with ancillary agreements that Franchisor requires new franchisees or Affiliates to sign at the time of Transfer;
- (e) Completion by the transferee of the initial training program of Franchisor to satisfaction of Franchisor;
- (f) Signing of a general release (in form and substance acceptable to Franchisor) of claims by Franchisee in favor of Franchisor and of any other documents reasonably necessary to complete the Transfer; and
- (g) Prior to completion of the Transfer, at the sole expense of Franchisee, remodeling, modernization and redecorating of the Franchised Business premises and mobile unit(s) and replacing and modernization of the fixtures, equipment, and signage used in the Franchised Business so that such premises of the mobile unit(s) of the Franchised Business meet the standards of appearance and function applicable to the premises of new Franchised Businesses at the time of such Transfer.

9.5. Changes of Ownership Deemed Not To Be Transfers

As used in this Agreement, the term "Transfer" does not mean a change of ownership to:

- (a) Any Trustee, Guardian or Conservator for the account and benefit of a spouse, ancestor or descendent;
- (b) Any business entity if the beneficial ownership of the business entity immediately following the change of ownership is the same and in the same proportions as the beneficial ownership immediately before the change of

ownership; provided, however, that no such change of ownership will relieve the original party of any of its obligations under this Agreement. Information on the identity of the shareholders and officers of the corporation, the percentage of ownership, and the address where corporate records are maintained must be submitted promptly to Franchisor; or

- (c) Any employee of Franchisee pursuant to any employee stock option plan or stock purchase plan, provided that any share certificate distributed pursuant to such a plan is marked with a legend describing the restrictions and conditions of Transfer required by this Agreement.

9.6. Transfer on Death of Franchisee

If Franchisee or any owner of Franchisee (if Franchisee is a corporation or partnership) dies within the term of this Agreement, the heirs or beneficiaries of Franchisee will have a reasonable period after such death, mutually agreed by Franchisor and Franchisee herein not to exceed thirty (30) days, within which to demonstrate to the satisfaction of Franchisor that they meet all of the criteria of character, business experience, financial responsibility, net worth and other standards that Franchisor requires of new franchisees at that time. If Franchisor advises the heirs or beneficiaries of Franchisee in writing that Franchisor will not approve them as transferees of the franchise, or if Franchisor fails to approve or disapprove the Transfer within two (2) months following the death of Franchisee, the heirs or beneficiaries of Franchisee will have one (1) additional month from the date of disapproval of the Transfer within which to find and notify Franchisor of a proposed Transfer to a qualified transferee in conformity with the provisions of Sections 9.2, 9.3 and 9.4 of this Agreement. Nothing in this paragraph shall prohibit Franchisor from exercising the Right of First Refusal retained in Section 9.3 of this Agreement after receipt of a bona-fide offer to purchase the franchise. If the heirs or beneficiaries of Franchisee do not advise Franchisor of a qualified transferee within the specified period, the franchise will automatically terminate at the end of the period unless a written extension of time has been granted by Franchisor.

9.7. Change of Ownership by Franchisor

Franchisor may cause a change in ownership of the assets of the franchising company operated by Franchisor or any rights or obligations created by this Agreement at any time without the consent of Franchisee on the condition that the new owner expressly agrees in writing to assume the obligations of Franchisor under this Agreement.

10. TERMINATION OF FRANCHISE

10.1. Termination by Consent of the Parties

This Agreement may be terminated on the mutual written agreement of the parties.

10.2. Termination by Franchisor

10.2.1. Acts of Default. On the occurrence of any of the following defaults by Franchisee, Franchisor, at its option, may terminate this Agreement:

- (a) If Franchisee or any of its Affiliates or employees has any direct or indirect interest in the ownership or operation of any business that is confusingly similar to the Franchised Business or uses the System or the Marks, or if Franchisee fails to give Franchisor a signed copy of a confidentiality and non-compete agreement (in form and substance satisfactory to Franchisor) for each of its employees within ten (10) days after the employee assumes that status with Franchisee;
- (b) If Franchisee fails to submit to Franchisor in a timely manner any information it is required to submit under this Agreement;
- (c) If Franchisee fails to begin operation of the Franchised Business by the Commencement Date of this Agreement, or if Franchisee fails to operate the Franchised Business in accordance with this Agreement and the standards of Franchisor;
- (d) If Franchisee acts without the prior written approval or consent of Franchisor in regard to a matter for which the prior written approval or consent of Franchisor is expressly required by this Agreement;
- (e) If Franchisee defaults in the performance of any material obligation under this Agreement or any other agreement with Franchisor;
- (f) If Franchisee ceases to operate the Franchised Business, unless: (1) operations are suspended for a period of no more than one hundred eighty (180) days, and (2) the suspension was caused by fire, condemnation, or act of God;
- (g) If Franchisee fails to make any payment when due under this Agreement or any other agreement between Franchisee and Franchisor or an Affiliate of Franchisor;
- (h) If Franchisee misuses the Marks or the System or engages in conduct which reflects unfavorably in any material respect on the goodwill associated with them

or if Franchisee uses in the Franchised Business any names, marks, systems, logotypes or symbols that Franchisor has not authorized it to use;

- (i) If Franchisee or its Affiliate has made any material misrepresentation in connection with the acquisition of the Franchised Business or to induce Franchisor to enter into this Agreement;
- (j) If Franchisee fails to permanently correct a breach of this Agreement or to meet the standards set out by Franchisor after being twice requested in writing by Franchisor to correct the problem in any twelve- (12) month period;
- (k) If Franchisor makes a reasonable determination that the operation of the Franchised Business poses a threat to public health or safety;
- (l) Except as otherwise required by the United States Bankruptcy Code, if Franchisee becomes insolvent, is adjudicated a bankrupt, or files or has filed against it a petition in bankruptcy, reorganization or similar proceeding;
- (m) If Franchisee attempts to cause a change in ownership of its rights or obligations or both under this Agreement in any manner not authorized by this Agreement;
- (n) If Franchisee is convicted of a felony or any criminal misconduct which is relevant to the operation of the Franchised Business;
- (o) If Franchisee commits any of the defaults described above and has twice previously, within a twelve- (12) month period, been given notice by Franchisor of the same type of default, whether or not the default has been cured.
- (p) If Franchisee commits any acts or omissions which by law authorize Franchisor to terminate the franchise automatically without a right to cure or which authorize termination after an opportunity to cure, and franchisee fails to cure within the statutory period authorized.

10.2.2. Notice of Default. Termination will be effective thirty (30) days after written notice of default is given to Franchisee if any of the defaults described in subsection (a)-(f) above has not been cured. Termination will be effective ten (10) days after written notice is given to Franchisee if the default described in subsection (g) above has not been cured; Termination will be effective immediately on written notice to Franchisee if any of the defaults described in subsections (h)-(k) and (m)-(o) above occurs; and Termination will be automatically effective (with or without notice) if a default in subsection (l) or (p) occurs.

10.3. Rights and Obligations After Termination

On Termination of this Agreement for any reason, the parties will have the following rights and obligations:

- (a) Franchisor will have no further obligations under this Agreement.
- (b) Franchisee must give Franchisor a final accounting for the Franchised Business; pay Franchisor, within thirty (30) days after Termination, all payments due to Franchisor; and return the written policies or procedures of Franchisor and other proprietary materials to Franchisor.
- (c) Franchisee must immediately and permanently cease the use of the Marks or any confusingly similar marks, the System, and advertising, signs, stationery, or forms that bear identifying marks or colors that might give others the impression that Franchisee is operating a Franchised Business.
- (d) Franchisee must promptly sign all documents and take all steps that in the judgment of Franchisor are necessary to delete the listings of Franchisee from classified telephone directories, disconnect, or, at the option of Franchisor, sign over to Franchisor all telephone numbers that have been used in the Franchised Business, and terminate all other references that indicate Franchisee is or ever was associated with Franchisor; by signing this Agreement, Franchisee irrevocably appoints Franchisor its attorney-in-fact to take the actions described in this paragraph if Franchisee does not do so within seven (7) days after Termination of this Agreement.
- (e) Franchisee must maintain all records required by Franchisor pursuant to this Agreement for a period of not less than ninety (90) days after final payment of any amounts Franchisee owes to Franchisor when this Agreement is terminated.
- (f) Franchisor has an option to purchase any or all of the physical assets of the Franchised Business, including its equipment, supplies, and inventory, during the period of ninety (90) days following the effective date of Termination, valued as follows:
 - (1) The lower of cost or fair market value of the supplies and inventory; and
 - (2) Depreciated value of other tangible personal property calculated on the straight line method over a five- (5) year life, less any liens or encumbrances; less

- (3) Liens and encumbrances to which any of the transferred assets are subject, monies owed by Franchisee to Franchisor or its Affiliates, and credits to Franchisor for proration of rent, interest on mortgage indebtedness, real estate taxes, prepaid service contracts, premiums under assignable insurance policies, and other items that are customarily prorated between a buyer and seller of business assets.

If the parties do not agree on a price within the option period, the option period will be extended for up to sixty (60) business days to permit appraisal by an independent appraiser who is mutually satisfactory to the parties. If the parties fail to agree on an appraiser within the specified period, each will appoint an appraiser and the two appraisers thus appointed will agree on a third appraiser within thirty (30) days after Termination who will determine the price for the physical assets of the Franchised Business in accordance with the standards specified above. This determination will be final and binding on both Franchisor and Franchisee. Franchisor must send written notice to Franchisee within thirty (30) days after Termination of this Agreement if it elects to exercise the option to purchase. Franchisee must sign a bill of sale and any other documents necessary to complete the sale on the terms set out above.

- (g) Franchisor has an option to replace Franchisee as lessee under any equipment lease for equipment that is used in connection with the Franchised Business. On request by Franchisor, Franchisee will give Franchisor copies of the leases for all equipment used in the Franchised Business immediately on Termination. On request by Franchisor, Franchisee will allow Franchisor the opportunity, at a mutually satisfactory time, to inspect the leased equipment. Franchisor must request the information and access described in this paragraph within thirty (30) days after Termination; it must advise Franchisee of its wish to exercise the option within thirty (30) days after it has received the information and/or inspected the equipment. Franchisor may assume an equipment lease in consideration of its assumption of future obligations under the lease. On exercise of this option by Franchisor, Franchisee will be fully released and discharged from future rents and other future liabilities under the lease if the terms of the lease permit it, but not from any debts to the lessor that already exist on the date when the option is exercised.
- (h) Franchisor has an option to replace Franchisee as lessee or owner of the premises of the Franchised Business. If Franchisee rents the premises of the Franchised Business, Franchisor may assume the lease in consideration of its assumption of future obligations under the lease. On exercise of this option by Franchisor, Franchisee will be fully released and discharged from future liabilities under the

lease if the terms of the lease permit it, but not from any debts to the lessor that already exist on the date when the option is exercised.

If Franchisee owns the premises of the Franchised Business, Franchisor may purchase the premises from Franchisee in consideration of the fair market value of the property. Franchisor must send written notice to Franchisee within thirty (30) days after Termination of this Agreement of its election to exercise the option to purchase and must be prepared to close the transaction within ninety (90) days after the fair market value has been determined. If Franchisor and Franchisee fail to agree on the fair market value of the property within thirty (30) days after Franchisor has given notice of its election to purchase the premises, each must appoint an appraiser and the two appraisers thus appointed must agree on a third appraiser within thirty (30) days after Franchisor has given notice of its election to purchase. The appraisers, or a majority of them, will determine the fair market value of the premises of the Franchised Business. This determination will be final and binding on both Franchisor and Franchisee.

If the franchise granted in this Agreement is terminated because of default by Franchisee, the rights of Franchisor described above will not necessarily be the exclusive remedies of Franchisor, but will instead supplement any other equitable or legal remedies available to Franchisor. If this Agreement is terminated because of a material default by Franchisee, nothing in this section will be construed to deprive Franchisor of the right to recover damages as compensation for lost profits. Termination of this Agreement will not extinguish any obligation of either party that has accrued before Termination. All obligations of the parties which by their terms or by reasonable implication are to be performed in whole or in part after Termination will survive Termination.

11. MISCELLANEOUS PROVISIONS

11.1. Construction of Contract

Section headings in this Agreement are for reference purposes only and will not in any way modify the statements contained in any section of this Agreement. Each word in this Agreement will be deemed to include any number or gender that the context requires. If there is any conflict between this Agreement and the standards of Franchisor, this Agreement will control.

11.2. Governing Law

This Agreement is made in the State of Minnesota and its provisions will be governed by and interpreted under the laws of that state.

11.3. Notices

The parties to this Agreement should direct any notices to the other party at the address below that party's name on the final page of this Agreement or at another address if advised in writing that the address has been changed. Notice may be delivered by facsimile (with simultaneous posting of a copy by first class mail), courier, or first class mail. Notice by facsimile will be deemed delivered on transmission; by courier, on delivery; and by first class mail, three days after posting.

11.4. Amendments

This Agreement may be amended only by a document signed by all of the parties to this Agreement or by their authorized agents.

11.5. Waiver

Waiver of any breach of this Agreement will not be interpreted as a waiver of any subsequent breach.

11.6. Integration

This Agreement, any exhibits or attachments to it, and the Uniform Franchise Offering Circular that has been provided to Franchisee constitute the entire agreement between the parties concerning the franchise granted under this Agreement. All prior and contemporaneous agreements and representations are superseded by it.

11.7. Arbitration

Any dispute arising out of or in connection with this Agreement or the relationship between Franchisor and Franchisee will be arbitrated in Minneapolis, Minnesota, in accordance with the then current rules for binding commercial arbitration of American Arbitration Association. The arbitrator(s) will have the power and obligation to grant injunctive relief on a provisional or permanent basis, in addition to any other relief that is available, if the Trade Name, Marks, or goodwill of the franchise network are jeopardized or harmed by any act or omission of Franchisee. This arbitration clause will not deprive either party of any right it may otherwise have to seek provisional injunctive relief from a court of competent jurisdiction. If proper notice of any hearing has been given, the arbitrator(s) will have full power to proceed to take evidence or to perform any other acts necessary to arbitrate the matter in the absence of any party who fails to appear. Both Franchisor and Franchisee waive any rights they may have to demand trial by jury or to seek punitive damages. The arbitrator will have no power to (a) stay the effectiveness of any pending Termination of the franchise; (b) assess punitive damages; or (c) make any award that modifies or suspends any lawful provision of this Agreement. All expenses of arbitration must be paid by the party against which the arbitrator(s) render a decision. Judgment on any award and/or enforcing any order of the arbitrator may be entered by any court of competent jurisdiction.

11.8. Injunctive Remedy for Breach

Franchisee recognizes that its Franchised Business is only one of several businesses operating under the Trade Name of Franchisor and in substantial association with its Marks. Failure on the part of a single franchisee to comply with the terms of its franchise agreement is likely to cause irreparable damage to Franchisor and to some or all of the other franchises of Franchisee. For this reason, Franchisee agrees that if Franchisor can demonstrate to a court of competent jurisdiction that there is a substantial likelihood of a breach or threatened breach of any of the terms of this Agreement by Franchisee, Franchisor will be entitled, if authorized by law, without posting of a bond, to an injunction restraining the breach and/or to a decree of specific performance, without showing or proving any actual damage, until a final determination is made by an arbitrator or judge.

11.9. Limitation of Actions

No action or arbitration proceeding may be maintained by Franchisee against Franchisor unless (a) written notice of any claim alleged to exist is delivered by Franchisee to Franchisor within (30) days after the event complained of becomes known to Franchisee and (b) an arbitration proceeding is commenced by Franchisee within ninety (90) days after such notice.

11.10. Attorney Fees and Costs

If legal action, including any action on appeal, or arbitration is necessary to enforce the terms and conditions of this Agreement, the prevailing party will be entitled to recover reasonable compensation for preparation, investigation and court and/or arbitral costs and reasonable attorney fees, as fixed by a court of competent jurisdiction or by the arbitrator or judge.

11.11. Severability

Each provision of this Agreement will be considered severable. If, for any reason, any provision of it is determined to be invalid or in conflict with any existing or future law or regulation, that provision will not impair the operation of the remaining provisions of this Agreement. The invalid provisions will be deemed not to be part of this Agreement. However, if Franchisor determines that the finding of illegality adversely affects the basic consideration for its performance under this Agreement, Franchisor may, at its option, terminate it.

11.12. Approval and Guarantees

If Franchisee is a corporation, all officers and shareholders with a ten percent (10%) or greater interest in Franchisee, or, if Franchisee is a partnership, all general partners of Franchisee must sign separately written Personal Guarantees of the payments and performance of Franchisee in the form of Attachment H to this Agreement.

11.13. Acceptance by Franchisor

This Agreement will not be binding on Franchisor unless and until it has been signed by an authorized officer of Franchisor.

11.14. Disclaimer of Representations

FRANCHISEE HAS MADE AN INDEPENDENT INVESTIGATION OF ALL IMPORTANT ASPECTS OF THE FRANCHISED BUSINESS. FRANCHISEE REALIZES THAT THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT INVOLVES BUSINESS RISKS AND THAT ITS SUCCESS WILL DEPEND LARGELY UPON FRANCHISEE'S BUSINESS ACTIVITY AND HARD WORK. FRANCHISEE IS AWARE THAT OTHER FRANCHISEES OF FRANCHISOR MAY OPERATE UNDER OTHER FORMS OF AGREEMENT THAT DIFFER FROM THIS ONE IN IMPORTANT WAYS. FRANCHISEE HAS READ THIS AGREEMENT, UNDERSTANDS ITS TERMS, AND HAS HAD THE OPPORTUNITY TO ASK QUESTIONS ABOUT IT AND CONSULT LEGAL COUNSEL. FRANCHISEE UNDERSTANDS THAT FRANCHISOR IS NOT A FIDUCIARY AND HAS NO SPECIAL RESPONSIBILITIES BEYOND THE NORMAL RESPONSIBILITIES OF A SELLER IN A BUSINESS TRANSACTION.

IN WITNESS TO THE PROVISIONS OF THIS AGREEMENT, the parties have signed this Agreement on the date set forth in the opening paragraph.

FRANCHISOR

FRANCHISEE

AERO-COLOURS, INC.

[Franchisee's legal name]

By: _____
James F. Spellmire, President

By: _____
[Name and title of signatory]

Address:

10824 Nesbitt Avenue South
Minneapolis, Minnesota 55437

Address:

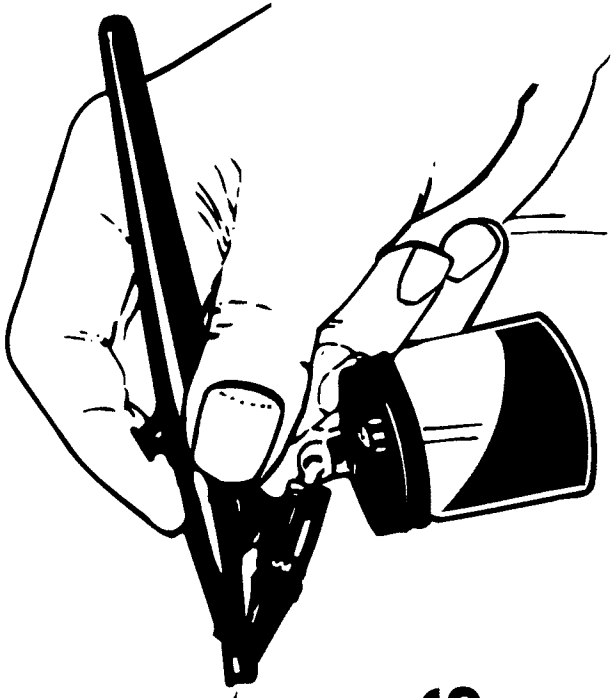
Fax: (952) 942-0628

Fax: _____

ATTACHMENT A

SERVICE MARKS

(See attached)



AERO **COLOURS[®]**

AUTOMOTIVE PAINT REPAIR SPECIALISTS

ATTACHMENT B

DEVELOPMENT SCHEDULE

[To be completed at time of execution of Agreement]

ATTACHMENT C

TERRITORY

[To be completed at time of execution of Agreement]

ATTACHMENT D
TRAINING PROGRAM

(See attached)

ATTACHMENT D

TRAINING OUTLINE

Subject	Time Begun	Instructional Material	Hours of Classroom Training	Hours of On the Job Training
Introduction to AC and Paint Repair Process	Days 1, 6	AC Training Materials	1	1
Explanation of Equipment and Supplies	Days 1, 6	" "	3	3
Preparation of Mobil Service Unit	Days 1, 6	" "	1	1
Service Writing	Days 1, 6	" "	1	1
Paint Mixing	Days 1-2, 6-7	" "	3	3
Paint Repair Process	Days 2-3, 7-8	" "	14	14
Bumpers and Trim Painting	Days 3-4, 8	" "	5	2
Handling Special Repair	Days 4, 8	" "	4	2
Invoice Preparation	Days 5, 8	" "	1	1
Territory Development	Days 5, 8-10	" "	6	11
Safety	Days 5, 10	" "	1	1
			Total 40	Total 40

ATTACHMENT E

OPERATIONS REPORTING FORM

(See attached)

STATEMENT OF OPERATIONS

MONTH: _____ 200 ____
FRANCHISEE: _____
ADDRESS: _____

Current Month

Year To Date

INCOME

Operating Revenue

All Other Income

Total Income

EXPENSES

Salaries

Wages

Payroll Taxes

Royalty Expense

Rent

Vehicle Expense

Operational Expense

Office Expense

Telephone Expense

Utilities

Taxes & Licenses

Advertising

Insurance

Interest Expense

Misc. Expense

Total Expenses

Net Income(Loss)

=====

=====

ATTACHMENT F

OPERATIONAL ROYALTY REPORTING FORM

(See attached)

ATTACHMENT G

NON-COMPETITION AND NON-DISCLOSURE AGREEMENT

(See Attached)

ATTACHMENT G

NON-COMPETITION AGREEMENT AND NON-DISCLOSURE AGREEMENT

This Agreement made this _____ day of _____, 20____, by and between AERO-COLOURS, INC., a Minnesota corporation (“Franchisor”) and _____ (“Franchisee”). Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Franchise Agreement (as defined below).

WHEREAS, Franchisor is engaged in the business of developing, marketing, distributing, selling and providing painting related products and franchising painting services to various customers;

WHEREAS, Franchisee and Franchisor desire to enter into a Franchise Agreement for Franchisee’s purchase of a franchise from Franchisor (as such agreement may be amended, restated, supplemented or otherwise modified from time to time, the “Franchise Agreement”);

WHEREAS, the Franchise Agreement is terminable at the will of either pursuant to the terms stated therein; and

WHEREAS, in consideration for inducing Franchisor to enter into the franchise relationship with Franchisee pursuant to the Franchise Agreement, pursuant to which the Franchisor may have previously or will in the future disclose to or allow Franchisee access to certain confidential proprietary information regarding the Franchisor’s business, Franchisee agrees to execute and be bound by this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the promise and covenants contained herein the parties agree as follows:

1. Recitals. Each of the above recitals are incorporated in this Agreement and are binding upon the parties hereof.

2. Confidentiality. Franchisee acknowledges that as a result of the franchise relationship Franchisee has and/or will be exposed to or has had or will have access to confidential information regarding the business of Franchisor, including but not limited to, trade secrets and proprietary information and the System, all of which are proprietary to the Franchisor. Franchisee further acknowledges that it would be possible for a Franchisee, its employees or Affiliates, upon termination of the franchise or upon termination of an employee’s association with the Franchisee, to use or disclose the knowledge or information obtained while working within the Franchised Business for its benefit or for the benefit of other individuals or entities. Franchisee acknowledges that Franchisor has expended

considerable time and resources in the development of confidential information used in connection with the System, including without limitation, customer lists or records, customer information, marketing techniques, systems and networks of distribution, supplier information, product formula, product specifications, product content, product mix, processes, Inventions (as herein defined), procedures, techniques, and, generally, the confidential information of the Franchisor which gives, or may give, the Franchisor an advantage in the marketplace against its competitors, (all of the foregoing being hereinafter referred to collectively as "Proprietary Information"), and which have been disclosed to or learned by Franchisee solely for the purpose of enabling the Franchisee to operate the Franchised Business. As used herein, "confidential information" means all the Franchisor's trade secrets, proprietary products, manufacturing and assembly processes, systems and information, designs, and any other information, products and processes not publicly available. Franchisee acknowledges that the Proprietary Information constitutes a proprietary and exclusive interest of Franchisor, and therefore, Franchisee agrees that during the term of the Franchise Agreement and at all times thereafter, Franchisee shall hold and keep secret the Proprietary Information and any other information of Franchisor as to which Franchisee is now or any time during the Franchise Agreement shall become informed, and Franchisee shall not directly or indirectly disclose any such information to any person, firm or corporation or use, directly or indirectly, the same except in connection with the operation of the Franchised Business.

3. Non-Competition. Franchisee covenants that during the term of the Franchise Agreement and for a period of two (2) years after the termination of the Franchise Agreement, Franchisee shall not, directly or indirectly, in the geographical area set forth on Exhibit "A" hereto, on his own account, or as an employee, consultant, agent, joint venturer, or salesman or member of any person or ten percent (10%) owner or partner, or officer of any other person, firm, partnership, corporation or other entity, or in any other capacity, in any way conduct, engage in, or aid or assist anyone in the conduct of a business competitive with that of the Franchisor in which Franchisee is in (i) a capacity similar to Franchisee's capacity, at any time, during the term of the Franchise Agreement or (ii) a capacity in which it is likely that Franchisee will disclose the Proprietary Information.

4. Non-Solicitation. Franchisee covenants that during the term of the Franchise Agreement and for a period of two (2) years after the termination of the Franchise Agreement, Franchisee shall not, directly or indirectly, as an employee, consultant, agent, joint venturer, salesman or member of any person, or ten percent (10%) owner or partner or officer of any other person, firm partnership, corporation, or other entity, (i) call upon, solicit, enter into or engage in the business conducted by Franchisor with a customer or supplier of the Franchisor (a) with which, within the eighteen month period preceding the termination of the Franchise Agreement, Franchisee had direct or indirect contact as a franchisee of Franchisor, or (b) regarding which customer or supplier Franchisee had learned, or become aware of the Proprietary Information, or (ii) solicit any other franchisee, employee or agent of Franchisor or make such other contact with the employees or agents of Franchisor, which