



INTERIORS
by Decorating Den®

DECORATING DEN SYSTEMS, INC.

EXHIBIT E
DDSI FRANCHISE AGREEMENT

**DECORATING DEN SYSTEMS, INC.
FRANCHISE AGREEMENT**

THIS AGREEMENT ("Agreement") is entered into by and among

- **Decorating Den Systems, Inc.**, a Missouri corporation ("DDSI")
- The person(s), corporation, partnership or other entity listed in the Signature Page to this Agreement (jointly and severally referred to as "Franchisee"); and,
- If a Regional Director has been appointed by DDSI for Franchisee's Territory, the Regional Director is listed on the Signature Page to this Agreement ("Regional Director").

Recitals:

A. As a result of time, skill, effort and money, DDSI has developed and will manage and supervise the "INTERIORS by Decorating Den System" and the "Marks" for the successful marketing, sale and installation of draperies and drapery hardware, fabric, furniture, accessories, decorative shades, wallpaper, carpet, and all other related home furnishing merchandise, interior decorating services, and labor ("INTERIORS by Decorating Den Products and Services"). The term "Marks" means those proprietary marks registered or pending with the United States Patent and Trademark Office, including without limitation "INTERIORS by Decorating Den[®]", as well as all common law trademarks and service marks, trade names, trade dress, logo types, insignias, designs and other commercial symbols which DDSI now or hereafter is authorized to use and does use or authorizes others to use.

B. DDSI has, by considerable expenditure, created a demand for INTERIORS by Decorating Den Products and Services and has created substantial goodwill associated with the Marks.

C. Franchisee desires to obtain a non-exclusive right to use the Marks in conjunction with the operation of an interior decorating business and desires to obtain experience and know-how with respect to the sale of INTERIORS by Decorating Den Products and Services and the INTERIORS by Decorating Den System.

NOW, THEREFORE, the parties agree as follows:

1. GRANT OF RIGHT

1.1 DDSI hereby grants to Franchisee, and Franchisee hereby accepts, a non-exclusive license and the right to use the Marks and INTERIORS by Decorating Den System in conjunction with the sale of INTERIORS by Decorating Den Products and Services, and the exclusive developmental and promotional rights only within the Zip Code(s) described on the Signature Page of this Agreement (the "Territory").

1.2 The term "INTERIORS by Decorating Den System" shall mean a comprehensive marketing and operational system prescribed by DDSI to be used in the conduct of the franchised business, as set forth in this Agreement and the Policy and Procedure Manual, as amended from time to time. The INTERIORS by Decorating Den System shall include, among other things, the Marks and certain advertising, marketing and sales programs and techniques, DDSI controlled telephone numbers, training programs and materials, artwork, graphics, layouts, slogans, names, titles, text and other intellectual property that DDSI

makes available to Franchisee. DDSI, in its sole discretion, may improve and/or change the INTERIORS by Decorating Den System from time to time (including adding to, deleting or modifying elements of the INTERIORS by Decorating Den System, establishing categories or classifications of Franchisees and amending the Policy and Procedure Manual) for the intended purpose of making the INTERIORS by Decorating Den System more effective, efficient, economical or competitive; adapting to or taking advantage of competitive conditions, opportunities, technology, materials or local marketing needs and conditions; enhancing the reputation or public acceptance of the INTERIORS by Decorating Den System; and/or better serving the public.

1.3 To maintain exclusive development and promotional rights to the Territory, Franchisee shall meet a minimum annual Gross Sales quota as follows:

Year One	Year Two	Year Three	Year Four and Thereafter
\$40,000	\$80,000	\$120,000	\$160,000

For purposes of this Section 1.3, the term "year one" shall mean the initial twelve (12) full calendar months after the month in which a franchise owner completes PDSS. The gross dollar amounts in the chart are non-cumulative from year to year. In the event Franchisee fails to achieve the applicable level of Gross Sales, DDSI may, at its option, terminate the exclusive developmental and promotional rights granted in Section 1.1 of this Agreement. DDSI shall advise Franchisee of this action by written notice. DDSI reserves the right to increase the sales quotas once each year, but the adjustments may not exceed increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers, U.S. City Average (1967=100); or, if such information becomes unavailable, any similar index selected by DDSI, comparing the index as of April 1 of the current year to the index on April 1 of the previous year (referred to in this Agreement as the "CPI").

1.4 The promotional rights described above encompass all forms of advertising and promotion for new customers which can reasonably be restricted to the Territory, including, but not limited to, direct mailings, door leaflets, and localized signs. It further includes any customer leads obtained through group advertising and pooled, centralized telephone arrangements in which Franchisee participates, or as specified in the Policy and Procedure Manual(s). In the event the U.S. Postal Service alters the boundary or number of any assigned Zip Code, Franchisee will keep the same geographic boundaries as shown in the territory map accompanying this Agreement. It is the map accompanying this Agreement at the date of execution that shall set forth the legal boundaries for the Territory under this Agreement. The Franchisee agrees not to solicit sales or actively promote its franchised business outside of the Territory or within territories similarly assigned to other INTERIORS by Decorating Den Franchisees. The developmental rights described above include hiring independently contracted decorators in order to develop the franchised business within the Territory.

1.5 DDSI and Regional Director agree to use Reasonable Business Judgment in the exercise of their respective rights, obligations and discretion under this Agreement, except where otherwise provided in this Agreement. "Reasonable Business Judgment" means that DDSI's or Regional Director's determination shall prevail even in cases where other alternatives are also

reasonable so long as DDSI and Regional Director intend to benefit or act in a way that could benefit the INTERIORS by Decorating Den System by, among other things, enhancing the value of the Marks, increasing customer satisfaction, or minimizing possible customer brand confusion. Franchisee recognizes and agrees that the long-term goals of the INTERIORS by Decorating Den System, and the long-term interests of DDSI, the Regional Director, Franchisee and all franchisees, taken together, require that DDSI and Regional Director have the latitude to exercise Reasonable Business Judgment.

2. TERM AND RENEWAL

2.1 Initial Term.

Except as otherwise provided in this Agreement, the initial term of this Agreement shall be for a period of ten (10) years from the date hereof (the "Initial Term").

2.2 Renewal.

This Agreement shall be renewed for additional ten (10) year terms, unless (i) DDSI and Regional Director, on the one hand, or (ii) Franchisee, on the other, delivers to the other notice in writing of its intent not to renew not less than seven (7) months before expiration of the term. The following conditions must be met prior to each renewal:

- a.** Franchisee shall, at Franchisee's sole expense, conform the ColorVan[®] to DDSI's then current specifications;
- b.** Franchisee shall not be in default of any provision of this Agreement or any other agreement between Franchisee, DDSI and/or Regional Director, and have substantially and timely complied with all of the terms and conditions of this Agreement and such other agreements during the terms thereof;
- c.** Franchisee shall have satisfied all monetary obligations owed by Franchisee to DDSI or Regional Director and their subsidiaries and affiliates pursuant to this Agreement and any other agreement between Franchisee and DDSI and/or Regional Director or their subsidiaries or affiliates, and shall have timely met those obligations throughout the terms thereof;
- d.** Franchisee shall execute DDSI's then-current form of Franchise Agreement for the renewal term stated herein, which agreement shall supersede this Agreement in all respects, and the terms of which may differ from the terms of this Agreement and may include, without limitation, a higher Service Fee, NMF Fee, and other fees. There is no fee charged by DDSI or Regional Director for a renewal of this Agreement;
- e.** Franchisee shall execute a release, in form and content prescribed by DDSI, of any and all claims of Franchisee, of whatever nature or kind, against DDSI and Regional Director and their respective shareholders, officers, employee, agents, subsidiaries and affiliates, successors and assigns, including without limitation claims arising under this Agreement and any other agreement between Franchisee and DDSI and/or Regional Director or their subsidiaries or affiliates, and under any federal, state, and local laws, rules, and ordinances; and
- f.** Franchisee shall meet and be in compliance with DDSI's then-current qualification and training requirements.

3. INITIAL AND CONTINUING FEES

3.1 Initial Franchise Fee.

In consideration of the rights and privileges granted to Franchisee herein and the initial services to be rendered and material to be provided by DDSI and Field Manager, Franchisee shall pay to DDSI and Regional Director the sum of **Twenty-Nine Thousand, Nine Hundred Dollars (\$29,900.00)**, (hereinafter referred to as the "Initial Franchise Fee"). If you are a veteran of the United States armed forces, and qualify under the VetFran program the Initial Franchise Fee shall be Twenty-Six Thousand, Nine Hundred Dollars (\$26,900.00). The Initial Franchise Fee is payable at the time of the execution of this Agreement by one of the payment methods described below, shall be deemed earned in full, and is non-refundable.

3.2 Payment Methods.

The Initial Franchise Fee shall be paid in full upon the execution of this Agreement by certified or cashier's check or other check acceptable to DDSI and the Regional Director.

3.3 Service Fees.

a. In addition to the Initial Franchise Fee, Franchisee shall pay to DDSI or Regional Director a recurring service fee ("Service Fee"), equal to and calculated as a specified percentage of Gross Sales (as defined below). Service Fees shall be reported and paid as set forth in Section 7 of this Agreement. The Service Fee shall be Nine Percent (9%) of Gross Sales and may be reduced below Nine Percent (9%) as set forth on the table below.

b. The Service Fee percentage will be reduced below nine percent 9% as follows:

CUMULATIVE GROSS SALES (on which Service Fees have been paid)	SERVICE FEE PERCENTAGE
\$0 – 1,000,000	9%
\$1,000,001 - 2,000,000	8%
OVER \$2,000,000	7% Permanently

The Service Fee percentages are based on cumulative Gross Sales on which Service Fees have been paid over the life of the Agreement, including all renewal terms. The amount of Gross Sales required to cause a reduction in Service Fee percentage may be increased by DDSI once each calendar year, but such increase may not exceed the increases in the Consumer Price Index for the immediately preceding calendar year.

3.4 National Marketing Fund Contribution.

a. Franchisee shall pay to DDSI a recurring advertising and marketing fee (the "NMF Fee") equal to Four Percent (4%) of Gross Sales, calculated weekly, then at the end of each calendar month. If the total NMF Fees are less than the One Hundred Dollar (\$100.00)

monthly minimum (the "Monthly NMF Minimum"), the Franchisee shall pay the difference by the last day of the month. DDSI shall maintain the NMF fees in the National Marketing Fund. The NMF Fees are non-refundable. The NMF Fees so collected shall be placed in the Decorating Den National Marketing Fund Trust and will be segregated from other funds of DDSI.

b. The monies accumulated in the NMF shall be spent on national, regional, or local media, advertising or other marketing techniques or programs designed to communicate the services of INTERIORS by Decorating Den franchisees to the public. In addition, these funds may also be expended for market research and development, test or target marketing, the conducting of surveys, creative and production costs, reimbursement to DDSI for reasonable accounting, administrative and legal expenses associated with the NMF, internal expenses incurred in connection with the operation of the DDSI advertising department, or for other purposes deemed appropriate to enhance and promote the general recognition of the INTERIORS by Decorating Den System and the Marks.

c. The specific use of the NMF for the purposes set forth herein shall be determined and budgeted by DDSI with the advice of the Decorating Den Franchise Owners Board of Advisors, called The Leadership Council. The parties hereby acknowledge and understand that funds of the NMF may be expended in any territory (national, regional, or local) without any requirement that expenditures of the Fund be apportioned in relation to the amount of contributions made by Franchisee.

3.5 Gross Sales.

The term "Gross Sales," as used in this Agreement, shall be defined as the aggregate gross amount of all revenues from whatever source derived billed in Franchisee's retail sales orders, either oral or written, including any installation fees, freight, or other items billed to the customer, less only sales tax, discounts, cancellations or returns allowed. In addition, Gross Sales includes all sales made by decorators, employees or independent contractors whose sales are placed through the Franchisee. "Personal Sales", as defined in the Franchisee Policy and Procedure Manual, are not included in Gross Sales.

4. OBLIGATIONS OF DDSI AND FIELD MANAGER

4.1 Role of Field Manager.

The term "Field Managers" refers collectively to Regional Directors, Regional Managers and District Developers appointed by DDSI. If a Field Manager has been appointed for the Territory, the Field Manager, with the assistance of DDSI, will provide the services described in this Agreement. If no Field Manager has been appointed, DDSI will provide the services and references to "Field Manager" in this Agreement shall have no effect.

4.2 Additional Role of Regional Director.

If DDSI has appointed a Regional Director for the Territory, the Regional Director shall be a third party to this Agreement and shall provide the services to Franchisee as set forth herein. DDSI reserves the right to appoint a Regional Director and to include an appointed Regional Director as a party to this Agreement at any time during the Agreement term or any renewal term.

4.3 DDSI and Field Manager Services.

a. DDSI and/or Field Manager shall make available to Franchisee training in decorating, marketing, operations, management, and finance, and shall provide instruction for the set up, commencement and continuation of Franchisee's franchised business. The ultimate form, content and extent of the training, programs, and assistance shall be determined by DDSI and Field Manager, but shall include the following:

(i) Loan of a Policy and Procedure Manual to Franchisee during the term of this Agreement, and providing sales and training aids deemed advisable by DDSI and Field Manager from time to time. DDSI shall provide, from time to time, updated information and revisions to the Policy and Procedure Manual as new and improved methods, systems, and procedures are adopted.

(ii) Provide mandatory basic training at the Professional Decorating and Sales School ("PDSS") relating to INTERIORS by Decorating Den Products and Services and the INTERIORS by Decorating Den System. All basic training shall be provided at locations to be determined by DDSI or Field Manager. The tuition cost of PDSS is included in the Initial Franchise Fee, but Franchisee shall pay all travel, lodging, meals, and daily living expenses incurred to attend the training.

(iii) Make available optional "Lifestyle University" training on a continuing basis. Lifestyle University's continuing education program provides Franchisee with education in product knowledge, lifestyle design, sales and marketing, and business management. Franchisee will be charged a fee that, at the time of execution of this Agreement ranges from \$75 to \$150 per day, and may change. This fee covers the costs of the trainer, instruction materials and manuals, training room and meals or refreshments. Franchisee shall pay for all travel, lodging and daily living expenses incurred in attending Lifestyle University training. This training shall be conducted by experienced, qualified instructors chosen by DDSI and/or Field Manager.

(iv) Make available additional, optional training in areas which may include, without limitation, advanced window product design, measuring and sales techniques, bookkeeping, and introductory instruction for products offered by DDSI. Fees charged

for the optional training and costs must be borne by Franchisee, as described in Section 4.2.a.(iii), above.

(v) Provide an initial supply of INTERIORS by Decorating Den product samples. Additional samples and supplies may be obtained at Franchisee's expense.

(vi) Provide advertising assistance, planning and programs for promotional pieces, including seasonal and special promotions, layouts for newspapers and recommendations for their use. Franchisee shall pay DDSI for materials and media actually used by Franchisee. The cost of these materials and media is not included in the NMF Fees described in Section 3.4, above.

(vii) Assistance in opening accounts with selected preferred suppliers.

b. The location and scheduling of the services described in this Section 4.3 shall be at the discretion of DDSI and/or Field Manager.

5. FRANCHISEE'S OBLIGATIONS

5.1 Franchisee Organization.

a. In the event Franchisee is a corporation, limited liability company ("LLC") or a partnership, Franchisee represents, warrants, and covenants that:

(i) All of the stockholders, LLC members or partners of Franchisee shall execute the Certification and Guaranty attached to this Agreement as Exhibit 2.

(ii) If Franchisee is a corporation or LLC, Franchisee shall maintain at all times a current list of voting securities in Franchisee. If Franchisee is a partnership, Franchisee shall maintain at all times a current list of all owners of an interest in the partnership. In the event there is a change in such ownership, Franchisee shall provide such information to DDSI within five (5) days subsequent to any such change, and shall execute any documents deemed necessary by DDSI in order to reflect such changes, including without limitation execution by the new owners of a Certification and Guaranty.

(iii) In the event that any officer or director of Franchisee shall cease to serve as such or any individual shall be elected as an officer or director of Franchisee subsequent to the execution of this Agreement, Franchisee shall provide DDSI with notice thereof within five (5) days subsequent to any such change.

b. Franchisee acknowledges and agrees that the representations, warranties, and covenants set forth above in Section 5.1(a), above, are continuing obligations of Franchisee and that any failure to comply with such representations, warranties and covenants shall constitute an event of default under Section 9 of this Agreement.

c. If Franchisee is a corporation, LLC, partnership, or is composed of more than one individual, one shareholder or partner shall own more than a fifty percent (50%) interest in Franchisee, or a majority interest in the franchise business, and that shareholder, partner or individual shall be designated to make all decisions for Franchisee. The designee will have the authority to cast the deciding vote on all Franchisee decisions of any type, where a decision is required. Notice to the designee will be notice to all parties involved or associated with Franchisee.

5.2 Promotion; Operations.

Franchisee shall use its best efforts to promote actively the sale of INTERIORS by Decorating Den Products and Services, and to maintain and extend, whenever possible, excellent INTERIORS by Decorating Den business relations, goodwill, and reputation with customers, suppliers, and others.

Franchisee shall operate the franchised business in accordance with the Policy and Procedure Manual. DDSI shall have the right to modify the Policy and Procedure Manual at any time by the addition, deletion or other modification of the provisions thereof. DDSI agrees that although such modifications to the Policy and Procedure Manual may be material in that they may have an effect on the operation of the franchised business, they may not conflict with or materially alter the terms of this Agreement. All such additions, deletions or modifications shall be effective (i) five business days after DDSI has deposited notification to Franchisee with the United States Postal Service properly addressed, or (ii) the next business day after verified receipt by Franchisee of electronic mail notification, or (iii) the next business day after notification is posted on DecoNet.

All additions, deletions or modifications to the Policy and Procedure Manual shall be equally applicable to all similarly situated Franchisees. The Policy and Procedure Manual, as modified or amended from time to time, shall not alter Franchisee's fundamental status and rights under this Agreement. As modified from time to time, the Policy and Procedure Manual shall be deemed to be an integral part of this Agreement and references to the Policy and Procedure Manual made in this Agreement, or in any amendments or exhibits hereto, shall be deemed to mean the Policy and Procedure Manual, as amended from time to time.

If DDSI produces a printed version of the Policy and Procedure Manual, DDSI shall lend to Franchisee at no additional charge one copy of the Policy and Procedure Manual. All copies of the Policy and Procedure Manual shall at all times remain the sole, confidential and trade secret property of DDSI. Upon the expiration or termination of this Agreement for any reason whatsoever, Franchisee shall immediately return all printed copies of the Policy and Procedure Manual to DDSI. Except as specifically permitted by DDSI, at no time may Franchisee, or its employees or agents, make, or cause to be made, any copies or reproductions of all or any portion of the Policy and Procedure Manual or disclose the terms thereof to any other person except employees and agents of Franchisee when required in the operation of the Franchised Business.

5.3 Use, Display and Ownership of the Marks.

a. Franchisee shall use only the Marks designated by DDSI and shall use them only in the manner authorized and permitted by DDSI. Any unauthorized use of the Marks shall constitute an infringement of DDSI's rights and an event of default under this Agreement in accordance with Section 9.

b. Franchisee shall use the Marks only for the operation of the INTERIORS by Decorating Den business franchised hereunder or in advertising related to the Franchise, and only during the term of this Agreement. Franchisee expressly agrees to cease use of the Marks after the termination or expiration of this Agreement and shall take appropriate action to remove

the Marks from Franchisee's ColorVan[®] vehicle and to cancel any advertising relating to Franchisee's use of the Marks, including yellow pages listings.

c. During the term of this Agreement, Franchisee shall identify itself as the owner of the franchised business in conjunction with any use of the Marks, including, but not limited to, use on invoices, order forms, receipts, contracts, stationery, and business cards. Franchisee shall not use the Marks to incur any obligation or indebtedness on behalf of DDSI. Franchisee shall not use the Marks as part of its corporate or other legal name. Franchisee shall comply with DDSI instructions in filing and maintaining the requisite trade name or fictitious name registrations, and shall execute any documents deemed necessary by DDSI to obtain protection for the Marks or to maintain their continued validity and enforceability.

d. Franchisee shall immediately notify DDSI of any infringement of the Marks or challenge to its use of any of the Marks or claim by any person of any rights in any of the Marks. Franchisee and Franchisee's principals agree that they will not communicate with any person other than DDSI and DDSI's counsel in connection with any such infringement, challenge, or claim. DDSI shall have sole discretion to take such action as it deems appropriate and the right to exclusively control any litigation, or Patent and Trademark Office or other proceeding arising out of any infringement, challenge, or claim, or otherwise relating to any of the Marks. Franchisee agrees to execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of DDSI, maintain DDSI's interests in any such litigation or Patent and Trademark Office or other proceeding, or to otherwise protect and maintain DDSI's interest in the Marks.

e. Franchisee expressly understands and acknowledges that:

(i) DDSI is the owner of the Marks with exclusive rights to use and license the Marks;

(ii) Franchisee shall not directly or indirectly contest the validity of the Marks;

(iii) Franchisee's use of the Marks pursuant to this Agreement does not give Franchisee any ownership or other interest in or to the Marks, except the license granted by this Agreement. Any and all goodwill arising from Franchisee's use of the Marks in its franchised operation under this Agreement shall inure solely and exclusively to the owner of the Marks, and upon the expiration or termination of this Agreement and the license herein granted, no monetary amount shall be assigned as attributable to any goodwill associated with Franchisee's use of the System or the Marks;

(iv) The right and license of the Marks granted hereunder to Franchisee is nonexclusive, and DDSI thus has and retains the right to grant other licenses for use of the Marks, in addition to those licenses already granted to existing Franchisees, and the right to develop and establish other systems using the Marks or other names or marks, and to grant licenses or Franchises thereto without providing any rights therein to Franchisee;

(v) DDSI reserves the right to add or substitute different Marks for use in identifying the System and the business operating thereunder if DDSI's currently owned Marks no longer can be used, or if DDSI, in its sole discretion, determines that the addition or substitution of different Marks will be beneficial to the System. In such event DDSI may require Franchisee at Franchisee's sole expense to discontinue or modify

Franchisee's use of any of the Marks or to use one or more additional or substitute Marks.

5.4 Approved Advertising.

All advertising and promotion by Franchisee in any medium shall be conducted in a dignified manner and shall conform to the standards and requirements of DDSI as set forth in the Policy and Procedure Manual, or otherwise. Franchisee shall obtain DDSI's approval of all advertising and promotional plans and materials prior to use, if such plans and materials have not been prepared by DDSI or previously approved by DDSI during the past twelve (12) months. Franchisee shall submit such unapproved plans and materials to DDSI (by personal delivery or through the mail) and DDSI shall approve or disapprove such plans and materials within fourteen (14) days from the date of receipt thereof by DDSI. Franchisee shall not use such unapproved plans or materials until they have been approved by DDSI. Franchisee shall promptly discontinue use of any advertising or promotional plans or materials, whether or not previously approved, upon notice from DDSI.

5.5 Approved Products and Services.

Franchisee shall not offer for sale interior decorating products for which Franchisee lacks sufficient skill and knowledge to provide the high level of service associated with the INTERIORS by Decorating Den Products and Services.

5.6 ColorVan[®] Vehicle and Studio/Warehouse/Retail Locations.

a. Franchisee shall acquire a ColorVan[®] vehicle meeting DDSI specifications, suitable for carrying samples to the customer's home; shall maintain the ColorVan[®] vehicle according to the standards established by DDSI from time to time; and shall make all sales calls in Franchisee's ColorVan[®] vehicle. DDSI specifications for the ColorVan[®] vehicle include the make and model of the vehicle, its color, and the style of decoration by, and placement of, permanent decals. Franchisee shall acquire a ColorVan[®] vehicle, and provide DDSI with a photograph and pertinent specifications prior to attendance at PDSS training. No part of the franchised business may be conducted from a vehicle or place other than the ColorVan[®] vehicle without written permission from DDSI. A representative of DDSI or Regional Director may inspect Franchisee's ColorVan[®] vehicle during normal business hours, upon forty-eight (48) hours notice to Franchisee.

b. The License granted by this Agreement contemplates that Franchisee shall operate a primarily mobile business utilizing a ColorVan[®] vehicle. Franchisee may, without further approval from DDSI, utilize an office and/or warehouse location not designed for use as a retail location or open to the general public, provided that the office/warehouse is located within the Territory (unless DDSI consents in writing to the office/warehouse being located outside the Territory; and DDSI shall have the right to terminate such consent upon 90 days notice), and provided that DDSI has the opportunity to approve in advance any signs appearing on the exterior of the location. Franchisee may not operate a fixed retail location for the sale of INTERIORS by Decorating Den Products and Services, whether inside or outside the Territory, without DDSI's written consent. If DDSI consents to such a fixed retail location, DDSI, Regional Director and Franchisee

must sign an addendum or agreement governing the location, construction, and operation of the franchised business at the fixed retail location. This addendum or agreement may contain terms and requirements, among other things, for site selection, design and layout, signage, and lease terms.

5.7 Goodwill.

Franchisee shall protect the goodwill of the Marks and the INTERIORS by Decorating Den System, and shall maintain uniform standards of operation, shall pay all financial obligations, whether with DDSI, Regional Director, approved suppliers, or with others, when due and according to their terms, and shall comply with all standards, policies and operating manuals established by DDSI and Field Manager relating to merchandise, vehicles, display materials, and appearance of all sales and installation personnel or other representatives who meet the public.

5.8 Customer Relations and Refund Policies.

Franchisee agrees to follow any and all customer relations policies and/or guarantee and refund policies established in the Policy and Procedure Manual or otherwise in writing from time to time by DDSI.

5.9 Publicity.

Franchisee agrees that DDSI and Field Manager shall have the right to use Franchisee's name and photographic likeness of any type and pictures or other depictions of Franchisee's work, including without limitation film, digital images, video tape, or photograph, in publicity, advertising, marketing or public relations activity by DDSI or Field Manager.

5.10 Training and Certification.

Franchisee shall participate in and successfully complete the basic training, PDSS, which is required by DDSI and Field Manager to achieve DDSI's competency certification, and additionally shall participate in further training as required by DDSI and Field Manager from time to time in order to maintain the Franchise standards, and shall require any employees, partners or independent contractors who render services in the franchised business to complete any and all training required of them in accordance with INTERIORS by Decorating Den policies.

5.11 Sources of Products and Supplies.

DDSI has a preferred supplier program (the "Preferred Supplier Program"). DDSI encourages Franchisee's participation through the offer of product discounts and guarantees; contests and incentive awards; and assistance in the return of products. If Franchisee purchases products and services from suppliers that do not participate in the Preferred Supplier Program, DDSI will not offer Franchisee the aforementioned benefits that are available to franchisees participating in the Preferred Supplier Program. Products or services purchased from unapproved suppliers must comply with specifications and standards established from time to time by DDSI.

5.12 Minimum Performance Standards.

Franchisee shall create a minimum volume of Annual Gross Sales from the operation of Franchisee's business in the amount of Forty Thousand Dollars (\$40,000) in order to retain the rights granted herein by DDSI. Failure to achieve the minimum Annual Gross Sales is a ground

for termination of this Agreement. The term "Annual Gross Sales" shall be defined as the total of Franchisee's Gross Sales during any calendar year, commencing with the first calendar year after the date Franchisee completes PDSS. In DDSI's sole discretion, the required minimum Annual Gross Sales may be adjusted once each year, but the percentage change shall not exceed increases or decreases in the CPI during the previous calendar year. In no event shall the minimum required Annual Gross Sales be reduced below Forty Thousand Dollars (\$40,000.00).

5.13 Insurance.

a. Franchisee shall procure, within ten (10) days after execution of this Agreement, and shall maintain in full force and effect at all times during the term of this Agreement at Franchisee's expense, an automobile and commercial liability insurance policy or policies protecting Franchisee, DDSI and Regional Director, and their subsidiaries, affiliates, successors, and assigns and their respective officers, directors, shareholders, LLC members, partners, employees, servants, representatives, and agents, against any demand or claim with respect to bodily injury, or property damage, or any loss, liability, or expense whatsoever arising out of or occurring upon or in connection with the condition, operation, use, or occupancy of the franchised business.

b. Such policy or policies shall be written by a responsible carrier or carriers acceptable to DDSI (e.g., with a Best's Insurance Guide rating of "A" or better) and shall include, at a minimum (except as additional coverage may reasonably be specified by DDSI from time to time), in accordance with standards and specifications set forth in the Policy and Procedures Manual or otherwise in writing, the following:

(i) Comprehensive general liability insurance, including premises, products, and completed operations personal injury, and contractual, liability coverage in amounts not less than \$1,000,000 for each occurrence with a general annual aggregate of not less than \$2,000,000, and a products and completed operations annual aggregate of not less than \$2,000,000;

(ii) Employer's liability insurance, if Franchisee has employees, providing for coverage in amounts not less than \$250,000 for each accident, for each employee, and in the aggregate, and Worker's Compensation insurance, if applicable, in amounts provided by applicable law;

(iii) Automobile (including commercial vehicle) liability coverage, including coverage of owned, non-owned, and hired vehicles, with coverage in amounts not less than \$1,000,000 combined single limit for both bodily injury and property damage; and

(iv) Any additional insurance coverage which may be required by statute or rule of the state or locality in which the franchised business will be operated.

(v) All liability insurance policies shall (1) name as additional insureds, (2) expressly provide that any interest of same therein shall not be affected by any breach by Franchisee of any policy provisions, and (3) include a waiver of subrogation in favor of, each of DDSI, Regional Director, and their respective subsidiaries, affiliates, successors and assigns, partners, officers, directors, shareholders, LLC members, representatives, agents, and employees.

c. Franchisee may, with the prior written consent of DDSI, elect to have reasonable deductibles in connection with the coverage required under Sections 5.13(b).

d. All automobile and commercial liability policies and certificates of coverage shall contain a provision that Franchisee's insurance coverage shall be primary to any coverage maintained by DDSI or Regional Director, and DDSI and Regional Director shall be entitled to recover under Franchisee's policies for any loss occasioned to DDSI or Regional Director, their subsidiaries, affiliates, successors, and assigns, and their respective officers, directors, shareholders, LLC members, partners, employees, servants, representatives, and agents, for whatever reason.

e. At the time of the execution of this Agreement and, thereafter, not less than thirty (30) days prior to the expiration of any insurance policy, Franchisee shall deliver to DDSI and Regional Director certificates of insurance and, if requested by DDSI, copies of the applicable insurance policies, evidencing the coverages with limits not less than those required hereunder. All insurance policies and certificates shall expressly provide that not less than thirty (30) days' prior written notice shall be given to DDSI and Regional Director in the event of a material alteration to or cancellation of the policies.

f. Should Franchisee for any reason fail to procure or maintain the insurance required by this Agreement, as such requirements may be revised from time to time by DDSI in the Policy and Procedure Manual or otherwise in writing, DDSI shall have the right and authority (without, however, any obligation to do so) to immediately procure such insurance and to charge same to Franchisee, which charges, together with a reasonable fee for DDSI's expenses incurred in so acting, shall be payable by Franchisee immediately upon notice. The foregoing remedies shall be in addition to any other remedies at law or in equity that DDSI may have. An election by DDSI not to obtain any insurance under this Section will not be interpreted as negligence or a breach of DDSI's obligations under this Agreement.

5.14 Telephone Service.

a. If the Territory is located in a region where DDSI's or the Field Manager's policy is to require the participation of all or designated groups of INTERIORS by Decorating Den franchisees in a central telephone service, or in which DDSI or the Field Manager adopts such a policy at any time after the execution of this Agreement, Franchisee shall participate in and share the proportionate costs thereof, including, but not limited to, telephone charges, answering services, yellow pages advertising and listings, general advertising, and the costs associated with the collection and distribution of all telephone messages. The central telephone number must be used by Franchisee for all advertising, including, but not limited to, business cards, stationery, invoices, flyers, Internet and on the ColorVan vehicle. The decision of whether, and when, to install a central telephone service in Franchisee's region shall be made by DDSI and Field Manager.

b. If the Territory is located in a region which does not have a local central telephone policy, Franchisee may secure white page, yellow page and information listings only in the name of "INTERIORS by Decorating Den" and the national toll-free 800# shall be displayed. No other proper names or city names may be used in conjunction with any Marks and no additional listings may be used with the telephone number assigned, unless approved in writing in advance by DDSI. All telephone listings, yellow page display advertising, layout, and copy shall be approved in advance in writing by DDSI. Placement of display advertising by the approved Yellow Page Preferred Supplier for Franchisee through the National Yellow Pages Service will constitute automatic approval.

c. Upon termination or expiration of this Agreement, or upon termination of Franchisee's association with DDSI, Franchisee agrees that Franchisee's right to use the Marks shall immediately cease and that all telephone listings appearing under the name "INTERIORS by Decorating Den" or any other Marks shall immediately become the property of DDSI, and Franchisee does hereby release all rights and use of all telephone numbers under which the INTERIORS by Decorating Den name is listed. Franchisee hereby authorizes the telephone company, upon notification by DDSI that the relationship has been terminated, to disconnect Franchisee's "INTERIORS by Decorating Den" telephone number and to transfer calls coming to the disconnected number to any other telephone number issued by the telephone company to DDSI or Field Manager. Franchisee hereby assigns to DDSI and Field Manager all rights, title, and interest in any telephone numbers and business listings used by Franchisee in connection with its conduct of the franchised business, upon termination or expiration of this Agreement. Franchisee hereby appoints DDSI and Field Manager as its attorneys-in-fact with full power and authority to execute on Franchisee's behalf such documents, if any, as are necessary to effectuate such an assignment of the telephone numbers and listings from Franchisee to DDSI and Field Manager.

d. Franchisee hereby releases and forever discharges DDSI and Field Manager and their successors or assigns from liability of any kind or character which results or may result directly or indirectly from DDSI's or Field Manager's exercise of their rights hereunder or from the telephone company's cooperation with DDSI or Field Manager in effecting the terms of this Section 5.14.

5.15 Licenses.

Franchisee shall obtain, at Franchisee's expense, any licenses that are required under Franchisee's state or local laws in order to operate the franchised business.

5.16 Computer Systems; *DecoNet*.

At all times that this Agreement is in existence, Franchisee shall (i) have and maintain a computer system meeting certain minimum specifications (as prescribed from time to time by the Franchisee Policy and Procedure Manual) to use in connection with the operation of the franchised business, (ii) have access to the Internet provided by an Internet Service Provider (ISP), (iii) subscribe to and regularly access and use *DecoNet* (the DDSI Intranet) and (iv) pay all costs and fees associated therewith. Any software invented by DDSI will be proprietary to DDSI, and a third party may have contractual rights to provide maintenance, repairs and/or upgrades when necessary. All reports required in the Policy and Procedure Manual may be submitted by Franchisee to DDSI and the Regional Director by electronic means. Neither DDSI nor Field Managers will have independent access to Franchisee's computer system. Franchisee understands and agrees that *DecoNet* is the principal means of communication within the INTERIORS by Decorating Den System. As used herein, the term "DecoNet" shall mean a private method of communication for use only by DDSI staff, Field Managers, Preferred Suppliers and Franchisees; DecoNet is an extranet (which will actually transmit information over the Internet, but the system requires a password to access data on the servers used by DDSI).

DDSI has established and maintains DecoNet through which DDSI Corporate staff, Field Managers, Preferred Suppliers and Franchisees may communicate with each other, and through which DDSI may disseminate the Policy and Procedure Manual, updates

thereto and other confidential information. DDSI shall have sole discretion and control over all aspects of DecoNet, including the content and functionality thereof. DDSI will have no obligation to maintain DecoNet indefinitely, and may dismantle it at any time without liability to Franchisee.

Franchisee shall have the privilege to use DecoNet, subject to Franchisee's strict compliance with the standards and specifications, protocols and restrictions (collectively, "Terms of Use") that DDSI may establish from time to time. Such Terms of Use may relate to, among other things, (i) the use of abusive, slanderous or otherwise offensive language in electronic communications; (ii) communications between or among Franchisees that endorse or encourage breach of any Franchisee's franchise agreement; (iii) confidential treatment of materials that DDSI transmits via DecoNet; (iv) password protocols and other security precautions; (v) grounds and procedures for DDSI's suspending or revoking a Franchisee's access to DecoNet; and (vi) a privacy policy governing DDSI's access to and use of electronic communications that Franchisees post to DecoNet. Franchisee acknowledges that, as administrator of DecoNet, DDSI can technically access and view any communication that any person posts on DecoNet. Franchisee further acknowledges that DecoNet and all communications that are posted to it will become DDSI's property, free of any claims of privacy or privilege that Franchisee or any other person may assert.

If Franchisee breaches this Agreement or any other agreement with DDSI or its Affiliates, DDSI may disable or terminate Franchisee's access to DecoNet without DDSI having any liability to Franchisee, and in which case DDSI shall only be required to provide Franchisee a paper copy of the Policy and Procedure Manual and any updates thereto, if none have been previously provided to Franchisee, unless Franchisee is not otherwise entitled to the Policy and Procedure Manual.

5.17 DDSI Web Site.

DDSI has established and will maintain from time to time the DDSI web site. DDSI has sole discretion and control over the design and content of DDSI's web site. DDSI may, at its sole option, from time to time, without prior notice to Franchisee: (i) change, revise, or eliminate the design, content and functionality of DDSI's web site; (ii) make operational changes to DDSI's web site; (iii) change or modify the URL and/or domain name of DDSI's web site; (iv) substitute, modify, or rearrange DDSI's web site, at DDSI's sole option, including in any manner that DDSI considers necessary or desirable to, among other things, comply with applicable laws, respond to changes in market conditions or technology, and respond to any other circumstances; (v) limit or restrict end-user access (in whole or in part) to DDSI's web site; and (vi) disable or terminate DDSI's web site without any liability to Franchisee.

DDSI may link DDSI's web site to the web sites of third parties, including electronic service providers, Affiliates and other providers of goods and services. DDSI may also permit third parties to link and frame DDSI's Web site. DDSI may place legal notices, disclaimers, DDSI's corporate logos and slogans, advertisements, endorsements, trademarks, and other identifying information on DDSI's web site, all of which may be modified, expanded, or eliminated at DDSI's option. Further, DDSI may establish or participate in programs whereby DDSI refers end-users to other web sites, or DDSI receives referrals from other web sites. All consideration (monetary and non-monetary) received by DDSI on

account of the placement or sale of advertisements, endorsements, and sponsorships on DDSI's web site, and all consideration (monetary and non-monetary) received by DDSI on account of affiliate programs, will belong only to DDSI.

DDSI's web site may include one or more interior pages that identify Franchisees operating under the Marks, including the franchised business, by among other things, geographic region, address, telephone numbers, and other appropriate matters. DDSI's web site may also include one or more interior pages dedicated to franchise sales by DDSI.

DDSI has no control over the stability or maintenance of the Internet generally; as a result, DDSI is not responsible for damage or loss caused by errors of the Internet. Furthermore, DDSI is not liable for any direct, indirect, special, incidental, exemplary or consequential damages arising out of the use of, or the inability to use, DDSI's web site or the Internet, including loss of profits, goodwill, or savings; downtime; or damage to or replacement of programs and data, whether based in contract, tort, product liability, or otherwise.

6. COVENANTS

6.1 Confidential Information.

a. Franchisee and each of Franchisee's principals shall not, during the term of this Agreement and thereafter, communicate or divulge to, or use for the benefit of, any other person, partnership, association, LLC or corporation any confidential information, including without limitation any customer lists and sales leads, or any knowledge, or know-how concerning the methods of operation of the franchised business which may be communicated to Franchisee or any of Franchisee's principals or of which they may be apprised by virtue of Franchisee's operation of the franchised business under the terms of this Agreement. Franchisee and each of Franchisee's principals shall divulge such confidential information only to Franchisee's decorators and other personnel as must have access to it in order to assist in the franchised business. Any and all information, knowledge, know-how, techniques, and any materials related thereto which DDSI designates as confidential shall be deemed confidential for purposes of this Agreement. Neither Franchisee nor Franchisee's principals shall at any time, without DDSI's prior written consent, copy, duplicate, record or otherwise reproduce such materials or information, in whole or in part, nor otherwise make the same available to any unauthorized person. The covenant set forth in this Section 6.1 shall survive the expiration or termination of this Agreement and shall be perpetually binding upon Franchisee and each of Franchisee's principals.

b. At DDSI's request, Franchisee shall require its decorators, assistants and any other personnel and any persons having access to any confidential information of DDSI to execute covenants that they will maintain the confidentiality of the information they receive in connection with their relationship with Franchisee. Such covenants shall be in the form required by DDSI in the Policy and Procedures Manual, or otherwise in writing.

c. Franchisee and Franchisee's principals acknowledge that any failure to comply with the requirements set forth in this Section 6.1 shall constitute a material event of default under Section 9 and will cause DDSI irreparable injury. Therefore, Franchisee and Franchisee's principals agree to pay all court costs and reasonable attorneys' fees incurred by DDSI in

obtaining specific performance, injunctive relief, or any other equitable or other remedy available to DDSI for any violation of the requirements of this Section 6.1. This Section 6.1 shall not apply where prohibited by Franchisee's state law.

6.2 Covenant Not to Compete.

a. Franchisee covenants that during the term of this Agreement, except as otherwise approved in writing by DDSI, Franchisee or its designated manager shall devote full time, energy, and best efforts to the management and operation of the business franchised hereunder.

b. Franchisee and Franchisee's principals specifically acknowledge that, pursuant to this Agreement, Franchisee and Franchisee's principals will receive valuable specialized training, trade secrets, and confidential information, including, without limitation, information regarding the operational, sales, promotional and marketing methods, and techniques of the INTERIORS by Decorating Den System which are beyond the present skills and experience possessed by Franchisee, Franchisee's principals, and Franchisee's managers and employees. Franchisee and Franchisee's principals acknowledge that such training, trade secrets, and confidential information provide a competitive advantage and will be valuable to them in the development of the franchised business and that gaining access to such training, trade secrets and confidential information is, therefore, a primary reason for entering into this Agreement. In consideration for such training, trade secrets and confidential information, Franchisee and Franchisee's principals covenant as follows:

(i) With respect to Franchisee, during the term of this Agreement, or with respect to each of Franchisee's principals during the term of this Agreement or for so long as such individual or entity satisfies the definition of "Franchisee's principal" as described in Section 13.1(f), except as otherwise approved in writing by DDSI, neither Franchisee nor any of Franchisee's principals shall, either directly or indirectly, for themselves, or through, on behalf of, or in conjunction with any person, persons, partnership, or corporation:

(A) Divert or attempt to divert any business or customer of the business franchised hereunder to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with DDSI's Marks and the INTERIORS by Decorating Den System; or

(B) Own, maintain, operate, engage in, or have any interest in any business which is the same as or similar to the franchised business, including any home furnishing or interior decorating business.

(ii) With respect to Franchisee, for a continuous uninterrupted period commencing upon the expiration or termination of this Agreement and for two (2) years thereafter, or with respect to each of Franchisee's principals, for a continuous uninterrupted period commencing upon the earlier of: (i) the expiration or termination of this Agreement or (ii) the time such individual or entity ceases to satisfy the definition of "Franchisee's principal" as described in Section 13.1(f), and :

(A) For two (2) years thereafter, except as otherwise approved in writing by DDSI, neither Franchisee nor any of Franchisee's principals shall, either directly

or indirectly, for themselves, or through, on behalf of, or in conjunction with any person, persons, partnership, or corporation:

(1) divert or attempt to divert any business or customer of the business franchised hereunder to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the INTERIORS by Decorating Den System; or

(2) employ or seek to employ any person who is at that time employed by DDSI or Field Manager, or by any other Franchisee or Field Manager of DDSI, or otherwise directly or indirectly induce such person to leave his or her employment; or

(B) For two (2) years thereafter, except as otherwise approved in writing by DDSI, neither Franchisee nor any of Franchisee's principals shall, either directly or indirectly, for themselves, or through, on behalf of, or in conjunction with any person, partnership, LLC, or corporation, (i) own, maintain, operate, engage in, or have any interest in any business which is the same or similar to the franchised business, including any home furnishing or interior decorating business, which business is, or is intended to be, located or operated within fifty (50) miles of the Territory, or (ii) contact for business purposes or solicit home furnishing or interior decorating business from any person or firm that was a customer of Franchisee prior to the date of termination if such person or firm is located or is operating a business within fifty (50) miles of the Territory.

c. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section 6 is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an un-appealed final decision to which DDSI or Regional Director is a party, Franchisee and Franchisee's principals expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law as if the resulting covenant were separately stated in and made a part of this Section 6.

d. Franchisee and Franchisee's principals understand and acknowledge that DDSI shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in Section 6.2(b) of this Agreement, or any portion thereof, without their consent, effective immediately upon written notice to Franchisee; and Franchisee and Franchisee's principals agree that they shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section 13.7 hereof. Any reduction of scope or waiver of any covenant by DDSI in favor of another franchisee shall not affect the enforceability of such covenant with respect to Franchisee.

e. Franchisee and Franchisee's principals expressly agree that the existence of any claims they may have against DDSI or Regional Director, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by DDSI of the covenants in this Section 6. Franchisee and Franchisee's principals agree to pay all costs and expenses (including reasonable attorneys' fees) incurred by DDSI and/or Regional Director in connection with the enforcement of this Section 6.

f. Franchisee and Franchisee's principals acknowledge that a violation of the terms of this Section 6 would result in irreparable injury to DDSI and Regional Director for which no adequate remedy at law may be available, and Franchisee and Franchisee's principals accordingly consent to the issuance of an injunction prohibiting any conduct by Franchisee or any of Franchisee's principals in violation of the terms of this Section 6. Notwithstanding the foregoing, the provisions of this Section 6.2(f) shall not apply where prohibited by Franchisee's state law.

g. At DDSI's request, Franchisee shall require and obtain execution of covenants similar to those set forth in this Section 6 (including covenants applicable upon the termination of a person's employment with Franchisee) from its decorators, employees, assistants and manager, and any other person who has received or will receive training from DDSI. Such covenants shall be in the form required by DDSI in the Policy and Procedures Manual, or otherwise in writing. Failure by Franchisee to obtain execution of the covenants required by this Section 6.2(g) shall constitute a material event of default under Section 9 of this Agreement.

7. PAYMENTS, REPORTS, ACCOUNTING AND RECORDS

7.1 Reports.

a. Not later than 9:00 PM local time on the 15th and last days of each calendar month, Franchisee shall submit through DecoNet sales report(s) for all Gross Sales made by Franchisee during the preceding period (1st through the 15th day and 16th through the last day, as applicable) containing such information and in such format as DDSI shall specify, including without limitation the complete name, address and telephone number of each customer, broken down by major product categories. If Franchisee has no sales during the applicable period, Franchisee shall submit a No Sales report as provided for in DecoNet.

b. On the fifteenth day of each month, DDSI will invoice Franchisee electronically for Service Fees and NMF Fees due from Franchisee's sales made on the first through the fifteenth day of the month, and on the last day of the month DDSI will similarly invoice for sales made on the sixteenth through the last day of the month. Amounts thus invoiced are due within seven (7) business days. Unless other arrangements for payment are provided, DDSI will initiate a direct debit of Franchisee's bank account for such amounts on the due date, utilizing the Automated Clearing House (ACH) function. All bank charges for such electronic direct debit shall be borne by Franchisee. Franchisee shall concurrently with the execution of this Agreement, and from time to time thereafter upon request by DDSI, execute an appropriate authorization agreement for automatic payment to permit a bank designated by DDSI to initiate debit entries to, and to debit, the bank account designated by Franchisee. The current form of the Authorization Agreement for Automatic Payment is attached to this Agreement as Exhibit 3.

c. Failure to submit sales report(s) as required under Section 7.1a, or to make any payment of Service Fees or NMF Fees as required in Section 7.1.b., or to make payment of any other amount required to be made by Franchisee to DDSI or Regional Director shall be an event of default under the terms of this Agreement, and may subject this Agreement to termination for cause as hereinafter set forth. The term "business day" as used in this Agreement is defined as any day other than Saturday, Sunday or a national holiday.

d. Except as prohibited by applicable local, state or federal laws, any amounts paid to DDSI and/or Regional Director by or on behalf of Franchisee representing Service Fees, NMF Fees or other moneys may be applied by DDSI and/or Regional Director to any outstanding balance due for Franchisee's Service Fees, advertising or other payment obligation.

e. If any payment due under any provisions of this Agreement is not paid by Franchisee when such payment is due, or if any report due under any provision of this agreement is not submitted by Franchisee when due, thereby leading to non-payment by Franchisee of amounts which would have been due under any provision of this agreement had Franchisee submitted such report when due, which amounts shall be considered overdue amounts for purposes of this paragraph, then Franchisee shall pay DDSI or Regional Director, in addition to the overdue amount, interest on such amount from the date it was due until paid, at the rate of eighteen percent (18%) per annum, or the maximum rate permitted by law, whichever is less, as well as DDSI's or Regional Director's reasonable attorney's fees and court costs incurred in the collection of any payment or fee. Any failure to comply with the requirements of this Section 7.1(e) shall be a material event of default under Section 9. Entitlement to such interest shall be in addition to any other remedies DDSI or Regional Director may have at law or in equity, arising under this Agreement or otherwise.

f. Franchisee shall prepare and file with DDSI and/or Regional Director such other reports and compilations of information as set forth below or as DDSI or Regional Director shall require or as may be specified in the Policy and Procedure Manual or other written directions.

g. DDSI shall have the right from time to time to amend the payment processes and procedures by an appropriate amendment to the Policy and Procedure Manual.

7.2 Records and Books of Account.

a. Franchisee shall keep and preserve complete records of all advertising copy and expenses, customer leads, customer appointments, retail sales, supplier orders, installed and completed customer orders, cash receipts and disbursements, and other such records and books of account as necessary for the orderly operation of the business, and to do so in the manner specified by DDSI and Regional Director. Franchisee shall retain all such records and books of account for three (3) years from the assignment, termination, or expiration of this Agreement.

b. Upon request, Franchisee shall submit to DDSI or Regional Director as directed such standard reports as may be specified in the Policy and Procedure Manual, including, but not limited to:

- (i) Individual customer sales contracts,
- (ii) State sales tax returns and reports, and
- (iv) Register of appointments.

c. Franchisee shall adopt and use any computerized financial reporting system which DDSI in its discretion may uniformly require of all franchisees.

7.3 Right to Audit Franchisee's Records.

a. Franchisee shall allow DDSI's and Regional Director's representatives from time to time, at reasonable hours, to inspect Franchisee's systems and controls, advertising materials

and supplies, methods of production and sales, books of account, tax returns, and other business records to insure compliance with the terms and conditions of this Agreement.

b. Any inspection, examination or audit by DDSI or Regional Director of Franchisee's accounts, books, records or tax returns shall be at DDSI's or Regional Director's expense unless the same is necessitated by Franchisee's failure to prepare or forward required reports, or if an inspection discloses an understatement in any report or an underpayment of two percent (2%) or more. In either such event, Franchisee shall, in addition to repaying any unreported or understated amount, reimburse DDSI or Regional Director for any and all costs and expenses connected with the inspection, including, without limitation, travel, lodging, and wage expenses and reasonable accounting and legal costs. Interest at the rate of eighteen percent (18%) per annum shall accrue on any such understatement in any report or any underpayment. The foregoing remedies shall be in addition to any other remedies DDSI or Regional Director may have.

8. TRANSFERABILITY OF INTEREST

8.1 DDSI's and Regional Director's Right to Transfer.

This Agreement and all rights hereunder may be assigned and transferred by either DDSI, Regional Director, or both, and, if so, shall be binding upon and inure to the benefit of DDSI's or Regional Director's respective assignees. If a Field Manager has not been appointed at the time this Agreement is executed, DDSI expressly reserves the right to assign certain of its rights, duties, and obligations under this Agreement to a qualified third party appointed by DDSI and meeting DDSI's standards for Field Managers to serve as Field Manager for a region which includes the Territory. In the event of termination or expiration of the position of Regional Director, or any Regional Director which may be appointed in the future, this Agreement shall remain in full force and effect with DDSI fully assuming all of the rights, duties and obligations imposed hereunder on Regional Director.

8.2 Franchisee's Right to Transfer.

a. Franchisee understands and acknowledges that the rights and duties created by this Agreement are personal to Franchisee and that DDSI and Regional Director have entered into this Agreement with Franchisee in reliance upon the individual or collective character, skill, aptitude, attitude, business ability, and financial capacity of Franchisee. Accordingly, neither this Agreement nor any part of the INTERIORS by Decorating Den franchised business nor any interest therein granted pursuant to this Agreement, nor any interest in Franchisee, may be transferred without the prior written approval of DDSI and Regional Director, and any transfer without such approval shall constitute a material breach hereof and convey no rights to or interests in this Agreement, or in the INTERIORS by Decorating Den franchised business, or in Franchisee. Franchisee shall not have the right to sell and transfer less than the full franchise or designated territory to one purchaser.

b. As used in this Agreement, the term "transfer" shall mean and include the voluntary or involuntary, direct or indirect, assignment, sale, or other transfer by Franchisee of:

- (i) Any interest in this Agreement;
- (ii) The transfer of ownership of capital stock, LLC membership, or partnership interest in the franchised business;

- (iii) The merger or consolidation, or issuance of additional securities representing an ownership interest in the Franchisee;
- (iv) The sale of common stock of Franchisee pursuant to a private placement or registered public offering;
- (v) The transfer of an interest in Franchisee or the INTERIORS by Decorating Den Franchise granted pursuant hereto in a divorce proceeding or otherwise by operation of law;
- (vi) The transfer of an interest in Franchisee or the INTERIORS by Decorating Den Franchise granted pursuant hereto in the event of the permanent disability of Franchisee or an individual owner of Franchisee, or on the death of Franchisee or an individual owner of Franchisee, by will, declaration of transfer in trust, or under the laws of intestate succession;
- (vii) The transfer of the INTERIORS by Decorating Den franchised business or any interest therein, or the transfer of any significant assets of the business including, but not limited to, customer lists, telephone listings, telephone numbers, inventory, samples, the ColorVan[®] vehicle, books of accounts and records; or
- (viii) The encumbrance of any direct or indirect interest in this Agreement, in the franchised business or in Franchisee shall be deemed a transfer under the terms of this Agreement giving DDSI or Regional Director the right, but not the obligation, to take the place of Franchisee in relation to any secured party.

8.3 Approval Procedure.

a. If Franchisee is in full compliance with this Agreement, DDSI and Regional Director shall not unreasonably withhold approval of a proposed transfer that meets any or all of the applicable requirements of this Section 8.3. The proposed transferee must meet DDSI's and Regional Director's then applicable standards for franchisees, and the costs of providing up-to-date samples to the transferee, where necessary, shall be paid by Franchisee.

b. If the transfer is of a controlling interest (i.e., greater than fifty percent (50%)) in Franchisee, or is one of a series of transfers which, in the aggregate, constitute the transfer of a controlling interest in Franchisee, all of the following conditions must be met:

- (i) The transferee must have, in the opinion of DDSI and Regional Director, sufficient business experience, aptitude, and financial resources, and must have passed DDSI's aptitude test;
- (ii) Franchisee shall pay all Service Fees, NMF contributions, accounts payable, and other amounts owed to DDSI and Regional Director, and must not be in default of this Agreement or any other agreement between Franchisee and DDSI and/or Regional Director as of the proposed transfer date;
- (iii) The transferee acceptable to DDSI and Regional Director shall have successfully completed DDSI's basic training program;
- (iv) The transferee shall have acquired a ColorVan[®] vehicle that meets the then-current DDSI standards, as set forth in Section 5.6 of this Agreement;

(v) The transferee shall execute the then-current INTERIORS by Decorating Den Franchise Agreement and agree to be bound by all of its terms and conditions;

(vi) Except as set forth in Section 8.4, Franchisee or the transferee shall pay DDSI or Regional Director a transfer fee of Ten Thousand Dollars (\$10,000) to defray expenses incurred by DDSI and Regional Director in connection with the training provided to the transferee, and the transfer and administrative costs of the transfer; and, in addition, Franchisee shall pay DDSI or Regional Director a Resale Assistance Fee of \$7,500 to defray expenses incurred by DDSI and Regional Director in connection with promotion, advertising, and sales representation by a DDSI franchise sales person in connection with the transfer; provided that DDSI shall waive the Resale Assistance Fee where Franchisee undertakes its own advertising and sales representation, and develops its own prospective transferees in relation to the transfer;

(vii) Franchisee shall execute a general release, in a form satisfactory to DDSI and Regional Director, of any and all claims, known or unknown, against DDSI and Regional Director and their respective officers, directors, employees, agents, successors and assigns;

(viii) DDSI and Regional Director must approve the material terms and conditions of such transfer, including, without limitation, that the price and terms of payment are not so burdensome as to adversely affect the continuation of the INTERIORS by Decorating Den franchised business;

(ix) Franchisee shall execute a non-competition covenant in favor of Regional Director, DDSI, and the transferee, agreeing that for a period of not less than two (2) years, commencing on the effective date of the transfer, neither Franchisee nor any member of Franchisee's immediate family nor any partner(s), LLC member(s) or shareholder(s) of Franchisee shall have any direct or indirect interest as a disclosed or beneficial partner, LLC member, shareholder or franchisee in any home furnishing or interior decorating business within fifty (50) miles of the Territory;

(x) Franchisee shall enter into an agreement with DDSI and Regional Director providing that all obligations of the transferee to make installment payments of the purchase price of the franchised business or interest thereon to Franchisee shall be subordinate to the obligations of the transferee to pay Service Fees, NMF Fees, obligations for purchases and any other payments to DDSI or Regional Director; and

(xi) Franchisee shall give to DDSI or Regional Director all of Franchisee's sales contracts, customer lists, registers of appointments, and any other of Franchisee's business records which are required to be given to DDSI or Regional Director under the terms of Section 7.1.

8.4 Transfer to a Spouse or Child.

In the event of a transfer of a controlling interest in Franchisee, governed by the terms of Section 8.3(b), where the transferee is the spouse or child of Franchisee, the transfer fee set forth in Section 8.3(b)(vi) shall not be assessed.

8.5 Transfer Upon Death or Disability.

a. Upon the death of any person with an interest in this Agreement, the franchised business, or in Franchisee (the "Deceased"), the executor, administrator, or other personal representative of the Deceased shall transfer such interest to a third party approved by DDSI within twelve (12) months after the death. DDSI shall apply to such third party transfer the approval procedure conditions set forth in Section 8.3 of this Agreement. If no personal representative is designated or appointed or no probate proceedings are instituted with respect to the estate of the Deceased, then the distributee of such interest must be approved by DDSI. If the distributee is not approved by DDSI, then the distributee shall transfer such interest to a third party approved by DDSI within twelve (12) months after the death of the Deceased.

b. Upon the permanent disability of any person with an interest in this Agreement, the franchised business, or in Franchisee, DDSI may, in its sole discretion, require such interest to be transferred to a third party approved by DDSI within six (6) months after notice to Franchisee. DDSI shall apply to such third party transfer the approval procedure conditions set forth in Section 8.3 of this Agreement. "Permanent disability" shall mean any physical, emotional, or mental injury, illness, or incapacity which would prevent a person from performing the obligations set forth in this Agreement for at least ninety (90) consecutive days and from which condition recovery within ninety (90) days from the date of determination of disability is unlikely.

c. Upon the death or claim of permanent disability of any person with an interest in this Agreement, the franchised business, or in Franchisee, Franchisee or a representative of Franchisee must promptly notify DDSI of such death or claim of permanent disability. Any transfer upon death or permanent disability shall be subject to the same terms and conditions as described in this Section 8. If an interest in the Franchise is not transferred upon death or permanent disability as required in this Section 8.5 and in accordance with the terms and conditions of this Section 8, DDSI may terminate this Agreement pursuant to Section 9. DDSI and Regional Director shall have the right, but not the obligation, to appoint a temporary manager of the franchised business pending transfer to an approved transferee.

8.6 Relocation.

a. Franchisee may relocate the Franchise to any available location within the Region, without additional fee, only with the prior approval of DDSI and Regional Director, and only to an unassigned Territory. Franchisee must be in full compliance with this Agreement as a condition of relocation.

b. Franchisee may relocate the Franchise to any available location in a different Region, without additional fee, only with the prior approval of DDSI and both Regional Directors, and only to an unassigned territory.

8.7 Transfer for Convenience of Ownership.

In the event the proposed transfer is to a corporation or LLC formed solely for the convenience of ownership, DDSI's and Regional Director's consent may be conditioned upon any of the requirements set forth in Section 8.3, except that the requirements set forth in Section 8.3.b. shall not apply. Franchisee shall be the owner of all of the voting stock or interest of the corporation, and if Franchisee is more than one individual, each individual shall have the same proportionate ownership interest in the corporation or LLC as he/she had in Franchisee prior to

the transfer. Franchisee shall guaranty to DDSI and Regional Director the performance of the corporation or LLC.

9. TERMINATION

9.1 DDSI's and Regional Director's Right to Terminate.

a. Franchisee shall be deemed to be in default under this Agreement, and all rights granted to Franchisee hereunder shall terminate automatically without notice to Franchisee, upon the occurrence of any of the following events:

(i) Franchisee becomes insolvent, makes a general assignment for the benefit of creditors, or is adjudicated a bankrupt, unless otherwise restricted by the United States Bankruptcy Laws; or

(ii) A petition in bankruptcy for liquidation, reorganization, or other proceeding is filed by or against Franchisee; a receiver is appointed; a bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is allowed; or the real or personal property of the franchised business is attached or levied upon by any sheriff, marshal, or constable.

b. Franchisee shall be deemed to be in default under this Agreement and DDSI and Regional Director may, at their option, terminate this Agreement without affording Franchisee any opportunity to cure the default, effective immediately upon receipt of notice by Franchisee, upon the occurrence of any of the following events:

(i) Franchisee abandons or ceases actively to operate the franchised business, which is defined as three (3) consecutive months without Gross Sales, unless prior approval is obtained in writing from DDSI and Regional Director;

(ii) Franchisee or any of its principals, partners, officers or directors is convicted or pleads no contest to a felony or other crime or offense that DDSI believes is reasonably likely to have an adverse effect on the Marks, the goodwill associated therewith, or DDSI's interest therein;

(iii) Franchisee makes a material misrepresentation or omission relating to the acquisition of the Franchise, or Franchisee knowingly maintains false books or records, or submits any false report to DDSI or Regional Director;

(iv) Franchisee fails on three (3) or more occasions within any twelve (12) consecutive calendar months to comply with any material provisions of this Agreement, whether or not such failures to comply are cured after notice thereof to Franchisee;

(v) Franchisee purports to transfer any rights or obligations under this Agreement to a third party without prior written consent of DDSI and Regional Director, contrary to the terms of this Agreement;

(vi) Franchisee, its principals, officers, directors, shareholders, LLC members or partners, engage in any activity prejudicial to the INTERIORS by Decorating Den System or the goodwill represented by the Marks; or

(vii) Franchisee fails to achieve \$40,000 in Gross Sales in any calendar year.

c. Except as otherwise provided in this Section 9, Franchisee shall have thirty (30) days, or such longer period as applicable law may require, after receipt from DDSI or Regional Director of a written notice of default within which to remedy any default hereunder (or, if the default cannot reasonably be cured within thirty (30) days, to initiate within that time substantial and continuing action to cure the default), and to provide evidence thereof to DDSI or Regional Director. If any such default is not cured within that time (or, if appropriate, substantial and continuing action to cure the default is not initiated within that time), or such longer period as applicable law may require, this Agreement shall terminate without further notice to Franchisee effective immediately upon expiration of the thirty (30) day period or such longer period as applicable law may require. Franchisee shall be in default hereunder for any failure to comply substantially with any of the requirements imposed by this Agreement, as it may reasonably be supplemented by the Policy and Procedures Manual, or failure to carry out the terms of this Agreement in good faith. Such defaults shall include, without limitation, the occurrence of any of the following events:

- (i) Franchisee fails, refuses, or neglects to pay amounts due DDSI or Regional Director for Service Fees, NMF contributions, purchases made, or services provided under the terms of this Agreement or any other agreement between Franchisee and DDSI and/or Regional Director within five (5) business days of the due date thereof;
- (ii) Franchisee fails to submit on a timely basis or accurately report Gross Sales or to submit on a timely basis any other report required under this Agreement;
- (iii) Except as provided in Section 9.1(b), Franchisee fails to comply with any of the requirements imposed by this Agreement, the Policy and Procedures Manual, or fails to carry out the terms of this Agreement in good faith;
- (iv) Except as provided in Section 9.1(b), Franchisee fails to maintain or observe any of the standards or procedures prescribed by DDSI in this Agreement, the Policy and Procedure Manual, or otherwise in writing; or
- (v) Except as provided in Section 9.1.b.(v) hereof, Franchisee fails, refuses, or neglects to obtain DDSI's and Regional Director's prior written approval or consent as required by this Agreement.

9.2 Voluntary Termination by Franchisee.

Franchisee may voluntarily terminate this Agreement at any time, upon written notice to DDSI and Regional Director. All reports required to have been filed and all sums of money due and owing to DDSI and/or Regional Director under the terms of this Agreement or any other agreement between Franchisee and DDSI and/or Regional Director must be filed and paid at the time of termination. Franchisee shall execute a general release, in a form satisfactory to DDSI and Regional Director, of any and all claims, known or unknown, against DDSI and Regional Director and their officers, directors, employees, agents, successors and assigns.

9.3 Non-Operating Status.

Upon approval by DDSI and the Regional Director, Franchisee may elect to place its franchise on a "non-operating" status if Franchisee is in good standing. The purpose of the non-operating status is to place the franchise completely out of business, not merely operating at a reduced level, and any business conducted by Franchisee while on non-operating status, without prior written approval by DDSI and Regional Director, would constitute a violation of this

Agreement. The non-operating status allows Franchisee to take a leave of absence from operating the franchise business for three (3) years. Under this status, this Agreement remains intact, but the Franchisee does not retain the rights to the Territory. At any time during the three (3) year period, Franchisee may elect to become a decorator for another Decorating Den franchise owner. While on non-operating status, Franchisee is not required to pay monthly minimum NMF Fees.

Franchisee may return to its business at any time within the three (3) year period. If Franchisee does return to its business, if the Territory is still available, the Territory may be re-assigned to Franchisee by DDSI or the Regional Director if the parties mutually agree. If the Territory is not available, Franchisee will be assigned another Territory, as determined in the sole discretion of DDSI or Regional Director. If Franchisee does not return to the business by the end of the three (3) years, this Agreement will automatically be terminated without notification. DDSI reserves the right to withdraw this non-operating status at any time at its sole discretion. While Franchisee is on "non-operating" status, this Agreement and the franchise may not be transferred, sold or inherited.

10. RIGHTS AND DUTIES OF PARTIES UPON EXPIRATION, TERMINATION OR NON-RENEWAL

Upon assignment, expiration, or termination of this Agreement, and regardless of any dispute which may exist between the parties, Franchisee shall:

a. Immediately cease using and thereafter abstain from using all of the Marks, as well as all signs, structures, vehicles, and forms of advertising indicative of DDSI or the business or products thereof, and make or cause to be made such changes in signs, buildings, vehicles and structures as DDSI and Field Manager shall reasonably direct so as effectively to distinguish them from their former appearance and from any other aspect of the franchised business. Further, Franchisee shall release to DDSI or Field Manager all telephone numbers used in directory listings and advertising in which any of the Marks are used. If Franchisee shall fail or omit to take such actions or cause them to be taken, then Field Manager and DDSI shall have the right but not the obligation to enter upon the premises without being deemed liable for trespass or any other tort, and shall have the right to make such changes or cause them to be made at the expense of Franchisee, which expense Franchisee shall pay on demand. Franchisee agrees to reimburse Field Manager and DDSI for all costs, expenses and legal fees incurred by Field Manager and DDSI to require Franchisee to cease using such Marks, names, vehicles, telephone numbers, signs, stationery, advertising, or other means of identification indicative of INTERIORS by Decorating Den. The provisions of this Section 10.a. shall survive after expiration or termination of this Agreement.

b. Within ten (10) days, ship all samples, advertising pieces and manuals bearing the names, "Decorating Den," "INTERIORS by Decorating Den", or any other of the Marks, including the Policy and Procedures Manual (all of which are acknowledged to be DDSI's property), postage prepaid, to an address designated by DDSI.

c. Immediately pay to DDSI or Regional Director such Initial Franchise Fee, Service Fees, NMF Fees, amounts owed for purchases by Franchisee, interest due on any of the foregoing, and all other amounts which are then unpaid, under the terms of this Agreement or

any other agreement between Franchisee and DDSI and/or Regional Director, their subsidiaries and affiliates.

d. Within ten (10) days, deliver to DDSI or Field Manager all of Franchisee's sales contracts, customer lists, registers of appointments, and any other of Franchisee's business records which are required to be given to DDSI or Field Manager under the terms of Section 7.1.

e. Franchisee and Franchisee's principals shall comply with the restrictions on confidential information contained in Section 6.1 and the covenants contained in Section 6.2 of this Agreement. Any other person required to execute similar covenants pursuant to Sections 6.1 or 6.2 shall also comply with such covenants.

f. Franchisee shall execute a general release, in a form satisfactory to DDSI and Regional Director, of any and all claims, known or unknown, against DDSI and Regional Director and their officers, directors, employees, agents, successors and assigns.

11. INDEPENDENT CONTRACTOR AND INDEMNIFICATION

a. It is understood and agreed by the parties that (i) this Agreement does not create a fiduciary relationship between them; (ii) Franchisee shall at all times be an independent contractor; and, (iii) nothing in this Agreement is intended to constitute any party an agent, legal representative, subsidiary, joint venturer, partner, employee, employer, joint employer, or servant of the other for any purpose whatsoever.

b. During the term of this Agreement, Franchisee shall hold itself out to the public as an independent contractor operating the business pursuant to a franchise from DDSI. Franchisee agrees to take such action as shall be necessary to that end, including, without limitation, exhibiting a notice of that fact in any advertising, stationery or other public notices, the content and form of which DDSI reserves the right to specify in the Policy and Procedures Manual or otherwise in writing.

c. Franchisee and Franchisee's principals understand and agree that nothing in this Agreement authorizes Franchisee or Franchisee's principals to make any contract, agreement, warranty, or representation on DDSI's behalf, or to incur any debt or other obligation in DDSI's name; and that DDSI shall in no event assume liability for, or be deemed liable hereunder as a result of, any such action; nor shall DDSI be deemed liable by reason of any act or omission of Franchisee or Franchisee's principals in the conduct of the franchised business or for any claim or judgment arising therefrom.

d. Franchisee and each of Franchisee's principals shall, at all times, indemnify and hold harmless to the fullest extent permitted by law DDSI, Regional Director, their respective subsidiaries, affiliates, successors and assigns, directors, officers, shareholders, LLC members, partners, employees, agents, and representatives from all losses and expenses (as defined in Section 11.e., below) incurred in connection with any action, suit, proceeding, claim, demand, investigation or inquiry (formal or informal), or any settlement thereof (whether or not a formal proceeding or action has been instituted) which arises out of or is based upon any acts, errors, or omissions of Franchisee, any of Franchisee's subsidiaries and affiliates, and any partners, agents, servants, employees, and representatives of Franchisee and its subsidiaries and affiliates, in connection with the establishment and operation of the franchised business.

e. As used in this Agreement, the phrase "losses and expenses" shall include, without limitation, all losses, compensatory, exemplary or punitive damages, fines, charges,

costs, expenses, lost profits, attorney's fees, court costs, settlement amounts, judgments, compensation for damages to DDSI's reputation and goodwill, costs of or resulting from delays, financing, costs of advertising material and media time/space, and costs of changing, substituting or replacing the same, and any and all expenses of recall, refunds, compensation, public notices and other such amounts incurred in connection with the matters described.

12. MEDIATION & ARBITRATION

12.1 Mediation. Prior to the initiation of arbitration in connection with any dispute, controversy or claim arising under the terms of this Agreement, including any claim that this Agreement or any part thereof is invalid, illegal or otherwise void or voidable, and excepting disputes involving the Marks, telephone numbers or non-competition, either party must submit any dispute arising under the terms of this Agreement or any dispute arising as to the way in which this Agreement was entered into, offered, accepted, or negotiated, to non-binding mediation before the American Arbitration Association or a similar organization. Such mediation shall be conducted in Easton, Maryland. If submitted to mediation by either party, a confidentiality agreement respecting the mediation proceedings will be executed by both parties, and the cost of such mediation shall be borne equally by both parties.

12.2 Arbitration. Any controversy or claim arising from or relating to this Agreement, the circumstances surrounding the execution of this Agreement, or the breach thereof, except as stated below, shall be submitted to binding arbitration in accordance with the Rules of the American Arbitration Association ("AAA") then in effect. The decision of the arbitrator shall, except for mistakes of law, be final and binding upon the parties hereto, and judgment upon the award rendered by the arbitrator, which will, in the case of damages, be limited to actual damages proven in the arbitration, may be entered in any court having jurisdiction. Each party to the arbitration will be responsible for their own filing fees, attorney's fees, and their share of AAA administrative fees, provided that the arbitrator may allocate any such amounts in the award.

There will be a single arbitrator who shall be an existing or former judge of a court of record within the United States or an attorney in good standing admitted to practice for a period of at least ten (10) years within the United States. No arbitration will involve parties other than the parties hereto and their respective successors and assigns or be in any respect binding with respect to any such other parties. This, however, does not relate to witness or counsel used in proceeding. The site of the arbitration will be the AAA's Washington, D.C. offices.

The arbitrator will have no power or authority to diminish DDSI's exclusive right and interest in the Marks and trade secrets or to vary the terms, conditions or payments which DDSI has designated for licensing one or more of the same. A party wishing to proceed through an action, suit, or proceeding with respect to DDSI Marks may do so without limitation, protecting any of the same against infringements and recovering compensation or damages for their use. The prevailing party in any such legal action will be entitled to be compensated for its attorney's fees, court costs and other reasonable expenses.

The parties hereto recognize, and any mediator or judge is affirmatively advised, that certain provisions of this Agreement describe the right of DDSI or Regional Director to take (or refrain from taking) certain actions in the exercise of its Reasonable Business Judgment based on its assessment of the overall best interests of the INTERIORS by Decorating Den System. Where such discretion has been exercised, and is supported by the

Reasonable Business Judgment of DDSI or Regional Director, neither a mediator nor a judge shall substitute his or her judgment for the judgment so exercised by DDSI or Regional Director.

Either party to this Agreement failing to adhere to the agreed upon dispute resolution remedies in the sequence herein provided shall reimburse the non-violating party its court costs, attorney's fees and other legal expenses reasonably incurred in the enforcement of the following of these dispute resolution remedies.

12.3 Civil Action. Notwithstanding Subsections 12.1 and 12.2 above, DDSI and Regional Director each reserves the right to commence a civil action or take other appropriate action to: (i) collect Service Fees, NMF Fees and other payments due to DDSI and Regional Director; (ii) compel Franchisee to comply with trademark standards and requirements to protect the goodwill of the Trademarks; (iii) compel Franchisee to compile and submit required reports to DDSI or Regional Director; or (iv) conduct audits authorized by this Agreement. Franchisee will pay the costs and legal fees of DDSI and/or Regional Director if such party prevails in such action.

12.4 No Punitive or Exemplary Damages. No punitive or exemplary damages shall be awarded against either DDSI or Regional Director or Franchisee, or any affiliates of any of them, in any proceeding arising under Section 12.2 hereof, and all claims to punitive or exemplary damages are hereby waived by both parties.

13. MISCELLANEOUS

13.1 Severability and Construction.

a. Except as expressly provided to the contrary herein, each section, part, term, and/or provision of this Agreement shall be considered severable; and if, for any reason, any section, part, term and/or provision herein is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation by a court or agency having valid jurisdiction, that determination shall not impair the operation of, or have any other effect upon, such other sections, parts, terms and/or provisions of this Agreement as may remain otherwise valid; and the latter shall continue to be given full force and effect and bind the parties hereto; and said invalid portions, sections, parts, terms and/or provisions shall be deemed not to be part of this Agreement.

b. Except as expressly provided to the contrary herein, nothing in this Agreement is intended, or shall be deemed, to confer upon any person or entity other than Franchisee, DDSI, Regional Director, their officers, directors, and personnel, and such of Franchisee's, DDSI's and Regional Director's respective successors and assigns as may be contemplated (and, as to Franchisee, authorized) by Section 8 hereof, any rights or remedies under or by reason of this Agreement.

c. Franchisee and Franchisee's principals expressly agree to be bound by any promise or covenant imposing the maximum duty permitted by law which is subsumed within the terms of any provision hereof, as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions hereof any portion or portions which a court may hold to be unreasonable and unenforceable in a final decision to which DDSI or Regional Director is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order.

d. All captions in this Agreement are intended solely for the convenience of reference, and shall not be deemed to affect the meaning or construction of any provision in this Agreement.

e. All references herein to the masculine, neuter, or singular shall be construed to include the masculine, feminine, neuter, or plural, where applicable. Without limiting the obligations individually undertaken by Franchisee's principals hereunder, all acknowledgments, promises, covenants, agreements, and obligations herein made or undertaken by Franchisee shall be deemed jointly and severally undertaken by all of Franchisee's principals.

f. The term "Franchisee's principal(s)" as used in this Agreement is defined in the following manner. If the Franchisee is a corporation, limited partnership or limited liability company, then any person owning 10% or more of the outstanding and issued common stock, limited partnership interest or limited liability company interest is a Franchisee principal, and must personally guarantee the corporation's or limited partnership's performance of this Agreement. If the Franchisee is a general partnership, then each partner is a Franchisee principal, and must sign this Agreement and the personal guarantee form.

g. This Agreement may be executed in counterparts, and each copy so executed shall be deemed an original.

13.2 Effect of Waivers.

Time is of the essence of this Agreement. No waiver by DDSI and/or Regional Director of any default in performance on the part of Franchisee or waiver of a breach of this Agreement shall constitute a waiver of any subsequent breach.

13.3 Remedies.

In the event it becomes necessary for DDSI or Regional Director to institute against Franchisee any action at law, in equity, or in arbitration (or to counterclaim in these proceedings) to secure or protect DDSI's or Regional Director's rights under this Agreement, DDSI and Regional Director shall be entitled to recover as part of any judgment entered therein in their favor reasonable costs of collection, including, but not limited to, legal fees, court costs, arbitration fees, and damages.

13.4 Notices.

Any notice required or permitted to be given hereunder shall be in writing and may be given by personal service or by depositing a copy thereof in United States certified or registered mail, with postage thereon fully prepaid, or by expedited ("express") mail, or by hand delivery, addressed to DDSI, Regional Director or Franchisee, as the case may be, at the addresses that appear on the Signature Page of this Agreement. The addresses hereby given for the service of notice may be changed at any time by any party through written notice given to the other(s) as herein provided.

13.5 Benefit and Burden.

This Agreement shall bind and inure to the benefit of the parties hereto and their respective heirs, administrators, successors and assigns (if permitted pursuant to Section 8).

13.6 MARYLAND LAW.

THIS AGREEMENT IS EXECUTED IN THE STATE OF MARYLAND AND SHALL BE CONSTRUED AND GOVERNED, AS TO FORM, SUBSTANCE, PROCEDURE, RIGHTS, AND REMEDIES, SOLELY BY THE LAWS OF MARYLAND. DDSI, REGIONAL DIRECTOR, AND FRANCHISEE HEREBY SUBMIT TO THE JURISDICTION AND VENUE OF ALL COURTS LOCATED WITHIN TALBOT COUNTY, MARYLAND FOR ALL MATTERS NOT SUBJECT TO ARBITRATION IN ACCORDANCE WITH SECTION 12. THIS SECTION 13.6 SHALL NOT APPLY WHERE PROHIBITED BY THE LAWS OF FRANCHISEE'S STATE.

13.7 Entire Agreement.

This Agreement, the exhibits attached hereto, and the documents referred to herein, shall be construed together and constitute the entire, full and complete agreement between and among DDSI, Regional Director, and Franchisee concerning the subject matter hereof, and it shall supersede any and all prior and existing agreements, either oral or in writing, between or among the parties hereto with respect to the subject matter hereof. There are no representations, inducements, promises, or agreements, oral or otherwise, between or among the parties not embodied herein, that are of any force or effect with reference to this Agreement or otherwise. No amendment, change or variance from this Agreement shall be binding on any party unless set forth in writing and executed by all parties. This Agreement shall not be effective until an authorized officer of DDSI signs it.

14. ACKNOWLEDGMENTS Franchisee hereby acknowledges the following:

(a) FRANCHISEE HAS CONDUCTED AN INDEPENDENT INVESTIGATION OF THE BUSINESS CONTEMPLATED BY THIS AGREEMENT AND UNDERSTANDS AND ACKNOWLEDGES THAT THE BUSINESS CONTEMPLATED BY THIS AGREEMENT INVOLVES BUSINESS RISKS MAKING THE SUCCESS OF THE VENTURE LARGELY DEPENDENT UPON THE BUSINESS ABILITIES AND PARTICIPATION OF FRANCHISEE AND ITS EFFORTS AS AN INDEPENDENT BUSINESS OPERATOR. FRANCHISEE AGREES THAT NO CLAIMS OF SUCCESS OR FAILURE HAVE BEEN MADE TO IT PRIOR TO SIGNING THIS AGREEMENT; AND THAT IT UNDERTAKES ALL THE TERMS AND CONDITIONS OF THIS AGREEMENT. THIS AGREEMENT CONTAINS ALL ORAL AND WRITTEN AGREEMENTS, REPRESENTATIONS AND ARRANGEMENTS BETWEEN THE PARTIES HERETO, AND ANY RIGHTS WHICH THE RESPECTIVE PARTIES HERETO MAY HAVE HAD UNDER ANY OTHER PREVIOUS CONTRACTS ARE HEREBY CANCELED AND TERMINATED, AND NO REPRESENTATIONS OR WARRANTIES ARE MADE OR IMPLIED, EXCEPT AS SPECIFICALLY SET FORTH HEREIN. THIS AGREEMENT CANNOT BE CHANGED OR TERMINATED ORALLY WITHOUT LIMITING THE FOREGOING. FRANCHISOR EXPRESSLY DISCLAIMS THE MAKING OF, AND FRANCHISEE ACKNOWLEDGES THAT IT HAS NOT RECEIVED OR RELIED UPON ANY WARRANTY OR GUARANTEE, EXPRESS OR IMPLIED, AS TO THE POTENTIAL VOLUME, PROFITS OR SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT, OR AS TO THE SUITABILITY OF THE TERRITORY AS A SUCCESSFUL LOCATION FOR THE FRANCHISED BUSINESS.

Initial

(b) FRANCHISEE HAS NO KNOWLEDGE OF ANY REPRESENTATIONS BY FRANCHISOR OR ITS OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES, AGENTS OR SERVANTS, ABOUT THE BUSINESS CONTEMPLATED BY THIS AGREEMENT THAT ARE CONTRARY TO THE TERMS OF THIS AGREEMENT OR THE DOCUMENTS INCORPORATED HEREIN. FRANCHISEE REPRESENTS, AS AN INDUCEMENT TO FRANCHISOR'S ENTRY INTO THIS AGREEMENT, THAT IT HAS MADE NO MISREPRESENTATIONS IN OBTAINING THIS AGREEMENT.

Initial

(c) FRANCHISEE ACKNOWLEDGES THAT FRANCHISOR'S APPROVAL OR ACCEPTANCE OF FRANCHISEE PREMISES DOES NOT CONSTITUTE RECOMMENDATION OR ENDORSEMENT OF THE LOCATION, NOR ANY ASSURANCE BY FRANCHISOR THAT THE OPERATIONS OF A FRANCHISED BUSINESS IN THE TERRITORY WILL BE SUCCESSFUL OR PROFITABLE.

Initial

(d) FRANCHISEE ACKNOWLEDGES THAT FRANCHISOR OR ITS AGENT HAS PROVIDED FRANCHISEE WITH A FRANCHISE OFFERING CIRCULAR NOT LATER THAN THE EARLIER OF THE FIRST PERSONAL MEETING HELD TO DISCUSS THE SALE OF A FRANCHISE, TEN (10) BUSINESS DAYS BEFORE THE EXECUTION OF THIS AGREEMENT, OR TEN (10) BUSINESS DAYS BEFORE ANY PAYMENT OF ANY CONSIDERATION. FRANCHISEE FURTHER ACKNOWLEDGES THAT FRANCHISEE HAS READ SUCH FRANCHISE OFFERING CIRCULAR AND UNDERSTANDS ITS CONTENTS.

Initial

(e) FRANCHISE OWNER ACKNOWLEDGES THAT FRANCHISOR HAS PROVIDED FRANCHISEE WITH A COPY OF THIS AGREEMENT AND ALL RELATED DOCUMENTS, FULLY COMPLETED, AT LEAST FIVE (5) BUSINESS DAYS PRIOR TO FRANCHISEE'S EXECUTION HEREOF.

Initial

(f) FRANCHISEE ACKNOWLEDGES THAT IT HAS HAD AMPLE OPPORTUNITY TO CONSULT WITH ITS OWN ATTORNEYS, ACCOUNTANTS AND OTHER ADVISORS.

Initial

(g) FRANCHISEE, TOGETHER WITH ITS ADVISERS, HAS SUFFICIENT KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS TO MAKE AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE FRANCHISE.

Initial

(h) FRANCHISEE IS AWARE OF THE FACT THAT OTHER PRESENT OR FUTURE FRANCHISEES OF FRANCHISOR MAY OPERATE UNDER DIFFERENT FORMS OF AGREEMENT(S), AND CONSEQUENTLY THAT FRANCHISOR'S OBLIGATIONS AND RIGHTS WITH RESPECT TO ITS VARIOUS DEVELOPERS AND FRANCHISEE'S MAY DIFFER MATERIALLY.

Initial

(i) FRANCHISEE ACKNOWLEDGES THAT THIS INSTRUMENT CONSTITUTES THE ENTIRE AGREEMENT OF THE PARTIES. THIS AGREEMENT TERMINATES AND SUPERSEDES ANY PRIOR AGREEMENT BETWEEN THE PARTIES CONCERNING THE SAME SUBJECT MATTER.

Initial

SIGNATURE PAGE

Franchisee Name(s): _____

Franchisee Address: _____

Telephone: _____ **Fax:** _____

E-Mail: _____

Territory Description: State of _____

Date of Execution of this Agreement by Franchisee: _____, 20____

DECORATING DEN SYSTEMS, INC.
8659 Commerce Drive
Easton, MD 21601

FRANCHISEE

[Print Name]

By: _____

[Signature]

Name:

Title:

[Print Name]

REGIONAL DIRECTOR

Region Number: _____

[Signature]

By _____

Name:

Title:

SIGNATURE PAGE
(Corporation or LLC)

Franchisee Name: _____

Franchisee Address: _____

Telephone: _____

Fax: _____

E-Mail: _____

Territory Description: State of _____

Date of Execution of this Franchise Agreement by Franchisee: _____, 20__

DECORATING DEN SYSTEMS, INC.
8659 Commerce Drive
Easton, MD 21601

FRANCHISEE

[Print Name of Corp or LLC]

By: _____

Name:
Title:

By _____

Print Name:
Print Title:

By _____

Print Name:
Print Title:

REGIONAL DIRECTOR
Region Number: _____

By _____

The above Franchisee is a:

- Corporation
- LLC

Formed under laws of _____
[State]

The following person is authorized
to act on behalf of the Franchise in
all matters:

[Print Name]

CERTIFICATION AND GUARANTY

The undersigned hereby certify that _____ ("Franchisee") is a corporation, limited partnership, limited liability company or partnership duly organized, validly existing and in good standing under the laws of the State of _____. Franchisee has executed and desires to enter into a Decorating Den Systems, Inc. Franchise Agreement, dated _____ (the "Franchise Agreement"). The person who signed the Franchise Agreement is a duly elected officer or partner of Franchisee with full power and authority to execute and deliver the Franchise Agreement on behalf of Franchisee.

The undersigned hereby represent and warrant that they are either (i) each holders of the 10% or more of the issued and outstanding capital stock of, or 10% or more of the limited partnership interest or limited liability company interest of the Franchisee, and that they constitute all of the persons holding such percentage interest therein, or (ii) the owners of all of the partnership interests in, the Franchisee.

In consideration of, and as an inducement to, Decorating Den Systems, Inc. ("DDSI") and Regional Director (if applicable) entering into the Franchise Agreement, the undersigned hereby, jointly and severally, (1) irrevocably and unconditionally guaranty the full and timely performance by the Franchisee of each and every payment, covenant, obligation, agreement, undertaking and duty of the Franchisee under the terms of the Franchise Agreement, (2) authorize DDSI to renew, amend and otherwise deal with the Franchise Agreement and Franchisee without notice to the undersigned, (3) waive any right to require DDSI to proceed against or exhaust any remedy against Franchisee, and agree that DDSI shall have the right to proceed directly against the undersigned under this Guaranty, and (4) waives all notices whatsoever, including without limitation those provided for under the Uniform Commercial Code. DDSI shall have the right to assign this Guaranty and the Franchise Agreement without the consent of or notice to the undersigned. DDSI shall be entitled to receive from the undersigned all costs and expenses, including reasonable attorneys fees, incurred to enforce its rights and pursue its remedies under this Guaranty.

This Guaranty shall be binding upon and inure to the benefit of the undersigned and DDSI and their respective heirs, administrators, successors and assigns.

DATED this _____ day of _____, 20_____.

Individually

Individually

Exhibit 3 to Franchise Agreement



INTERIORS
by Decorating Den

Authorization Agreement For Automatic Payment

I, _____, hereby authorize (1) Decorating Den Systems, Inc. ("DDSI") to initiate debit entries to my Checking Savings account indicated below, and (2) the depository named below ("Depository") to debit the same such account.

Amount: Service Fees and National Marketing Fund Payment Total calculated in accordance with my Franchise Agreement

Debit Date: Seven (7) business days after the applicable Cut Off Date (i.e. the 15th Day and Last Day of each month)

Bank Name: _____

_____ City State

Banking Transit/ABA No.: _____ (See Attached Instructions)
(always nine digits)

Account No.: _____

ATTACH TO THIS FORM A VOIDED CHECK IF CHECKING ACCOUNT DEBIT OR A SAVINGS DEPOSIT TICKET IF SAVINGS ACCOUNT DEBIT. (Please note: Savings deposit ticket may not include DEPOSITORY bank's transit/ABA number)

This authorization is to remain in full force and effect until DDSI has received written notification from me of it's termination in such time and in such manner as to afford DDSI a reasonable opportunity to act on it.

Authorized Signature for Above Account Printed Name Date

Authorized Signature for Above Account Printed Name Date
(If second signature is required)

Franchise Number: _____



RELEASE

(Voluntary Termination)

THIS RELEASE is made by and among the undersigned **INTERIORS by Decorating Den Franchise Owner(s)** (if more than one person, jointly and severally, "Franchise Owner"), **Decorating Den Systems, Inc.**, a Missouri corporation ("DDSI") and the **Regional Director or Regional Manager** identified below, if any.

Franchise Owner is a party to a INTERIORS by Decorating Den Franchise Agreement (the "Franchise Agreement"), and has requested the consent of DDSI and Regional Director to a voluntary termination of the franchise in accordance with the applicable provisions of the Franchise Agreement. By execution below Franchise Owner represents and warrants that Franchise Owner has complied with all material provisions of the Franchise Agreement, including without limitation reporting and payment Gross Sales and NMF.

NOW, THEREFORE, CONSIDERATION of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged

- Franchise Owner, individually and on behalf of his, her or their heirs, administrators, successors and assigns, irrevocably releases and forever discharges DDSI and Regional Director/Regional Manager, and each of them, and their respective shareholders, directors, officers, employees, agents, successors and assigns, of and from any and all claims, demands, causes of action, damages, costs, expenses, attorneys fees and obligations of any nature whatsoever, known or unknown, in law or in equity, which they ever had, now have or may hereafter have arising out of or in any way connected with any matters or events occurring on or before the date of this Release, including without limitation the Franchise Agreement and the franchise relationship among the parties.
- DDSI and Regional Director/Regional Manager, and each of them, irrevocably releases and forever discharges Franchise Owner, individually and on behalf of his, her or their heirs, administrators, successors and assigns, of and from any and all claims, demands, causes of action, damages, costs, expenses, attorneys fees and obligations of any nature whatsoever, known or unknown, in law or in equity, which they ever had, now have or may hereafter have arising out of or in any way connected with any matters or events occurring on or before the date of this Release, including without limitation the Franchise Agreement and the franchise relationship among the parties, ***EXCEPT*** (i) Section 6 (Covenants – Confidential Information and Covenant Not To Compete), (ii) Section 10 (Rights and Duties of Parties Upon Expiration, Termination or Non-Renewal), and (iii) Section 12 (Mediation and Arbitration).



This Release shall be governed and construed in accordance with the laws of the State of Maryland.

THE FRANCHISE OWNER(S) REPRESENTS AND AGREES THAT SHE, HE OR THEY HAS (OR HAVE EACH) CAREFULLY READ THIS RELEASE AND KNOWS AND UNDERSTANDS THE CONTENTS OF IT, AND HAS OR HAVE FREELY EXECUTED IT.

DATED this _____ day of _____, 20__.

Franchise Owner Signature

Franchise Owner Signature

Franchise Owner Print Name

Franchise Owner Print Name

***Regional Director or
Regional Manager***

Print Name

Signature

Decorating Den Systems, Inc.

By: _____

Name:

Title: