

<u>Entity Type</u>	<u>Name</u>	<u>Percentage of Ownership</u>
(ii)	At all times during the term of this Agreement, the equity owner(s) of at least fifty-one percent (51%) of the voting stock of a corporation franchisee or the general partner of a limited partnership or the general manager of a corporation or limited partnership, or the members of a limited liability company shall have attended and successfully completed the training as stated in Paragraph 7(b) hereof.	
(iii)	_____ is designated as General Manager and shall have full operational control of the salons unless and until a successor General Manager is approved by Franchisor. Any General Manager shall have attended and successfully completed the training as stated in Paragraph 7(b) hereof.	
(iv)	The ownership of a corporate or limited liability company Franchisee or limited partnership will continue to be in the percentages set forth hereinabove unless approved by Franchisor.	

3. LICENSED PREMISES

Franchisee's right and license to use said trade name and trademark and to operate under the HAPPY NAILS AND SPA system shall be limited exclusively to _____ (the "licensed premises"). In the event the location of the licensed premises has not been selected and approved as of the effective date of this Agreement, then the parties shall, when it has been selected and approved, describe it in an exhibit which they shall initial, date and annex to this Agreement as Exhibit "A". When annexed hereto, said Exhibit shall be incorporated into this Agreement by this reference as though set forth herein in full.

So long as Franchisee is not in breach of its obligations contained in this Agreement or any other agreement with Franchisor, Franchisor agrees not to open or franchise a HAPPY NAILS AND SPA salons nearer than one-half (1/2) mile from the licensed premises nor nearer than one (1) mile from the licensed premises where the new salons would be on the same street, boulevard or highway.

4. TERM

The term of this Agreement shall be for a period of ten years. The term shall commence on the date this Agreement is executed between Franchisor and Franchisee and shall terminate five years thereafter. Renewal of the franchise term is at Franchisor's discretion and Franchisee must be in good standing.

5. INITIAL FRANCHISE FEE

In addition to the franchise service fee stated hereinafter, Franchisee agrees to pay to Franchisor as consideration for the franchise granted the sum of TWENTY FIVE THOUSAND DOLLARS (\$25,000) payable in the following manner:

- (a) By payment of TEN THOUSAND DOLLARS (\$10,000), in cash upon execution hereof, and the balance of FIFTEEN THOUSAND DOLLARS (\$15,000) payable upon signing of the lease or sub-lease for the location as the case may be.
- (b) The amounts paid pursuant to paragraph (a) above are fully earned and non-refundable upon payment.

Franchisee acknowledges that the grant of the franchise constitutes the sole consideration for the payment of the franchise fee and that said sum shall be fully earned by Franchisor upon execution and delivery hereof. In the event a promissory note or other evidence of indebtedness is accepted by Franchisor as partial payment, then the prompt and faithful discharge of such obligation shall be a material consideration for Franchisor's entering into this agreement. Failure of Franchisee to pay such obligation on its due date shall constitute a material default of this agreement and Franchisor shall not be obliged to give notice of such default, anything in Paragraph 17 hereof to the contrary notwithstanding.

6. FRANCHISE SERVICE FEE

Franchisee shall pay to Franchisor on or before the fifth (5th) day of each month during the term of this Agreement a monthly franchise service fee of _____ () during the first year of this Agreement. Such fee shall increase on each anniversary date of this Agreement by \$_____ per month and such additional service fee shall be paid during the ensuing year on the fifth day of each month. If this agreement commences on a date other than the first day of the month, then the first month's service fee shall be pro-rated for the first month.

Franchisee further agrees to record in writing all gross sales made on the licensed premises and to furnish Franchisor a statement thereof upon Franchisor's request for the entire month's sales including a tabulation of the cash register's tape totals certified to be true and accurate by Franchisee. In addition to the above referred to statement, Franchisee agrees to provide all other financial information that may be requested by Franchisor regularly or from time to time in connection with the operations conducted on said premises in the form, at the times and in the manner that may be required by Franchisor. Franchisee further agrees to keep all such records, statements, and forms pertaining to sales made on the licensed premises in good order for a period of three (3) years and will make such records available to the representative and officers of Franchisor for their inspection at reasonable times and in a reasonable manner.

7. SERVICES BY FRANCHISOR

Franchisor shall make available to Franchisee the following:

- (a) Drawings and specifications for for signs and other approved displays and uses of the HAPPY NAILS and HAPPY NAILS AND SPA trade name for the fee of \$750.00. Drawings and specifications for construction of a salon upon the licensed premises and for furnishing and equipping such premises shall be provided to Franchisee upon request by Franchisee. The costs of all design, drawings and specifications as well as any other development on construction costs shall be sole responsibility of Franchisee.
- (b) Initial 8-hour-mandatory training in managerial and operational aspects of HAPPY NAILS AND SPA salons. Franchisee agrees to attend and successfully complete such initial training. The cost of such training shall be from \$500-\$1,000 per manager at the discretion of the franchisor.
- (c) A confidential business policies and operations data instruction manual (hereinafter collectively called the "manual") a copy of which is (or will be) delivered and loaned to Franchisee for the term hereof.
- (d) Training seminars and meetings for continued training in the operational aspects of the HAPPY NAILS AND SPA salons and such training of Franchisee as may appear appropriate to Franchisor. Franchisee agrees to attend and successfully complete any training program that may be arranged by Franchisor at the time and at the location designated by Franchisor and pay Franchisor's then current charges therefore.

- (e) Its program to continuously evaluate and test quality of service for possible use in the HAPPY NAILS system and to evaluate and test new operational methods of serving existing or new nail or aesthetic care and supply items.
- (f) Training of employees in the art and techniques of manicure and pedicure at the rate of \$50 per employee.
- (g) A reliable source of approved nail polish and other supplies necessary for the efficient operation of the franchisee's business.
- (h) Opening supervision and assistance from employees of Franchisor at Franchisee's premises.
- (i) Such merchandising, marketing and advertising research data and advice as may be from time to time developed by Franchisor and deemed by it to be helpful in the operation of franchised salons.
- (j) Such new salons services and other operational developments as may be from time to time developed by Franchisor and deemed by it to be helpful in the operation of franchised salons.

8. ADVERTISING OBLIGATIONS

1. All advertising and promotion of any kind conducted by the Franchisee shall be done at the sole cost and expense of the Franchisee and shall be done in conformity with and subject to the written approval of Franchisor as to form and content. If there is no written disapproval within fifteen (15) days after submission of the advertising and promotion to Franchisor, then approval shall be deemed to have been given for that particular advertising and promotion, but this does not waive Franchisor's right to disapprove future advertising and promotion. It is understood further that no trade name other than HAPPY NAILS and HAPPY NAILS AND SPA shall be employed in any advertising or promotion. As an additional advertising and marketing obligation, Franchisee shall execute concurrently herewith a Promotional Allowance Assignment assigning and conveying to Franchisor all of Franchisee's right, title and interest in and to any marketing or promotional allowances.
2. Franchisee further agrees to pay a contribution for advertising as determined from time to time by the Franchisor. It is anticipated that such amount will vary from \$50-\$500 when requested. Such amount will be pooled with the advertising contributions of other franchisors and used for general advertisements. If the contribution as determined by the Franchisor is more than the minimum advertising obligation, Franchisee agrees to pay same. Any individual advertising shall be at the discretion of Franchisee and at its sole cost and expense.
3. Advertising, as used hereinabove shall be defined in its broadest sense, including, but not limited to, radio, television, newspapers, magazines, billboards, premiums, point of sale materials, coupons, public relations activities, and any other activities reasonably determined by Franchisor to promote the sale of the HAPPY NAILS AND SPA services.

9. PERMITS AND LICENSES

In the event Franchisor pays for or secures any licenses or permits on behalf of Franchisee during the first calendar year that such premises shall be open for business, Franchisee shall reimburse Franchisor for the cost,

expense or amount of payment for any such licenses or permits.

10. STANDARDS OF OPERATION

Franchisor has prior hereto maintained a high quality and standard in service and in the preparation and method of conducting business under the HAPPY NAILS AND SPA system and in order to continue and maintain such quality and standard, Franchisee agrees:

- (a) All service provided by Franchisee hereunder will be of the highest quality and the method of techniques, and service thereof and therein will be in complete conformance with the specifications, standards and instructions as given Franchisee in writing from time to time by Franchisor. Franchisor shall have the right to inspect the licensed premises from time to time without notice, but within regular business hours to determine the Franchisee's compliance hereunder.
- (b) Franchisee will not serve, process, prepare, advertise, promote or sell any nail or aesthetic cares provided by Franchisor or otherwise, except as directed from time to time in writing by Franchisor and will provide such care only at retail and not wholesale and will further provide only at such location or locations referred to herein or otherwise designated by Franchisor. Franchisee agrees that all service-menus, service, techniques, procedures and other matters relating thereto may be altered, changed or amended from time to time by Franchisor and that Franchisee shall promptly comply with any such alteration, change or amendment on written notice from Franchisor.
- (c) Franchisee shall at all times maintain and operate the licensed premises, including, but not by way of limitation, service areas, storage and display, interiors and parking areas appurtenant to the licensed premises in a high standard of sanitation and cleanliness and at all times in compliance with local and state laws and regulations pertaining to such operations. Further, all personnel working or employed in said premises shall be appropriately attired in complete compliance to Franchisor's requirements in regard thereto and shall observe the highest standards of personal hygiene. Franchisee shall, at request of Franchisor, send any personnel to designated training sessions of Franchisor at Franchisee's sole cost and expense.
NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN,
FRANCHISEE SHALL COMPLY WITH ALL SANITATION REQUIREMENTS OF THE
CALIFORNIA BOARD OF COSMETOLOGY.
- (d) All service- menus used on the licensed premises shall be exclusively in the form, size, color and content specified by Franchisor. In this connection, Franchisee agrees that Franchisor shall have the right to alter, change, modify the form, size, color and content of such menus from time to time and in such event Franchisee shall conform to the amendments within three (3) days after notice thereof in writing. Franchisee further agrees that, for purpose of advancing and promoting Franchisor's trademark and good will and Franchisee's business, Franchisor shall have the further right to require Franchisee to advertise locations and addresses of other franchisees as well as beauty supplies, specialty and novelty items that may be used or sold by Franchisor or other franchisees.
- (e) All interior and exterior decorating of the licensed premises shall strictly conform to the plans, specifications, designs and colors required by Franchisor In this connection, Franchisee agrees that Franchisor shall have the right to alter, change and modify such specifications from time to time and in such event, Franchisee shall conform to such amendment(s) within fifteen (15) days after notice thereof in writing.

- (f) If any building or appurtenance thereto is to be constructed or altered in any way upon the licensed premises, any such construction or alterations made thereon shall be in strict conformance with plans and specifications that may be furnished by Franchisor therefor and Franchisor may supervise the construction or alteration to insure such conformity therewith. Franchisee shall not undertake any construction or alteration upon said premises without the prior written approval of Franchisor, and no change shall be made in any plan or specification in such construction or alteration without written consent of Franchisor.
- (g) Franchisee shall install and use upon the premises such furnishings, furniture, signs and equipment as may from time to time be required by Franchisor and shall conform to the standards of quality, quantity, design, size, color and other specifications that may be required by Franchisor. In the event that Franchisor, in its sole, subjective judgment, determines that new or additional equipment will provide new or improved services to customers of the salons and so notifies Franchisee, Franchisee agrees, at its sole cost and expense, to acquire and use such equipment within thirty (30) days following receipt of such notification and to cease using any outmoded or superseded equipment. In the event Franchisee shall fail to acquire and use such equipment within said thirty (30) days, Franchisor will acquire and install such equipment at Franchisee's sole cost and expense.
- (h) All signs of any kind used or maintained on such licensed premises shall display no other trademark or trade name but "HAPPY NAILS", "HAPPY NAILS AND SPA" or "HAPPY NAILS EXPRESS" as specified by the Franchisor and the location thereof on the licensed premises and color, size, design and content shall be in accordance with specifications therefor that may be provided by Franchisor. Franchisor or its representatives shall have the right to enter upon such licensed premises to remove any sign not in conformity with such specifications, or not otherwise consented to in writing by Franchisor
- (i) Franchisee shall not employ or use any vending machine, video or pinball machines, or coin or token operated machines on the premises.
- (j) Franchisee shall maintain the licensed premises open for business for such hours and days as may from time to time be specified by Franchisor.
- (k) Franchisee shall not issue its own gift certificates. Franchisee shall purchase gift certificates only from Franchisor. Franchisee shall accept gift certificates issued by Franchisor as a method of payments and return the used gift certificates to Franchisor for the payment.

11. SUPPLIES AND SERVICES

In order to protect the trade name, trademarks or service marks of Franchisor and in order to insure the uniformity and standards of quality of esthetic techniques, sales and service, it is agreed:

- (a) Franchisee shall purchase for the purpose of inventory use and resale on the licensed premises, only those supplies approved in writing by Franchisor that may in most cases be provided Franchisee by Franchisor.. Franchisee acknowledges that Franchisor marks up its sale of beauty supplies to Franchisee by _____.
- (b) Franchisee shall acquire from Franchisor supplies, materials, and other items as may from time to time be required by Franchisor which through Franchisor's experience are the minimum essential to the preservation of Franchisor's trade name, trademarks and service marks and will reasonably insure a consistent quality and maintain national uniformity of

services as required by Franchisor's system. If such materials include beauty supplies, Franchisee acknowledges that Franchisor's marks up such materials by _____.

- (c) Franchisee shall acquire from sources approved by Franchisor in writing equipment required to be installed on the licensed premise.
- (d) Franchisor shall furnish to Franchisee at his request the then current standards and specifications applicable to any equipment, supplies, trademarked paper goods or other products required by Franchisor to be utilized in the operation of the licensed premises.
- (e) Franchisee acknowledges that quality control of products used or sold by franchisees of Franchisor is both proper and essential to the operation of Franchisor's system and to the protection of Franchisor's trade name, trademarks and service marks and that the provisions of this paragraph pertaining to the approval of products and suppliers are reasonable for the purposes of maintaining quality control.
- (f) In the event Franchisee desires to utilize a product not approved by Franchisor, then Franchisee shall make a request in writing to Franchisor to use such product. Franchisor shall provide Franchisee with its standard specifications for such product and shall require Franchisee to provide a sample of the proposed product for testing. A testing fee of \$_____ shall be charged to Franchisee. Franchisor shall complete its testing within 20 days of the receipt of the sample. Within 5 days thereafter, Franchisor shall inform Franchisee of its decision. If the new product is not approved, the Franchisor shall state the reasons therefore in writing.

12. FRANCHISEE'S INTEREST IN TRADE NAME AND SYSTEM

It is understood and agreed that the trade name, HAPPY NAILS and HAPPY NAILS AND SPA, is the sole and separate property of Franchisor and that nothing in this Agreement shall be construed as giving the Franchisee or any other person any right, title or interest therein, except as to the license herein expressly granted to use such name for the period on the conditions herein stated. Further, that immediately upon termination of this Agreement for any reason whatsoever, Franchisee, its heirs, administrators, executors, agents, successors in interest or assigns, shall immediately thereupon and forever cease the use of said name and all formulas, menus and processes connected therewith or in any way related thereto and shall thereupon at Franchisee's sole cost remove from any premises owned or in the possession of Franchisee or over which Franchisee has any control, all signs, service-menu boards, writings and notices and any other indicia or material related to or referring in any way to said trade name, trademark or service mark and shall repaint the salon to remove the colors associated with a HAPPY NAILS AND SPA salon. In the event Franchisee shall fail to remove all such signs and notices as aforesaid, Franchisor may enter on such premises for such purposes without notice other than hereby given and remove such signs and notices and Franchisee shall be obligated to reimburse Franchisor for any costs incurred thereby. Upon and after any termination hereof, Franchisee shall not use the name HAPPY NAILS or HAPPY NAILS AND SPA, or any name or names similar in form, spelling or sound to the name HAPPY NAILS or HAPPY NAILS AND SPA anywhere in the world.

13. DISCLOSURE

Franchisee shall not disclose to any other person, except in the normal course of business, any information pertaining to the formats and methods of conducting business under this Agreement and shall cause its agents and employees to conform and agree to this provision. Franchisee further agrees, and will cause its agents, employees and associates to agree, that Franchisee shall in no way compete with Franchisor and its other franchisees or utilize directly or indirectly any information herein and hereby obtained in a business employing the same or similar services or products during the life of this Agreement.

14. AGREEMENT NOT TO COMPETE

During the term hereof and, upon termination of this Agreement for any reason whatsoever and for a period of five (5) years thereafter, neither Franchisee, its officers or principals (including stockholders, licensees, joint venturers or partners) shall directly or indirectly by way of stock interest or otherwise, engage in the same or similar business (i.e. owning, operating, or providing manicures, pedicures, or related spa services) at or within a radius of ten (10) miles of the Franchise premise that was the subject of this agreement or within a ten (10) mile radius of any premise operated by Franchisor or Franchisor's franchisees, and in no event shall Franchisee at any time, except for the purpose of complying with the terms of this Agreement, utilize the name "Happy Nails" or "Happy Nails and Spa" or the overall look and feel of the Happy Nails and Spa salons including, but not limited to, the color scheme used by the Happy Nails and Spa salons. Nor shall Franchisee use or utilize any techniques or processes obtained or learned as a result of entering into this Agreement or as a result of rendering any performance hereunder. In the event it shall be determined by a court of competent jurisdiction that this paragraph is unenforceable under the laws of a state other than the state in which the licensed premises are located, nonetheless, this paragraph shall be valid and fully enforceable in the state in which the licensed premises are located.

15. CONVERSION OF EXISTING SALONS

In the event that Franchisee is an existing Happy Nails salon, then Franchisee shall enter into that certain AGREEMENT TO CONVERT EXISTING SALON TO A FRANCHISE (the "conversion agreement"). The terms of this Agreement and the conversion agreement shall govern the duties, obligations, and benefits between Franchisor and Franchisee, except that in the event of a conflict the terms of the conversion agreement shall control. The conversion agreement provides that the Franchise Fee provided in section 5 of this Agreement shall be waived for existing salons that elect to convert. The conversion agreement also provides that the Franchise Service Fee provided in section 6 of this Agreement may be negotiated between the Franchisor and the converting Franchisee.

16. ASSIGNMENT

1. Franchisee shall neither sell, assign, transfer nor encumber this Agreement or any right or interest therein or thereunder, nor suffer or permit any such assignment, transfer or encumbrance to occur by operation of law unless the written consent of Franchisor be first had and obtained. The assignment of any interest, other than as provided in this article, shall constitute a material breach of this Agreement. A transfer of more than a 10% interest in a corporate, limited liability company or limited partnership Franchisee shall be deemed a transfer and assignment.
2. In the event of the death or disability of an individual Franchisee, Franchisor shall consent to the transfer of the interest to Franchisee's spouse, heirs or relatives, by blood or by marriage, whether such a transfer is made by will or by operation of law, if, in the sole discretion and judgment of Franchisor, such person or persons obtaining said interest shall be capable of conducting said business in a manner satisfactory to Franchisor and, in addition, satisfies the current requirements of Franchisor pertaining to an assignment or subletting.
3. Franchisee, its heirs or personal representatives, may sell and assign its rights under this Agreement to a bona fide purchaser as hereinafter set forth, providing Franchisee shall first offer to sell the same to Franchisor upon the same terms and conditions as offered to other prospective purchasers. All offers shall be fully set forth in writing and Franchisor shall have thirty (30) days within which to accept any offer. If Franchisor has not accepted the offer, Franchisee may conclude the sale to the prospective purchaser only on such terms and conditions provided that Franchisee is not in default hereunder and further provided that Franchisor may impose conditions on any assignment permitted hereunder which may include, without limitation, the following:

- (a) Assignor must satisfy fully all obligations to Franchisor or others arising out of the operation of the franchised salons.
 - (b) Assignee must satisfactorily demonstrate to Franchisor that it meets at least the same financial and managerial criteria required of the Franchisee in qualifying for this Agreement.
 - (c) Assignee shall have sufficient equity capital in the business to result in a debt-to-equity ratio of one to one, or such other debt-equity as may be approved by the chief financial officer of Franchisor
 - (d) Assignee must agree to meet with Franchisor's and Franchisor's staff personnel and agree to take whatever tests are required by Franchisor to determine his aptitude and ability to own and operate a salons.
 - (e) Assignee must agree to avail itself of the training required of new franchisees and pay Franchisor's then current charges therefor.
 - (f) Assignor shall pay to Franchisor the sum of One thousand dollars (\$1,000.00) as an assignment expense.
 - (g) Assignee, if required by Franchisor, shall sign Franchisor's then current franchise and sublease agreements which may contain different provisions, including those relating to amounts to be paid Franchisor or to be expended on advertising, than contained in this Agreement.
 - (h) Assignee shall pay to Franchisor a security deposit equal to one (1) month's payments to Franchisor under the Franchise Agreement, Sublease and/or any equipment lease.
 - (i) Assignor and/or Assignee shall make such improvements and/or additions to the facilities and equipment comprising the HAPPY NAILS AND SPA salons as Franchisor may require.
 - (j) Assignor shall execute Franchisor's standard Continuing Guaranty guaranteeing to Franchisor the obligations of Assignee, if required by Franchisor.
4. If Franchisee desires to conduct business in a corporate, limited liability company or limited partnership capacity, Franchisor will consent to the assignment of this Agreement to a corporation approved by Franchisor provided Franchisee complies with the provisions hereinafter specified and any other condition that Franchisor may require, including a limitation on the number of stockholders or limited partners of the assignee corporation. Such assignee corporation shall be closely held. Franchisee shall pay to Franchisor a document preparation fee of TWO HUNDRED FIFTY DOLLARS (\$250.00) each time Franchisee assigns to a corporation or limited partnership pursuant to this Section. In the event that any additional legal fees are incurred by the assignment, Franchisee is solely responsible for its costs and fees.

If the rights of Franchisee are assigned to a corporation or limited liability company, the Franchisee shall be the legal and beneficial owner of the stock or membership of the assignee corporation or limited liability company, and shall act as such corporation's or limited liability company's principal officer. Provided Franchisee retains controlling interest of the assignee corporation or limited liability company, it may sell, transfer or assign stock in such assignee corporation to members of its immediate family or to a trustee in trust for same, to its operating managers, or to other franchisees of Franchisor if the franchisee to whom such stock interest is assigned is not then in default of any of the terms of other franchise agreements with Franchisor or HAPPY NAILS AND SPA

Franchisee may sell, assign or transfer the controlling interest of such assignee corporation. The sale, transfer or assignment of any stock interest of such assignee corporation, other than as herein provided, without the written consent of Franchisor, shall constitute a material breach of this Agreement permitting Franchisor, at its sole option, to terminate same forthwith. The Articles of Incorporation and the By-Laws of the assignee corporation shall reflect that the issuance and transfer of shares of stock are restricted, and all stock certificates shall bear the following legend, which shall be printed legibly and conspicuously on the face of each stock certificate:

The transfer of this stock is subject to the terms and conditions of a franchise agreement with HAPPY NAILS FRANCHISE, INC., a California corporation, dated _____; Reference is made to said franchise agreement and to restrictive provisions of the charter and by-laws of this corporation.

Franchisee acknowledges that the purpose of the aforesaid restriction is to protect Franchisor's trademarks, service marks, trade secrets and operating procedures as well as Franchisor's and Franchisor's general high reputation and image, and is for the mutual benefit of Franchisor, Franchisee and other franchisees of Franchisor and that any attempt by the Franchisee to transfer any of its rights or interests under this Agreement without the written consent of Franchisor shall constitute a material breach of this Agreement and Franchisor shall have the right to terminate Franchisee's rights under this Agreement upon written notice to the Franchisee.

17. DEFAULT

1. The occurrence of any of the following events shall constitute an event of default and good cause for Franchisor, at its option and without prejudice to any other rights or remedies provided for hereunder or by law or equity, to terminate Franchisee's rights under this Agreement if Franchisee shall fail to cure any such event of default within three (3) days after notification thereof:
 - (a) If Franchisee shall be adjudicated a bankrupt, becomes insolvent, or if a receiver (permanent or temporary) of its property or any part thereof is appointed by a court of competent authority; if it makes a general assignment for the benefit of creditors, or if a final judgment remains unsatisfied of record for thirty (30) days or longer (unless supersedeas bond is filed) or if execution is levied against Franchisee's business or property, or suit to foreclose any lien or mortgage against the premises or equipment is instituted against Franchisee and not dismissed within thirty (30) days.
 - (b) If Franchisee defaults in the performance of any term, condition or obligation in payment of an indebtedness to Franchisor, its suppliers or others arising out of the purchase of supplies or purchase of equipment for operation of its said salons.
 - (c) If Franchisee defaults in the payment of franchise service fees or advertising costs due hereunder or fails to submit profit and loss statements or other financial statements or data or reports on gross sales as provided herein, or if Franchisee makes any false statements in connection therewith.
 - (d) If Franchisee fails to maintain the standards for operation of its salon as set forth in this Agreement, or as set forth by the California Board of Cosmetology, and as may be supplemented by the Manual, or if Franchisee repeatedly commits violations of such provisions.
 - (e) If Franchisee suffers a violation of any law, ordinance, rule or regulation of a governmental agency in connection with the operation of the franchised salons, and permits the same to go uncorrected after notification thereof, unless there is a bona fide dispute as to the violation or legality of such law, ordinance, rule or regulation, and Franchisee promptly resorts to courts or forums of appropriate jurisdiction to contest such violation or legality.

- (f) If Franchisee ceases to do business at the premises or defaults under any lease or sublease or loses its right to the possession of the premises.
 - (g) If Franchisee violates any other term or condition of this Agreement.
2. Upon termination of this Agreement by lapse of time or upon occasion of default, Franchisee's right to use in any manner the service marks or any other mark registered by Franchisor or insignia or slogan used in connection therewith, or any confusingly similar trademark, service mark, trade name, slogan or insignia shall terminate forthwith. Franchisee shall not thereafter, directly or indirectly, identify itself in any manner as a Franchisee, or publicly identify itself as a former Franchisee or use any of Franchisor's trade secrets, signs, symbols, devices, formulas, or other materials constituting part of the system. Franchisee grants to Franchisor the option to purchase any or all products, supplies, paper goods, containers, signs, service-menus and any and all insignia bearing Franchisor's trade name or marks thereon at the lower of cost or fair market value at the time of termination.
 3. Upon termination of this Agreement by lapse of time or default, Franchisee will immediately make such removals or changes in signs and colors of buildings and premises and structures as Franchisor shall request so to distinguish effectively said premises from their former appearance and from any other HAPPY NAILS AND SPA salons. If Franchisee shall fail to make such changes forthwith then Franchisor may enter upon Franchisee's premises and make such changes at Franchisee's expense.
 4. In the event of termination for any default of Franchisee, the extent of all damages which Franchisor have suffered by virtue of such default shall be and remain a lien in favor of Franchisor against any and all of the personal property, machinery, fixtures and equipment owned by Franchisee on the premises at the time of such default.
 5. No failure by Franchisor to take action on account of any default by Franchisee, whether in a single instance or repeatedly, shall constitute a waiver of any such default or of the performance required of Franchisee. No express waiver by Franchisor of any provision or performance hereunder or of any default by Franchisee shall be construed as a waiver of any other or future provision, performance, or default.

18. VERIFICATION OF OBLIGATIONS

Franchisor shall have the right to take any and all action that directly or indirectly verifies or encourages Franchisor's performance or non-performance of its obligations pursuant to this Agreement, including but not limited to installing within the licensed premises cash registers, security systems, computer systems, and/or other monitoring devices, receiving from Franchisee's distributors any information relating to any products delivered to Franchisee, reasonably inspecting any and all records or products and/or other inventory for the licensed premises, surveying or questioning customers, and/or any other action deemed appropriate by Franchisor.

19. FRANCHISOR GUARANTEE

Franchisor hereby guarantees the full and faithful performance of the obligations of Franchisor set forth in this Agreement.

20. GENERAL PROVISIONS

1. Franchisee is not and shall not be considered as a joint venturer, partner or agent of Franchisor and shall not have the power to bind or obligate Franchisor. Neither Franchisor nor Franchisee shall be liable for any debts contracted by the Franchisee and the Franchisee shall hold Franchisor free and

harmless therefrom and shall indemnify Franchisor from and against any such debts and any other claims, liens, judgments or encumbrances and costs (including attorneys fees and other legal costs) that may be asserted or suffered by Franchisor by reason of any act or omission of Franchisee.

2. Franchisee agrees to keep the contents of this Agreement secret and to refrain from communicating the contents or any of the provisions of this Agreement to any third party except when required to reveal such contents for the purpose of obtaining bank credit, of satisfying a governmental agency or a court of law or of negotiating a sale to a bona fide purchaser as referred to hereinbefore, or for such other purpose as Franchisor may give its prior written approval.
3. In connection with the operation of the licensed premises, Franchisee will at all times carry liability insurance, general commercial insurance, workmen's compensation insurance, products liability insurance and insurance against such other hazards, in such amounts and with such insurers, as Franchisor may require. Franchisor shall notify Franchisee, in writing, of the nature and amounts of the insurance required hereby within twenty (20) days prior to the estimated date of possession by Franchisee. Within ten (10) days thereafter, Franchisee shall furnish to Franchisor written evidence of insurance in the amounts and types required by Franchisor. If Franchisee shall fail to provide such evidence, Franchisor may, and without relieving Franchisee of its obligations to provide such insurance, cause such insurance to be obtained at the cost of Franchisee. Said cost shall be paid by Franchisee to Franchisor within ten (10) days after the date of possession. It is agreed that Franchisor shall be named as additional insureds under all of the said policies and that Franchisee shall furnish a certificate of insurance to Franchisor promptly after execution of this Agreement. Franchisee shall save Franchisor harmless from any loss or damages howsoever caused by reason of any injury sustained by any person or to any persons, or property upon the licensed premises, save and except that caused by the negligence of Franchisor and/or, its agents or employees. Franchisor shall not be liable to Franchisee or other person by reason of any act, omission, neglect or default arising on the licensed premises, because of any act or omission of Franchisee, or any of the Franchisee's agents or employees and Franchisee shall pay all to be paid or discharged in case of action for any such damages or injuries. If the Franchisor is sued in any court for damages by reason of the acts referred to in this paragraph, Franchisee shall defend said action at its own expense and shall pay and discharge any judgment that may be rendered against the Franchisor in any such action, and if Franchisee fails or else neglects to so defend said action, Franchisor may defend the same and any expense, including the counsel fees which Franchisor may pay or incur in defending the action, and also any judgments in any such action, which Franchisor may be required to pay shall be repaid to Franchisor by Franchisee.
4. Any monies due the Franchisor by Franchisee for any reason pursuant to this Agreement shall be deemed delinquent if not paid on the dates stated in this Agreement, time being expressly deemed of the essence. All monies are due and payable and must be received at the Franchisor's and Franchisor's office or such other address designated by Franchisor on the dates stated in this Agreement. In the event Franchisee shall not timely pay any such monies said delinquent monies shall bear interest at the lesser of the maximum lawful rate of interest for a non-personal loan in the state in which the licensed premises are located or eighteen percent (18%) per annum from the date due until the date of payment. In addition to such interest, if Franchisee shall fail to timely pay any monies due Franchisor hereunder, Franchisee shall pay to the Franchisor a late charge equal to ten percent (10%) of the delinquent monies. Franchisee agrees that such late charge is a reasonable compensation to Franchisor for the additional services and expenses required of Franchisor because of such failure to pay.
5. If Franchisor is charged with any sales tax, employee withholding tax, or other taxes by the authorized taxing authority of any federal, state or political subdivision thereof, Franchisee will pay such sales tax, employee withholding tax, or other taxes to Franchisor immediately after being notified to do so. If Franchisee fails to pay any such tax, employee withholding tax, or other taxes when due or on demand, Franchisor may pay same at its discretion and Franchisee shall forthwith reimburse

Franchisor. Franchisee hereby indemnifies and holds Franchisor, its officers, directors, affiliates and owners from any costs (including attorneys fees and legal costs), liabilities, or damages relating to taxes, assessments or withholding requirements not paid or met by Franchisee.

6. In the event that either Franchisor or Franchisee shall institute any action or proceeding against the other relating to the provisions of this Agreement, or any default hereunder, then and in that event, the unsuccessful party in such action or proceeding shall reimburse the successful party for its reasonable attorney's fees, court costs and all other costs reasonably incurred by the successful party.
7. Should any part of this Agreement be declared invalid for any reason, at Franchisor's option, such decision shall not affect the validity of any remaining portion, which remaining portion shall remain in force and effect as if this Agreement had been executed with the invalid portion thereof eliminated.
8. The parties agree that the place of making and entering into this Agreement shall be deemed to be at Franchisor's principal office located in Tustin, California, and that the laws of the State of California shall be the law applied in construing any of the terms and conditions hereof.
9. Time is of the essence of this Agreement.
10. All notices provided for in this Agreement shall be in writing and shall be sent by certified United States mail, return receipt requested, or delivered as appropriate, to Franchisee at the licensed premises or at the last known address of Franchisee and to Franchisor at its office at _____ (or such other location as Franchisor shall specify in writing). Mailed notices shall be effective two (2) days after delivery thereof to the United States Post Office.
11. This Agreement shall inure to the benefit of the successors and assigns of Franchisor.
12. In all matters concerning the validity, interpretation, performance, effect or otherwise of this Agreement or arising in any way out of this Agreement or related to this Agreement, the laws of the State of California shall govern and be applicable. Any actions or proceedings instituted by either party under this Agreement with respect to any matters arising under or growing out of this Agreement, shall at the option of Franchisor, be brought and tried only in the courts located in the County of Orange, State of California, and Franchisee expressly waives its rights under any applicable statute to cause any such actions or proceedings to be brought or tried elsewhere, it being agreed between the parties hereto that the majority of any witnesses required in any such action or proceeding will be situated in or about the County of Orange, State of California.
13. This Agreement contains all of the terms and conditions agreed upon by the parties with reference to the subject matter hereof. No other agreements, oral or otherwise, shall be deemed to exist or to bind any of the parties hereto and all prior agreements, understandings and representations are merged herein and superseded hereby. Franchisee represents that there are no other contemporaneous agreements or understandings between the parties that are not contained herein. No officer or employee or agent of Franchisor has any authority to make any representation or promise not contained in this Agreement, and Franchisee agrees that he has executed this Agreement without reliance upon any such representation or promise. This Agreement cannot be modified or changed except by written instrument signed by all of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be duly executed the day and year first above written.

FRANCHISOR:
HAPPY NAILS FRANCHISE, INC.

FRANCHISEE:

By: _____
Henry Huynh, President
