

HAPPY NAILS FRANCHISE, INC.
California Corporation

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Department of Corporations
Los Angeles

INFORMATION FOR PROSPECTIVE FRANCHISEES

REQUIRED BY FEDERAL TRADE COMMISSION

TO PROTECT YOU, WE HAVE REQUIRED YOUR FRANCHISOR TO GIVE YOU THIS INFORMATION. WE HAVE NOT CHECKED IT AND DO NOT KNOW IF IT IS CORRECT. IT SHOULD HELP YOU MAKE UP YOUR MIND. STUDY IT CAREFULLY. WHILE IT INCLUDES SOME INFORMATION ABOUT YOUR CONTRACT, DO NOT RELY ON IT ALONE TO UNDERSTAND YOUR CONTRACT. READ ALL OF YOUR CONTRACT CAREFULLY. BUYING A FRANCHISE IS A COMPLICATED INVESTMENT. TAKE YOUR TIME TO DECIDE. IF POSSIBLE, SHOW YOUR CONTRACT AND THIS INFORMATION TO AN ADVISOR, LIKE A LAWYER OR AN ACCOUNTANT. IF YOU FIND ANYTHING YOU THINK MAY BE WRONG OF LEFT OUT, YOU SHOULD LET US KNOW ABOUT IT. IT MAY BE AGAINST THE LAW.

THERE MAY ALSO BE LAWS ON FRANCHISING IN YOUR STATE. ASK YOUR STATE AGENCIES ABOUT THEM.

FEDERAL TRADE COMMISSION
WASHINGTON, D. C.

The effective date of this Offering Circular is Date , 2005

**FRANCHISE OFFERING CIRCULAR
REQUIRED BY THE STATE OF CALIFORNIA**

HAPPY NAILS FRANCHISE, INC.
California Corporation
15576 Gateway Circle
Tustin, California 92730
(949) 888-2424

A prospective franchisee may choose either to purchase (1) a full size "Happy Nails and Spa" franchise or (2) a scaled down "Happy Nails Express" franchise. A Happy Nails and Spa franchise is larger containing in excess of one thousand (1,000) square feet and as much as three thousand (3,000) square feet and will contain typically 6-12 European style spa chairs and 6-12 regular nail stations as well as private rooms for facials and other spa related treatments. A Happy Nails Express franchise will generally contain four hundred (400) square feet to one thousand (1,000) square feet, will be located within another existing retail business, will contain 0-2 European spa chairs, 2-6 regular nail stations and will not offer facials or other related spa treatments. The concept of a Happy Nails Express salon is for the patron to obtain a quick, in and out manicure/pedicure in conjunction with his or her other shopping. The Cost to obtain and operate a full service Happy Nails and Spa franchise is significantly higher than a Happy Nails Express as more fully explained in this Offering Circular.

RISK FACTORS

1. YOUR BUSINESS MAY DECLINE WHEN THERE IS BAD PUBLICITY ABOUT THE TYPES OF SERVICE WE PROVIDE, ANOTHER SALON IN OUR SYSTEM, OR EVEN ABOUT A COMPETING BEAUTY SALON OR SYSTEM, SUCH AS PUBLICITY ABOUT A CRIME, INJURY OR OTHER MISFORTUNE AT ANY SUCH SALONS.
2. YOUR BUSINESS WILL BE AFFECTED BY CHANGES IN: CONSUMER PREFERENCES, DEMOGRAPHIC PATTERNS, CHARACTER OF THE AREA WHERE YOUR SALON IS LOCATED, WEATHER, COMPETITION, INFLATION, RECESSION, FOOD COSTS, COST OF MOTOR FUELS, GOVERNMENT REGULATIONS LIKE HEALTH CODES, ZONING, WAGE AND PRICE CONTROLS, EMPLOYMENT AND WAGE LEVELS, AND INCREASES IN OTHER OPERATING COSTS.
3. MOST SALONS FOLLOW THE PRACTICE OF CHARACTERIZING THEIR MANICURISTS/PEDICURISTS AS INDEPENDENT CONTRACTORS. THIS RESULTS IN LESS EMPLOYMENT TAXES, WORKMAN COMPENSATION INSURANCE PREMIUMS AS WELL AS REDUCING OTHER COSTS. THE CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT HAS RECENTLY CHALLENGED A NUMBER OF SALONS WORKER CLASSIFICATION BY TAKING THE POSITION THAT MANICURISTS/PEDICURIST SHALL BE CLASSIFIED AS EMPLOYEES AND NOT INDEPENDENT CONTRACTORS. IT IS NOT KNOWN WHETHER THE EDD WILL SUCCEED IN ITS CHALLENGE. HOWEVER, IF IT DOES SO, THE COST OF OPERATING A SALON MAY SUBSTANTIALLY INCREASE THUS REDUCING ANY POTENTIAL PROFITS. THE FRANCHISOR MAKES NO REPRESENTATIONS REGARDING WORKER CLASSIFICATION. ANY RISK OF WORKERS BEING CLASSIFIED AS EMPLOYEES VERSUS INDEPENDENT CONTRACTORS REST SOLELY AND EXCLUSIVELY WITH THE FRANCHISEE AND THE FRANCHISOR TAKES NO RESPONSIBILITY OR LIABILITY AS A RESULT OF EDD AUDITS OR WORKER RECLASSIFICATION EFFORTS.
4. THERE MAY BE OTHER RISKS CONCERNING THE FRANCHISE.

Information about comparisons of Franchisors is available. Call the California Department of Corporations, 320 West 4th Street, Suite 750, Los Angeles, California 90013-1105 or your public library for sources of information.

Registration of this franchise by this state does not mean that the state recommends it or has verified the information in this Offering Circular. If you learn that anything in the Offering Circular is untrue, contact the Federal Trade Commission and the state administrator, which is the Commissioner of Corporations, California Department of Corporations, 320 West 4th Street, Suite 750, Los Angeles, California 90013-1105.

The name and address of the agent in California authorized to receive service of process for Happy Nails Franchise Company is Wellman & Warren, LLP, 24411 Ridge Route , Suite 200, Laguna Hills California 92653.

Effective Date: _____, 2005