

# UNIFORM FRANCHISE OFFERING CIRCULAR

DEC 22 2006



## ISLAND INK-JET SYSTEMS (US) INC.

244 - 4<sup>th</sup> Street  
Courtenay, British Columbia  
Canada V9N 1G6  
1 877 446-5538

### INFORMATION FOR PROSPECTIVE FRANCHISEES REQUIRED BY THE FEDERAL TRADE COMMISSION

TO PROTECT YOU, WE'VE REQUIRED YOUR FRANCHISOR TO GIVE YOU THIS INFORMATION. WE HAVEN'T CHECKED IT, AND DON'T KNOW IF IT'S CORRECT. IT SHOULD HELP YOU MAKE UP YOUR MIND. STUDY IT CAREFULLY. WHILE IT INCLUDES SOME INFORMATION ABOUT YOUR CONTRACT, DON'T 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 OR ANYTHING IMPORTANT THAT'S BEEN 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. 20580



## FRANCHISE OFFERING CIRCULAR

### Island Ink-Jet Systems (US) Inc.

244 - 4<sup>th</sup> Street  
Courtenay, British Columbia  
V9N 1G6 Canada

## ISLAND INK-JET.

As a Franchisee, you will operate an Island Ink-Jet Outlet which sells ink-jet refill kits, remanufactured cartridges, remanufactured toners, ink-jet refill services and related consumable products for printers.

All Franchisees, including Area Developers, are required to execute a Single Unit Franchise Agreement for each location they open. The initial franchise fee is \$29,000. The estimated initial investment for a franchise location ranges from \$85,850 to \$172,400.

We offer a Kiosk Location and an In-Line Location. The estimated initial fees for an Island Ink-Jet Franchise ranges from \$100,100 to \$136,400 for a kiosk location and from \$85,850 to \$172,400 for an inline location. For a more comprehensive breakdown of your initial investment, please refer to ITEM 7.

For a Kiosk Location, any modifications to the standard kiosk model will be at your sole expense. Additionally, an Administration and Review Fee of \$2,500 will be applied to all kiosk locations for costs associated with the administration and processing thereof. The cost for your kiosk is included in the initial deposit noted above and is non-refundable once ordered.

For an In-Line Location, vendor policies will determine whether any amounts paid for build-out of your location is refundable. Additionally, an Administration and Review Fee of \$2,500 will be applied to all in-line locations for costs associated with the administration and processing thereof. The Administration and Review Fee is non-refundable once paid and is included in your initial deposit.

As an Area Developer, you will be required to operate at least one Island Ink-Jet Outlet in your Territory, and you will have the responsibility to screen and qualify new franchise prospects, as well as train and service those franchisees located in your Territory. The Area Development fee is based on the market potential for each Territory. The development fee is calculated by multiplying \$5,000 per location. The estimated initial investment for an Area Developer ranges from \$13,000 to \$1,603,800. These costs are in addition to the initial investment costs for a Franchised Outlet.

We are required to hold all initial franchise fees in Escrow in the States of California, Minnesota, North Dakota, Illinois, Maryland, South Dakota and Washington. These fees cannot be released until you are open for business and legal requirements regarding escrow accounts have been met.

### RISK FACTORS:

1. THE FRANCHISE AND AREA DEVELOPMENT AGREEMENTS PERMIT THE FRANCHISEE TO SUE THE FRANCHISOR ONLY IN NEVADA. OUT OF STATE LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO LITIGATE WITH FRANCHISOR IN NEVADA THAN IN YOUR HOME STATE. THIS PROVISION IS SUPERSEDED BY CERTAIN STATE LAWS. SEE EXHIBIT G - MULTI-STATE ADDENDA FOR YOUR STATE.

2. THE FRANCHISE AND AREA DEVELOPMENT AGREEMENTS STATE THAT NEVADA LAW GOVERNS THE AGREEMENTS, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS YOUR LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS. SOME STATE FRANCHISE LAWS PROVIDE THAT CHOICE OF LAW PROVISIONS ARE VOID OR SUPERSEDED. YOU MIGHT WANT TO INVESTIGATE WHETHER A STATE FRANCHISE LAW PROTECTS YOU. YOU SHOULD REVIEW THE STATE SPECIFIC ADDENDUM ATTACHED TO THIS OFFERING CIRCULAR AND FRANCHISE AGREEMENT FOR SPECIFIC PROVISIONS.

3. THE FRANCHISE AND AREA DEVELOPMENT AGREEMENTS CONTAIN A MANDATORY BINDING ARBITRATION CLAUSE GOVERNING NEARLY ALL DISPUTES BETWEEN YOU AND US. MEDIATION, BINDING ARBITRATION (AND ANY LITIGATION) AND ANY ARBITRATION APPEAL WILL TAKE PLACE IN THE STATE OF NEVADA OR AT A LOCATION DETERMINED BY AN ARBITRATOR AND THAT MAY COST YOU MORE THAN IF THOSE PROCEEDINGS TOOK PLACE NEAR YOUR RESIDENCE OR BUSINESS. COSTS OF THE MEDIATION, ARBITRATION AND ANY ARBITRATION APPEAL MAY BE GREATER THAN IN LITIGATION. YOU AND WE WILL GENERALLY BEAR EACH OF OUR OWN COSTS IN ANY DISPUTE, BUT THE ARBITRATOR CAN ASSESS COSTS (BUT NOT ATTORNEY'S FEES) AGAINST A LOSING PARTY.

4. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Information comparing Island Ink-Jet Systems (US) Inc. with other franchisors is available. Call the state administrators listed in Exhibit A or your public library for sources of information.

Registration of this Franchise with the State does not mean that the State recommends it or has verified the information in this offering circular. If you learn that anything in this offering circular is untrue, contact the Federal Trade Commission and the Office of the Attorney General, State of Maryland, 200 St. Paul Place, Baltimore, Maryland 21202.

Effective Date: May 25, 2006

FOR USE ONLY IN THE STATE OF MARYLAND

Effective Date: April 10, 2006

FOR USE ONLY IN THE STATE OF HAWAII

Effective Date: July 8, 2005, amended as of December 30, 2005

FOR USE ONLY IN THE STATE OF WASHINGTON

Effective Date: July 5, 2005, amended as of December 30, 2005

FOR USE ONLY IN THE STATE OF INDIANA

Effective Date: December 20, 2005

FOR USE ONLY IN THE STATE OF CALIFORNIA



Effective Date: December 28, 2005

FOR USE ONLY IN THE STATE OF MINNESOTA

Effective Date: January 13, 2004, amended January 4, 2006

FOR USE ONLY IN THE STATE OF NEW YORK

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**ITEM 1**  
**THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES**

**The Franchisor**

To simplify the language in this Offering Circular, the words "we" or "us" means Island Ink-Jet Systems (US) Inc., the franchisor of this business. "You" means the person who buys the franchise. If you are a corporation, partnership, Limited Liability Company or other business entity, certain provisions of this Offering Circular also apply to your owners and will be noted. Our principal business address is 244 – 4<sup>th</sup> Street, Courtenay, British Columbia, Canada V9N 1G6. We are a Nevada corporation that was incorporated on October 18, 2001. We operate under our corporate name and the trademark Island Ink-Jet™ and no other name. We have offered franchises in the United States of America since May 2002. We do not currently and have not previously offered franchises in any other line of business.

**Our Predecessors and Affiliates**

We have no predecessors. We are a wholly-owned subsidiary of Island Ink-Jet Systems Inc. ("Island Canada"), a British Columbia corporation, incorporated under the laws of the Province of British Columbia on February 29, 2000 and located at 244 – 4<sup>th</sup> Street, Courtenay, British Columbia, Canada V9N 1G6. Since February 2000, Island Canada has offered franchises for Island Ink-Jet Outlets in Canada and as of ~~August 31, 2005~~ October 31, 2006, has ~~454~~ 154 franchise locations in Canada. Island Canada is a separate corporation from us and neither Island Canada nor us are liable for acts or omissions of the other. Since June 2002 our Master Franchisee, Grupo Pilaguer S.A. de C.V., has offered franchises in Mexico and as of the issuance date of this Franchise Offering Circular has 6 franchise locations in Mexico. No other affiliate or predecessor has previously offered franchises in this or any other line of business.

**Our Business Activities and the Outlet**

We grant franchises for the operation of businesses in conjunction with the mark "Island Ink-Jet™" and certain associated logos (collectively referred to as the "Marks"), and in accordance with our "System" which is described in our Franchise Agreement attached as Exhibit C. As a franchisee you will operate a retail Customer Service Center providing ink-jet cartridge refill services and selling Island Ink-Jet brand ink-jet refill kits, ink, remanufactured toners, compatible and remanufactured cartridges, and related consumable products for printers. You may also sell other printer related products from original equipment manufacturers (OEMs). We refer to the retail Customer Service Center you and other franchisees operate as an "Island Ink-Jet Outlet" or "Outlet." An Island Ink-Jet Outlet is typically located in a retail center.

Kiosk Location: We will deliver and provide set up services for the kiosk Customer Service Center. The price of the kiosk Customer Service Center will vary depending on any State or municipal requirements, as disclosed in Item 5 of this Offering Circular. Any modifications to the standard kiosk model will be at your sole expense. The cost for your kiosk is included in the initial deposit noted above and is non-refundable once ordered. The Kiosk Location is discussed further in Item 5 of this Offering Circular.

In-Line Location: If you wish to open an in-line Customer Service Center it will be solely your responsibility for obtaining the necessary permits, construction of the Outlet and payment to vendors. Due to variances in location size and construction requirements, costs may vary, as disclosed in Item 5 of this Offering Circular. Vendor policies will determine whether any amounts paid for build-out of your location is refundable. The Administration and Review Fee is non-refundable once paid and is included in your initial deposit. The In-Line Location is discussed further in Item 5 of this Offering Circular.

In addition, for certain qualified individuals, we may grant Area Development rights. Under this program, we will grant you an exclusive development area (a "Territory") in which you must operate at least one

Island Ink-Jet Outlet in your Territory for the term of the Area Development Agreement. You will also have the responsibility to solicit prospective franchisees to establish Outlets within the Territory and assist each of these franchisees, including providing site assistance and training. As an Area Developer, you will refer potential franchisees to Island Ink-Jet, with whom we will execute a Franchise Agreement with You will be required to comply with all franchise disclosure and other legal requirements applicable to your Territory, and we must first file a Uniform Franchise Offering Circular with any applicable state agency for the offer and sale of Franchises. In certain states, you cannot offer or grant Franchises until we have filed a UFOC with the State and our UFOC has received an effective registration with the applicable state.

The sale of franchises is governed by rules enacted by the Federal Trade Commission ("FTC"), 16 C.F.R. & 436.1 et seq. (the "FTC" Rule). If you are an Area Developer, you must comply with the disclosure requirements required by the FTC Rule. Further, certain states require that we register the offering circular before the offer or sale of any franchise. The offering circular must be registered with the state, before the offer or sale of any franchise in that state, if your territory encompasses any part of California, Hawaii, Illinois, Maryland, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, and Washington. Nebraska, Florida, Texas, and Utah require an Area Developer or us to file a one-time exemption from their business opportunity laws. Kentucky, Florida, Michigan, Indiana, and Wisconsin require you to make an annual filing before the offer or sale of a franchise. In addition, Illinois, New York and Washington will require that you register as a franchise broker.

In addition to granting franchises, we are engaged in other business activities. From March 15, 2002 we operated one corporately owned Outlet in the State of Washington which, as of February 1, 2005, was sold to a franchisee. From August 1, 2003 we operated one corporately owned Outlet in the State of Indiana and on October 31, 2004, this location was closed. From October 2003 we operated one corporately owned Outlet in the State of New Jersey and on February 14, 2005, this location was closed. From September 4, 2004 we operated one corporately owned Outlet in the State of Florida and on April 30, 2005, this location was sold to a franchisee. The corporately owned Outlets are similar to the Outlet you will operate as part of our franchise system.

In addition, we will supply to you and other franchisees with the majority of the products you offer for resale including printer consumables and other items as described in ITEM 8. Some of these consumables and products feature our Marks.

Lastly, we provide our franchisees with a distinctive Customer Service Center at an approved location that is utilized in operating the Outlet. For additional information on the Customer Service Center, see ITEMS 5 and 8 of this Franchise Offering Circular.

### **General Description of the Market and Competition**

We target the general public as potential customers for Island Ink-Jet Outlets. You should expect competition from other businesses that offer similar products, including office supply stores, consumer electronics stores, mail order houses and Internet sellers. You may also encounter competition from other Island Ink-Jet Outlets operated by us or other franchisees.

### **Industry Specific Regulations**

You are solely responsible for complying with all local, state and federal laws and regulations as they pertain to the storage and disposal of ink products, including but not limited to any Environmental Protection Agency rules, regulations, laws and or guidelines, as well as of any state or local environmental agencies. There are no other regulations specific to the industry in which we operate, however, you are encouraged to seek the advice of your attorney and must comply with all local, state and federal laws under the terms of the Franchise Agreement.

## Agents for Service of Process

Our agents for service of process are disclosed in Exhibit B to this Offering Circular.

## ITEM 2 BUSINESS EXPERIENCE

### President: Armin Sachse

Mr. Sachse was appointed President of Island in January 2005. Mr. Sachse was also appointed President of Island Canada in January 2005. Mr. Sachse was President and sole shareholder of The Equipment Leasing Company in Mississauga, Ontario from May 2001 to January 2005. The Equipment Leasing Company is the Area Developer for the Province of Ontario.

Mr. Sachse retired as an officer of GE Capital CEF in 2000 where he held the position of VP Marketing and Sales of six operating divisions. He held a similar position with National Bank Leasing when it was acquired by GE. Prior to that he held senior positions at the Royal Bank of Canada head office in product management. Mr. Sachse was instrumental in creating and heading the bank's franchise financing group and was awarded a special recognition by the Canadian Franchise Association. He was an active member of the CFA and IFA.

### Secretary and Treasurer, Vice President -Finance: Ingrid Murray

Ms. Murray was appointed Secretary and Treasurer of Island on April 15, 2005 and was appointed Vice President Finance in March 2003. She also holds the same positions for Island Canada. From January 1993 to March 2003, Ms. Murray held the position of Systems/Firm Administrator with Huxham & Co Chartered Accountants in Courtenay, British Columbia. With her strong background in business management, Ms. Murray is in charge of finance, supply chain and the Island Ink-Jet International Assembly Plant.

### Senior Vice President, Franchise Development: David Massie

~~David Massie was appointed Senior Vice President, Franchise Development of Island in August 2005. From February 2003 to June 2005, Mr. Massie served as Director of Business Development for hotSPORTSnetworks in Vancouver, British Columbia. From December 2000 to January 2003, Mr. Massie served as Director of Franchise Development, Western Canada for Mr. SUB in Vancouver, British Columbia. He has also been an active member of the Canadian Franchise Association including serving on the Pacific Region Council.~~

### Vice President, Marketing: Brenda Williams

Brenda Williams was appointed Vice President – Marketing of Island in January 2006. From January 1999 to November 30, 2005, Ms. Williams served as Vice President Marketing and Corporate Communications for Ricky's All Day Grill, Family-style restaurants in Burnaby, British Columbia. She has also held senior management roles in Wendy's and Boston Pizza. Ms. Williams is a National Board Member of the Canadian Franchise Association.

### Vice President, Retail Operations: Wayne Maillet

Wayne Maillet was appointed Vice President, Retail Operations of Island in August 2006 in a consulting capacity. Mr. Maillet has been the President of Franchise Specialists, an independent consulting firm, since 1996. Mr. Maillet has worked across a variety of industries for such brands as The Keg, Uniglobe, Realty World and most recently as Chief Operating Officer of a major inkjet refiller franchisor in Canada. Mr. Maillet has been an active participant in the Canadian Franchise Association and is currently competing his designation as a Certified Franchise Executive with the International Franchise Association. Mr.

Maillet has a Bachelor of Business Management Degree and is an accomplished public speaker and a respected management consultant

**Director of Research & Development: Dr. Li Ying Zhang**

Dr. Zhang joined Island Ink-Jet in April 2006 on a contract basis. For the past ten years, Dr. Zhang has owned and operated a small chain of cartridge refilling stores in the Greater Vancouver area of British Columbia. Dr. Zhang holds PhD. in Chemistry and is a faculty member and research scientist at the University of British Columbia. Dr. Zhang specializes in new ink development and has thirteen years of industrial and retail experience in specialized ink formulations and the remanufacturing of inkjet and toner cartridges.

We do not employ outside brokers, however we authorize our Area Developers to sell our Franchises. Exhibit K discloses any sales agents affiliated with our company.

**ITEM 3  
LITIGATION**

Passco Diversified Fund II TVO, LLC, et al v. Island Ink-Jet Systems (US) Inc. et al.

Superior Court of California, County of Santa Ana (Case No. 06CC08320). Filed July 24, 2006. The Plaintiff, property owner of the Village at Orange shopping center, filed a breach of agreement claim against the Defendants. The Plaintiffs seek restitution for compensatory damages according to proof at time of trial in a sum expected to exceed \$50,000, reasonable attorney's fees and costs. Negotiations are ongoing in an attempt to settle this claim.

Valmac Enterprises Inc., Easton Enterprises, Inc. and Karen Valentine v. Island Ink-Jet Systems (US) Inc.

Island Ink-Jet Systems (US) Inc. is involved in an arbitration proceeding with one of its area developers. The area developer has alleged that Island did not comply with New York state franchising laws and made misrepresentations to the area developer. Island has defended the claim and has commenced a counterclaim. Island denies any wrongdoing and expects to succeed in the arbitration

No litigation is required to be disclosed in this Offering Circular. Other than the above noted actions, no litigation is required to be disclosed in this Offering Circular.

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

**ITEM 4  
BANKRUPTCY**

No person previously identified in Items 1 or 2 of this Offering Circular has been involved as a debtor in proceedings under the U.S. Bankruptcy Code as required to be disclosed in this Item.

**ITEM 5  
INITIAL FRANCHISE FEE**

**Franchise Agreement**

### Initial Franchise Fee

The initial franchise fee ("Franchise Fee") to operate one Island Ink-Jet Outlet is \$29,000. You must pay us the Franchise Fee in a lump sum when you execute the Franchise Agreement. The Franchise Fee is uniform for all franchisees and is non-refundable. If a suitable location is not secured within 6 months from the effective date of the Franchise Agreement, we may, at our option, terminate the Franchise Agreement and require that you sign a then current form of Franchise Agreement.

### Franchise Package

The cost of the Franchise Package ranges between \$74,600 and \$90,600 for a kiosk location (includes kiosk) and between \$45,350 and \$51,600 for an in-line location (excludes construction costs). It is impossible to forecast all possible ranges as each in-line site is unique and there may be some unforeseen expense incurred over and above the amounts stated. Any cost incurred over and above the standard costs are to be paid by you.

Once you have secured a Location, you will pay to us a non-recurring, non-refundable deposit which will be applied towards the purchase price of the Outlet. The amount of your deposit will be:

- (a) Twenty One Thousand Dollars (\$21,000.00) in the event you purchase a kiosk Customer Service Center; or
- (b) Fourteen Thousand Dollars (\$14,000) in the event you purchase an in-line Customer Service Center.

You will pay the balance ten business days prior to beginning operations. Island will not assign title to the Outlet to you until payment in full has been made.

Included in the Franchise Package are the following:

#### (a) Inventory and Equipment

We will provide inventory and equipment for the Outlet prior to opening. The inventory and equipment is based on the then current market value and product lists. Due to fluctuations in market value and additions or deletions of stock, the actual price for inventory and/or equipment may increase or decrease. The final price will be invoiced to you 10 days prior to the opening of the Outlet. The cost of opening inventory ranges from \$4,000 to \$6,000 and the cost of the equipment for your Outlet ranges from \$5,000 to \$7,500. These amounts are included in the initial deposit noted above and are non-refundable once ordered.

#### (b) Location

(i) **Kiosk Location:** We will deliver and provide set up services for the kiosk Customer Service Center. The price of the kiosk Customer Service Center will vary depending on any State or municipal requirements. This cost will range from \$27,000 to \$35,000. Any modifications to the standard kiosk model will be at your sole expense. Additionally, an Administration and Review Fee of \$2,500 will be applied to all kiosk locations for costs associated with the administration and processing thereof. The cost for your kiosk is included in the initial deposit noted above and is non-refundable once ordered.

You will submit a written request for the kiosk a minimum of 45 days prior to the opening of your Outlet. Payment for any upgrades or modifications of the kiosk is due at that time. Kiosks will not be ordered until a location is secured and payment has been



received by us. Costs associated with the kiosk are not refundable under any circumstances.

(ii) **In-Line Location:** If you wish to open an in-line Customer Service Center it will be solely your responsibility for obtaining the necessary permits, construction of the Outlet and payment to vendors. Due to variances in location size and construction requirements, costs may vary. We estimate them to be between \$15,000 and \$75,000. Vendor policies will determine whether any amounts paid for build-out of your location is refundable. Additionally, an Administration and Review Fee of \$2,500 will be applied to all in-line locations for costs associated with the administration and processing thereof. The Administration and Review Fee is non-refundable once paid and is included in your initial deposit.

(c) Training

Prior to the opening of your Outlet you must attend a two week training course at the International Franchise Support Center ("IFSC"). The cost for this training is \$4,600 which includes classroom training, materials and accommodation (for the duration of the training period only). The cost of the training is included in the Franchise Package and is non-refundable once paid. Travel expenses and meals are at your sole expense.

As well, prior to attending training at the IFSC, you will be required to spend two days in a designated operational Island Ink-Jet Outlet for pre-training orientation. You are responsible for any expenses incurred, if any, in relation to this training.

The estimated initial fees for an Island Ink-Jet Franchise ranges from \$100,100 to \$136,400 for a kiosk location and from \$85,850 to \$172,400 for an inline location. For a more comprehensive breakdown of your initial investment, please refer to ITEM 7.

We, or our agent, will provide you with on-site supervisory assistance at our discretion upon opening of the Outlet to ensure the kiosk and equipment is set up and functioning properly. Opening assistance is not provided for subsequent locations opened by you.

## **Area Development Agreement**

### Initial Area Development Fee

The initial Area Development fee is \$5,000 per location based on the market potential for each territory. The market potential is determined by population demographics and our analysis of this information. An Area Developer is required to develop no less than 70% of the pre-determined market share pursuant to a pre-determined development schedule. You must pay us 100% of the development fee in a lump sum when you execute the Area Development Agreement. The development fee is based on the number of locations to be developed in the territory and will vary depending on the region. The fee is not refundable under any circumstance.

An Area Developer is required to execute a single unit franchise agreement upon signing the Area Development Agreement. The initial fees for the franchise agreement are detailed above.

The estimated initial Area Development fee, including the opening of an Outlet, ranges from \$113,100 to \$1,740,200 for a kiosk location, and between \$98,850 to 1,776,200 for an in-line location. For a more comprehensive breakdown of your initial investment, please refer to ITEM 7.

## Training

Prior to the opening of your first location, you must complete our Area Developer training course at the IFSC. The cost for this training is \$1,000 which includes classroom training and materials. The cost for training is not refundable once paid. Travel expenses, accommodation and meals are at the Area Developer's cost.

In the States of California, Minnesota, North Dakota, Washington, South Dakota, Maryland and Illinois we are required to hold all initial fees and payments paid to us in an escrow account in the US Bank. These fees cannot be released until you are open for business.

## ITEM 6 OTHER FEES

Below is a detailed description of other recurring or isolated fees or payments that you must pay to us or that we impose or collect for a third party under the terms of the Franchise Agreement.

NAME OF FEE	AMOUNT	DUE DATE	REMARKS
Royalty	6% of Gross Sales	Monthly by the 10 <sup>th</sup> day of the following month	See definition of Gross Sales. <sup>1</sup> Monthly reporting due by the 5 <sup>th</sup> day of the following month. (Section 8.3)
Regional and National Marketing Fee	4% of Gross Sales	Concurrent with payment of the Royalty	You will not be required to contribute more than 4% of Gross Sales for the Regional and National Marketing Fee. Allocated 3% to regional advertising and 1% to national advertising (Section 10.3)
Initial National Advertising Fund Contribution	\$750	Prior to opening	Upon execution of franchise agreement, you will be required to pay a one-time-fee of \$750 which will be deposited into the National Advertising Fund. This amount can be credited towards your Initial Opening Promotion. (Section 10.6)
Ongoing Purchases	Varies	As invoiced	You will need to replenish your inventory of products and printer consumables in order to meet customer demand. (Section 3.2)
Telephone Directory Advertising	Varies	As invoiced	You must place in all yellow and white pages telephone directories a listing for your Island Ink-Jet Outlet. Your listing will be combined with the other Outlets in your area (Section 10.5)
Audit	Cost of audit plus interest on underpayment	As invoiced	Payable only if the audit shows an understatement in Gross Sales of at least 3%. (Section 11.4)
Interest on Late Payments	8% above prime per annum on outstanding balances	After due date	Applies to all Royalty Fees, Regional and National Marketing Fees and amounts due for purchases from us or affiliate. (Section 8.4)
Insurance Policies	Amount of unpaid premiums	As invoiced	Payable only if you fail to maintain required insurance coverage and we elect to obtain coverage for you. (Section 9.7)
Transfer Fee	\$5,000	At the time of transfer	This transfer fee does not apply to an assignment of interest to a wholly owned corporation between partners or to your spouse upon death or disability. (Section 12.3(7)). For a transfer to an entity wholly-owned by you, we will require you to pay an administrative fee of \$500.00.
Relocation Fee	\$2,500	Upon receipt of approval to the relocation	Payable if you relocate your Outlet (Section 3.3)
Renewal Fee	Renewal fee of twenty five (25%) percent of the then	At the time the Franchise Agreement is	To renew, you must substantially comply with the provisions of the Franchise Agreement. (Section 2.3(c))

<sup>1</sup> All citations of Section numbers throughout this Offering Circular are referenced to the Franchise Agreement, attached to this Offering Circular as Exhibit C, unless designated otherwise.

NAME OF FEE	AMOUNT	DUE DATE	REMARKS
	current franchise fee.	renewed	
Annual Convention	No fixed fee; a reasonable amount may be charged. We may waive the charge at our sole discretion.	Time of program	Attendance will not be required more than once per year and will not last more than 4 days. (Section 4.3)
Lawyers' Fees	All costs including lawyers' fees	As invoiced	You will reimburse us for all costs in enforcing obligations if we prevail. (Section 17.6)
Indemnification	All costs including lawyers' fees	As invoiced	You defend suits at your cost and hold us harmless against suits involving damages resulting from your operation of your Island Ink-Jet Outlet. (Section 7.3)
Upgraded POS System	Estimated initial fee to be between \$2,000 to \$6,000.	As invoiced	At such time the company implements a Point of Sale System you will be required to purchase the hardware and software that meets the specifications of the software vendor.
POS System Maintenance Fees	Estimated monthly fees range from \$50 to \$100.	As invoiced	Maximum fee may increase due to vendor price increases and/or inflation adjustment. We will notify you of adjustments
FAC Fee	Estimated fee to be between \$250 to \$500 per meeting, plus travel and accommodation expenses.	As invoiced	There will be two annual meetings of the FAC. Cost will vary depending on location of meeting and number of franchises.
Webpages	\$150 - \$300 start-up and \$10.00 per month	As invoiced	Each franchisee can purchase an optional template for a website for advertising their location and have it linked to our public website ( <a href="http://www.islandinkjet.com">www.islandinkjet.com</a> ). Maximum fee may increase due to vendor price increases and/or inflation adjustment. We will notify you of adjustments
Technical Fees	\$45.00 per month	As invoiced	Intranet, web-hosting, internal email and technical services. Maximum fee may increase due to vendor price increases and/or inflation adjustment. We will notify you of adjustments
Late Report and Late Payment Fees; Costs of Collection	\$25 per late report or payment	Payable as incurred	We may waive this charge in our sole discretion.
Management Fee	<u>Only if you get notice of default</u> from us and we appoint a manager; \$100 per day management fee, plus expenses	Deducted from funds of your business	Compensation, other costs, travel and living expenses of appointed manager. Per diem fee may increase.

We reserve the right to implement new programs which may include additional costs. We will advise you of these additional programs costs if and when they are implemented.

Island reserves the right to adjust the fees designated in the table upward or downward in proportion to the change, if any, on the CPI – Consumer Price Index.

No other fees or payments are to be paid to us, nor do we impose or collect any other fees or payments for any other third party. All fees are non-refundable unless otherwise specified to the contrary.

**NOTES**

<sup>1</sup> **Gross Sales.** The term Gross Sales shall be defined as sales income of any kind and from whatever source for all services or products from or in connection with your Outlet, including the sale of services or products made for cash or credit, or partly for cash and partly for credit, regardless of whether the sale is conducted in compliance with or in violation of the terms of the Franchise Agreement, whether or not the amounts are collected, and regardless of whether the sale is at the Outlet or off-site, and shall include: all sales made pursuant to telephone, internet or other similarly placed orders; and the amount of all sales assumed to have been lost by the interruption of business and which is the basis upon which an insurer has paid business interruption insurance. Gross Sales shall also include the fair market value of any services or products received by you in barter or exchange for its services and products. The following shall not be included in calculating Gross Sales: the amount of any tax imposed by any federal, state, municipal or other governmental authority on sales and collected from customers, provided that the amount of any such tax is shown separately and in fact paid by you to the appropriate governmental authority; and an exchange of product made between you and a customer, provided that the amount paid for the product by the customer was originally included in calculating Gross Sales. In calculating Gross Sales, the following shall be deducted: the amount of any cash refunded to a customer on account of the return of any product provided that the amount refunded with respect to such product was originally included in calculating Gross Sales; and an amount equal to the value of any discount given to a customer on account of the purchase of any product through the use of coupons or other similar type promotions approved by us, provided the sale upon which the discount is given was recorded at full value in calculating Gross Sales.

Below is a detailed description of other recurring or isolated fees or payments that you must pay to us or that we impose or collect for a third party under the terms of the Area Development Agreement.

NAME OF FEE	AMOUNT	DUE DATE	REMARKS
Interest on Late Payments	8% above prime per annum on outstanding balances	After due date	Applies to all Royalty Fees, Marketing and Promotion Fees and amounts due for purchases from us or our affiliate. (Section 5.4)
Additional Training Program	You are required to pay all expenses for one Franchisor representative, as well as a per diem fee	Time of program	Additional Training in operation of the Franchised Outlets is available to Area Developer for a maximum number of working days. (Section 6.10)
Transfer Fee	\$3,000	At the time of transfer	Payable upon transfer of your area development rights. (Section 16.8.5)
Transfer Training Fees	\$10,000	At the time of transfer	Payable upon transfer of your corporation. Training is required upon transfer of corporation. (Section 16.8.8)
Lawyers' Fees	All costs including lawyers' fees	As invoiced	You will reimburse us for all costs in enforcing obligations if we prevail. (Section 20.3)
Indemnification	All costs including lawyers' fees	As invoiced	You defend suits at your cost and hold us harmless against suits involving damages resulting from your operation of your Island Ink-Jet Outlet. (Section 11)
Public Offering Fees	\$5,000	At the time of Public Offering	Should you decide to go public you shall reimburse us for costs and expenses associated with reviewing the proposed offering material. (Section 16.3)

All fees are non-refundable unless otherwise specified to the contrary.

Below is a detailed description of other recurring or isolated fees or payments that we must pay the Area Developer under the terms of the Area Development Agreement.

NAME OF FEE	AMOUNT (Based on percentage of locations opened)	DUE DATE	REMARKS
Royalty	1.8% of Gross Sales	Monthly by the 30 <sup>th</sup> day of the following month	See definition of Gross Sales. <sup>1</sup> (Section 5.3; Item 6 of Schedule B)
Initial Area Development Fee	\$15,000 for each Franchised outlet opened	\$7,500 upon receipt of initial deposit and \$7,500 upon opening	For franchises opened in the states that require funds to be held in escrow (currently, CA, MN, ND, IL, MD, SD and WA), amounts shall be payable to Area Developer upon release of funds from Escrow. (Section 5.2.; Item 5 of Schedule B)

No other fees or payments are to be paid to us, nor do we impose or collect any other fees or payments for any other third party. All fees are non-refundable unless otherwise specified to the contrary.

**NOTES**

<sup>1</sup> Gross Sales. The term Gross Sales shall be defined as sales income of any kind and from whatever source for all services or products from or in connection with your Outlet, including the sale of services or products made for cash or credit, or partly for cash and partly for credit, regardless of whether the sale is conducted in compliance with or in violation of the terms of the Franchise Agreement, whether or not the amounts are collected, and regardless of whether the sale is at the Outlet or off-site, and shall include: all sales made pursuant to telephone, internet or other similarly placed orders; and the amount of all sales assumed to have been lost by the interruption of business and which is the basis upon which an insurer has paid business interruption insurance. Gross Sales shall also include the fair market value of any services or products received by you in barter or exchange for its services and products. The following shall not be included in calculating Gross Sales: the amount of any tax imposed by any federal, state, municipal or other governmental authority on sales and collected from customers, provided that the amount of any such tax is shown separately and in fact paid by you to the appropriate governmental authority; and an exchange of product made between you and a customer, provided that the amount paid for the product by the customer was originally included in calculating Gross Sales. In calculating Gross Sales, the following shall be deducted: the amount of any cash refunded to a customer on account of the return of any product provided that the amount refunded with respect to such product was originally included in calculating Gross Sales; and an amount equal to the value of any discount given to a customer on account of the purchase of any product through the use of coupons or other similar type promotions approved by us, provided the sale upon which the discount is given was recorded at full value in calculating Gross Sales.

**ITEM 7.  
INITIAL INVESTMENT**

We anticipate that you will incur the following estimated initial expenditures in the establishment of your first Island Ink-Jet Outlet.

NAMES OF EXPENDITURES	ACTUAL OR ESTIMATED AMOUNTS FOR YOU	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Franchise Fee <sup>1</sup>	\$29,000	Lump Sum	Upon Signing Franchise Agreement	Us
Rent <sup>2</sup>	\$2,000 to \$8,000-	As Arranged	As directed by Lessor	Lessor
Kiosk <sup>3</sup>	\$27,000 to \$35,000	Lump Sum	Included in the deposit for the Franchise Package	Us
Franchise Packaget <sup>4</sup> (Does not include kiosk or construction costs)	\$18,600 to \$26,600 (kiosk location) \$16,350 to \$22,600 (in-line location)	Lump Sum	\$21,000 (kiosk) or \$14,000 (in-line) upon execution of lease; invoiced balance 10 business days prior to opening. Subsequent charges due within 30 days after opening	Us
Utility Deposits <sup>5</sup>	\$200 to \$1,000	As Arranged	Before Beginning Operations	Utilities
Leasehold Modifications <sup>6</sup>	\$100 to \$1,000	As Arranged	Before Beginning Operations	Third Parties
Construction Costs <sup>5</sup>	\$15,000 to \$75,000	As Arranged	Before Beginning Operations	Third Parties
Furniture, Fixtures & Equipment <sup>7</sup>	\$200 to \$2,000	As Arranged	Before Beginning Operations	Third Parties
Insurance <sup>8</sup>	\$300 to \$1,000	As Arranged	Before Beginning Operations	Insurance Carrier
Office Equipment & Supplies <sup>9</sup>	\$200 to \$300	As Arranged	Before Beginning Operations	Third Parties
Additional Training Expenses <sup>10</sup>	\$1,000 to \$5,000	As Arranged	Before Beginning Operations	Third Parties
Legal/Accounting/ Licenses/Permits <sup>11</sup>	\$1,500 to \$2,500	As Arranged	Before Beginning Operations	Licensing Authority
Additional Funds <sup>12</sup> (3 months)	\$5,000 to \$10,000	As Arranged	As Necessary	You Determine
Initial Opening Promotion <sup>13</sup>	\$15,000	As Arranged	Upon receipt of invoices	Third Parties