

LA BOXING FRANCHISE AGREEMENT

THIS LA BOXING FRANCHISE AGREEMENT is signed on _____, 2006 between LA Boxing Franchise Corporation and _____

This Agreement is written in an informal style to make it easy to read and to help you become thoroughly familiar with all of the important rights and obligations that the Agreement covers before you sign it. In this Agreement, LA Boxing Franchise Corporation is referred to as the "Franchisor," "we," "us" or "our." You are referred to as the "Franchisee," "you" or "your."

BACKGROUND

A. We have developed and own a membership fitness system consisting of unique boxing and kickboxing training regimens, and, a proprietary system featuring membership software and accounting programs, boxing equipment, operations manuals, sales manuals, training and instruction programs that include cardio boxing, cardio kick boxing, Jui Jitsu, Muay Thai boxing, utilizing a weight room, and a professional boxing ring with unique construction and design features. We have rights to and own the name "LA Boxing" and a unique system for the operation of a membership recreational boxing fitness gym utilizing skilled boxer and kick boxer instructors.

B. You recognize the benefits from receiving an LA Boxing Franchise and desire to enter into this Agreement subject to the terms of this Agreement and to receive the benefits provided by us under this Agreement.

C. We have reviewed your franchise application and have decided to award an LA Boxing Franchise to you on the terms stated in this Agreement and as evidenced by this Agreement.

TERMS

The parties agree as follows:

ARTICLE 1 - APPOINTMENT

SECTION 1.1 GRANT OF FRANCHISE

We grant to you, subject to the terms of this Agreement, the right and you undertake the obligation, to operate one (1) LA Boxing Franchise under the System only at the location and within the territory described in Section 1.2.

SECTION 1.2 LOCATION OF YOUR LA BOXING FRANCHISE

You agree that you will operate your LA Boxing Franchise only at the location described on the cover page or, if none is stated, the Premises will be designated by you and approved by us and delineated in Exhibit A (attached hereto and incorporated herein), and completed ninety (90) days after you select a site in accordance with Section 4.1. The franchise location cannot be changed without our prior written consent and compliance with our relocation procedures. You will not solicit business outside your Exclusive Territory through the use of an 800 number, catalog, direct mail, Internet, Web Site or other advertising or solicitation method without our prior written consent.

SECTION 1.3 EXCLUSIVE TERRITORY

Your Exclusive Territory is defined in Section 19.1. The written boundaries of your Exclusive Territory will be defined by designated U. S. Postal Zip Code(s). During the Term, if you are not in default, we agree not to open a Company-Owned Unit or franchise another LA Boxing Franchise within your Exclusive Territory. You will be assigned an Exclusive Territory based upon population density, whether your Franchise Location is in a metropolitan or rural area, but generally we will not place another franchise within five (5) miles of the Franchise Location of your LA Boxing gym, and your Exclusive Territory will have a population base of not less than 100,000 people. However, we reserve for ourselves the rights stated in Section 5.7, which are superior to your rights under this Agreement.

All capitalized terms are defined in ARTICLE 19

SECTION 1.4 RELOCATION OF YOUR LA BOXING FRANCHISE

(a) **Loss of Lease.** If the Premises are leased by you and the lease expires or is terminated (provided termination is not due to your default) before the expiration or termination of this Agreement, you then have 90 days to secure a new Franchise Location within your Exclusive Territory but not within the exclusive territory of a Company Unit or another Franchise Unit of the System whether operating or under development. We must approve the new Franchise Location in writing. You have 90 days from the date the new lease is signed to open and begin full operation of the new LA Boxing Franchise in compliance with this Agreement unless we otherwise agree in writing. Your failure to secure a new Franchise Location and begin operation within the specified times is an Event of Default on your part.

(b) **Casualty.** If the Premises is damaged or destroyed by fire or other casualty, or is required by any governmental authority, to be repaired or reconstructed you will, at your expense, repair or reconstruct the Premises within a reasonable time under the circumstances. The minimum acceptable appearance for the restored Premises will be as existed just before the casualty. However, every reasonable effort must be made to have the restored Premises reflect the then current trade dress of the newest LA Boxing Franchises within the System. If the Premises is substantially destroyed by fire or other casualty, you may, with our written agreement, terminate this Agreement instead of reconstructing the Premises or relocating your LA Boxing Franchise.

(c) **Condemnation.** You will, as soon as possible, give us notice of any proposed taking by eminent domain. If we agree that your LA Boxing Franchise or a substantial portion is to be taken, we will give prompt consideration to transferring your LA Boxing Franchise to a nearby location you select within your Exclusive Territory but not within the exclusive territory of a Company Unit or another Franchise Unit whether operating or under development as quickly as reasonably possible. You will complete this undertaking within 90 days of the taking. If the new Franchise Location is acceptable and we authorize the transfer, and if you open a new LA Boxing Franchise at the new Franchise Location in accordance with our specifications within 90 days after obtaining the new location, your new LA Boxing Franchise will be deemed to be your LA Boxing Franchise under this Agreement. If a condemnation takes place and a new LA Boxing Franchise does not, for any reason, open for business within 90 days after the taking, this is an Event of Default on your part.

SECTION 1.5 YOUR RIGHT OF FIRST REFUSAL

If we want to open a Company Unit or Franchise Unit in a Zip Code area contiguous to your Exclusive Territory, you or another existing franchisee who is closest to the proposed location of the new Company Unit or Franchise Unit has the right of first refusal for 30 days to purchase another LA Boxing franchise for the proposed location on terms substantially similar to those stated in our then-current form of Franchise Agreement being offered to new franchisees. Unless otherwise mutually agreed by the parties, the closing of the purchase of the additional LA Boxing franchise by you will be held at our principal office no later than 60 days after the right of first refusal is exercised. If you do not timely elect to exercise your right of first refusal, we may open the Company Unit, or sell the Franchise to another franchisee for the location without any further obligation or liability to you. Other than this right of first refusal, you will have no rights to open additional Franchise Units under this Agreement.

ARTICLE 2 - OUR DUTIES

We will provide you with the following initial and ongoing assistance and services, as long as you are not in default under this Agreement:

SECTION 2.1 SITE SELECTION ASSISTANCE

We will supply to you our site selection criteria. We will not unreasonably withhold approval of any site that meets our standards for demographic characteristics, traffic patterns, parking, the predominant character of the neighborhood, competition from other businesses providing similar services within the area, the proximity to other businesses, the nature of other businesses in proximity to the site and other commercial characteristics, the size, appearance and other physical characteristics of the site, and any other factors that we consider relevant in approving or disapproving a site. We will review site approval submissions on a first-received basis. If we do not approve the selected site, you have 30 days to submit a new site within the Reserved Area for our written approval. **WE DO**

NOT REPRESENT THAT WE HAVE ANY SPECIAL EXPERTISE IN SELECTING SITES. OUR APPROVAL OF A SITE IS NOT A REPRESENTATION OR WARRANTY THAT THE LA BOXING FRANCHISE WILL BE PROFITABLE OR THAT YOUR SALES WILL ATTAIN ANY PREDETERMINED LEVELS. APPROVAL IS INTENDED ONLY TO INDICATE THAT THE PROPOSED SITE MEETS OUR MINIMUM CRITERIA FOR IDENTIFYING SITES. YOU AGREE THAT OUR APPROVAL OR DISAPPROVAL OF A PROPOSED SITE DOES NOT IMPOSE ANY LIABILITY ON US.

SECTION 2.2 PLANS AND SPECIFICATIONS

(a) We will loan to you:

(i) A sample set of standard building plans and specifications and/or standard recommended floor plans prepared by an architect;

(ii) Specifications of our requirements for design, decoration, layout, equipment, furniture, fixtures and signs for the LA Boxing Franchise (collectively, the "Design Specifications"); and

(iii) Specifications for LA Boxing uniforms for your employees, which are to be purchased directly from our approved suppliers.

(b) On or before the Opening Date, you must return to us the plans and specifications described in Subsection 2.2(a).

SECTION 2.3 BUSINESS PLANNING ASSISTANCE

After this Agreement is signed by the parties, we will review and comment on any business plan and pro forma financial projections you prepare. **WE DO NOT REPRESENT THAT WE HAVE ANY SPECIAL EXPERTISE IN REVIEWING OR DEVELOPING BUSINESS PLANS. OUR REVIEW AND COMMENTARY OF A BUSINESS PLAN OR FINANCIAL PROFORMA IS NOT A REPRESENTATION OR WARRANTY THAT THE LA BOXING FRANCHISE WILL BE PROFITABLE OR THAT YOUR SALES WILL ATTAIN ANY PREDETERMINED LEVELS. OUR REVIEW AND COMMENTARY IS INTENDED ONLY TO PROVIDE INFORMATION SHARING TO YOU AND YOU AGREE THAT SUCH REVIEW AND COMMENTARY DOES NOT IMPOSE ANY LIABILITY ON US.**

SECTION 2.4 ACCOUNTING, COST CONTROL AND INVENTORY CONTROL SYSTEMS

We will provide you with membership accounting, cost control, and inventory control systems.

SECTION 2.5 LISTS, FORMS AND SCHEDULES

We will loan to you:

(a) A list of required boxing and gym equipment, supplies, materials, inventory and other items necessary to open and operate your LA Boxing Franchise and a list of approved suppliers of these items;

(b) An initial sample set of forms, including training class schedules, daily reports, membership agreements, standard brochures and various operational forms, standardized periodic weekly reporting forms for reporting accounting information, cost analysis and purchase order forms;

(c) A schedule of items that must be purchased from us, or our Affiliates, including inventory, business forms, brochures and other items; and

(d) A schedule of recommended equipment and supplies that can be purchased from third-party suppliers.

These forms and schedules are described in the Manuals. **WE DO NOT WARRANT THE COMPLETENESS, LEGALITY OR ENFORCEABILITY OF ANY AGREEMENTS OR FORMS. YOU MUST RETAIN YOUR OWN COUNSEL TO REVIEW AND REVISE SUCH AGREEMENTS AND DOCUMENTS TO CONFORM TO ALL APPLICABLE FEDERAL AND STATE LAWS.**

SECTION 2.6 EMPLOYEE INFORMATION AND ASSISTANCE

We will loan to you a standardized interviewing/selection system. You are solely responsible for the hiring, disciplining, supervising, promoting, and firing of your employees and the establishment of their salaries as further provided in Section 4.8.

SECTION 2.7 INITIAL TRAINING

(a) **Initial Training.** We will provide you with five (5) Business Days of Initial Training for up to three (3) Trainees at our training facilities in Costa Mesa, California. Unless otherwise agreed in writing, at least 1 Trainee must be the Franchise Owner. If you will not be active in the day-to-day activities of your LA Boxing Franchise, you may designate another person as your Manager who will be active in the day-to-day activities of your LA Boxing Franchise to be another Trainee. All Trainees must be acceptable to us. Initial Training includes daily operations, membership selling techniques, instructor training, instruction in administration, operations, event promotions, and marketing and franchisor relations. Training programs may differ in content and length for Franchise Owners or employees depending upon their responsibilities at the LA Boxing Franchise. We will provide, at our expense, (as Initial Training is included in the Initial Franchise Fee), instructors, facilities, equipment, training materials and technical training tools for Initial Training. You are responsible for all expenses of the Trainees in attending Initial Training including all travel, lodging and meal expenses. You will pay all expenses incurred to have your additional employees attend Initial Training, including reasonable training fees.

(b) **Failure to Complete Initial Training.** If any Trainee fails to satisfactorily complete Initial Training, as reasonably determined by us, we may: (i) at your expense and direction, re-train the Trainee or train another Trainee; or (ii) elect to terminate this Agreement and refund the Initial Franchise Fee and other fees collected under this Agreement to you without interest, less our out-of-pocket costs and our standard fees for the training provided (currently \$500 per day per person).

SECTION 2.8 LOAN OF THE MANUALS

We will loan to you one registered copy of each volume of the Manuals (with revisions as required). Our practice is to deliver the Manuals to you at, or shortly before, Initial Training.

SECTION 2.9 PRE-OPENING INSPECTION

We will inspect your Franchise Location before you open. We will provide you with advice, as we deem appropriate, to assist you in conforming to applicable LA BOXING Franchise standards before the Opening Date.

SECTION 2.10 PRE-OPENING ON-SITE TRAINING; OPENING SUPERVISOR

We will make available to you pre-opening, on-site training for a Business Day by our Opening Supervisor, in most instances to be conducted at your LA Boxing Franchise Location shortly before the Opening Date. The on-site training program involves a review of all personnel, equipment, supplies, systems and operations. The Opening Supervisor will also observe boxing and fitness training classes and oversee the operation. We will pay the expenses of the Opening Supervisor.

SECTION 2.11 CONTINUED ASSISTANCE AND SUPPORT

Upon the opening of your LA Boxing Franchise, we will, or may provide to you the following:

(a) **Accounting Services.** We will provide you with the following accounting services: membership sales, product sales, and general and administrative.

(b) **Field Visits.** We will provide assistance to you in the development and operation of your LA Boxing Franchise by means of periodic visits by one of our field representatives.

(c) **Telephone Assistance.** We will provide informational assistance by telephone, including consultation on matters involving operations, advertising, promotion and business methods.

(d) **Advertising and Public Relations Campaigns.** We will generally promote our franchisees' businesses through advertising and public relations campaigns.

(e) **Local Advertising.** We will provide you advice on Local Advertising.

(f) **Promotional Methods and Materials.** We will provide you with promotional methods and materials that we develop.

(g) **Radio and Television Commercials.** We may provide at our discretion, a pre-approved radio script, and camera-ready television commercials (not including airtime) for your use in your ADI.

(h) **Periodic Assistance.** We may provide advisory assistance in the operation and promotion of the LA Boxing Franchise, as we deem advisable. Advisory assistance may include additional training and assistance, communication of new developments, improvements in equipment and supplies, and new techniques in advertising, service and management relevant to the operation of the LA Boxing Franchise.

(i) **Refresher or Additional Training.** We may provide refresher training programs, seminars or advanced management training for you and your employees at our principal training facility in Costa Mesa, California, as may be required at our option. Training is not required more often than once per year. However, if you receive an unsatisfactory inspection report from us and fail to promptly remedy the deficiencies, we may require your Manager and designated employees to attend refresher training as soon as reasonably possible. You are solely responsible for all expenses associated with these programs including the then prevailing standard training fee we charge for these programs and all travel, meals and lodging costs of your attendees.

(j) **Special Assistance.** If you request, we will furnish non-routine guidance and assistance to address your unusual or unique operating problems at our customary per diem rates. You will be responsible for all direct and out-of-pocket expenses we incur.

(k) **Research and Development.** We will continue to research and develop new equipment, products and services, introductions and techniques, as we deem appropriate in our sole discretion. We may conduct market research and testing to determine consumer trends and the salability of new products and services. If we choose you, and if you agree, you will participate in our market research programs, in test marketing new products and services in the LA Boxing Franchise and by providing us with timely reports and other relevant information regarding that market research. If you participate in any test marketing, you agree to purchase a reasonable quantity of the products or services being tested and to effectively promote and make a good faith effort to sell them.

SECTION 2.12 LICENSE OF INTELLECTUAL PROPERTY

Subject to this Agreement, and only for so long as this Agreement is in effect, we sublicense to you the right to use the "LA BoxingTM" trade name and the other Intellectual Property.

SECTION 2.13 OUR TEMPORARY OPERATION OF YOUR UNIT

At our option, if:

- (a) you fail to keep your LA Boxing Franchise open for business during normal business hours;
- (b) you are absent from your LA Boxing Franchise more than 5 days or abandon the Premises;

(c) you or the Franchise Owner dies or becomes permanently incapacitated and the Franchise or the ownership interest in the Franchisee is not assigned promptly pursuant to Section 11.4;

(d) you materially breach any of our standards and specifications for the operation of your LA Boxing Franchise; or

(e) your LA Boxing Franchise is terminated and we elect to purchase your business assets as provided in Section 13.4;

then, we are entitled (but have no obligation) to enter your Premises and to operate and manage your LA Boxing Franchise for your (or your estate's) account until the LA Boxing Franchise is terminated, transferred to a party under Subsection 11.2(f), purchased by us, or until you resume control over your LA Boxing Franchise and operate it in accordance with this Agreement. Our operation and management will not continue for more than 90 days without your written consent or the consent of the representatives of your estate. If we operate your LA Boxing Franchise, we will account to you or your estate for all net income from the operation less our reasonable expenses incurred in, and a reasonable management fee for, our operation of your LA Boxing Franchise.

SECTION 2.14 DUTIES SOLELY TO YOU

All of our obligations under this Agreement are only to you. No other party is entitled to rely on, enforce, or obtain relief for breach of the obligations either directly or by subrogation.

SECTION 2.15 OUR RIGHT TO DELEGATE DUTIES

You agree to our right to delegate our duties under this Agreement to a Designee. You must discharge your duties with the Designee to the extent we request, as you must do with us. We remain responsible for our obligations under this Agreement even if delegated to the Designee.

ARTICLE 3 - FEES AND PAYMENTS

SECTION 3.1 TYPES OF FEES

In consideration of our signing this Agreement, you must pay to us the following fees, in addition to any others required under this Agreement, all payable in United States currency at our principal office:

(a) **Initial Franchise Fee.** You must pay to us an Initial Franchise Fee of Twenty-Five Thousand Dollars (\$25,000) payable at the same time this Agreement is signed. The Initial Franchise Fee is fully earned by us on receipt and, except as expressly provided otherwise in this Agreement, is non-refundable upon signing this Agreement.

(b) **Royalty Fee.** You will pay a continuing monthly non-refundable Royalty Fee during the Term equal to Six Percent (6.0%) of monthly Franchise Gross Revenues.

(c) **Advertising Contributions.** If we institute an Advertising Contribution, you will be required to pay a continuing monthly Advertising Contribution to the Marketing Fund from the time of notice and continuing for the balance of the Term in an amount equal to Two Percent (2.0%) of monthly Franchise Gross Revenues. We have the sole right to institute and enforce your obligations and all other franchisees that are required to make Advertising Contributions. Neither you, nor any other franchisee obligated to make Advertising Contributions, is a third party beneficiary of the Marketing Fund or has any right to enforce any obligation to contribute the Marketing Fund.

SECTION 3.2 PAYMENT SCHEDULE

The Royalty Fee and Advertising Contributions must be paid to us by the fifth (5th) day of each month during the Term for the previous month. All other amounts due to us from you will be paid as specified in this

Agreement. If no time is specified, these amounts are due upon receipt of an invoice from us. Any payment or report not actually received by us on or before the due date is overdue.

SECTION 3.3 PAYMENT SYSTEM

(a) If we institute an automatic payment system, you will be required to convert to such system with payments in accordance with such system. If the automatic payment system is instituted by us, all payments by you to us or our Affiliates, upon our request, will be effectuated by a Payment System by the use of pre-authorized transfers from your operating account through the use of special checks or electronic fund transfers, that we will process at the time any payment is due or through the use of any other payment system we designate. You will cooperate with us to implement the Payment System within 15 days before the Opening Date. You agree to cooperate with us in maintaining the efficient operation of the Payment System, including your deposit of all Franchise Gross Revenues you receive in your operating account accessed by the Payment System within one (1) Business Day of receipt.

(b) You will give your financial institution instructions in a form we provide or approve and will obtain the financial institution's agreement to follow these instructions. You will provide us with copies of these instructions and agreement. The financial institution's agreement may not be withdrawn or modified without our written approval and approval is within our sole discretion. You will also sign all other forms for funds transfer as the financial institution or we may request.

(c) We may require your financial institution to send a monthly statement of all activity in the designated account to us at the same time as it sends these statements to you, and any other reports of the activity in the operating account as we reasonably determine and request.

(d) If you maintain any other bank accounts for your LA Boxing Franchise, you must identify these accounts to us and provide to us copies of the monthly statements for all these accounts and the details of all deposits and withdrawals to them.

(e) You will pay all charges imposed by your financial institution. We will pay the charges imposed by our financial institution for the Payment System.

(f) You agree that your obligations to make payments under this Agreement and any other agreement entered into with us or our Affiliates for your LA Boxing Franchise, and our rights and those of our Affiliates, if any, to receive these payments, are absolute and unconditional, and are not subject to any abatement, reduction, setoff, defense, counterclaim or recoupment due or alleged to be due to, or by reason of, any past, present or future claims that you have or may have against us, any of our Affiliates, any of our Designees, or against any other person for any reason.

SECTION 3.4 INTEREST ON LATE PAYMENTS; LATE CHARGE

Although each failure to pay monies when due is an Event of Default, to encourage prompt payment and to cover the costs involved in processing late payments, if any payment under this Agreement or any other agreement between us or our Affiliates and you for your LA Boxing Franchise is overdue for any reason, you must pay to us, on demand, in addition to the overdue amount, any insufficient funds (NSF) charges we incur and interest on the overdue amount from the date it was due until paid equal to the lesser of: (i) eighteen percent (18%) per annum; or (ii) the maximum rate of interest permitted by law. You must also pay a late charge of Two Hundred Fifty Dollars (\$250) for each payment that is overdue. If we owe you money, we will pay the same interest and late charge, if we pay you late.

SECTION 3.5 APPLICATION OF PAYMENTS

We have sole discretion to apply any payments you make to your past due indebtedness including the Royalty Fee, Advertising Contributions, purchases from us or our Affiliates, interest, insufficient funds (NSF) charges, or any other indebtedness of you to us or our Affiliates in any manner we choose regardless of your designation.

SECTION 3.6 NO WITHHOLDING

You agree that under no circumstances will you withhold or suspend payment of, or reduce the amount of the Royalty Fee and Advertising Contributions Fee, if instituted, payable under this Agreement. Notwithstanding the foregoing, if you dispute in good faith the amount of an individual payment due under this Agreement, you may pay only the amount you believe is due, provided that you give us prompt notice of the reasons you dispute the amount of the payment and proceed to make good faith efforts to resolve the dispute.

ARTICLE 4 - YOUR DUTIES

SECTION 4.1 ACQUISITION OF THE SITE

(a) **Site Approval.** You are solely responsible for selecting the site. If a site for your LA Boxing Franchise has not been selected on the Agreement Date, you must complete the acquisition or lease arrangements for your Premises located in the Reserved Area, at your expense within 30 days after the Agreement Date, after obtaining our written approval under Section 2.1. If a site has not been approved within three (3) months of the Agreement Date, we may terminate this Agreement and refund the Initial Franchise Fee to you without interest, less our out-of-pocket costs and our standard fees and expenses for the assistance we have provided under this Agreement including site location assistance, and our fees for any training (currently, \$500 per person per day).

(b) **Lease of the Site.** We must approve any lease of the Premises. You must deliver a copy of the proposed lease to us at least 15 days before it is to be signed by you.

SECTION 4.2 CONSTRUCTION PLANS AND PERMITS

For the construction of your Premises, you will do the following:

(a) You must employ a qualified architect or engineer with adequate errors and omissions insurance to prepare a site plan and plans and specifications adapting our standard plans and specifications to your approved Franchise Location and to applicable laws, lease requirements and restrictions, and market conditions. The architect or engineer must be especially mindful of all zoning, signage, seating capacity, parking requirements and storage requirements. Any material modification to the standard plans and specifications must be sealed and stamped by the architect or engineer and approved by us. The modified plans and approvals, once approved by us, will not be materially changed or modified without our written approval;

(b) You will employ professional supervision satisfactory to us over preparation of the site layout and plan and over construction of your Premises; and

(c) You must obtain all permits and certifications required for the lawful construction and operation of your LA Boxing Franchise, together with certifications from all governmental authorities having jurisdiction over your Premises and your LA Boxing Franchise. You must provide us with evidence that all necessary permits have been obtained and that all requirements for construction and operation have been met, including zoning, access, sign, fire, health, environmental and safety requirements.

SECTION 4.3 CONSTRUCTION REQUIREMENTS

You must begin construction within sixty (60) days after a site is obtained and provide written notice to us of the date construction of your LA Boxing Franchise is completed. You will construct the Premises in accordance to the approved plans described in Section 4.2 and the Design Specifications. You must maintain continuous construction of the Premises and must complete construction, including all exterior and interior carpentry, electrical, painting and finishing work and installation of all with the approved fixtures, equipment and signs, in accordance with the site plans and Design Specifications, at your expense, within ninety (90) days from the Agreement Date. If you fail to complete construction timely, you are in material default of this Agreement and we have the right to terminate this Agreement. You agree that our representatives and we have the right to inspect the construction at all reasonable times. You will within five (5) days after completion of construction obtain a certificate of occupancy,

and after obtaining our approval for opening, will open your LA Boxing Franchise within ten (10) days after the date of the certificate of occupancy. You and we agree that time is of the essence in constructing and opening your LA Boxing Franchise.

SECTION 4.4 OPENING

You agree not to open your LA Boxing Franchise for business until: (a) all your obligations under Sections 4.1 through 4.3 have been fulfilled; (b) we determine that your LA Boxing Franchise has been constructed, furnished, equipped, and decorated in accordance with approved plans and specifications; (c) the training of the Trainees has been completed to our reasonable satisfaction; (d) the Initial Franchise Fee and all amounts due to us and our Affiliates under this Agreement have been paid in full; (e) we have been furnished with certificates of insurance and copies of all insurance policies or all other evidence of insurance coverage as we reasonably request; (f) you have obtained a certificate of occupancy for your Premises; and (g) you have obtained all necessary licenses and permits to operate your LA Boxing Franchise. Final approval by us of the opening of your LA Boxing Franchise will be given in writing. You agree to comply with these conditions and be prepared to open your LA Boxing Franchise for business within six (6) months after execution of this Agreement.

SECTION 4.5 USE OF THE PREMISES

You must use your Premises only for the operation of your LA Boxing Franchise. You must keep your LA Boxing Franchise open for business and in normal operation for the minimum hours and days as we reasonably require in the Manuals or otherwise in writing except as may be limited by local law or the landlord's rules and regulations.

SECTION 4.6 MAINTENANCE AND REPAIRS

(a) You must maintain your LA Boxing Franchise in the highest and most uniform degree of sanitation, repair, appearance, condition and security as stated in the Manuals and as a modern, clean, adequately lighted and efficiently operated LA Boxing Franchise providing high quality products and services with efficient, courteous and friendly customer service as we require. You must make all additions, alterations, repairs and replacements to your LA Boxing Franchise (but no others without our written consent) as reasonably required for that purpose, including all periodic repainting, changes in appearance, repairs to impaired equipment and replacement of obsolete signs as we direct subject to Capital Expenditure Limitation stated in Section 4.21. You must meet and maintain the highest safety standards and ratings applicable to the operation of your LA Boxing Franchise, as we reasonably require.

(b) You must maintain contracts with reputable firms for the maintenance of the Premises and the machinery and equipment and, if we determine to be appropriate or necessary, for the landscaped areas of the Premises. Contracts for maintenance of the Premises and the machinery and equipment must provide for the performance of services, including preventative maintenance services, and be with financially responsible firms, that: (i) maintain adequate insurance and bonding; (ii) have personnel who are factory trained to service equipment of the type in the Premises; and (iii) maintain an adequate supply of parts for the machinery, equipment and tools. Contracts for landscape maintenance must be with financially responsible firms. You will provide us, upon our request, with a copy of any contract for maintenance that you enter into with any outside maintenance firm. If you fail to keep these contracts in full effect, we may do so at your expense.

SECTION 4.7 OPERATIONAL REQUIREMENTS

You agree to:

(a) Operate your LA Boxing Franchise in conformity with all uniform methods, standards and specifications required in the Manuals or otherwise, to ensure that the highest degree of quality and service is uniformly maintained. You agree to:

(b) Comply with the procedures and systems we reasonably institute on a System-wide basis both now and in the future, including those on recommended salary levels, sales, good business practices, advertising and other obligations and restrictions; and

(c) Maintain in sufficient supply (as we may reasonably prescribe in the Manuals or otherwise in writing) and use at all times, only inventory, equipment, materials, advertising methods and formats, and supplies that conform with our standards and specifications, if any, at all times sufficient to meet the anticipated volume of business, and to refrain from deviating from these requirements without our written consent; and

(d) Adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct in all dealings with customers, suppliers, employees, independent contractors, us and the public; and

(e) Sell or offer for sale only the products and services that meet our reasonable uniform standards of quality and quantity; have been expressly approved for sale in the Manuals or otherwise in writing by us at retail to consumers only from your LA Boxing Franchise; not sell any items for redistribution or resale; sell or offer for sale all approved products and services; refrain from any deviation from our standards and specifications for providing or selling the products and services without our written consent; and discontinue selling and offering for sale any products and services that we reasonably disapprove on a System-wide basis in writing at any time; and

(f) Comply with all warranty policies and procedures we reasonably require in the Manuals or otherwise under authorized warranties on LA Boxing Products; and

(g) Purchase and install, at your expense, all fixtures, furnishings, signs and equipment we reasonably specify. The equipment must be maintained in a condition that meets the operational standards specified in the Manuals. As equipment becomes obsolete or inoperable, you will replace the equipment with equipment that is then approved for use in the LA Boxing Franchise. If we determine that additional or replacement equipment is needed on a System-wide basis because of a change in décor, method of fitness training, a change in technology, customer concerns or health or safety considerations, you will install the additional equipment or replacement equipment within the time we specify, subject to the Capital Expenditure Limitation in Section 4.21.

SECTION 4.8 HIRING, TRAINING AND APPEARANCE OF EMPLOYEES

You will maintain a competent, conscientious staff and employ the number of employees and independent contractors, necessary to meet the anticipated volume of business and to achieve the goals of the LA Boxing System. You will take all steps necessary to ensure that your employees meet the employment criteria and keep a neat appearance and comply with any dress code we require. You are solely responsible for the terms of their employment and compensation and, except for training required under this Agreement, for the proper training of the employees in the operation of your LA Boxing Franchise. Subject to System-wide recommendations in the Manuals, you are solely responsible for all employment decisions and functions, including hiring, firing, establishing wage and hour requirements, disciplining, supervising and record keeping. You will not recruit or hire any employee of a LA Boxing Franchise operated by us or another franchisee within the System without obtaining the employer's written permission, which will not be unreasonably withheld, subject to any covenant not to compete, the provisions of which will be respected and not challenged.

SECTION 4.9 MANAGEMENT OF YOUR LA BOXING FRANCHISE

(a) If this Agreement is signed by 2 or more individuals or by a business entity, you agree to designate in writing one (1) individual as the Manager upon signing this Agreement. We have the right to rely solely on instructions of the Manager concerning the operation of the LA Boxing Franchise until we receive a duly signed written notice changing the designated Manager.

(b) The Manager must devote his or her best full-time efforts to the management and operation of your LA Boxing Franchise. You agree that your LA Boxing Franchise requires the day-to-day supervision of the Manager at all times your LA Boxing Franchise is open for business. The Manager, and all successive Managers, if

any, is required to complete Initial Training before managing your LA Boxing Franchise, unless we otherwise agree to waive such requirement in writing.

(c) If we have permitted the Manager to be an individual other than the Franchise Owner, and the Manager fails to satisfy his or her obligations provided in Subsection 4.9(b) due to death, disability, termination of employment or for any other reason, the Franchise Owner will satisfy these obligations until you designate a new Manager of your LA Boxing Franchise acceptable to us, who has successfully completed Initial Training. You are solely responsible for the expenses associated with Initial Training, including the then-prevailing standard training fee we charge (currently \$500 per day).

SECTION 4.10 APPROVED SPECIFICATIONS AND SOURCES OF SUPPLY

(a) **Purchases from Us or Our Affiliates.** You must purchase from our Affiliates or us the LA Boxing Products and other items that we require as implemented on a System-wide basis. You will be charged the same prices then being charged to all franchisees and Company Units.

(b) **Authorized Specifications and Suppliers.** You must purchase or lease equipment, supplies, inventory, advertising materials, construction services and other products and services used for the operation of your LA Boxing Franchise solely from authorized manufacturers, contractors and other suppliers who demonstrate, to our continuing reasonable satisfaction: (i) the ability to meet our standards and specifications for these items; (ii) possess adequate quality controls and capacity to supply your needs promptly and reliably; and (iii) have been approved in writing by us and not later disapproved. We will use our best reasonable efforts to negotiate agreements with suppliers that, in our good faith belief, are in the best interest of all LA Boxing franchisees. We may approve a single supplier for any brand and may approve a supplier only as to a certain brand or brands. We retain the right to receive compensation from such suppliers for such negotiation. In approving suppliers for the System, we may take into consideration factors like the price and quality of the products or services and the supplier's reliability. We may concentrate purchases with one (1) or more suppliers to obtain the lowest prices and/or the best advertising support and/or services for any group of Franchise Units or Company Units within the Chain. Approval of a supplier may be conditioned on requirements on the frequency of delivery, standards of service, warranty policies including prompt attention to complaints, and concentration of purchases, as stated above, and may be temporary, pending our additional evaluation of the supplier.

(c) **Approval of New Specifications and Suppliers.** If you propose to purchase or lease any equipment, supplies, inventory, advertising materials, construction services or other products or services from an unapproved supplier, you must submit to us a written request for approval, or request the supplier to do so. We will have the right to require, as a condition of our approval, that our representatives be permitted to inspect the supplier's facilities, and that samples from the supplier be delivered, at our option, either to us or to an independent, certified laboratory designated by us for testing. We are not liable for damage to any sample that results from the testing process. You will pay a charge not to exceed the reasonable cost of the inspection and the actual cost of the testing. We may also require as a condition to our approval, that the supplier present satisfactory evidence of insurance, for example, product liability insurance, protecting us and our franchisees against all claims from the use of the item within the System. We will make the determination as to suitability within ten (10) days after receipt of all requested information, inspection and testing. We reserve the right, at our option, to reinspect the facilities and products of any approved supplier and continue to sample the products at the supplier's expense and to revoke approval upon the supplier's failure to continue to meet our standards and specifications. You will receive notification of approval or disapproval of a supplier within seven (7) days after we have investigated and inspected the supplier.

SECTION 4.11 LA BOXING PRODUCTS

You agree that we have already developed or have distribution rights to the LA Boxing Products and may continue to develop for use in the System certain additional products that are all highly confidential and constitute trade secrets. Due to the importance of quality control and uniformity of these products and the significance of the proprietary products to the System, it is to the mutual benefit of the parties that we closely control the production and distribution of the LA Boxing Products. Accordingly, you will use the LA Boxing Products and will purchase from us or from an approved source we designate and license all of your supplies of the LA Boxing Products, all in

accordance with our requirements then in effect. EXCEPT AS WE STATE IN WRITING AND ON PRODUCT LABELS, WE DO NOT MAKE ANY EXPRESS OR IMPLIED WARRANTIES ON THESE LA BOXING PRODUCTS, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. OUR EXCLUSIVE LIABILITY FOR ANY WARRANTIES EXTENDED AS PROVIDED IN THIS AGREEMENT IS TO REPAIR OR REPLACE, AT OUR OPTION, ANY OF THE LA BOXING PRODUCTS WE SOLD TO YOU THAT DO NOT COMPLY WITH THIS WARRANTY, IF ANY. UNDER NO CIRCUMSTANCES WILL OUR LIABILITY EXCEED THE DOLLAR AMOUNT OF THE PURCHASE PRICE YOU PAID FOR ANY LA BOXING PRODUCTS NOT IN COMPLIANCE WITH THIS WARRANTY, IF ANY, WHICH MAY BE EXTENDED AS PROVIDED IN THIS AGREEMENT. WE WILL NOT BE LIABLE TO ANY PARTY, INCLUDING YOU AND YOUR CUSTOMERS, FOR ANY DAMAGES, DIRECT OR INDIRECT, SPECIAL, GENERAL OR CONSEQUENTIAL DAMAGES, INCLUDING LOSS OF PROFITS OR ANTICIPATED PROFITS AND LOSS OF GOOD WILL, FROM THE USE OF (OR INABILITY TO USE) THE LA BOXING PRODUCTS FOR ANY PURPOSE.

SECTION 4.12 SALES OF PRODUCTS AND SERVICES BY YOU TO YOUR AFFILIATES.

All sales of products and services by you to your affiliates, if any, must be on terms regularly applicable to your non-affiliated customers, and in all cases must be arm's-length.

SECTION 4.13 TELEPHONES AND ANSWERING SERVICE

You will:

- (a) Maintain continuously no less than four (4) operating telephone lines and telephone numbers to be used exclusively for the operation of your LA Boxing Franchise as are reasonably required, with sufficient staff to handle telephone calls in an efficient and courteous manner at all times during normal business hours; and
- (b) Maintain an answering machine or voice mail service after normal business hours.

SECTION 4.14 PROFESSIONAL AFFILIATION

You will join within thirty (30) days from written notice by us, if not already a member, any association that we require as implemented on a System-wide basis, and maintain your membership in good standing throughout the Term.

SECTION 4.15 COMPLIANCE WITH LAWS, RULES AND REGULATIONS

You will comply with all federal, state, and local laws, rules and regulations, and will timely obtain, maintain and renew when required all permits, certificates, licenses or franchises necessary for the proper conduct of your LA Boxing Franchise under this Agreement, including qualification to do business, fictitious, trade or assumed name registration, building and construction permits, occupational licenses, sales tax permits, health and sanitation permits and ratings, fire clearances and environmental permits.

SECTION 4.16 TAX PAYMENTS; CONTESTED ASSESSMENTS

You will promptly pay when due all taxes required by any federal, state or local tax authority including unemployment taxes, withholding taxes, sales taxes, use taxes, income taxes, tangible commercial personal property taxes, real estate taxes, intangible taxes and all other indebtedness you incur in the conduct of your LA Boxing Franchise. You will pay to us an amount equal to any sales tax, goods and services taxes, gross receipts tax, or similar tax imposed on us for any payments to us required under this Agreement, unless the tax is measured by or involves the net income or our corporate status in a state. If we pay any tax for you, you will promptly reimburse us the amount paid. If there is any bona fide dispute as to liability for taxes assessed or other indebtedness, you may contest the validity or the amount of the tax or indebtedness in accordance with procedures of the taxing authority or applicable law. However, you will not permit a tax sale or seizure by levy or execution or similar writ or warrant, or attachment by a creditor, to occur against the Premises or any assets used in your LA Boxing Franchise.

SECTION 4.17 CUSTOMER SURVEYS; CUSTOMER LIST

You will present to customers any evaluation forms we require and will participate and/or request your customers to participate in any marketing surveys performed by or for us. You will maintain a current customer list containing each customer's name, address, telephone number and zip code, email address and supply an updated copy of the list to us on a quarterly basis. You must participate in any process we develop to record all customer information. You retain ownership of your customer lists. We will not sell or use your customer list for any activity adverse to, or in competition with, you.

SECTION 4.18 INSPECTIONS

You will permit us and/or our representatives to enter your Premises or office at any time during normal business hours upon reasonable notice, for purposes of conducting inspections. The inspections will be performed in a manner that minimizes interference with the operation of your LA Boxing Franchise. You will cooperate fully with us and/or our representatives in inspections by rendering assistance as they may reasonably request and by permitting them, at their option, to observe how you are selling the products and rendering the services, to monitor sales volume, to conduct a physical inventory, to confer with your employees and customers and to remove samples of any products, supplies and materials in amounts reasonably necessary to return to our office for inspection and record-keeping. We and/or you may videotape the inspections. Upon notice from us, and without limiting our other rights under this Agreement, you will take all steps necessary to correct immediately any deficiencies detected during inspections, including immediately stopping use of any equipment, advertising, materials, products, supplies or other items that do not conform to our then-current requirements. If you fail or refuse to correct any deficiency, we have the right, without any claim to the contrary by you, to enter your Premises or office without being guilty of trespass or any other tort, for the purposes of making or causing to be made all corrections as required, at your expense, payable by you upon demand.

SECTION 4.19 NOTICES TO US

(a) You must notify us in writing and supply us copies of all relevant documents within five (5) days of any of the following events:

(i) The start of, any action, suit, administrative proceeding or other action or proceeding against you, or any of your employees that may have a material adverse effect on the Franchise Business or the System;

(ii) Any communication by any governmental entity relating to the conduct of your LA Boxing Franchise that indicates your material non-compliance with any applicable law, rule or regulation; or

(iii) The issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality against you or any of your employees that may have a material adverse effect on the LA BOXING Franchise or the System.

(b) You will provide us with any information we request, within five (5) days of request, about the progress and outcome of these events.

SECTION 4.20 OPERATIONAL SUGGESTIONS

You are encouraged to submit suggestions in writing to us for improving elements of the System, including products, services, equipment, service format, advertising and any other relevant matters, so that we may consider adopting or modifying standards, specifications and procedures for the System. You agree that any suggestions you make become our exclusive property. We have no obligation to use any suggestions. You may not use any suggestions inconsistent with your obligations under this Agreement without our written consent.

SECTION 4.21 RENOVIATION AND UPGRADING

You will abide by our requirements for alterations, remodeling, upgrading or any other improvements to your LA Boxing Franchise to achieve the strategic marketing goals of the System. Generally, the standards to comply satisfactorily will not exceed those applicable to new Franchise Units and new Company Units. These requirements will not impose an undue economic burden or occur more frequently than every two (2) years. You will bear the entire cost of changes or additions, for any changes in, or additions of, equipment, furnishings, fixtures, lighting, carpeting, painting or the taking of other actions we specify to satisfy our then-current standards for image, positioning, marketing strategy, cleanliness or appearance but not to exceed total capital expenditures of Six Thousand Dollars (\$6,000) every two (2) years (the "Capital Expenditure Limitation") without your consent.

SECTION 4.22 LIQUIDATED DAMAGES FOR SALE OF PROHIBITED PRODUCTS OR SERVICES.

You agree that the offer to sell or the sale of unauthorized or prohibited products and services will result in damages to us. You agree that these damages will be compensated at the rate of One Hundred Dollars (\$100.00) for each day of the prohibited offer or sale, payable to us upon demand. These damages are in addition to our other rights or remedies, including our right to strictly enforce or terminate this Agreement as provided in this Agreement and obtain injunctive relief, except to the extent any other rights are excluded by law in light of this Section. The parties agree that a precise calculation of the full extent of the damages that we will incur from the offer or sale of unauthorized products and services is difficult to determine and the parties desire certainty in this matter and agree that the above-referenced liquidated damages are reasonable and are not a penalty.

SECTION 4.23 FINANCIAL COVENANTS

During the Term, you must always maintain a net worth of at least One Hundred Fifty Thousand Dollars (\$150,000).

SECTION 4.24 PUBLICITY

You grant us the right to freely use, without your consent, any pictures, financial information, or biographical material relating to you or your LA Boxing Franchise for use in promotional literature or in any other way beneficial to the LA Boxing organization as a whole. You will cooperate in securing photographs, including obtaining consents from any persons appearing in photographs. If we publish anything you feel reflects unfairly or inaccurately on your LA Boxing Franchise or yourself, we will take all reasonable steps in our power to retract the material.

SECTION 4.25 MINIMUM PERFORMANCE STANDARD

The grant of your Exclusive Territory is expressly conditioned upon your successful penetration of the market in the Exclusive Territory. You agree to promote actively and aggressively the products and services of your LA Boxing Franchise within the Exclusive Territory. You must maintain minimum Gross Revenues every calendar year during the Term of at least eighty percent (80%) of the "designated average" of Gross Revenues of all franchisees within the System, including you, except during the first calendar year (partial or full) of the Term, when no performance standard is in effect. The "designated average" is the average Gross Revenues of all Franchisees within the System during each calendar year of the Term, without taking into consideration those franchisees that are in the top and bottom 20th percentile of Gross Revenues during this period. Your failure to maintain the minimum performance standard is a material breach of this Agreement. **THIS MINIMUM PERFORMANCE STANDARD DOES NOT INFER THAT YOU WILL EXPERIENCE GROSS REVENUES OF ANY PARTICULAR LEVEL.**

ARTICLE 5 - INTELLECTUAL PROPERTY

SECTION 5.1 OUR REPRESENTATIONS AS TO THE INTELLECTUAL PROPERTY

We represent to you that:

(a) LA Boxing Franchise Corporation, a California corporation, is the sole owner of the Intellectual Property;

(b) We have not sublicensed the Intellectual Property to any others except other LA Boxing Franchisees; and

(c) We will take all steps necessary to preserve and protect the ownership and validity of the Intellectual Property.

SECTION 5.2 YOUR USE OF THE INTELLECTUAL PROPERTY

You may use the Intellectual Property only in accordance with standards and specifications we reasonably determine and implement on a System-wide basis. You agree that:

(a) You will use the Intellectual Property only for the operation of your LA Boxing Franchise at the Premises;

(b) You agree not to employ any of the Intellectual Property in signing any contract, check, purchase agreement, negotiable instrument or legal obligation; application for any license or permit, or in a manner that may result in liability to us for any indebtedness or obligation of yours;

(c) You will use the Intellectual Property as the sole service mark identifications for your LA Boxing Franchise and will display prominently the Intellectual Property on and/or with all materials we designate and authorize, and in the manner we require;

(d) You will not use any of the Intellectual Property as security for any obligation or indebtedness;

(e) You will comply in filing and maintaining any required fictitious, trade or assumed name registrations for the "LA Boxing" trade name, and will sign all documents we or our counsel deem reasonably necessary to obtain protection for the trademarks and our interest in the trademarks, for example, John Jones d/b/a "LA Boxing" or ABC Athletic Club, Inc. d/b/a "LA Boxing;"

(f) You will maintain a suitable sign or graphics package at, or near the front of the Premises, on any pylon sign, building directory or other area identifying the Premises only as "LA Boxing." The signage must conform in all respects to our requirements except to the extent prohibited by local governmental restrictions or landlord regulations;

(g) All materials including membership forms, order books, plastic or paper products and other supplies and promotional materials used in the System will bear our Intellectual Property, as required by us;

(h) Without our prior written approval, you will not use any of our Trademarks as part of any e-mail address, Web Site, domain name or any other electronic media (including use with any prefix, suffix or other modifying words, term designs, or symbols), or in any other manner connected with a Web Site, advertisements on a Web Site, or other similar electronic media; and

(i) You will exercise caution when using the Intellectual Property to ensure that the Intellectual Property is not jeopardized in any manner.

SECTION 5.3 INFRINGEMENT BY YOU

You acknowledge that the use of the Intellectual Property outside the scope of this Agreement, without our written consent, is an infringement of our rights in the Intellectual Property. You agree that during the Term, and after the expiration or termination of this Agreement, you will not, directly or indirectly, commit an act of infringement or contest or aid in contesting the validity of, or our right to, the Intellectual Property, or take any other action in derogation of our rights.

SECTION 5.4 CLAIMS AGAINST THE INTELLECTUAL PROPERTY

If there is any claim of infringement, unfair competition or other challenge to your right to use any Intellectual Property, or if you become aware of any use of, or claims to, any Intellectual Property by persons other than us or our franchisees, you will promptly, within seven (7) days, notify us in writing. You will not communicate with anyone except us and our counsel on any infringement, challenge or claim except under judicial process. We have sole discretion as to whether we take any action on any infringement, challenge or claim, and the sole right to control any litigation or other proceeding arising out of any infringement of, challenge or claim to any Intellectual Property. You must sign all documents, render all assistance, and do all acts that our attorneys deem necessary or advisable in order to protect and maintain our interest in any litigation or proceeding involving the Intellectual Property or otherwise to protect and maintain our interests in the Intellectual Property.

SECTION 5.5 OUR INDEMNIFICATION OF YOU.

We indemnify you against and will reimburse you for all damages you are held liable for in any proceeding from your use of any Intellectual Property in accordance with this Agreement, but only if you: (a) have timely notified us of the claim or proceeding in accordance with Section 5.4; (b) have otherwise complied with this Agreement; (c) allow us sole control of the defense and settlement of the action in accordance with Section 5.4; and (d) cooperate fully with us and our counsel in the defense of the action.

SECTION 5.6 OUR RIGHT TO MODIFY THE INTELLECTUAL PROPERTY

(a) If we deem it advisable to modify or discontinue the use of any of the Intellectual Property and/or the use of one (1) or more additional or substitute names or marks, due to the rejection of any pending registration or revocation of any existing registration of any of the Intellectual Property, or due to the rights of senior users, or due to our negligence or due to a radical change in direction of the System unilaterally caused or mandated by us, you are obligated to do so at your own expense within thirty (30) days of our request. We will only be liable to reimburse you for your reasonable direct printing and signage expenses in modifying or discontinuing the use of the Intellectual Property and substituting different Intellectual Property (these expenses will not include any expenditures made by you to promote the modified or substituted Intellectual Property).

(b) If the modification or discontinuation of the use of any of the Intellectual Property is due to a continuing need to modernize the System, you will be liable for all expenses in substituting the modified or new Intellectual Property in your LA Boxing Franchise.

SECTION 5.7 OUR RESERVATION OF RIGHTS

(a) You agree that the license of the Intellectual Property granted to you has limited exclusivity and that, in addition to our right to use and grant others the right to use the Intellectual Property outside the Exclusive Territory, all rights not expressly granted in this Agreement to you, concerning the Intellectual Property or other matters, are expressly reserved for us, including the right to sell LA Boxing Products and services authorized for the LA Boxing Franchise using our trademarks through dissimilar channels of distribution including National Accounts and under any terms that LA Boxing deems appropriate within or outside the Exclusive Territory, without offering or providing you the right to participate.

(b) If we acquire a Competitive Business and units of the Competitive Business encroach upon your Exclusive Territory, we will have one (1) year from the expiration date of the lease for the Competitive Business to sell or consolidate the encroaching units without being in default under this Agreement.

SECTION 5.8 OWNERSHIP; INUREMENT SOLELY TO US

You agree that: (a) you have no ownership or other rights in the Intellectual Property, except as expressly granted in this Agreement; and (b) we are the owner or authorized licensor of the Intellectual Property. You agree that all good will associated with the LA Boxing Franchise inures directly and exclusively to our benefit and is our sole and exclusive property except through profit received from the operation or possible permitted sale of your LA

Boxing Franchise during the Term. You will not in any manner prohibit, or do anything that would restrict, us or any existing or future franchisee of a business either similar or dissimilar to your LA BOXING Franchise from using the names or the Intellectual Property or from filing any trade name, assumed name or fictitious name registration with respect to any business to be conducted outside the Exclusive Territory or any business within the Exclusive Territory that is permitted by this Agreement. If you secure in any jurisdiction any rights to any of the Intellectual Property (or any other Intellectual Property) not expressly granted under this Agreement, you will immediately notify us and immediately assign to us all of your right, title and interest to the Intellectual Property.

ARTICLE 6 - THE MANUALS AND OTHER CONFIDENTIAL INFORMATION

SECTION 6.1 IN GENERAL

To protect our reputation and good will, and to maintain uniform standards of operation under the Intellectual Property, you will conduct your LA Boxing Franchise in accordance with the Manuals. The Manuals are deemed an integral part of this Agreement with the same effect as if fully stated in this Agreement.

SECTION 6.2 CONFIDENTIAL USE

(a) You will treat and maintain the Confidential Information as our confidential trade secrets. The Manuals will be kept in a secure area within the Premises. You will strictly limit access to the Confidential Information to your employees, to the extent they have a "need to know" in order to perform their jobs. You will report the theft, loss or destruction of the Manuals immediately to us. Upon the theft, loss or destruction of the Manuals, we will loan to you a replacement copy at a fee of Two Hundred Fifty Dollars (\$250.00) for each Manual. A partial loss or failure to update any Manual is considered a complete loss.

(b) You agree that, during and after the Term, you, your owners and employees will:

(i) Not use the Confidential Information in any other business or capacity, including any derivative or spin-off of the LA Boxing concept;

(ii) Maintain the absolute secrecy and confidentiality of the Confidential Information during and after the Term;

(iii) Not make unauthorized copies of any portion of the Confidential Information disclosed or recorded in written or other tangible form; and

(iv) Adopt and implement all procedures that we prescribe to prevent unauthorized use or disclosure of, or access to, the Confidential Information.

(c) All persons whom you permit to have access to the Manuals or any other Confidential Information must first be required by you to sign our form of confidentiality agreement set forth in the Manuals.

SECTION 6.3 PERIODIC REVISIONS

We may change the contents of the Manuals. You will comply with each new or changed provision beginning on the thirtieth (30th) day (or any longer time as we specify) after our written notice. Revisions to the Manuals will be based on what we, in our sole discretion, deem is in the best interests of the System, our interest and the interest of our Franchisees, including to promote quality, enhance good will, increase efficiency, decrease administrative burdens, or improve profitability subject to the Capital Expenditure Limitation stated in Section 4.21. You agree that because complete and detailed uniformity under many varying conditions may not be possible or practical, we reserve the right, in our sole discretion and as we may deem in the best interests of all concerned in any specific instance, to vary standards for any franchisee due to the peculiarities of the particular site or circumstances, density of population, business potential, population of trade area, existing business practices or any condition that we deem important to the successful operation of that franchisee's LA Boxing Franchise. You are not entitled to

require us to grant to you a similar variation under this Agreement. You will ensure that your copy of the Manuals contains all updates you receive from us. In any dispute as to the contents of the Manuals, the terms contained in our master copy of each of the Manuals we maintain at our home office is controlling.

ARTICLE 7 - ADVERTISING

Recognizing the value of advertising, and the importance of the standardization of advertising programs to the good will and public image of the System, the parties agree:

SECTION 7.1 LOCAL ADVERTISING

(a) You must spend during each month during the Term, beginning on the Opening Date, at least five percent (5%) of your Franchise's monthly Gross Revenues for Local Advertising in your Exclusive Territory.

(b) You must submit to us for our approval, all materials to be used for Local Advertising, unless they have been approved before or they consist only of materials we provide. All materials containing the Intellectual Property must include the applicable designation - service mark sm, trademark TM, registered ® or copyright ©, or any other designation we specify. If you have not received the written or oral disapproval of materials submitted within ten (10) days from the date we received the materials, the materials are deemed approved. We may require you to withdraw and/or discontinue the use of any promotional materials or advertising, even if previously approved, if in our judgment, the materials or advertising may injure or be harmful to the System. We must make this requirement in writing, and you have five (5) days after receipt of notice to withdraw and discontinue use of the materials or advertising, unless otherwise agreed in writing. The submission of advertising to us for our approval does not affect your right to determine the prices that you sell your products or services.

(c) You must maintain a listing or listings in The Real Yellow Pages of the telephone directories servicing the location of the LA Boxing Franchise under the "Exercise and Physical Fitness" section, in the form and size we specify in the Manuals or otherwise in writing.

SECTION 7.2 REGIONAL COOPERATIVE ADVERTISING

You agree that we have the right, in our discretion, to establish a regional advertising cooperative in any ADI. You will immediately, upon our request, become a member of the Cooperative for the ADI where some or all of the Exclusive Territory is located. Your LA Boxing Franchise is not required to be a member of more than one (1) Cooperative. The Cooperative will be governed in the manner required by us. The Cooperative has the right to require each of its members to make contributions to the Cooperative, not to exceed two percent (2%) of each Cooperative member's monthly Gross Revenues. We do not receive any portion of the contributions to the Cooperative. The following provisions apply to each Cooperative:

(a) The Cooperative will be organized and governed in form and manner, and will begin operation on a date, approved in advance by us in writing;

(i) If the Cooperative is established, it will be organized for the exclusive purpose of administering equitable advertising programs that fairly distribute costs of developing, subject to our approval, standardized promotional materials for use by all the members in the Cooperative's Local Advertising ADI;

(ii) The Cooperative may adopt its own rules and procedures, but the rules or procedures must be pre-approved by us and will not restrict nor expand your rights or obligations under this Agreement. Except as otherwise provided in this Agreement, and subject to our approval, any lawful action of the Cooperative at a meeting attended by 2/3s of the members, including assessments for Local Advertising, is binding upon you if approved by 2/3s of the members present, with each LA Boxing Franchise and Company Unit having one (1) vote; however no Franchisee (or controlled group of Franchisees) may exercise more than 25% of the vote in the Cooperative regardless of the number of LA Boxing Franchises a Franchisee may own;

(iii) No advertising or promotional plans or materials may be used by the Cooperative or furnished to its members without our prior written approval. All plans and materials must be submitted to us in accordance with the procedure stated in Section 7.1;

(iv) The Cooperative has the right to require its members to make a contribution to the Cooperative in any amount the Cooperative determines. This amount will be credited against your obligation for Local Advertising as provided by Section 7.1; but you are not required to contribute a sum to the Cooperative in excess of two percent (2%) of your monthly Franchise Gross Revenues;

(v) Each member will submit to the Cooperative, no later than the fifth (5th) day of each month, for the preceding calendar month, his or her contribution as provided in Subsection 7.3(a)(iv), together with all other statements or reports required by us or by the Cooperative with our written approval;

(vi) If an impasse occurs owing to the inability or failure of the Cooperative members to resolve within forty-five (45) days any issue affecting the establishment or effective functioning of the Cooperative, the issue will, upon request of a member of the Cooperative, be submitted to the Independent Association of LA Boxing Franchisees (or us, if the association does not exist) for consideration and its resolution of the issue will be final and binding on all members of the Cooperative; and

(vii) The Cooperative will render quarterly reports to us of its advertising expenditures.

(b) We, in our sole discretion, may grant to any franchisee an exemption for any length of time from the requirement of membership in the Cooperative, upon written request of the franchisee stating reasons supporting the exemption. Our decision concerning the request for exemption is final. If an exemption is granted to a franchisee, that franchisee must expend, on Local Advertising, the full amount provided in Section 7.1.

SECTION 7.3 WEB SITE ADVERTISING

Any Web Site is deemed Local Advertising under this Agreement and is subject to, among other things, our prior written consent. Before establishing a Web Site, you must submit to us a sample of the Web Site format and information in the form and manner that we reasonable require. In addition to any other applicable requirements, you must comply with our standards and specifications for Web Sites as set forth in the Manuals. If required by us, you must establish your Web Site as part of any Web Site that we establish and/or establish electronic links to any Web Site we establish. If you propose any material revision to your Web Site or any information contained in your Web Site, you must submit each revision to us for our prior written approval.

SECTION 7.4 SPECIAL ADVERTISING EXPENDITURES

If you fail to meet your requirements for Local Advertising during any period specified in this Agreement, upon our request and in addition to our rights and remedies for your failure to make the proper expenditures, you will contribute the amount that you failed to spend on Local Advertising directly to the Marketing Fund.

SECTION 7.5 MARKETING FUND

(a) If we institute a Regional Advertising Cooperative contribution requirement, we will create a special fund called the "LA Boxing Marketing Fund" (the "Marketing Fund"), into which Cooperative Advertising Contributions are deposited for the benefit of all Franchise Units and Company Units who contribute to the Marketing Fund.

(b) The Marketing Fund is administered by the Marketing Fund Committee (the "MFC"). The Franchisees will elect or appoint two (2) members to the MFC and we will appoint two (2) members to the MFC to serve for a one-year term corresponding to the calendar year. The 4-member MFC will, by a majority vote, determine the selection and placement of regional advertising. Each MFC member has one vote. If the MFC is

ARTICLE 8 - ACCOUNTING AND RECORDS

SECTION 8.1 RECORDS

You will maintain complete and accurate financial and sales records for the operations of your LA Boxing Franchise. Records must be segregated from all other records that do not concern your LA Boxing Franchise. You must preserve these records for no less than seven (7) years from the dates of their preparation (including after the termination, transfer or expiration of this Agreement).

SECTION 8.2 REPORTS AND STATEMENTS; CONFIDENTIALITY

(a) **Monthly Reports.** You will submit to us by the fifth (5th) day of each month during the Term, in the form that we require, accurate records reflecting all Gross Revenues of the previous month and all other information we require. If you must collect and remit sales or use taxes, you must also supply to us copies of your sales tax returns.

(b) **Annual Financial Statements.** You must also submit to us, within ninety (90) days of the close of your fiscal year, an annual balance sheet and income statement, prepared in accordance with Generally Accepted Accounting Principles and compiled by an independent certified public accountant. Each annual statement must be signed by you or by your treasurer or chief financial officer attesting that the financial statements are true and correct and fairly present your financial position at, and for, the periods indicated. You will also supply to us copies of your federal and state income tax returns at the time these returns are filed with the appropriate taxing authorities. The financial statements and/or other periodic reports described above must be prepared to segregate the income and related expenses of your LA Boxing Franchise from those of any other business that you may conduct.

(c) **Confidentiality.** We agree to maintain the confidentiality of all financial information we obtain about your operations, and will not disclose this financial information to any third party who is not bound to maintain the confidentiality of the information; provided however, that: (i) we may use the information in preparing any earnings claims or other information required or permitted by federal or state franchise law; and (ii) we may prepare a composite list of financial performances by our franchisees for dissemination among the franchisees, identifying your Gross Revenues and advertising expenditures. This composite list will not include your identity nor will the information be presented in such a manner that your identity can be easily ascertained.

SECTION 8.3 REVIEW AND AUDIT

We, and our agents or representatives, have the right, at all reasonable times, to examine and copy, at our expense, your records and to inspect all cash control devices and systems, and to conduct a physical inventory. We have the right to access your computer, system to determine, among other things, sales activity and Gross Revenues. We also have the right, at any time, to have an independent audit made of your records but not more frequently than two (2) times a year, provided you are not in default. If an inspection reveals that any financial information reported to us (including Gross Revenues or payments owed to us) has been understated in any report to us, you must immediately pay to us, upon demand, the amount understated in addition to interest at the maximum rate permitted by law beginning from the time the required payment was due. If any inspection discloses an understatement of two percent (2%) or more of Gross Revenues, you must, in addition, reimburse us for the expenses for the inspection (including reasonable accounting and attorneys' fees and costs). In addition, we reserve the right to require that all your future year-end financial statements be audited by an independent certified public accountant reasonably acceptable to us at your expense. These remedies are in addition to any other remedies we have under this Agreement or under applicable law. If the audit discloses an overpayment in any amount you paid to us, we will promptly pay you the amount of the overpayment or offset the overpayment against any amounts owed to us.

SECTION 8.4 YOUR NAME, ADDRESS AND TELEPHONE NUMBER

Under federal and state franchise laws and other applicable laws, we are required to disclose your name, address and telephone number (home address and telephone number if you are no longer a franchisee) and you agree to the disclosure of your name, address and telephone number. You must notify us of any change in your name, address and telephone number within ten (10) days of such change. You release us and our officers, directors,

stockholders, agents and legal successors and assigns from all causes of action, suits, debts, covenants, agreements, damages, judgments, claims and demands, in law or in equity, that you ever had, now have, or that you later may have, from our disclosure of your name, address and telephone number.

ARTICLE 9 - INSURANCE

SECTION 9.1 TYPES AND AMOUNTS OF COVERAGE

(a) **Your Insurance.** You must obtain and maintain insurance, at your expense, as we require, in addition to any other insurance that may be required by applicable law, your landlord, lender or otherwise. All policies must be written by an insurance company reasonably satisfactory to us with an A.M. Best rating of "A" or better and include the types and amounts of insurance as stated in the Manuals. We may periodically adjust the amounts of coverage required under the insurance policies and require different or additional kinds of insurance at any time, including excess liability insurance, to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards, or other relevant changes in circumstances, if the changes are required throughout the System including any Company Units.

(b) **Life Insurance.** To provide us with cash to purchase your LA Boxing Franchise upon your death in accordance with Section 11.4, you will, and we may at our sole option, during the Term:

(i) Have us own and maintain in force, at our sole option, during the Term, a life insurance policy on your life (the "Insured") in the face amount of up to Five Hundred Thousand Dollars (\$500,000), provided the Insured is insurable. The parties may increase the amount of insurance to reflect the then-fair market value of your LA Boxing Franchise. The insurance company must be licensed to do business in the state where your LA Boxing Franchise is located and must be rated by A.M. Best or a comparable rating agency at "A" or better. We will not, without your written consent, revoke or change the designation of any direct beneficiary, or exercise any loan, surrender or transfer the policy or trigger any other privilege under the policy if that would defeat or tend to defeat the purposes for which the insurance was procured. If the Insured engages in a permitted transfer of the LA Boxing Franchise, retires, or this Agreement is not renewed, we may surrender the insurance policy on the life of the Insured to the insurance company for the net cash surrender value, if any, or hold, transfer or discontinue the policy in any lawful manner we deem advisable. The Insured may, within 30 days after he or she: (i) engages in a permitted transfer of the LA Boxing Franchise; (ii) retires or; (iii) the Agreement is not renewed, purchase the policy from us at the cash surrender value before surrender changes, if any, plus any unearned premium and reimburse us for all premiums paid by us for the policy. We will, upon receipt of a cashier's check for this amount, deliver the policy to the Insured and sign any necessary instruments of transfer and change of beneficiary as he or she requests.

(ii) If the policy is canceled or terminated before maturity and the Insured still operates the LA Boxing Franchise, at our sole option, we will use our best efforts to procure a replacement policy in the same amount on the life of the Insured, who will cooperate fully in our efforts.

(iii) The proceeds of the insurance policy will be payable directly to us as the beneficiary. We will use the insurance proceeds to effectuate a purchase of the LA Boxing Franchise under Section 11.4. Should we elect to purchase a life insurance policy on your life during the Term, we will pay the premiums for such policy. All insurance carriers issuing any policies referred to above are authorized and directed to give the Insured, upon his or her request, any information concerning the status of any policy.

(c) **Our Insurance.** We will maintain for our benefit, and for the benefit of our Franchisees, errors and omissions insurance and commercial general liability insurance.

SECTION 9.2 EVIDENCE OF YOUR INSURANCE

At least: (i) thirty (30) days before your commencement of tenant improvement construction is begun; or (ii) ten (10) days from the Agreement Date, if the Premises is constructed and presently owned or leased by you; or (iii) ten (10) days after a lease of the Premises is signed and you take occupancy, whichever is applicable, you must

furnish to us a certificate of insurance issued by an approved insurance company showing compliance with these requirements and a paid receipt showing the policy number. The certificate of insurance must include a statement by the insurer that the policy will not be canceled, subject to nonrenewal or materially altered without at least thirty (30) days' advance written notice to us. Copies of all insurance policies and proof of payment will be submitted promptly to us upon our request. You will send to us current certificates of insurance and copies of all insurance policies on an annual basis.

SECTION 9.3 REQUIREMENTS FOR CONSTRUCTION AND RENOVATION

For any construction, renovation, refurbishment, or remodeling of the Premises, you must require the general contractor to maintain, with an approved insurer, commercial general liability insurance (with comprehensive automobile liability coverage for both owned and non-owned vehicles, builder's risk, product liability, and independent contractor's coverage) with limits of no less than one million dollars (\$1,000,000), per claim, naming you and us as additional insureds, as their interests may appear, together with workers' compensation and employer's liability insurance as required by law. It is your responsibility to obtain certificates of insurance from your contractor prior to the initiation of any construction on your behalf.

SECTION 9.4 OUR RIGHT TO PARTICIPATE IN CLAIMS PROCEDURE

Our insurer, or we, has the right to participate in discussions with your insurance company or any claimant (with your insurance company) regarding any claim. You agree to adopt our reasonable recommendations to your insurance carrier regarding the settlement of any claims.

SECTION 9.5 WAIVER OF SUBROGATION

The parties agree that, for any loss that is covered by insurance then being carried by them, their respective insurance companies have no right of subrogation against the other.

SECTION 9.6 EFFECT OF OUR INSURANCE

Your obligation to maintain the policies in the amounts required is not limited by reason of any insurance we maintain, nor will our performance of your obligations relieve you of liability under the indemnity provisions in this Agreement.

SECTION 9.7 FAILURE TO MAINTAIN INSURANCE

If either party fails to maintain the insurance required by this Agreement, the other party has the right and authority (without any obligation to do so) immediately to procure the insurance and to charge the cost of the insurance to the party obligated to maintain the insurance, plus interest on the premium amount at the maximum rate permitted by law. The obligated party agrees to pay these charges, together with a reasonable fee for the party's expenses in so acting upon five (5) days notice to the other party.

SECTION 9.8 GROUP INSURANCE

If we make insurance coverage available to you through group, captive, or master policies we obtain or arrange for, including property and casualty, workers' compensation, liability and health, life and disability insurance, you may participate, if you qualify, and at your expense, in these group insurance programs.

**ARTICLE 10 - INDEPENDENT ASSOCIATION
OF LA BOXING FRANCHISEES**

**SECTION 10.1 YOUR RIGHT TO JOIN THE INDEPENDENT ASSOCIATION
OF LA BOXING FRANCHISEES**

We recognize your right and the other franchisees' right to freely associate. You and the other franchisees have the right to create an independent franchise association to be known as the "Independent Association of LA Boxing Franchisees" (the "Franchisee Association"). The decision to join the Franchisee Association is solely your decision.

SECTION 10.2 OUR DEALINGS WITH THE FRANCHISEE ASSOCIATION.

Once at least ten (10) franchisees, representing at least 51% of the total franchisees within the System, are members of the Franchisee Association, we will recognize the Franchisee Association as the official body representing the franchisees as a group. Any material changes to the renewal form of this Agreement must be collectively negotiated with the Franchisee Association with both parties agreeing to negotiate in good faith.

SECTION 10.3 ANNUAL CONVENTION

We, and the Franchisee Association, if any, will coordinate and conduct an annual convention of the LA Boxing Franchise System when we and the Franchisee Association deem it appropriate. We will pay the reasonable cost of the annual convention. Each Franchisee will pay their own travel, lodging and meal costs to the extent not paid for by us, the Franchisee Association, or sponsors. Representatives of the Franchisor and the Franchisee Association will coordinate in the planning and agenda of each annual convention.

ARTICLE 11 - TRANSFER OF INTEREST

SECTION 11.1 TRANSFER BY US

We have the right to assign this Agreement to any person without your consent provided the transfer is part of a merger or sale of the entire System and the transferee has sufficient business experience, aptitude and financial resources to competently assume our obligations under this Agreement.

SECTION 11.2 TRANSFER BY YOU

(a) **Personal Rights.** You agree that, unless otherwise expressly permitted by this ARTICLE, you will not sell, assign, transfer, convey or give voluntarily, involuntarily, directly or indirectly, by operation of law or otherwise (collectively "transfer") any direct or indirect interest in this Agreement, the Franchise, the Franchisee, or a major portion of the Business Assets without our written consent. Any sale of all or a substantial portion of the assets must include an assignment and assumption of this Agreement. However, our written consent is not required for: (i) a transfer of less than a five percent (5%) interest in a publicly held corporation; or (ii) a transfer of all or any part of any interest in the Franchisee if an entity to one of the other original shareholders or partners. A transfer of fifty percent (50%) or more of the voting or ownership interests in your corporation, partnership or limited liability company, individually or in the aggregate, directly or indirectly, is, for all purposes of this Agreement, considered a transfer of an interest in this Agreement by you. Any purported transfer by you, by operation of law or otherwise in violation of this Agreement, is void and is an Event of Default on your part.

(b) **Transfer to Your Corporation.** This Agreement may be assigned to a corporation where you own a majority of the issued and outstanding capital stock if:

(i) You, or a Manager approved by us actively manages the corporation and continues to devote his or her best efforts and full and exclusive time to the day-to-day operation of your LA Boxing Franchise. You must advise us of the name of the Manager and the Manager must meet our standards including training;

- (ii) The corporation cannot use the trade name "LA Boxing" in any derivative or form in the corporate name;
- (iii) An authorized officer of the corporation signs a document in a form we approve, agreeing to become a party bound by all the provisions of this Agreement; and
- (iv) All stock certificates representing shares bear a legend that they are subject to this Agreement.

You understand that, if you transfer this Agreement to your corporation, you remain personally liable for all the monetary and non-monetary obligations under this Agreement.

- (c) **No Subfranchising Rights.** You have no right to grant a subfranchise.
- (d) **No Encumbrance of Franchise Right and Controlling Interest.** While you may encumber the assets comprising your Franchise Business, you may not encumber your interest in this Agreement nor encumber a controlling interest in a business entity if this Agreement is assigned to a business entity. You agree that your rights under this Agreement and any voting or ownership interest of more than fifty percent (50%) in you (or any Franchise Owner) may not be pledged, mortgaged, hypothecated, given as security for an obligation or in any manner encumbered. Any attempted encumbrance is void and is an Event of Default on your part.
- (e) **"For Sale" Restrictions.** You will not permit to be placed upon the Premises a "Business For Sale" or "For Sale" sign, or any sign of a similar nature or purpose, nor in any manner use the Intellectual Property to advertise the sale of your LA Boxing Franchise or the sale or lease of the Premises. These prohibitions apply to any activities under a listing agreement that you may enter into with a real estate or business broker.
- (f) **Permitted Transfer.** We will consent to a transfer of this Agreement if the following requirements are satisfied or waived by us in our sole discretion:
 - (i) We have not exercised our right of first purchase as provided in Section 11.6;
 - (ii) You are not in default of any term of this Agreement or any other agreement between you and us or our Affiliates;
 - (iii) The transferee interviews at our principal office without expense to us and demonstrates to our reasonable satisfaction that the transferee has the business and personal skills, reputation and financial capacity we require;
 - (iv) The transferee satisfactorily completes our application procedures for new franchisees;
 - (v) The transferee demonstrates to our reasonable satisfaction that he or she has properly assumed your obligations under this Agreement and will be able to comply with all of his or her obligations to the LA Boxing Franchise, including an assumption of the lease, if the Premises is leased. You will remain liable for all obligations to us under this Agreement before the effective date of the transfer and will sign all instruments we reasonably request to evidence these liabilities;
 - (vi) At the transferee's expense, the transferee or transferee's Manager completes Initial Training then in effect for new franchisees upon all terms as we reasonably require; and
 - (vii) You will pay us a transfer fee of \$10,000. If the transferee is a wholly owned corporation, spouse or child of the transferor, or another Franchisee within the System, no transfer fee will be charged provided a trained manager continues to operate the Franchise.

No disapproval of the transferee for failure to satisfy the transfer conditions described in this Subsection, or of any other condition to transfer stated in this Agreement, causes any liability on our part to the transferee.

Our consent to a transfer is not a waiver of any claims we may have against you, nor is it a waiver of our right to demand the transferee's exact compliance with this Agreement. No transfer (even if we approve) relieves you of liability for your conduct before the transfer, including conduct in breach of this Agreement.

SECTION 11.3 TRANSFER UPON DIVORCE OR PARTNERSHIP DISSOLUTION

If this Agreement is in the name of two persons who are husband and wife or two or more persons who are partners as franchisees, this Section describes the policies to be applied upon divorce or dissolution of the partnership. During the period when a divorce or partnership dissolution action is pending, you must adopt one of the following methods of operation:

(a) If one of the parties is willing to relinquish his or her right and interest in the Franchise, thereby leaving his or her spouse or partners to carry on the Franchise Business, he or she may do so by assigning the interest to the spouse or to his or her partners provided the remaining spouse or partner has successfully completed Initial Training.

(b) If the parties to a divorce or dissolution action agree that, despite their difficulties, they can continue to operate the Franchise Business jointly on a "business-as-usual" basis during the proceeding, they may do so.

(c) If the parties in a divorce action or in a partnership dissolution are not agreeable to operate under alternates (a) or (b) then they must make arrangements to have their Franchise Business operated by a third party as a Manager until the divorce or dissolution has been completed. The Manager must be approved by us and have satisfactorily completed Initial Training.

(d) Divorcing parties may, after a final order or judgment, continue to operate their Franchise Business in the form of a partnership or other business entity even though they are no longer husband and wife. In such a case, however, they must enter a formal agreement, which defines their respective rights and obligations, file a signed copy with us, assign this Agreement to the new entity, and comply with all other requirements for establishing the Franchise Business as a partnership or other business entity.

SECTION 11.4 TRANSFER UPON DEATH OR DISABILITY

(a) If any Franchise Owner becomes disabled from any cause and is unable to perform his or her obligations under this Agreement for a continuous period in excess of three (3) consecutive months, or on the death of the Franchise Owner, you (or your legal representative) will within thirty (30) days after the three (3) months of disability or death, provide and maintain a replacement satisfactory to us to perform the obligations. If a replacement is not provided or maintained as required, we may hire and maintain your replacement. You will compensate the replacement for his or her services at the rate we establish in our reasonable discretion. For all purposes of this Agreement, any period of disability that is interrupted by a return to active work and proper performance of duties under this Agreement for fourteen (14) days or more is deemed continuous.

(b) If: (i) any individual who holds a fifty percent (50%) or greater voting or ownership interest in the Franchisee (or in any Franchise Owner); or (ii) you die during the Term, your interests in the Franchisee (or in any Franchise Owner) or in this Agreement are required to be transferred within twelve (12) months of the death to an approved transferee in accordance with the terms of this Article.

SECTION 11.5 OUR PURCHASE OBLIGATION UPON YOUR DEATH.

(a) Upon your death while the life insurance under Subsection 9.1(b) is in effect, your personal representative is obligated to sell, and we are obligated to purchase, your LA Boxing Franchise. The purchase price of your LA Boxing Franchise will be equal to the lesser of: (i) the fair market value of the LA Boxing Franchise at the time of death; or (ii) the proceeds of the life insurance policy.

(b) The closing of the purchase of your LA Boxing Franchise will be held at our then principal office on or before the 90th day after the death, provided the insurance proceeds have been paid to us. At the closing, you, if not the Insured, or your personal representative, if the Insured, must deliver to us, free and clear of all liens, claims, charges and encumbrances, appropriate instruments of conveyance conveying all of the assets comprising your LA Boxing Franchise to us. We will simultaneously make payment of the life insurance proceeds by our check, less any amounts you owe to us.

SECTION 11.6 OUR RIGHT OF FIRST PURCHASE

(a) If during the Term you or any person who owns at least a fifty percent (50%) ownership or voting interest in a corporation or other entity that owns your LA Boxing Franchise (or in any entity with an ownership interest in a corporation or other entity that owns your LA Boxing Franchise) desire to sell your LA Boxing Franchise, (whether as a sale of assets or a sale of stock or other equity interests), you must first approach us with a specific price and terms and offer us the opportunity to purchase your LA Boxing Franchise. We have thirty (30) days to accept or reject your offer at the designated price. If we reject your offer and you and we cannot otherwise reach agreement within the 30-day period, you then have the right to list the LA Boxing Franchise and offer it for sale to third parties (either in or outside the System) at or above the designated price and on terms no less favorable than offered to us, for a period of 120 days, with a closing to take place within sixty (60) days after the date of the purchase agreement. If a third party purchases your LA Boxing Franchise at a price or terms equal or more favorable (higher) to you than offered to and rejected by us; the sale can proceed, provided you and the third party comply with the terms of Subsection 11.2(f).

(b) If you decide within the 120-day period to offer your LA Boxing Franchise or accept an offer from a third party (the "Offeror") at a lower price and/or terms less favorable to you (the "Offer") than offered to and rejected by us, you must then give us a right of first refusal.

(c) If we give notice of acceptance of the Offer, then you will sell the LA Boxing Franchise to us and we will purchase the LA Boxing Franchise for the consideration and upon the terms stated in the Offer. Our creditworthiness is deemed at least equal to the creditworthiness of any proposed purchaser. If we are, or our Affiliate is, a public company at that time having shares traded on a national securities exchange, the Offeror must accept a quantity of stock at our then-current value, or our Affiliate's, registered shares in lieu of cash or Unique Consideration.

(d) If an independent third party's written Offer (and the Offeror's corresponding offer to us) provides for the purchaser's payment of a Unique Consideration that is of a nature that cannot reasonably be duplicated by us, we may, in our notice of exercise, in lieu of the Unique Consideration, substitute cash or stock (if a public company with registered shares) consideration determined by mutual agreement of you and us within 45 days after the Offer is made or, failing agreement, by an independent appraiser selected by us.

(e) If the proposed sale includes assets of the Offeror that are not part of the operation of the LA Boxing Franchise, we may, at our option, elect to purchase only the assets that are part of the operation of the LA Boxing Franchise and an equitable purchase price will be determined in our reasonable discretion and allocated to each asset included in the sale.

(f) We will purchase your LA Boxing Franchise subject to all customary warranties given by a seller of the assets of a business or voting stock of a corporation, as applicable, including warranties as to ownership, condition and title to the shares and/or assets, liens and encumbrances on the shares and/or assets, validity of contracts and liabilities of the corporation whose stock is purchased and affecting the assets, contingent or otherwise.

(g) Unless otherwise agreed by you and us, the closing of the purchase of your LA Boxing Franchise will be held at our then principal office or other location designated by us, no later than the 60th day after the Offer is delivered to us. The closing of any purchase where a cash or stock consideration is determined in accordance with Subsection 11.6(d) will be held on the 15th day after the cash or stock consideration is finally determined. At any closing, the Offeror must deliver to us an assignment and other documents reasonably requested by us representing a transfer of ownership of your LA Boxing Franchise free and clear of all liens, claims, pledges, options, restrictions,

charges and encumbrances, in proper form for transfer and with evidence of payment by the Offeror of all applicable transfer taxes. We will simultaneously make payment of any cash consideration for your LA Boxing Franchise by a cashier's check drawn on a bank or thrift doing business in the county of our principal place of business or payment by the issuance of our or our Affiliate's registered shares, after set off against the amount due to the Offeror for all amounts you owe us, if any. The remaining terms of the purchase and sale will be stated in the Offer.

(h) If we do not accept the Offer, you are free, for ninety (90) days after we have elected not to exercise our option, to sell your LA Boxing Franchise to the prospective purchaser for the consideration and upon the terms stated in the prospective purchaser written Offer, subject to full compliance with all terms of transfer required under this Agreement, including those in Section 11.2. Before any sale of the shares to a prospective purchaser, there must be delivered by the prospective purchaser an acknowledgment that the shares purchased by the prospective purchaser is subject to the terms of this Agreement and that the prospective purchaser agrees to be bound to the terms of this Section on transferring the shares, in the same manner as the Offeror. If you do not sell your LA Boxing Franchise within the 90-day period, then any transfer by you of your LA Boxing Franchise is again subject to the restrictions stated in this Agreement.

(i) If the proposed transfer is to a corporation wholly owned by you or to your spouse or child, we will not have any right of first purchase.

(j) All transferees are subject to all of the restrictions on transfer of ownership imposed on you under this Agreement.

SECTION 11.7 YOUR TRANSFER OF ACCOUNTS TO ANOTHER FRANCHISEE

Notwithstanding the other Sections of this Article, you may transfer accounts on an individual and occasional basis if requested by the customer, but only to another Franchisee. You must notify us immediately and we reserve the right to investigate into the reasons for the request. We will resolve any dispute between you and another Franchisee over the right to a customer, and our decision will be binding.

ARTICLE 12 - DEFAULT AND TERMINATION

SECTION 12.1 TERMINATION BY YOU

If you have substantially complied with this Agreement and we materially breach this Agreement, you have the right to terminate this Agreement if we do not cure the breach within thirty (30) days after we receive a written notice of default from you. However, if the breach cannot reasonably be cured within thirty (30) days, you have the right to terminate this Agreement if, after our receipt of a written notice of default from you, we do not within thirty (30) days undertake and continue efforts to cure the breach until completion. You may also terminate this Agreement upon the mutual written agreement with us. Any termination of this Agreement by you other than as stated above, is a wrongful termination by you.

SECTION 12.2 TERMINATION BY US - WITHOUT NOTICE

(a) Subject to applicable law, this Agreement automatically terminates without notice to you or your having an opportunity to cure on the date of the occurrence of any of the following Events of Default: if you damage the LA Boxing System through violation of federal, state or local environmental laws; if you make a general assignment for the benefit of creditors; a petition in bankruptcy is filed by you or a petition is filed against or consented to by you and the petition is not dismissed within forty-five (45) days; you are adjudicated as bankrupt; a bill in equity or other proceeding for the appointment of your receiver or other custodian for your business or assets is filed and consented to you; a receiver or other custodian (permanent or temporary) of your business or assets is appointed by any court of competent jurisdiction; proceedings for a composition with creditors under federal or any state law is begun by or against you; a final judgment in excess of \$25,000 remains unsatisfied or of record for thirty (30) days or longer (unless a supersedeas bond is filed); execution is levied against your operation or property, or suit to foreclose any lien or mortgage against the Premises or your assets is begun against you and not dismissed within forty-five (45) days; or a substantial portion of your real or personal property used in your LA Boxing Franchise is sold after levy by any sheriff, marshal or constable.

(b) You will notify us within three (3) days of the occurrence of any of the events described in Subsection 12.2(a).

SECTION 12.3 TERMINATION BY US - AFTER NOTICE

We may, at our option, terminate all rights granted to you under this Agreement, without affording you any opportunity to cure the default, effective immediately upon notice to you, upon the occurrence of any of the following Events of Default:

(a) If you cease to do business at the Premises for more than fourteen (14) days in any calendar year or for more than seven (7) consecutive days, or lose the right to possession of the Premises after the expiration of all redemption periods and have not satisfied the provisions of Section 1.4, if applicable, or otherwise forfeit the right to do or transact business in the jurisdiction where your LA Boxing Franchise is located;

(b) If a serious or imminent threat or danger to public health or safety results from the construction, maintenance or operation of your LA Boxing Franchise and the threat or danger remains uncorrected for five (5) days after your receipt of written notice from a governmental authority or us. If a cure cannot be reasonably completed in this time, then all reasonable steps to cure must begin within this time, but a cure must be completed promptly within thirty (30) days after receipt of written notice;

(c) If you fail or refuse to comply with any mandatory specification, standard or operating procedure required by us in this Agreement, in the Manuals or otherwise in writing, on the cleanliness or sanitation of your LA Boxing Franchise or violates any health, safety, or sanitation law, ordinance, or regulation and do not correct the failure or refusal within three (3) days after written notice from us or a governmental authority. If a cure cannot be reasonably completed in this time, then all reasonable steps to cure must begin within this time, but a cure must be completed within thirty (30) days after receipt of written notice;

(d) If you, or your officer, director, owner or managerial employee are convicted of a felony, a crime of moral turpitude or any other crime or offense that we reasonably believe is likely to have a material adverse effect on the System, the Intellectual Property, the good will associated with the Intellectual Property, or our interest in any of the Intellectual Property, unless you immediately and legally terminate the individual as your officer, director, owner and employee;

(e) If you deny us the right to inspect your LA Boxing Franchise or to audit your records;

(f) If you engage in conduct that is deleterious to or reflects unfavorably on you or the System in that the conduct exhibits a reckless disregard for the physical or mental well being of employees, customers, our representatives or the public at large, including battery, assault, sexual harassment or discrimination, racial harassment or discrimination, alcohol or drug abuse or other forms of threatening, outrageous or unacceptable behavior as determined in our sole discretion;

(g) If you, contrary to this Agreement, purport to encumber or transfer any rights or obligations under this Agreement (including transfers of any interest in a corporation or other entity which owns your LA Boxing Franchise), without our written consent;

(h) If any breach occurs under Sections 6.2 or 14.1 concerning confidentiality and non-competition covenants;

(i) If you knowingly maintain false records, or knowingly submit any false reports to us; or

(j) If you misuse or make any unauthorized use of the Intellectual Property or otherwise materially impairs the good will associated with the Intellectual Property or our rights in the Intellectual Property.

SECTION 12.4 TERMINATION BY US - AFTER NOTICE AND RIGHT TO CURE

(a) Except as otherwise provided above, you have thirty (30) days after delivery from us of a written Notice of Default specifying the nature of the default to remedy any default and provide evidence of cure satisfactory to us. If any default is not cured within that time, or any longer time as applicable law may require, an Event of Default has occurred by you and all your rights under this Agreement terminate without additional notice to you effective immediately upon the expiration of the thirty (30) days or any longer time as applicable law may require. In addition to the Events of Default specified in Sections 12.2 and 12.3, an Event of Default by you occurs if you fail to comply with any of the requirements imposed by this Agreement, as it may be revised or supplemented by the Manuals; or to carry out this Agreement in good faith. You have the burden of proving that you properly and timely cured any default, to the extent a cure is permitted under this Agreement.

(b) During a cure period, we reserve the right to refuse to sell you LA Boxing Products.

ARTICLE 13 - YOUR OBLIGATIONS UPON TERMINATION DUE TO YOUR DEFAULT OR ON NONRENEWAL

Upon the termination of this Agreement due to your default or upon expiration and nonrenewal of the Agreement, the Sections of this Article apply to the rights and obligations of the parties.

SECTION 13.1 CEASE OPERATIONS

You will immediately cease to operate your LA Boxing Franchise. You will not, directly or indirectly, use any of the Intellectual Property nor represent yourself as a present or former Franchisee of us or in any other way affiliate yourself with the System. You will immediately cease using all stationery, signage and other materials containing the Intellectual Property. You will also immediately cease using all telephone numbers for the LA Boxing Franchise used at any time before termination or expiration, and empower us to take whatever actions are necessary to comply with this Section. You must cease using the URL and Internet addresses used for your business and immediately cause the URL and Internet addresses to be transferred to us.

SECTION 13.2 PAYMENT OF OUTSTANDING AMOUNTS

We may retain all fees paid under this Agreement except for refunds expressly required in this Agreement. In addition, within ten (10) days after the effective date of the termination or any later date as we determine that amounts are due to us, you must pay to us all Royalty Fees and Advertising Contributions amounts owed for products or services you purchased from us or our Affiliates, and all other amounts owed to us, our Affiliates and your other creditors that are then unpaid.

SECTION 13.3 DISCONTINUANCE OF USE OF TRADE NAME

You will cancel any fictitious, trade or assumed name registration that contains our trademark, trade name or service mark or colorable imitation of our trademark, trade name or service mark. You will furnish us with evidence of compliance with this obligation to cancel the registration within thirty (30) days after termination or expiration of this Agreement. If you fail to cancel, you appoint us as your attorney-in-fact to do so.

SECTION 13.4 OUR OPTION TO PURCHASE YOUR LA BOXING FRANCHISE

(a) We have the option, exercisable by giving written notice within thirty (30) days from the date of termination, to purchase from you all the assets used in your LA Boxing Franchise. As used in this Section, "assets" means leasehold improvements, equipment, vehicles, furnishings, fixtures, signs, inventory (non-perishable products, materials and supplies) and the lease or sublease for the Premises. We have the unrestricted right to assign this option to purchase. We, or our assignee, are entitled to all customary warranties given by a seller of a business, including: (i) ownership, condition and title to the assets; (ii) the absence of liens and encumbrances on the assets; and (iii) validity of contracts and liabilities, inuring to us or affecting the assets, contingent or otherwise. The purchase price for the assets of your LA Boxing Franchise is their fair market value, determined as of the effective

date of purchase in a manner consistent with reasonable depreciation of your leasehold improvements and the equipment, vehicles, furnishings, fixtures, signs and inventory of your LA Boxing Franchise. The purchase price will take into account the termination of the LA Boxing Franchise granted under this Agreement and will not contain any factor or increment for any trademark, service mark or other commercial symbol used in the operation of your LA Boxing Franchise.

(b) If the parties cannot agree on the fair market value of the assets within thirty (30) days after your receipt of our notice exercising our option, the fair market value will be determined by an independent appraiser the parties selected. If they are unable to agree on an independent appraiser within ten (10) days after expiration of the 30-day period, the parties will each select one independent appraiser, who will select a third independent appraiser (the "Third Appraiser"), and the fair market value will be the value determined by the Third Appraiser. If either party fails to select an appraiser and give notice to the other of the identity of the appraiser within the 10-day period, the appraiser selected by the other party will select the Third Appraiser. The Third Appraiser will be given full access to your LA Boxing Franchise, the Premises and your records during customary business hours to conduct the appraisal and must value the leasehold improvements, equipment, furnishings, fixtures, signs and inventory in accordance with the standards of this Section. The parties will pay the Third Appraiser's costs equally.

(c) The purchase price will be paid in cash equivalent, or our marketable securities or the marketable securities of an Affiliate of equivalent value at the closing of the purchase, which will take place no later than ninety (90) days after your receipt of notice of exercise of the option to purchase. At the closing, you will deliver instruments transferring to us or our assignee: (i) good and merchantable title to the assets purchased, free and clear of all liens and encumbrances (other than liens and security interests acceptable to us or our assignee), with all your sales and other transfer taxes paid; (ii) all licenses and permits of your LA Boxing Franchise that may be assigned or transferred; and (iii) the lease for the Premises. If you cannot deliver clear title to all of the purchased assets, or if there are other unresolved issues, the closing of the sale will be accomplished through an escrow. The parties will comply with all applicable legal requirements, including the bulk sales provisions of the Uniform Commercial Code of the state where your LA Boxing Franchise is located, if any, and the bulk sales provisions of any applicable tax laws and regulations. You will, before or simultaneously with the closing of the purchase, pay all tax liabilities incurred in the operation of your LA Boxing Franchise. We have the right to set off against and reduce the purchase price by all amounts you owe to us, and the amount of any encumbrances or liens against the assets or any obligations we assume.

(d) If our assignee or we exercise the option to purchase, pending the closing of the purchase, we have the right to appoint a manager to maintain the operation of your LA Boxing Franchise. Alternatively, we may require you to close your LA Boxing Franchise during this time period without removing any assets. You will maintain in force all insurance policies required in this Agreement until the date of closing. If the Premises is leased, we agree to use reasonable efforts to effect a termination of the existing lease for the Premises and enter into a new lease on reasonable terms with the landlord. If we are unable to enter into a new lease and your rights under the existing lease are assigned to us or we sublease the Premises from you, we indemnify you from any ongoing liability under the lease that occurs after the date we assume possession of the Premises. If you own the Premises, upon purchase of the assets, you, at your option, may enter into a new lease with us under a standard lease on terms comparable to those for similar commercial properties in the area that are then being leased, for a term of at least ten (10) years and for a rental equal to the fair market rental value of the Premises. If the parties cannot agree on the fair market rental value of the Premises, then the rental value will be determined by the Appraiser (selected in the manner described above).

SECTION 13.5 DISTINGUISHING OPERATIONS

(a) If we do not exercise our option under Section 13.4 and you desire to remain in possession of the Premises and operate a noncompetitive business, you must make all modifications or alterations to the Premises immediately upon termination of this Agreement as necessary to distinguish the appearance of the Premises from that of other LA Boxing Franchisees operating under the System. You will make all specific additional changes to the Premises as we reasonably request for that purpose including a change of use of the Premises. You agree to refrain from taking any direct or indirect action to reduce the good will of your customers or potential customers toward us, our Franchisees or any other aspect of the System.

(b) You must remove immediately all identifying architectural superstructure and signage on or about the Premises bearing the name or logos of LA Boxing (or any name or logo similar to LA Boxing), in the manner we specify. You will hold all property belonging to us, for delivery to us, at our expense, upon request. Any signage that you are unable to remove within one (1) Business Day of the termination of this Agreement must be completely covered by you until the time of its removal. If you fail or refuse to comply with this obligation, we have the right to enter upon the Premises, without being guilty of trespass or any other tort for the purpose of removing the signage and storing it at another location, at a reasonable expense (for signage not owned by us) payable by you on demand.

(c) Until all modifications and alterations required by this Section are completed, you must: (i) maintain a conspicuous sign at the Premises in a form specified by us stating that your business is no longer associated with our System; and (ii) advise all customers or prospective customers telephoning your business that the business is no longer associated with our System.

(d) If you fail or refuse to comply with the requirements of this Section, we have the right to enter upon the Premises for the purpose of making or causing to be made, all changes as may be required, at a reasonable expense (this expense you must pay upon demand) and at your sole risk and expense, without responsibility for any actual or consequential damages to your property or others, and without liability for trespass or other tort or criminal act. You agree that your failure to make these alterations will cause irreparable injury to us.

SECTION 13.6 UNFAIR COMPETITION

You agree, if you continue to operate or later begin to operate any other business, not to use any reproduction or colorable imitation of the Intellectual Property, trade dress, methods of operation or undertake any other conduct either in any other business or the promotion of any other business, that is likely to cause confusion, mistake or deception, or that is likely to dilute our rights in and to the Intellectual Property. In addition, you agree not to utilize any designation of origin or description or representation that falsely suggests or represents an association or connection with us, or any of our Affiliates. This Section does not relieve, directly or indirectly, your obligations under Article 14.

SECTION 13.7 RETURN OF MATERIALS

You will immediately deliver to us all tangible Intellectual Property in your possession or control, and all copies and any other forms of reproductions of these materials. You agree that all these materials are our exclusive property.

SECTION 13.8 OUR PURCHASE RIGHTS OF ITEMS BEARING INTELLECTUAL PROPERTY

Even if we do not exercise our option under Section 13.4, we have the option (but not the obligation) to exercise by notice of intent to do so, within thirty (30) days after termination to purchase any items bearing the Intellectual Property owned by you including signs, advertising materials, supplies, inventory or other items at a price equal to the lesser of your cost or fair market value. If the parties cannot agree on fair market value within a reasonable time, we will designate an independent appraiser whose cost will be paid equally by the parties, and the appraiser's determination will be binding. The fair market value of tangible assets will be determined without reference to good will, going concern value, or other intangible assets. If we elect to exercise our option to purchase, we will have the right to set off all amounts due from you under this Agreement, and 1/2 the cost of the appraisal, if any, against any payment to you. If you fail to sign and deliver the necessary documents to transfer good title to your assets to us or our nominee, we are entitled to apply to any court of competent jurisdiction for a mandatory injunction to compel you to comply with the rights granted in this Agreement. All expenses, including our reasonable attorneys' fees, you will pay to us and may be credited by us to the agreed purchase price.

SECTION 13.9 LIQUIDATED DAMAGES FOR PREMATURE TERMINATION

If termination is the result of your default, you will pay to us a lump sum payment (as liquidated damages for causing the premature termination of this Agreement and not as a penalty) equal to the total of all Royalty Fees for: (i) the 36 calendar months of operation of your LA Boxing Franchise preceding your default; (ii) the period of time your LA Boxing Franchise has been in operation preceding the notice, if less than 36 calendar months,

projected on a 36-calendar month basis; or (iii) any shorter period as equals the unexpired Term at the time of termination. The parties agree that a precise calculation of the full extent of the damages that we will incur on termination of this Agreement as a result of your default is difficult and the parties desire certainty in this matter in the extreme, and agree that the lump sum payment provided under this Section is reasonable in light of the damages for premature termination that we will incur in this event. This payment is not exclusive of any other remedies that we have including attorney's fees and costs.

ARTICLE 14 - YOUR INDEPENDENT COVENANTS

SECTION 14.1 DIVERSION OF BUSINESS; COMPETITION AND INTERFERENCE WITH US.

(a) **Existing and Prospective Customers Database.** You recognize and agree that we have been in the business of membership boxing and fitness training before you ever contacted us and had already developed a proprietary database of existing and prospective customers. You agree not to solicit nor accept contracts from an existing customer of ours or an existing customer of one of our Franchisees. You are obligated to determine whether a prospect is an existing customer of ours or an existing customer of one of our Franchisees. If the person determined to be an existing customer, you will cease all contact with this person. You further agree not to probe into the existing relationship with us and another Franchisee and ask any further questions.

(b) **Covenant Not to Compete.** You agree that we would be unable to protect the Confidential Information against unauthorized use or disclosure and would be unable to encourage a free exchange of ideas and information among the Franchisees within the System if Franchisees were permitted to hold interests in any Competitive Business.

(i) **In-Term.** You covenant that during the Term, except as we otherwise approve in writing, you will not, directly or indirectly:

A. Solicit or otherwise attempt to induce, by combining or conspiring with, or attempting to do so, or in any other manner influence any Business Associate to terminate or modify his, her or its business relationship with us or to compete against us;

B. As owner, officer, director, employee, agent, lender, broker, consultant, franchisee or in any other capacity be connected with the ownership, management, operation, control or conduct of a Competitive Business (this restriction will not apply to a 5% or less beneficial interest in a publicly-held corporation); or

C. Interfere with, disturb, disrupt, decrease or otherwise jeopardize our business or the business of any of our Franchisees.

(ii) **Post-Term.** You also covenant that, for twenty-four (24) months after the termination of this Agreement due to your default, for twenty-four (24) months after the expiration and non-renewal of this Agreement, or for twenty-four (24) months after you transfer your LA Boxing Franchise, except as we otherwise approve in writing, you will not, directly or indirectly:

A. Solicit or otherwise attempt to induce, by combining or conspiring with, or attempting to do so, or in any other manner influence any Business Associate to terminate or modify his, her or its business relationship with us or to compete against us;

B. As owner, officer, director, employee, agent, lender, broker, consultant, franchisee or in any other capacity be connected with the ownership, management, operation, control or conduct of a Competitive Business within the Exclusive Territory twenty-five (25) miles of the Premises or within twenty-five (25) miles of any LA Boxing Franchise or Company-Owned Unit then in operation; or

C. Interfere with, disturb, disrupt, decrease or otherwise jeopardize our business or the business of any of our Franchisees.

If you violate this Subsection and compete with us, we have the right to require that all sales made by the Competitive Business be reported to us. You will also pay to us, on demand, a weekly fee of Two Thousand Dollars (\$2,000) without being deemed to revive or modify this Agreement. These payments are liquidated damages to compensate us for our damages from your violation of the covenant not to compete and are not a penalty.

(c) **Reasonableness of Covenant.** You agree that the length of the term and geographical restrictions contained in this Section are fair and reasonable and not the result of overreaching, duress or coercion of any kind. You agree that your full, uninhibited and faithful observance of each of the covenants in this Section will not cause any undue hardship, financial or otherwise, and that enforcement of each of the covenants in this Section will not impair your ability to obtain employment commensurate with your abilities and on terms fully acceptable to you or otherwise to obtain income required for the comfortable support of yourself and your family, and the satisfaction of your creditors. You agree that your special knowledge of the business of a LA Boxing Franchise (and anyone acquiring this knowledge through you) would cause us and our Franchisees serious injury and loss if you (or anyone acquiring this knowledge through you) were to use this knowledge to the benefit of a competitor or were to compete with us or any of our other Franchisees.

(d) **Court Modification.** If any court finally holds that the time, or territory or any other provision in this Section is an unreasonable restriction upon you, you agree that the provisions of this Agreement are not rendered void, but apply as to time and territory or to any other extent as the court may judicially determine or indicate is a reasonable restriction under the circumstances involved.

SECTION 14.2 INDEPENDENT COVENANTS; THIRD PARTY BENEFICIARIES

(a) **Independent Covenants.** The parties agree that the covenants in this Article are independent of any other provision of this Agreement. You agree that the existence of any claim you may have against us or any of our Affiliates, regardless of whether the claim is brought under this Agreement, is not a defense to our enforcement of these covenants.

(b) **Third Party Beneficiaries.** The parties agree that all other Franchisees are third party beneficiaries of the terms of Section 14.1 and have the right to separately enforce these covenants at their expense, if we are unwilling or unable to enforce these covenants.

ARTICLE 15 - INDEPENDENT CONTRACTOR AND INDEMNIFICATION

SECTION 15.1 INDEPENDENT STATUS

You are an independent contractor and unless expressly provided to the contrary, nothing in this Agreement is intended to designate either party an agent, legal representative, subsidiary, joint venturer, joint employer, partner, employee, affiliate or servant of the other party for any purpose. The parties agree that nothing in this Agreement authorizes either party to make any agreement, warranty or representation for the other party, nor to incur any debt or other obligation in the other party's name. You will take all affirmative action as we request to indicate that you are an independent contractor, including placing and maintaining a plaque in a conspicuous place within the Premises and a notice on all stationery, business cards, sales literature, contracts and similar documents that states that your LA Boxing Franchise is independently owned and operated by you. The content of any plaque and notice is subject to our written approval.

SECTION 15.2 INDEMNIFICATION

You are responsible for all losses or damages from contractual liabilities to third persons from the possession, ownership and operation of your LA Boxing Franchise and for all claims and demands for damages to property or for injury, illness or death of persons directly or indirectly resulting from your actions. You indemnify us from all costs, losses and damages (including reasonable attorneys' fees and costs, even if incident to appellate, post-judgment or bankruptcy proceedings) from claims brought by third parties involving the ownership or operation by you of your LA Boxing Franchise unless caused by our negligence or intentional misconduct. This

indemnity obligation continues in full effect even after the expiration, transfer or termination of this Agreement. We will notify you of any claims and you will be given the opportunity to assume the defense of the matter. If you fail to assume the defense, we may defend the action in the manner we deem appropriate and you will pay to us all costs, including attorneys' fees that we incur in effecting the defense, in addition to any sum that we may pay by reason of any settlement or judgment against us. Our right to indemnity under this Agreement arises and is valid regardless of any joint or concurrent liability that may be imposed on us by statute, ordinance, regulation or other law.

ARTICLE 16 - REPRESENTATIONS AND WARRANTIES

SECTION 16.1 OUR REPRESENTATIONS

We make the following representations and warranties to you that are true and correct upon the signing of this Agreement:

(a) **Organization.** We are a corporation duly organized, validly existing and in good standing under the laws of the State of California.

(b) **Authorization.** We have the corporate power to sign, deliver, and carry out the terms of this Agreement. We have taken all necessary action for proper authorization. This Agreement has been duly authorized, signed and delivered by us and is our valid, legal and binding agreement and obligation in accordance with this Agreement, except as may be limited by applicable bankruptcy, insolvency, reorganization and other laws and equitable principles affecting creditors' rights generally.

(c) **No Violation.** Our performance of our obligations under this Agreement will not result in: (i) the breach of any term of any contract or agreement that we are a party to or bound by, or be an event that, with notice, lapse of time or both, would result in a breach or event of default; nor (ii) result in the violation by us of any statute, rule, regulation, ordinance, code, judgment, order, injunction or decree.

SECTION 16.2 YOUR REPRESENTATIONS

You make the following representations and warranties to us that are true and correct upon signing this Agreement and throughout the Term:

(a) **Authorization.** You have the power to sign, deliver, and carry out this Agreement. You have taken all necessary action for proper authorization. This Agreement has been duly authorized, signed and delivered by you and is your valid, legal and binding agreement and obligation in accordance with this Agreement, except as may be limited by applicable bankruptcy, insolvency, reorganization and other laws and equitable principles affecting creditors' rights generally.

(b) **No Violation.** The performance by you of your obligations under this Agreement will not result in: (i) the breach of any term of, or be a default under, any term of any contract, agreement or other commitment that you are a party to or are bound by, or be an event that, with notice, lapse of time or both, would result in a breach or event of default; nor (ii) result in the violation by you of any statute, rule, regulation, ordinance, code, judgment, order, injunction or decree.

(c) **No Speculative Intent.** You are not obtaining this LA Boxing Franchise for speculative or investment purposes and have no present intention to sell or transfer or attempt to sell or transfer any part of this Agreement or the LA Boxing Franchise.

(d) **True Copies.** Copies of all documents you are required to furnish to us are correct copies of the documents, including all amendments or modifications, and contain no misleading or incorrect statements or material omissions.

SECTION 16.3 RECEIPT OF FRANCHISE OFFERING CIRCULAR (FOC)

You agree that you received from us a FOC for the state where your LA Boxing Franchise will be located and your state of residence, with all exhibits and supplements to the FOC, on or before the first personal meeting with our representatives and at least ten (10) Business Days before: (a) signing this Agreement and any other agreement imposing a binding obligation on you; and (b) any payment by you of any consideration for the sale or proposed sale, of a franchise.

SECTION 16.4 RECEIPT OF COMPLETED FRANCHISE AGREEMENT

You agree that you received from us a completed copy of this Agreement and all related agreements, containing all material terms, (except for the date, signatures and any minor matters not material to the agreements), with all blanks filled in, at least five (5) Business Days before signing this Agreement.

SECTION 16.5 ACKNOWLEDGMENT OF RISK

You agree to the following:

(A) YOUR SUCCESS IN OWNING AND OPERATING YOUR LA BOXING FRANCHISE IS SPECULATIVE AND DEPENDS ON MANY FACTORS INCLUDING, TO A LARGE EXTENT, YOUR INDEPENDENT BUSINESS ABILITY. NO REPRESENTATIONS OR PROMISES, EXPRESS OR IMPLIED, HAVE BEEN MADE BY US OR ANY OF OUR EMPLOYEES, BROKERS OR REPRESENTATIVES, TO INDUCE YOU TO ENTER INTO THIS AGREEMENT EXCEPT AS INCLUDED IN THIS AGREEMENT. NO OFFICER, DIRECTOR, EMPLOYEE, BROKER OR OTHER REPRESENTATIVE IS AUTHORIZED TO DO OTHERWISE.

(B) YOU AGREE THAT IN ALL OF YOUR DEALINGS WITH US, OUR OFFICERS, DIRECTORS, EMPLOYEES, BROKERS (IF ANY) AND OTHER REPRESENTATIVES ACT ONLY IN A REPRESENTATIVE CAPACITY AND NOT IN AN INDIVIDUAL CAPACITY. YOU AGREE THAT THIS AGREEMENT AND ALL BUSINESS DEALINGS BETWEEN YOU AND ANY INDIVIDUALS AS A RESULT OF THIS AGREEMENT, ARE ONLY BETWEEN YOU AND US.

(C) IN ADDITION, WE MAKE NO WARRANTY AS TO YOUR ABILITY TO OPERATE THE LA BOXING FRANCHISE IN THE JURISDICTION WHERE YOUR LA BOXING FRANCHISE IS TO BE OPERATED. IT IS YOUR OBLIGATION TO SEEK OR OBTAIN ADVICE OF COUNSEL SPECIFICALLY ON THIS ISSUE. IF LEGISLATION ENACTED BY, OR REGULATION OF, ANY GOVERNMENTAL BODY PREVENTS YOU FROM OPERATING YOUR LA BOXING FRANCHISE, WE ARE NOT LIABLE FOR DAMAGES NOR REQUIRED TO INDEMNIFY YOU OR TO RETURN ANY MONIES RECEIVED FROM YOU.

ARTICLE 17 - TERM

SECTION 17.1 TERM

The Term of this Agreement is ten (10) years from the Agreement Date, unless sooner terminated under Article 12. The conditions to obtain a Successor LA Boxing Franchise Agreement at the expiration of this Agreement are those stated in Section 17.2.

SECTION 17.2 OPTION TO OBTAIN SUCCESSOR LA BOXING FRANCHISE AGREEMENT

(a) Evergreen Renewal. You are granted unlimited options to obtain a Successor LA Boxing Franchise Agreement for terms of ten (10) years each provided the following conditions are met at the time the option is exercised and immediately before the beginning of the Succeeding Term, unless another time is specified below:

(i) You must give us written notice of your intention to exercise the option by submitting your application at least six (6) months but not more than twelve (12) months before the end of the Term;

(ii) You cannot be in default of any provision of this Agreement or any other agreement between you and us or our Affiliates;

(iii) You, within ten (10) days before the end of the Term, must sign and deliver to us a Successor LA Boxing Franchise Agreement, that agreement may vary in the material business terms reflected in this Agreement;

(iv) You must comply with all other requirements imposed by us under the Successor LA Boxing Franchise Agreement upon signing, except that there will be no Initial Franchise Fee; and

(v) You are entitled to continue to occupy the Premises for the entire Succeeding Term including, if you are then leasing the Premises from us or a third party, you are entitled to renew the lease or obtain our approval of a new location for the LA Boxing Franchise within the Exclusive Territory, but not within the Exclusive Territory of a Company Unit or Franchise Unit, in accordance with our relocation procedures.

(b) **Our Right Not to Renew.** If you have not met all of the conditions stated in Subsection 17.2(a), we may elect not to enter into a Successor LA Boxing Franchise Agreement. If, within five (5) days of notice from us that you have elected not to enter into a Successor LA Boxing Franchise Agreement, you request our permission for you to sell your Franchise Business, then for a 180-day period following this notice (this notice will extend the Term, as necessary, to the end of the 180-day period, unless we have grounds to otherwise terminate the Term), we will permit you to sell your LA Boxing Franchise to a purchaser subject to our right of first refusal. This transfer must be in compliance with the provisions of Subsection 11.2(f) and all the other applicable terms of this Agreement. During this period, you must continue to operate your LA Boxing Franchise.

SECTION 17.3 REINSTATEMENTS AND EXTENSIONS

If any termination or expiration of the Term would violate any applicable law, we may reinstate or extend the Term for the purpose of complying with the law, for the duration provided by us in a written notice to you, without waiving any of our rights under this Agreement or otherwise modifying this Agreement.

ARTICLE 18 - DISPUTE RESOLUTION

SECTION 18.1 MEDIATION

For any dispute involving this Agreement, before any arbitration proceeding takes place, either party may, at his, her or its option, submit the controversy or claim to non-binding mediation before the Center for Public Resources -- National Franchise Mediation Program, the American Arbitration Association, or another mutually agreeable mediator. Both parties will sign a confidentiality agreement reasonably satisfactory to us. Upon submission, the obligation to attend mediation in the county and state where our principal place of business is then located (currently Orange County, California) is binding on both parties. Each party will bear his, her or its own costs for the mediation except the mediation fee and the fee for the mediator will be split equally.

SECTION 18.2 ARBITRATION

(a) Except as specifically modified by this Article and excepting matters involving remedies provided for in Section 18.3, any controversy or claim under this Agreement, including any claim that this Agreement, or any part of this Agreement, is invalid, illegal or otherwise voidable or void, including any claim of fraud in the inducement, may be submitted to arbitration, if determined by the parties when the dispute arises, before the American Arbitration Association in accordance with its commercial arbitration rules, or any other mutually agreeable arbitration association by one arbitrator.

(b) The provisions of this Section are independent of any other covenant or provision of this Agreement. If a court of competent jurisdiction determines that any provisions are unlawful in any way, that court will modify or interpret the provisions to the minimum extent necessary to have them comply with the law. All issues of the arbitrability or the enforcement of the agreement to arbitrate are governed by the United States Arbitration Act (9 U.S.C. §§ 1 *et seq.*) and the federal common law of arbitration.

(c) Any arbitration under this Article shall be conducted on an individual, not a class-wide basis, and no such arbitration may be consolidated with any other arbitration between us and any third party.

(d) The rules governing the conduct of the arbitration proceedings are consistent with generally prevailing standards of due process.

(e) The panel from which the arbitrator is chosen shall be comprised of persons knowledgeable in the franchise industry and who have demonstrated a capability for unbiased decision making consistent with the principles embodied in the Commercial Rules of the American Arbitration Association for appointment of neutral arbitrators.

(f) Limited discovery is allowed, consistent with Rule 10 of the Commercial Rules of the American Arbitration Association and pursuant to a discovery plan approved by the arbitrators.

(g) Actual hearing on the merits must occur within six (6) months of the date of the filing of the arbitration proceeding.

(h) The arbitrator must issue a reasoned written opinion on the merits within thirty (30) days of the completion of the hearings on the merits.

(i) Judgment on an arbitration award may be entered in any court having competent jurisdiction and is binding, final and non-appealable. If any party to arbitration wishes to appeal any final award (there will be no appeal of interim awards or other interim relief), the party may appeal, within thirty (30) days of the final award, to a 3-arbitrator panel appointed by the same organization that conducted the arbitration. The issues on appeal will be limited to the proper application of the law to the facts found at the arbitration hearing and will not include any trial *de novo* or other fact-finding function. The party requesting the appeal must pay all expense charged by the arbitration appeal panel and/or arbitration organization in the appeal and must post any bond deemed appropriate by the arbitration organization or arbitration appeal panel. In addition, a party requesting appeal that does not prevail on the appeal will pay the other party's attorneys' fees and other costs of responding to the appeal.

(j) Before any arbitration proceeding takes place, either party may, at his, her or its respective option, elect to have the arbitrator conduct, in a separate proceeding before the actual arbitration, a preliminary hearing, at this hearing testimony and other evidence may be presented and briefs may be submitted, including a brief stating the then applicable statutory or common law methods of measuring damages in respect of the controversy or claim being arbitrated.

(k) This arbitration provision is self-executing and remains in full effect after the expiration, transfer or termination of this Agreement. If either party fails to appear at any properly noticed arbitration proceeding, an award may be entered against that party by default or otherwise.

SECTION 18.3 EXCEPTIONS TO MEDIATION AND ARBITRATION; EQUITABLE RELIEF

(a) The obligation to mediate or arbitrate is not binding on either party for claims involving the Intellectual Property; claims involving any lease of real property between the parties or their related entities; the Franchisee's obligations upon the termination, transfer or expiration of this Agreement; any encumbrances or transfers restricted under this Agreement concerning interests in the Franchisee, the LA Boxing Franchise and this Agreement; matters involving actions that may impair the good will associated with the Intellectual Property; matters involving claims of danger, health or safety involving the Franchisee, the employees, customers or the public; or requests for restraining orders, injunctions or other procedures in a court of competent jurisdiction to

obtain specific performance when deemed necessary by any court to preserve the status quo or prevent irreparable injury pending resolution by mediation or arbitration of the actual dispute between the parties.

(b) The Franchisee recognizes that the LA Boxing Franchise is intended to be one (1) of a large number of businesses identified by the Intellectual Property in selling to the public the products and services associated with the Intellectual Property, and that the failure on the part of a single franchisee to comply with the terms of his or her franchise agreement is likely to cause irreparable damage to the Franchisor and damages at law would be an inadequate remedy. The Franchisee agrees that upon the Franchisee's breach or threatened breach of any of the terms of this Agreement concerning any matters referenced in Subsection 18.3(a), the Franchisor is entitled to seek an injunction restraining the breach and/or to a decree of specific performance, without showing or proving any actual damage, together with recovery of reasonable attorneys' fees and costs incurred in obtaining equitable relief. This equitable remedy is in addition to all remedies that the Franchisor has by virtue of the Franchisee's breach of this Agreement. The Franchisor is entitled to seek this relief without the posting of any bond or security or, if a bond is nevertheless be required by a court of competent jurisdiction, the parties agree that the sum of \$1,000 is a sufficient bond.

SECTION 18.4 JURISDICTION AND VENUE

The parties irrevocably and unconditionally: (i) agree that any mediation, arbitration or suit, action or legal proceeding involving your LA Boxing Franchise or this Agreement and us, will be conducted in the county where our principal place of business is then located or may be brought in the District Court of the United States, in the district where our principal place of business is then located or, if this court lacks jurisdiction, the courts of record of the state and county where our principal place of business is then located; (ii) consent to the jurisdiction of each court in any suit, action or proceeding; (iii) waive any objection that he, she or it may have to the laying of venue of any suit, action or proceeding in any of these courts; and (iv) agree that service of any court paper may be effected on the party by mail at the last known address, as provided in this Agreement, or in any other manner as may be provided under applicable laws or court rules in the state where our principal place of business is then located (currently, Orange County, California).

SECTION 18.5 ENFORCEMENT COSTS

Each party will bear his, her or its own costs in any mediation. If any arbitration, legal action or other proceeding is begun for the enforcement of this Agreement, or for an alleged dispute, breach, default or misrepresentation under any term of this Agreement, the prevailing party is entitled to recover reasonable pre-institution and post-institution attorneys' fees, court costs and all expenses even if not taxable as court costs (including all fees and expenses incident to arbitration, appellate, bankruptcy and post-judgment proceedings), incurred in the action or proceeding, in addition to any other relief that the party is entitled. Attorneys' fees include paralegal fees, administrative costs, investigative costs, costs of expert witnesses, court reporter fees, sales and use taxes, if any, and all other charges billed by the attorneys to the prevailing party. If we engage a collection agency or legal counsel for your failure to pay when due any monies owed under this Agreement or submit when due any reports, information or supporting records, or for any failure otherwise to comply with this Agreement, you must reimburse us on demand for all of the above-listed expenses we incur.

SECTION 18.6 GOVERNING LAW

Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§ 1051 *et seq.* or the United States Arbitration Act, 9 U.S.C. §§ 1 *et seq.*), this Agreement and any other agreement between the parties and all transactions contemplated by this Agreement and all disputes between the parties are governed by the laws of the State of California without regard to principles of conflicts of laws. However, any dispute regarding the enforceability of the post-term covenant not to compete will be governed under the laws of the State in which the LA Boxing Franchise is located.

SECTION 18.7 WAIVER OF PUNITIVE DAMAGES CLAIMS

THE PARTIES WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW, ALL RIGHT TO ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER AND AGREE THAT UPON A DISPUTE BETWEEN THEM, EACH IS LIMITED TO THE RECOVERY OF ACTUAL DAMAGES HE, SHE OR IT SUSTAINS.

SECTION 18.8 WAIVER OF JURY TRIAL

THE PARTIES WAIVE THE RIGHT TO A TRIAL BY JURY OF ALL CLAIMS MADE BETWEEN THEM WHETHER EXISTING NOW OR IN THE FUTURE, INCLUDING ALL CLAIMS, DEFENSES, COUNTERCLAIMS, CROSS CLAIMS, THIRD PARTY CLAIMS AND INTERVENOR'S CLAIMS INVOLVING THE SALE, NEGOTIATION, SIGNING OR PERFORMANCE OF THE TRANSACTIONS INVOLVING THIS AGREEMENT.

ARTICLE 19 - DEFINITIONS

SECTION 19.1 DEFINITIONS

As used in this Agreement, the Exhibits attached to this Agreement and any other document signed incidental to this Agreement and any exhibits to those documents, the following terms have the following meanings:

"**ADI**" means an Area of Dominant Influence, and is a geographic survey area created and defined by Arbitron based on measurable patterns of television viewing.

"**Advertising Contributions**" means the payments described in Subsection 3.1(c), if we institute an Advertising Contribution.

"**Affiliate**" means a company related to us as a parent corporation, brother/sister corporation or subsidiary corporation.

"**Agreement**" means this LA Boxing Franchise Agreement, as it may be amended, supplemented or otherwise modified by an agreement in writing signed by you and us under Section 20.1.

"**Agreement Date**" means the date of signing this Agreement.

"**LA Boxing Franchise**" means the membership boxing and fitness training business you are authorized to establish and operate under this Agreement.

"**LA Boxing Products**" means boxing and fitness equipment and supplies manufactured by us, and all other equipment, supplies and products that are manufactured for us and our franchisees under the "LA Boxing" label.

"**Business Associate**" means any of our employees, officers, directors, agents, consultants, representatives, contractors, suppliers, distributors, franchisees or other business contacts.

"**Business Day**" means a day other than Saturday, Sunday or a U.S. national holiday. Any time period ending on a Saturday, Sunday or U.S. national holiday will be extended until 5:00 p.m. on the next Business Day.

"**Chain**" means the group of Company Units and Franchise Units each operating a LA Boxing Business.

"**Company Unit**" means an LA Boxing Business operated under the System and owned by us or any Affiliate.

"**Competitive Business**" means a business that is engaged, wholly or partially, directly or indirectly, in boxing and fitness training, and any other business in which we and our other franchisees are then engaged.

"Confidential Information" means all information, knowledge, know-how, and technologies that we designate as confidential, proprietary or trade secrets. Confidential Information includes, but not limited to, the Manuals and LA Boxing Products, equipment design, instruction programs, videocassettes, web page design, customer lists and computer programs.

"Cooperative" means the regional advertising cooperative described in Section 7.2.

"Designee" means one (1) or more of our representatives who are independent contractors and are appointed by us to perform certain of our duties under this Agreement as described in ARTICLE 2.

"Design Specifications" means the specifications described in Subsection 2.2(a)(ii).

"Enforcement Costs" means the costs described in Section 18.5.

"Event of Default" means a breach of this Agreement including those situations described in Sections 1.4(a), 1.4(c), 3.5, 11.2(a), 11.2(d), 12.2, 12.3 and 12.4, assuming any requirement for the giving of notice, the lapse of time, or both, or any other condition is satisfied.

"Exclusive Territory" means one or more U.S. postal zip codes you will be assigned as a protected territory based upon population density, whether your location is in a metropolitan or rural area, but generally we will not place another franchise within five (5) miles of the location of your LA Boxing gym, and your protected territory will have a population base of not less than 100,000 people.

"FOC" means our current Franchise Offering Circular and all its exhibits and supplements.

"Franchise" means the rights granted to you under this Agreement.

"Franchisee" means you upon signing this Agreement, or another person who is a party with us under another LA Boxing Franchise Agreement.

"Franchise Owner" means: (i) if you are an individual, it means you; (ii) if you are a privately held corporation, the individual who owns a majority of the voting and ownership interests in the corporation; (iii) if you are a partnership, the individual who is, or owns a majority of the voting and ownership interests in an entity that is a general partner of the partnership; and (iv) if you are a limited liability company, the individual who owns the majority of the membership interests in the company.

"Franchise Unit" means a LA Boxing Franchise owned and operated under the System by a franchisee.

"Franchisee Association" means the Independent Association of LA Boxing Franchisees described in Section 10.1.

"Generally Accepted Accounting Principles" means those standards, conventions and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements. Generally accepted accounting principals derive, in order of importance, from: (i) issuances from an authoritative body designated by the American Institute of Certified Public Accountants ("AICPA") Council; other AICPA issuances including AICPA Industry Guides; (iii) industry practice; and (iv) accounting literature in the form of books and articles.

"Gross Revenues" means the entire amount of all of your revenues from the ownership or operation of your LA Boxing Franchise or any business at or about the Premises including the proceeds of any business interruption insurance and any revenues received from the lease or sublease of a portion of the Premises, whether the revenues are evidenced by cash, credit, checks, services, property or other means of exchange, excepting only the amount of any sales taxes that are collected and paid to the taxing authority (based on the cash method of accounting). Cash refunded and credit given to customers and receivables uncollectible from customers will be deducted in computing Gross Revenues to the extent that the cash, credit or receivables represent amounts

previously included in Gross Revenues where Royalty Fees and Advertising Contributions were paid. Gross Revenues are deemed received by you at the time the goods, products, merchandise or services from which they derive are delivered or rendered or at the time the relevant sale takes place, whichever occurs first. Gross Revenues consisting of property or services (for example, "bartering" or "trade outs") are valued at the prices applicable, at the time the Gross Revenues are received, to the products or services exchanged for the Gross Revenues.

"Initial Franchise Fee" means the fee described in Subsection 3.1(a).

"Initial Training" means the training described in Subsection 2.7(a).

"Intellectual Property" means the Trademarks, any patents, the Confidential Information and copyrighted information of us or our Affiliates that you are entitled to use under this Agreement as described in ITEMS 13 and 14 of the FOC.

"Local Advertising" means advertising and promotion you undertake in media directed primarily in your Exclusive Territory, or local market area including television, radio, newspapers, magazines, billboards, posters, handbills, direct mail, yellow pages, sports program booklet advertising, church bulletins, collateral promotional and novelty items (for example, matchbooks, pens and pencils, bumper stickers, calendars) that prominently display the Intellectual Property, advertising on public vehicles including cabs and buses, the cost of producing materials necessary to participate in these media and agency commissions on the production of the advertising and amounts paid to an approved regional advertising cooperative or to a merchant's association for advertising where you are a member. Local Advertising does not include payments to the Marketing Fund nor payments for permanent on-premises signs, lighting, purchasing or maintaining vehicles even though the vehicles display in some manner the Intellectual Property (except the cost of the materials displayed are included), contributions, sponsorships (unless the Intellectual Property are prominently displayed by the group or activity receiving the contribution or sponsorship), premium or similar offers including discounts, price reductions, special offers, free offers and sweepstake offers (except that the media costs associated with promoting the premium offers are included), employee incentive programs and other similar payments that we may determine in our sole discretion should not be included in determining whether you have met your obligation for Local Advertising.

"Manager" means the Franchise Owner, unless we otherwise agree in writing.

"Manuals" means all manuals produced by, or for the benefit of, us and loaned to you and any revisions prepared for the internal use of the LA Boxing Franchise relating to the operation and management of the Franchise Business. The Manuals may consist of printed text, computer disks, other electronically stored media, and videotapes

"Marketing Fund" means the fund described in Section 7.5 that Advertising Contributions will be deposited for use in regional and national marketing activities to promote the System, if we institute a System-wide Advertising Contributions requirement in the future.

"MFC" means the Marketing Fund Committee referred to in Subsection 7.5(b).

"National Accounts" means those customers that have locations in more than one (1) location.

"Notice of Default" means the notices described in Section 12.4.

"Opening Date" means: the date your LA Boxing Franchise is first opened for business to the general public.

"Payment System" means the system created by you to make payments to us as described in Section 3.4.

"Premises" means the entire real property, either owned or leased by you, where your LA Boxing Franchise will be located, as described in Exhibit A.

"Rebates" means the payments described in Subsection 7.5(d).

"Reserved Area" means the zip code area where you will undertake your site selection process to submit proposed sites for our approval in accordance with our site approval process. The Reserved Area will be _____ but excluding any exclusive territory of a Company Unit or another Franchise Unit within the Chain who already has an LA Boxing Franchise in operation or to be operated in the Reserved Area.

"Royalty Fee" means the fee described in Subsection 3.1(b).

"Succeeding Term" means the term of the Successor LA Boxing Franchise Agreement.

"Successor LA Boxing Franchise Agreement" means the form of franchise agreement for new LA Boxing Franchisees at the time you elect to enter into an agreement in accordance with Section 17.2.

"System" means our business system for operating a LA Boxing Franchise. The System includes specific standards and procedures and the Intellectual Property that may be changed.

"Term" means the term of the Agreement described in Section 17.1.

"Trademarks" means the service mark and logo "LA Boxing[®]" and all other trademarks, service marks, trade names, logos and commercial symbols authorized by us as part of the System.

"Trainees" means the persons approved by us who attend Initial Training.

"Transfer Fee" means the fee described in Subsection 11.2(f)(vii).

"Unique Consideration" means the consideration described in Subsection 11.6(d).

"Unit" means either a Company Unit or a Franchise Unit.

"Web Site" means any interactive electronic document contained in a network of computers linked by communications software, that you operate or authorize others to operate, and that refers to the Franchise Business, the Intellectual Property or the System. The term Web Site also includes the Internet and World Wide Web home pages.

SECTION 19.2 OTHER DEFINITIONAL PROVISIONS

(a) All of the words or terms defined in this Agreement have these defined meanings when used in other documents issued under or delivered under this Agreement unless the context otherwise requires or unless specifically otherwise defined in the other document; and

(b) The term "**person**" includes any corporation, limited liability company, partnership, estate, trust, association, branch, bureau, subdivision, venture, associated group, individual, government, institution, instrumentality and other entity, enterprise, association or endeavor of every kind.

ARTICLE 20 - GENERAL PROVISIONS

SECTION 20.1 AMENDMENTS

Except as stated in this Agreement, the provisions of this Agreement cannot be amended, supplemented, waived or changed orally, except by a written document signed by the party against whom enforcement of any amendment, supplement, waiver or modification is sought and making specific reference to this Agreement. Only our President has the authority to sign an amendment for us. This Section is expressly limited by the terms of Sections 20.2 and 20.6.