

**EXHIBIT C  
TO THE OFFERING CIRCULAR**

**ISLAND INK-JET SYSTEMS (US) INC.  
FRANCHISE AGREEMENT**

# USA SINGLE-UNIT FRANCHISE AGREEMENT



BETWEEN

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

AND

**[INSERT FRANCHISEE NAME]**

FOR

**[INSERT LOCATION NAME]  
[CITY/STATE]**

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

### FRANCHISE AGREEMENT

**THIS AGREEMENT** is being entered into as of [INSERT DATE]. The parties to this agreement are **Island Ink-Jet Systems (US) Inc.** a corporation incorporated pursuant to the laws of the State of Nevada, with an office at 244-4<sup>th</sup> Street, Courtenay, British Columbia, Canada V9N 1G6, and you [INSERT FRANCHISEE NAME] of [INSERT FRANCHISEE ADDRESS] as franchise owner, or, if you are a partnership or corporation, your "Principal Owners" (defined below).

#### 1. INTRODUCTION

This Agreement has been written in an informal style in order to make it more easily readable and to be sure that you become thoroughly familiar with all of the important rights and obligations the Agreement covers before you sign it. In this Agreement, we refer to Island Ink-Jet Systems (US) Inc. as "we", "us" "Island Ink-Jet" or "the Company". We refer to you as "you", "Franchisee" or "the Franchise Owner". If you are a corporation or a partnership, you will notice certain provisions that are applicable to those principal shareholders or partners on whose business skill, financial capability and personal character we are relying in entering into this Agreement. Those individuals will be referred to in this Agreement as "Principal Owners".

Through the expenditure of considerable time, effort and money, we have developed a unique system for the establishment and operation of retail kiosk and in-line store locations (the "Outlets") called "Island Ink-Jet" that sell ink-jet refill kits, compatible/re-manufactured cartridges, toners, ink-jet refill services and related products for printers.

Island Ink-Jet Outlets operate pursuant to certain standardized uniform formats, designs, systems, methods, standards and procedures, including certain confidential information and trade secrets (all of which we refer to in this Agreement as the "System").

You, the Franchisee, shall implement any additions and changes to the products and services as required by Island Ink-Jet.

We may improve, further develop or otherwise modify the System from time to time. We identify the System by the use of certain trademarks, service marks, and other commercial symbols, including "Island Ink-Jet", "Watch Your Colors Soar", "Refill...Not Landfill", and "The Refill Guys", and certain associated designs, artwork and logos, all of which are owned by us (collectively, the "Marks") as per Schedule 3.

We grant to persons who meet our qualifications and who are willing to undertake the investment and effort necessary to establish and develop an Island Ink-Jet Outlet, a franchise to own and operate an Island Ink-Jet Outlet in accordance with the System. This Agreement is being presented to you because of the desire you have expressed to obtain the right to develop, own and be franchised to operate an Island Ink-Jet Outlet. In signing this Agreement, you acknowledge that you have read this Agreement and that you understand the importance of the Company's high standards of quality and service and the necessity of operating your Island Ink-Jet Outlet in strict conformity with the Company's standards and specifications. If the location of the Outlet is in a federally regulated state with respect to Franchise Disclosure requirements, you acknowledge that you have received the Island Ink-Jet Uniform Franchise Offering Circular ("UFOC") disclosure document at least 14 days prior to the date hereof. If the location of the Outlet is in a state that has specific registration requirements with respect to Franchise Disclosure requirements, you acknowledge that you have received the Island Ink-Jet state registered version for the state in which your franchise is located or to be located of the Uniform Franchise Offering Circular ("UFOC") disclosure document at least 14 days prior to the date hereof. You also acknowledge that you have conducted an independent investigation of the business contemplated by this Agreement and recognize that, like any other business, the nature of the business conducted by Island Ink-Jet may evolve and change over time, that an investment in an Island Ink-Jet Outlet involves business risks and that the success of the venture is primarily dependent upon your business abilities and efforts. You further represent to us, as an inducement to our agreeing to enter into this Agreement, that all statements made

by you in writing in connection with the acquisition of the Outlet is true and that you have made no misrepresentations in applying for or obtaining the franchise.

## 2. GRANT OF FRANCHISE

### 2.1 Term

You have applied for a franchise to operate an Island Ink-Jet Outlet at the location identified below, and we have approved your application in reliance upon all of the representations you made in that application. As a result, and subject to the provisions of this Agreement, we grant to you a franchise (the "Franchise") operate as an Island Ink-Jet Outlet only at the following premises (hereinafter referred to as the "Location"):

**[INSERT LOCATION NAME AND ADDRESS]**

and to use the System in the operation of the Location, for a term of 10 (ten) years commencing on the date of this Agreement, unless this Agreement terminates before the end of such term as provided in Section 13. Termination or expiration of this Agreement will constitute a termination or expiration of the Franchise. (All references to the "term" of this Agreement refer to the period from the date of this Agreement to the date on which this Agreement actually terminates or expires. All references in this Agreement to section and paragraph numbers refer to the sections and paragraphs of this Agreement unless otherwise stated.)

We also grant to you a non-exclusive licence to use, in connection with the operation of the Outlet:

- (a) the Marks and such other distinctive trademarks, trade names labels, designs, cartons, wrappings, packaging and advertising material as may be approved by us from time to time; and
- (b) the Island Ink-Jet System.

### 2.2 Exclusivity: Reservation of Rights

During the term of this Agreement, we will not operate (either directly or through an affiliate) nor grant a franchise (except to you) for the operation of any Island Ink-Jet Location to be located in the territory described in Schedule 1 to this Agreement (the "Territory") provided that you are not in default of any provision of this Agreement or any other agreement with us or our affiliates. If the location of the Island Ink-Jet you will operate has not been selected on the date of this Agreement, that location when selected and approved by us will be described in Schedule 1. Except for that exclusivity, or as otherwise provided in any other written agreement between us, we (on behalf of ourselves and our affiliates) retain all rights with respect to Island Ink-Jet the Marks and the System, including (by way of example only and not as a limitation) the right, in our sole discretion and without granting any rights to you, to:

- (a) operate or grant other persons the right to operate Island Ink-Jet Outlets at such locations outside the Territory on such terms and conditions as we deem appropriate; and
- (b) sell the products and services authorized for Island Ink-Jet Outlets under the Island Ink-Jet trademark or other trademarks, service marks, logos and commercial symbols through dissimilar channels of distribution outside the Territory, and pursuant to such terms and conditions as the Company may deem appropriate. The Company also reserves the right to enter into other lines of businesses offering dissimilar products or services under trademarks or service marks other than the Island Ink-Jet trademarks outside the Territory.



## 2.3 Renewal of Franchise

### (a) Franchise Owner's Option to Renew

If, during the initial term, you have complied with all provisions of this Agreement and you are not then in default of any provision of this Agreement or any other agreement with us or our affiliates (or, being in default, cure such default where permitted herein within the time permitted herein), you shall have the option upon the expiration of the initial term of this Agreement to renew the term of this Agreement for a further ten (10) years upon delivery to us of notice in writing not later than six (6) months prior to the expiration of the initial term. Renewal of the Franchise will be subject to your continued compliance with all terms and conditions contained within this Agreement up to the date of the expiration of the initial term as well as the items outlined in subsections 2.3(b) and (c) below. Such renewal term shall commence upon the expiration of the term herein granted.

### (b) Renewal Agreements

To renew the Franchise, you (and your Principal Owners) and the Company must execute our then current form of franchise agreement (with appropriate modifications to reflect the fact that the agreement relates to the grant of a renewal franchise), which agreement will replace this Agreement in all respects, and such ancillary agreements as we are then customarily using in the grant or renewal of franchises for the ownership and operation of Island Ink-Jet Outlets. You acknowledge and agree that the franchise agreement to be executed on renewal may contain terms and conditions substantially different than those contained in this Agreement including higher royalty payments. If we should elect not to execute a new franchise agreement, all of the provisions contained in this Agreement shall remain in force during the renewal term.

### (c) Other Conditions

To renew the Franchise, you must also fully comply with the following conditions:

- (i) you must have a current lease in place for the Location;
- (ii) you must undertake to renovate the Outlet to comply with our then current standards for an Island Ink-Jet Outlet;
- (iii) you must pay to us twenty five percent (25%) of the then current franchise fee plus our full costs of renewing this Agreement including, but not limited to, legal fees to prepare all necessary renewal documentation; and
- (iv) you and your Principal Owners must execute a general release in a form prescribed by us of any and all claims against the Company, our shareholders, officers, directors, agents and employees.

Franchisor retains the right not to renew the Agreement for any reason.

## 3. OUTLET ACQUISITION, DEVELOPMENT AND OPENING OF THE OUTLET

### 3.1 Outlet Build-Out

#### (a) Kiosk location

Should you choose a kiosk Customer Service Center, you will purchase from us, or our agent, a complete kiosk Customer Service Center Outlet location and we will deliver and construct the Outlet, which is designed to fit into a high traffic enclosed mall or other approved location. Details of this complete kiosk

Customer Service Center are summarized in Schedule 2. You must submit a written request for the kiosk to be ordered a minimum of 45 days prior to the opening date of your location.

(b) In-Line Location

Should you choose an in-line Customer Service Center, you will be responsible for the construction of the location. You must select and employ a licensed contractor who we must approve in advance. You will be solely responsible for the selection and work of any contractor selected and/or employed by you, even if referred by us. Additionally, you agree that you will comply with and ensure the Outlet meets our standards as established from time to time. Any modifications to our specifications shall be submitted to us for approval;

You are also responsible to obtain all required zoning permits, all required building, utility, health, and sign permits and licenses, and any other required permits and licenses.

(c) Opening Inventory and Equipment

You are required to order, from us or our designated supplier, your opening inventory and equipment a minimum of 45 days prior to the opening of your location.

I have read §3.1 and each of its sub-sections, understand them and agree to the terms of each.

Franchisee Initials: \_\_\_\_\_

### 3.2 Development and Opening of Outlet

You agree to do the following:

- (a) establish filing, accounting and inventory control systems conforming to the requirements prescribed by us;
- (b) obtain all required building permits and licences;
- (c) obtain our approval to open the Location for business;
- (d) subject to the prior approval of terms by us, execute a lease for the site. You will not execute a lease until a franchise agreement has been signed and you will provide us with a copy of the signed lease prior to the opening of your Location. Our approval for the site shall be conditioned upon the inclusion in the lease of certain terms, including but not limited to:
  - (i) a provision reserving to us the right, at our election, to receive an assignment of the leasehold interest upon termination or expiration of the franchise agreement;
  - (ii) a provision that allows the Lessor of the premises to provide to us all sales and other information Lessor may have related to the operation of the Outlet, as we may request; and
  - (iii) a provision which requires the Lessor to provide us with a copy of any written notice of deficiency under the lease sent to you and which grants us, in our sole discretion, the right (but not obligation) to cure any deficiency under the lease within 15 days after the expiration of the period in which you had to cure the default should you fail to do so;

- (e) comply with any and all local, state or federal environmental laws and regulations as they pertain to the storage and disposal of ink products, including but not limited to any Environmental Protection Agency rules, regulations, laws and/or guidelines.

You agree not to open the Location for business until:

- (a) we determine that the Location has been constructed, equipped and stocked with the products, materials and supplies which are listed on Schedule 2 to this Agreement;
- (b) you or your designated manager has graduated from our Initial Training Program; and
- (c) you have provided us with a copy of your lease and all insurance policies as required by paragraph 9.7.

#### Products and Supplies

You will purchase all products and supplies to be sold to the public or otherwise used in connection with your Island Ink-Jet Outlet only from us or from suppliers who are approved or designated in writing by us.

All bulk ink, refill kits, compatible ink-jet cartridges, and other supplies bearing the Island Ink-Jet brand must be purchased from the Company. Other supplies and inventory, such as original equipment manufacturer ink-jet cartridges, remanufactured original equipment manufacturer ink-jet cartridges, laser toner cartridges, recycling centers, and retail store displays are available for purchase from the Company but may also be obtained from vendors approved in writing by the Company as meeting the quality standards established by the Company. You are not authorized to designate or approve any suppliers, including yourself, of products and services in your Territory, unless we expressly consent to the same in advance and in writing. Due to the critical importance of ensuring the quality of the ink meets our standards and the risk of patent infringement, the Company is the only designated supplier of ink.

Everything required to open and continuously operate the Outlet is supplied by the Company. Certain office supplies and other small consumables are approved for purchase from local suppliers.

The Company retains the right to prohibit the sale of competitive products or non-conforming products in the operation of the Outlet. The Company will respond in writing within 30 days from the receipt of a written request by you to sell additional products not on the approved product list. The approved product list provided by the Company may change from time to time.

#### **3.3 Relocation of Outlet**

You may operate your Outlet only at the Location and you may not relocate your Outlet without our prior written approval. You must make written application to us requesting a relocation. A \$2,500 administration fee will be charged to process relocations.

If your lease for the Outlet terminates through no fault of yours, or if the Outlet is damaged, condemned or otherwise rendered unusable, or if in the judgment of the Company, there is a change in the character of the Location of the Outlet sufficiently detrimental to its business potential to warrant its relocation, we will grant permission for relocation of the Outlet to another location in the Territory approved by us.

All relocations will be at your sole expense.

#### **4. TRAINING AND OPERATING ASSISTANCE**

##### **4.1 Pre-Training**

You must spend a minimum of one day at a designated location prior to attending the Initial Training Program.

##### **4.2 Initial Training Program**

Prior to the opening of the Location, we will furnish, and the proposed manager of the Location must attend and graduate from, our Initial Training Program in the operation of an Island Ink-Jet Outlet. The Initial Training Program will be furnished at such place and time as we may designate and shall be for a minimum of seven days and a maximum of ten days. The Initial Training Program will include instruction in all phases of the operation of an Island Ink-Jet Outlet, including pre-opening responsibilities, product and equipment usage, cost and cash control, purchasing, customer service, marketing, employee scheduling and training, quality controls and administrative practices. The Initial Training Program will also cover the management role as well as training in each job function to be filled by hourly employees. In the event you are not the proposed manager of the Location, you (or if you are a partnership or corporation, one of your Principal Owners who has been approved by us) will also be required to attend and complete to our satisfaction the Initial Training Program.

The cost for this training is \$4,600 and includes classroom training, materials and accommodation (for the duration of the training period only). You will be solely responsible for all other expenses, including, without limitation, airfare, transportation expenses, and wages, incurred by you (or your Principal Owners) and any proposed manager in connection with all training programs.

##### **4.3 Annual Convention**

Island Ink-Jet reserves the right to conduct, at its sole discretion, one training program or convention annually at a location to be determined by us, to discuss relevant business trends and share new information relating to the Outlet business. Attendance at the seminar is mandatory unless Island Ink-Jet gives you at least 60 days prior written notice that the seminar shall be optional, in which case you or your Designated Manager shall be required to attend. Island Ink-Jet shall not require that you attend an on-going training program or seminar more than once a year. Mandatory training programs and seminars shall not last more than four days. All such mandatory training will be offered at a reasonable cost and we may waive the fee at our sole discretion. You will be responsible for any and all transportation and living expenses, which are incurred in connection with attendance at such additional training programs or seminars.

##### **4.4 Opening Assistance**

We, or our agent, will provide you with on-site supervisory assistance and guidance in connection with the opening and initial operations of the Location, as we deem appropriate; such assistance shall be for a period of time until we determine the Location is functioning properly. We will not provide you with on-site supervisory assistance and guidance for any subsequent locations opened by you.

##### **4.5 Operating Assistance**

We may advise you from time to time of operating problems of the Location disclosed by reports submitted to or inspections made by us. We will also furnish you with such guidance and assistance in connection with the operation of the Location as we from time to time deem appropriate. Operating assistance may consist of advice and guidance with respect to:

1. the provision of services and sale of products authorized for sale and the specifications, standards, methods and operating procedures used by Island Ink-Jet;
2. purchasing approved equipment, products, operating materials and supplies;
3. access to advertising materials developed through promotional programs;
4. administrative, accounting, inventory control, sales and general operating procedures for the proper operation of an Island Ink-Jet Location;
5. establishing and/or conducting employee-training programs at the Location or other location deemed convenient. You shall be responsible for all related travel by its personnel during the training program.

This guidance will, in our sole discretion, may be furnished in the form, of our choosing, which may include the Company's Operating Manual, bulletins or other written materials, telephonic consultations and/or e-mail consultations or personal on-site visits. Additional guidance and assistance may, at our discretion, be available at *per diem* fees and charges established from time to time by us.

#### 4.6 Operating Manual

We will loan to you during the term of the Agreement one copy of an operating manual per location, which may consist of one or more manuals and other written materials (collectively the "Operating Manual"), for Island Ink-Jet. The Operating Manual will contain mandatory and suggested specifications, standards and operating procedures, which we prescribe from time to time for Island Ink-Jet as well as information relative to other obligations you have in the operation of an Island Ink-Jet Outlet. The Operating Manual is a uniform manual and the standards apply to all Island Ink-Jet Franchisees.

You and your Principal Owners acknowledge that you have had no part in the creation or development of nor do you have any property or other rights or claims of any kind in or to, any element of the System, the Marks or any matters dealt with in the Operating Manual and that all disclosures made to you relating to the System and including without limitation the specifications, standards, procedures and the entire contents of the Operating Manual are communicated to you solely on a confidential basis and as trade secrets, in which we have a substantial investment and a legitimate right to protect against unlawful disclosure. Accordingly, you agree to maintain the confidentiality of all such information during the currency of this Agreement or at any time thereafter and shall not disclose any of the contents of the Operating Manual or any information whatsoever with respect to your or our business or the System other than as may be required to enable you to conduct your business from the Location, and you further agree not to use any such information in any other business or in any manner not specifically approved in writing by us. This section shall survive the termination of this Agreement for any reason whatsoever. You hereby acknowledge that the Operating Manual is loaned to you and shall at all times remain our sole and exclusive property, and upon termination of this Agreement for any reason whatsoever, you shall forthwith return the Operating Manual together with all copies of any portion of the Operating Manual which you may have made to us.

#### 4.7 Changes to Operating Manual

Island Ink-Jet reserves the right to revise the Operating Manual from time to time as it deems necessary to add to, subtract from, amend, alter or otherwise update operating and marketing techniques or standards and specifications in any manner, including updates contained in monthly newsletters. You, upon receiving any updated information, shall in turn update your copy of the Operating Manual as instructed by Island Ink-Jet and shall implement and conform your operations with the updated provisions at your sole cost. You acknowledge that a master copy of the Operating Manual maintained by Island Ink-Jet at its principal office shall be controlling in the event of a dispute relative to the content of any Operating Manual.

## 5. MARKS

### 5.1 Ownership and Goodwill of Mark

You acknowledge that the Company owns, or is licensed to use and sublicense, the Marks and that your right to use the Marks is derived solely from this Agreement and is limited to your operation of the Location pursuant to and in compliance with this Agreement and all applicable specifications, standards and operating procedures we prescribe from time to time during the term of the Franchise. Any unauthorized use of the Marks by you will constitute an infringement of our rights in and to the Marks and a default under this Agreement. You acknowledge and agree that all usage of the Marks by you and any goodwill established by your use of the Marks will inure to our exclusive benefit, or the benefit of the owner of the Marks, and that this Agreement does not confer any goodwill or other interests in the Marks on you (other than the right to operate an Island Ink-Jet Outlet in compliance with this Agreement).

You must not, at any time during the term of this Agreement or after its termination or expiration do any of the following:

- (a) make any oral or written representation or admission that any of the Marks is in any way invalid or infringes the rights of any person or is open to any other form of attack;
- (b) contest the validity or ownership of any of the Marks or assist any other person in contesting the validity or ownership of the Marks,
- (c) take any action in derogation of our claimed rights in and to the Marks;
- (d) use the Marks in any manner calculated to represent that you are the owner of the Marks;  
or
- (e) use the Marks in any modified form or in any form not approved by us.

All provisions of this Agreement applicable to the Marks will apply to any additional trademarks, service marks, commercial symbols, designs, artwork and logos we may authorize you to use during the term of this Agreement.

I have read §5.1 and each of its sub-sections, understand them and agree to the terms of each.

Franchisee Initials: \_\_\_\_\_

### 5.2 Limitations On Your Use of Marks

You agree to use the Marks as the sole identification of the Location, except that you must display at the Location, in a form we prescribe, a notice identifying yourself as the independent owner of the Location and a licensed user of the Marks pursuant to a Franchise Agreement with us. You may not use any Mark as part of any corporate or trade name, domain name or URL, or with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos and additional trade and service marks licensed to you under this Agreement), or in any modified form, nor may you use any Mark in connection with the sale of any unauthorized product or service or in any other manner we have not expressly authorized in writing. You agree to display the Marks prominently and in the manner we prescribe at the Location, including signs, menus and forms, and in connection with advertising and marketing materials. You also agree to use only notices of trademark or service mark registrations and copyrights as we specify and to obtain any fictitious or assumed name or "doing business as" registrations that are required under applicable law.

### 5.3 Licensed Methods

You hereby acknowledge that Island Ink-Jet owns and controls the distinctive plan for the establishment, operation and promotion of Outlets and all related licensed methods of doing business, previously defined as the "Licensed Methods", which include, but are not limited to, operational, technical and marketing methods relating to the ink-jet refill or remanufacturing industry, written promotional materials and Operating Manual contents, advertising, and accounting system, all of which constitute trade secrets of Island Ink-Jet and you acknowledge that Island Ink-Jet as valuable rights in and to such trade secrets. You further acknowledge that you have not acquired any right, title or interest in the Licensed Methods, except for the right to use the Licensed Methods in the operation of the Location, and that any and all innovations, additions or improvements made to the Licensed Methods, even if by you, shall be owned by and inure to the benefit of Island Ink-Jet.

### 5.4 Notification of Infringements and Claims

You agree to immediately notify us in writing of any apparent or suspected unauthorized use of the Marks, any challenge to the validity of the Marks, any challenge to our ownership of, our right to use or license others to use, or your right to use, the Marks or similar trade names, trademarks or service marks, or any claim by any person of any rights in any Mark or any similar trade name, trademark or service mark of which you may become aware. You agree not to communicate with any person except Island Ink-Jet, our lawyers and your lawyers in connection with any such infringement, challenge or claim. We have sole discretion to take such action as we deem appropriate and the sole right to exclusively control any litigation, United States Patent and Trademark Office proceeding or other administrative proceeding arising out of any infringement, challenge or claim or otherwise relating to any of the Marks. We have the right, but not the obligation, to take action against uses by others that may constitute infringement of the Marks. You agree to sign any and all reasonable instruments and documents, provide such assistance and take any reasonable action that our lawyers say are necessary or advisable to protect and maintain our interests in any such litigation, United States Patent and Trademark Office proceeding or other administrative proceeding related to the Marks or to otherwise protect and maintain our interests in the Marks.

### 5.5 Discontinuance of Use of Marks

If it becomes advisable at any time, in our sole discretion, for the Location to modify or discontinue use of any Mark for the Location to use one or more additional or substitute trademarks or service marks, you agree to comply with our directions to modify or otherwise discontinue the use of the Mark, or use one or more additional or substitute trademarks or service marks, within a reasonable time after our notice to you and at your expense, which expense shall not be unreasonable.

### 5.6 Quality Control of Marks

You agree to forward to us, upon written demand, samples of advertising that refer to the Marks. You also shall permit an authorized representative of us to inspect, at all reasonable times, the Outlet, wares and services in association with which the Marks are used in order to verify the use of the Marks and the goods and services associated with the Marks.

## 6. CONFIDENTIAL INFORMATION AND NON-COMPETITION

### 6.1 Types of Confidential Information

We possess certain unique confidential and proprietary information and trade secrets including but not limited to the following categories of information, methods, techniques, products, and knowledge developed by us:

- (a) ink-jet kits, replacement cartridges or related products sold at Island Ink-Jet Locations;
- (b) design & graphics, ordering and methods of providing the products and services sold at Island Ink-Jet Locations;
- (c) knowledge of sales and profit performance of any one or more Island Ink-Jet Locations;
- (d) knowledge of test programs, concepts or results relating to new services and products; sources of products; advertising, marketing and promotional programs; Location image or decor; and the selection and training of Location managers and other personnel; and
- (e) methods, techniques, formats, specifications, procedures, information, systems and knowledge of and experience in the development, and operation of an Island Ink-Jet Outlet.

(collectively the "Confidential Information")

## 6.2 Non-Disclosure Agreement

You agree that your relationship with us does not vest in you any interest in the Confidential Information other than the right to use it in the development and operation of an Island Ink-Jet Outlet under a franchise agreement with us, and that the use or duplication of the Confidential Information in any other business would constitute an unfair method of competition. The provisions of this Section 6.2 shall remain applicable following termination of this Agreement for any reason and are not limited to any territory or location. You acknowledge and agree that the Confidential Information belongs to us, is proprietary information, may contain trade secrets belonging to us and is disclosed to you or authorized for your use solely on the condition that you agree, and you therefore do agree, that you:

- (a) will not use the Confidential Information in any other business or capacity;
- (b) will maintain the absolute confidentiality of the Confidential Information during and after the term of this Agreement;
- (c) will not make unauthorized copies of any portion of the Confidential Information disclosed in written form;
- (d) will adopt and implement all reasonable procedures we may prescribe from time to time to prevent unauthorized use or disclosure of the Confidential Information, including without limitation, restrictions on disclosure to your employees and the use of non-disclosure and non-competition agreements we may prescribe for employees, shareholders or partners who have access to the Confidential Information. The restrictions on your disclosure and use of the Confidential Information will not apply to the following;
- (e) information, processes, or techniques which are generally known and used in the computer cartridge printing industry (as long as the availability of this information is not because of a disclosure, whether deliberate or inadvertent, by you in breach of this Agreement or by any other party under a confidentiality agreement with us); and
- (f) disclosure of the Confidential Information in legal proceedings when you are legally required to disclose it and you have first given us the opportunity to obtain an appropriate legal protective order or other assurance satisfactory to us that the information required to be disclosed will be treated confidentially.

I have read §6.2 and each of its sub-sections, understand them and agree to the terms of each.

Franchisee Initials: \_\_\_\_\_



**6.3 Non-Competition Agreement**

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 Island Ink-Jet franchise owners if franchise owners of Island Ink-Jet were permitted to hold interests in any competitive businesses, as described below. You also acknowledge that we have granted this Franchise Agreement to you in part in consideration of, and in reliance on, your agreement to deal exclusively with us. Therefore, during the term of this Agreement, and for two (2) years after expiration or termination of this Agreement for any reason whatsoever, neither you nor any Principal Owner, nor any member of your or their immediate families, may, either directly or indirectly, for yourself or through, on behalf of, or in conjunction with, any person or legal entity, own, maintain, operate, engage in, be employed by, or have any interest (as a disclosed or beneficial owner) in any business which offers products or services which are the same as, or similar to, those offered by an in Island Ink-Jet Outlet.

I have read §6.3, understand it and agree to the terms of this section.  
Franchisee Initials: \_\_\_\_\_

**6.4 Confidentiality Agreement**

Island Ink-Jet reserves the right to require that Franchisee cause each of its officers, directors, partners, shareholders, and Designated Manager to execute a Non-disclosure and Non-competition Agreement containing the above restrictions, in a form approved by Island Ink-Jet.

**7. RELATIONSHIP OF THE PARTIES / INDEMNIFICATION**

**7.1 Independent Contractor: No Fiduciary Relationship**

It is understood and agreed by both you and the Company that this Agreement does not create a fiduciary relationship between us, that your relationship to the Company is that of an independent contractor and that nothing in this Agreement is intended to make either of us a general or special agent, legal representative, subsidiary, joint venture, partner, employee or servant of the other for any purpose whatsoever. You agree to conspicuously identify yourself at the Location, and in all dealings with customers, suppliers, public officials, location personnel and others as the owner of the Location pursuant to a Franchise Agreement with us, and you agree to place any other notices of independent ownership on your signs, forms, business cards, stationery, advertising and other materials that we may require from time to time.

**7.2 No Liabilities / No Warranties**

We have not authorized or empowered you to use the Marks except as provided by this Agreement, and you agree not to employ any Mark in signing any contract, lease, mortgage, check, purchase agreement, negotiable instrument, application for any license or permit, or any other legal obligation, or in any manner that may result in liability to us for any indebtedness or obligation of yours. Except as expressly authorized by this Agreement, neither you nor the Company will make any express or implied agreements, warranties, guarantees or representations, or incur any debt, in the name of or on behalf of the other or represent that our relationship is other than that of the Company and franchise owner.

**7.3 Indemnification**

We will not be obligated for any damages to any person or property directly or indirectly arising out of your operation of the Location, whether or not caused by your negligent or wilful action or failure to act. We will have no liability for any sales, use, excise, income, gross receipts, property or other taxes, whether levied against you, the Location or your assets, or on us, in connection with the business you

conduct, or on any payments you make to us pursuant to this Agreement or any franchise agreement (except for our own income taxes). You agree to indemnify, defend and hold us, our shareholders, directors, officers, employees, agents and assignees, harmless against all such obligations, damages, and taxes for which we are held liable and for all costs we reasonably incur in the defence of any such claim brought against us, including without limitation actual and consequential damages, lawyers', accountants', and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses. We have the right to defend any such claim against us. You further agree to hold us harmless and indemnify and defend us for all cost, expense or loss we incur in enforcing the provisions of this Agreement resulting from your breach of this Agreement, including, without limitation, arbitrators' and lawyers' fees (including those for appeal), unless, after legal proceedings are completed, you are found to have fulfilled and to have complied substantially with all the terms of this Agreement. Your indemnification obligations described above will continue in full force and effect after, and notwithstanding, the expiration or termination of this Agreement for any reason whatsoever.

## 8. FEES AND ROYALTIES

### 8.1 Franchise Fee and Development Costs

In consideration of the right, license and privilege to establish the franchise as herein provided, and the services provided by the Company in relation to the Franchisee's initial training, the placement of the Location and the provision by the Company to the Franchisee of the Location on a Comprehensive basis, you shall pay to Island Ink-Jet, the amount as outlined on Schedule 2 attached hereto for the Outlet of your choice, allocated and payable as follows:

- (a) You shall pay to Island Ink-Jet upon the execution of the Franchise Agreement an initial non-refundable franchise fee in the sum of **Twenty Nine Thousand Dollars (\$29,000.00)** (hereafter "Franchise Fee"). If a suitable location is not secured within six (6) months from the effective date of the Franchise Agreement, we may, at our option, terminate the Franchise Agreement and require you to sign the then current form of franchise agreement.. The Franchise Fee shall be deemed to have been fully earned by the Company when paid.
- (b) Once a Location has been secured by the Franchisee, you shall pay to Island Ink-Jet a non-recurring, non-refundable deposit which will be applied to the purchase price of the franchise, which includes our administration and review fee, products, equipment, and operating supplies. The sum of the deposit shall be:
  - (i) **Twenty One Thousand Dollars (\$21,000.00)** in the event you purchase a kiosk Customer Service Center; or
  - (ii) **Fourteen Thousand Dollars (\$14,000)** in the event you purchase an in-line Customer Service Center.
- (c) You shall pay to Island Ink-Jet ten business days prior to the opening of the Location, the balance due, plus applicable taxes and shipping costs and any additional costs associated with the Location.

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

**IMPORTANT NOTE:**

Franchise hereby acknowledges that if payment in full for the Location is not received by Franchisor by the scheduled opening date of the Location (as invoiced), Franchisor will not assign title of the Location to Franchisee and the Location will not be opened for business. If payment in full for the Location is not received by the Opening Date, Franchisee hereby indemnifies Franchisor against any and all costs incurred as a result of a delayed or terminated opening.

\_\_\_\_\_  
Franchisee Signature

\_\_\_\_\_  
Date

**8.2 Royalty Payments**

In consideration of the continuing use of the System, you agree to pay to us royalty payments of six percent (6%) of Gross Sales monthly, and delivered to us by no later than the 10th day of the calendar month following. Written sales reports, in the prescribed form, shall be submitted to the Company on the 5<sup>th</sup> day of the following month. Late reports shall be subject to a penalty fee of twenty five dollars (\$25.00) per day. The Company shall have the right to verify such royalty payments from time to time, as it deems necessary, in any reasonable manner.

At our option, you shall pay the royalty payment by check delivered to us on or before the 10th day of the following month, or you shall participate, at your cost, in such automatic payment or electronic funds transfer (if any) that we may require for the payment of all amounts owed to us. In this regard, you will execute from time to time all documents required by us in order that automatic payments or withdrawals may be made to us. Late payments shall be subject to a penalty fee of twenty five dollars (\$25.00).

Island Ink-Jet shall have the right to require that you execute an Authorization Agreement for preauthorized payment of Royalties by electronic transfer of funds from Franchisee's bank account to the bank account designated by Island Ink-Jet.

**8.3 Gross Sales**

"Gross Sales" shall be defined as sales income of any kind and from whatever source for all services or products from or through the franchised business, including any such sale of services or products made for cash or upon credit, or partly for cash and partly for credit, regardless of whether such sale is conducted in compliance with or in violation of the terms of this Agreement, whether or not such amounts are collected, and regardless of whether such sale is at the Franchised Location or off-site, and will also include, but is not limited to, the amount of all sales assumed to have been lost by the interruption of business and which is the basis upon which an insurer has paid business interruption insurance.

Gross Sales shall also include the fair market value of any services or products received by Franchisee in barter or exchange for its services and products.

The following shall not be included in calculating Gross Sales:

- (a) the amount of any tax imposed by any federal, provincial, municipal or other governmental authority on sales and collected from customers, provided that the amount of any such tax is shown separately and in fact paid by the Franchisee to the appropriate governmental authority; and
- (b) an exchange of product made between the Franchisee and a customer, provided that the amount paid for the product by the customer was originally included in calculating Gross Sales.

In calculating Gross Sales, the following shall be deducted there from:

- (a) the amount of any cash refunded to a customer on account of the return of any product provided that the amount refunded with respect to such product was originally included in calculating Gross Sales; and
- (b) an amount equal to the value of any discount given to a customer on account of the purchase of any product through the use of coupons or other similar type promotions approved by us, provided the sale upon which the discount is given was recorded at full value in calculating Gross Sales.
- (c) an amount equal to the value of any discount given to a customer on account of the purchase of any product through promotions for corporate sales as previously amended and local marketing circumstances of the Franchisee, which are reasonable, provided the sale upon which the discounts are given are recorded at full value in calculating Gross Sales.

#### **8.4 Interest on Late Payments**

All royalty payments, advertising contributions, Regional and National Marketing and Promotion fees, amounts due from you for purchases from us or our affiliates and all other amounts which you owe to us or our affiliates will begin to accrue interest after their respective due date at the rate of (8%) over the prime rate announced from time to time by U.S. Bank as its reference commercial rate for determining the interest rate it charges on commercial demand loans in US dollars to its most creditworthy customers, from the date such payment was due until such monetary obligation is totally paid in full. This will be calculated and payable monthly not in advance, both before and after default or judgment with interest on overdue interest at the same rate. You acknowledge that the inclusion of this Paragraph in this Agreement does not mean we agree to accept or condone late payments nor does it indicate that we have any intention to extend credit to, or otherwise finance your operation of the Location. Further, you acknowledge that notwithstanding the provisions of this Paragraph 8.4, your failure to pay all amounts when due constitutes grounds for termination of this Agreement, as provided in Section 13.

#### **8.5 Application of Payments**

When we receive a payment from you, we have the right in our sole discretion to apply said payment as we deem appropriate to any past due indebtedness of yours due to us or our affiliates, whether for royalty payments, advertising contributions, purchases, interest, or for any other reason, regardless of how you may designate a particular payment to be applied.

### **9. LOCATION IMAGE AND OPERATING STANDARDS**

#### **9.1 Importance of Uniformity**

By signing this Agreement, you indicate that you understand and acknowledge that every detail of the Location is important — not only to you, but to us and to other Island Ink-Jet franchise owners - in order to develop and maintain high and uniform operating standards, to increase the demand for the products and services sold by all franchise owners, to establish and maintain a reputation for operating uniform high quality Outlets, and to protect the goodwill of all Island Ink-Jet Outlets.

You also acknowledge that a fundamental requirement of the System, this Franchise Agreement, and other Island Ink-Jet franchises is adherence by all franchise owners to the Company's uniform standards and policies, except for certain regional or individual differences we may approve from time to time.

## 9.2 Condition and Appearance of Location / Rebuilding of Location

In order to maintain the uniformity that is necessary in the System, you agree that:

(a) you will maintain the condition, design and appearance of the Location and its display cases, its equipment, furniture, signs, and in accordance with our standards and consistent with the image of an Island Ink-Jet Location as an efficiently operated business offering a variety of high quality products and services and observing the highest standards of efficient and courteous service and pleasant ambiance, and in that connection will take, without limitation, the following actions during the term of this Agreement:

(i) thorough cleaning and redecorating of the Location at reasonable intervals;

(ii) repair of the Location; and

(iii) repair or replacement of damaged, worn out or obsolete Outlet construction materials or display cases, equipment, and signs;

(b) you will not make any material alterations to the Location or to the appearance of the Location, as originally developed, including any unapproved replacements of or alterations to the Outlet, equipment, or signs of the Location, without our advance written approval. If you do so, we have the right, at your expense, to rectify alterations or replacements we have not previously approved;

(c) you will replace or add new changes to the Outlet or equipment when we reasonably specify in order to meet changing standards or accommodate new services, new products and new methods of providing and displaying the new products and services; and

(d) you will place or display at the Location only those signs, emblems, designs, artwork, lettering, logos, display and advertising materials that we from time to time approve, which approval will not be unreasonably withheld.

In the event the Location is damaged or destroyed by fire or any other casualty, you must, within 30 days after the casualty, initiate any and all repairs or reconstruction, and thereafter in good faith and with due diligence continue (until completion) such repairs or reconstruction, necessary to restore the Outlet to its original condition prior to such casualty.

If, in our reasonable judgment, the damage or destruction is of such a nature or to such extent that it is not feasible for you to repair or reconstruct the Location to its original condition prior to such casualty, you shall conform to the then current Island Ink-Jet decor specifications and, without incurring substantial additional costs, we may require you, by giving you written notice thereof, to purchase a new Outlet from us, to conform to the then current Island Ink-Jet decor specifications.

## 9.3 Products

The presentation of a uniform image to the public is an essential element of a successful franchise system. Therefore, you agree that:

(a) the Location will offer for sale all products and services that we, in our sole discretion, from time to time authorize and perform such services in the manner that we, in our sole discretion, determine;

(b) the Location will offer and sell approved products and services only in the manner we have prescribed;

- (c) you will not offer for sale or sell at your Location, or any other location any products or services we have not approved;
- (d) you will not use the Location for any purpose other than the operation of an Island Ink-Jet Outlet; and
- (e) you will discontinue selling and offering for sale any products or services that we at any time (in our sole discretion) disapprove in writing.

You must at all times maintain an inventory of approved products to realize the full potential of the Location, but in any event the inventory shall be equal to or greater than the minimum levels that we may set out in the Operating Manual. If we, in our reasonable opinion, decide that the Location does not have sufficient inventory and supplies, we have the right to order additional inventory and supplies on your behalf and at your expense, or to deliver same, in sufficient quantities consistent with good business practices, to satisfy your minimum inventory requirements.

We may, from time to time, conduct market research and testing to determine consumer trends and the saleability of products and services. You agree to cooperate by participating in our market research programs, test marketing new products and services in the Location and providing us with timely reports and other relevant information regarding such market research. In connection with any such test marketing, you agree to purchase a reasonable quantity of the products being tested and effectively promote and make a reasonable effort to sell such products.

The Franchisee shall purchase all products and supplies to be sold to the public or otherwise used in connection with the Island Ink-Jet Outlet only (i) from Island Ink-Jet; (ii) from our designated or approved affiliates, or (iii) from suppliers who are approved or designated by us. For further clarification, you acknowledge that Island Ink-Jet is the sole approved supplier of ink and as such, ink is only to be purchased directly from Island Ink-Jet. Any purchases made directly from us or our affiliates shall be paid for on delivery or otherwise upon such terms as may be agreed to in writing by us or our affiliate. For any purchases made from any approved or designated suppliers, other than us or our affiliates, you shall, at our option, provide us with duplicate copies of all purchase orders. You shall forthwith comply with all of our directives regarding any suppliers of products or supplies and, if so directed, you shall cease all business dealings with any supplier immediately upon direction from us. We shall not be responsible or liable for any dealings between you and our affiliates or any other supplier, nor shall we be liable for any default or delay in the delivery of any products or supplies whether by us or otherwise.

I have read §9.3, understand it and agree to the terms of this section.

Franchisee Initials: \_\_\_\_\_

#### 9.4 Rebates

You acknowledge and agree that we will receive, from designated suppliers of your inventory and other persons, periodic volume rebates as a result of your purchases; and you further acknowledge and agree that we shall be entitled to keep for our own use such rebates.

#### 9.5 Specifications, Standards and Procedures

You agree to maintain the standards set by us for the operation of the Island Ink-Jet Outlet as defined in the Operating Manual or otherwise by us and which are consistent with commonly accepted good business practices, including without limitation any of the following:

- (a) methods and procedures concerning the correct method of buying, displaying, storing and selling approved products;

- (b) the safety, maintenance, cleanliness, function and appearance of the Location;
- (c) uniforms or clothes to be worn by, and general appearance of, the Franchisee and its employees;
- (d) the use of the Marks;
- (e) the hours during which the Location shall be open for business to the public;
- (f) the honoring of credit card services which we approve;
- (g) the maintenance of adequate working capital;
- (h) limiting the placement of personal property and other financial security interest in, or pledges of assets;
- (i) the use and illumination of signs, labels, posters, displays, standard formats and similar items and the use of music;
- (j) compliant with all federal, state, municipal or other governmental laws, statutes, ordinances, regulations or rules applicable to the Outlet, including without limitation, compliance with the requirements of all unemployment insurance, worker's compensation, hospitalization premiums or other legislation, rules or regulations respecting employees or employee benefits, whether now in force or hereinafter enacted, and to make all contributions that may be required or demanded under or by virtue of such legislation, rules or regulations;
- (k) the identification of the Location as an Island Ink-Jet franchise and you as the owner of the Outlet;
- (l) the content, style and media of advertising conducted by you;
- (m) the sources, types and brands of all products sold or displayed at the Location;
- (n) the minimum levels of inventory to be maintained by the Franchisee;
- (o) the use and honoring of gift certificates, coupons and other such local and national promotional programs authorized by us acting reasonably;
- (p) attendance by you at all Company conventions and conferences;
- (q) the minimum number of trained staff on duty at all times;
- (r) participation in such annual and special sales promotions of the products or services as the Company, in its sole discretion, from time to time requires;
- (s) replacement of such items of equipment which may become obsolete or otherwise mechanically impaired, to the extent same require replacement, as the Company may reasonably require;
- (t) payment of all outstanding bills, accounts, taxes and other amounts payable in connection with the Location promptly when same shall be due and payable and to employ sufficient working capital in the said business to enable you to properly carry out and perform your obligations under this Agreement, as reasonably determined by us; and

- (u) honor the 100% Customer Satisfaction Guarantee as defined by Us.

## 9.6 Management of the Location / Conflicting Interest

You agree to actively devote your full time and attention to the franchised business and the Location must at all times be under your direct, day-to-day, full time, on-Premises supervision (you are the Principal Owner who must satisfactorily complete our training program) or a manager who must satisfactorily complete our training program. In the event a manager is supervising the Location, you (or your Principal Owners) must remain active in overseeing the operations of the Location conducted under the supervision of such manager. You agree to hire all employees of the Location, be exclusively responsible for the terms of their employment and compensation and implement a training program for employees of the Location that meets Island Ink-Jet requirements. You agree to maintain a staff of managers and assistant managers as may be specified by us from time to time and to maintain at all times a staff of trained employees sufficient to operate the Location in compliance with our standards.

You must at all times faithfully, honestly and diligently perform your obligations under this Agreement and continuously exert your best efforts to promote and enhance the business of the Location. The person who is responsible for the day-to-day supervision of the Location may not engage in any other business or other activity, directly or indirectly, requiring substantial management responsibility, time commitments, or which may otherwise conflict with your obligations under this Agreement.

Upon the death or permanent disability of you (or any of your Principal Owners), the executor or other personal representative of such person, or the remaining Principal Owners, must appoint a competent manager within a reasonable time, not to exceed thirty (30) days from the date of death or permanent disability. The appointment of this manager is subject to our prior written approval, and this manager must, if requested by us, attend and satisfactorily complete our training program. If the Location is not being managed by a Company-approved manager within thirty (30) days after the death or permanent disability, we are authorized, but we are not required, to immediately appoint a manager to maintain the operations of the Location for and on your behalf until an approved assignee is able to assume the management and operation of the Location. Our appointment of a manager for the Location will not relieve you of your obligations under this Agreement, and we will not be liable for any debts, losses, costs or expenses incurred in the operations of the Location or to any of your creditors for any products, materials, supplies or services purchased by the Location during any period in which it is managed by the Company-appointed manager. We have the right to charge a reasonable non-refundable fee for such management services and to cease providing such management services at any time.

## 9.7 Insurance

You must at all times during the term of the Franchise maintain in force, at your sole expense, comprehensive public liability insurance, product liability insurance and motor vehicle liability insurance against claims for bodily and personal injury, death and property damage caused by or occurring in conjunction with the set up and operation of the Location or your conducting business pursuant to this Agreement. Such insurance coverage must be maintained under policies of insurance containing minimum liability protection in such amounts as we may specify from time to time in the Operating Manual. You must also carry property insurance to keep the Premises, the Location and its contents insured against loss or damage by fire and such other risks covered in the Standard Extended Coverage Endorsement, in an amount not less than 100% of the full replacement cost of such assets, as well as any other type of coverage, such as workers' compensation insurance required under applicable law.

The Company reserves the right, in its sole discretion, to establish a group insurance plan that all franchisees must participate in.



All insurance policies must name the Company as an additional insured, must contain a waiver of the insurance company's right of subrogation against the Company and must provide that we will receive thirty (30) days' prior written notice of termination, expiration or cancellation of any such policy.

We may reasonably increase the minimum liability protection requirement annually and we have the right to require at any time on reasonable prior notice to you different or additional kinds of insurance to reflect inflation, changes in standards of liability or higher damage awards in public, product, motor vehicle liability litigation or other relevant changes in circumstances.

You must submit to us annually a copy of the certificate of insurance or other evidence of the renewal or extension of each such insurance policy. If you at any time fail or refuse to maintain in effect any insurance coverage we require, or to furnish satisfactory evidence of such coverage, we at our option and in addition to our other rights and remedies under this Agreement, may obtain such insurance coverage on your behalf, and you agree to promptly execute any applications or other forms or instruments required to obtain any such insurance, allow any inspections of the Location which are required to obtain or maintain the insurance and pay to us, on demand, any costs and premiums incurred by us.

Your obligations to obtain and maintain the insurance described above is not limited in any way by reason of any insurance maintained by us, nor will your performance of such obligations relieve you of any obligations under this Agreement.

## **10. ADVERTISING**

### **10.1 Approval of Advertising**

You shall obtain our prior written approval of all written advertising or other marketing or promotional programs not previously approved by Island Ink-Jet regarding the Location, including, without limitation, "Yellow Pages" advertising, newspaper ads, flyers, brochures, coupons, direct mail pieces, specialty and novelty items, radio and television advertising. Any proposed written advertising or a description of a marketing or promotional program not previously approved by Island Ink-Jet shall be submitted for approval to Island Ink-Jet not to be unreasonably withheld, at least ten (10) business days prior to publication, broadcast or use. You acknowledge that advertising and promoting the Location in accordance with Island Ink-Jet standards and specifications is an essential aspect of the Island Ink-Jet franchise, and Franchisee agrees to comply with all advertising standards and specifications.

### **10.2 Initial Opening Promotion**

You agree to conduct and conclude an Initial Opening Promotion in the amount of Fifteen Thousand Dollars (\$15,000). You agree to conduct the Initial Opening Promotion for the Location during the period commencing 30 days before and ending 180 days after the Location opens to the public (or as may be otherwise specified by Island Ink-Jet). Your Initial Opening Promotion will utilize the marketing and public relations programs and media and advertising materials that Island Ink-Jet has either developed, approved and will be implemented under the Island Ink-Jet Marketing Department. \$750 of your Initial Opening Promotion must be paid to Island Ink-Jet as indicated in Section 10.3. You will submit evidence of the Initial Opening Promotion expenditures on a timely basis as we direct.

### **10.3 Regional and National Marketing Fund**

You agree to pay to Island Ink-Jet in addition to the 6% royalty payment, a Regional and National Marketing Fee ("Regional and National Marketing Fee") which will consist of three percent (3%) of the Gross Sales for regional advertising and 1% for national advertising. A "Region" shall be defined as an area containing a group of existing or proposed locations servicing a common market such as a state, a segment of a state or a group of states as defined from time to time by the Franchisor.

The Regional and National Marketing Fee shall be payable monthly, concurrently with the payment of the royalty payment, based on Gross Sales for the immediately preceding reporting period. Island Ink-Jet shall have the right to require that you execute an Authorization Agreement for preauthorized payment of Regional and National Marketing Fees by electronic transfer of funds from Franchisee's bank account to the bank account designated by Island Ink-Jet. Any Regional and National Marketing Fee collected by Island Ink-Jet will be deposited by Island Ink-Jet in one or more separate accounts (referred collectively as the "Fund"), all designated as "Island Ink-Jet Marketing Fund". The Regional and National Marketing Fees will be subject to the same interest charges as the royalty payment. Upon your written request, Island Ink-Jet will make available to you, no later than one hundred twenty (120) days after the end of each calendar year, an annual statement for the Fund, which indicates how deposits to the Fund have been spent.

Regional funds will be administered by Island Ink-Jet in its sole discretion, and may be used for production and placement of media advertising, direct response literature, direct mailings, brochures, collateral material advertising, surveys of advertising effectiveness, or other advertising or public relations expenditures relating to advertising the services and products of the System; providing professional services, materials and personnel to support the marketing function; and to develop and monitor a home page on the Internet or an Internet like service. We may reimburse ourselves a reasonable amount out of the Funds not to exceed fifteen percent (15%) of the Funds in one year for providing the services or advertising or marketing staff and the cost of office supplies, telephone, advertising, agency fees and other items as we may deem necessary to administer the Fund. We also retain the right to place and develop such advertisements and promotions and to market same as agent on your behalf, either directly or through an advertising agency retained or formed for such purpose. Island Ink-Jet may cause the Fund to be incorporated or operated through a separate entity, at such time Island Ink-Jet deems appropriate, and such successor entity, if established, will have all rights and duties Island Ink-Jet with respect to the Fund as specified in this Section. Island Ink-Jet undertakes no obligation to ensure that the Fund benefits each franchise in proportion to its respective contribution.

As well, upon the execution of this Agreement, you will pay a one time fee of \$750 to Island Ink-Jet which will be deposited into the National Advertising Fund. This amount can be credited towards your \$15,000 Initial Opening Promotion. The National Advertising Fund's primary purpose is to support sales by the entire Island Ink-Jet System and to build brand identity.

#### **10.4 Participation in Promotional Programs**

You shall fully participate in all such promotional campaigns, prize contests, special offers, and other programs, national, regional, or local in nature (including the introduction of new products, Outlet openings, cross-promotions, or other marketing programs directed or approved by us), which are prescribed from time to time by Island Ink-Jet. You shall be responsible for the costs of such participation. In addition you shall honor any coupons, gift certificates or other authorized promotional offers of Island Ink-Jet at your sole cost unless otherwise specified in writing by us. You acknowledge that the advertising campaigns and sales promotions may vary from region to region and that all other Island Ink-Jet franchisees shall not necessarily be required to participate in the said campaigns and promotions in which you participate. We shall have the right to automatically deliver to and charge for your account, all products necessary to ensure that you will have on hand for sale, such products as would reasonably support the advertising campaign and/or sales promotions to be conducted.

#### **10.5 Telephone Listings**

You shall arrange, and pay, for the placement in all yellow and white page telephone directories applicable to the area in which the Outlet is situated, a listing for the business in which the name Island Ink-Jet shall be given prominent display. If other Island Ink-Jet franchise owners are served by the same directories, we may require a group listing of all Outlets and may arrange such listing on your behalf and you hereby appoint us as your attorney to execute on your behalf any documents required for such. The costs of such

listing shall be allocated among such Outlets by us and the applicable Island Ink-Jet franchise owners, including you, shall pay an equal share thereof on demand.

## 11. REPORTS, RECORDS AND FINANCIAL STATEMENTS

### 11.1 Reports

You shall establish and maintain at your own expense an approved bookkeeping and accounting system conforming to the Company's specifications. At the time of the build-out of your Outlet, a license fee paid either directly to the provider of our Management System or through us to the provider on your behalf. We may pre-purchase software licenses from the provider of our Management System to achieve the best price available. You shall provide either directly or by electronic access or other means to the Company financial and accounting reports in a manner and form as the Company may reasonably require, including:

- (a) monthly written summary reports, in the prescribed form, submitted by no later than the 5<sup>th</sup> day in each month and containing information relative to the previous monthly reporting period operations;
- (b) any other data, reports, information and supporting records reasonably requested by the Company from time to time (including, without limitation, daily and weekly reports of product sales by category);
- (c) upon our written request, within ten (10) days after such documents are filed, an exact copy of all returns, schedules and reports filed by you for income, corporate or sales tax purposes or any other government remittances;
- (d) within twenty (20) days after the end of each quarterly fiscal period, a profit and loss statement for such months on forms approved by us;
- (e) within 90 days after the end of your fiscal year, an income statement and balance sheet of your Location for such fiscal year (reflecting all year-end adjustments), and a statement of changes in cash flow of the Location, consistently applied, and in the Company's recommended format. The Company reserves the right to require that you have reviewed financial statements prepared on an annual basis; and
- (f) you must purchase annual enhancements for the Company's then current Management System Software. If we adopt software upgrades that require upgraded computer hardware, you must upgrade your hardware and install the upgraded software within 30 days at your own expense.

The Company reserves the right to establish a uniform accounting system for all of its franchisees and in such an event, you agree to maintain your books and records in the manner required by us.

### 11.2 Use and Access

You will install and maintain the fastest available internet access available to you, as a part of the System, through which the Company may access to obtain sales information and data of the System and you agree to cooperate with the Company's procedures regarding such System.

### 11.3 Financial Records

You shall maintain all books and records for the Location in accordance with generally accepted accounting principles, consistently applied, and preserve such records, including cash register tapes, shift

reports, weekly operating summaries and sales tax returns, for a minimum of three years or the minimum amount of time required by state or federal law, whichever is greater. With respect to the operation and financial condition of the Location, you agree to furnish the Company with the financial and accounting reports required hereunder in a form reasonably prescribed by the Company, which may include, without limitation, computer diskette, electronic mail and facsimile transmission.

#### 11.4 Audit of Financial Records

You shall permit the Company or its representatives to inspect and audit the books and records of the Location at any reasonable time without prior notice, at the Company's expense. If any audit discloses a deficiency in amounts owed to the Company, then such amounts shall become immediately payable to the Company by you, with interest from the date such payments were due in accordance with Section 8.3. In addition, if such audit discloses that Gross Sales have been understated by three percent (3%) or more during the audit period, you shall pay immediately all costs and expenses the Company incurred in connection with such audit, including, without limitation, any fees and disbursements of any independent accounting firm.

If you do not deliver any statement of Gross Sales as required, Island Ink-Jet or its auditor shall have the right to reasonably estimate the Gross Sales of the period in question and you shall immediately pay the applicable royalty payment, Marketing and Promotion Fee and other amounts to such estimate, together with interest in accordance with Section 8.3. Any such estimation or report of our auditor pursuant to this Agreement shall be final and binding upon the parties.

### 12. TRANSFER

#### 12.1 Transfer by the Company

This Agreement, and all other agreements executed between the parties hereto, are fully assignable by Island Ink-Jet in whole or in part and shall inure to the benefit of the assignee or other legal successor to its interest herein. You shall attorn to such assignee and shall execute any attornment agreement requested by us or our assignee. Within ten (10) days after receipt of such request, you shall execute and return, a declaration (if and to the extent that it is true):

- (a) ratifying this Agreement and all other agreements between the parties;
- (b) stating the last day of the term of this Agreement and all other agreements between the parties;
- (c) certifying that this Agreement and all other agreements between the parties are in full force and effect and have not been modified, amended or assigned;
- (d) certifying that all obligations to be performed by us to date have been performed; and
- (e) certifying that no defences or offsets exist against the enforcement of this Agreement or any other agreement.

Provided that any assignee assumes all our obligations under this Agreement, you agree that Island Ink-Jet shall be released from any and all liability to you at such time, save and except any matter for which a statement of claim or other court proceeding has been commenced, and we shall have no further obligation under this Agreement or any other agreements with you assigned in conjunction herewith.