



## FRANCHISE DISCLOSURE DOCUMENT

### COOKIE CUTTERS FRANCHISING INC.

8 East Broadway, Suite 420  
Salt Lake City, Utah 84111  
(317) 334-1680  
cookiecutters@haircutsarefun.com  
www.kidscuts.com

The franchisee will operate a service business under the name “COOKIE CUTTERS HAIRCUTS FOR KIDS” that provides haircuts, shampoos and related products and services for children, focusing on age groups 12 and under.

The total investment necessary to begin operation of your first Cookie Cutters business is from \$132,000 to \$339,500, including \$42,500 that you must pay the franchisor.

The franchisor may also, in its sole discretion, grant the right to develop multiple Cookie Cutters salons under an Area Development Agreement. If you are granted the right to develop multiple salons, the total investment necessary to obtain such rights depends on how many salons you agree to develop. You must pay the initial franchise fee to the franchisor according to the following schedule: \$40,000 for the first salon, \$20,000 for the second salon, and \$10,000 for each additional salon thereafter. You must pay the entire initial franchise fee for each salon upon execution of the Area Development Agreement. The typical number of Cookie Cutters salons that we anticipate in an AD Agreement is between two and five. The total investment necessary for rights to begin development of this number of Cookie Cutters salons is from \$60,000 to \$90,000 that you must pay the franchisor.

This Disclosure Document summarizes certain provisions of your franchise agreement and other information in plain English. Read this Disclosure Document and all accompanying agreements carefully. You must receive this Disclosure Document at least 14 calendar days before you sign a binding agreement with, or make any payment to the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no government agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Neal Courtney at 8 East Broadway, Suite 420, Salt Lake City, Utah 84111, by phone at (317) 334-1680, or by email at [nealcourtney@haircutsarefun.com](mailto:nealcourtney@haircutsarefun.com).

The terms of your contract will govern your franchise relationship. Don't rely on the Disclosure Document alone to understand your contract. Read all of your contract carefully. Show your contract and this Disclosure Document to an advisor, like a lawyer or accountant.

Buying a franchise is a complex investment. The information in this Disclosure Document can help you make up your mind. More information on franchising, such as “A Consumer’s Guide to Buying a Franchise,” which can help you understand how to use this Disclosure Document, is available from the Federal Trade Commission (“FTC”). You can contact the FTC at 1-888-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC 20580. You can also visit the FTC’s home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

**Issuance Date: ~~May 12~~ March 26, 2020 2021**

4830-9917-5355  
4828-1133-4371

## How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
<b>How much can I earn?</b>	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit E.
<b>How much will I need to invest?</b>	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
<b>Does the franchisor have the financial ability to provide support to my business?</b>	Item 21 or Exhibit D includes financial statements. Review these statements carefully.
<b>Is the franchise system stable, growing, or shrinking?</b>	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
<b>Will my business be the only Cookie Cutters business in my area?</b>	Item 12 and the “territory” provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
<b>Does the franchisor have a troubled legal history?</b>	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
<b>What's it like to be a Cookie Cutters franchisee?</b>	Item 20 or Exhibit E lists current and former franchisees. You can contact them to ask about their experiences.
<b>What else should I know?</b>	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

## What You Need To Know About Franchising *Generally*

**Continuing responsibility to pay fees.** You may have to pay royalties and other fees even if you are losing money.

**Business model can change.** The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

**Supplier restrictions.** You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

**Operating restrictions.** The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

**Competition from franchisor.** Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

**Renewal.** Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

**When your franchise ends.** The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

### Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit A.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

## Special Risks to Consider About *This* Franchise

Certain states require that the following risk(s) be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Utah. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in Utah than in your own state.
2. **Minimum Sales Requirement Performance Required.** You must ~~meet~~ maintain minimum ~~gross sales level after the first three years in business under the franchise agreement.~~ gross sales level after the first three years in business under the franchise agreement. ~~If you do not maintain that level of sales,~~ performance levels. ~~Your inability to maintain these levels may result in loss of any territory rights you are granted, termination of your franchise may be terminated, and loss of your investment.~~ Your inability to maintain these levels may result in loss of any territory rights you are granted, termination of your franchise may be terminated, and loss of your investment.

Certain states may require other risks to be highlighted. Check the “State Specific Addenda” (if any) to see whether your state requires other risks to be highlighted.

## MICHIGAN STATE COVER PAGE

### COOKIE CUTTERS FRANCHISING INC.

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.

1. A prohibition on the right of a franchisee to join an association of franchisees.
2. A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
3. A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
4. A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) The term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least six-months advance notice of franchisor's intent not to renew the franchise.
5. A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
6. A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
7. A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
  - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
  - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
  - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

- (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.
- 8. A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (3).
- 9. A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

If our most recent financial statements are unaudited and show a net worth of less than \$100,000.00, you may request that we arrange for the escrow of initial investment and other funds you paid until our pre-opening obligations to provide real estate, improvements, equipment, inventory, training, or other items including in the franchise offering are fulfilled. At our option, a surety bond may be provided in place of escrow.

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.

Any questions regarding this notice should be directed to the State of Michigan Consumer Protection Division, Attn: Franchise Bureau at 525 West Ottawa Street, G. Mennen Williams Building, 7th Floor, Lansing, MI 48933 or by telephone at (517) 373-7117.

## Table of Contents

ITEM 1: THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES.....	1
ITEM 2: BUSINESS EXPERIENCE .....	3
ITEM 3: LITIGATION.....	<u>34</u>
ITEM 4: BANKRUPTCY .....	4
ITEM 5: INITIAL FEES .....	4
ITEM 6: OTHER FEES.....	5
ITEM 7: ESTIMATED INITIAL INVESTMENT .....	8
ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES .....	11
ITEM 9: FRANCHISEE’S OBLIGATIONS .....	13
ITEM 10: FINANCING .....	15
ITEM 11: FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING .....	<del>15</del> <u>16</u>
ITEM 12: TERRITORY .....	<del>22</del> <u>23</u>
ITEM 13: TRADEMARKS .....	<del>24</del> <u>25</u>
ITEM 14: PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION .....	27
ITEM 15: OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS .....	28
ITEM 16: RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL.....	29
ITEM 17: RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION .....	29
ITEM 18: PUBLIC FIGURES.....	<del>34</del> <u>35</u>
ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS.....	35
ITEM 20: OUTLETS AND FRANCHISEE INFORMATION.....	<del>35</del> <u>36</u>
ITEM 21: FINANCIAL STATEMENTS .....	<del>40</del> <u>41</u>
ITEM 22: CONTRACTS.....	<del>40</del> <u>41</u>
ITEM 23: RECEIPT .....	41
<b>EXHIBITS:</b>	
EXHIBIT A: LIST OF STATE AGENCIES/AGENTS FOR SERVICE OF PROCESS .....	42
EXHIBIT B: FRANCHISE AGREEMENT AND RELATED AGREEMENTS .....	44
EXHIBIT C: AREA DEVELOPMENT AGREEMENT .....	<del>104</del> <u>105</u>
EXHIBIT D: FRANCHISOR’S FINANCIAL STATEMENTS .....	<del>119</del> <u>120</u>
EXHIBIT E: LIST OF FRANCHISE OWNED SALONS.....	<del>169</del> <u>167</u>
EXHIBIT F: TABLE OF CONTENTS TO COOKIE CUTTERS CONFIDENTIAL OPERATIONS MANUAL.....	<del>178</del> <u>176</u>
EXHIBIT G: STATE SPECIFIC ADDENDA .....	<del>182</del> <u>180</u>
EXHIBIT H: STATE EFFECTIVE DATES .....	<del>211</del> <u>210</u>
EXHIBIT I: RECEIPT PAGE .....	<del>213</del> <u>212</u>

**ITEM 1**  
**THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES**

**Franchisor, Parent and Affiliates**

The name of the franchisor is Cookie Cutters Franchising Inc. For ease of reference in this disclosure document, Cookie Cutters Franchising Inc. will be referred to as “we,” “us,” or “Franchisor,” and the person who is considering the franchise will hereinafter sometimes be referred to as “you” or “Franchisee.” If you are a corporation, limited liability company, or partnership, certain provisions of the Franchise Agreement and related agreements will apply to your shareholders, member, and partners. Those provisions will be noted. The Franchisor has not offered franchises in any other line of business.

We are a Utah corporation incorporated on October 16, 2014. We do business under our corporate name, Cookie Cutters Franchising Inc. and “Cookie Cutters.” Our principal business address is 8 East Broadway, Suite 420, Salt Lake City, Utah 84111. We act as franchisor for the COOKIE CUTTERS franchise system. We have not and currently do not conduct business in any other line of business.

We do not have any parent companies.

Our affiliate is Ucanah For Kids, L.C. (“Ucanah”). Its principal business address is 2365 Maywood Drive, Salt Lake City, Utah 84109. In 2015, Ucanah transferred two Cookie Cutters salons to franchisees and now owns and operates one Cookie Cutters salon in the Salt Lake City, Utah area.

**Predecessors**

We purchased the Cookie Cutter franchise system from CC Franchising, Inc. on December 22, 2014. CC Franchising, Inc. began offering COOKIE CUTTERS franchises in 2003 and acted as the franchisor for the Cookie Cutters franchise system until we purchased the system in 2014. CC Franchising, Inc. has not offered franchises in other lines of business.

**The Business We Offer**

In March 2015, we began offering franchises for COOKIE CUTTERS HAIRCUTS FOR KIDS businesses which primarily provide haircuts, shampoos and related products and services for children ages 12 and under. The businesses use formats, signs, equipment layouts, systems, methods, procedures and designs specified by us (the “Cookie Cutter System” or “System”). To operate a COOKIE CUTTERS salon, you must sign a franchise agreement (“Franchise Agreement”). The Franchise Agreement is included in this Disclosure Document as Exhibit B.

We also grant area developer rights to qualified franchisees who may then develop multiple COOKIE CUTTERS salons within a defined area over a specific time period according to a pre-determined development schedule. These area developers must sign the area development

agreement (the “AD Agreement”) and may open COOKIE CUTTERS salons directly or through approved controlled affiliates. You will be required to sign our then-current franchise agreement for each salon you open and operate pursuant to the AD Agreement, which franchise agreement may differ from the current Franchise Agreement in this Disclosure Document. The AD Agreement is included as Exhibit C to this Disclosure Document.

The System was developed to make the event of a haircut pleasurable for children. A COOKIE CUTTERS salon represents a revolutionary breakthrough in the hair care industry. Through the integration of home entertainment videos, computer and hand-held games, entertainment centers, playground equipment, carousel chairs and fire truck wash shampoos, the System has converted what was once an uneventful and frequently traumatic experience into an engaging, fun-filled frolic, entertaining for both the child and the parents.

A COOKIE CUTTERS salon also offers children’s birthday parties, which provide hair styling, nail painting and make-up for girls, and mock shaves, spiked hair and video games for boys. COOKIE CUTTERS’ businesses compete with local regional and national businesses (including other franchised businesses) offering hair care services. In light of the rapidly growing children’s market, including the proliferation of retail marketing concepts developed specifically to address the needs of children, COOKIE CUTTERS businesses are well positioned to take advantage of the mostly untapped children’s hair salon business. Based on the experience of COOKIE CUTTERS, a small percentage of your business may be with adults, which will vary with your area’s demand for family packages and the needs and preferences of your customers. Peak periods occur before holiday periods, and during the fall back-to-school period, spring break and other seasonal transitions.

We do not directly operate COOKIE CUTTERS salons, but in 2006, our affiliate, Ucanah, began operating COOKIE CUTTERS Salons as a franchisee in the system. Ucanah now owns and operates one salon located in the Salt Lake City, Utah area.

We offer Cookie Cutters franchises to individuals, corporations, limited liability companies, partnerships or other legally formed business entities for the establishment and operation of a single Cookie Cutters Salon (sometimes referred to as “Franchised Business”) operating from a single location.

A Cookie Cutters Salon is typically located in strip shopping centers or malls and is a facility of approximately 1,200 square feet with eight to ten chairs employing a manager, two associate managers and a staff of cutters, all of whom must be licensed barbers, beauticians or cosmetologists. The Cookie Cutters System emphasizes employee motivation through, among other things, a commission system for production. While Cookie Cutters haircut salons are devoted primarily to haircutting, related hair care services and children’s entertainment, a limited line of hair care products and accessories may also be offered by the Franchised Business.

## **Competition**

The market for haircutting services is highly competitive. You will compete with other national, regional and local businesses, including other chains and franchises, that offer haircuts and related products and services to children and adults.

## **Applicable Regulations**

As the operator of a COOKIE CUTTERS business, you must comply with laws and regulations specific to the operation of hair care businesses, whether primarily for children or adults. For example, all states have license requirements for stylists. Some also may have cosmetology license requirements for managers and shampoo assistants. In addition, environmental laws and regulations, such as water discharge regulations, may apply. You must comply with all local, state and federal laws, regulations and ordinances applicable to the operation of any business. We urge you to make inquiries about these laws, regulations and ordinances.

## **ITEM 2 BUSINESS EXPERIENCE**

### **Chief Executive Officer: Neal Courtney**

Mr. Courtney has been our Chief Executive Officer since our incorporation in October 2014. He was the Chief Operating Officer at PostNet from September 2014 to January 2015. Prior to that, Mr. Courtney was the Chief Executive Officer for Mrs. Fields Famous Brands, LLC, the parent company of the Mrs. Fields Cookies and TCBY frozen yogurt franchises, from February 2014 to July 2014, the Chief Operating Officer from May 2012 until his appointment as Chief Executive Officer, and a Senior Vice President and General Manager from January 2010 until becoming Chief Operating Officer.

### **Chief Operating Officer: Alexis Courtney**

Ms. Courtney has been our Chief Operating Officer since our incorporation in October 2014. Since January 2006, Ms. Courtney has also been the President of Ucanah For Kids, L.C., which owns and operates a COOKIE CUTTERS salon.

### **Vice President of Operations and Training: Christy Fossett**

Ms. Fossett has been our Vice President of Operations and Training since February 2017. Ms. Fossett began working for our predecessor, CC Franchising, Inc. in January 2006 as the Director of Operations and Training and served in the same capacity with us from December 2014 to February 2017.

### **ITEM 3 LITIGATION**

No litigation is required to be disclosed in this Item.

### **ITEM 4 BANKRUPTCY**

No bankruptcy information is required to be disclosed in this Item.

### **ITEM 5 INITIAL FEES**

#### **Initial Franchise Fee**

You must pay us an initial franchise fee of \$40,000 for your first salon, due when you sign the Franchise Agreement. The initial franchise fee is non-refundable and is fully earned upon receipt. This fee is uniform. If you open subsequent COOKIE CUTTERS franchised salons, you will receive a discounted initial franchise fee of \$20,000 for your second salon and \$10,000 for each salon thereafter.

We offer veterans a discount of \$1,500 off the initial franchise fee.

#### **Development Fee**

We may offer you the right, in our sole discretion, to develop multiple COOKIE CUTTERS franchised salons pursuant to an AD Agreement. The development fee you must pay is determined by the number of salons you agree to develop according to the following schedule: \$40,000 for the first salon, \$20,000 for the second salon, and \$10,000 for each additional salon. The development fee is equal to the initial franchise fee for each salon you agree to develop, and you will not be required to pay any additional initial franchise fee when you execute the Franchise Agreement for the salons developed pursuant to the AD Agreement. The development fee is fully earned upon payment and is not refundable.

#### **Initial Training Fee**

You must also pay us an initial training fee amounting to \$2,500 if this is your first COOKIE CUTTERS salon or \$1,500 if this is your second or additional salon, which will cover the cost of training associated with up to two individuals attending our initial training program as outlined in Item 11. The initial training fee does not cover costs and expenses incurred by you or your attendees in attending the initial training program, including but not limited to, travel, lodging, meals and salary expenses. The initial training fee is due upon receipt of an invoice from us, approximately one week before the initial training begins. Initial training will not commence

until the initial training fee is paid in full. The initial training fee is deemed fully earned and non-refundable upon receipt.

## ITEM 6 OTHER FEES

	Amount	Due Date	Remarks
Royalty Fee	5% of Gross Sales (1)	Payable by 10th business day of each month via bank draft	Any gift certificates which we may sell to you, when redeemed, will be credited against your royalty fee at face value (gift certificates must be redeemed in the month you receive them). If you default in payments, we have the right to require you to pay weekly instead of monthly.
System-wide Advertising & Promotional Fund (2)	1% of Gross Sales (with an option by us to raise up to 3%) (1)	Payable by 10th business day of each month, via bank draft	We administer a system-wide advertising and promotional fund (see Item 11); you will not be required to spend more than 6% of Gross Sales on System-wide Advertising, Cooperative Advertising and Local Advertising.
Cooperative Advertising Contributions (3)	Up to 3% of quarterly Gross Sales (1)	Established by members	Contributions are credited to your local advertising expenditure obligation (See Section 16.2 of Franchise Agreement).
Remedial or Follow-up Training and Certification(4)	Our then-current fee, currently \$50 per day per trainee (5)	10 days after billing	We provide remedial or follow-up training if we, in our sole and absolute right, deem it necessary for you or your manager(s) (7)
Non-Compliance Fee	\$100 per day per violation of the Franchise Agreement or System standards	5 days after billing	We may charge you a fee for violating the franchise agreement or our System standards. Charging the Non-Compliance Fee does not preclude us from seeking any other relief available under the franchise agreement or applicable law
Initial Training of Replacement Manager (4)	Our then-current fee, currently \$50 per day per trainee (5)	10 days after billing	

	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Annual Seminar (4)	Our then-current fee currently \$500 per location operated by you (5)	10 days after billing	
Certificate Program Support Fee	Our then-current fee, currently \$2 per month per location (5)	10 days after billing	This covers the costs related to the first haircut certificate program.
Motion Picture Licensing Fee	An amount required under a license between us and Motion Picture Licensing Corporation, currently \$30 per month.	Payable by 10th business day of each month via bank draft	You are required to have a copyright license to show streaming and video content to customers in your Salon. We have negotiated a system-wide license with Motion Picture Licensing Corporation (“MPLC”) for the use of select streaming and video content. You pay us the monthly fee and we pay MPLC on behalf of each Salon. We do not profit on this fee.
Server Support and Maintenance Fee	Our then-current fee, currently \$18 per month per location (5)	10 days after billing	This fee covers the costs of maintaining servers used to support the Cookie Cutters system.
Equipment, Supply or Supplier Testing, Inspection and Grant of Approval of Equipment, Supplies or Suppliers	Out-of-pocket expenses, plus the then-current per diem charges for our personnel (5)	On receipt of bill for estimated out-of-pocket expenses; Additional amounts 10 days after billing.	This fee covers the cost of testing or inspecting, and approving new equipment, supplies or suppliers you propose.
Management	To be determined under circumstances	10 days after billing	Payable during any period that our appointed manager operates the franchised business on your death or disability.
Transfer Fee	30% of our then-current initial franchise fee that we charge to purchase the number of locations being transferred, plus full reimbursement for any actual and reasonable travel, lodging and meal expenses incurred by CC in connection with the transfer (6)	Before transfer	Payable when franchise agreement or controlling interest in franchise is transferred

	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Transfer to Controlled Entity	\$1,500	Before transfer	Payable in place of normal transfer fee for a transfer to an entity controlled by you that is formed solely for the convenience of ownership
Renewal	\$10,000 for a single unit franchise	On signing renewal franchise agreement	
Audit	Cost of inspection or audit, plus any amount found to be owed to us	10 days after billing	Cost of inspection or audit payable only if audit shows that you have underpaid or understated any amount owed to us by 2% or more or if the examination or audit is made necessary by your failure to furnish required information or documents to us in a timely manner.
Attorneys' Fees and Costs	Will vary under circumstances	As incurred	The prevailing party may seek to recover attorneys' fees and costs.
Late Fees	\$50	When billed	
Interest	1.5% per month or highest rate allowed under applicable law, whichever is less.	When billed	Due on all past due amounts
Assessment for Bank Draft being Dishonored	\$25 per transaction , in addition to any fee charged by the relevant financial institutions	On demand	You must pay a \$25 assessment fee if any bank draft we attempt is dishonored, due to insufficient funds or a change in your bank account in addition to any fee charged by the relevant financial institutions
Indemnification	Will vary under circumstances	As incurred	You must reimburse us if we are held liable for claims arising from operation of your franchise business.

All fees are imposed by and payable to us. All fees are non-refundable and applied uniformly. In addition to fees, you may be required to purchase certain items from us (see Item 8).

**Note 1:** Gross Sales means the aggregate gross amount of all revenues from whatever source derived (whether in form of cash, credit, agreements to pay or other consideration including the actual retail value of any goods or services traded, bartered, or otherwise received by the Franchisee in exchange for any form of non-monetary consideration, whether or not payment is received at the time of sale or any such amount is proved uncollectable) from or in conjunction with the Franchised Business. Whether such business is conducted in compliance with or in violation of the terms of the Franchise Agreement, Gross Sales includes all sales or products or services made from the premises. Gross Sales includes proceeds received from "loss of business" insurance. However, Gross Sales does not include (i) sales or use taxes collected by the Franchisee; (ii) the amount of any refunds or allowances made on products or

services returned by customers; (iii) returns to shippers, vendors and manufacturers; (iv) proceeds derived from the sale of equipment or supplies used by the Franchisee in the conduct of its business and not provided for resale; (v) sales of products and services to other Cookie Cutters Franchisees and to the Franchisee’s employees; and (vi) sums received in settlement of claims or loss or damage to fixtures, equipment or leasehold improvement.

**Note 2:** You must contribute to the System wide Advertising & Promotional Fund (“Fund”). The current contribution is 1% of your Monthly Gross Sales. See Item 11.

**Note 3:** You also must to participate in any regional advertising cooperative (“Cooperative”) that we may form in the future. Any contributions you make to the Cooperative, up to the 3% maximum, will be credited toward your obligation to advertise locally (“Local Advertising”). See Item 11.

**Note 4:** As to all training sessions and annual seminars, you must pay for your trainees’ and attendees’ salaries and benefits, and for their travel lodging and meal expenses. Also as to all training sessions, if our trainers are requested by you or required to travel outside of the Salt Lake City, Utah area to give training, you must pay us the then current per diem charges for those trainers, and must reimburse us for those trainers’ actual and reasonable travel, lodging and meal expenses. We reserve the right to require remedial or follow-up training until a manager or stylist meets the certification and/or re-certification requirements contained in our Confidential Operations Manual.

**Note 5:** These fees are subject to change, but not so as unreasonably to increase your obligations. For example, we may develop new training courses, which may require fees different from those currently charged. In addition, these fees may be increased once in any fiscal year, or on a cumulative annual basis effective from the most recent increase, to reflect increases in the Consumer Price Index as published by the U.S. Department of Labor, or in a successor index.

**Note 6:** The transfer fee is equal to 30% of our then-current initial franchise fee for that we charge to purchase the number of locations being transferred. For example, if five locations were being transferred under the current fee structure, the transfer fee would be 30% of \$90,000—\$40,000 for the first location, \$20,000 for the second location and \$10,000 each for the three additional locations—but if only one location is being transferred the fee would be 30% of \$40,000, regardless of the amount actually paid for the initial fee.

## ITEM 7 ESTIMATED INITIAL INVESTMENT

### YOUR ESTIMATED INITIAL INVESTMENT

	Estimated Amount or Estimated High-Low Range	Method of Payment	When Due	To Whom Paid
Initial Franchisee Fee (1)	\$40,000	Lump Sum	When you sign the Franchise Agreement	Us
Initial Training Fee (2)	\$2,500	Lump Sum	Upon receipt of invoice from us, one week before commencement of the initial training program	Us
Optional Third-party Training (2)	\$0 - \$1,500	As Agreed	As incurred	Designated third party supplier

	<b>Estimated Amount or Estimated High-Low Range</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Paid</b>
First month's rent (3)	\$1,500 - \$5,000	Lump Sum	As specified in lease or sublease	Landlord
Rent, Security Deposit (3)	\$1,500 - \$5,000	Lump Sum	As specified in lease or sublease	Landlord
Construction, leasehold improvements, mill work (4)	\$5,000 - \$85,000	As Agreed	As incurred	Outside suppliers
Signage	\$4,000 - \$11,500	As agreed	As incurred	Outside suppliers
Equipment (millwork), furniture (couch, salon equipment, chairs, electronics, playground) (5)	\$40,000 - \$65,000	As agreed	As incurred	Outside suppliers and/or us
Computer hardware/software	\$3,500 - \$5,000	As agreed	As incurred	Outside suppliers
Accounting software package or manual accounting package	\$500 - \$1,000	As agreed	As incurred	Outside suppliers and/or us
Initial inventory of products for resale	\$2,500 - \$5,000	As agreed	As incurred	Outside suppliers and/or us
Grand Opening and Advertising (first 3 months) (6)	\$10,000 - \$15,000	As agreed	As incurred	Third party supplier
Travel, lodging, meals for initial training in Salt Lake City	\$2,000 - \$3,000	As agreed	As incurred	Outside suppliers
Initial supplies (stationery, business cards, brochures, presentation folders, paper, etc.) (for first 3 months)	\$2,000 - \$4,000	As agreed	As incurred	Outside suppliers and/or us
Business licenses, permits, personal property taxes, etc. (for first year)	\$500 - \$1,000	As agreed	As incurred	Outside suppliers
Insurance (7) (first 3 months)	\$500 - \$1,000	As agreed	As incurred	Outside suppliers
Professional Fees (legal, architectural, accounting)	\$500 - \$7,000	As agreed	As incurred	Outside suppliers
Artwork	\$500 - \$2,000	As agreed	As incurred	Outside suppliers and/or us
Additional Funds (8) (first 3 months)	\$15,000 - \$80,000	As agreed	As incurred	Outside suppliers and/or us
<b>TOTALS</b>	\$132,000 - \$339,500			

All fees due to us are non-refundable. Whether other fees due to suppliers or other third parties are refundable depends upon your agreement with the applicable party.

**Note 1:** The initial franchise fee is \$40,000 for your first COOKIE CUTTERS salon, \$20,000 for your second salon, and \$10,000 for subsequent salons.

Other than the initial franchise fee and initial training fee, the rest of the figures in this Item 7 are estimates. Your actual costs will depend on factors such as: region; neighborhood; the time of year; the number of clients being serviced; sales promotions; how carefully you follow our methods and procedures; your management skills, experience and acumen; local economic conditions; the local market for COOKIE CUTTERS products and services; the prevailing wage rate; competition; and the sales level that you reach during the initial phase of the franchised business.

We will not offer any financing to you in connection with the initial investment. The availability and terms of financing offered by third parties will depend on factors such as the availability of financing generally, your creditworthiness, other security that you may have, and the policies of lending institutions concerning the franchised business.

**Note 2:** You must pay us an initial training fee of \$2,500 if this is your first salon or \$1,500 if this is your second or additional salon, which will cover the cost of training associated with up to two individuals attending our initial training program as outlined in Item 11. Although two individuals may attend initial training in consideration of this fee, only one person is required to attend and complete such training. The initial training fee does not change based on whether you send one or two individuals to training. If this is your first salon, for an additional \$1,500 fee you may elect to receive an additional four days of training in your salon four to six weeks after opening from our designated third party consultant regarding consistency and relationship management with your stylists and guidance on developing a salon and company culture. If this is your second or additional salon, if you opt to have this training in your salon you must contract for the service from the third party consultant directly at consultant's stated fees for such service. The initial training fee does not cover your or your attendees' costs and expenses incurred in attending the initial training program, including but not limited to, travel, lodging, meals and salary expenses. The initial training fee is due upon receipt of an invoice from CC approximately one week before the initial training begins. Initial training will not commence until the initial training fee is paid in full. The initial training fee is deemed fully earned and non-refundable upon receipt.

**Note 3:** A Cookie Cutters Salon is typically located in strip shopping centers or malls and is approximately 1,200 square feet in size. Depending on the real estate market in your area, you may be able to negotiate for a certain number of free months' rent and/or to negotiate the rent security deposit.

**Note 4:** This estimate covers the costs of building out your COOKIE CUTTERS salon, including general contractor fees, materials, and leasehold improvements. You may be able to negotiate with the landlord for construction build out allowances.

**Note 5:** These figures are estimates. Your actual costs will depend on factors such as: region; neighborhood; the time of year; how carefully you follow our methods and procedures; your management skills, experience and acumen; local economic conditions; and the local market for equipment and fixtures.

**Note 6:** Leading up to and including the grand opening day and within the first three months of operation, you must spend a minimum of \$10,000 on advertising. Our experience shows that the expenses for such a grand opening falls between \$10,000 to \$15,000 but may be higher.

**Note 7:** This estimate is for the first three months of insurance premiums for all insurance required under the Franchise Agreement, including "open perils" business personal property insurance, business interruption insurance, sign, electronic data processing, theft and employee dishonesty coverage, professional liability insurance, comprehensive general liability insurance, products and completed operations insurance, worker's compensation, and automobile liability insurance.

**Note 8: We have relied on our own experience in the children's hair care business and information supplied by franchisees to compile these estimates. You should review these figures carefully with a business advisor before**

making any decision to invest in a COOKIE CUTTERS business. This amount for additional funds includes both the Certificate Program Support Fee and Server Support and Maintenance Fee outlined in Item 6.

**YOUR ESTIMATED INITIAL INVESTMENT  
(AD AGREEMENT)**

Type of expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Development Fee (1)	\$60,000 to \$90,000	Lump Sum	At signing of AD Agreement	Us
TOTAL	\$60,000 to \$90,000			

The amounts payable to us are nonrefundable.

**Note 1:** Your Development Fee will vary, depending on the number of COOKIE CUTTERS salons that you agree to develop under your AD Agreement. The Development Fee is equal to \$40,000 for the first salon, \$20,000 for the second salon, and \$10,000 for each additional salon. The development fee is equal to the initial franchise fee for each salon you agree to develop, and you will not be required to pay any additional initial franchise fee when you execute the Franchise Agreement for the salons developed pursuant to the AD Agreement. The typical number of COOKIE CUTTERS salons that we anticipate in any given AD Agreement is between two and five. As an example, if you agree to open four salons, your Development Fee would be \$80,000.

You will incur costs when opening each COOKIE CUTTERS salon you commit to develop under your AD Agreement.

**ITEM 8  
RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

**Required and Approved Suppliers**

You must purchase from our approved vendor the proprietary computer system developed and modified for us by Shortcuts Software Ltd. You must also purchase equipment and trade dress for the build out of your salon from our approved supplier, FC Dadson.

You must obtain a copyright license to show streaming and video content to customers in your Salon. We have negotiated a system-wide license with MPLC for the use of select streaming and video content in Cookie Cutters Salons. You pay us the monthly fee and we pay MPLC on behalf of each Salon. We do not profit on this fee.

If this is your first salon, you must receive additional training from our designated third party consultant and will receive an additional four days of training in your salon after opening. If this is your second or additional salon, this additional training is optional, but if you opt to have this training in your salon you must pay the third party consultant directly the expense of such training.

We are an approved supplier of certain required fixtures, equipment ~~and~~, supplies, and products that are sold at Cookie Cutters Salons, but not the only approved supplier of those items. There are no approved suppliers, other than us, in which any of our officers or directors own an interest.

### **Required Purchases**

You must purchase or lease certain equipment and supplies in accordance with specifications determined by us, and from suppliers whose equipment or supplies meet those specifications as outlined in our Confidential Operations Manual. You must purchase or lease initial equipment and supplies in amounts recommended by us, in order to utilize our experience in the business and to provide proper initial planning, training and record keeping. You may also be required to use certain movies, videos and electronic games. There is currently only one approved supplier for certain decor items chosen by us based on the supplier's economy and creativity as outlined in our Confidential Operations Manual.

Certain equipment and supplies meeting our required specifications and used in the operation of a Salon are available for purchase from us, however, you are not required to purchase any equipment or supplies from us.

You must obtain our approval of any purchase or lease agreement for your proposed business location. The appearance of your business location must conform to our specifications and be approved in advance in writing by us. Any signs, logos, emblems or pictorial materials used at your business location must be in accordance with our specifications.

To ensure adequate insurance coverage, your insurance policies must meet certain specifications in Section 17 of the Franchise Agreement.

We have negotiated purchase agreements with FC Dadson, including price terms, for franchisees to purchase certain required COOKIE CUTTERS equipment and trade dress. Additionally, we may offer equipment or supplies to you through volume contracts negotiated with manufacturers or others. We may do this, for example, for salon fixtures and salon equipment, or for supplies such as uniforms, jackets, tee shirts and canvas bags imprinted with COOKIE CUTTERS logos. We have negotiated discounts from Circle of Friends, one of our vendors of hair products. The discounts are not guaranteed and may be discontinued by the vendor at any time. Other than these discounts, we do not provide material benefits to franchisees based on the purchase of particular products or services or use of particular suppliers. There are no purchasing or distribution cooperatives available to you.

### **Approval of Alternative Suppliers and Specifications**

Specifications and standards for equipment and supplies are contained in our Confidential Operations Manual and are not otherwise issued to franchisees or suppliers except when we deem it necessary, e.g., updates of specifications, or instructions to suppliers. Our management periodically formulates, reviews and modifies these specifications and standards based on quality,

price, ability to supply, and consistency. We will consider any request for the modification of a specification or acceptance of alternative equipment or supplies, or approval of alternative suppliers on submission by you of a written request including, in the case of a modification, the reason for the modification and, in the case of acceptance or approval of a supplier, sufficient technical data and specifications to enable us to determine if the equipment or supply meets our specifications. We will provide you with notification of acceptance or disapproval within 30 days after receipt of your request. We reserve the right to perform tests that we deem necessary to determine if any supplier, equipment or supply meets our specifications. We will accept a request if we determine that the supplier, equipment or supply meets our specifications then in effect. Review of any request is subject to a fee equal to our out-of-pocket expenses related to our review, plus the then-current per diem charges for our personnel.

### **Revenue from franchisee purchases**

Our total revenue from all sources in our last fiscal year ending December 31, ~~2019~~2020 was ~~\$2,300,324~~1,869,761 and the revenues received by us during the same period due to the purchase of required equipment or products from our approved suppliers was ~~\$87,400~~32,242 or ~~3.8~~1.7% of our total revenues. You are required to purchase our standard Cookie Cutters equipment and trade dress package from our approved supplier, FC Dadson. FC Dadson pays us a rebate of \$4,200 to \$5,000 (depending on the package purchased by the franchisee) for the purchase of such equipment and trade dress for each franchised location.

The cost of equipment, supplies, materials and other products purchased from us or our suppliers or in accordance with our specifications will represent 65-85% of your total purchases in establishing the business and 7-10% of your total purchases during operation of your business.

## **ITEM 9 FRANCHISEE'S OBLIGATIONS**

**This table lists your principal obligations under the franchise and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this Disclosure Document.**

Obligation	Section in Agreement	Item in Franchise Disclosure Document
<b>a.</b> Site Selection and acquisition/lease	Franchise Agreement Section 2.2 and 5.4  AD Agreement Section 3.2	Items 7 and 11
<b>b.</b> Pre-opening purchases/leases	Franchise Agreement Sections 5.1, 5.3, 14, 15 and 18  AD Agreement Not Applicable	Item 8

Obligation	Section in Agreement	Item in Franchise Disclosure Document
c. Site development and other pre-opening requirements	Franchise Agreement Sections 5.2 and 15 AD Agreement Section 3.2	Items 6, 7 and 11
d. Initial and ongoing training	Franchise Agreement Section 11 AD Agreement Not Applicable	Item 11
e. Opening	Franchise Agreement Section 5 AD Agreement Section 3.3	Item 11
f. Fees	Franchise Agreement Sections 9, 11, 16 and 25.2 AD Agreement Section 5	Items 5, 6 and 7
g. Compliance with standards and policies/Operations Manual	Franchise Agreement Sections 1, 12 and 14 AD Agreement Not Applicable	Item 11
h. Trademarks and proprietary information	Franchise Agreement Sections 19 and 20 AD Agreement Section 6	Items 13 and 14
i. Restrictions on products/services offered	Franchise Agreement Section 7 AD Agreement Not Applicable	Items 8, 11 and 16
j. Warranty and customer service requirements	Not Applicable	
k. Territorial development and sales quota	Franchise Agreement Section 26.2(h) AD Agreement Section 2.1 and 3.3	Item 17
l. Ongoing product/service purchases	Franchise Agreement Section 14 AD Agreement Not Applicable	Item 8
m. Maintenance, appearance and remodeling requirements	Franchise Agreement Sections 5.2, 14 and 15 AD Agreement Not Applicable	Item 11
n. Insurance	Franchise Agreement Section 17 AD Agreement Not Applicable	Items 7 and 8

Obligation	Section in Agreement	Item in Franchise Disclosure Document
<b>o.</b> Advertising	Franchise Agreement Section 16 AD Agreement Not Applicable	Items 6, 7 and 11
<b>p.</b> Indemnification	Franchise Agreement Section 24 AD Agreement Not Applicable	Item 6
<b>q.</b> Owner's participation/ management/staffing	Franchise Agreement Section 4 AD Agreement Section 2.1	Items 11 and 15
<b>r.</b> Records and reports	Franchise Agreement Section 13 AD Agreement Section 4	Not Applicable
<b>s.</b> Inspections and audits	Franchise Agreement Sections 13.6 and 22 AD Agreement Not Applicable	Item 6
<b>t.</b> Transfer	Franchise Agreement Section 25 AD Agreement Section 10.2	Item 17
<b>u.</b> Renewal	Franchise Agreement Section 3.2 AD Agreement Not Applicable	Item 17
<b>v.</b> Post-termination obligations	Franchise Agreement Section 27 AD Agreement Section 8	Item 17
<b>w.</b> Non-competition covenants	Franchise Agreement Section 21 AD Agreement Not Applicable	Item 17
<b>x.</b> Dispute resolution	Franchise Agreement Section 32 AD Agreement Section 10.1	Item 17

## ITEM 10 FINANCING

We do not offer direct or indirect financing, nor do we guarantee your note, lease or obligation.

**ITEM 11**  
**FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING**

**Except as listed below, we need not provide you with any assistance.**

All Section references below are to the Franchise Agreement, unless otherwise noted.

**Our Obligations Before Opening**

Before the opening of the franchised business, we must provide you with the following:

- (1) Initial training for you and your original manager, if any, or, if you do not have an initial manager at the time of training, up to one additional person approved by us. Only one individual is required to attend and complete the initial training. See “Training” below in this Item 11. (Section 11.2(a)).
- (2) Confidential Operations Manual (Section 12). (See “Confidential Operations Manual” below.
- (3) A store design package for either a strip shopping center or a mall, including: general fixture plans, floor finish plans, ceiling plans, interior elevations, fixture drawings, including wall merchandising units, merchandising/video cabinets, computer cabinets, video blade walls, cutting stations, shampoo bench and step stool, cash wrap window display fixtures, art table and gallery fixtures, closet fixtures, stockroom base cabinets and shelving; artwork and specifications for interior and exterior signage; and logo materials. (Section 14).
- (4) Approval of the site for the salon according to the standards provided to you. (Section 5.4).
- (5) A list of suppliers whose fixtures, equipment, supplies and services meet our specifications. (Section 5.3).

We do not provide assistance with conforming the premises to local ordinances and building codes and obtaining any required permits, and/or constructing, remodeling or decorating the premises, and/or hiring and training employees.

**Our Obligations during Operation**

During the operation of the franchised business, we will provide you with the following:

- (1) Continuing assistance that we deem appropriate and reasonable (Section 10.1).
- (2) Additional training or guidance requested by you at our then-current per diem rates (Sections 10.2 and 11.4)

(3) Revisions to the Confidential Operations Manual to incorporate improvements and new developments in the COOKIE CUTTERS System, including improvements in products and services to be offered by you to your clients, and suggested prices, as they may be developed. These revisions may be made at any time, but may not unreasonably increase your financial obligations to us. (Section 12.2).

(4) Reasonable efforts to negotiate, enter into and maintain, through volume purchasing, contracts for fixtures, equipment, supplies and services that we may determine to make available for purchase by you. (Section 14.3).

(5) Review of proposed fixtures, equipment, supplies or service contracts to determine if they meet specifications under the COOKIE CUTTERS System. (Section 14.2).

(6) Administration of a system-wide advertising and promotional fund. (Section 16.1). (See “Advertising and Promotion” below)

### **Advertising and Promotion**

#### **System-Wide Advertising and Promotional Fund**

You must contribute to our System-wide Advertising and Promotional Fund (“Fund”). The current contribution is 1% of your Monthly Gross Sales, but we have the right to increase it to 3% of Monthly Gross Sales. All COOKIE CUTTERS franchisees and company-owned locations contribute to the Fund on the same basis.

In ~~2019~~2020, we used ~~80~~65% of the Fund on advertising production, including the development of materials and our online and social media presence and loyalty program, and ~~20~~35% on administrative expenses. In the future, the Fund may be used for the advertising, promotion and marketing of services and goods provided by COOKIE CUTTERS locations, including creative, design, print, radio, and possibly television. Initially, coverage will be local, but as additional salons open within the same area, coverage will be regional (see Regional Advertising Cooperative below). We will create advertisements and promotional materials primarily in-house, but we may use advertising agencies.

Other than reimbursement for reasonable costs and overhead incurred in activities related to the administration or direction of the Fund, we will not receive any payment for providing products or services to the fund, but if we spend more than the contributions accumulated in the fund during any fiscal year, we will have the right to receive, on demand, reimbursement or credit during the same year or subsequent years to the extent of the excess expenditure.

We will administer the fund and make an annual unaudited financial statement available for franchisee review 90-120 days following year end.

We are not required to spend any amount from the Fund on advertising or promotions in your area. If any balance in the Fund account is not spent in the fiscal year in which they accrue, they will remain in the Fund for use in following years. We reserve the right to terminate the Fund

at any time, but we will not do so until all monies in the Fund have been expended for the purposes described in the Franchise Agreement or returned to contributors on a prorated basis.

We have not formed an advertising council composed of franchisees that advises us on advertising and promotional policies, but we reserve the right to do so. Initially, we will form the council and select, in our sole and absolute right, about 10 franchisees to be members. Later, franchisees will elect members to the council by region. The council will serve in an advisory capacity only, and we will reserve the right to change or dissolve it.

### Local Advertising

You must expend a certain percentage of your Gross Sales for local advertising and promotion of your franchised business. Your local advertising expenditure obligation is currently 1% of Gross Sales for each quarter. However, we have the sole discretion to increase your Local Advertising expenditure up to 5% of your Gross Sales. We are not required to spend any amount on advertising in your area.

### Regional Advertising Cooperative

When there are four or more COOKIE CUTTERS businesses in the Area of Dominant influence (as determined by Arbitron Ratings Company or its successor) in which your franchised business is located, we may, in our sole and absolute right, require you to participate in a regional advertising cooperative (“Cooperative”) of COOKIE CUTTERS businesses (including those businesses owned by us) located in the Area of Dominant Influence. You will contribute to the advertising cooperative the amounts determined by the Cooperative, not to exceed 3% of the Gross Sales of your business for each quarter. Any contributions to a Cooperative that are not spent in the fiscal year in which they accrue will accumulate for use by the Cooperative in the next year.

Your contributions to a Cooperative will be credited toward your local advertising expenditure obligation. The Cooperative will have governing documents, will prepare annual unaudited financial statements, and will make these documents available for review by us and all members. We will have the power to form, change, dissolve or merge the Cooperative.

If a majority of franchisees in the Area of Dominant Influence in which your franchised business is located agree to undertake supplemental advertising over and above what is specifically required under your Franchise Agreement, you must do so. For example, you may be required to jointly advertise in classified telephone directory listings.

You may use your own advertisements and promotional materials with our prior written consent.

Your current total required advertising contributions and expenditures to or for the System-wide Advertising & Promotional Fund, Regional Advertising Cooperative, and Local Advertising will not exceed 6% of Gross Sales. Any COOKIE CUTTERS salons owned by us or an affiliate contribute advertising fees on the same basis as similarly situated salons operated by franchisees.

See Items 6, 8 and 9 of this disclosure document for more information.

### **Computer Hardware and Software**

Computer with Current Processor and RAM specified upon order  
Monitor  
Thermal printer  
Laser or ink jet printer for reporting  
Sufficient USB and Parallel Port  
Proprietary software

You may obtain the computer, monitor, laser or ink jet printer, from any vendor, provided they are compatible with our software. You must purchase from our approved vendor the proprietary computer system developed and modified for us by Shortcuts Software Ltd. (“Shortcuts”). Neither we, nor any affiliate or any third party are obligated to provide ongoing maintenance, repairs, upgrades or updates. We recommend, but do not require, that you keep your Shortcuts computer system up to date. The annual cost to maintain and update the Shortcuts software is \$1,740 payable to Shortcuts.

The computer system is for the collection, processing and dissemination of customer information, sales figures, commission calculations, employee records, inventory, and vendor information. We may independently access the data on your system at any time and reserve the right to use sales and reporting data for the benefit of the system.

The estimated cost for the hardware and software is \$3,500 to \$5,000.

### **Confidential Operations Manual**

We provide you with a Confidential Operations Manual, which consists of 112 pages. A copy of the Table of Contents of our Operations Manual is attached as Exhibit F to this Franchise Disclosure Document.

### **Site Selection**

We initially identify an area within which you must establish a COOKIE CUTTERS business. This area is determined on the basis of factors such as population density, traffic patterns, median income, market statistics and locations of child/family attractions. After an area has been identified, you will be obligated to locate a site for the franchised business within that area. We may, but are not obligated to, assist you in locating a site. We will accept or reject any site you select, on the basis of factors such as density of children ages 12 and under, income levels, neighborhood, traffic patterns, access, parking, size, layout, length of availability, proximity to complementary or competing businesses and attractions, and the terms and conditions of any proposed purchase contract or lease. In the event we cannot agree on a site, we may terminate the Franchise Agreement pursuant to Paragraph 26.2(o). We do not generally own the premises or lease the premises to you.

If you propose to lease the premises for the franchised business, the lease for the premises must: (i) be subject to the Franchise Agreement and to our execution and prior written approval; (ii) not be inconsistent with the terms of the Franchise Agreement; (iii) provide for concurrent notice to us of, and our right to cure, your default under the lease; (iv) provide for your right to assign your interest under the lease to us without the lessor's further consent, if the franchise expires or is terminated or repurchased; (v) authorize and require the lessor to disclose to us, on our request, sales and other information furnished to the lessor by you; (vi) provide that we will have the sole and absolute right on repurchase, termination or expiration of the franchise to assume the lease; (vii) not create any rights against or obligations on us; (viii) provide that the premises may only be used for the operation of the franchised business and that you may not assign or sublease all or any part of your occupancy rights without our prior written approval; (ix) provide that we may enter the premises at any time during normal business hours to enforce our rights under the Franchise Agreement or for routine visits; (x) provide that you and/or we may display our Marks according to our specifications in our confidential operations manual, as they may be modified in our sole and absolute right; and (xi) be delivered in executed form to us within five days after execution. Furthermore, as a lessee you should attempt to get an exclusivity provision from the lessor, wherein no other haircutting salon will be allowed in the mall, strip center or outlet area where your business is located.

The Addendum to Lease is attached to the Franchise Agreement as Attachment 5.

We will accept or reject a site within 30 days after receiving written notice of your proposed location. If a site has not been located by you and accepted by us prior to execution of the Franchise Agreement, it will be your obligation to locate, within 120 days after execution of the Franchise Agreement, a premises suitable for the operation of the business acceptable to us. If you are delayed in locating suitable premises within 105 days after execution of the Franchise Agreement, you must immediately provide us with either a written confirmation that you will locate suitable premises before the end of the 120-day period or a written request for extension. The request must state: (1) that a delay is anticipated; (2) the reasons which caused the delay; (3) the efforts that you are making to locate suitable premises; and (4) an anticipated date of compliance. In considering the request, we will not unreasonably withhold our consent to a delay of up to a maximum of 60 days, if you have been earnestly looking for suitable premises. Your "earnestness" may be supported by your use of a broker, your communications and correspondence with us, and other similar factors. Any extension of the time for locating suitable premises will correspondingly extend the deadline for opening the franchised business.

If you enter into an AD Agreement and desire to begin development of a new salon, you must notify us of your intent and enter into our then-current form of franchise agreement for the additional location. Any additional salon must be located in the Development Area and approved by us. The specific site must be selected by you using our then-current site selection criteria for new franchisees and by following the process an approval process similar to that used to select the site for the salon developed under the Franchise Agreement. We will approve or deny any proposed site within 30 days after receipt of written request from you. Our current site selection criteria includes factors such as density of children ages 12 and under, income levels, neighborhood, traffic patterns, access, parking, size, layout, length of availability, proximity to

complementary or competing businesses and attractions, and the terms and conditions of any proposed purchase contract or lease.

### **Opening of Franchised Business**

You must open the franchised business within nine-months after signing the Franchise Agreement or paying any consideration for the franchise. Should circumstances beyond your control prevent you from opening within nine-months, you must immediately provide us with a written request to delay opening. The request must state: (1) that a delay is anticipated; (2) the reasons which caused the delay; (3) the efforts that you are making to proceed with the opening; and (4) an anticipated opening date. In considering the request, we will not unreasonably withhold our consent to a delay of up to a maximum period of 60 days less the number of days of extension you may have previously received for locating suitable premises for the franchised business, if you have been diligently pursuing the opening.

The typical length of time between the execution of a Franchise Agreement and the opening of a franchisee's business is expected to be between six to nine months. Factors which may affect this time period include ability to obtain business licenses and permits, zoning and local ordinances, weather conditions, shortages, delayed installation of fixtures, equipment and signs, and finding and purchasing or leasing a suitable location.

### **Training**

We provide training to you as follows:

- (1) You (or your managing shareholder or partner) must successfully complete initial training at training and on-site locations in the Salt Lake City, Utah area or any other location designated by us in our sole and absolute right. One additional individual, your original manager or another individual approved by us, may, but is not required to, attend initial training at no additional cost. This training generally will include five days initial training including one Saturday. We reserve the right to require stylists to successfully complete relevant initial training classes. We are flexible in scheduling initial training to accommodate new franchisees and our personnel. There currently is no fixed (e.g., monthly or bi-monthly) training schedule. No training is successfully completed until you receive certification from us, and we may require you (or your managing shareholder or partner), each manager or stylist to be recertified on a regular basis. You will be responsible for the travel, lodging, and meal expenses for trainees and any compensation or benefits due trainees during any training period.
- (2) Your employees (other than any individuals attending our initial training) will be trained by you prior to the opening and during the initial operation of the franchised business.
- (3) Each year, you (or your managing shareholder or partner) may be required to attend a regional or national seminar scheduled and conducted by us. The focus of the seminar generally will be discussion and review of new business, marketing and styling ideas and concepts. You must pay fees to attend regional or national seminars. The fee for such national or regional

seminars is currently \$500, not including all wages and benefits and all travel, lodging and meal expenses of all attendees, which are also your responsibility. (Section 11.2(b)).

(4) You (or your managing shareholder or partner) and/or any previously trained managers or stylists must attend and complete to our satisfaction any remedial or follow-up training that we, in our sole and absolute right, may designate, and you must pay the applicable fees for this training (see Item 6).

(5) Training for the transferee of a franchised business is required and provided on the same terms as the initial training provided for you. Training for a transferee will occur at a time scheduled by us and may not be available immediately after the transferee assumes control.

### TRAINING PROGRAM

Column 1 Classroom Subject	Column 2 Hours of Classroom Training (1)	Column 3 Hours of On-The- Job Training	Column 4 Location
Management	2	2	Classroom in Salt Lake City, Utah
Human Resources	1	1	Same
Marketing/Merchandising	4	1	Same
Finance/Accounting	1	1	Same
MIS/Point of Sale	5	5	Same
Real Estate	1	0	Same
Technical Training	1	1	Same
Operations	28	6	Same
<b>Total<sup>1</sup></b>	<b>43</b>	<b>17</b>	

**Note 1:** If this is your first salon, for an additional fee of \$1,500 you may elect to receive an additional four days of training in your salon four to six weeks after opening from our designated third party consultant regarding consistency and relationship management with your stylists and guidance on developing a salon and company culture. This training consists of four hours of company culture training and 28 hours of stylist training all at your salon location. As of the date of this Disclosure Document, our designated third-party consultant is Brittany Walker Manwill with Queen B Beauty. Brittany has six years of experience in the industry. If this is your second or additional salon, if you opt to have this training in your salon you must contract for the service from the third party consultant directly at consultant's stated fees for such service as described in Item 5.

We use the Operations Manual as our instructional materials. The hours devoted to each subject are estimates only and may vary substantially based on how quickly trainees grasp the material, their prior experience with the subject, and scheduling. The training will be under the supervision of Christy Fossett who has over 10 years of experience in the industry, all with us or our predecessor. We reserve the right to substitute or add instructors with at least one year experience such as a store manager, consultant or other representative. The instructors, including

any alternate we designate, will have a minimum of one year of experience in the subject being taught and a minimum of one year of experience with COOKIE CUTTERS.

## **ITEM 12 TERRITORY**

### **Franchise Agreement**

You will not receive an exclusive territory pursuant to the Franchise Agreement. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control. We may establish other franchised or company owned locations that may compete with your location.

You will operate one location at the approved site. If your lease expires or terminates due to no fault of your own, if the premises of your salon is destroyed, condemned or otherwise rendered unusable, or if as determined by us in our discretion there is a change in character of the site that is sufficiently detrimental to its business potential to warrant relocation, we will grant permission for relocation of the salon to another site acceptable to us that meets our then-current site selection criteria, which currently include factors such as density of children ages 12 and under, income levels, neighborhood, traffic patterns, access, parking, size, layout, length of availability, proximity to complementary or competing businesses and attractions, and the terms and conditions of any proposed purchase contract or lease. All other requests for relocation may be granted or denied in our discretion. You have no options, rights or first refusal or similar rights to acquire additional franchises in any other locations, unless you have purchased the right to additional locations as described in Item 5.

Continuation of your COOKIE CUTTERS business is dependent on you maintaining a minimum gross sales level after the first three years of the initial term of your Franchise Agreement. That level is, for any two consecutive calendar quarters, 60% of the average gross sales of all franchised and company-owned locations in your region. A region generally consists of the state in which you operate. If the Franchised Business is the only one in its region, then the standard for calculating average gross sales will be 60% of your business's gross sales for the prior year. If you fail to maintain that level of gross sales, it is a default under your Franchise Agreement, and we have the right to terminate your Franchise Agreement with notice but without an opportunity to cure.

### **AD Agreement**

You will be granted a specified development area (the "Development Area") under your AD Agreement. Provided you are in compliance with the AD Agreement, all franchise agreements, and all other agreements with us, we will not develop or offer to sell franchises to third parties within the Development Area for a specified development period outlined in the AD Agreement (the "Development Period") that will be determined based on the number of COOKIE CUTTERS salons you agree to develop. After the Development Period, the Development Area is

no longer protected in any way and you will not have any protected or exclusive area. You will not receive any exclusive territory regarding soliciting customers. We do not have the right to modify your Development Area without your approval, but you must comply with the development schedule or we will have the right to terminate your AD Agreement.

Typically, your Development Area will be a geographic area with a specific radius (three, five or ten miles), or a specific city, county, or other political subdivision depending on the development obligation and the factors listed below. We reserve the sole right to determine your Development Area before you sign your AD Agreement. We may use site availability, demographics, population density and population density of children, income levels and your ability to develop COOKIE CUTTERS salons within your Development Area, among other factors. Once your AD Agreement terminates, your right to the Development Area also terminates.

If you desire to begin development of a new salon pursuant to the AD Agreement, you must notify us of such desire and enter into our then-current form of franchise agreement for the additional location. Any additional salon must be located in the Development Area and approved by us. The specific site must be selected by you using our then-current site selection criteria for new franchisees and by following the process an approval process similar to that used to select the site for the salon developed under the Franchise Agreement.

Except as outlined above, we reserve all rights not specifically granted, including, without limitation, the right, in our sole discretion:

- (1) to operate, or grant other person the right to operate, COOKIE CUTTERS businesses at such locations and on such terms and conditions as we deem appropriate; and
- (2) to offer the services and products authorized for COOKIE CUTTERS businesses under the Marks or other trademarks, service marks, and commercial symbols through such similar and dissimilar channels of distribution and pursuant to such terms and conditions as we deem appropriate.

Although we have not done so, we and our affiliates may sell products under the Marks at any location regardless of proximity to your location, including sales through such channels of distribution as the Internet, catalog sales, telemarketing, or other direct marketing sales (together “alternative distribution channels”). You may not use alternative distribution channels to make sales from any location other than your salon.

We and our affiliates can use alternative channels of distribution to make sales at any location regardless of proximity to your location, of products or services under trademarks different from the Trademarks you will use under the Franchise Agreement, but we and our affiliates have not yet made any sales of this type.

Neither we nor our affiliates currently operate, franchise or have any plan to operate, or franchise a business under a different trademark that sells or will sell goods or services similar to those you will offer.

## ITEM 13 TRADEMARKS

We grant you the non-exclusive right, privilege and obligation to use the trademark, service mark and trade name COOKIE CUTTERS and other trademarks, service marks, trade names, logos, trade dresses, trade secrets and other commercial symbols (“Marks”) that we may make available to you, in connection with providing services and products under the COOKIE CUTTERS System. You may not use any Marks owned by or licensed to us as part of your firm or corporate name. You may not use any Marks owned by or licensed to us in connection with the sale of unauthorized products or services or in any manner not authorized in writing by us. All rights in and goodwill from the use of our Marks belong solely to us.

### **Federal Registration Applications**

We own the rights to the following registrations with the United States Patent and Trademark Office (“USPTO”):

Mark	Registration Number	Registration Date
Cookie Cutters	5064110	October 18, 2016
Haircuts are Fun!	5627058	December 11, 2018
	5204118	May 16, 2017
	5204121	May 16, 2017

Each of these trademarks is registered on the principal register. All required affidavits have been filed.

### **Determinations**

There are no effective material determinations of the USPTO, the Trademark Trial and Appeal Board, or any state trademark administrator or court, any pending interference, opposition, or cancellation proceedings involving any of the above-referenced Marks. There are no other agreements currently in effect that significantly limit our rights to use or license the use of the Marks listed in this section in a manner material to you. There are no infringing uses or superior previous rights known to us that can materially affect your use of the Marks in this state of any

other state in which the franchised business is to be located. There is no pending material federal or state court litigation regarding our use or ownership rights in any Mark.

There are no agreements in effect which limit our right to use or license the use of the Marks in any manner material to the franchise.

### **Protection of Rights**

You must notify us promptly of any use by any person or legal entity other than us or our franchisees, of any Marks which we own or license from others or any vandal of any of those Marks.

You must notify us promptly of any litigation instituted against you involving any Marks which we own or license from others.

We will decide, in our sole and absolute right, the actions to be taken against the use of any of our Marks by any persons or legal entities other than our franchisees. Our current intent is to take strong and aggressive actions (which may include bringing litigation) against that use. Any actions that we take will be at our expense. We have the right to control any administrative proceedings or litigation involving a Mark we license to you.

We will decide, in our sole and absolute right, whether to undertake the settlement or defense of any litigation brought against you involving any Marks owned by or licensed to us. We currently anticipate that we will undertake the settlement or defense if the litigation involves primarily issues concerning the validity or use of any of the Marks, rather than primarily issues concerning the operation of your business. If we undertake the settlement or defense of any litigation brought against you, we will do so at our expense, but you must execute any documents, and to render any assistance (excluding financial assistance), as may, in our counsel's sole and absolute judgment, be reasonably necessary to carry out the settlement or defense. If the settlement or defense does not involve issues concerning the operation of your business, we will reimburse you for all out-of-pocket costs incurred in assisting in the settlement or defense.

If we do not undertake the settlement or defense of any litigation brought against you involving any Marks owned by or licensed to us, you must settle or defend the litigation at your expense. We, however, will indemnify you to the extent that the litigation involves defending claims for Mark infringement or unfair competition from your authorized use of any of our or our licensor's Marks in accordance with the Franchise Agreement and the Confidential Operations Manual. This obligation is contingent on you giving written notice to us within 30 days, or any shorter period necessary to avoid prejudice, after learning of any claim, and also giving us the opportunity, if we so choose in our sole and absolute right, to control the settlement or defense of the litigation or proceeding involving any claim. You may not settle any claims to which this right applies without our prior written consent.

We reserve the right to acquire or develop and/or license additional Marks, and to use those Marks ourselves, make those Marks available for use by you and other COOKIE CUTTERS franchisees, or make those Marks available for use by other persons or entities.

We reserve the right to modify or provide a substitute for any Mark. If this happens, you will be responsible for your costs of compliance.

We may require you to use and display a notice in a form approved by us that you are a franchisee under the COOKIE CUTTERS system using the Marks under the franchise.

You will not be permitted to directly or indirectly contest our rights in Marks owned by or licensed to us, nor will you have the right to contest, directly or indirectly, our right to register, use or license others to use such names and marks, trade secrets, methods, procedures and techniques.

We do not know of any superior prior rights in or infringing uses of the Marks that could materially affect your use of the Marks.

## **ITEM 14 PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION**

### **Patents**

No patents are material to the franchise and we have no pending patent applications.

### **Copyrights**

Various marketing, sales, design layout, advertisements, art work, commercial prints, labels, drawings, wallcovering designs, architectural drawings, cut-outs, fabric designs, floor designs, training and management materials (including software) created by us are intended to be protected under the U.S. Copyright Act, whether or not registrations have been obtained by the Issuance Date of this Disclosure Document. You may use these copyrighted materials upon notification of registration during the term of the franchise and during the term of the registration, as amended or renewed, in a manner consistent with our ownership rights, solely for the purpose of promoting your COOKIE CUTTERS business.

There are currently no effective determinations of the United States Copyright Office or any court regarding any of our copyrights, nor are there any currently effective agreements between us and third parties pertaining to our copyrights that will or may significantly limit your use of our copyrighted materials.

There are no agreements currently in effect which significantly limit our right to use or license the use of our copyrighted materials in any manner material to the franchise.

All of the provisions in Item 13 under the heading “Protection of Rights” apply to copyrights as well.

We do not know of any superior rights in or infringing uses of our copyrighted materials which could materially affect your use of the copyrighted materials.

### **Proprietary Information**

Our Confidential Operations Manual and other manuals include proprietary guidelines, standards and policies relating to the operation of the franchise. Item 11 describes the Confidential Operations Manual and the manner in which you are permitted to use it. All documents provided to you, including the Confidential Operations Manual and other manuals, are for your use exclusively during the term of the franchise, and may not be reproduced, loaned or shown to any person outside the COOKIE CUTTERS system.

## **ITEM 15 OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

### **Franchise Agreement**

We strongly believe that the success of your franchised business will depend to a large extent on your personal and continued efforts, supervision and attention. You (or your managing shareholder or partner), or a trained manager, must personally manage the franchised business at all times. If you (or your managing shareholder or partner) do not personally manage your franchised business, you should attend meetings with us on a regular basis to discuss the management of your business by your trained managers. You (or your managing shareholder or partner) must attend and successfully complete initial training provided by us (see Item 11). No training is successfully completed until you receive certification from us, and we may require you (or your managing shareholder or partner) and manager to be re-certified on a regular basis.

Under our current policy, you must use only employees and not independent contractors in the operation of the franchised business, and you may not rent chairs or booths to stylists.

You must have any manager and any supervisory employee execute a Confidentiality and Non-competition Agreement, in a form approved by us, in which he or she acknowledges the confidentiality of the COOKIE CUTTERS System, agrees not to use any information about the system for his or her own benefit without an appropriate license, and agrees not to compete in certain respects with your business and other franchisees' businesses. You also must have non-managerial employees execute a Nondisclosure-Noncompetition Agreement, in a form approved by us. You must deliver a copy of such agreements to us within one week of their execution. Under our current Confidential Operations Manual, any manager and any employee who may come into physical contact with children must clear a personal and character background check (conducted by you at your expense) as described in our Confidential Operations manual and must also obey the rules of conduct toward children contained in the Manual.

If you are a corporation, limited liability company, or partnership, each shareholder, member and partner must personally guarantee your obligations under the Franchise Agreement

and also agree to be personally bound by, and personally liable for breach of, every term of the Franchise Agreement. This guaranty is included as Attachment 4 to the Franchise Agreement.

### **AD Agreement**

You must use your best efforts in exercising your development rights under the AD Agreement and you may not subcontract or delegate any of your obligations under the AD Agreement.

## **ITEM 16 RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You must offer for sale and sell only services and products that we have approved or authorized. You may not offer for sale or sell services or products which would detract from or be inconsistent with the COOKIE CUTTERS System. You may use services or products not purchased from us, but those services or products must be of comparable quality and must be approved by us in writing prior to use in order to ensure maintenance of proper quality standards.

We have the right to require you to offer for sale and sell additional services and products that we have approved or authorized. The only limit on our right to do so is that the services and products do not detract from or be inconsistent with the COOKIE CUTTERS System.

You must be open for business each week for such minimum hours and days as specified in the Confidential Operations Manual, subject to the terms of any lease for your location.

Our primary focus is children's hair care services and products. Accordingly, you are restricted to providing services or products primarily to customers ages 12 and under. While you may provide a limited level of service for adults, we reserve the right, in our sole and absolute right, to alter the permissible relative numbers of children versus adults that you serve.

## **ITEM 17 RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION**

### **THE FRANCHISE RELATIONSHIP**

**This table lists certain important provisions of the franchise and its related agreements. You should read these provisions in the agreements attached to this Disclosure Document.**

<b>Obligation</b>	<b>Provision in Franchise Agreement</b>	<b>Summary</b>
a. Length of the Franchise term	Franchise Agreement Section 3.1	10 years

Obligation	Provision in Franchise Agreement	Summary
	AD Agreement Section 1.2	Term ends on opening date of last Cookie Cutters Salon covered by Development Schedule or on the last day listed on the Development Schedule
b. Renewal or extension of the term	Franchise Agreement Section 3.2  AD Agreement Not Applicable	Two successive five-year terms
c. Requirements for Franchisee to renew or extend	Franchise Agreement Section 3.2  AD Agreement Not Applicable	Pay renewal fee (See Item 6); notify us of intention to renew at least 180 days prior to the end of the initial term; comply with all material provisions of the Franchise Agreement; make required updates to salon to reflect our then-current appearance; execute a general release; and sign new franchise agreement. The renewal agreement may contain materially different terms and conditions than your original contract, but the royalty fee will not be greater than the royalty fee that we then impose on similarly-situated renewing franchisees
d. Termination by Franchisee	Franchise Agreement Section 26.4  AD Agreement Not Applicable	With cause, notice, opportunity for us to cure. You must be in compliance.
e. Termination by Franchisor without cause	Not Applicable	Not Applicable
f. Termination by Franchisor with cause	Franchise Agreement Sections 26.1, 26.2, 26.3  AD Agreement Section 7	We can terminate if you default or if the events described in (g) or (h) occur.  We can terminate if you default or if the events described in (g) or (h) occur.
g. "Cause" defined – curable faults	Franchise Agreement Section 26.3	Failure to pay obligations when due, failure to report or properly maintain

Obligation	Provision in Franchise Agreement	Summary
	AD Agreement 7.2	<p>books and records; failure to obtain required approvals; misuse of System or Marks. We will give you notice and a 30 day cure period before terminating your franchise.</p> <p>You have 10 days to cure nonpayment of fees, 15 days to cure failure to file required reports or documentation, and up to 30 days for other types of noncompliance, except those listed in (h).</p>
h. "Cause" defined – non-curable defaults	<p>Franchise Agreement Sections 26.1, 26.2</p> <p>AD Agreement Section 7.1</p>	<p>Automatic Termination – No Notice: General assignment for creditors, adjudication of bankruptcy, court-appointed receivership, foreclosure suit not dismissed within 30 days, premises or equipment sold after levy, or conviction of crime of moral turpitude. Termination Effective Immediately</p> <p>Upon Notice: Insolvency; illegal conduct; material misrepresentation; repeated defaults; danger to public; abandonment; unauthorized transfer, violation of non-competition or confidentiality provisions; tax lien, levy or enforcement suit; under payment to us or underreporting in excess of certain amounts; failure after the first 3 years of your initial term to maintain minimum gross sales; loss of possession of premises, failure to open on schedule. <u>The Franchise Agreement may not be terminated solely on the basis that any applicable AD Agreement is also terminated due to default under the AD Agreement.</u></p> <p>Non-curable defaults: insolvency or an assignment for benefit of creditors; failure to comply with your Development Schedule; your material misrepresentation to us; felony conviction or no contest plea or conduct; unauthorized transfer or termination of this or any other agreement with us; unauthorized use of</p>

Obligation	Provision in Franchise Agreement	Summary
		trademarks or unauthorized disclosure of intellectual property; failure any three times in a year to pay financial obligations; failure to comply with any Franchise agreement without timely curing; failure any three times in a calendar year to comply with the AD Agreement, even if cured.
i. Franchisee's obligations on termination / nonrenewal	Franchise Agreement Section 27  AD Agreement Section 8	Cease operation of the salon and make no use of Marks, System, confidential information, materials; de-identify the premises as a Cookie Cutters Salon; pay all amounts due to us or our affiliates; assign premises of franchised business to us (if we elect); return or destruction of confidential information, materials, plans and records; assignment of telephone number(s) to us; customer and lists to us; final accounting; and comply with all post termination obligations, including covenant not to compete (see also (r)).  Cease exercising development rights; cease to represent yourself as a Cookie Cutters developer; return Confidential Information; pay all amounts due to us; comply with all provisions of AD Agreement that survive termination.
j. Assignment of contract by Franchisor	Franchise Agreement Section 25.1  AD Agreement Section 10.2	No restriction on our right to assign.  No restriction on our right to assign.
k. "Transfer" by Franchisee – definition	Franchise Agreement Section 25.2  AD Agreement Section 10.2	Includes transfer of any interest in Franchise Agreement, assets or ownership change in you.  Includes assignment, sale or transfer of any interest in AD Agreement.
l. Franchisor's approval of transfer by Franchisee	Franchise Agreement Section 25.2  AD Agreement Section 10.2	We have the right to approve all transfers, our consent not to be unreasonably withheld.  We must consent in writing prior to any proposed transfer.

Obligation	Provision in Franchise Agreement	Summary
m. Conditions for Franchisor's approval of transfer	Franchise Agreement Sections 25.2(b), 25.3, 25.6  AD Agreement Section 10.2	Payments current; general release; compliance with agreement; our consent to material terms and conditions of transfer; subrogation of transferor's rights; transferee qualification and training; transferee's execution of then-current agreement; transfer fee (see also (n)).  We have the right to approve all transfers, in our sole discretion.
n. Franchisor's right of first refusal to acquire Franchisee's business	Franchise Agreement Section 25.5  AD Agreement Not Applicable	We can match any offer.
o. Franchisor's option to purchase Franchisee's business	Franchise Agreement Section 27.3  AD Agreement Not Applicable	We can purchase tangible assets, take assignment of lease on termination or expiration for the formula price described in the Franchise Agreement.
p. Death or disability of Franchisee	Franchise Agreement Section 25.6  AD Agreement Not Applicable	On death or permanent incapacity of any person with interest in Franchisee, the executor, administrator or personal representative must transfer such interest to an acceptable third party within 180 days after assuming such capacity. If such interest is not disposed of within 60 days after this period, we may terminate the Franchise Agreement or purchase the franchise at fair market value.
q. Non-competition covenants during the term of the franchise	Franchise Agreement Sections 21.3, 21.4	Subject to applicable state law, during the term, you will not, without our prior written consent, own, operate or perform any similar business within a 25 mile radius of your location. During the term and for 1 year after expiration or termination, you will not, without our written consent, employ, engage

Obligation	Provision in Franchise Agreement	Summary
	AD Agreement Not Applicable	any person who has been our employee within the prior 6 months.
r. Non-competition covenants after the franchise is terminated or expires	Franchise Agreement Sections 21.3, 21.4  AD Agreement Not Applicable	Subject to applicable state law, for 2 years after the term, you will not, without our prior written consent, own, operate or perform any similar business within a 25 mile radius of your location. For 1 year after expiration or termination, you will not, without our written consent, employ, engage any person who has been our employee within the prior 6 months.
s. Modification of agreement	Franchise Agreement Section 28.3  AD Agreement Section 10.3	The Franchise Agreement may not be modified except by written agreement signed by both parties.  No modifications generally without a writing signed by you and us
t. Integration/merger clause	Franchise Agreement Section 28.1  AD Agreement Section 11	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to applicable state law). Any representations or promises outside of the disclosure document and Franchise Agreement may not be enforceable.  Only the terms of the AD Agreement and other related written agreements are binding (subject to applicable state law). Any representations or promises outside of the disclosure document and AD Agreement may not be enforceable
u. Dispute resolution by arbitration or mediation	Franchise Agreement Section 32  AD Agreement Section 10.1	Franchise Agreement must be mediated and then arbitrated in accordance with the commercial mediation rules of the American Arbitration Association in the State of Utah, subject to applicable state law.  AD Agreement must be mediated and then arbitrated in accordance with the commercial mediation rules of the American Arbitration Association in the

Obligation	Provision in Franchise Agreement	Summary
		State of Utah, subject to applicable state law.
v. Choice of forum	Franchise Agreement Section 32.3 AD Agreement Section 10.1	Arbitration must be in Utah, subject to applicable state law. Arbitration must be in Utah, subject to applicable state law.
w. Choice of law	Franchise Agreement Section 29.6 AD Agreement Section 10.1	Utah law applies, subject to applicable state law. Utah law applies, subject to applicable state law.

## ITEM 18 PUBLIC FIGURES

We currently do not use any public figure to promote our franchise.

## ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC’s Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the Disclosure Document. Financial performance information that differs from that included in Item 19 may be given only if (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

We do not make any financial performance representations about a franchisee’s future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of future income, you should report it to Franchisor’s management by contacting Neal Courtney, 8 East Broadway, Suite 420, Salt Lake City, Utah 84111, (317) 334-1680, the Federal Trade Commission, and the appropriate state regulatory agencies.

**ITEM 20**  
**OUTLETS AND FRANCHISEE INFORMATION**

**Table No. 1**  
**System-wide Outlet Summary for Years ~~2017~~2018 to ~~2019~~2020**

Outlet Type	Year	Outlets at Start of the Year	Outlets at End of the Year	Net Change
<b>Franchised</b>	<del>2017</del>	<del>32</del>	<del>56</del>	<del>+24</del>
	2018	56	87	+31
	2019	87	101	+14
	<u>2020</u>	<u>101</u>	<u>105</u>	<u>+4</u>
<b>Company Owned</b>	<del>2017</del>	<del>1</del>	<del>1</del>	<del>0</del>
	2018	1	1	0
	2019	1	2	+1
	<u>2020</u>	<u>2</u>	<u>2</u>	<u>0</u>
<b>Total</b>	<del>2017</del>	<del>33</del>	<del>57</del>	<del>+24</del>
	2018	57	88	+31
	2019	88	103	+15
	<u>2020</u>	<u>103</u>	<u>107</u>	<u>+4</u>

**Table No. 2**  
**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor) For Years ~~2017~~2018 to ~~2019~~2020**

State	Year	Number of Transfers
<b>California</b>	<del>2017</del>	<del>0</del>
	2018	1
	2019	0
	<u>2020</u>	<u>1</u>
<b>Colorado</b>	<del>2017</del>	<del>0</del>
	2018	1
	2019	0
	<u>2020</u>	<u>0</u>
<b>Georgia</b>	2017	0

State	Year	Number of Transfers
	2018	1
	2019	0
	<u>2020</u>	<u>0</u>
Maryland	2017	0
	2018	1
	2019	0
	<u>2020</u>	<u>0</u>
Michigan	2017	0
	2018	0
	2019	1
	<u>2020</u>	<u>0</u>
Texas	2017	0
	2018	0
	2019	1
	<u>2020</u>	<u>0</u>
Total	2017	0
	2018	4
	2019	2
	<u>2020</u>	<u>1</u>

**Table No. 3**  
**Status Franchised Outlets for Years ~~2017~~2018 to ~~2019~~2020**

State	Year	Outlets Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reason	Outlets End Year
Alabama	<del>2017</del>	±	0	±	0	0	0	0
	2018	0	0	0	0	0	0	0
	2019	0	1	0	0	0	0	1
	<u>2020</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Arizona	<del>2017</del>	±	±	0	0	0	0	±
	2018	2	0	0	0	0	0	2
	2019	2	0	1	0	0	0	1
	<u>2020</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>±</u>

State	Year	Outlets Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reason	Outlets End Year
California	2017	1	3	0	0	0	0	4
	2018	4	6	1	0	0	0	9
	2019	9	3	0	0	0	0	12
	2020	12	0	0	0	0	2	10
Colorado	2017	3	1	1	0	0	0	3
	2018	3	1	0	0	0	0	4
	2019	4	2	0	0	0	0	6
	2020	6	0	0	0	0	1	5
Florida	2017	0	1	0	0	0	0	1
	2018	1	5	0	0	0	0	6
	2019	6	2	0	0	0	0	8
	2020	8	1	0	0	0	0	9
Georgia	2017	0	4	0	0	0	0	4
	2018	4	0	0	0	0	0	4
	2019	4	0	0	0	0	0	4
	2020	4	0	0	0	0	0	4
Idaho	2017	0	1	0	0	0	0	1
	2018	1	1	0	0	0	0	2
	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
Illinois	2017	0	0	0	0	0	0	0
	2018	0	1	0	0	0	0	1
	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
Indiana	2017	8	0	2	0	0	0	6
	2018	6	0	0	0	0	0	6
	2019	6	0	0	0	0	0	6
	2020	6	0	0	1	0	0	5
Maryland	2017	1	1	0	0	0	0	2
	2018	2	0	0	0	0	0	2
	2019	2	1	0	0	0	0	3
	2020	3	1	0	0	0	0	4
Michigan	2017	1	0	0	0	0	0	1
	2018	1	2	0	0	0	0	3
	2019	3	1	0	0	0	0	4
	2020	4	0	0	0	0	0	4
Missouri	2017	1	0	0	0	0	0	1
	2018	1	1	0	0	0	0	2
	2019	2	0	0	0	0	0	2
	2020	2	1	0	0	0	0	3
Nevada	2017	1	0	0	0	0	0	1

State	Year	Outlets Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reason	Outlets End Year
	2018	1	0	0	0	0	0	1
	2019	1	2	0	0	0	0	3
	<u>2020</u>	<u>3</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>
New Jersey	<u>2017</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	2018	1	3	0	0	0	0	4
	2019	4	2	1	0	0	0	5
	<u>2020</u>	<u>5</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5</u>
North Carolina	<u>2017</u>	<u>0</u>	<u>4</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>
	2018	4	0	0	0	0	0	4
	2019	4	0	0	0	0	0	4
	<u>2020</u>	<u>4</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>
Ohio	<u>2017</u>	<u>7</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7</u>
	2018	7	2	0	0	0	0	9
	2019	9	1	0	0	0	0	10
	<u>2020</u>	<u>10</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11</u>
Oregon	<u>2017</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
	2018	2	1	0	0	0	0	3
	2019	3	0	0	0	0	0	3
	<u>2020</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
Pennsylvania	<u>2017</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
	2018	3	0	0	0	0	0	3
	2019	3	0	0	0	1	0	2
	<u>2020</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
Tennessee	<u>2017</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	2018	0	1	0	0	0	0	1
	2019	1	0	0	0	0	0	1
	<u>2020</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Texas	<u>2017</u>	<u>0</u>	<u>6</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6</u>
	2018	6	4	1	0	0	0	9
	2019	9	1	0	0	0	0	10
	<u>2020</u>	<u>10</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12</u>
Utah	<u>2017</u>	<u>7</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7</u>
	2018	7	2	0	0	0	0	9
	2019	9	1	0	0	0	0	10
	<u>2020</u>	<u>10</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10</u>
Virginia	<u>2017</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	2018	0	1	0	0	0	0	1
	2019	1	0	0	0	0	0	1
	<u>2020</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Washington	<u>2017</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	2018	0	2	0	0	0	0	2

State	Year	Outlets Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reason	Outlets End Year
	2019	2	0	0	0	0	0	2
	2020	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>
Totals	2017	32	28	4	0	0	0	56
	2018	56	33	2	0	0	0	87
	2019	87	17	2	0	1	0	101
	2020	<u>101</u>	<u>9</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>4</u>	<u>105</u>

**Table No. 4**  
**Status of Company-Owned Outlets for Years 20172018 to 20192020**

State	Year	Outlets Start of Year	Outlets Opened	Outlets Reacquired From Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets End Year
Pennsylvania	2017	0	0	0	0	0	0
	2018	0	0	0	0	0	0
	2019	0	0	1	0	0	1
	2020	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Utah	2017	1	0	0	0	0	1
	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Totals:	2017	1	0	0	0	0	1
	2018	1	0	0	0	0	1
	2019	1	0	1	0	0	2
	2020	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>

**Table 5**  
**Projected Openings as of December 31, ~~2019~~2020**

State	Franchise Agreements signed but Outlet not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected Company Owned Outlets in the Next Fiscal Year
Alabama	0	1	0
Alaska	1	1	0
Arizona	1	2	0
California	0	1	0
Colorado	0	1	0
Delaware	1	1	0
Florida	2	1	0
Maryland	1	1	0
Missouri	1	1	0
Nebraska	1	1	0
Nevada	1	1	0
New York	1	1	0
New Jersey	1	1	0
Ohio	2	1	0
Oregon	0	1	0
Pennsylvania	1	1	0
Texas	2	2	0
Utah	0	2	0
Wisconsin	1	1	0
<b>Total</b>	<del>15</del> 7	<del>16</del> 12	0

Attached as Exhibit E is a list of the names, addresses, and telephone numbers of all current franchisees and area developers.

~~Two~~Five franchisees had their franchise rights terminated, canceled, not renewed or otherwise voluntarily or involuntarily ceased to do business during calendar year ~~2019~~. ~~Two franchisees~~2020. One franchisee transferred their outlets to a new owner during calendar year ~~2019~~2020 and are no longer part of the Cookie Cutters system. ~~One additional franchisee in Pennsylvania was transferred from a franchisee to Cookie Cutters during 2019.~~ The contact information for all such franchisees can be found on Exhibit E.

No franchisee has not communicated with us or our representative within the last 10 week period.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

During the last three years, current and former franchisees have signed provisions restricting their ability to speak openly about their experience with us. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

We have not created, sponsored, or endorsed any franchisee associations. There are no franchisee associations that have asked to be disclosed in our Disclosure Document.

## **ITEM 21 FINANCIAL STATEMENTS**

Attached to this Disclosure Document as Exhibit D are our audited fiscal ~~year~~end year end financial statements as of December 31, ~~2019~~2020, December 31, ~~2018~~2019, and December 31, ~~2017~~. ~~Because the issuance date of this Disclosure Document is more than 90 days after the end of our fiscal year, also attached are unaudited interim financial statements as of February 29, 2020.~~2018.

## **ITEM 22 CONTRACTS**

The Franchise Agreement and all related agreements are in Exhibit B. The related agreements include:

- Site Addendum (Attachment 1)
- Entity Ownership Addendum (Attachment 2)
- Guaranty Agreement (Attachment 3)
- Lease Agreement (Attachment 4)
- Acknowledgement of Opening (Attachment 5)
- Franchise Disclosure Questionnaire (Attachment 6)

If you are granted the right to open and operate multiple salons, you must sign the AD Agreement and all related exhibits included as Exhibit C. The related agreements include:

- Development Area and Development Schedule (Attachment A)
- Entity Information and Ownership (Attachment B)

## **ITEM 23 RECEIPT**

The last page of the Franchise Disclosure Document, Exhibit H, is a detachable document prepared in duplicate, acknowledging receipt of the Franchise Disclosure Document by the prospective franchisee. You must sign both copies. Keep one copy for your records. Please return the other copy to us by mailing it to Cookie Cutters Franchising Inc., at 8 East Broadway, Suite 420, Salt Lake City, Utah 84111, or by faxing a copy of the signed receipt to Cookie Cutters Franchising Inc. at (801) 474-1367.

## EXHIBIT A

### LIST OF STATE AGENCIES/AGENTS FOR SERVICE OF PROCESS

This list includes the names, addresses and telephone numbers of state agencies having responsibility for franchising disclosure/registration laws, and serving as our agents for service of process (to the extent that we are registered in their states).

STATE	STATE ADMINISTRATOR/AGENT	ADDRESS
California	Commissioner of the Department of <del>Business Oversight</del> <u>Financial Protection and Innovation</u>	320 West 4 <sup>th</sup> Street, Suite 750 Los Angeles, CA 90013-2344 (866) 275-2677
Hawaii (State Administrator)	Commissioner of Securities Dept. of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch	335 Merchant Street Room 203 Honolulu, HI 96813 (808) 586-2744
Illinois (State Administrator)	Illinois Attorney General	500 South Second Street Springfield, IL 62701 (217) 782-4465
Indiana (State Administrator)	Indiana Securities Commissioner Securities Division	302 West Washington Street, Room E111 Indianapolis, IN 46204 (317) 232-6681
Indiana (Agent)	Indiana Secretary of State	302 West Washington Street, Room E111 Indianapolis, IN 46204 (317) 232-6681
Maryland (State Administrator)	Office of the Attorney General Division of Securities	200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6300
Maryland (Agent)	Maryland Securities Commissioner	200 St. Paul Place 20 <sup>th</sup> Floor Baltimore, MD 21202-2020 (410) 576-6360
Michigan	Michigan Attorney General's Office Consumer Protection Division Attn: Franchise Division	Williams Building, 7th Floor 525 West Ottawa Street Lansing, MI 48909 (517) 335-7622
Minnesota	Commissioner of Commerce Minnesota Department of Commerce	85 7th Place East, Suite 500 St. Paul, MN 55101-2198 (651) 539-1638

STATE	STATE ADMINISTRATOR/AGENT	ADDRESS
New York (State Administrator)	NYS Department of Law Investor Protection Bureau	28 Liberty Street 21 <sup>st</sup> floor New York, NY 10005 (212) 416- <del>8236</del> <u>8285</u>
New York (Agent)	New York Secretary of State New York Department of State	One Commerce Plaza 99 Washington Avenue, 6 <sup>th</sup> Floor Albany, NY 12231-0001
North Dakota (State Administrator)	North Dakota Securities Department	600 East Boulevard Avenue State Capitol, 5 <sup>th</sup> Floor, Dept. 414 Bismarck, ND 58505-0510 (701) 328-2910
North Dakota (Agent)	Securities Commissioner	600 East Boulevard Avenue, State Capitol, 5 <sup>th</sup> Floor Bismarck, ND 58505-0510 (701) 328-2910
Rhode Island	Director, Department of Business Regulation, Securities Division	1511 Pontiac Avenue Building 69-2 Cranston, RI 02920 (401) 462-9500
South Dakota	Division of Insurance Securities Regulation	124 South Euclid, Suite 104 Pierre, SD 57501 (605) 773-3563
Virginia (State Administrator)	Virginia State Corporation Commission Division of Securities and Retail Franchising	1300 East Main Street, 9th Floor Richmond, VA 23219-3630 (804) 371-9051
Virginia (Agent)	Clerk of the State Corporation Commission	1300 East Main Street, 1st Floor Richmond, VA 23219-3630
Washington	Department of Financial Institutions Securities Division	150 Israel Road SW Tumwater, WA 98501 (877) 746-4334
Wisconsin	Commissioner of Securities	Department of Financial Institutions Division of Securities 4822 Madison Yards Way, 4 <sup>th</sup> Floor Madison, WI 53705-9100 (608) 261-9555

**EXHIBIT B**

**FRANCHISE AGREEMENT AND RELATED AGREEMENTS**



**FRANCHISE AGREEMENT**

**BETWEEN**

**COOKIE CUTTERS FRANCHISING INC.**

a Utah corporation

8 East Broadway, Suite 420

Salt Lake City, Utah 84111

Telephone: (317) 334-1680

Website: [www.kidscuts.com](http://www.kidscuts.com)

**AND**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Date of Franchise Agreement**

\_\_\_\_\_

## **FRANCHISE AGREEMENT**

THIS FRANCHISE AGREEMENT (“Agreement”) is entered into as of \_\_\_\_\_ (the “Effective Date”) by between and amongst Cookie Cutters Franchising Inc., a Utah corporation with its principal office at 8 East Broadway, Suite 420, Salt Lake City, Utah 84111 (hereinafter referred to as “Cookie Cutters” or “CC”), and \_\_\_\_\_ whose address is \_\_\_\_\_ (“Franchisee”).

### **RECITALS**

A. CC has expended time, skill, money and effort to develop a system for establishing and operating COOKIE CUTTERS businesses primarily providing haircuts, shampoos and related services and products for children under the age of 12 using formats, signs, equipment, layouts, systems, methods, procedures and designs specified by CC (the “System”).

B. CC has also expended time, skill, money and effort in publicizing the System and the services and products offered under the System. CC and/or its licensor has developed and will continue to develop valuable goodwill in the service mark, trademark and trade name COOKIE CUTTERS, and in its trade dress; and has or may develop or acquire other service marks, trademarks, trade name and trade dresses for use under the System, all of which marks, names, and dresses are or will be the sole property of CC and/or its licensor (the “Marks”).

C. CC franchises others to use the System and the Marks, and provides to franchisees continuing advice on the establishment and operation of COOKIE CUTTERS businesses.

D. Franchisee desires to establish and operate a COOKIE CUTTERS business, to use the Marks and all other elements of the System, and to derive the benefits of the System as developed by CC. Franchisee acknowledges that it is essential to the maintenance of the standards which the public has come to expect of COOKIE CUTTERS services and products, and to the preservation of the integrity and goodwill of the Marks, that Franchisee adhere to the standards for the establishment and operation of COOKIE CUTTERS.

NOW, THEREFORE, in consideration of the mutual representations, warranties, and covenants in this Agreement, CC and Franchisee agree as follows:

### **AGREEMENT**

#### **1. GRANT OF FRANCHISE**

1.1. Subject to the terms of this Agreement, CC grants to Franchisee the right, and Franchisee undertakes the duty, to establish and operate a COOKIE CUTTERS business using the System (“Franchised Business”) at the location described in Section 2 for the term described in Section 3 (the “Franchise”).

1.2. The Franchise includes the right and obligation to use the complete plan and system developed by CC or relating to the operation of the Franchised Business, including, but not limited to, hair care products and services, selection, marketing, purchasing and inventory control methods, accounting forms, advertising, sales and promotional ideas, Franchise training, personnel training and other matters relating to the efficient operation and supervision of the Franchised Business and the maintenance of high quality standards, as it exists or may be supplemented or modified during the term of the Franchise (the “System”), as to the COOKIE CUTTERS services and products which Franchisee is entitled to market. Franchisee acknowledges that the System will continue to evolve in order to reflect changing market conditions and to meet new and changing consumer demands, and that variations and additions to the System may be required in order to preserve and enhance the public image of the System and to ensure the continuing operation efficiency of COOKIE CUTTERS businesses generally. Accordingly, Franchisee agrees that CC may, on notice and acting reasonably, add to, modify and change the System, including the adoption and use of new and modified service marks, trademarks, trade names, trade dresses, equipment of COOKIE CUTTERS services and products, but any modifications or changes may not unreasonably increase Franchisee’s obligations under this Agreement or place an excessive economic burden on the Franchised Business. Franchisee further agrees to promptly accept, implement, use and display in the operation of the Franchised Business all of those additions, modifications and changes at its expense.

1.3. CC reserves the right, among others, to develop systems other than the System involving similar or dissimilar services or products for persons other than children 12 and under, or involving dissimilar services or products for children 12 and under, under similar or dissimilar service marks, trademarks and trade names belonging to CC without granting Franchisee any rights in those systems. CC specifically reserves the right to market, through company-owned and franchised businesses and through alternative channels of distribution, similar or dissimilar services and products, and private labels and other merchandise, using similar or dissimilar service marks, trademarks and trade names.

## **2. SITE; TERRITORY; FRANCHISOR’S RESERVATION OF RIGHT; FRANCHISEE’S OPTION TO PURCHASE**

2.1. Site. When Franchisee has located a site for the business acceptable to CC, the parties agree that the site will be identified in the Site Addendum (Attachment 1), which may be executed at or after the execution of this Agreement. If Franchisee has not located a site for the business at the time of execution of this Agreement, Franchisee shall be subject to the obligations outlined in Section 5.4. If the ownership of or lease for the premises of the business expires or terminates without fault of Franchisee, or if the premises are destroyed, condemned or otherwise rendered unusable, or if in the sole and absolute judgment of CC there is a change in character of the site of the business sufficiently detrimental to its business potential to warrant its relocation, CC will grant permission for relocation of the business to another site acceptable to CC. Any relocation will be at Franchisee’s sole expense.

2.2. Territory. Franchisee is not entitled to any protected Territory under this Agreement.

### 3. TERM OF FRANCHISE

3.1. Initial Term. This Agreement is effective upon the Effective Date and will continue for ten (10) years from the date the Franchise opens for business to the public, unless the Franchise is sooner terminated under Section 26. You agree to execute the Acknowledgment of Opening, attached as Attachment 5, to acknowledge the date the Franchise opens for business to the public.

3.2. Renewal Term. Franchisee will have the right to renew its franchise for two additional five (5) year terms, provided Franchisee meets the following conditions as of the expiration of the then-current term:

- (a) Franchisee has given CC written notice of its intention to renew at least one hundred eighty (180) days prior to the end of the initial term of this Agreement;
- (b) Franchisee has complied with all of the material provisions of this Agreement and CC's material operating and quality standards and procedures, including the payment of all monetary obligations owed by Franchisee to CC or its affiliates and to all suppliers;
- (c) Franchisee has at its expense made such reasonable capital expenditures necessary to remodel, modernize and redecorate the premises of the salon owned and operated by Franchisee hereunder and has replaced and modernized the supplies, signs, fixtures and equipment used in such salon so that the business premises reflect the then-current physical appearance of new COOKIE CUTTERS salons;
- (d) Franchisee pays a renewal fee equal to \$10,000 due upon execution of CC's then-current standard franchise agreement. This fee will be nonrefundable and fully earned by CC when paid;
- (e) Franchisee and each of your owners and guarantors shall execute the CC's then-current release of CC and its affiliates, and their respective present and past officers, directors, employees, and agents, to the extent not prohibited by applicable law. You agree the requirements of this Section to provide CC with a release upon execution of the renewal agreement are material conditions to your renewal and failure to comply with these requirements will terminate your right to renew; and
- (f) Franchisee has executed CC's then-current standard franchise agreement, which may contain terms substantially different from those in this Agreement, including different fees and advertising contributions, different training requirements, but which may not contain a requirement to pay an initial franchise fee similar to that payable under Section 9.1 or any renewal rights beyond those granted in this Section 3.2.

#### 4. PERSONAL ATTENTION OF FRANCHISEE OR MANAGER TO BUSINESS

4.1. Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner), or an individual approved by the Franchisor who shall be responsible for the operation of the Franchised Business (a "Manager") who has successfully completed all required CC training, will personally manage the Franchised Business at all times.

4.2. Franchisee understands and agrees that the success of the Franchised Business will depend on personal, continued and full-time attention to the business by Franchisee, Franchisee's personal operating officer or partner, or Franchisee's Manager. Personal, continued and full-time attention will include at least: availability during normal and peak business periods; participation in the development and implementation of management and operational policies, and involvement in the training and supervision of employees and independent contractors to ensure that the System is followed.

#### 5. DEVELOPMENT AND OPENING OF BUSINESS

5.1. Ownership of or Lease for Business. Franchisee represents that it owns, has leased, or, promptly after the execution of this Agreement, will attempt to locate or lease the premises of the business. Any lease or replacement lease for the premises, or any lease for acceptable substitute premises, must include the Lease Addendum attached to this Agreement as Attachment 4. Franchisee agrees that it will not execute a lease which has for any reason been rejected by CC. Franchisee's execution of a lease or purchase agreement for the premises of the business will constitute acceptance by Franchisee of the premises and of the terms of the lease or purchase agreement, and a waiver of any claim or right against CC relating to the choice of the premises or the terms of the lease or purchase agreement. For purposes of this Agreement, the term "lease" includes a sublease.

5.2. Development of business. Franchisee agrees to develop the business in accordance with CC's specifications. Franchisee will, promptly after obtaining possession of the premises of the business, and before opening, do or cause to be done all of the following:

- (a) Before leasing, purchasing or building out the premises of the Franchised Business, prepare and submit to CC for acceptance, which will not be unreasonably withheld, plans for the business (or any deviations from the plans), including, but not limited to, construction, dimensions, exterior design, materials, interior layout, equipment, installation, fixtures, furniture, signs and decorating, and which plans will comply with CC's specifications and recommendations for COOKIE CUTTERS business. In connection with the preparation and any modification of the plans, CC will provide Franchisee with assistance regarding the design and layout of the business, and the selection of equipment and supplies. After being accepted, the plans may be further modified only to the extent necessary to comply with applicable ordinances and building codes, and applicable permit, lease and deed requirements and restrictions. All plans and modifications will be subject to prior written acceptance by CC;

- (b) Obtain all required building, driveway, utility, sign, and business permits and licenses, and any other required permits and licenses necessary for the establishment and operation of the Franchised Business;
- (c) Construct all required improvements to the premises, decorate the premises in compliance with plans and specifications accepted by CC and otherwise conform the premises to all applicable ordinances and building codes, and all applicable permits, lease and deed requirements and restrictions and CC's specifications, as modified by Franchisee with CC's prior written approval to fit the particular site, and obtain all customary contractors' sworn statements and partial and final waivers of lien for construction, remodeling, decorating and installation services;
- (d) Purchase or lease and install all equipment, fixtures, furniture and signs required for the business as listed in CC's specifications;
- (e) Purchase and stock the opening inventory required for the business as listed in CC's specifications. It is acknowledged and agreed by Franchisee that the opening inventory may be required to include certain products distributed by CC and its affiliated companies;
- (f) Secure and verify to CC the obtaining of all financing required by Franchisee to fully develop the business.

5.3. Equipment, Fixtures, Furniture and Signs. Franchisee agrees to use in the operation of the business only those brands and models of equipment, fixtures, furniture and signs that CC has approved for COOKIE CUTTERS businesses as meeting its specifications and standards. Specifications may include minimum standards for design, appearance, function, performance, serviceability and warranties. Franchisee further agrees to place or display at the premises of the business (interior and exterior) only the signs, emblems, lettering, logos and display materials that CC approves in writing. Franchisee may purchase approved brands and models of equipment, fixtures, furniture and signs from any supplier, including CC or its affiliated companies, where applicable. If Franchisee is not then approved by CC, Franchisee will first notify CC and will submit to CC, upon its request, sufficient written specifications, photographs, drawings and/or other information or samples for a determination by CC of whether the brand and/or model of equipment, fixture, furniture or sign complies with its specifications and standards, which determination will be made and communicated to Franchisee within a reasonable time. CC will have the right to charge Franchisee a reasonable amount to cover the expenses incurred by it in connection with any testing or inspection. See Section 14.2.

5.4. Selection of Premises. If the premises of the business have not been located by Franchisee and accepted by CC prior to execution of this Agreement, it will be the obligation of Franchisee to locate, within one hundred twenty (120) days after execution of this Agreement, premises suitable for the operation of the business and acceptable to CC. If Franchisee is delayed from locating suitable premises within one hundred five (105) days, Franchisee must immediately

provide CC with either a written confirmation that Franchisee will locate suitable premises before the end of the one hundred twenty (120) day period or a written request for an extension. The request must state: (1) that a delay is anticipated; (2) the reasons which caused the delay; (3) the efforts that Franchisee is making to locate suitable premises; and (4) an anticipated date of compliance. In considering the request, CC will not unreasonably withhold its consent to a delay, up to a maximum period of sixty (60) days, if Franchisee has been earnestly looking for suitable premises. Franchisee's "earnestness" may be supported by its use of a broker, its communications and correspondence with CC, and other similar factors. Any extension granted under this Section 5.4 will correspondingly extend the deadline for opening the Franchised Business under Section 5.5. CC will not unreasonably withhold acceptance of any premises that meet its minimum standards for demographic characteristics, traffic patterns, parking, the predominant character of the neighborhood, median income, competition from other businesses providing similar services or products in the area, proximity to other businesses, exclusivity granted to other franchises or developers of CC, the nature of other businesses in proximity to the premises and other commercial characteristics, and size, appearance and other physical characteristics of the premises. CC will give written notice of acceptance or rejection of the proposed site within a reasonable time after receiving Franchisee's written proposal and letter of intent or other evidence satisfactory to CC confirming Franchisee's favorable letter of intent or other evidence satisfactory to CC confirming Franchisee's favorable prospects of obtaining the proposed site. Franchisee acknowledges that CC's acceptance of any premises does not constitute any assurance that a COOKIE CUTTERS business will be profitable at those premises or more profitable at those premises in comparison to other premises. CC's acceptance is only an indication that the particular premises meet CC's minimum criteria. If Franchisee is unable to locate the acceptable premises within the period specified above, CC may, at any time, terminate this Agreement.

5.5. Business Opening. Franchisee agrees to open the premises for business within nine (9) months after signing the Franchise Agreement or paying any consideration for the Franchise, but if Franchisee is delayed from opening within eight (8) months, Franchisee must immediately provide CC with either a written confirmation that Franchisee will open before the end of the nine (9) month period or a written request to delay opening. The request must state: (1) that a delay is anticipated; (2) the reasons which caused the delay; (3) the efforts that Franchisee is making to proceed with the opening; and (4) an anticipated opening date. In considering the request, CC will not unreasonably withhold its consent to a delay, up to a maximum period of sixty (60) days, less the number of any days of extension Franchisee has previously received from locating suitable premises under Section 5.4, if Franchisee has been diligently pursuing the opening.

5.6. Grand Opening. Franchisee agrees to conduct a grand opening advertising and having a promotional program for the business during the first ninety (90) days after opening the Franchised Business, and to expend at least \$10,000, or any lesser amount that may be permitted by CC in writing, on advertising and promotion during that period. This advertising and promotion program will be in addition to advertising and promotion conducted under Section 16.2 of this Agreement and will utilize marketing and public relations programs and media and advertising materials approved by CC. CC will furnish advice and guidance to Franchisee with respect to the grand opening advertising and promotion program.

5.7. Financing. Within fourteen (14) days after execution of this Agreement, Franchisee will submit a written plan for Franchisee's financing in a form reasonably acceptable to CC which will include details of the sources and terms of the financing and any other information or documents required by CC. Franchisee may not begin development of the Franchised Business until CC has accepted the plan. CC must give or withhold acceptance, in its sole and absolute right, by written notice to Franchisee within a reasonable time after CC receives the plan. Once CC accepts a plan, Franchisee must complete development of the business in accordance with it. Franchisee acknowledges that CC's acceptance of a financing plan does not constitute any assurance that the financing plan is adequate, favorable or not unduly burdensome. Acceptance is only an indication that a financing plan meets CC's minimum criteria. If an acceptable plan has not been submitted by Franchisee to CC within fourteen (14) days after execution of this Agreement, Franchisee will have a thirty (30) day cure period within which to submit an acceptable plan, after which period, CC may, in its sole and absolute right, terminate the Franchisee.

## 6. CONTINUOUS OPERATION OF BUSINESS

6.1. Continuous Operation. Franchisee must operate the Franchised Business on a continuous basis throughout the term, and must be open for business each week for the minimum hours and minimum days specified in the various written instructions and confidential manuals, including amendments thereto, relating to the operation of the Franchised Business which are provided to the Franchisee by the Franchisor (the "Confidential Operations Manual").

6.2. Breach in Continuous Operation. During or any time after the occurrence of any breach in the continuous operation of the business, CC, or its designee, will have the right, but not the obligation, subject to the term of Franchisee's lease, to take possession of the business for the account of Franchisee and to operate the business in all respects as if it were Franchisee, provided that CC will not have the right to assign, transfer, pledge, encumber or otherwise dispose of any interest of Franchisee in the Franchised Business. In that event, Franchisee will pay CC reasonable compensation for its services. CC will have the right to terminate its possession and operation of the business at any time, in its sole and absolute right. For purposes of this Section 6.2, "breach" will mean Franchisee's failure to open for business for four (4) consecutive business days or for three (3) or more business days in any three (3) month period, without CC's prior written consent.

6.3. Inventory Specifications. CC has developed and will continue to develop specifications for the continuing inventories to be carried by a COOKIE CUTTERS business. Franchisee acknowledges and agrees that those specifications are an integral part of the System, that the continuing inventories of the business will conform to those specifications, and that the continuing inventories may be required to include certain products distributed by CC and its affiliated companies.

## 7. LIMITATIONS ON ACTIVITIES OF BUSINESS

7.1. In order to preserve the System and the identification of COOKIE CUTTERS businesses, operating under the Marks, Franchisee agrees that the Franchised Business will not

engage in activities other than those approved under the System. Franchisee further agrees that it must obtain CC's prior written consent to offer any services or sell any products other than those approved under the System.

7.2. Franchisee may not engage in any deceptive or unfair trade practice or other activity, or offer any service or product which is harmful to the goodwill or reputation of Franchisee, CC, CC's franchisees generally, the System or the Marks.

## **8. PRICES CHARGED BY BUSINESS**

8.1. Franchisee will have the right to offer services and sell products at any prices it may determine. If CC recommends retail price, that price is suggested only, and is in no way binding on Franchisee.

## **9. FEES PAYABLE TO FRANCHISOR**

9.1. Initial Franchise Fee. If this Agreement is not being executed as part of a renewal or Transfer of the Franchise, Franchisee must pay to CC, by wire transfer or, if approved by CC, cashier's check, on execution, an initial franchise fee of \$40,000. The initial franchise fee for the second location for which Franchisee enters into a franchise agreement is \$20,000. The initial franchise fee for each additional location thereafter for which Franchisee enters into a franchise agreement is \$10,000.

This fee or any portion of the fee is nonrefundable and fully earned by CC when paid. CC may cancel this Agreement if Franchisee is unable to secure any license required for the operation of the business, or if Franchisee fails to locate a site acceptable to CC within four (4) months after execution of this Agreement.

9.2. Initial Training Fee. Franchisee must pay to CC an initial training fee of \$2,500 if this is its first location or \$1,500 if this is its second or additional location, which will cover the cost of training associated with two (2) individuals to attend CC's initial training program. If this is Franchisee's first Cookie Cutters location, Franchisee may, at its option, elect to receive an additional four days of training on company culture and stylist training for an additional fee of \$1,500 from CC's designated third party consultant. This additional training will take place at Franchisee's Salon. If Franchisee opts to have this additional training provided for a second or additional location Franchisee must pay third party consultant's applicable fees and costs. The initial training fee does not cover Franchisee's or its attendees' costs and expenses incurred in attending the initial training program, including but not limited to, travel, lodging, meals and salary expenses. The initial training fee is due upon receipt of an invoice from CC approximately one week before the initial training begins. Initial training will not commence until the initial training fee is paid in full. The initial training fee is deemed fully earned and non-refundable upon receipt.

9.3. Royalty Fee. Franchisee must pay to CC a royalty fee equal to five percent (5%) of Franchisee's monthly Gross Sales (as defined in Section 9.7), by the tenth (10<sup>th</sup>) day of each month for the preceding month, by bank draft, as described in Section 9.11 below.

- (a) The royalty fee is due and payable by the 10th day of each month for the preceding month, and begins to accrue once the Franchised Business is opened.
- (b) Each payment of the royalty fee must be accompanied by a statement in the form specified in the Confidential Operations Manual.
- (c) Gift certificates which Franchisee purchases from CC, when redeemed, will be credited against this fee at face value. Gift certificates must be redeemed in the month Franchisee receives them.
- (d) Annual Gross Sales will be calculated on a calendar year basis and should equal the total of the Gross Sales for the preceding twelve (12) months.
- (e) In the event Franchisee defaults in payments, CC has the right to require Franchisee to pay the royalty fee weekly instead of monthly.

9.4. Motion Picture Licensing Fee. Franchisee must pay to CC's then-current monthly fee for the copyright licensing for the video and streaming content shown to customers at the location. This fee is equal to the fee charged to CC by the licensor for each Cookie Cutters location. CC will not make a profit on this fee. As of the Effective Date, this fee is equal to \$30 per month and will be paid as set forth in Section 9.11.

9.5. Non-Compliance Fee. Franchisee acknowledges the importance of operating the Franchise in full compliance with this Agreement and the System, as further set forth in the Confidential Operations Manual or otherwise communicated to Franchisee, and that Franchisee's deviation from any contractual requirement, including any System standard, is a violation of this Agreement and requires CC to incur additional administrative and management costs to address the violation. Franchisee agrees to pay CC a fee of \$100 per day for each deviation from a contractual requirement, including any System standard (the "Non-Compliance Fee"). Franchisee acknowledges that the Non-Compliance Fee is a reasonable estimate of CC's administrative and management costs incurred. Non-Compliance Fees are due and payable to CC within five (5) days after CC notifies Franchisee that CC is charging the Non-Compliance Fee due to Franchisee's violation and bills Franchisee. CC need not give Franchisee an opportunity to cure a violation before charging the Non-Compliance Fee. Charging the Non-Compliance Fee does not preclude CC from seeking any other relief available under applicable law, including but not limited to, recovering additional damages not related to our additional administrative expenses, defaulting Franchisee and terminating this Agreement, or exercising any of other rights under this Agreement.

9.6. Interest and Late Fees. If any sum required to be paid by Franchisee to CC under this Agreement is not actually received by CC by the due date, that sum will bear interest calculated

daily after the due date until paid at the lesser of a rate equal to one and one half percent (1.5%) of the monthly balance of principal and interest, or the highest rate of interest allowed by law, whichever is less. If the due date for a sum is not specified in this Agreement, generally it will be the 30th day after the billing date. Any payment received towards an overdue sum will first be applied to the interest due and will be applied to the overdue sum only after all outstanding interest is paid. In addition, a late fee in the amount of \$50 will be charged. Interest and late fees are in addition to any other rights or remedies that CC may have under this Agreement or otherwise. See also Section 13.7. Regardless of any designation by Franchisee, CC will have the sole and absolute right to apply any payments by Franchisee to any past due indebtedness of Franchisee to CC or its affiliates.

9.7. Gross Sales. For purposes of this Agreement, “Gross Sales” shall mean the aggregate gross amount of all revenues from whatever source derived (whether in form of cash, credit, agreements to pay or other consideration including the actual retail value of any goods or services traded, bartered, or otherwise received by the Franchisee in exchange for any form of non-monetary consideration, whether or not payment is received at the time of sale or any such amount is proved uncollectable) from or received in conjunction with the Franchised Business. Whether such business is conducted in compliance with or in violation of the terms of the Franchise Agreement, Gross Sales includes all sales or products or services made from the premises where the Franchised Business is located. Gross Sales includes proceeds received from “loss of business” insurance. However, Gross Sales does not include:

- (a) sales or use taxes collected by the Franchisee;
- (b) the amount of any refunds or allowances made on products or services returned by customers;
- (c) returns to shippers, vendors and manufacturers;
- (d) proceeds derived from the sale of equipment or supplies used by the Franchisee in the conduct of its business and not provided for resale;
- (e) sales of products and services to other Cookie Cutters Franchisees and to the Franchisee’s employees; and
- (f) sums received in settlement of claims or loss or damage to fixtures, equipment or leasehold improvement..

9.8. Withholding of Sums Payable. Franchisee agrees that it will not, on grounds of the alleged nonperformance by CC or any buying group or cooperative which may be established in the future, of any of its obligations under this Agreement or for any other reason, withhold payment of any fee or other sum, payable to CC or any buying group or cooperative, or of any other sum payable to CC, its affiliated companies or any buying group or cooperative.

9.9. Certificate Program Support Fee. Franchisee must pay the then-current monthly fee per location to support the first haircut certificate program licensed from CC.

9.10. Server Support and Maintenance Fee. Franchisee agrees to pay the then-current monthly fee to Franchisor for use in maintaining and repairing servers used to support Franchisee's salon and the Cookie Cutters system.

9.11. Payment. Franchisee shall make payments of the royalty fee, motion picture licensing fee, and System-wide Fund fee, and all other payments due Franchisor through automatic withdrawal on a bank account Franchisee is required to establish and maintain for the purpose of making payments to Franchisor. Franchisee shall execute such documents as may be required from time to time by Franchisor to permit Franchisor to withdraw from Franchisee's general operating checking account the amounts due Franchisor.

- (a) Franchisee may not make any change in its banking relationships, including any change in the account number of its general operating account, or any change in banks, without Franchisor's prior written approval, and without executing all documents and paying any out-of-pocket expenses required to authorize payments to Franchisor by bank draft from Franchisee's new bank account.
- (b) In the event any bank draft is declined, dishonored, or refused, due to insufficient funds, Franchisor will attempt another bank draft. In the event the subsequent bank draft is dishonored, Franchisee shall pay the Franchisor an assessment of \$25.00, in addition to any fee charged by the relevant financial institutions. Franchisee shall also immediately remedy the reason the bank draft was dishonored, and notify Franchisor that the bank draft will be honored.
- (c) In the event any bank draft is declined, dishonored, or refused, due to the bank account being closed, Franchisee shall pay the Franchisor an assessment of \$25.00 per transaction, in addition to any fee charged by the relevant financial institutions. Franchisee shall also provide Franchisor new bank account information, execute all documents and pay any out-of-pocket expenses required to authorize payments to Franchisor by bank draft from Franchisee's new bank account.
- (d) In the event a bank draft is not honored after following the steps described above, Franchisee will, within five (5) days' notice from Franchisor, cure the default. In addition, Franchisee will be deemed to be in material breach of this Agreement and be subject to all the remedies available to Franchisor in this Agreement.

## 10. FRANCHISOR DUTIES

10.1. In addition to any obligations specifically outlined elsewhere in this Agreement, during the term of the Franchise, CC will provide continuing assistance that CC, in its sole and absolute right, deems reasonable and appropriate under the circumstances.

10.2. If requested by Franchisee, CC will furnish additional guidance and assistance relative to the operations of the business, other than continuing assistance that is provided at no charge, at per diem charges established by CC. If special training of business personnel or other assistance in operation of the business is requested by Franchisee and must take place at the location of the Franchised Business, all expenses for training, including CC's then-current per diem charges and all reasonable transportation, meal and lodging expenses incurred by CC personnel in supplying the special training or additional assistance, will be paid by Franchisee.

10.3. CC's obligations under this Agreement are to Franchisee. No other person or entity, directly, indirectly or by subrogation, may rely on, enforce or obtain relief under this Agreement for any default by CC.

## 11. TRAINING

11.1. Franchisee and employees and independent contractors of Franchisee must maintain the standards of skill, efficiency and quality associated with the System.

11.2. To assist Franchisee in establishing and maintaining those standards, CC will provide training as follows:

- (a) CC will provide Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner) and Franchisee's original Manager, if any, or one (1) additional management personnel approved by CC, initial training for the operation of a COOKIE CUTTERS business, at a location in the Salt Lake City, Utah area or any other location designated by CC in its sole and absolute right. This training generally will include five (5) days initial training including one Saturday. Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner) and Franchisee's original Manager, if any, or such other person approved by CC must successfully complete initial training to CC's satisfaction twenty-one (21) days or more before opening the Franchised Business. If this is Franchisee's first Cookie Cutters location, Franchisee may elect to receive an additional four days of training at its location from our designated third party consultant for the fee set forth in Section 9.2. If this is Franchisee's second or additional location, if Franchisee opts to have this additional training provided, it must contract with the authorized third party directly as set forth in Section 9.2. Franchisee must bear the cost of trainees' wages and benefits, and trainees' travel, lodging and meal expenses. CC reserves the right to require Franchisee's stylists to successfully complete relevant initial training classes. No training class is successfully completed until Franchisee receives certification from CC. CC may require Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner), each manager and each stylist to be recertified on a regular basis.
- (b) CC may conduct an annual seminar for its franchisees to discuss and review new business, marketing and hair care ideas and concepts. The seminar may be held on a

regional, national or international basis. CC will provide Franchisee with notice of the time and place of the seminar, which time and place will be determined by CC. Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner) or Franchisee's Manager must attend the seminar. For each location owned by Franchisee, Franchisee must pay CC's then-current, nonrefundable fee to CC and also must pay all wages and benefits, and all travel, lodging and meal expenses, of its attendees.

- (c) Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner), Franchisee's Manager, if any, and Franchisee's stylists, must successfully complete remedial or follow-up training, if, in the sole and absolute judgment of CC, that training is necessary. As to that remedial or follow-up training, Franchisee must pay CC's then-current training fees, and must bear the cost of Franchisee's and its manager(s)' and stylists(s)' wages and benefits, and its and their travel, lodging and meal expenses. If remedial or follow-up training is held in Franchisee's territory, Franchisee also must bear the then-current per diem charges for CC's trainers, and the actual and reasonable travel, lodging and meal expenses of those trainers.

11.3. Except as otherwise stated in this Section 11, Franchisee is responsible for training employees and independent contractors other than its Managers.

11.4. If CC's trainers are requested by Franchisee to travel outside of the Salt Lake City, Utah metropolitan area, to give any initial, remedial or follow-up training, Franchisee must bear the actual and reasonable travel, lodging and meal expenses of those trainers in addition to any applicable, then-current per diem charges.

11.5. CC may require Franchisee to make reservations for trainees or attendees in advance of any training or seminar. CC may require deposits for those reservations (which may be refunded, or, in CC's sole and absolute judgment, applied toward training or seminar fees) and may charge cancellation fees of reservations if canceled.

## **12. CONFIDENTIAL OPERATIONS MANUAL: ADDITIONAL MANUALS AND MATERIALS**

12.1. CC has developed a copyrighted Confidential Operations Manual containing mandatory and suggested specifications, standards, procedures and rules applicable to the System. The Confidential Operations Manual is and will remain the exclusive property of CC and is merely loaned to Franchisee for the term of the Franchise. CC may also loan to Franchisee additional manuals and materials developed by CC related to aspects of the System. In order to protect the reputation and goodwill of CC, the System and the Marks, Franchisee must operate the Franchised Business in strict conformance with the Confidential Operations Manual and any additional manuals or materials developed by CC that are loaned to Franchisee.

12.2. Franchisee acknowledges that the System may be modified by CC, and that modifications to the System may require modifications to the Confidential Operations Manual and to any additional manuals or materials developed by CC, as long as those modifications do not unreasonably increase Franchisee's obligations under this Agreement or place excessive economic burdens on the Franchised Business. Franchisee agrees to operate the Franchised Business in strict conformance with any modifications to the Confidential Operations Manual and any additional manuals or materials developed by CC. Modifications will be effective on receipt by Franchisee, unless otherwise stated by CC.

12.3. The provisions of the Confidential Operations Manual, including the mandatory specifications, standards, procedures and rules applicable to the System, and any modifications that are made by CC, constitute provisions of this Agreement as if fully set forth in this Agreement. All references in this Agreement to the provisions of the Confidential Operations Manual mean the provisions of the Confidential Operations Manual, including all modifications and mandatory and recommended specifications, standards, procedures and rules, as of the time they are in effect.

12.4. Franchisee must at all times ensure that its copies of the Confidential Operations Manual and any additional manuals or materials developed by CC are up-to-date and kept in a secure place. If there is any dispute as to their contents, the terms of the master copies of the Confidential Operations Manual and any additional manuals or materials developed by CC maintained at CC's headquarters will be controlling.

12.5. Franchisee must treat the Confidential Operations Manual, any additional manuals or materials developed by CC and loaned to Franchisee that are designated as "Confidential", and the information in those manuals and materials, as confidential, and must take all reasonable precautions to maintain those manuals' and materials' confidentiality. Franchisee may not, without CC's prior written consent, copy, duplicate, record or otherwise reproduce the Confidential Operations Manual or any additional manual or material developed by CC, in whole or in part, or otherwise make the same available to any person who is not bound by the confidentiality terms of this Agreement or who has not signed a separate confidentiality agreement.

### **13. ACCOUNTING PROCEDURES**

13.1. Franchisee must use manual or computerized bookkeeping and accounting systems, relating, without limitation, to the use and retention of sales checks, cash register tapes, purchase orders, invoices, payroll records, check stubs, sales tax records and returns, cash receipts, disbursement journals and general ledgers, as may be specified in the Confidential Operations Manual.

13.2. Franchisee recognizes the importance of financial and statistical analysis, and agrees to provide CC with monthly sales reports (by the 10th of each month for the preceding month) and monthly financial statements (by the 25th of each month for the preceding month) in the forms prescribed in the Confidential Operations Manual. All financial information provided by

Franchisee to CC must be prepared in accordance with accounting methods acceptable to CC, consistently applied.

13.3. Franchisee must provide CC annually, within thirty (30) days after Franchisee's fiscal year end, with a statement of revenues, expenses and income (or loss) for the year, and of assets and liabilities as of the end of the year, which statement must be prepared in accordance with accounting methods acceptable to CC, consistently applied. At CC's option, it may require this statement to be prepared by an independent certified public accountant in accordance with the standards for a compilation or review. Simultaneously with this statement, Franchisee must provide CC with copies of all tax returns filed by Franchisee for the year as to the Franchised Business, including federal and state income tax returns and state sales or equivalent tax returns, and with business names, contact names, addresses and telephone numbers for all facilities at which COOKIE CUTTERS services and products were offered by Franchisee at any time during the year.

13.4. Franchisee must submit to CC any other financial or statistical reports, records, statements or information that CC may reasonably deem to be required or desirable, in the forms and at the times and places reasonably specified by CC, in the Confidential Operations Manual or otherwise in writing.

13.5. All financial or statistical information provided by Franchisee to CC must be accurate and correct in all material respects.

13.6. CC will have the right to use any financial or statistical information provided by Franchisee as CC deems appropriate. CC will not disclose any information shown in any tax returns of Franchisee (other than information disclosed in other documents submitted to CC) except: (i) with Franchisee's permission; (ii) as required by law or compulsory order; or (iii) in connection with audits or collections under this Agreement.

13.7. CC or its designated agents will have the right, at all reasonable times, to examine, copy and audit Franchisee's and the Franchisee's Business's books, records and tax returns. If an examination or audit discloses any underpayment of any fee, Franchisee must promptly pay the deficient amount plus interest calculated daily from the due date until paid at the lesser of a rate equal to one and one half percent (1.5%) per month or the highest rate of interest allowed by law, whichever is less. If an examination or audit discloses an underpayment or understatement of any amount due us by two percent (2%) or more for any one (1) month period, or if the examination or audit is made necessary by Franchisee's failure to furnish required information or documents in a timely manner, Franchisee must, in addition, reimburse CC for the cost of having Franchisee's books examined or audited. If an examination or audit discloses an underpayment or understatement of any amount due us above five percent (5%) twice in any twenty-four (24) month period, or an underpayment or understatement greater than ten percent (10%) for any one (1) month period, CC will have the absolute right to terminate the Franchise under Section 26.2(f). These rights and remedies will be in addition to any other rights or remedies CC may have under this Agreement, or otherwise, and they will survive the expiration or termination of the Franchise and

apply, to the extent that CC, in its sole and absolute right, deems them relevant to any dispute which arises between the parties as to any rights or remedies under this Agreement.

13.8. Franchisee must maintain and preserve all books, records and accounts of the Franchised Business for at least five (5) years after the close of the fiscal year to which the books, records and accounts relate.

#### **14. FIXTURES, EQUIPMENT, INVENTORY, SUPPLIES AND SERVICES**

14.1. Franchisee may purchase its fixtures, equipment, inventory, supplies and services from whomever it decides, except that:

- (a) CC may, in its sole and absolute right, require Franchisee to purchase from CC any affiliate or other designated source(s), certain proprietary products and materials, including: computer software for Franchisee's point of sale system; a software service contract; logo items; pre-numbered forms for receipts; certain private label retail and other merchandise; gift certificates (to be credited against royalty fees when redeemed); decor items (such as art work in the shape of an elephant head) and other items that CC will, in its sole and absolute right, designate in the future. Franchisee must upgrade its point of sale system as new enhancements are made to the system and has developments in software dictate changes in hardware. Franchisee will allow CC independent access to the data on the point of sale system 24 hours per day, seven days per week and will maintain high speed internet access at the salon to allow CC to access the point of sale and computer systems.
- (b) Store design, fixtures, equipment, inventory, artwork, signage, supplies and services used by Franchisee must meet specifications prescribed by CC in the Confidential Operations Manual. The purpose of these specifications is to protect and maintain the goodwill of the System and the Marks.
- (c) Franchisee agrees that the Franchised Business will at all times maintain, carry and promote, as designated by CC, an adequate and representative inventory of all products and services permitted by CC, at least sufficient to meet customer demand.

14.2. CC reserves the right to inspect and reinspect the products, supplies and facilities of Franchisee's suppliers, to determine their conformity to this Section 14. CC will maintain and make available to Franchisee a list of certain fixtures, equipment, inventory, supplies and services which meet CC's specifications. CC may modify this list. If Franchisee desires to use equipment or supplies not on the list, Franchisee will so notify CC in writing prior to using the equipment or supplies and, if CC so requests, will provide CC samples of the equipment or supplies and any relevant data. At its option, CC will test the equipment or supply to determine whether it meets the required specifications and will notify Franchisee accordingly within a reasonable time. Franchisee will reimburse CC for its out-of-pocket expenses relating to equipment, supply or supplier testing or inspection, and approval or grant of equipment, supplies or suppliers, and for its then-current per diem charges for CC personnel. If CC determines that any equipment or supply

does not meet the required specifications, Franchisee agrees that it will not use the equipment or supply in the Franchised Business. The supplier of any equipment or supply proposed for use by Franchisee under this Section 14.2 may be required to demonstrate to CC's reasonable satisfaction that:

- (a) the supplier meets CC's specifications, including its quality, quantity, warranty, variety, service and safety specifications, for the equipment or supply and for the facilities used in the production and distribution of the equipment or supply.
- (b) the supplier has the capacity to supply franchisee requirements;
- (c) the supplier has a sound financial condition and business reputation; and
- (d) the supplier will supply equipment or supplies to a sufficient number of CC's franchisees to enable CC to economically monitor compliance by the supplier with CC's specifications.

14.3. CC or its related companies may offer to sell to Franchisee equipment and supplies used in operating a COOKIE CUTTERS business, which may be purchased by Franchisee at its option. CC or its related companies will endeavor, to the extent they are able to do so based on total purchases by CC franchisees, to negotiate volume purchasing arrangements for equipment and supplies, and to offer them to CC franchisees at prices not otherwise generally available to the franchisees.

14.4. To the extent CC is not the manufacturer of any equipment or supply which it may sell or provide to Franchisee, unless specifically stated otherwise in writing, CC does not provide any warranty or guarantee to Franchisee or any third party, and Franchisee may not make any representation to the contrary to any third party. If CC is able to secure from any manufacturer any warranty, guarantee or assumption of liability which it is authorized to convey to Franchisee, it will so notify Franchisee.

14.5. Security deposits or advance payments may be required by CC or its related companies as to purchases of fixtures, equipment or supplies by Franchisee. Franchisee agrees to pay all invoices rendered by CC or its related companies for equipment or supplies within thirty (30) days after the date of the invoices.

## **15. APPEARANCE AND OPERATION OF BUSINESS**

15.1. Condition and Appearance of Business. The appearance and decor of a COOKIE CUTTERS business is part of CC's trade dress. Franchisee agrees to maintain the condition and appearance of the business consistent with CC's trade dress and the image of the business as a clean, attractive, modern, sanitary, convenient and efficiently operated store selling high quality products. If at any time, in CC's reasonable judgment, the general state of repair, appearance or cleanliness of the premises of the business or its equipment, fixtures, furniture, signs or decor does not meet CC's standards, CC will so notify Franchisee, specifying the action to be taken by

Franchisee to correct the deficiency. If Franchisee fails or refuses to initiate, within ten (10) days after receipt of notice, and then continue, a bona fide program to undertake and complete any required maintenance within the timetable set by CC, its failure or refusal will be considered a default for which CC may terminate the Franchise. In addition, CC will have the right, but will not be obligated, to enter the premises of the business and effect required repairs, painting, decorating and/or replacements of equipment, fixtures, furniture, signs or decor on behalf of Franchisee, and Franchisee will have the obligation to pay the entire cost to CC on demand. Franchisee's obligation to initiate and continue any required maintenance will be suspended during any period in which the maintenance is impractical due to war, civil disturbance, natural disaster, labor dispute or other event beyond Franchisee's reasonable control.

15.2. Alterations to Business. Franchisee will make no significant alterations to the leasehold improvements or appearance of the business, nor will Franchisee make any significant replacements of or alterations to the equipment, fixtures, furniture signs or decor of the business without CC's written approval.

15.3. Business Refurbishing. Franchisee agrees to refurbish the business (in addition to regular maintenance and repair) as CC may require, no more frequently than every five (5) years, during the initial and any renewal terms, to maintain or improve the appearance and efficient operation of the business and/or increase its sales potential. Refurbishing may include: (i) replacement of worn out or obsolete equipment, fixtures, furniture, signs and decor; (ii) the substitution or addition of new or improved equipment, fixtures, furniture, signs and decor; (iii) redecoration; (iv) repair of the interior and exterior of the premises and repair and resurfacing of parking facilities; and (v) structural modifications and remodeling of the premises.

15.4. Appearance and Conduct of Employees. Franchisee, at its or its employees' expense, will cause its employees to present themselves to customers, in terms of general appearance, dress and accessories, in accordance with written standards prescribed by CC in the Confidential Operations Manual or otherwise in writing.

## 16. ADVERTISING AND PROMOTION

16.1. System-wide Fund. Recognizing the value of marketing and the importance of the standardization of promotions and public relations programs to the furtherance of the goodwill and public image of the System and the Marks, Franchisee agrees to contribute, on a monthly basis during the term of the Franchise, one percent (1%) of Franchisee's monthly Gross Sales to a system-wide advertising and promotional fund ("System-wide Fund"), via the automatic withdrawal procedure set forth in Section 9.11. CC has the right to increase Franchisee's contribution to the System-wide Fund to up to three percent (3%) of its monthly Gross Sales (as determined by CC in its sole and absolute right). The System-wide Fund will be maintained and administered as follows:

- (a) Franchisee will contribute to the fund on or before the 10th day of each month based on its Gross Sales for the preceding month.

- (b) CC's company-owned COOKIE CUTTERS businesses will make contributions to the fund on a basis at least equal to that described in Section 16.1.
- (c) CC will direct all advertising and promotional programs, with discretion over the approval of agencies, spokespersons, creative concepts, materials, media placement and allocation used in the programs. Franchisee agrees that the fund is intended to maximize general public recognition and acceptance of the Marks for the benefit of the System, and that CC and its designees undertake no obligation in administering the fund to make expenditures for Franchisee which are equivalent or proportionate to its contributions, or to ensure that Franchisee benefits directly or pro rata from the placement of advertising.
- (d) All sums contributed to the fund will be maintained in a separate account from CC's general funds and will not be used to defray CC's general operating expenses, except for reasonable costs and overhead incurred in activities related to the administration or direction of the fund including conducting market research, preparing and distributing advertising and promotional materials, and collecting and accounting for contributions to the fund.
- (e) If CC expends less than the total of all contributions to the fund during any fiscal year, it will have the right to retain those contributions for use in subsequent years. If CC expends more than the contributions accumulated in the fund during any fiscal year, it will have the right to receive, on demand, reimbursement or credit during the same year or subsequent years to the extent of the excess expenditure.
- (f) An unaudited summary report on the operation of the fund will be prepared annually, and will be made available to Franchisee upon request ninety (90) to one hundred twenty (120) days after CC's fiscal year end.
- (g) Although the fund is intended to be of perpetual duration, CC retains the right to terminate the fund. The fund will not be terminated, however, until all contributions to the fund have been used for the purposes described above or returned to contributors on a prorated basis.

## 16.2. Franchise Advertising.

- (a) Franchisee will spend exclusively for local advertising and promotion of the Franchised Business (excluding classified telephone directory listings and advertising discounts, coupon redemptions and the cost of services or products given without charge) not less than one percent (1%) of the Gross Sales of the Franchised Business for every quarter. CC reserves the option, in its sole and absolute right, to raise the required percentage up to five percent (5%). Exceptions can be made only with CC's prior written consent. Without limiting this obligation, Franchisee will endeavor to spend during each calendar month the amount designated by CC equal to one percent (1%) (with an option by CC to raise up to five percent (5%) in its sole and absolute

right) of the Franchised Business's Gross Sales for the month. Franchisee will submit quarterly verification, in a form prescribed by CC, of its expenditures for advertising and promotion for the previous calendar quarter. Amounts paid to a regional advertising cooperative by Franchisee under Section 16.2(b) will be credited toward Franchisee's local advertising expenditure obligation. Amounts spent for local advertising and promotion of the business will not be credited toward Franchisee's local advertising expenditure obligation under this Agreement to the extent that Franchisee is reimbursed for the expenditures or the expenditures are made by a supplier of the business. In addition, if a majority of franchisees in Franchisee's market decide to undertake supplemental advertising over and above what is specifically required under this Agreement, Franchisee must participate on a pro rata basis.

- (b) When there are four (4) or more COOKIE CUTTERS businesses in the Area of Dominant Influence (as determined by Arbitron Ratings Company or its successor) in which the Franchised Business is located, Franchisee agrees that, on notice from CC, Franchisee will participate in a regional advertising cooperative approved by CC, of COOKIE CUTTERS businesses (including those businesses owned by CC and its affiliated companies) located in the Area of Dominant Influence, and will contribute to the advertising cooperative in the amounts determined by the cooperative, not to exceed three percent (3%) of the Gross Sales of the business for each quarter. CC reserves the right to form, change, merge or dissolve any cooperative.
- (c) When Franchisee places advertising or uses promotional materials, those advertising and promotional materials must be dignified and conform to specifications in the Confidential Operations Manual. If prescribed advertising or promotional materials are available from CC, Franchisee may not use any materials other than those prescribed by CC, and must pay all reasonable fees and expenses associated with the provision of those materials. Otherwise, Franchisee must submit samples to CC (by fax, or by receipted mail or delivery service) and obtain CC's prior written approval (except as to prices to be charged), of all advertising and promotional materials that Franchisee desires to use and that have not been prepared or previously approved by CC. If written disapproval is not received by Franchisee (by fax, or by receipted mail or delivery service) within ten (10) days after CC's receipt of the materials, CC will be deemed to have given the required approval. If any advertising or materials previously approved by CC are later disapproved, Franchisee must discontinue their use promptly on written notice from CC.

16.3. CC will have the right to form an advertising council composed of franchisees that advises CC on advertising and promotional policies. This council will serve in an advisory capacity only, and CC reserves the right to either change or dissolve it.

## 17. INSURANCE

17.1. Franchisee must secure on signing any lease for the premises of the Franchised Business and before opening the Franchised Business, and then must continuously maintain during the term of the Franchise, insurance at Franchisee's expense, as follows:

- (a) Worker's compensation or similar insurance as required by the law of the state or jurisdiction in which Franchisee is engaged in business. This insurance must be maintained for trainees, as well as for those employed or engaged in the operation of the Franchised Business.
- (b) "All risk" business personal property insurance covering one hundred percent (100%) of all costs of rebuilding the location, including the replacement value of all furniture, fixtures, equipment and inventory located at the premises of the business, and providing business interruption insurance covering at least one (1) full year of interruption, and glass, sign, electronic data processing, theft and employee dishonesty coverages at least equal to the coverages of insurance specified in the Confidential Operations Manual.
- (c) Comprehensive general liability insurance providing \$1 million per occurrence and \$2 million aggregate coverage on a combined single limit basis, subject to a maximum deductible of \$250 per occurrence, and \$5,000 per person medical payment coverage, including broad form personal injury, property damage (including fire, extended coverage and vandalism), product liability, contractual liability and advertising injury coverage.
- (d) Products and completed operations insurance with the same limits as your comprehensive general liability insurance.
- (e) Professional liability insurance providing \$1 million aggregate coverage.
- (f) If Franchisee uses or requires or permits its employees or agents to use automobiles in the operation of its business, automobile liability insurance for owned, hired and non-owned automobiles providing \$1 million per occurrence coverage.

17.2. If circumstances require for the protection of Franchisee and CC, CC, in its sole and absolute right, may increase or modify the insurance limits noted above and may require additional types of insurance. If CC determines that any required insurance is not generally available to Franchisee, at a cost which CC, in its sole and absolute judgment, deems to be reasonable, then CC may modify the insurance requirements to provide for lower limits until the insurance becomes available at a reasonable cost.

17.3. Each insurance policy maintained by Franchisee for the Franchised Business must: name CC, and CC's affiliates, successors, assigns, shareholders, partners, officers, directors, employees and agents as additional insureds on a primary basis; require the insurer to defend each person or entity if there is a claim provided that any liability coverage afforded applies separately to each person or entity against which a claim is brought as though a separate policy had been

issued to that person or entity; contain no provision which limits or reduces coverage if there is a claim by one or more additional insureds, or by reason of any insurance which may be maintained by CC and provide coverage for Franchisee's indemnification obligation under Section 24.2 of this Agreement. Coverage for the additional insureds will apply on a primary basis irrespective of any other insurance, whether collectable or not. All insurance policies must be issued by insurance companies with performance ratings of at least A+ as rated in the most recent edition of Best's Insurance Reports or comparable publication.

17.4. Within thirty (30) days after opening the Franchised Business and then annually when annual financial statements are provided, Franchisee must furnish to CC a then-current copy of each insurance policy, including all amendments and endorsements, evidencing the limits noted above or as then required, and proof of premium payments, and providing that the insurance will not be canceled, amended or modified without thirty (30) days' prior written notice to CC, together with evidence of payment of premiums.

17.5. Franchisee may not reduce any insurance limit, restrict any insurance coverage, or cancel, alter or amend any insurance policy without CC's prior written consent. If Franchisee fails to obtain or maintain any required insurance, Franchisee agrees that CC may, but is not obligated to obtain the insurance and that Franchisee will reimburse CC for the cost of the insurance, and for any reasonable expenses incurred in procuring the insurance, within thirty (30) days of the date of CC's invoice. Franchisee expressly waives any objection to CC's purchase of insurance under this Section.

17.6. Franchisee's business interruption insurance must at least cover payments of its royalty fees and its contributions as to the System-wide Fund. Coverage for these payments and contributions must be determined by a formula equivalent to the amounts of payments or contributions over the six-month period prior to the business interruption.

## **18. LEGAL COMPLIANCE TAXES, LICENSES, UTILITIES AND OTHER OBLIGATIONS**

18.1. Franchisee must comply with all laws applicable to the operation of the Franchised Business, including all administrative and governmental regulations relating to fictional business names, occupational hazards, health, consumer protection, and unfair or deceptive practices, securing and promptly paying for all licenses, permits and inspections, and promptly paying all withholding, unemployment, occupational, privilege, license, sales, use and income taxes and the like, including all taxes and fees levied and asserted on Franchisee's business property, and all water, sewer, gas, telephone, electric, power and other utility charges assessed or charged to the Franchised Business.

18.2. Franchisee must promptly satisfy any other indebtedness that it incurs in operating the Franchised Business.

18.3. Franchisee must promptly notify CC of the commencement of any action, suit or proceeding, or of the issuance of any order, writ, injunction, award or decree of any court, agency

or other governmental instrumentality, that may adversely affect the operation or financial condition of the Franchised Business.

18.4. If there is any bona fide dispute as to any liability for taxes assessed or other indebtedness, Franchisee may contest the validity of the amount of the tax or indebtedness in accordance with procedures of the taxing authority or applicable law; however, Franchisee may 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 of the Franchised Business or any of its improvements.

## **19. PROPRIETARY MARKS**

19.1. The Marks are the exclusive property of CC. Franchisee acknowledges that its use of the Marks is a temporary authorized use pursuant to this Agreement and that CC retains all ownership interest in the Marks and all goodwill generated by the Marks. All uses of the Marks by Franchisee will inure to the benefit of CC. Franchisee agrees to use the Marks only in accordance with the terms of this Agreement and acknowledges that the use of the Marks outside the scope of the terms of this Agreement without CC's prior written consent, is an infringement of CC's exclusive right, title and interest in and to the Marks. Franchisee agrees that during the term of the Franchise, and after the repurchase, expiration or termination of the Franchise, Franchisee will not, directly or indirectly, commit an act of infringement or contest or aid others in contesting the validity, distinctiveness, secondary meaning, ownership or enforceability of the Marks, or take any other action in derogation of the Marks, and that no monetary amount will be assigned as attributable to any goodwill associated with Franchisee's use of the System or the Marks.

19.2. Franchisee must provide services and products to the public under the service mark, trademark and trade name COOKIE CUTTERS, but may not use any Mark or any name or mark confusingly similar to any Mark in its corporate, partnership, firm or other business name. Franchisee agrees to execute, during or after the term of the Franchise, at CC's request, any consents necessary for the registration of CC's corporate name in the state where Franchisee conducts the Franchised Business.

19.3. Franchisee agrees that when any Mark is affixed to any packaging or point of sale display, or is used in advertising or promotional materials, the Mark will be accompanied either by an appropriate notice immediately following the Mark.

19.4. If it becomes advisable at any time in CC's sole and absolute judgment for the business to modify or discontinue use of any Mark and/or to use one or more additional or substitute service marks, trademarks, trade names or trade dresses, Franchisee agrees to comply with CC's directions to modify or otherwise discontinue the use of the Mark, and/or to use one or more additional or substitute service marks, trademarks, trade names or trade dresses, within a reasonable time after receiving notice from CC. Franchisee will be responsible for the costs of modifying or discontinuing the use of any trademark, service mark or trade name, or using one or more substitute trademarks, service marks or trade names. CC will not be responsible for reimbursing Franchisee

for any loss of goodwill in connection with the modification or continuation of any trademark, service mark or trade name.

19.5. During the term of the Franchise, in conjunction with the use of any Mark, Franchisee must identify itself as the owner of the Franchised Business on letterhead sheets, invoices, order forms, receipts, contract and similar documents, and, where required by CC, on signs. The form and content of the identification must comply with specifications in the Confidential Operations Manual.

19.6. During the term of the Franchise, Franchisee must file and maintain requisite trade name or fictitious name registrations, and must execute any documents deemed necessary by CC or its counsel to obtain protection for the Marks or maintain their continued validity and enforceability.

19.7. Franchisee must promptly notify CC of any use, by any person or entity other than CC or another CC franchisee, of any Mark or any name or mark confusingly similar to any Mark.

19.8. Franchisee must promptly notify CC of any litigation brought or threatened by any person or entity against Franchisee, involving any Mark. If CC, in its sole and absolute right, undertakes the defense or settlement of that litigation or claim, it will do so at its own expense, but Franchisee agrees to execute any documents, and to render any assistance (excluding financial assistance) as may, in the sole and absolute judgment of CC's counsel, be reasonably necessary to carry out the defense or settlement. If the defense does not involve issues concerning the operation of Franchisee's business, CC will reimburse Franchisee for all reasonable out-of-pocket costs incurred in connection with assisting in the defense or settlement.

19.9. Franchisee agrees that the use of any Mark contrary to any term of this Agreement is an act of infringement, and that the use will cause irreparable injury to CC and entitle CC to an order of specific performance and/or a temporary, preliminary or permanent injunction, with bond or security, from a court or agency of competent jurisdiction; and, the prevailing party may shall be entitled to recover court costs, reasonable expenses of litigation, reasonable attorneys' fees, and any other appropriate relief.

## **20. TRADE SECRETS AND CONFIDENTIAL INFORMATION**

20.1. Franchisee acknowledges that the System involves trade secrets owned by CC and that, during its relationship with CC, Franchisee will acquire knowledge of confidential information, including the Confidential Operations Manual, the System, know-how, sales, organizational, operational and other information concerning the System and any information deemed confidential or proprietary by CC ("Confidential Information").

20.2. Franchisee agrees that, without CC's prior written consent, it will never either during or after the term of the Franchise, use or allow the use of any trade secret or Confidential Information except in connection with the operation of the Franchised Business by persons actively involved in the operation of the business and only on a "need to know" basis. Franchisee further

agrees that it will not disclose any Confidential Information the contents of any manuals, plans, records or other documents relating to the Franchised Business to any third party, except a party who is actively involved in the operation of the business and who has a valid need for disclosure. Any third party or employee to whom a trade secret or Confidential Information is disclosed will be informed that the trade secret or Confidential Information is confidential and proprietary to CC and that it may not be used except under a franchise agreement with CC. Franchisee agrees to implement security procedures and processes required by CC to safeguard Confidential Information from inadvertent disclosure. Franchisee must have each of its Managers, supervisory employees and persons attending initial, remedial or follow-up training enter into a Confidentiality and Noncompetition Agreement in a form approved by CC in its reasonable discretion.

20.3. Franchisee agrees to promptly reveal to CC discoveries, inventions, innovations or improvements made by Franchisee or any of Franchisee's Managers, instructors, employees or independent contractors relating to materials, devices, methods or processes in any way connected with the System, and further agrees that all proprietary interests in the information, materials, devices, methods, techniques, know-how and processes utilizing those discoveries, inventions, innovations and improvements will be the property of CC, or to the extent not allowed under local law, grants to CC an irrevocable, worldwide, sublicensable, royalty free license to use such information.

20.4. Franchisee agrees that use of any trade secret or confidential information contrary to any term of this Agreement is an act of infringement, and that the use may cause irreparable injury to CC and may entitle CC to an order of specific performance and/or a temporary, preliminary or permanent injunction with bond and security from a court or agency of competent jurisdiction, court costs, reasonable expenses of litigation, reasonable attorneys' fees, and any other appropriate relief.

## **21. NONCOMPETITION**

21.1. The term "Franchisee" in this Section 21 includes, collectively and individually, each owner, shareholder, partner, member, manager, officer and director, and each direct or indirect holder (and each owner, shareholder, partner, member, manager, officer or director of each holder) of any beneficial interest in Franchisee.

21.2. Franchisee agrees that during the term of the Franchise, Franchisee will not, directly or indirectly, for itself, or through, on behalf of or in conjunction with any person or entity, divert or attempt to divert any business or customer of the Franchised Business to any competitor or other person by direct or indirect inducement or otherwise, but this does not prevent Franchisee from referring customers in good faith to other businesses, including competitors' businesses, that may be able to provide those customers with services or products not available at the Franchised Business.

21.3. Franchisee agrees that during the term of the Franchise, and for an uninterrupted period of one (1) year after repurchase, expiration or termination of the Franchise, regardless of the cause

of repurchase, expiration or termination, Franchisee will not, without the prior written consent of CC, directly or indirectly, for itself, or through, on behalf of or in conjunction with any person or entity, employ, engage as an independent contractor, or seek to employ or engage as an independent contractor, any person who, within the prior six (6) months, has been an employee of CC or any CC franchisee, area developer, area representative or subfranchisor, or induce or seek to induce any person who is an employee of CC or any CC franchisee, area developer, area representative or subfranchisor to leave his or her employment.

21.4. Franchisee acknowledges: that certain methods of doing business and other elements comprising the System are unique and distinctive, and have been developed by CC at great effort, skill, time and expense; that Franchisee will have regular and continuing access to valuable trade secrets, confidential information and valuable training regarding the System; and that Franchisee recognizes its continuing obligation to promote the Franchised Business. Franchisee accordingly agrees as follows:

- (a) During the term of the Franchise, Franchisee will not, without CC's prior written consent, directly or indirectly, for itself, or through, on behalf of or in conjunction with any other person or entity, own, operate, engage in, have any interest in, be employed by or perform any service for any business located within a twenty five (25) mile radius of the location of the Franchised Business or of any other COOKIE CUTTERS business, which offers, or which franchises or licenses others to offer, services or products that are the same as or substantially similar to services or products that are or could be offered by Franchisee under this Agreement.
- (b) Franchisee agrees that, for an uninterrupted period of two (2) years after the expiration or termination of the Franchise, regardless of the cause of expiration or termination, Franchisee will not, without CC's prior written consent, directly or indirectly, operate, engage in, have any interest in, be employed by or perform any service for any business, which offers, or which franchises or licenses others to offer, services or products that are the same as or substantially similar to services or products that were or could have been offered by Franchisee under this Agreement, and which operates within a twenty five (25) mile radius of the location of the former Franchised Business or of any other Cookie Cutters business.

21.5. Franchisee acknowledges that its violation of any term of this Section 21 may cause irreparable injury to CC for which no adequate remedy at law is available. Franchisee accordingly understands he may be subject to the issuance of an order of specific performance and/or a temporary preliminary or permanent injunction, with bond or security, prohibiting any conduct by Franchisee in violation of any term of this Section 21.

21.6. Each term and subpart of a term in this Section 21 is independent of each other term and subpart of a term of this Agreement. If a term or subpart of a term of this Section 21 is held unreasonable or unenforceable by any court, agency or other tribunal of competent jurisdiction, Franchisee agrees to be bound by any lesser term or subpart that imposes the maximum duty

permitted by law, as if the resulting lesser term or subpart were separately stated in this Section 21, and also agrees to be bound by each other subpart of a term of this Agreement.

21.7. Franchisee acknowledges that CC may, in its sole and absolute right, reduce the scope of any term or subpart of any term in this Section 21 without Franchisee's consent, effective immediately on written notice from CC, and Franchisee agrees that it will promptly comply with any term or subpart so modified, which will be fully enforceable notwithstanding any other term or subpart of this Agreement.

21.8. Franchisee agrees that any claim it may have against CC, whether or not related to the Franchised Business, will not be a defense to the enforcement by CC of any term of this Section 21. Franchisee further agrees that CC will be entitled to set off any amounts owed by CC to Franchisee against any loss or damage to CC resulting from Franchisee's breach of this Agreement, including this Section 21.

21.9. This Section 21 will not apply to any ownership by Franchisee of less than a two percent (2%) beneficial interest in the outstanding equity securities of any publicly-held corporation.

21.10. Franchisee must have each of its Managers and supervisory employees enter into a Confidentiality and Noncompetition Agreement in a form approved by CC in its reasonable discretion.

## **22. INSPECTION BY CC**

22.1. A field representative or designee of CC may make an announced or unannounced inspection of the Franchised Business at any reasonable time to ensure compliance with all terms of this Agreement, which inspection may include interviews of Franchisee's Managers, employees and independent contractors to ascertain their knowledge of and compliance with the System, as well as interviews with Franchisee's customers to determine their level of satisfaction. Franchisee agrees that the field representative or designee will be allowed to take a physical inventory of the assets of the Franchised Business, and to inspect any records of the Franchised Business, including Franchisee's books and financial accounts, at any time during normal business hours. Any inspection will be made at the expense of CC or its designee, but if CC or its designee is required to make two (2) inspections concerning Franchisee's repeated or continuing failure to comply with this Agreement, CC will have the right to charge Franchisee for the costs of making all further inspections concerning its failure to comply, including travel expenses, room, board and compensation of CC's field representative or CC's designee. At the conclusion of his or her inspection, the field representative or designee may prepare a written report. Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner), or Franchisee's Manager, will be sent a copy of the report and will sign a second copy to send to CC, on which he or she may acknowledge or contest the field representative's or designee's conclusions and observations.

22.2. During any inspection, Franchisee agrees to cooperate fully and to give any assistance reasonably requested. Promptly after receiving notice of any deficiencies detected in an inspection,

Franchisee agrees to take steps necessary to correct the deficiencies, including if necessary the temporary closing of the Franchised Business. Without limiting CC's other rights and remedies, CC will have the right, if Franchisee fails or refuses to act promptly, to make or cause to be made any required corrections and to charge the costs of correction to Franchisee.

## **23. FRANCHISEE AS INDEPENDENT CONTRACTOR**

23.1. This Agreement does not create a partnership, joint venture, fiduciary, parent/subsidiary, principal/agent or employer/employee relationship between CC and Franchisee. Franchisee will be an independent contractor with entire control and direction of the Franchised Business, subject only to the terms of this Agreement and the related agreements. The Franchised Business will be totally separate from any business that may be operated by CC. Franchisee will conspicuously identify itself in all dealings with customers, suppliers, public officials, Franchisee personnel and others as the independent owner and operator of the business under a franchise granted by CC, and will place such notices of independent ownership and operation on such signs, forms, business cards, stationery, advertising and other materials as CC may require. CC will have no right to hire or fire any employees of Franchisee or to exercise any control over those employees, all of whom will be entirely under the control and direction of Franchisee, who will be responsible for their acts and omissions.

23.2. No party to this Agreement may make any representation tending to create an apparent partnership, joint venture, fiduciary, parent/subsidiary, principal/agent or employer/employee relationship between CC and Franchisee. No party may act for or on behalf of any other party in any manner to create obligations or debts binding on the other party, or may make any agreement, warranty or representation on behalf of any other party. No party is responsible for any obligations, debts or expenses of any other party.

## **24. INDEMNIFICATION**

24.1. CC must indemnify Franchisee, Franchisee's affiliates, successors and assigns, and Franchisee's partners, shareholders, officers, directors, employees and agents, for any expenses arising out of any claim for copyright or trademark infringement directly or indirectly related to Franchisee's authorized use of CC's proprietary property, logos or other materials or the Marks under this Agreement and the provisions of the Confidential Operations Manual, if Franchisee notifies CC in writing within thirty (30) days, or within any shorter period necessary to avoid prejudice, after learning of the claim and also if CC is given the opportunity, if it so chooses in its sole and absolute right, to control the settlement and defense of the claim. Franchisee may not settle any claim to which this Section 24.1 applies without CC's prior consent.

24.2. Franchisee must indemnify CC, CC's licensors, affiliates, successors and assigns, and CC's partners, shareholders, officers, directors, employees and agents, for any expenses arising out of any claim directly or indirectly related to Franchisee's operation of the Franchised Business or performance or lack of performance under this Agreement if the claim does not arise from the gross negligence or wrongful conduct of CC. Franchisee also must promptly notify CC of any

claim by or against Franchisee directly or indirectly related to Franchisee's operation of the Franchised Business and, on request, must furnish CC with copies of any filings in any proceeding involving the claim.

24.3. As used in this Section 24, the word "expenses" includes all losses, compensatory, exemplary or punitive damages, fines, charges, costs, lost profits, attorneys' fees as the prevailing party shall be entitled to recover, accountants' fees, expert witness fees, expenses, court costs, settlement amounts, judgments, compensation for damages to reputation or goodwill, costs of or resulting from delays, financing, costs of advertising material and media time/space, and costs of changing, substituting or replacing the same, and costs of recall, refunds, compensation and public notices.

24.4. The indemnification obligations of CC and Franchisee will survive the expiration or termination of the Franchise for as long as any potential for liability under any applicable law, rule, ordinance, statute or judicial decision remains.

## **25. TRANSFERS OF INTEREST**

25.1. Transfer by CC. CC may sell, assign, transfer, convey, give away, pledge, hypothecate, mortgage or otherwise encumber all or any part of its rights, interests or obligations in this Agreement to any person or entity.

25.2. Transfer by Franchisee.

- (a) Franchisee acknowledges that its rights and obligations under this Agreement are personal to Franchisee, and that CC has granted the Franchise in reliance on Franchisee's and/or its principals' business skill, financial capacity, personal character, and reputation for honesty, integrity and fair dealing. Accordingly, Franchisee, any immediate or remote successor to any part of Franchisee's interest in Franchisee, this Agreement, any related agreements, the Franchise or the Franchised Business, any shareholder if Franchisee is a corporation, or any general or limited partner (including any person or entity which controls, directly or indirectly, any general or limited partner) if Franchisee is a partnership, may not give away, sell, assign, pledge, lease, sublease, devise or otherwise transfer, either directly or by operation of law or in any other manner, this Agreement, the premises form which the Franchised Business operates, any of Franchisee's rights or obligations thereunder, or any interest, shares or other ownership interest of any kind or nature in Franchisee ("Transfer"), without the prior written consent of CC. Any purported Transfer not having the prior written consent of CC, including any purported transfer to a creditor, will be null and void.
- (b) CC will not unreasonably withhold its consent to a Transfer, but if a Transfer, alone or together with other previous, simultaneous or proposed Transfers, would have the effect of transferring either a controlling interest in or operating control of Franchisee,

this Agreement, any related agreement, the Franchise or the Franchised Business, CC may, in its sole and absolute right, require as conditions to its consent that:

- (i) Franchisee is in compliance with the terms of this Agreement;
- (ii) The transferee (including any person with a beneficial interest in the transferee if it is a partnership, corporation or other entity) has demonstrated to CC that it meets the then-current standards which CC would normally apply to any prospective franchisee. The transferee, for example, has demonstrated that it meets CC's educational, personal, managerial and business standards; possesses a good moral character and a good business reputation; has the aptitude and ability to conduct the Franchised Business (as may be shown by prior related experience); has adequate financial resources and capital to operate the Franchised Business; is financially responsible and has a good credit rating; will be likely in CC's sole and absolute judgment to comply with the terms of this Agreement or CC's then-current standard franchise agreement and Confidential Operations Manual; and has no direct or indirect connection with any actual or potential competitor of CC or any CC franchise;
- (iii) Franchisee's debts to CC and others relating to the Franchised Business have been satisfied;
- (iv) Franchisee and the transferor have executed a general release, in a form satisfactory to CC, of any claims against CC and its partners, shareholders, officers, directors, employees and agents, in their corporate and individual capacities;
- (v) The transferee (including any person with a beneficial interest in the transferee if it is a partnership, corporation or other entity) has entered into a written transfer agreement, in a form satisfactory to CC, assuming and agreeing to discharge Franchisee's agreement, and/or the transferor's obligations under this Agreement and any related agreements;
- (vi) The transferee and its Manager, if any, have agreed to successfully complete (at the transferee's expense and to CC's satisfaction) any then-current training programs;
- (vii) Franchisee or the transferor has paid a transfer fee equal to thirty (30%) of CC's then-current initial franchise fee for that we charge to purchase the number of locations being transferred, plus full reimbursement for any actual and reasonable travel, lodging and meal expenses incurred by CC in connection with the transfer (for example, if five locations were being transferred under the current fee structure, the transfer fee would be 30% of \$90,000—\$40,000 for the first location, \$20,000 for the second location and \$10,000 each for the three additional locations);

- (viii) CC has decided not to exercise its right of first refusal, if any, under Section 25.5;
  - (ix) CC has consented to the material terms and conditions of the Transfer, including the price and terms of payment, which will not be so burdensome as to adversely affect the operation of the Franchised Business by the transferee; and
  - (x) If any part of the sale price of any transferred interest is to be financed, the transferor or Franchisee will have agreed that all obligations of the transferee under any promissory notes, agreements or security interests reserved by the transferor or Franchisee in the assets of the Franchised Business will be subordinate to the obligations of the transferee to pay royalty fees, advertising contributions and other amounts due to CC and its affiliated companies, or otherwise to comply with this Agreement or the franchise agreement executed by the transferee.
- (c) Except as specified below, the transfer fee specified in Section 25.2(b) is nonrefundable and fully earned by CC when paid. If, before the completion of the transferee's initial training, CC, in its sole and absolute right, decides that transferee should not operate a COOKIE CUTTERS business, CC may cancel this Agreement or the transferee's then-current franchise agreement. If CC so cancels this Agreement or the transferee's then-current franchise agreement, CC will refund the transfer fee, less expenses incurred, if the transferee agrees to terms substantially similar to those in Sections 19, 20, 21, 27 and 32.
- (d) No Transfer in the nature of a grant of a security interest in Franchisee, this Agreement, any related agreement, the Franchise or in the Franchised Business will be permitted without the prior written consent of CC, in its sole and absolute right. If CC consents to a Transfer in the nature of a grant of a security interest, and if the holder of the security interest later seeks to exercise the rights of Franchisee or assume the interest of Franchisee in the Franchise, this Agreement, any related agreement, the Franchisee or the Franchised Business due to a default under any documents related to the security interest, CC will have the option to purchase the rights of the secured party by paying all sums then due to the secured party, and the secured party will sign an agreement to that effect before any Transfer takes place.

25.3. Transfer to Franchisee's Corporation, Partnership or Other Entity. If a proposed Transfer is to a corporation, partnership or other entity controlled by Franchisee that is formed solely for the convenience of ownership, CC's consent to the Transfer may, in its sole and absolute right, be conditioned on the following requirements:

- (a) The corporation's or partnership's activities will be confined exclusively to operating the Franchised Business;

- (b) Franchisee will own a majority stock interest or partnership interest in the transferee corporation or partnership, and will act as its principal operating officer or partner;
- (c) Each stock certificate of a corporation or certificate of interest of a partnership will have conspicuously endorsed on its face a statement in a form satisfactory to CC that it is held subject to, and that further transfer is subject to, all restrictions on transfers in this Agreement;
- (d) All shareholders or partners will jointly and severally guarantee the corporation's or partnership's performance and will bind themselves to the terms of this Agreement and any related agreements, but the terms of this Section 25.3(d) will not apply to any corporation registered under the Securities Exchange Act of 1934 as a publicly held corporation;
- (e) Franchisee pays \$1,500 to cover CC's costs related to the Transfer.
- (f) Franchisee will maintain a then-current list of all partners or shareholders and beneficial owners of any class of stock, and furnish the list to CC on request; and
- (g) Copies of the transferee's Certificate and Articles of Incorporation or similar formation documents, By-Laws or other similar governing documents, resolution authorizing entry into this Agreement, and any other significant governing documents, promptly will be furnished to CC.

25.4. Transfer and Issuance of Securities. If Franchisee is a corporation, partnership or other entity, it will maintain stop transfer instructions against the transfer of any stock certificate or certificate of interest contrary to the terms of this Section 25, and will issue no certificate on the face of which the following statement does not legibly and conspicuously appear:

The transfer of this [stock certificate or certificate of interest] is subject to the terms of a Franchise Agreement dated \_\_\_\_\_ between COOKIE CUTTERS FRANCHISING, INC. and [entity name].

25.5. CC's Right of First Refusal.

- (a) If Franchisee or any other person or entity at any time determines to Transfer or sell an interest in Franchisee, the Franchise or the Franchised Business, a true and complete copy of the offer (and any proposed ancillary agreements) will immediately be submitted to CC by Franchisee or the other person or entity involved. The offer must apply only to an interest in Franchisee, the Franchise or the Franchised Business. It must not include the purchase of any other property or rights of Franchisee (or its shareholder, member, partner or other owner), but if the offeror proposes to buy any other property or rights of Franchisee (or its shareholder or partner) under a separate, contemporaneous offer, the price and terms of purchase offered to Franchisee (or its shareholder, member, partner or other owner) for the interest in Franchisee, the

Franchise or the Franchised Business will reflect the bona fide price offered and will not reflect any value for any other property or right. CC will have the right, exercisable by written notice delivered to Franchisee or the person or entity involved within thirty (30) days after receipt of the copy of the offer, to purchase the interest for the price, and on the terms and conditions contained in the offer, but CC may substitute cash, a cash equivalent, or marketable securities of equal value for any form of payment proposed in the offer. CC's credit will be deemed equal to the credit of any proposed purchaser, and CC will have not less than sixty (60) days to prepare for closing. If the parties cannot agree on a cash equivalent within a reasonable time, they will either jointly select one appraiser, or three appraisers will be elected (one by CC, one by Franchisee, and one jointly by the first two appraisers), and his, her or their determination will be binding. The parties will share equally the fees and expenses of any appraiser jointly selected, but each must pay any separately selected appraiser individually. CC will be entitled to purchase the interest subject to all customary representations and warranties given by the seller of the assets of a business or voting stock of an incorporated business, as applicable, including representations and warranties as to ownership, condition and title to stock and/or assets, liens and encumbrances relating to the stock and/or assets, validity of contracts, and liabilities, contingent or otherwise, of any corporation whose stock is purchased. If CC does not exercise its right of first refusal, Franchisee or the person or entity involved may complete the sale to the purchaser under the terms of the offer subject to CC's consent to the transfer under Section 25.2(b), but if the sale to the purchaser is not completed within one hundred twenty (120) days after receipt of the offer by CC, or if there is a material change in the terms of the sale, CC will have an additional right of first refusal for thirty (30) days on the same terms and conditions as were applicable to the initial right of first refusal.

- (b) If a proposed transferee is the spouse, child or parent of the proposed transferor, or is a person or entity already holding an equity interest in Franchisee or the Franchised Business as of the date of this Agreement that has been disclosed to CC, CC will not have any right of first refusal as provided in Section 25.5(a), unless the proposed transferee has a direct or indirect connection with any actual or potential competitor of CC or any CC franchisee. However, written notification of this type of transfer must be provided to CC by the transferor at least thirty (30) days prior to consummation of that transfer.

25.6. Transfer On Death, Permanent Incapacity or Dissolution. On the death or permanent incapacity of any person with an interest in Franchisee, this Agreement, any related agreement, the Franchise or the Franchised Business, or on the dissolution of Franchisee if it is a corporation or partnership, the executor, administrator, personal representative or trustee ("personal representative") of that person or entity will transfer his, her or its interest to a third party acceptable to CC within one hundred eighty (180) days after assuming that capacity. Any transfer of this type, including a transfer by devise or inheritance, will be subject to the same requirements as other Transfers under this Agreement, but if the transfer is to be a spouse, child or parent, the

fee required under Section 25.2(b)(viii) will not be required. If the personal representative is unable to meet these conditions, the personal representative will have an additional sixty (60) days to dispose of the interest, which disposition will be subject to the requirements for transfers in this Agreement, including the requirements of this Section 25. If the interest is not disposed of within sixty (60) days, CC may terminate this Agreement, or may exercise an option to purchase the Franchised Business at fair market value, determined by reference to the income and asset value of the Franchised Business as a going concern, but the earnings multiple used to determine the going concern value will be reduced to exclude any goodwill associated with Franchisee's use of the Marks. The going concern value, which will be determined as of the date of the transfer, will be payable in cash or cash equivalent at closing, unless otherwise agreed by the parties. If the parties fail to agree on a going concern value, three appraisers will be designated (one by Franchisor, one by the personal representative, and one by the first two appraisers), and their determination will be binding. The parties will share the appraisers' fees and expenses equally.

25.7. Interim Operation of Business on Death or Permanent Disability. Pending transfer on the death or permanent incapacity of Franchisee (or the principal operating officer or partner of Franchisee, if it is a corporation or partnership), CC will have the option to appoint a general manager to operate the Franchised Business for the account of Franchisee until an approved transferee is able to assume the operation of the Franchised Business, for a period of up to twelve (12) months without the consent of Franchisee, the personal representative of Franchisee, or Franchisee's successor in interest. All funds from the operation of the Franchised Business during the period of operation by a CC-appointed general manager will be kept in a separate fund, and all expenses of the Franchised Business, including compensation, other costs and travel and living expenses of the CC-appointed general manager (the "Management Expenses"), will be charged to the fund. As compensation for services provided, CC will charge the fund the full amount of the Management Expenses incurred during the period of operation by CC. CC will only be liable to Franchisee or its principals for any debts, losses or obligations incurred by the Franchised Business, or to any creditor for any equipment, inventory, products, supplies or services purchased for the Franchised Business during any period in which it is operated by the CC-appointed general manager.

25.8. Non-Waiver of Claims. CC's consent to a transfer of any interest in Franchisee, this Agreement, any related agreement, the Franchise or the Franchised Business will not be a waiver of any claims it may have against the transferring party, nor will it be a waiver of CC's right to demand the transferee's compliance with the terms of this Agreement.

25.9. Public or Private Offering. Securities of Franchisee or a person or entity owning a direct or indirect equity interest in Franchisee, the Franchise or the Franchised Business may be offered to the public in a private or public offering only with the prior written consent of CC (whether or not CC's consent is required under Section 25.2), which consent will not be unreasonably withheld. The terms of Section 20 apply to offerings under this Section 25.9. No offering will imply (by use of the Marks or otherwise) that CC is participating in an underwriting, issuance or offering of securities. Franchisee will reimburse CC for its reasonable expenses incurred in connection with the offering or proposed offering (including attorneys' fees which the prevailing party may

recover). The prospectus or other literature utilized in any offering must contain the following language in bold-face type on its first textual page:

**“NEITHER COOKIE CUTTERS FRANCHISING INC. NOR ANY AFFILIATE IS DIRECTLY OR INDIRECTLY THE ISSUER OF THE SECURITIES OFFERED, AND NEITHER COOKIE CUTTERS FRANCHISING INC. NOR ANY AFFILIATE ASSUMES ANY RESPONSIBILITY AS TO THIS OFFERING AND/OR THE ADEQUACY OF THE INFORMATION GIVEN, INCLUDING ANY STATEMENTS MADE WITH RESPECT TO THAT CORPORATION. NEITHER COOKIE CUTTERS FRANCHISING INC. NOR ANY AFFILIATE ENDORSES OR MAKES ANY RECOMMENDATION AS TO THE INVESTMENT CONTEMPLATED BY THIS OFFERING.”**

Franchisee agrees to indemnify, defend and hold harmless CC and its affiliated companies and their respective officers, directors, employees and agents from all claims, demands, liabilities, and from all costs and expenses (including reasonable attorneys’ fees which the prevailing party may recover) incurred in the defense of any claims, demands or liabilities, arising from the offer or sale of the securities, whether asserted by a purchaser of any securities or by a governmental agency. CC will have the right, but not the obligation, at the expense of Franchisee, to defend any claim or demand and/or to participate in the defense of any action to which it is named as a party.

## **26. DEFAULT AND TERMINATION**

26.1. Automatic Termination. Except as may be prohibited by federal bankruptcy law or applicable state law, Franchisee will be deemed to be in default under this Agreement, and the Franchise will automatically terminate without notice to Franchisee, if Franchisee makes a general assignment for the benefit of creditors, suffers the filing of an involuntary bankruptcy petition which is not dismissed within sixty (60) days after filing, files a court-appointed receivership of substantially all of its property; if suit to foreclose any lien or mortgage against the premises or equipment of Franchisee’s business is instituted and not dismissed within thirty (30) days; if the premises or equipment of Franchisee’s business is sold after levy thereupon by any sheriff, marshal, or constable; or if Franchisee (or a principal officer, shareholder or partner of Franchisee, if Franchisee is a corporation or partnership) is convicted of a crime involving moral turpitude.

26.2. Termination upon Notice. Except as may be prohibited by federal bankruptcy law or applicable state law, Franchisee will be in default and CC may, in its sole and absolute right, terminate the Franchise, without giving Franchisee any opportunity to cure the default, upon receipt of written notice, or such longer period as may be required by local law, of termination to Franchisee, if:

- (a) Franchisee is insolvent (is unable to pay its debts as they come due or has debts that are greater than its assets) and not otherwise subject to automatic termination under Section 26.1;

- (b) Franchisee, without CC's prior written consent, abandons the Franchised Business (i.e., Franchisee fails to open for business for four (4) consecutive business days or for three (3) or more business days in any three (3) month period);
- (c) Franchisee (or a principal officer, shareholder, member, manager or partner of Franchisee, if Franchisee is a corporation, partnership or other entity) is convicted of a felony, a crime involving consumer fraud, or any other crime that is reasonably likely, in the sole and absolute judgment of CC, to have an adverse effect on the System, the Marks, the goodwill associated with the System or the Marks, or CC's interest in the System or the Marks);
- (d) The operation of the Franchised Business is creating a threat or danger to public health or safety;
- (e) Franchisee has repeatedly failed to make timely payments of royalty fees or any other monies owed to CC, or has repeatedly committed defaults of this Agreement, within twelve (12) months of any prior default for which CC has given Franchisee written notice;
- (f) Franchisee knowingly makes a material false or incomplete statement in any report submitted to CC, including underpayment or underreporting any amount owed to CC, its affiliates or subsidiaries by five percent (5%) twice in any twenty four (24) month period, or by ten percent (10%) or more for any one (1) month period;
- (g) CC discovers that the Franchisee knowingly made a material false or incomplete statement to CC to obtain the Franchise;
- (h) Franchisee fails after the first three (3) years of the initial term, to maintain gross sales for any two (2) consecutive three (3) month periods, at least equal to sixty percent (60%) of the average gross sales of all franchised and company-owned locations in Franchisee's region (if the Franchised Business is the only one in its region, then the standard for calculating average gross sales will be sixty percent (60%) of the business's gross sales for the prior year) (CC may, in its sole and absolute right, group locations other than by region in calculating the average gross sales figure);
- (i) Franchisee or any other person or entity purportedly transfers any interest contrary to Section 25;
- (j) Franchisee participates in in-term competition contrary to Section 21;
- (k) Franchisee improperly discloses the contents of the Confidential Operations Manual, or any other information learned or received under this Agreement and designated as "Confidential", contrary to Sections 12 or 20;

- (l) An approved transfer is not effected following death, permanent incapacity or dissolution as required by Section 25.6;
- (m) Franchisee suffers any federal, state or local tax lien, levy or suit to enforce the same, brought against Franchisee or Franchisee's property;
- (n) Franchisee suffers cancellation of or fails to renew or extend the lease for, or otherwise fails to maintain possession of, the premises of the Franchised Business, or if the premises are destroyed, condemned or otherwise rendered unusable, or if CC notifies Franchisee that there is a change in character of the site of the business sufficiently detrimental to its business potential to warrant its relocation, and Franchisee fails to secure a suitable alternative premises acceptable to CC and reopen for business within ninety (90) days of any one of these occurrences (or within one hundred fifty (150) days if the occurrence could not have been anticipated); or
- (o) Franchisee fails to either locate suitable premises for the Franchised Business or to open for business within the time periods specified in Sections 5.4 and 5.5 of this Agreement.

26.3. Termination after Notice and Opportunity to Cure. Except for shorter periods specifically identified below and herein, Franchisee will have thirty (30) days, or any greater period permitted by CC or required by law, to cure any default for which CC has given written notice of termination to Franchisee under this Section 26.3 and to provide CC with evidence of the cure. If a default is not cured within that period, the Franchise will terminate without the need for further notice to Franchisee, effective immediately on the expiration of the cure period. CC may, in its sole and absolute right, give written notice of termination under this Section 26.3 for any failure by Franchisee to comply with any term of this Agreement or any requirement in the Confidential Operations Manual. Defaults may include, for example, if:

- (a) Franchisee will have a five (5) days period after notice from CC to cure the default if Franchisee fails, refuses or neglects to pay to CC or any affiliated company, the royalty fee, the System-wide Fund, or any sum owing when due, or to submit to CC any required information when due;
- (b) Franchisee fails to maintain any standard or specification or procedure required to be maintained or followed by this Agreement or the Confidential Operations Manual;
- (c) Franchisee fails, refuses or neglects to obtain CC's prior written acceptance, approval or consent as required by this Agreement;
- (d) Franchisee misuses or makes any unauthorized use of the System or the Marks, or otherwise materially impairs the goodwill associated with or CC's rights in the System or the Marks;

- (e) Franchisee or its Manager fails to comply with the requirement of personal attention in Section 4;
- (f) Franchisee fails to maintain books and records as specified in the Confidential Operations Manual and other manuals, and in a manner which permits an accurate determination of Gross Sales and Franchisee's point of sale and management information systems activities;
- (g) Franchisee fails or refuses to initiate and continue a bona fide program to undertake and complete any required maintenance or refurbishing within the timetable set by CC according to Sections 15.1 and 15.3 of this Agreement;
- (h) Franchisee fails, refuses or neglects to pay to any third party, including any landlord, major supplier, or government taxing or licensing authority, any sum owing when due, or to satisfy any other material obligation relating to the Franchised Business; or
- (i) Franchisee fails to submit to CC an acceptable financing plan within 14 days after the execution of this Agreement.

26.4. Termination With Cause by Franchisee. Franchisee may terminate the Franchise with cause, if CC has materially defaulted in the performance of any material obligation under this Agreement, and if:

- (a) Franchisee has given CC written notice of termination; and
- (b) CC has failed to cure a noticed default within 60 days after the notice is given; but if CC will be delayed, hindered in or prevented from the performance of any act required by the notice because of strike, labor trouble, inability to procure materials, restrictive governmental law or regulation, riot, insurrection, war or act of war, default of another party, or other reasons beyond its control, then performance of the act will be excused for the period of delay, and the period of performance of the act will be extended for a period equivalent to the period of the delay.

## **27. OBLIGATIONS ON REPURCHASE, EXPIRATION OR TERMINATION**

27.1. On repurchase, expiration or termination of the Franchise, in addition to meeting its other continuing obligations under this Agreement, Franchisee will at its sole cost and expense:

- (a) Immediately cease operation of the Franchised Business and the provision of any products or services and discontinue all use of the Marks and System in any manner whatsoever;
- (b) Promptly will surrender to CC or its designee, or, if directed by CC, destroy and immediately discontinue the use of any materials or designations indicating or tending to indicate that Franchisee is in any way a CC franchisee;

- (c) Immediately de-identify and make changes to the premises of the Franchise Business, including removing all signs, decals, and colors and making other changes as CC shall reasonably request so as to distinguish the premises from that of a COOKIE CUTTERS business;
- (d) Immediately and permanently will discontinue use of any trade secrets, Confidential Information or other information received under this Agreement and designated as “Confidential”;
- (e) Promptly deliver to CC or its designee the Confidential Operations Manual and all other manuals, bulletins, instruction sheets, forms, devices and other materials, and all copies of the same, received by Franchisee under this Agreement;
- (f) Promptly will pay all charges due for telephone services and for its COOKIE CUTTERS telephone listings, must assign those telephone listings to CC or its designee, and must discontinue any radio, newspaper or other advertising which may in any way identify Franchisee with CC’s services or products;
- (g) Promptly will take any action necessary to cancel any assumed name or equivalent registration that contains the mark COOKIE CUTTERS or any other Mark, and submit to CC proof of compliance with this obligation within thirty (30) days after repurchase, termination or expiration; and
- (h) Comply with all provisions of this Agreement that survive termination, including but not limited to, the non-competition provisions.

27.2. On repurchase, expiration or termination of the Franchise, Franchisee and CC will make a prompt and final accounting. Any amounts owed under this Agreement, any amounts related to the Franchised Business owed to third parties, to CC or its affiliates, and any other amounts related to the Franchised Business owed for judgments or otherwise, promptly will be paid by the owing party.

27.3. When the Franchise expires, or when the Franchise terminates under Sections 26.1, 26.2 or 26.3, CC will have the option, exercisable by giving written notice within sixty (60) days from the date of expiration or termination, to purchase from Franchisee all of the assets used in the Franchised Business. Assets will include leasehold improvements, equipment, furniture, fixtures, signs, inventory and the lease for the premises. CC will have the unrestricted right to assign this option to purchase. CC or its assignee will be entitled to all customary warranties and representations concerning its asset purchase, including representations and warranties as to ownership, condition and title to assets, liens and encumbrances on the assets, validity of contracts and agreements, and liabilities inuring to CC or affecting the assets, contingent or otherwise.

The purchase price for the assets of the Franchised Business will be their fair market value (but the purchase price of all resalable products and supplies bearing our logos or Marks will be their original purchase price), determined in a manner consistent with reasonable depreciation of

leasehold improvements owned by Franchisee and of the equipment, furniture, fixtures, signs or inventory of the Franchised Business, but the purchase price will not contain any factor or increment for any trademark, service mark or other commercial symbol used in the operation of the Franchised Business, or goodwill or “going concern” value of the Franchised Business, and further provided that CC may exclude from the assets purchased any equipment, furniture, fixtures, signs and inventory that are not approved as meeting quality standards for COOKIE CUTTERS businesses. The length of the remaining term of the lease for the premises of the Franchised Business will also be considered in determining the fair market value. If CC and Franchisee are unable to agree on the fair market value of the assets, the fair market value will be determined by an independent appraiser jointly selected by CC and Franchisee, and if they are unable to agree on an appraiser, CC and Franchisee will each select one appraiser, who will jointly select a third appraiser, and the parties will share equally fees and expenses of any appraiser jointly selected, but each must pay for any separately elected appraiser individually. Nothing contained in this Agreement will restrict the manner in which the appraisers so selected value the leasehold improvements, equipment, furniture, fixtures, signs and inventory.

The closing of the purchase will take place no later than ninety (90) days after receipt by Franchisee of notice of the exercise of this option to purchase. CC will have the option of paying the purchase price at the closing, or in twelve (12) equal monthly installments of principal and interest calculated at the rate of prime plus two percent per annum, with the first installment due at the closing. If the purchase price is paid at the closing (in cash, cash equivalents or marketable securities of equal value), at the closing, Franchisee will deliver instruments transferring to CC or its assignee: (a) good and merchantable title to the assets purchased, free and clear of all liens and encumbrances (other than liens and security interests, acceptable to CC or its assignee), with all sales and other transfer taxes paid by Franchisee; (b) all licenses and permits for the Franchised Business which may be assigned or transferred; and (c) the lease for the premises of the Franchised Business. If the purchase price is paid in installments (in cash, cash equivalents or marketable securities of equal value), at the closing, Franchisee will deliver the same instruments to CC as those described above, except that the documents may reserve liens and encumbrances for the benefit of Franchisee relating to the installments. If Franchisee 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.

Franchisee and CC will, prior to closing, comply with the applicable bulk sales provisions of the Uniform Commercial Code of the state in which the Franchised Business is located. CC will have the right to set off against and reduce the purchase price by any and all amounts owed by Franchisee to CC and its affiliated companies, and the amount of any liens or encumbrances against the assets or any obligations assumed by CC. If CC or its assignee exercises this option to purchase, pending the closing of the purchase as provided, CC will have the right to appoint a manager to maintain the operation of the Franchised Business. Alternatively, CC may require Franchisee to close the Franchised Business during the time period without removing any assets from the premises. Franchisee will maintain in force all insurance policies required under this Agreement until the date of the closing. If the premises are leased, if necessary, CC agrees to use reasonable efforts to effect a termination of the existing lease for the premises and to enter into a

new lease on reasonable terms with the lessor. If CC is unable to enter into a new lease, CC will indemnify Franchisee from any liability of the business arising from the conduct of the business under the lease from the date CC assumes possession of the premises.

## **28. ENTIRE AGREEMENT; EXECUTION DATE; MODIFICATION**

28.1. This Agreement is the entire agreement of the parties, superseding all prior written or oral agreements of the parties concerning the same subject matter. The terms of this Agreement are binding on the parties, and on their heirs, executors, administrators, successors and assigns. Nothing in this or any related agreement, however, is intended to disclaim the representations CC made in the franchise disclosure document that CC furnished to Franchisee.

28.2. The execution date of this Agreement is the date it is countersigned by CC.

28.3. Except as otherwise specified in this Agreement, this Agreement may not be modified except in a written agreement signed by the parties.

28.4. Any terms, conditions, representations or warranties contained in this Agreement that by their nature and context are intended to survive the expiration or termination of this Agreement shall so survive, including, but not limited to, Sections 19.1, 19.9, 20, 21.1, 21.4(b), 21.5-21.8, 27.1-27.2, and 32.

## **29. INTERPRETATION**

29.1. The caption headings of this Agreement are for convenience only and should in no way affect the manner in which any term of this Agreement is interpreted.

29.2. Whenever the context requires, the singular includes the plural, the plural includes the singular, the whole includes any part, and any gender includes all other genders.

29.3. The following words have the following meanings in this Agreement and any related agreement: “including” means “including but not limited to”; and “repeatedly” means “at least three (3) times”.

29.4. Whenever this Agreement gives CC the right to perform an act in the future, that act may be performed “from time to time”, when CC chooses, in its sole and absolute right, unless stated otherwise in this Agreement.

29.5. If two or more parties sign this Agreement for Franchisee or as guarantors of Franchisee, their liability is joint and several.

29.6. This Agreement is governed by the Federal Arbitration Act (9 U.S.C. §1 et seq.) and the laws of the State of Utah, without regard to its conflict of laws principles.

## **30. PARTIAL INVALIDITY**

30.1. If any Section of this Agreement is determined to be wholly invalid, that determination will not be deemed to affect the validity of any other Section. The parties agree that the remaining Sections will be deemed to be in full force and effect as if they had been executed by the parties after removal of the invalid Section. If any Section is determined to be partially invalid, the remainder of that Section will continue to be enforceable if in accordance with the intent of the parties.

30.2. If any applicable and binding law or rule of any jurisdiction requires greater prior notice of the termination of or refusal to renew the Franchise than is required by this Agreement or the taking of some other action not required by this Agreement, or if under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by CC is invalid or unenforceable, the notice and/or action required by the law or rule will be substituted for the notice or action requirements of this Agreement, or the invalid or unenforceable provision, specification, standard or operating procedure will be modified to the extent required to be valid and enforceable. The modifications to this Agreement will be effective only in the jurisdiction requiring them, and this Agreement will be enforced as originally made and entered into in all other jurisdictions.

### **31. WAIVER AND ESTOPPEL**

31.1. No failure of CC to exercise any right reserved to it under this Agreement, or to insist on compliance by Franchisee with any term of this Agreement, and no custom or practice of the parties at variance with any term of this Agreement, will constitute a waiver of CC's right to demand compliance with any term of this Agreement. Waiver by CC of any default will not affect or impair CC's rights as to any subsequent default of the same or a different nature; nor will any delay, forbearance or omission by CC to exercise any right as to any default of any term of this Agreement affect, impair or be a waiver by CC of any right as to any subsequent default. CC's rights and remedies under this Agreement are cumulative, and CC's exercise or enforcement of any right or remedy under this Agreement will not preclude CC from exercising or enforcing any other right or remedy to which it is entitled.

### **32. MEDIATION; ARBITRATION; ENFORCEMENT**

32.1. Except as otherwise specified in this Agreement, the parties agree that if any dispute between them or any claim by one or more of them, concerning this Agreement, any related agreement, the Franchise or the Franchised Business, cannot be settled through negotiation, after diligent effort, they will first attempt in good faith to settle the dispute or claim by non-binding mediation conducted under the then-prevailing commercial mediation rules of the American Arbitration Association ("AAA") and initiated at and supervised by the AAA office nearest the home office of CC, unless agreed otherwise by the parties, before resorting to arbitration, litigation or some other dispute resolution procedure. The parties agree to participate in at least six (6) hours of mediation in the State of Utah and to split equally the costs of the mediation, including the mediator's fees and expenses. The mediation will be confidential and nondiscoverable. The parties' obligation to mediate will be deemed to be satisfied when six (6) hours of mediation have

been completed (whether or not the parties have resolved their differences) or sixty (60) days after a mediation demand has been made if any party fails to appear or participate in good faith in the mediation.

32.2. Except as otherwise specified in this Agreement, the parties agree that any dispute between them, or any claim by one or more of them, concerning this Agreement, any related agreement, the Franchise or the Franchised Business that cannot be settled through negotiation or mediation, will be resolved solely and exclusively by binding arbitration initiated at and supervised by the AAA office nearest the home office of CC, unless agreed otherwise by the parties.

32.3. Arbitration will be conducted under the then-prevailing commercial arbitration rules of the AAA, except that each party agrees, at a minimum, to provide (if practicable, within ten (10) days after a written request is received from the other party) any documents reasonably requested by the other party, and to permit up to two (2) witnesses under its control to be deposed by the other party at or near their place of work within a reasonable time after the witnesses are identified in writing by the other party. Any arbitration hearing will take place in the Salt Lake County, Utah. No arbitration award will have any preclusionary or collateral estoppel effect in any other arbitration or adjudicatory proceeding. Judgment on an arbitration award may be entered in any court of competent jurisdiction.

32.4. If any dispute or claim cannot be the subject of arbitration, the parties agree that the dispute or claim will be separated from all other disputes and claims, which other disputes and claims will first be resolved by arbitration, after which any dispute or claim which cannot be the subject of arbitration will be brought before any court specified in Section 32.8. If the parties are unable to separate out these matters, their allegations and positions on them will be brought before the arbitrator(s), who will rule separately on the matters, and that ruling will be subject to appropriate judicial review on the petition of a party.

32.5. Nothing in this Section 32 will prevent CC from obtaining temporary, preliminary or permanent injunctive relief, with bond or security, from a court or agency of competent jurisdiction against actual or threatened conduct causing loss or damage that can be remedied under usual equity rules.

32.6. If any arbitration, any action for any dispute or claim which cannot be the subject of arbitration, or any action for injunctive relief is started concerning this Agreement, any related agreement, the Franchise or the Franchised Business, the party which substantially prevails in that arbitration or action may seek to recover a judgment against the other party for the costs of the arbitration or action, including reasonable attorneys' fees, reasonable expenses of arbitration or litigation, and arbitration or court costs.

32.7. Any claim concerning the Franchised Business shall be subject to statute of limitations set forth by controlling law.

**32.8. Franchisee and CC each also agree that any action brought by either of them relating to this Agreement, any related agreement, the Franchise or the Franchised Business**

**will be brought in a state or federal court of general jurisdiction in the county or city in which the home office of CC is located at the time.**

### **33. NOTICES**

33.1. Any notice required to be given under this Agreement will be deemed to be given when delivered: by certified, registered or other receipted mail; by fax; by receipted courier or delivery service; by telegram; or personally. If delivery has not occurred after at least two of these methods have been used, any notice required to be given under this Agreement will be deemed to be given three (3) days after being posted by first-class mail, postage prepaid.

33.2. Notices to CC will be sent to the address of CC as stated in this Agreement or to any other address CC may specify to Franchisee in writing. Notices to Franchisee will be sent to the address of the Franchised Business as stated in this Agreement or any other address Franchisee may specify to CC in writing.

### **34. ACCEPTANCES, APPROVALS AND CONSENTS**

34.1. Acceptances, approvals and consents required by this Agreement will not be unreasonably withheld or delayed.

34.2. CC assumes no liability or obligation to Franchisee by providing any acceptance, approval or consent suggestion to Franchisee, or by delaying action on or denying any request for acceptance, approval or consent.

### **35. ACKNOWLEDGMENTS BY FRANCHISEE**

35.1. In addition and as a supplement to the acknowledgments in Attachment 6, Franchisee acknowledges that:

- (a) It has conducted an independent investigation of the business contemplated by this Agreement and recognizes that it involves significant risks, making the success of the business largely dependent on the abilities and attention of Franchisee. CC expressly disclaims the making of, and Franchisee acknowledges that it has not received or relied on, any representation, warranty or guarantee, expressed or implied, as to the potential sales, profits or success of the Franchised Business.
- (b) In entering into this Agreement, it has not relied on any representation by CC or any officer, director, shareholder, employee or agent of CC concerning the Franchised Business which are contrary to the terms of this Agreement, the documents incorporated into this Agreement or attached to it, or the disclosure document provided to Franchisee by CC.
- (c) It (and each partner or shareholder if Franchisee is a partnership or a corporation) has read and understood this Agreement and all related agreements; CC has fully and

adequately explained the terms of each to its satisfaction; and CC has accorded it ample time and opportunity to consult, and it has consulted, with existing franchisees, and with financial, legal and other advisors of its own choosing, about the potential benefits and risks of entering into this Franchised Business.

- (d) It acknowledges that complete and detailed uniformity among CC franchisees under varying conditions may be inadvisable, impractical or impossible, and accordingly agrees that CC, in its sole and absolute right, may modify or vary aspects of the System as to any franchisee or group of franchisees based on, for example, local sales potential, demographics, competition, business practices or other conditions. It further agrees that CC will have no obligation to disclose or offer the same or similar variances to Franchisee. It is aware that other CC franchisees may operate under different agreements, and, consequently, that CC's obligations and rights as to those franchisees may differ materially in certain circumstances.
- (e) The Franchisee acknowledges that this instrument constitutes the entire agreement of the parties. The Agreement terminates and supersedes any prior agreement between the parties concerning the same subject matter and any oral or written representations which are inconsistent with the terms of this instrument and disclosure document furnished to prospective franchisees as required by the Amended FTC Rule on Franchising (the "Franchise Disclosure Document").
- (f) It has made no payment to CC before the execution of this Agreement.
- (g) It has received a Franchise Disclosure Document at least fourteen (14) calendar days (or ten (10) business days if Franchisee is located in or will operate from New York or Michigan) before entering into a binding agreement with or making any payment to you and have read same and that you have been requested to state in writing hereafter any terms, claims, covenants, promises, or representations, including representations as to any income or gross revenue projections that were made to you by us or our representatives, including the persons making same, the location and date. If no such representations, etc. were made, the undersigned should write the word "none" on the following:

\_\_\_\_\_

FRANCHISEE'S INITIALS: \_\_\_\_\_

*[signatures follow on the next page]*



Each of the undersigned agrees to the terms of this Agreement, and in witness whereof, the parties have executed this Agreement effective as of the Effective Date.

[FRANCHISEE]

Signature: \_\_\_\_\_  
By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
Dated: \_\_\_\_\_

COOKIE CUTTERS FRANCHISING INC.

Signature: \_\_\_\_\_  
By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
Dated: \_\_\_\_\_

**Attachment 1**  
**SITE ADDENDUM**

**Authorized Site:**

Franchisee hereby acknowledges that the above listed address is the authorized site for Franchisee's Cookie Cutters location to be opened pursuant to the Franchise Agreement entered into between CC and Franchisee on \_\_\_\_\_.

EXECUTED this \_\_\_\_\_.

**FRANCHISOR**

**FRANCHISEE**

COOKIE CUTTERS FRANCHISING INC.

\_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Its: \_\_\_\_\_

**Attachment 2**

**ENTITY OWNERSHIP ADDENDUM**

1. Entity Owners. If Franchisee is an entity, Franchisee represents and warrants to CC that each shareholder owning directly or beneficially five percent (5%) or more of any class of securities of the entity; and general partner or co-venturer in the entity; any partner in a limited liability partnership or member in a limited liability company owning directly or beneficially five percent (5%) or more of the ownership interest in the entity; the trustees or administrators of any trust or estate; and any beneficiary of a trust or estate owning, directly or beneficially, five percent (5%) or more of the interest in the trust or estate (“Entity Owners”) are listed below. If an Entity Owner is itself an entity, the term “Entity Owner” also includes Entity Owners in the entity. Entity Owners are as follows:

<u>NAME</u>	<u>ADDRESS</u>	<u>PERCENTAGE OF INTEREST</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

2. Change. Franchisee agrees to immediately notify CC in writing of any change in the information contained in this Addendum and, at our request, prepare and sign a new Addendum containing the correct information.

3. Date of Addendum. The date of this Addendum is \_\_\_\_\_.

FRANCHISEE

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

### Attachment 3

#### GUARANTY AGREEMENT

In consideration of, and as an inducement to, the execution by COOKIE CUTTERS FRANCHISING INC. (“CC”) of the Franchise Agreement between CC and \_\_\_\_\_ (“Franchisee”) executed \_\_\_\_\_ (the “Agreement”) each undersigned personally and unconditionally (1) guarantees to CC and its successors and assigns, for the term of the franchise and thereafter as provided in the Agreement, that Franchisee will punctually pay for or perform each obligation in the Agreement, and (2) agrees to be personally bound by, and personally liable for the default of, each term of the Agreement. Each of the undersigned waives:

- (1) acceptance and notice of acceptance by CC on these undertakings;
- (2) notice of demand for payment of any indebtedness or nonperformance of any obligation guaranteed;
- (3) protest and notice of default to any party as to any indebtedness or nonperformance of any obligation guaranteed;
- (4) any right he or she may have to require that an action be brought against Franchisee or any other person as a condition of liability;
- (5) Any other notices and legal or equitable defenses to which he or she may be entitled; and
- (6) any modification, waiver or changes to the franchise agreement to which this guaranty is attached, or to any related agreements.

Each of the undersigned agrees that:

- (1) his or her direct and immediate liability under this guaranty is joint and several;
- (2) he or she will render any payment or performance required under the Agreement on demand if Franchisee fails or refuses to do so punctually;
- (3) his or her liability will not be contingent or conditioned on pursuit by CC of any remedies against Franchisee or any other person;
- (4) his or her liability will not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which CC may grant to Franchisee or any other person, including the acceptance of any partial payment or performance, or the compromise or release of any claim, none of which will be continuing and irrevocable for as long as any obligation in the Agreement remains in effect;

- (5) in a legal action for breach of this guaranty or to enforce the terms of this guaranty, whether for damages, injunctive relief, the return of property or any other legal or equitable remedy, CC may seek to recover reasonable attorneys' fees, court costs and reasonable out-of-pocket expenses related to the action if CC substantially prevails in the action;
- (6) he or she waives, and assigns to CC any exemptions which he or she may have under any law as against any obligation in this guaranty; and
- (7) any action brought by him or her or by CC relating to this guaranty will be brought in a state or federal court of general jurisdiction in the county or city in which the home office of CC is located at the time, and he or she irrevocably submits to the jurisdiction of these courts and waives any objections he or she may have to the venue of these courts.

Each of the undersigned affixes his or her signature to this guaranty as of the same date as the date of execution of the Agreement.

GUARANTOR:

Name \_\_\_\_\_

Address: \_\_\_\_\_

GUARANTOR: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

GUARANTOR: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

## Attachment 4

### LEASE ADDENDUM

This LEASE ADDENDUM (this "Agreement") is entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ at Salt Lake City, Utah by and between Cookie Cutters Franchising Inc., (hereinafter "we," "us," "our," etc.); \_\_\_\_\_ (hereinafter "you"); and \_\_\_\_\_ (hereinafter "Landlord") involving the Cookie Cutters salon to be located at:

(hereinafter "Franchise Location"), with reference to the following facts:

- A. On \_\_\_\_\_, 20\_\_\_\_, you and Landlord entered into a lease agreement (hereinafter "Lease"), a fully executed copy of which is to be attached hereto as Appendix "A," pursuant to the terms of which you leased the Franchise Location from Landlord to operate the Cookie Cutters salon ("Salon") thereon.
- B. On \_\_\_\_\_, 20\_\_\_\_, we and you executed a Franchise Agreement pursuant to the terms of which you obtained a franchise from us to operate the Salon at the Franchise Location.
- C. We, you, and Landlord desire to enter into this Agreement to define the rights of us in and to the Franchise Location and to protect our interests in the continued operation of the Salon at the Franchise Location during the entire term of the Lease, and any and all renewals and extensions thereof, and Landlord desires to consent to this assignment on the terms and conditions set forth herein.

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED, IT IS AGREED:

#### 1. ASSIGNMENT

You hereby assign, transfer, and convey to us all of your right, title, and interest in and to the Lease; however, this assignment shall become effective only upon our exercise of the option granted to us in Section 3 herein subsequent to the occurrence of any of the following events:

- a. Default of Lease: If you shall be in default in the performance of any of the terms of the Lease, unless such default is cured within the period required in the Lease or within ten (10) days following written demand given by us, whichever is sooner;
- b. Default of Franchise Agreement: The occurrence of any acts which would result in immediate termination as specified in the Franchise Agreement or the continuance beyond the period or periods specified in the Franchise Agreement or any other default by you in the performance of the Franchise Agreement particularly in failing to make the payments required under the Franchise Agreement;

- c. Non-exercise of Option to Renew or Extend: If you shall have had an option to renew or extend the Lease and shall have failed or elected not to do so within the time specified in the Lease for such renewal or extension, after having been directed in writing by us to do so;
- d. Sale of Salon; Upon sale of your entire right, title, and interest in and to the Salon operations conducted at the Franchise Location as a going concern.

## **2. CONSENT TO ASSIGNMENT**

Subject to the terms and conditions hereof, Landlord hereby consents to this assignment, which consent shall remain in effect during the entire term of the Lease and any and all renewals or extensions thereof.

## **3. EXERCISE OF OPTION BY FRANCHISOR**

We shall exercise the option granted herein and thereby make this assignment unconditional by giving written notice to you and Landlord of our exercise of said option in the manner specified in Section 8 and simultaneously deliver to Landlord a written assumption by us of the obligations of the Lease; and we shall also simultaneously cure any and all monetary defaults under the Lease and cure all other defaults within ten (10) business days thereafter, otherwise such assignment shall be deemed null and void and of no legal force or effect, and we shall have no legal right to enter and/or occupy the premises and Landlord's obligations under this Agreement shall also thereupon automatically terminate without further notice thereof to the parties hereto.

We shall have the right, concurrently with or subsequent to our effective exercise of the option granted herein, provided that Franchisor, as the then successor Tenant, is not then in default of any of the provisions of the Lease, to further assign and transfer our rights under this Agreement to a new franchisee selected by us to operate the Salon, with the prior written consent of Landlord, which shall not be unreasonably withheld, provided that such new franchisee shall have a credit rating and a net worth adequate for the operation of the Salon. In such event, such new franchisee shall obtain the assignment of the Lease and shall assume the obligations of the Lease in place and instead of us.

In the event of an assignment to Franchisor or any new franchisee, as the case may be, pursuant to the foregoing provisions of this Section, you and we (including also any and all guarantors of the Lease and any and all persons and entities succeeding to the interest of Tenant thereunder) expressly acknowledge and agree that Landlord, upon receipt of assignment documents satisfactory to Landlord, may rely upon such assignment as binding, true and valid for all purposes hereunder and under the Lease, without further inquiry or investigation, and you and we (including also any and all guarantors of the Lease and any and all persons and entities succeeding to the interest of Tenant thereunder) further agree to indemnify Landlord and hold Landlord harmless from all claims, loss, damage or injury whatsoever (including without limitation attorneys' fees) based upon or arising in any way from any claim that such assignment to Franchisor or any such new franchisee, as the case may be, is not binding, true or valid.

#### 4. TERMINATION OF RIGHTS OF FRANCHISEE

Upon the effective exercise of the option granted to us herein, you shall no longer be entitled to the use or occupancy of the Franchise Location, all of your prior rights to possess and occupy the premises under the Lease, but not your liability for the Tenant's obligations under the Lease, whether prior thereto or thereafter occurring, will have been, in all respects, terminated and, by the terms of this Agreement, assigned to us or our assignee.

#### 5. VACATE FRANCHISE LOCATION

Upon the effective exercise of the option granted to us herein, you shall immediately vacate the Franchise Location within the period permitted by the Lease; however, in the event that you shall fail or refuse to do so, we shall have the right to enter the Franchise Location and take possession of the Franchise Location.

#### 6. INDEMNIFICATION

You and we hereby agree to indemnify and hold Landlord and us harmless from and against any and all loss, costs, expenses, (including attorneys' fees), damages, claims and liabilities, however caused, resulting directly or indirectly from or pertaining to the exercise by us and/or Landlord of the rights and remedies granted under this Agreement.

#### 7. REMEDIES CUMULATIVE

The remedies granted pursuant to this Agreement are in addition to, and not in substitution of, any or all other remedies available at law or in equity.

#### 8. NOTICES

- a. Writing: All notices, requests, demands, payments, consents, and other communications hereunder shall be transmitted in writing and shall be deemed to have been duly given upon confirmation of receipt when sent by registered or certified United States mail, postage prepaid, addressed as follows:

**FRANCHISOR:** 8 East Broadway, Suite 420  
Salt Lake City, UT 84111  
Attn: Neal Courtney

with copy to: Kirton McConkie PC  
Key Bank Tower  
36 South State Street  
Suite 1900  
Salt Lake City, UT 84111  
Attn: Lee A. Wright

**FRANCHISEE:** \_\_\_\_\_  
\_\_\_\_\_

**LANDLORD:** \_\_\_\_\_  
\_\_\_\_\_

- b. Change of Address: Any party may change its or his address by giving notice of such change of address to the other parties.
- c. Mailed Notice: Mailed notices shall be deemed communicated within three (3) days from the time of mailing if mailed as provided in this Section 8.

**9. MISCELLANEOUS**

- a. Injunction: You and Landlord recognize the unique value and secondary meaning attached to the Salon, our trademarks, trade names, service marks, insignia, and logo designs and the Franchise Location displaying same, and agree that any noncompliance with the terms of this Agreement will cause irreparable damage to us and our franchisees. You and Landlord therefore agree that in the event of any noncompliance with the terms of this Agreement, we shall be entitled to apply for both permanent and temporary injunctive relief from any court of competent jurisdiction in addition to any other remedies prescribed by law, including an unlawful detainer action.
- b. Further Acts: The parties agree to execute such other documents and perform such further acts as may be necessary or desirable to carry out the purposes of this Agreement.
- c. Heirs and Successors: This Agreement shall be binding upon and inure to the benefit of the parties, their heirs, successors, and assigns.
- d. Entire Agreement: This Agreement represents the entire understanding between the parties and supersedes all other negotiations, agreements, representations, and covenants, oral or written, except any other agreement executed by us, Landlord, and you, and any other agreement between us and you. This Agreement may not be modified except by a written instrument signed by the party to be charged. The parties intend this Agreement to be the entire integration of all of their agreements of any nature. No other agreements, representations, promises, commitments or the like, of any nature, exist between the parties, except as set forth or otherwise referenced herein.
- e. Waiver: Failure by any party to enforce any rights under this Agreement shall not be construed as a waiver of such rights. Any waiver, including waiver of default, in any one instance shall not constitute a continuing waiver or a waiver in any other instance.

- f. **Validity:** Any invalidity of any portion of this Agreement shall not affect the validity of the remaining portion, and unless substantial performance of this Agreement is frustrated by any such invalidity, this Agreement shall continue in effect.
- g. **Headings and Table of Contents:** The headings and Table of Contents used herein are for purposes of convenience only and shall not be used in construing the provisions hereof. As used herein, the male gender shall include the female and neuter genders, the singular shall include the plural and the plural, the singular.
- h. **Execution by Franchisor:** This Agreement shall not be binding on us unless and until it shall have been accepted and signed by our authorized officer.
- i. **Attorneys' Fees:** If we become a party to any litigation concerning this Agreement by reason of any act or omission by you and/or Landlord or their authorized representatives and not by any of our acts or omissions, or any act or omission of our authorized representatives, you and/or Landlord shall be liable to us for reasonable attorneys' fees and court costs incurred by us in the litigation. If any party commences an action against any other party arising out of or in connection with this Agreement, the prevailing party shall be entitled to have and recover from the other party its reasonable attorneys' fees and costs of suit.

**10. GOVERNING LAW**

This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of \_\_\_\_\_ with venue in \_\_\_\_\_. Any provision of this Agreement which may be determined by competent authority to be prohibited or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of the prohibition of unenforceability without invalidating the remaining provisions of this Agreement. Any prohibition against or unenforceability of any provision of this Agreement in any jurisdiction, including the state whose law governs this Agreement, shall not invalidate the provision or render it unenforceable in any other jurisdiction. To the extent permitted by applicable law, you and Landlord waive any provision of law which renders any provision of this Agreement prohibited or unenforceable in any respect.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first shown above.

COOKIE CUTTERS FRANCHISING  
INC:

By: \_\_\_\_\_

LANDLORD:

FRANCHISEE:

\_\_\_\_\_  
Entity Name

\_\_\_\_\_  
Entity Name

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name and Title

\_\_\_\_\_  
Printed Name and Title

**CONSENT OF GUARANTORS:**

The undersigned, as guarantor(s) of the Lease, hereby consent(s) to and approve(s) this Cookie Cutters Lease Assignment Agreement affecting the Lease and hereby reaffirm their respective joint and several continuing guarantees of the Lease:

\_\_\_\_\_  
  
\_\_\_\_\_

**Attachment 5**

**ACKNOWLEDGEMENT OF OPENING**

**Franchisor:** Cookie Cutters Franchising Inc.  
8 East Broadway, Suite 420  
Salt Lake City, UT 84111

**Franchisee:**

**Authorized Salon Location:**

Franchisee hereby acknowledges that its COOKIE CUTTERS salon designated above opened for business on \_\_\_\_\_ (the "Opening Date"). Accordingly, the initial term of the Franchise Agreement shall continue for ten (10) years from the Opening Date.

FRANCHISEE

\_\_\_\_\_  
By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**Attachment 6**

**FRANCHISE DISCLOSURE QUESTIONNAIRE**

The purpose of this questionnaire is to determine whether any statements or promises were made to you, either orally or in writing, that CC has not authorized and that may be untrue, inaccurate or misleading. All representations requiring you to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure law. Please review each of the following questions carefully and provide honest and complete responses to each question.

- |   | YES   | NO    |
|---|-------|-------|
| 1. Have you received and personally reviewed this Agreement and each exhibit attached to it?  | _____ | _____ |
| 2. Do you understand all of the information contained in this Agreement and each exhibit attached to it?  | _____ | _____ |
| If no, what parts of this Agreement do you not understand? (Attach additional pages, if necessary.)   |       |       |
| 3. Have you received and personally reviewed CC's Franchise Disclosure Document we provided to you?   | _____ | _____ |
| On what date did you receive the Franchise Disclosure Document?<br>_____  |       |       |
| 4. Did you sign a receipt for the Franchise Disclosure Document indicating the date you received it?  | _____ | _____ |
| 5. Do you understand all of the information contained in the Franchise Disclosure Document?   | _____ | _____ |
| If no, what parts of the Franchise Disclosure Document do you not understand? (Attach additional pages, if necessary.)  |       |       |
| 6. Have you discussed the benefits and risks of operating a COOKIE CUTTERS Franchise with an attorney, accountant or other professional advisor and do you understand those risks?  | _____ | _____ |
| If not, did you have the opportunity to do so?<br>_____   |       |       |
| 7. Do you understand that the success or failure of your franchise will depend in large part upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms and other economic and business factors? | _____ | _____ |
| 8. Did you receive the receipt page with the names completely filled in of all the franchise sellers that were involved in your purchase of the franchise?  | _____ | _____ |
| <b>NOTE:</b> Questions 9 through 15 do not relate to information you may have been given directly by any existing franchisees of CC.  |       |       |

YES NO

- 9. Has any employee or other person speaking on behalf of CC made any written or oral statement or promise concerning the actual revenues, profits or operating costs of a COOKIE CUTTERS Franchise that is contrary to, or different from, the information contained in the Franchise Disclosure Document \_\_\_\_\_
- 10. Has any employee or other person speaking on behalf of CC made any written or oral statement or promise regarding the amount of money you may earn in operating the COOKIE CUTTERS Franchise? \_\_\_\_\_
- 11. Has any employee or other person speaking on behalf of CC made any written or oral statement or promise concerning the total amount of revenue your COOKIE CUTTERS Franchise will generate? \_\_\_\_\_
- 12. Has any employee or other person speaking on behalf of CC made any written or oral statement or promise regarding the costs you may incur in operating the COOKIE CUTTERS Franchise that is contrary to, or different from, the information contained in the Franchise Disclosure Document? \_\_\_\_\_
- 13. Has any employee or other person speaking on behalf of CC made any written or oral statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a COOKIE CUTTERS Franchise? \_\_\_\_\_
- 14. Has any employee or other person speaking on behalf of CC made any written or oral statement, promise or agreement concerning the advertising, marketing, training, support services or assistance that CC will furnish to you that is contrary to, or different from, the information contained in the Franchise Disclosure Document? \_\_\_\_\_
- 15. Has any employee or other person speaking on behalf of CC made any other written or oral statement, promise or agreement relating to the COOKIE CUTTERS Franchise that is contrary to, or different from, the information contained in the Franchise Disclosure Document? \_\_\_\_\_

If you have answered "Yes" to any of questions nine through fifteen, please provide a full explanation of your answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.) If you have answered "No" to each of the foregoing questions, please leave the following lines blank.

---



---



---



---



---



---



---

YES NO

You understand that your answers are important to us and that CC will rely on them.

By signing this Questionnaire, you are representing that you have responded truthfully to the above.

Signature:

\_\_\_\_\_

Signature: \_\_\_\_\_

**Print Name:**

**Print Name:**

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT C**

**AREA DEVELOPMENT AGREEMENT**



## **AREA DEVELOPMENT AGREEMENT**

**BETWEEN**

### **COOKIE CUTTERS FRANCHISING INC.**

8 East Broadway, Suite 420  
Salt Lake City, Utah 84111  
(317) 334-1680

cookiecuttersutah@gmail.com  
www.kidscuts.com

**AND**

**AREA DEVELOPER**

**Date of Area Development Agreement**

\_\_\_\_\_

**COOKIE CUTTERS FRANCHISING INC.**

**AREA DEVELOPMENT AGREEMENT**

**TABLE OF CONTENTS**

1. GRANT OF DEVELOPMENT RIGHTS; TERM.....	<del>107</del> 108
2. DEVELOPER'S DUTIES .....	<del>108</del> 109
3. EXERCISE OF DEVELOPMENT RIGHTS .....	<del>109</del> 110
4. REPORTING AND RECORD KEEPING .....	<del>110</del> 111
5. FEES.....	<del>110</del> 111
6. CONFIDENTIAL INFORMATION .....	<del>110</del> 111
7. TERMINATION.....	<del>111</del> 112
8. OBLIGATIONS UPON TERMINATION OR EXPIRATION.....	<del>112</del> 113
9. NOTICES .....	<del>113</del> 114
10. MISCELLANEOUS .....	<del>113</del> 114
11. ENTIRE AGREEMENT.....	<del>115</del> 116

**ATTACHMENTS:**

Attachment A: Development Area and Development Schedule.....	<del>116</del> 117
Attachment B: Entity Information and Ownership .....	<del>117</del> 118

COOKIE CUTTERS FRANCHISING INC.

AREA DEVELOPMENT AGREEMENT

THIS AREA DEVELOPMENT AGREEMENT (this “Agreement”) is between Cookie Cutters Franchising Inc., a Utah corporation, with its principal business address at 8 East Broadway, Suite 420, Salt Lake City, Utah 84111 (referred to in this Agreement as “Franchisor” or “we” or “us” or “Cookie Cutters”), and \_\_\_\_\_, a \_\_\_\_\_, whose principal address is \_\_\_\_\_ (referred to in this Agreement as “Developer,” “you” and like terms). You and Franchisor are collectively referred to herein as the “Parties.”

WHEREAS, Franchisor is in the business of granting to qualified individuals or entities, franchises (each a “Franchise”) the rights to operate a salon (an “Cookie Cutters Salon”) using Franchisor’s registered and unregistered trademarks, and other trademarks, trade names, service marks, trademarks, logos, emblems, and the like that Franchisor authorizes from time to time (the “Marks”) and its system of providing haircuts, shampoos and related products and services primarily to children ages 12 and under (the “System”). Franchisor grants each Franchise solely pursuant to a written franchise agreement signed by both Parties (each a “Franchise Agreement”);

WHEREAS, Franchisor may also grant, in its sole discretion, the right to acquire multiple Franchises for the development and operation of Cookie Cutters Salons within a defined geographic area (the “Development Area”) pursuant to an agreed upon schedule (the “Development Schedule”); and

WHEREAS, you desire to acquire and develop multiple Franchises and Franchisor agrees to grant such rights under the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the representations, warranties, and covenants in this Agreement and subject to this Agreement, you and Franchisor agree as follows:

1. **GRANT OF DEVELOPMENT RIGHTS; TERM**

- 1.1. **Development Rights.** Subject to the limitations set forth in this Agreement, Franchisor hereby grants to you the right, and you undertake the obligation, to acquire Franchises to develop and operate Cookie Cutters Salons (the “Development Rights”) within the Development Area and in strict compliance with the Development Schedule, both as set forth in Attachment A. The Development Rights are limited to the rights to acquire Franchises in accordance with this Agreement and the Development Schedule. The rights to develop and operate each individual Franchise and to use Franchisor’s Marks are granted only pursuant to individual Franchise Agreements.
- 1.2. **Term.** Except as otherwise provided in this Agreement, the Development Rights shall commence on the date of this Agreement (the “Effective Date”) and continue until the earlier of: (i) the date on which the last Cookie Cutters Salon listed on your Development Schedule is open for regular business or (ii) the last day listed on your Development Schedule (the “Term”). You shall have no right to renew or extend the Term or the rights herein granted.

- 1.3. **Development Area.** Provided that you are in full compliance with this Agreement, each Franchise Agreement, and all other agreements with Franchisor, Franchisor will not, during the Term, establish or operate, or license any other party to establish or operate, a Cookie Cutters Salon within your Development Area, as outlined in Attachment A. You will not receive any exclusive rights or Development Area regarding soliciting customers. Except as provided above, you may face competition from other franchisees or other channels of distribution.
- 1.4. **Reservation of Rights.** Franchisor reserves all rights that it does not grant to you and it is not restricted in any manner from engaging in any business activity whatsoever that is not expressly prohibited by this Agreement or any Franchise Agreement. For example, and without limiting the foregoing, Franchisor reserves the right to: (i) own and operate, and authorize others to own and operate Cookie Cutters Salons outside the Development Area or within the Development Area after the Term; (ii) the use of its name, to promote Cookie Cutters branded services and to sell Cookie Cutters branded products over the internet and other means of electronic communication that are developed in the future, whether inside or outside of the Development Area; (iii) establish, in the future, whether inside or outside of the Development Area, other franchises or company-owned outlets to conduct a similar program or to sell similar services or products under a different trademark, or to do so through a different channel of distribution; (iv) acquire the assets or ownership interests of businesses, whether inside or outside of the Development Area; (v) be acquired or become controlled by any other business, whether inside or outside of the Development Area; (vi) operate or grant any third party, whether inside or outside of the Development Area, the right to operate any Cookie Cutters Salons that Franchisor or Franchisor's designees acquire as a result of the exercise of a right of first refusal or purchase right under this Agreement or any Franchise Agreement. This Agreement does not give you any right to franchise, license, subfranchise, or sublicense others to operate Cookie Cutters Salons. Only you (and/or approved affiliated entities) may construct, develop, open, and operate Cookie Cutters Salons pursuant to this Agreement. This Agreement also does not give you (or your affiliated entities) any independent right to use the Franchisor's Marks or other intellectual property. The right to use the Marks is granted only under a Franchise Agreement signed directly with us. This Agreement only grants you potential Development Rights if you comply with its terms.

## 2. **DEVELOPER DUTIES**

- 2.1. **Best Efforts; No Delegation.** At all times during the Term of this Agreement, you shall use your best and continuing efforts to exercise your Development Rights in strict compliance with this Agreement and with the Development Schedule outlined in Attachment A. You may not subcontract or delegate any of your obligations under this Agreement to any third parties.
- 2.2. **Business Entity.** If you are a corporation, partnership, limited liability company, or other form of business entity, you agree and represent that:
- 2.2.1. Your owners and their interests as of the Effective Date are set forth on Attachment B; and
- 2.2.2. You will designate, in writing, an individual with at least 20% ownership in you (the "Managing Developer") using Attachment B. The Managing Developer must be approved by Franchisor and must have the authority to deal with Franchisor on your behalf in all matters

arising under or relating to this Agreement. Franchisor is not obligated to discuss this Agreement or the Development Rights with any of your owners or managers other than the Managing Developer.

### 3. **EXERCISE OF DEVELOPMENT RIGHTS**

- 3.1. **Execution of Franchise Agreements.** Simultaneously with the execution of this Agreement, you must sign and deliver to Franchisor a Franchise Agreement for the first Franchise you are obligated to acquire under your Development Schedule. For each subsequent Franchise, prior to signing a lease or contract for the location, but subsequent to your receipt of Franchisor's then current franchise disclosure document and the passage of the mandatory minimum waiting period, you must sign Franchisor's then-current franchise agreement, which may include terms materially different from, and that may be less favorable to you than the franchise agreement in effect on the Effective Date of this Agreement. If your owners establish a new legal entity to operate one or more of the Cookie Cutters Salons to be developed pursuant to this Agreement and that new legal entity's ownership is completely identical to your ownership, that legal entity automatically will be considered an "approved affiliated entity" without further action. However, if the new legal entity's ownership is not completely identical to your ownership, you first must seek our approval to allow that new entity to operate the proposed Cookie Cutters Salon.
- 3.2. **Site Selection and Consent to Develop.** You are responsible for providing Franchisor with the information it requests, including the information required under your individual Franchise Agreements, for each Cookie Cutters Salon site you propose. Franchisor's consent to develop a site is not a guarantee or representation of any kind of your success at any particular location and you accept all risk pertaining to the decision of where to locate your salon.
- 3.3. **Development Schedule.** You agree to comply with the Development Schedule, as set forth in Attachment A to this Agreement.
- 3.3.1. Franchisor does not make any representations with regard to the number of Cookie Cutters Salons that your Development Area can support or with regard to the number of suitable sites for Cookie Cutters Salons within your Development Area. You must conduct your own independent investigation to determine whether you can satisfy the terms of your Development Schedule.
- 3.3.2. Franchisor will determine whether you have met your development obligations under this Agreement based on the number of Cookie Cutters Salons that are open for business and operating in the regular course of business as of each date listed on your Development Schedule as described on Attachment A. For purposes of the Development Schedule, the number of Cookie Cutters Salons operating must be operated pursuant to a fully signed and effective Franchise Agreement and a fully paid fee, with all operations in compliance with the applicable Franchise Agreement.
- 3.3.3. YOU ACKNOWLEDGE AND AGREE THAT TIME IS OF THE ESSENCE UNDER THIS AGREEMENT AND THAT YOUR RIGHTS UNDER THIS AGREEMENT ARE SUBJECT TO TERMINATION (WITHOUT ANY CURE OPPORTUNITY) IF YOU DO

NOT COMPLY STRICTLY WITH THE DEVELOPMENT SCHEDULE AND OTHER OBLIGATIONS PROVIDED HEREIN. FRANCHISOR MAY ENFORCE THIS AGREEMENT STRICTLY.

#### 4. **REPORTING AND RECORD KEEPING**

- 4.1. **Business Plan.** Upon request from Franchisor, you may be required to submit to Franchisor a business plan showing your projected revenues, costs, staffing and operations in exercising the Development Rights.
- 4.2. **Financial Statements.**
- 4.2.1. **Annual Statements.** Upon request, you shall deliver to Franchisor, within 30 days after the close of each calendar year during the Term of this Agreement, an annual profit and loss statement, a statement regarding the source and use of funds, and a balance sheet that include all of its activities.
- 4.2.2. **Purposes/Other Reports.** These reports will be requested for benchmarking purposes and to allow Franchisor to provide greater details in its later franchise disclosure documents should Franchisor ever opt to provide financial performance representations to future potential franchisees and/or area developers. You shall also submit to Franchisor such other financial and non-financial reports and information as Franchisor may request from time to time. These statements and reports shall be certified as true and correct by you and shall be in the form and format that Franchisor reasonably specifies.
- 4.3. **Disclosure.** Franchisor may be required by law, regulation or other legal requirement, or may deem it advisable, to disclose information regarding you or your operations, including without limitation, earnings or other financial performance information. You agree that Franchisor shall be entitled to disclose such information and that Franchisor shall have the right to determine the extent and manner in which such disclosure will be made. If Franchisor does not have the information necessary for the disclosure Franchisor determines it will make, you agree to provide such information to Franchisor promptly upon its request.

#### 5. **FEES**

In consideration of the rights granted in this Agreement, on execution you shall pay to Franchisor a non-refundable development fee based on the number of Cookie Cutters Salons you agree to develop according to the following schedule: \$40,000 for the first salon, \$20,000 for the second salon, and \$10,000 for each additional salon thereafter (the “Development Fee”). This Development Fee is fully earned by Franchisor upon execution of this Agreement and is not refundable in part or in whole, even if you choose not to ultimately develop the number of Cookie Cutters Salons outlined in the Development Schedule. This Development Fee is in place of the initial franchise fee that would otherwise be due under each Franchise Agreement and no additional initial franchise fee will be due to Franchisor upon execution of each Franchise Agreement entered into to meet the Development Schedule.

#### 6. **CONFIDENTIAL INFORMATION**

- 6.1. **Confidential Information.** All information that Franchisor furnishes to you, whether orally or in writing, including, without limitation, this Agreement, any Franchise Agreement, the System, methods, techniques, formulas, formats, specifications, standards, material, curriculum documents, lesson plans, training material, marketing materials, audiovisual components, emails, handouts, sources and suppliers of equipment, procedures, know-how, information, trade secrets, methods of business management, sales and promotion techniques, plans, specifications, knowledge of and experience in franchise operation, or any other forms of business information, whether or not marked as confidential, shall be considered confidential (collectively, the “Confidential Information”). You acknowledge and agree that the Confidential Information is proprietary, includes Franchisor’s trade secrets, and you (and your shareholders, partners, members and managers, if you are a business entity) agree that you: (i) shall not use the Confidential Information in any other business or capacity other than to the extent necessary to exercise your Development Rights or as permitted under your Franchise Agreements; (ii) shall not disclose, reveal or share the Confidential Information, except to your employees or contractors who have a need to know such Confidential Information for purposes of this Agreement and who are under a duty of confidentiality no less restrictive than your obligations hereunder, or to entities or individuals specifically authorized by Franchisor in advance; and (iii) shall adopt and implement all procedures prescribed from time to time by Franchisor to prevent unauthorized use or disclosure of the Confidential Information. All Confidential Information is and will remain Franchisor’s sole property. You agree to return to Franchisor or destroy, at its election, all Confidential Information in your possession or control and permanently erase all electronic copies of such Confidential Information promptly upon Franchisor’s request or upon termination of this Agreement, whichever comes first, and, at its request, will provide written certification that you have complied with this obligation.

## 7. **TERMINATION**

The following provisions are in addition to and not in limitation of any other rights and remedies Franchisor may have at law or in equity, all of which are expressly reserved. The exercise by Franchisor of any right or remedy shall not be deemed an election of remedies.

- 7.1. **With Notice and No Opportunity to Cure.** This Agreement shall immediately terminate on delivery of notice of termination to you upon the occurrence of any of the following events, each of which is deemed to be an incurable breach of this Agreement and each of which is deemed to be "good cause." If you (or any of your owners, if you are a business entity):
- 7.1.1. become insolvent or admit in writing your inability to pay your debts as they mature, or makes an assignment for the benefit of creditors, files a petition under any foreign, state or United States bankruptcy act, receivership statute, or the like or if such a petition is filed by a third party, or if an application for a receiver is made by anyone and such petition or application is not resolved favorably to you within ninety (90) days;
  - 7.1.2. fail to comply with the Development Schedule and such failure continues for a period of 30 days after written notice from Franchisor (except if the failure is the direct result of a “Casualty Event,” which includes a fire, tornado, hurricane, flood, earthquake or similar

natural disaster not within your control, and you are using good faith efforts to cure the failure);

- 7.1.3. have made any material misrepresentation or omission in the application for the Franchise or in any report that you submit to Franchisor pursuant to this Agreement;
  - 7.1.4. are convicted by a trial court of or plead no contest to a felony or other crime or offense or engage in conduct that reflects materially and unfavorably upon the operation and reputation of Franchisor or the System, or if any of your principals is convicted of or pleads no contest to a felony or other crime or offense or engages in such conduct;
  - 7.1.5. attempt to make or makes an unauthorized assignment, encumbrance or other transfer of your rights or obligations under this Agreement a party to any other agreement with Franchisor or its affiliates that is terminated for your breach thereof;
  - 7.1.6. make any unauthorized use of the Marks or intellectual property or make any duplication or disclosure of any Confidential Information;
  - 7.1.7. fail to comply with any provision of any Franchise Agreement and do not cure such failures within the applicable cure period, if any; or
  - 7.1.8. receive written notice from Franchisor of your failure any 3 times in a calendar year to comply with this Agreement, even if timely cured in each instance.
- 7.2. **With Notice and an Opportunity to Cure.** This Agreement shall terminate upon your failure to cure any of the following, each of which is deemed to be “good cause.” If you (or any of your owners, if you are a business entity):
- 7.2.1. fail to comply with any requirement in this Agreement not listed in Subsection 7.1 above prescribed by Franchisor within 30 days after notice is delivered to you;
  - 7.2.2. fail to furnish reports, financial statements, tax returns or any other documentation required by the provisions of this Agreement and do not correct such failure within 15 days following notice; or
  - 7.2.3. fail to make payments to Franchisor for any amounts due within 10 days after notice is delivered to you.
- 7.3. **Cross Default.** Any default by you under any other agreement between Franchisor or its affiliates as one party and you or any of your members or any of your or their affiliates as the other party that is material as to permit Franchisor to terminate, or declare a default under, such other agreement shall be deemed to be a default of this Agreement, and Franchisor shall have the right, at its option, to terminate this Agreement, effective immediately upon notice to you.

7.4. **Limits.** The description of any default in any Franchisor notice to you shall not preclude Franchisor from specifying additional or supplemental defaults in any action or proceeding under this Agreement.

**8. OBLIGATIONS UPON TERMINATION OR EXPIRATION**

8.1. **Obligations.** Upon termination or expiration of this Agreement for any reason:

- 8.1.1. Your rights under this Agreement shall cease and you are no longer entitled to exercise the Development Rights;
- 8.1.2. You shall immediately and for all time thereafter, cease to represent that you are a developer of Cookie Cutters salons, except as allowed under any then-effective Franchise Agreements;
- 8.1.3. At your sole expense, you must return all Confidential Information in your possession or control, except the Confidential Information that you are permitted to use under any then-effective Franchise Agreements;
- 8.1.4. You shall pay immediately all sums due to Franchisor and its affiliates under this Agreement (if any); and
- 8.1.5. You shall comply with all provisions of this Agreement that survive its termination and expiration.

8.2. **Survival of Obligations.** The expiration or termination of this Agreement shall not relieve you of any of your obligations to Franchisor existing at the time of such expiration or termination, or terminate your obligations that, by their nature, survive the expiration or termination of this Agreement. The expiration or termination of this Agreement shall be without prejudice to Franchisor's rights against you. Franchisor has no obligation to inform you of your obligations or of the termination of any of your rights under this Agreement.

**9. NOTICES**

Any notice or payment required to be given to either party is properly given and effective (a) on the date of delivery if delivered in person or (b) upon confirmation of receipt if delivered by reputable overnight courier, such as FedEx, all fees postage paid, to the respective addresses given below, or to another address as is designated by written notice given to the other party. The notice addresses are as follows:

In the case of Developer: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

In the case of Franchisor:           Cookie Cutters Franchising, Inc.  
  Attn: Neal Courtney  
  8 East Broadway, Suite 420  
  Salt Lake City, UT 84111

## 10. MISCELLANEOUS

- 10.1. **Governing Law and Dispute Resolution**. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Utah as it applies to a contract made and performed in such state. In the event of a dispute between the Parties, both agree to first try to amicably resolve the dispute. Any dispute that cannot be resolved by the Parties through negotiation shall be governed by the dispute resolution provisions of the franchise agreement executed by the Parties contemporaneously with this Agreement.
- 10.2. **Assignment**. Franchisor has the absolute right to transfer, assign, or sell, by agreement or by law, directly, indirectly, or contingently, this Agreement and any right and obligation under this Agreement. You may not transfer, assign, or sell, by agreement or by law, directly, indirectly, or contingently, this Agreement and any right and obligation under this Agreement without the prior written consent of Franchisor. Any purported transfer, assignment or sale by you in violation of this Section is void and of no effect.
- 10.3. **Modifications**. This Agreement may not be modified except by a writing signed by authorized representatives of both Parties. It is agreed that no use of trade or other regular practice or method of dealing between the parties hereto shall be used to modify, interpret, supplement, or alter in any manner the terms of this Agreement.
- 10.4. **Attorneys' Fees**. In the event any action or claim is brought by either Party to enforce its rights under this Agreement (including any agreement to participate in binding arbitration), the prevailing Party in any such action shall be entitled to recover from the non-prevailing party all reasonable fees, costs, and expenses of counsel (at pre-trial, trial and appellate levels). If Franchisor is required to seek injunctive relief against you, or if you do not comply with the obligations upon termination or expiration of the Agreement and Franchisor is required to enjoin your continued activities, you must reimburse Franchisor its reasonable attorneys' fees and costs in obtaining such injunctive or related relief.
- 10.5. **Independent Contractors**. The parties are independent contractors, and no agency, partnership, joint venture, or employee-employer relationship is intended or created by this Agreement. Neither party shall make any warranties or representations on behalf of the other party.
- 10.6. **Waiver**. Any Party to this Agreement may extend the time for or waive the performance of any of the obligations of the other, waive any inaccuracies in the representations or warranties by the other, or waive compliance by the other with any of the covenants or conditions contained in this Agreement. Any such extension or waiver shall be in writing and signed by the Parties. No such waiver shall operate or be construed as a waiver of any subsequent act or omission of the Parties.

- 10.7. **Severability.** The invalidity or unenforceability of any one or more of the words, phrases, sentences, clauses, or sections contained in this Agreement shall not affect the validity or enforceability of the remaining provisions of this Agreement or any part of any provision, all of which are inserted conditionally on their being valid in law, and in the event that any one or more of the words, phrases, sentences, clauses or sections contained in this Agreement shall be declared invalid or unenforceable, this Agreement shall be construed as if such invalid or unenforceable word or words, phrase or phrases, sentence or sentences, clause or clauses, or section or sections had not been inserted or shall be enforced as nearly as possible according to their original terms and intent to eliminate any invalidity or unenforceability.
- 10.8. **WAIVER OF JURY TRIAL.** EACH OF THE PARTIES HERETO HEREBY **IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT.**
- 10.9. **Independent Investigation and Advice of Counsel.** You represent that you have been accorded ample opportunity to ask Franchisor all questions about this Agreement and its exhibits, and Franchisor has answered all these questions to your full and complete satisfaction; and that you have conducted an independent investigation of the business contemplated by, and the activities to be conducted under, this Agreement; and that you have been accorded ample opportunity to consult with counsel of your own choosing about the risks of entering into this Agreement; and that you have had Franchisor's Franchise Disclosure Document and all its exhibits and this Agreement and all its exhibits with ample opportunity to have it reviewed by counsel of your own choosing.
- 10.10. **Business Risk.** You agree that the business franchised under this Agreement and the activities required hereunder involve risks that make your success largely and principally dependent on your abilities and services and on any persons you employ.
- 10.11. **Disclaimer.** You represent that you have not received from Franchisor or any present or past Franchisor affiliate or any of their present or past directors, stockholders, officers, employees, or agents any written or oral statement, representation, or warranty inconsistent with, or contradictory to anything in this Agreement or the Franchise Disclosure Document, or any other agreement and all exhibits to all such documents;
- 10.12. **Survival.** All covenants, agreements, representations and warranties made in this Agreement or otherwise made in writing by any party pursuant to this Agreement shall survive the execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement.
- 10.13. **Execution in Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

## 11. **ENTIRE AGREEMENT**

This agreement and its exhibits constitute the entire agreement of the parties and there are no other written or oral understandings between the parties related to the subject matter of the agreement, except

that you acknowledge Franchisor has relied on your representations made prior to execution of this agreement. Nothing in this Agreement or any related agreement is intended to disclaim the representations made by Franchisor in its franchise disclosure document.

IN WITNESS WHEREOF, the parties have executed this Agreement, as of the Effective Date.

**Cookie Cutters Franchising Inc.**

**[Developer]**

By: \_\_\_\_\_  
(Signature)

By: \_\_\_\_\_  
(Signature)

Name: \_\_\_\_\_  
(Please Print)

Name: \_\_\_\_\_  
(Please Print)

Title: \_\_\_\_\_

Title: \_\_\_\_\_

**ATTACHMENT A**

**DEVELOPMENT AREA AND DEVELOPMENT SCHEDULE**

1. Development Area. Your Development Area is defined as the following zip codes, as they exist as of the Effective Date and as further set forth on the attached map:
  
2. Development Schedule. You must meet the following Development Schedule as outlined below (to be completed before the execution of this Agreement):

<b>Franchise Agreement Number</b>	<b>Franchise Agreement To Be Executed By (Date)</b>	<b>Salon To Be Opened By (Date)</b>	<b>Minimum Cumulative Number of Cookie Cutters Salons to be Open and Operating by Developer in Development Area</b>
1	Signed concurrently with this Agreement		1
2			2
3			3
4			4
5			5

IN WITNESS WHEREOF, the parties have executed this Attachment A on the Effective Date.

**Cookie Cutters Franchising, Inc.**

**[Developer]**

By: \_\_\_\_\_  
(Signature)

By: \_\_\_\_\_  
(Signature)

Name: \_\_\_\_\_  
(Please Print)

Name: \_\_\_\_\_  
(Please Print)

Title: \_\_\_\_\_

Title: \_\_\_\_\_

**ATTACHMENT B**

**ENTITY INFORMATION AND OWNERSHIP ADDENDUM**

1. Entity Information. If you are an entity, Franchisor requires the following information regarding your corporate form and ownership:

Entity form (corporation, LLC, partnership, etc.):

\_\_\_\_\_

Date of formation: \_\_\_\_\_

Incorporated or formed under the laws of the State of:

\_\_\_\_\_

2. Managing Developer. The name and contact information for the Managing Developer are as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Entity Owners. You represent and warrant to us that each shareholder owning directly or beneficially five percent (5%) or more of any class of securities of the entity; and general partner or co-venturer in the entity; any partner in a limited liability partnership or member in a limited liability company owning directly or beneficially five percent (5%) or more of the ownership interest in the entity; the trustees or administrators of any trust or estate; and any beneficiary of a trust or estate owning, directly or beneficially, five percent (5%) or more of the interest in the trust or estate (“Entity Owners”) are listed below. If an Entity Owner is itself an entity, the term “Entity Owner” also includes Entity Owners in the entity. Entity Owners are as follows:

<u>NAME</u>	<u>ADDRESS</u>	<u>PERCENTAGE OF INTEREST</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Change. You agree to immediately notify Franchisor in writing of any change in the information contained in this Addendum and, at Franchisor's request, prepare and sign a new Addendum containing the correct information.

IN WITNESS WHEREOF, the Parties have executed this Attachment B on the Effective Date.

**Cookie Cutters Franchising, Inc.**

**[Developer]**

By: \_\_\_\_\_  
(Signature)

By: \_\_\_\_\_  
(Signature)

Name: \_\_\_\_\_  
(Please Print)

Name: \_\_\_\_\_  
(Please Print)

Title: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT D**

**FRANCHISOR'S FINANCIAL STATEMENTS**

## Added graphics



510 S. 200 W., Suite 200 | Salt Lake City, UT 84101-2320  
801.531.9100 | Fax 801.531.9147 | bkd.com

### Auditor's Consent

We agree to the inclusion in the Franchise Disclosure Document issued by Cookie Cutters Franchising Inc. ("Franchisor") on March 26, 2021, as it may be amended, of our report dated March 26, 2021, on our audit of the combined financial statements of Cookie Cutters Franchising, Inc. and Affiliates as of December 31, 2020 and 2019 and for the years then ended.

*BKD, LLP*

Salt Lake City, Utah  
March 26, 2021



Added graphics

**Cookie Cutters Franchising, Inc. and Affiliates**  
Independent Auditor's Report and Combined Financial Statements  
December 31, 2020 and 2019

Added graphics

**Cookie Cutters Franchising, Inc. and Affiliates**  
December 31, 2020 and 2019

**Contents**

<b>Independent Auditor's Report.....</b>	<b>1</b>
<b>Combined Financial Statements</b>	
Balance Sheets.....	3
Statements of Operations.....	5
Statements of Stockholders' Equity.....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8

## Added graphics



510 S. 200 W., Suite 200 | Salt Lake City, UT 84101-2320  
801.531.9100 | Fax 801.531.9147 | bkd.com

### Independent Auditor's Report

To the Owners of  
Cookie Cutters Franchising, Inc. and Affiliates  
Salt Lake City, Utah

We have audited the accompanying combined financial statements of Cookie Cutters Franchising, Inc. and Affiliates (the Company), which comprise the combined balance sheets as of December 31, 2020 and 2019, and the related combined statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes to the combined financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Added graphics

To the Owners of  
Cookie Cutters Franchising, Inc. and Affiliates

### *Opinion*

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Cookie Cutters Franchising, Inc. and Affiliates as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Salt Lake City, Utah  
March 26, 2021

## Added graphics

### Cookie Cutters Franchising, Inc. and Affiliates

#### Combined Balance Sheets December 31, 2020 and 2019

#### Assets

	<u>2020</u>	<u>2019</u>
<b>Current Assets</b>		
Cash	\$ 227,637	\$ 293,879
Accounts receivable	184,444	215,194
Deferred franchise agreement costs - current portion	130,857	128,242
Other current assets	<u>54,392</u>	<u>28,858</u>
Total current assets	<u>597,330</u>	<u>666,173</u>
<b>Net Property and Equipment, at Cost</b>	<u>44,459</u>	<u>60,683</u>
<b>Other Assets</b>		
Goodwill	36,234	44,502
Other intangible assets	236,701	236,701
Deferred franchise agreement costs	2,005,817	2,397,481
Deferred tax asset	64,212	-
Due from related entities	72,242	78,873
Other assets	<u>7,818</u>	<u>7,888</u>
Total other assets	<u>2,423,024</u>	<u>2,765,445</u>
Total assets	<u>\$ 3,064,813</u>	<u>\$ 3,492,301</u>

See Notes to Combined Financial Statements

3

Added graphics

**Cookie Cutters Franchising, Inc. and Affiliates**

Combined Balance Sheets (continued)

December 31, 2020 and 2019

**Liabilities and Stockholders' Equity (Deficit)**

	<u>2020</u>	<u>2019</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 10,107	\$ 22,470
Accrued expenses	96,031	77,228
Contract liabilities, current portion	143,719	166,857
Notes payable, current portion	<u>161,385</u>	<u>48,752</u>
Total current liabilities	<u>411,242</u>	<u>315,307</u>
<b>Long-term Liabilities</b>		
Other liabilities	30,011	30,000
Notes payable	324,783	66,389
Contract liabilities	<u>2,781,018</u>	<u>3,133,039</u>
Total long-term liabilities	<u>3,135,812</u>	<u>3,229,428</u>
Total liabilities	<u>3,547,054</u>	<u>3,544,735</u>
<b>Stockholders' Equity (Deficit)</b>		
Common stock, \$.001 par value, 1,000,000 shares authorized, 566,746 issued and outstanding	567	567
Additional paid-in capital	604,578	604,578
Accumulated deficit and members' equity	<u>(1,087,386)</u>	<u>(657,579)</u>
Total stockholders' equity (deficit)	<u>(482,241)</u>	<u>(52,434)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 3,064,813</u>	<u>\$ 3,492,301</u>

See Notes to Combined Financial Statements

4

## Added graphics

### Cookie Cutters Franchising, Inc. and Affiliates Combined Statements of Operations Years Ended December 31, 2020 and 2019

	2020	2019
<b>Revenues</b>		
Continuing franchise and service fees	\$ 589,870	\$ 765,328
Initial franchise fees	606,540	821,310
Other franchise related fees	-	37,500
Service sales	387,630	406,610
Product sales	<u>285,721</u>	<u>269,576</u>
Total revenues	<u>1,869,761</u>	<u>2,300,324</u>
<b>Operating Expenses</b>		
Cost of products sold	134,067	140,423
Selling, general and administrative	2,060,569	1,955,848
Amortization expense	8,268	76,902
Depreciation expense	16,224	14,488
Bad debt expense	<u>2,290</u>	<u>233</u>
Total operating expenses	<u>2,221,418</u>	<u>2,187,894</u>
Income (Loss) from Operations	<u>(351,657)</u>	<u>112,430</u>
<b>Other Income (Expense)</b>		
Interest income	14,262	4,154
Interest expense	<u>(20,487)</u>	<u>(22,531)</u>
Total other income (expense)	<u>(6,225)</u>	<u>(18,377)</u>
Income (Loss) Before Income Taxes	(357,882)	94,053
Income Tax Benefit	<u>64,112</u>	<u>-</u>
Net Income (Loss)	<u>\$ (293,770)</u>	<u>\$ 94,053</u>

See Notes to Combined Financial Statements

5

## Added graphics

### Cookie Cutters Franchising, Inc. and Affiliates

#### Combined Statements of Stockholders' Equity

Years Ended December 31, 2020 and 2019

	Common Stock		Additional Paid-In Capital	Accumulated Deficit and Members' Equity	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance, January 1, 2019	566,746	\$ 567	\$ 604,578	\$ (686,960)	\$ (81,815)
Net income	-	-	-	94,053	94,053
Member draws	-	-	-	(2,569)	(2,569)
Retroactive adjustment (Note 6)	-	-	-	(62,103)	(62,103)
Balance, December 31, 2019	566,746	567	604,578	(657,579)	(52,434)
Net loss	-	-	-	(293,770)	(293,770)
Member draws	-	-	-	(136,037)	(136,037)
Balance, December 31, 2020	<u>566,746</u>	<u>\$ 567</u>	<u>\$ 604,578</u>	<u>\$ (1,087,386)</u>	<u>\$ (482,241)</u>

See Notes to Combined Financial Statements

6

## Added graphics

### Cookie Cutters Franchising, Inc. and Affiliates Combined Statements of Cash Flows Years Ended December 31, 2020 and 2019

	2020	2019
<b>Operating Activities</b>		
Net income (loss)	\$ (293,770)	\$ 94,053
Depreciation	16,224	14,488
Amortization of intangible assets, including goodwill	8,268	76,902
Deferred income taxes	(64,212)	-
Changes in		
Accounts receivable	30,750	83,256
Deferred franchise costs	389,049	276,425
Other current assets	(25,534)	(10,376)
Other assets	70	(3,065)
Accounts payable	(12,363)	(70,020)
Accrued expenses	18,814	(5,445)
Contract liabilities	(375,159)	(305,371)
Net cash provided by (used in) operating activities	<u>(307,863)</u>	<u>150,847</u>
<b>Investing Activities</b>		
Proceeds received from notes receivable - related party	6,631	12,122
Advances on notes receivable - shareholders	-	(10,135)
Purchase of property and equipment	-	(7,425)
Purchase of investment	-	(27,677)
Net cash provided by (used in) investing activities	<u>6,631</u>	<u>(33,115)</u>
<b>Financing Activities</b>		
Payments on notes payable and notes payable - shareholders	(38,767)	(109,860)
Net change in line-of-credit	82,149	-
Proceeds from issuance of notes payable	327,645	-
Payments of member draws	(136,037)	(2,569)
Net cash provided by (used in) financing activities	<u>234,990</u>	<u>(112,429)</u>
<b>Increase (Decrease) in Cash</b>	<b>(66,242)</b>	<b>5,303</b>
<b>Cash, Beginning of Year</b>	<b>293,879</b>	<b>288,576</b>
<b>Cash, End of Year</b>	<b><u>\$ 227,637</u></b>	<b><u>\$ 293,879</u></b>
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 20,487	\$ 22,531
Income taxes	\$ 100	\$ 100

See Notes to Combined Financial Statements

7

## Added graphics

### **Cookie Cutters Franchising, Inc. and Affiliates**

#### **Notes to Combined Financial Statements**

**December 31, 2020 and 2019**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### *Nature of Operations and Organization*

The combined financial statements presented include the financial statements of the companies listed in the following paragraph, which are related through common ownership and management.

Cookie Cutters Franchising, Inc. (Cookie Cutters) was incorporated as a Utah corporation effective October 16, 2014. UCANAH for Kids, L.C. (UCANAH) was organized on January 26, 2007 under the laws of the state of Utah, for a period of duration of 50 years. Cookie Cutters Cranberry (CC Cranberry) was organized on November 15, 2019 under the laws of the state of Utah, for a period of duration of 50 years. Cookie Cutters Franchising, Inc. together with UCANAH and CC Cranberry has been engaged in franchising the Company's hair care salons for children. As of December 31, 2020 and 2019, there were 107 and 109 store locations in operation in the United States and Canada, respectively, including locations owned and operated by UCANAH and CC Cranberry. The Company's primary sources of revenue are from franchising and royalty fees, product sales, and service sales generated from haircuts from UCANAH & CC Cranberry. Collectively Cookie Cutters, UCANAH and CC Cranberry are referred to herein as "the Company." All significant intercompany balances and transactions have been eliminated.

##### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The use of estimates is pervasive throughout these combined financial statements. Key estimates in the accompanying combined financial statements include, among others, allowances for doubtful accounts receivable, the economic useful lives and recovery of long-lived assets, the realization of deferred tax assets, and contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

##### *Concentration of Credit Risk*

Certain financial instruments subject the Company to concentrations of credit risk. These financial instruments consist primarily of cash and accounts receivable. At December 31, 2020 and 2019, the Company's cash accounts exceeded federally insured limits by approximately \$0 and \$18,000, respectively. The Company has not experienced any historical losses in such accounts. Management believes that the Company is not exposed to significant credit risk related to cash because the Company maintains its cash balances with high credit quality financial institutions.

##### *Accounts Receivable*

Accounts receivable generally represent amounts due from franchises for transaction fees and other franchise services. Accounts receivable are stated at the amount of consideration from customers of which the Company has an unconditional right to receive plus any accrued and unpaid interest.

8

Added graphics

**Cookie Cutters Franchising, Inc. and Affiliates**  
**Notes to Combined Financial Statements**  
**December 31, 2020 and 2019**

The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts that are unpaid after the due date bear interest at 1.5% daily. Interest continues to accrue on delinquent accounts until the account is paid, or the balances is deemed uncollectible, at which time interest accrual ceases and does not resume until the account is no longer classified as delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

***Contract Liabilities***

Contract liabilities represent the Company's obligation to transfer goods or services to a customer when consideration has already been received from the customer. These consist primarily of deferred franchise fee revenues on the balance sheets.

***Notes Receivable***

Notes receivable are stated at the outstanding principal amount, net of allowance for uncollectible notes. The Company provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. A note receivable is considered delinquent when the debtor has missed three or more payments. At that time, the note is placed on nonaccrual status and interest accrual ceases and does not resume until the note is no longer classified as delinquent. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower.

***Inventories***

Inventories consist of hair care products and supplies. Inventories are stated at the lower of cost or net realizable value. Costs of hair care products and supplies are determined using the first-in, first-out (FIFO) method. Inventory has been included in "other current assets" on the Company's balance sheets as of December 31, 2020 and 2019.

***Property and Equipment***

Property and equipment acquisitions are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are charged to expense on the straight-line basis over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Leasehold improvements	5 years
Vehicles	5 years
Furniture and fixtures	3 to 5 years
Equipment	5 years

## Added graphics

### **Cookie Cutters Franchising, Inc. and Affiliates** **Notes to Combined Financial Statements** **December 31, 2020 and 2019**

#### *Goodwill*

The Company elected the private company accounting alternative for identifiable intangible assets in a business combination. Under this alternative, certain customer-related intangible assets and noncompetition agreements are subsumed into goodwill and are no longer required to be recognized separately in the accounting for a business combination.

The Company also has elected the private company accounting alternative for the subsequent measurement of goodwill. Under this alternative, goodwill is amortized on a straight-line basis over 10 years. The Company evaluates the recoverability of the carrying value of goodwill at the entity level whenever events or circumstances indicate the carrying amount may not be recoverable.

In testing goodwill for impairment, the Company has the option first to perform a qualitative assessment to determine whether it is more-likely-than-not that goodwill is impaired or the Company can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the Company with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of an entity, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

#### *Intangible Assets*

Intangible assets with finite lives are being amortized on the straight-line basis over periods ranging from five to seven years. Such assets are periodically evaluated as to the recoverability of carrying values.

In addition, intangible assets with indefinite lives are not amortized, but periodically evaluated as to the recoverability of the carrying values.

#### *Long-lived Asset Impairment*

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2020 or 2019.

#### *Revenue Recognition*

Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The amount and timing of revenue recognition varies based on the nature of the goods or services provided and the terms and conditions of the customer contract. A portion of the proceeds from the sale of franchises is recognized as revenue when the Company has performed substantially all services for the franchise as stipulated in the franchise

10

## Added graphics

### **Cookie Cutters Franchising, Inc. and Affiliates** **Notes to Combined Financial Statements** **December 31, 2020 and 2019**

agreement, generally at completion of new franchise training and the start of business by the franchise. The remaining portion is recognized as revenue over the expected life of the franchise agreement. The Company generally requires that the entire franchise fee be paid upon execution of the franchise agreement and consequently recognizes deferred revenue until certain revenue recognition criteria have been met.

See Note 6 for additional information about the Company's revenue.

#### ***Income Taxes***

As a corporation, Cookie Cutters accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

UCANAH and CC Cranberry are limited liability companies. These entities are not subject to federal income tax because their income and losses are includable in the tax returns of their members but may be subject to certain state taxes.

Tax positions are recognized if it is more-likely-than-not, based on the technical merits that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information.

The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2020 and 2019, the tax benefits recorded represents the amount of tax benefit management believes is probable of being realized. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

## Added graphics

### Cookie Cutters Franchising, Inc. and Affiliates

#### Notes to Combined Financial Statements

December 31, 2020 and 2019

#### *Future Significant Accounting Policies*

##### Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheets as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Company is evaluating the effect the standard will have on the financial statements.

#### **Note 2: Property and Equipment**

Property and equipment consisted of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Furniture and fixtures	\$ 55,795	\$ 55,795
Automobiles	21,008	21,000
Leasehold improvements	60,994	60,994
Equipment	<u>67,292</u>	<u>67,292</u>
Total	<u>205,089</u>	<u>205,081</u>
Less: accumulated depreciation	<u>(160,630)</u>	<u>(144,398)</u>
Property and equipment, net	<u>\$ 44,459</u>	<u>\$ 60,683</u>

## Added graphics

### Cookie Cutters Franchising, Inc. and Affiliates Notes to Combined Financial Statements December 31, 2020 and 2019

#### Note 3: Acquired Intangible Assets and Goodwill

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2020 and 2019 were:

	2020		
	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets			
Franchise agreements	\$ 346,146	\$ (346,146)	\$ -
Goodwill	89,003	(52,769)	36,234
	<u>\$ 435,149</u>	<u>\$ (398,915)</u>	<u>\$ 36,234</u>
Unamortized intangible assets			
Trademarks	<u>\$ 236,701</u>		
	2019		
	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets			
Franchise agreements	\$ 346,146	\$ (346,146)	\$ -
Goodwill	89,003	(44,501)	44,502
	<u>\$ 435,149</u>	<u>\$ (390,647)</u>	<u>\$ 44,502</u>
Unamortized intangible assets			
Trademarks	<u>\$ 236,701</u>		

Amortization expense for the years ended December 31, 2020 and 2019 was \$8,268 and \$76,902, respectively. Estimated amortization expense for each of the following five years is:

2021	\$ 8,900
2022	\$ 8,900
2023	\$ 8,900
2024	\$ 8,900
2025	\$ 634

## Added graphics

### Cookie Cutters Franchising, Inc. and Affiliates Notes to Combined Financial Statements December 31, 2020 and 2019

#### Note 4: Notes Payable

Notes payable as of December 31, 2020, consisted of the following:

	2020	2019
Note payable, individual (A)	\$ 52,973	\$ 87,951
Note payable, financial institution (B)	22,441	27,190
Revolving credit agreement (C)	82,149	-
Paycheck Protection Program loans (D)	134,105	-
Economic Industry Disaster loans (E)	194,500	-
	<u>486,168</u>	<u>115,141</u>
Less current maturities	<u>(161,385)</u>	<u>(48,752)</u>
	<u>\$ 324,783</u>	<u>\$ 66,389</u>

- (A) Due December 2021; first 24 months payable at \$1,000 monthly (interest only), at 6.0%; thereafter, principal and interest payments of \$3,867; secured by business assets.
- (B) Due March 2024; payable at \$755 monthly, including interest at 17.19% at December 31, 2020 and 2019; guaranteed by owner and secured by equipment.
- (C) Revolving line-of-credit in the amount of \$189,500 that expires March 2, 2030; interest payable monthly, including variable rates plus an applicable margin. The Company had outstanding borrowings of \$82,149 at December 31, 2020. The interest rate was 5% at December 31, 2020.
- (D) On May 28, 2020, the Company received loan proceeds in the amounts of \$60,705, \$61,200, and \$12,200 for Cookie Cutters, UCANAH, and CC Cranberry, respectively, under the Paycheck Protection Program (PPP). The PPP, established as part of the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the Company uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The unforgiven portion of the PPP loan is payable at an interest rate of 0.98% after two years from the date of the note with interest paid monthly after a six-month deferral period. The *Paycheck Protection Program Flexibility Act of 2020* further extended the deferral period an additional 10 months after the original six-month deferral period. The Company used the proceeds for purposes consistent with the PPP. As of December 31, 2020, the Company had applied for but not been granted forgiveness. Repayment of the PPP is therefore included in the future maturities schedule, below. The Company received forgiveness notification during 2021 on the \$60,705 loan.

## Added graphics

### **Cookie Cutters Franchising, Inc. and Affiliates** **Notes to Combined Financial Statements** **December 31, 2020 and 2019**

- (E) In May and June 2020, the Company received loan proceeds in the amounts of \$150,000 and \$44,500 for Cookie Cutters and UCANAHA, respectively, under the SBA's Economic Industry Disaster Loan (EIDL) program. The EIDL program is designed to provide economic relief to businesses that are currently experiencing a temporary loss of revenue due to COVID-19. Loans issued under the program have a 30-year maturity, including 3.75% interest and are due May 2050 and June 2050 for Cookie Cutters and UCANAHA, respectively. Loans have a payment deferral period of one year during which interest still accrues.

Aggregate annual maturities of long-term debt at December 31, 2020 are:

2021	\$ 161,385
2022	123,424
2023	12,071
2024	6,487
2025	4,469
Thereafter	<u>178,332</u>
Total	<u>\$ 486,168</u>

#### **Note 5: Future Commitments**

##### *Operating Lease*

Noncancelable operating leases for office space expire in various years through 2025.

Future minimum lease payments at December 31, 2020 were:

2021	\$ 113,468
2022	115,857
2023	57,171
2024	34,454
2025	17,481
Thereafter	<u>-</u>
Total	<u>\$ 338,431</u>

Rent expense during the years ended December 31, 2020 and 2019 was \$130,756 and \$90,410, respectively.

## Added graphics

### **Cookie Cutters Franchising, Inc. and Affiliates**

#### **Notes to Combined Financial Statements**

**December 31, 2020 and 2019**

#### *Other Contingencies*

In a prior year, Cookie Cutters entered into an agreement whereby Cookie Cutters purchased substantially all of the assets of another company. As part of the consideration transferred, the Company granted the seller shares of phantom stock (phantom shares) representing a 5% phantom equity interest in the Company. The phantom shares represent the right to receive, solely in cash, the value of an equivalent number of shares of the Company's common stock upon the sale or merger of the Company. The phantom shares do not entitle the holder to any other rights afforded to the shareholders of the Company. The phantom shares had an initial fair market value of \$30,000 as defined in the original agreement and have been included as additional consideration transferred in connection with the agreement. This liability is recorded as other liabilities in the accompanying balance sheets at December 31, 2020 and 2019. Due to the lack of marketability of the phantom shares and the difficulty in determining a reliable estimate related to the fair value, the Company has not reported any additional market adjustments to the liability associated with the contingent consideration.

#### **Note 6: Revenue from Contracts with Customers**

##### *Change in Accounting Principle*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that replaces existing revenue recognition guidance. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted this standard on January 1, 2019, using the full retrospective approach with the cumulative effect of initially applying the new standard recognized in retained earnings at the beginning of the year of adoption. The Company has applied the new standard to all contracts.

The Company's adoption of Topic 606 resulted in a change to the timing of revenue recognition. A portion of initial franchise fees are recognized upon the opening of a franchise location (or store) and as certain pre-opening services are performed, with the remainder being recognized over the life of the contract. The remaining unamortized balance of the initial franchise fees is included within contract liabilities on the accompanying combined balance sheets.

## Added graphics

### **Cookie Cutters Franchising, Inc. and Affiliates** **Notes to Combined Financial Statements** **December 31, 2020 and 2019**

The satisfaction of the Company's performance obligation is based upon providing preopening services, including access to intellectual property, assistance with site location along with training, continuing support and marketing, including general business training and assistance. This resulted in a cumulative effect adjustment, which increased the beginning balance of accumulated deficit by \$62,103 at January 1, 2019, along with increasing the balance of contract liabilities and deferred franchise agreement costs by \$606,905 and \$544,802, respectively. The adoption of Topic 606 had a material effect on the combined statement of operations for the year ended December 31, 2019 due to changes in the timing of revenue recognition, which resulted in an increase to related contract assets and liabilities at the beginning of the year, as discussed.

#### *Performance Obligations*

The Company derives its revenues principally from three main sources: 1) franchise fees and royalties, 2) service sales, and 3) product sales.

The Company determines the amount of revenue to be recognized in each revenue stream through the application of the following five-step model:

- Identification of the contract, or contracts with the customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the Company satisfies the performance obligations

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring distinct goods or providing services to customers.

As a franchisor, the Company's principal business is to sell franchises and to receive royalty fees. In addition, through the two limited liability companies, the Company also has revenues from product sales and service sales generated from haircuts. Franchise rights may be granted through a franchise agreement that sets out the terms of the arrangement with the franchisee. The franchise agreements require that the franchisee remit continuing/royalty fees to the Company based on the monthly revenues of the franchisees. The franchise agreements also require certain, upfront franchise fees such as initial fees paid upon opening of a franchise. The Company recognizes revenue when performance obligations under the terms of contracts with its customers are satisfied, which occurs when pre-opening services are provided to a customer to enable them to direct the use and obtain the benefit of the franchise, with the remaining portion being recognized over the life of the contract.

The Company also sells products and services to customers. Sales to customers typically include products or equipment. The Company's performance obligation under these sales is to deliver products or equipment to customers and revenue is recognized at that point. The timing and amount of revenue recognized related to these revenues was not impacted by the adoption of Topic 606.

## Added graphics

### **Cookie Cutters Franchising, Inc. and Affiliates**

#### **Notes to Combined Financial Statements**

**December 31, 2020 and 2019**

For the franchise fees, upon the adoption of Topic 606, the Company has determined that the services they provide in exchange for upfront franchise fees, which primarily relate to pre-opening training and other services, are individually distinct from the ongoing services they provide to their franchisees. As a result, these pre-opening are recognized upon the franchise opening, and completion of the related training. The pre-opening fees that are recognized upon the franchise opening are generally approximately 38% of the initial franchise fee, 35% on the second store opening, and 7% on any subsequent store openings. The remaining portion of the upfront franchise fees are recognized as revenue over the expected life of the franchise agreement, which is generally 10 years. If a franchise location closes before this estimated 10-year life, the Company recognizes the remaining unearned revenue and deferred costs into income at the time the location closes. Revenues for these upfront franchise fees are recognized on a straight-line basis, which is consistent with the franchisee's right to use and benefit from the intellectual property.

Revenues from continuing fees, including royalties and upfront franchise fees, are presented within franchise revenues in the statements of operations. The Company receives a monthly royalty fee equal to 5% of the franchisees monthly gross sales by the 10<sup>th</sup> day of each month for the preceding month. These royalty payments are considered to be variable consideration; however, the Company relies on a narrow exception to the variable consideration criteria where there is a sales-based or usage-based royalty. Under this exception, the Company recognizes revenue for sales-based royalty revenue on a monthly basis based on sales reports by their franchisees.

The broker and other fees related to franchise sales are recorded as an asset and are recognized over the expected life of the franchise agreement.

#### ***Contract Balances***

The following table provides information about the Company's receivables and contract liabilities from contracts with customers as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Accounts receivable, beginning of year	\$ 215,194	\$ 298,450
Accounts receivable, end of year	\$ 184,444	\$ 215,194
Contract liabilities, beginning of year	\$ 3,299,896	\$ 2,998,362
Contract liabilities, end of year	\$ 2,924,737	\$ 3,299,896

#### ***Significant Judgments***

The Company determined the satisfaction of initial franchising fees to be partially completed upon the franchise opening, and completion of the related training. The Company determined this based on providing assistance with the franchise location and training provided in relation to the operation of a business, which is all provided prior to the opening of a franchise location. The remaining portion of initial franchise fees are recognized over the life of the contract, as these fees are tied to ongoing support by the Company to assist the customer.

## Added graphics

### **Cookie Cutters Franchising, Inc. and Affiliates**

#### **Notes to Combined Financial Statements**

**December 31, 2020 and 2019**

#### *Accounting Policies and Practical Expedients Elected*

The Company has elected to use the portfolio approach to evaluate contracts. As a practical expedient, a portfolio approach is permitted if it is reasonably expected that the approach's impact on the financial statements will not be materially different from the impact of applying the revenue standard on an individual contract basis. In order to use the portfolio approach, an entity must reasonably expect that the accounting result will not be materially different from the result of applying the standard to the individual contracts.

For shipping and handling activities, the Company is applying an accounting policy election, which allows an entity to account for shipping and handling activities as fulfillment activities rather than a promised good or service when the activities are performed, even if those activities are performed after the control of the good has been transferred to the customer. Therefore, the Company expenses shipping and handling costs at the time revenue is recognized.

The Company is also applying an accounting policy election, which allows an entity to exclude from revenue any amounts collected from customers on behalf of third parties, such as sales taxes and other similar taxes the Company collects concurrent with revenue-producing activities. Therefore, revenue is presented net of sales taxes and similar revenue-based taxes.

#### **Note 7: Related-party Advances and Loans**

In a prior year, the Company made unsecured loans to certain shareholders and employees. The advances to the Company's shareholders are non-interest bearing and due on demand. As of December 31, 2020 and 2019, total advances to related parties was \$72,242 and \$78,873, respectively.

#### **Note 8: Income Taxes**

Deferred tax assets and liabilities consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Deferred tax assets (liabilities)		
Net operating loss carryforward	\$ 91,881	\$ 127,583
Deferred revenues	151,743	25,475
Property and equipment	(18,064)	15,121
Other	980	(5,851)
	<u>226,540</u>	<u>162,328</u>
Less valuation allowance	<u>(162,328)</u>	<u>(162,328)</u>
Total deferred tax assets	<u>\$ 64,212</u>	<u>\$ -</u>

## Added graphics

### Cookie Cutters Franchising, Inc. and Affiliates

#### Notes to Combined Financial Statements

December 31, 2020 and 2019

At December 31, 2020 and 2019, the Company has recorded a valuation allowance of \$162,328 as a result of determining that it is more-likely-than-not that a portion of the net operating loss carryforwards and other differences will not be utilized prior to expiration.

The reconciliation of income tax benefit calculated at the tax statutory rates to the Company's actual income tax benefit is set forth below:

	2020	2019
Computed at the statutory rate - 21%	\$ (65,023)	\$ 17,096
Non-deductible expenses	172	489
State income taxes	(15,482)	3,216
Tax credits and other	16,221	(20,801)
Income tax benefit	<u>\$ (64,112)</u>	<u>\$ -</u>

The Company has net operating loss carryforwards for federal and state tax purposes totaling approximately \$350,000 as of December 31, 2020 which do not expire.

#### Note 9: COVID-19

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Company. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

#### Note 10: Subsequent Events

As of March 18, 2021, the Company had applied for, but had not been granted, a second round of funding from the Paycheck Protection Program (PPP).

Subsequent events have been evaluated through March 26, 2021, which is the date the combined financial statements were issued.

Deleted graphics

~~UNAUDITED FINANCIAL STATEMENTS AS OF FEBRUARY 29, 2020~~

~~THESE FINANCIAL STATEMENTS ARE PREPARED WITHOUT AN AUDIT. PROSPECTIVE FRANCHISEES OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAD AUDITED THESE FIGURES OR EXPRESSED HIS/HER OPINION WITH REGARD TO THE CONTENT OR FORM.~~

## Deleted graphics

Cookie Cutters Franchising, Inc. and Affiliates  
Combined Balance Sheet  
February 29, 2020

Assets

Current Assets

Cash	\$ 255,083
Accounts receivable	327,109
Deferred franchise agreement costs - current portion	128,242
Other current assets	<u>30,062</u>

Total current assets 740,496

Net Property and Equipment, at Cost 57,768

Other Assets

Goodwill	44,502
Other intangible assets	236,701
Deferred franchise agreement costs	2,374,729
Due from related entities	79,435
Other assets	<u>7,758</u>

Total other assets 2,743,125

Total assets \$ 3,541,389

*Unaudited*

## Deleted graphics

**Cookie Cutters Franchising, Inc. and Affiliates**  
Combined Balance Sheet (continued)  
February 29, 2020

**Liabilities and Stockholders' Equity**

<b>Current Liabilities</b>	
Accounts payable	\$ 6,634
Accrued expenses	85,859
Contract liabilities, current portion	166,857
Notes payable, current portion	<u>48,752</u>
<b>Total current liabilities</b>	<b>308,102</b>
<b>Long-term Liabilities</b>	
Other liabilities	30,000
Notes payable	58,775
Contract liabilities	<u>3,184,072</u>
<b>Total long-term liabilities</b>	<b><u>3,272,847</u></b>
<b>Total liabilities</b>	<b>3,580,949</b>
<b>Stockholders' Equity (Deficit)</b>	
Common stock, \$0.001 par value, 1,000,000 shares authorized, 566,746 issued and outstanding	567
Additional paid-in capital	604,578
Accumulated deficit and members' equity	<u>(644,705)</u>
<b>Total stockholders' equity (deficit)</b>	<b><u>(39,560)</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 3,541,389</u></b>

*Unaudited*

## Deleted graphics

Cookie Cutters Franchising, Inc. and Affiliates  
Combined Statement of Operations  
Two Months ended February 29, 2020

Revenues	
Continuing franchise and service fees	\$ 197,785
Service sales	98,764
Product sales	<u>52,104</u>
Total revenues	348,653
Operating Expenses	
Cost of products sold	22,359
Selling, general and administrative	304,931
Amortization expense	1,378
Depreciation expense	<u>2,915</u>
Total operating expenses	<u>331,583</u>
Income from Operations	17,070
Other Income (Expense)	
Interest income	-
Interest expense	<u>(1,629)</u>
Total other income (expense)	<u>(1,629)</u>
Net Income Before Income Taxes	15,441
Income tax provision	<u>-</u>
Net Income	<u>\$ 15,441</u>

*Unaudited*

Deleted graphics



510 S. 200 W., Suite 200 | Salt Lake City, UT 84101-2320  
801.531.9100 | Fax 801.531.9147 | bkd.com

**Auditor's Consent**

We agree to the inclusion in the Franchise Disclosure Document issued by Cookie Cutters Franchising Inc. ("Franchisor") on May 12, 2020, as it may be amended, of our report dated April 8, 2020, on our audit of the financial statements of Cookie Cutters Franchising, Inc. as of December 31, 2019 and for the year then ended.

*BKD, LLP*

Salt Lake City, Utah  
May 12, 2020



Deleted graphics

**Cookie Cutters Franchising, Inc. and Affiliates**  
Independent Auditor's Report and Combined Financial Statements  
December 31, 2019

Deleted graphics

**Cookie Cutters Franchising, Inc. and Affiliates**

December 31, 2019

**Contents**

**Independent Auditor's Report** ..... 1

**Combined Financial Statements**

    Balance Sheet ..... 3

    Statement of Operations ..... 5

    Statement of Stockholders' Equity ..... 6

    Statement of Cash Flows ..... 7

    Notes to Financial Statements ..... 8

## Deleted graphics



510 S. 200 W., Suite 200 | Salt Lake City, UT 84101-2320  
801.531.9100 | Fax 801.531.9147 | bkd.com

### Independent Auditor's Report

To the Owners of  
Cookie Cutters Franchising, Inc. and Affiliates  
West Jordan, Utah

We have audited the accompanying combined financial statements of Cookie Cutters Franchising, Inc. and Affiliates, which comprise the combined balance sheet as of December 31, 2019, and the related combined statements of operations, stockholders' equity and cash flows for the year then ended, and the related notes to the combined financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Deleted graphics

To the Owners of  
Cookie Cutters Franchising, Inc. and Affiliates

### *Opinion*

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Cookie Cutters Franchising, Inc. and Affiliates as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 6 to the combined financial statements, in 2019, the Company adopted new accounting guidance ASU 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

*BKD, LLP*

Salt Lake City, Utah  
April 8, 2020

## Deleted graphics

### Cookie Cutters Franchising, Inc. and Affiliates Combined Balance Sheet December 31, 2019

#### Assets

<b>Current Assets</b>	
Cash	\$ 293,879
Accounts receivable	215,194
Deferred franchise agreement costs - current portion	128,242
Other current assets	<u>28,858</u>
Total current assets	<u>666,173</u>
<b>Net Property and Equipment, at Cost</b>	<u>60,683</u>
<b>Other Assets</b>	
Goodwill	44,502
Other intangible assets	236,701
Deferred franchise agreement costs	2,397,481
Due from related entities	78,873
Other assets	<u>7,888</u>
Total other assets	<u>2,765,445</u>
Total assets	<u>\$ 3,492,301</u>

See Notes to Combined Financial Statements

3

## Deleted graphics

**Cookie Cutters Franchising, Inc. and Affiliates**  
Combined Balance Sheet (continued)  
December 31, 2019

**Liabilities and Stockholders' Equity**

<b>Current Liabilities:</b>	
Accounts payable	\$ 22,470
Accrued expenses	77,228
Contract liabilities, current portion	166,857
Notes payable, current portion	48,752
	<u>315,307</u>
Total current liabilities	
<b>Long-term Liabilities</b>	
Other liabilities	30,000
Notes payable	66,389
Contract liabilities	3,133,039
	<u>3,229,428</u>
Total long-term liabilities	
Total liabilities	
<u>3,544,735</u>	
<b>Stockholders' Equity (Deficit)</b>	
Common stock, \$.001 par value, 1,000,000 shares authorized, 566,746 issued and outstanding	567
Additional paid-in capital	604,578
Accumulated deficit and members' equity	(657,579)
	<u>(52,434)</u>
Total stockholders' equity (deficit)	
<u>(52,434)</u>	
Total liabilities and stockholders' equity	
<u>\$ 3,492,301</u>	

See Notes to Combined Financial Statements

4

Deleted graphics

**Cookie Cutters Franchising, Inc. and Affiliates**  
**Combined Statement of Operations**  
**Year Ended December 31, 2019**

<b>Revenues</b>	
Continuing franchise and service fees	\$ 765,328
Initial franchise fees	821,310
Other franchise related fees	37,500
Service sales	406,610
Product sales	269,576
	<hr/>
Total revenues	2,300,324
<b>Operating Expenses</b>	
Cost of products sold	140,423
Selling, general and administrative	1,955,848
Amortization expense	76,902
Depreciation expense	14,488
Bad debt expense	233
	<hr/>
Total operating expenses	2,187,894
	<hr/>
<b>Income from Operations</b>	112,430
<b>Other Income (Expense)</b>	
Interest income	4,154
Interest expense	(22,531)
	<hr/>
Total other income (expense)	(18,377)
	<hr/>
<b>Net Income Before Income Taxes</b>	94,053
	<hr/>
Income tax provision	-
	<hr/>
<b>Net Income</b>	<u>\$ 94,053</u>

See Notes to Combined Financial Statements

5

Deleted graphics

**Cookie Cutters Franchising, Inc. and Affiliates**  
**Combined Statement of Stockholders' Equity**  
**Year Ended December 31, 2019**

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-In	Deficit and	Stockholders'
			Capital	Members'	Equity
				Equity	(Deficit)
<b>Balance, January 1, 2019</b>	566,746	\$ 567	\$ 604,578	\$ (686,960)	\$ (81,815)
Net income	-	-	-	94,053	94,053
Member draws	-	-	-	(2,569)	(2,569)
Retrospective adjustment (Note 6)	-	-	-	(62,103)	(62,103)
<b>Balance, December 31, 2019</b>	<u>566,746</u>	<u>\$ 567</u>	<u>\$ 604,578</u>	<u>\$ (657,579)</u>	<u>\$ (52,434)</u>

See Notes to Combined Financial Statements

## Deleted graphics

### Cookie Cutters Franchising, Inc. and Affiliates Combined Statement of Cash Flows Year Ended December 31, 2019

<b>Operating Activities</b>	
Net income	\$ 94,053
Items not requiring (providing) cash	
Depreciation	14,488
Amortization of intangible assets, including goodwill	76,902
Changes in	
Accounts receivable	83,256
Deferred franchise costs	276,425
Other current assets	(10,376)
Other assets	(3,065)
Accounts payable	(70,020)
Accrued expenses	(5,445)
Deferred revenue	<u>(305,371)</u>
Net cash provided by operating activities	<u>150,847</u>
<b>Investing Activities</b>	
Advances on notes receivable - shareholders	(10,135)
Proceeds received from notes receivable - related party	12,122
Purchase of property and equipment	(7,425)
Purchase of investment	<u>(27,677)</u>
Net cash used by investing activities	<u>(33,115)</u>
<b>Financing Activities</b>	
Payments on notes payable and notes payable - shareholders	(109,860)
Payments of member draws	<u>(2,569)</u>
Net cash used by financing activities	<u>(112,429)</u>
Increase in Cash	5,303
Cash, Beginning of Year	<u>288,576</u>
Cash, End of Year	<u>\$ 293,879</u>
<b>Supplemental Cash Flow Information</b>	
Interest paid	\$ 22,531

See Notes to Combined Financial Statements

7

## Cookie Cutters Franchising, Inc. and Affiliates

### Notes to Combined Financial Statements

December 31, 2019

#### Note 1: Nature of Operations and Summary of Significant Accounting Policies

##### *Nature of Operations and Organization*

The combined financial statements presented include the financial statements of the companies listed in the following paragraph, which are related through common ownership and management.

Cookie Cutters Franchising, Inc. (Cookie Cutters) was incorporated as a Utah corporation effective October 16, 2014. UCANA<sup>H</sup> for Kids, L.C. (UCANA<sup>H</sup>) was organized on January 26, 2007 under the laws of the state of Utah, for a period of duration of 50 years. Cookie Cutters Cranberry (CC Cranberry) was organized on November 15, 2019 under the laws of the state of Utah, for a period of duration of 50 years. Cookie Cutters Franchising, Inc. together with UCANA<sup>H</sup> and CC Cranberry has been engaged in franchising the Company's hair care salons for children. As of December 31, 2019 there were 109 store locations in operation in the United States and Canada, including locations owned and operated by UCANA<sup>H</sup> and CC Cranberry. The Company's primary sources of revenue are from franchising and royalty fees, product sales, and service sales generated from haircuts from UCANA<sup>H</sup> & CC Cranberry. Collectively Cookie Cutters, UCANA<sup>H</sup> and CC Cranberry are referred to herein as "the Company". All significant intercompany balances and transactions have been eliminated.

##### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The use of estimates is pervasive throughout these combined financial statements. Key estimates in the accompanying combined financial statements include, among others, allowances for doubtful accounts receivable, the economic useful lives and recovery of long-lived assets, the realization of deferred tax assets, and contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

##### *Concentration of Credit Risk*

Certain financial instruments subject the Company to concentrations of credit risk. These financial instruments consist primarily of cash and accounts receivable. At December 31, 2019, the Company's cash accounts exceeded federally insured limits by approximately \$18,000. The Company has not experienced any historical losses in such accounts. Management believes that the Company is not exposed to significant credit risk related to cash because the Company maintains its cash balances with high credit quality financial institutions.

## Deleted graphics

### **Cookie Cutters Franchising, Inc. and Affiliates** **Notes to Combined Financial Statements** **December 31, 2019**

#### *Accounts Receivable*

Accounts receivable generally represent amounts due from franchisees for transaction fees and other franchise services. Accounts receivable are stated at the amount of consideration from customers of which the Company has an unconditional right to receive plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts that are unpaid after the due date bear interest at 1.5% daily. Interest continues to accrue on delinquent accounts until the account is paid, or the balance is deemed uncollectible, at which time interest accrual ceases and does not resume until the account is no longer classified as delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

#### *Contract Liabilities*

Contract liabilities represent the Company's obligation to transfer goods or services to a customer when consideration has already been received from the customer. These consist primarily of deferred franchise fee revenues on the balance sheet.

#### *Notes Receivable*

Notes receivable are stated at the outstanding principal amount, net of allowance for uncollectible notes. The Company provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. A note receivable is considered delinquent when the debtor has missed three or more payments. At that time, the note is placed on nonaccrual status and interest accrual ceases and does not resume until the note is no longer classified as delinquent. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower.

#### *Inventories*

Inventories consist of hair care products and supplies. Inventories are stated at the lower of cost or net realizable value. Costs of hair care products and supplies are determined using the first-in, first-out (FIFO) method. Inventory has been included in "other current assets" on the Company's balance sheet as of December 31, 2019.

## Deleted graphics

### Cookie Cutters Franchising, Inc. and Affiliates Notes to Combined Financial Statements December 31, 2019

#### *Property and Equipment*

Property and equipment acquisitions are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are charged to expense on the straight-line basis over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Leasehold improvements	5 years
Vehicles	5 years
Furniture and fixtures	3 to 5 years
Equipment	5 years

#### *Goodwill*

The Company elected the private company accounting alternative for identifiable intangible assets in a business combination. Under this alternative, certain customer-related intangible assets and noncompetition agreements are subsumed into goodwill and are no longer required to be recognized separately in the accounting for a business combination.

The Company also has elected the private company accounting alternative for the subsequent measurement of goodwill. Under this alternative, goodwill is amortized on a straight-line basis over 10 years. The Company evaluates the recoverability of the carrying value of goodwill at the entity level whenever events or circumstances indicate the carrying amount may not be recoverable.

In testing goodwill for impairment, the Company has the option first to perform a qualitative assessment to determine whether it is more-likely-than-not that goodwill is impaired or the entity can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the entity with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of an entity, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

#### *Intangible Assets*

Intangible assets with finite lives are being amortized on the straight-line basis over periods ranging from five to seven years. Such assets are periodically evaluated as to the recoverability of carrying values.

In addition, intangible assets with indefinite lives are not amortized, but periodically evaluated as to the recoverability of the carrying values.

## Cookie Cutters Franchising, Inc. and Affiliates

### Notes to Combined Financial Statements

December 31, 2019

#### *Long-lived Asset Impairment*

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended December 31, 2019.

#### *Revenue Recognition*

Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The amount and timing of revenue recognition varies based on the nature of the goods or services provided and the terms and conditions of the customer contract. A portion of the proceeds from the sale of franchises is recognized as revenue when the Company has performed substantially all services for the franchise as stipulated in the franchise agreement, generally at completion of new franchise training and the start of business by the franchise. The remaining portion is recognized as revenue over the expected life of the franchise agreement. The Company generally requires that the entire franchise fee be paid upon execution of the franchise agreement and consequently recognizes deferred revenue until certain revenue recognition criteria have been met.

See Note 6 for additional information about the Company's revenue.

#### *Income Taxes*

As a corporation, Cookie Cutters accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

UCANAH and CC Cranberry are limited liability companies. These entities are not subject to federal income tax because their income and losses are includable in the tax returns of their members but may be subject to certain state taxes.

Tax positions are recognized if it is more-likely-than-not, based on the technical merits that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a

## Deleted graphics

### **Cookie Cutters Franchising, Inc. and Affiliates**

#### **Notes to Combined Financial Statements**

**December 31, 2019**

likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information.

The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2019, the unrecognized tax benefits accrual is zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

#### *Future Significant Accounting Policies*

##### Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. The Company is evaluating the effect the standard will have on the combined financial statements. The standard is expected, however, to have a material effect on the combined financial statements due to the recognition of additional assets and liabilities for operating leases.

## Deleted graphics

### Cookie Cutters Franchising, Inc. and Affiliates

Notes to Combined Financial Statements  
December 31, 2019

#### Note 2: Property and Equipment

Property and equipment consisted of the following as of December 31, 2019:

Furniture and fixtures	\$ 55,795
Automobiles	21,000
Leasehold improvements	60,994
Equipment	<u>67,292</u>
Totals	205,081
Less: accumulated depreciation	<u>(144,398)</u>
Property and equipment, net	<u>\$ 60,683</u>

#### Note 3: Acquired Intangible Assets and Goodwill

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2019 were:

	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets			
Franchise agreements	\$ 346,146	\$ (346,146)	\$ -
Goodwill	<u>89,003</u>	<u>(44,501)</u>	<u>44,502</u>
	<u>\$ 435,149</u>	<u>\$ (390,647)</u>	<u>\$ 44,502</u>
Unamortized intangible assets			
Trademarks	<u>\$ 236,701</u>		

Amortization expense for the year ended December 31, 2019, was \$76,902. Estimated amortization expense for each of the following five years is:

2020	\$ 8,900
2021	8,900
2022	8,900
2023	8,900
2024	8,900

## Deleted graphics

### Cookie Cutters Franchising, Inc. and Affiliates Notes to Combined Financial Statements December 31, 2019

#### Note 4: Notes Payable

Note payable, individual (A)	\$ 87,951
Note payable, financial institution (B)	<u>27,190</u>
	115,141
Less current maturities	<u>(48,752)</u>
	<u>\$ 66,389</u>

(A) Due December 2021; first 24 months payable at \$1,000 monthly (interest only), at 6.0%; thereafter, principal and interest payments of \$3,867; secured by business assets.

(B) Due March 2024; payable at \$698 monthly, including interest at 9.07% at December 31, 2019; guaranteed by owner and secured by equipment.

Aggregate annual maturities of long-term debt at December 31, 2019, are:

2020	\$ 48,752
2021	52,680
2022	7,711
2023	5,998
Thereafter	<u>-</u>
Total	<u>\$ 115,141</u>

#### Note 5: Future Commitments

##### Operating Lease

Noncancelable operating leases for office space expire in various years through 2025.

Future minimum lease payments at December 31, 2019, were:

2020	\$ 105,511
2021	113,468
2022	115,857
2023	57,171
2024	34,454
Thereafter	<u>17,481</u>
	<u>\$ 443,942</u>

Rent expense during the year ended December 31, 2019, was \$90,410.

**Cookie Cutters Franchising, Inc. and Affiliates**  
**Notes to Combined Financial Statements**  
**December 31, 2019**

*Other Contingencies*

In a prior year, Cookie Cutters entered into an agreement whereby Cookie Cutters purchased substantially all of the assets of another company. As part of the consideration transferred, the Company granted the seller shares of phantom stock (phantom shares) representing a 5% phantom equity interest in the Company. The phantom shares represent the right to receive, solely in cash, the value of an equivalent number of shares of the Company's common stock upon the sale or merger of the Company. The phantom shares do not entitle the holder to any other rights afforded to the shareholders of the Company. The phantom shares had an initial fair market value of \$30,000 as defined in the original agreement and have been included as additional consideration transferred in connection with the agreement. This liability is recorded as other liabilities in the accompanying balance sheet at December 31, 2019. Due to the lack of marketability of the phantom shares and the difficulty in determining a reliable estimate related to the fair value, the Company has not reported any additional market adjustments to the liability associated with the contingent consideration.

**Note 6: Revenue from Contracts with Customers**

*Change in Accounting Principle*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that replaces existing revenue recognition guidance. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted this standard on January 1, 2019, using the full retrospective approach with the cumulative effect of initially applying the new standard recognized in retained earnings at the beginning of the year of adoption. The Company has applied the new standard to all contracts.

The Company's adoption of Topic 606 resulted in a change to the timing of revenue recognition. A portion of initial franchise fees are recognized upon the opening of a franchise location (or store) and as certain pre-opening services are performed, with the remainder being recognized over the life of the contract. The remaining unamortized balance of the initial franchise fees is included within contract liabilities on the accompanying combined balance sheet.

## Deleted graphics

### **Cookie Cutters Franchising, Inc. and Affiliates** Notes to Combined Financial Statements December 31, 2019

The satisfaction of the Company's performance obligation is based upon providing preopening services, including access to intellectual property, assistance with site location along with training, continuing support and marketing, including general business training and assistance. This resulted in a cumulative effect adjustment, which increased the beginning balance of accumulated deficit by \$62,103 at January 1, 2019, along with increasing the balance of contract liabilities and deferred franchise agreement costs by \$606,905 and \$544,802, respectively. The adoption of Topic 606 had a material effect on the combined statement of operations for the year ended December 31, 2019 due to changes in the timing of revenue recognition, which resulted in an increase to related contract assets and liabilities at the beginning of the year, as discussed.

#### *Performance Obligations*

The Company derives its revenues principally from three main sources: 1) franchise fees and royalties, 2) service sales, and 3) product sales.

The Company determines the amount of revenue to be recognized in each revenue stream through the application of the following five-step model:

- Identification of the contract, or contracts with the customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the Company satisfies the performance obligations.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring distinct goods or providing services to customers.

As a franchisor, the Company's principal business is to sell franchises and to receive royalty fees. In addition, through the two limited liability companies, the Company also has revenues from product sales and service sales generated from haircuts. Franchise rights may be granted through a franchise agreement that sets out the terms of the arrangement with the franchisee. The franchise agreements require that the franchisee remit continuing/royalty fees to the Company based on the monthly revenues of the franchisees. The franchise agreements also require certain, upfront franchise fees such as initial fees paid upon opening of a franchise. The Company recognizes revenue when performance obligations under the terms of contracts with its customers are satisfied, which occurs when pre-opening services are provided to a customer to enable them to direct the use and obtain the benefit of the franchise, with the remaining portion being recognized over the life of the contract.

The Company also sells products and services to customers. Sales to customers typically include products or equipment. The Company's performance obligation under these sales is to deliver products or equipment to customers and revenue is recognized at that point. The timing and amount of revenue recognized related to these revenues was not impacted by the adoption of Topic 606.

## Deleted graphics

### Cookie Cutters Franchising, Inc. and Affiliates

#### Notes to Combined Financial Statements

December 31, 2019

For the franchise fees, upon the adoption of Topic 606, the Company determined that the services they provide in exchange for upfront franchise fees, which primarily relate to pre-opening training and other services, are individually distinct from the ongoing services they provide to their franchisees. As a result, upon the adoption of Topic 606, these pre-opening fees will continue to be recognized upon the franchise opening, and completion of the related training. The pre-opening fees that are recognized upon the franchise opening are generally approximately 38% of the initial franchise fee, 35% on the second store opening, and 7% on any subsequent store openings. The remaining portion of the upfront franchise fees are recognized as revenue over the expected life of the franchise agreement, which is generally 10 years. If a franchise location closes before this estimated 10-year life, the Company recognizes the remaining unearned revenue and deferred costs into income at the time the location closes. Revenues for these upfront franchise fees are recognized on a straight-line basis, which is consistent with the franchisee's right to use and benefit from the intellectual property.

Revenues from continuing fees, including royalties and upfront franchise fees, are presented within franchise revenues in the statement of operations. The Company receives a monthly royalty fee equal to five percent of the franchisees monthly gross sales by the 10<sup>th</sup> day of each month for the preceding month. These royalty payments are considered to be variable consideration; however, the Company relies on a narrow exception to the variable consideration criteria where there is a sales-based or usage-based royalty. Under this exception, the Company recognizes revenue for sales-based royalty revenue on a monthly basis based on sales reports by their franchisees.

The broker and other fees related to franchise sales are recorded as an asset and are recognized over the expected life of the franchise agreement.

#### *Contract Balances*

The following table provides information about the Company's receivables and contract liabilities from contracts with customers:

Accounts receivable, beginning of period	\$	298,450
Accounts receivable, end of period		215,194
Contract liabilities, beginning of period		2,998,362
Contract liabilities, end of period		3,299,896

#### *Significant Judgments*

The Company determined the satisfaction of initial franchising fees to be partially completed upon the franchise opening, and completion of the related training. The Company determined this based on providing assistance with the franchise location and training provided in relation to the operation of a business, which is all provided prior to the opening of a franchise location. The remaining portion of initial franchise fees are recognized over the life of the contract, as these fees are tied to ongoing support by the Company to assist the customer.

17

## Deleted graphics

### Cookie Cutters Franchising, Inc. and Affiliates Notes to Combined Financial Statements December 31, 2019

#### *Accounting Policies and Practical Expedients Elected*

The Company elected to use the portfolio approach to evaluate contracts. As a practical expedient, a portfolio approach is permitted if it is reasonably expected that the approach's impact on the financial statements will not be materially different from the impact of applying the revenue standard on an individual contract basis. In order to use the portfolio approach, an entity must reasonably expect that the accounting result will not be materially different from the result of applying the standard to the individual contracts.

For shipping and handling activities, the Company is applying an accounting policy election, which allows an entity to account for shipping and handling activities as fulfillment activities rather than a promised good or service when the activities are performed, even if those activities are performed after the control of the good has been transferred to the customer. Therefore, the Company expenses shipping and handling costs at the time revenue is recognized.

The Company is also applying an accounting policy election, which allows an entity to exclude from revenue any amounts collected from customers on behalf of third parties, such as sales taxes and other similar taxes the Company collects concurrent with revenue-producing activities. Therefore, revenue is presented net of sales taxes and similar revenue-based taxes.

#### **Note 7: Related-party Advances and Loans**

In a prior year, the Company made unsecured loans to certain shareholders and employees. The advances to the Company's shareholders are non-interest bearing and due on demand. The loan made to an employee of the Company bears an interest rate of 4% per annum, requires monthly principal and interest payments of \$5,226 and matures on November 1, 2020. As of December 31, 2019, total advances to related parties was \$78,873.

#### **Note 8: Income Taxes**

Deferred tax assets and liabilities consist of the following at December 31, 2019:

Deferred tax assets (liabilities)	
Net operating loss carryforward	\$ 127,583
Deferred revenues	25,475
Property and equipment	15,121
Other	(5,851)
	<hr/>
	162,328
Less valuation allowance	(162,328)
	<hr/>
Total deferred tax assets	\$ -

Deleted graphics

**Cookie Cutters Franchising, Inc. and Affiliates**  
**Notes to Combined Financial Statements**  
**December 31, 2019**

The Company has net operating loss carryforwards for federal and state tax purposes totaling approximately \$490,000 as of December 31, 2019. At December 31, 2019, the Company has recorded a valuation allowance of \$162,328 as a result of determining that it is more-likely-than-not that a portion of the net operating loss carryforwards will not be utilized prior to expiration.

The reconciliation of income taxes calculated at the tax statutory rates to the Company's effective tax rate is set forth below:

Income tax computed at federal statutory rates	21%
State taxes, net of federal tax benefit	4%
Change in income taxes resulting from valuation allowance	<u>-25%</u>
	<u>0%</u>

**Note 9: Subsequent Events**

Subsequent events have been evaluated through April 8, 2020, which is the date the combined financial statements were available to be issued.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared states of emergency. It is anticipated that these impacts will continue for some time. This has already begun to have a significant impact to the Company's operations to date. Future potential impacts to the Company include disruptions or restrictions on the Company's employees' ability to work, lost revenues due to closed stores, reduction in the demand for additional franchise agreements, and lack of demand for the Company's products and services. Changes to the operating environment may also be impacted. These changes may increase operating costs. The future effects of these issues are unknown.



COOKIE CUTTERS FRANCHISING, INC  
AND UCANAH FOR KIDS, L.C.

Combined Financial Statements

December 31, 2018 and 2017

**CONTENTS**

Independent Auditors' Report ..... 3 - 4

**Combined Financial Statements:**

Combined Balance Sheets ..... 5 - 6

Combined Statements of Operations ..... 7

Combined Statements of Equity ..... 8

Combined Statements of Cash Flows ..... 9 - 10

Notes to the Combined Financial Statements ..... 11 - 23



## **INDEPENDENT AUDITORS' REPORT**

To the Owners of  
**Cookie Cutters Franchising, Inc. and UCANAH For Kids, L.C.**  
West Jordan, Utah

We have audited the accompanying combined financial statements of Cookie Cutters Franchising, Inc. and UCANAH for Kids, L.C. (collectively referred to as "the Company"), which comprise the combined balance sheets as of December 31, 2018, and the related combined statements of operations, equity, and cash flows for the year then ended, and the related notes to the combined financial statements.

### **Management's Responsibility for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



# 3

## Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Cookie Cutters Franchising, Inc. and UCANAH for Kids, L.C. as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Prior Period Financial Statements

The combined financial statements of Cookie Cutters Franchising, Inc. and UCANAH for Kids, L.C. as of December 31, 2017 were audited by other auditors whose report dated April 5, 2018, expressed an unmodified opinion on those statements.

*Stayner Bates P.C.*

Stayner Bates P.C.  
Salt Lake City, Utah  
March 26, 2019

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Combined Balance Sheets**

<u>ASSETS</u>		<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	288,576	\$ 278,885
Accounts receivable		298,450	378,157
Other current assets		14,805	20,879
Total Current Assets		<u>601,831</u>	<u>677,921</u>
<b>PROPERTY AND EQUIPMENT - NET</b>		<u>43,746</u>	<u>25,660</u>
<b>OTHER ASSETS</b>			
Goodwill, net		57,943	40,810
Other intangible assets, net		300,162	369,391
Deferred franchise agreement costs		2,257,346	2,586,596
Note receivable - related party		12,122	17,830
Notes receivable - shareholders		68,738	70,240
Other assets		4,823	-
Total Other Assets		<u>2,701,134</u>	<u>3,084,867</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>3,346,711</u></b>	<b>\$ <u>3,788,448</u></b>

The accompanying notes are an integral part of these combined financial statements.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Combined Balance Sheets (Continued)**

	<u>LIABILITIES AND EQUITY</u>	
	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 92,490	\$ 147,952
Accrued expenses	82,673	12,246
Notes payable - shareholders, current portion	68,356	43,557
Notes payable, current portion	45,873	50,356
	<u>289,392</u>	<u>254,111</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable	110,772	130,344
Notes payable - shareholders	-	24,799
Other liabilities	30,000	-
Deferred revenue	2,998,362	3,483,675
	<u>3,139,134</u>	<u>3,638,818</u>
Total Long-Term Liabilities	<u>3,139,134</u>	<u>3,638,818</u>
Total Liabilities	<u>3,428,526</u>	<u>3,892,929</u>
<b>EQUITY</b>		
Common stock, \$.001 par value, 1,000,000 shares authorized, 566,746 issued and outstanding	567	567
Additional paid in capital	604,578	604,578
Accumulated deficit and members' equity	(686,960)	(709,626)
	<u>(81,815)</u>	<u>(104,481)</u>
Total Equity (Deficit)	<u>(81,815)</u>	<u>(104,481)</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>\$ 3,346,711</u></b>	<b><u>\$ 3,788,448</u></b>

The accompanying notes are an integral part of these combined financial statements.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Combined Statements of Operations**

	For the Years	
	Ended December 31,	
	2018	2017
<b>REVENUES</b>		
Continuing franchise and service fees	\$ 707,996	\$ 338,553
Initial franchise fees	1,247,427	528,583
Other franchise related fees	50,109	15,000
Service sales	363,976	346,329
Product sales	385,007	547,550
	<b>2,754,515</b>	<b>1,776,015</b>
<b>COST OF GOODS SOLD</b>		
Cost of goods sold	365,745	297,043
	<b>365,745</b>	<b>297,043</b>
	<b>2,388,770</b>	<b>1,478,972</b>
<b>OPERATING EXPENSES</b>		
Selling, general and administrative	2,167,184	1,560,359
Amortization expense	82,096	75,129
Depreciation expense	15,551	16,887
	<b>2,264,831</b>	<b>1,652,375</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>123,939</b>	<b>(173,403)</b>
<b>OTHER INCOME (EXPENSES)</b>		
Interest income	584	-
Interest expense	(22,721)	(17,714)
	<b>(22,137)</b>	<b>(17,714)</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 101,802</b>	<b>\$ (191,117)</b>

The accompanying notes are an integral part of these combined financial statements.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Combined Statements of Equity**  
**For the Years Ended December 31, 2018 and 2017**

	Common stock		Additional Paid-in Capital	Accumulated Deficit and Members' Equity	Total Equity (Deficit)
	Shares	Amount			
Balance, December 31, 2016	566,746	\$ 567	\$ 604,578	\$ (495,871)	\$ 109,274
Net loss	-	-	-	(191,117)	(191,117)
Member draws, net of member contributions	-	-	-	(22,638)	(22,638)
Balance, December 31, 2017	566,746	567	604,578	(709,626)	(104,481)
Net income	-	-	-	101,802	101,802
Member draws, net of member contributions	-	-	-	(79,136)	(79,136)
<b>Balance, December 31, 2018</b>	<b>566,746</b>	<b>\$ 567</b>	<b>\$ 604,578</b>	<b>\$ (686,960)</b>	<b>\$ (81,815)</b>

The accompanying notes are an integral part of these combined financial statements.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Combined Statements of Cash Flows**

	<b>For the Years</b>	
	<b>Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 101,802	\$ (191,117)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	15,551	16,887
Amortization of intangible assets including goodwill	82,096	75,129
(Increase) decrease in operating assets:		
Accounts receivable	79,707	(141,700)
Deferred franchise costs	329,250	(1,511,179)
Other current assets	6,074	(6,739)
Other assets	(4,823)	-
Increase (decrease) in operating liabilities:		
Accounts payable	(55,462)	112,591
Accrued expenses	70,427	(42,239)
Other liabilities	-	(102,262)
Deferred revenue	(485,313)	1,922,842
	<u>139,309</u>	<u>132,213</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from notes receivable - shareholders	1,502	355,704
Proceeds from note receivable - related party	5,708	5,484
	<u>7,210</u>	<u>361,188</u>

The accompanying notes are an integral part of these combined financial statements.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Combined Statements of Cash Flows (Continued)**

	For the Years Ended December 31,	
	2018	2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from notes payable	\$ -	\$ 8,917
Payments on other liability	-	(288,722)
Payments on notes payable	(57,692)	-
Payments of member draws	(79,136)	(22,638)
	(136,828)	(302,443)
Net Cash Used in Financing Activities	(136,828)	(302,443)
NET INCREASE IN CASH	9,691	190,958
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	278,885	87,927
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 288,576</b>	<b>\$ 278,885</b>

**SUPPLEMENTAL CASH FLOW INFORMATION**

Cash Payments For:

Interest	\$ 14,359	\$ 17,714
Income taxes	\$ 100	\$ 100

Non-Cash Investing and Financing Activities:

Purchase of equipment financed by a note payable	\$ 33,637	\$ -
Increase in goodwill for contingent consideration	\$ 30,000	\$ -

The accompanying notes are an integral part of these combined financial statements.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS**

The combined financial statements presented include the financial statements of the companies listed in the following paragraph, which are related through common ownership and management.

Cookie Cutters Franchising, Inc. ("Cookie Cutters") was incorporated as a Utah Corporation effective October 16, 2014. UCANAH for Kids, L.C. ("UCANAH") was organized on January 26, 2007 under the laws of the State of Utah. UCANAH was organized as an LLC with a period of duration of fifty years. Cookie Cutters Franchising, Inc. together with UCANAH for Kids, L.C. has been engaged in franchising the Company's hair care salons for children. As of December 31, 2018, there were 93 store locations in operation in the United States and Canada, including a location owned and operated by UCANAH. The Company's primary sources of revenue are from franchising and royalty fees, product sales, and service sales generated from hair cuts from UCANAH. Collectively Cookie Cutters and UCANAH are referred to herein as "the Company".

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's combined financial statements. The combined financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the combined financial statements. The following is a summary of the more significant of such policies:

**Accounting Method**

The Company's combined financial statements are prepared using the accrual method of accounting. The Company has elected a calendar year-end.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Cash and Cash Equivalents**

The Company's inventory consists of hair care products and supplies and is stated at the lower of cost (first-in, first-out) or market value. Inventory has been included in "Other current assets" on the Company's balance sheet as of December 31, 2018 and 2017.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment**

Property and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of property and equipment sold or otherwise retired and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in other selling, general and administrative expenses. The estimated useful lives are as follows:

Leasehold improvements	5 years
Furniture and fixtures	3 to 5 years
Automobiles	5 years
Equipment	5 years

**Long Lived Assets**

In accordance with impairment or disposal of long-lived assets subsections of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 360-10, *Property, Plant and Equipment - Overall*, long-lived assets, such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of the long-lived assets or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No assets were deemed to be impaired at December 31, 2018 and 2017.

**Accounts Receivable**

Accounts receivable are shown net of an allowance for doubtful accounts. The Company provides for an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. As of December 31, 2018 and 2017, the allowance for doubtful accounts was \$-0-

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates**

The preparation of these combined financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets, liabilities, revenues and expenses. These estimates are based on historical experience and various other factors. The Company continually evaluates the information used to make these estimates as the business and economic environment changes. Historically, actual results have not varied materially from the Company's estimates and the Company does not currently anticipate a significant change in its assumptions related to these estimates. However, actual results may differ from these estimates under different assumptions or conditions. The use of estimates is pervasive throughout these combined financial statements, including the economic useful lives and recovery of long-lived assets including goodwill and other intangible assets, allowances for doubtful accounts receivable, revenue recognition, and contingencies. Changes to the current economic environment increases the degree of uncertainty inherent in these estimates and assumptions.

**Advertising**

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was \$21,853 and \$21,547 for the years ended December 31, 2018 and 2017, respectively.

**Revenue Recognition**

Revenue from hair styling services is recognized when the services are performed. Revenues from product sales is recognized when products are sold. Product sales are presented net of sales tax and other sales-related taxes.

The Company executes franchise agreements that set the terms of its arrangement with each franchisee. The franchise agreements require the franchisee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to the Company's approval and payment of a renewal fee, a franchisee may generally renew its agreement upon its expiration. Direct costs of sales and servicing of franchise agreements are charged to general and administrative expenses as incurred.

When an individual franchise is sold, the Company agrees to provide certain services to the franchisee such as training. The Company recognizes initial fees as revenue when substantially all initial services required by the franchise agreement are performed, which is generally upon opening of a store. Continuing fees are recognized as earned. The Company recognizes renewal fees in income when a renewal agreement becomes effective.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value of Financial Instruments**

The Company records its financial assets and liabilities at fair value, in accordance with the framework for measuring fair value in generally accepted accounting principles. This framework establishes a fair value hierarchy that prioritizes the inputs used to measure fair value under three different levels.

Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for the purpose of these financial statements since the date and current estimates of fair value may differ significantly from the amounts presented herein.

The carrying amounts reported in the accompanying combined financial statements for cash, accounts payable and accrued expenses approximate fair values because of the immediate or short-term maturities of these financial instruments. The carrying amounts reported for accounts receivable approximate net realizable value after considering anticipated losses due to potentially uncollectible balances. The carrying amount reported for notes payable approximates fair value because the instruments bear interest rates and are consistent with other instruments of similar risks and characteristics.

**Concentrations of Risk - Cash**

The Company maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits, currently \$250,000 per depositor per bank. The Company has not experienced any losses in such accounts or lack of access to its cash, and believes it is not exposed to significant risk of loss with respect to cash. However, no assurance can be provided that access to the Company's cash will not be impacted by adverse economic conditions in the financial markets.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes**

Cookie Cutters has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. UCANAH was organized as a limited liability company and has elected to be taxed as such. In lieu of corporate income taxes, the shareholders and members of the limited liability company are taxed on their proportionate share of the Company's taxable income.

Generally accepted accounting principles require management to perform an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Company's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

The Company is required to file federal and state income tax returns. Management has performed its evaluation of income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard.

From time to time, the Company may be subject to penalties assessed by various taxing authorities, which will be classified as general and administrative expenses if they occur.

**Principles of Combination**

The combined financial statements include the accounts of the Company as previously discussed. Each entity is owned primarily by the same shareholders and members. All significant intercompany balances and transactions have been eliminated. In addition, the Company evaluates its relationships with other entities to determine whether they are variable interest entities in accordance with the Variable Interest Entity Subsections of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810-10, *Consolidation – Overall*, and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the combined financial statements.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contingencies**

Certain conditions may exist as of the date that these combined financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's combined financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

**Goodwill**

In January 2014, the FASB issued ASU 2014-02, *Intangibles - Goodwill and Other (Topic 350): Accounting for Goodwill* ("ASC 350"). The Company elected to adopt this accounting alternative for private companies in order to simplify the goodwill impairment model. The Company has elected to amortize goodwill on a straight-line basis over ten years and evaluates goodwill for impairment at the reporting unit level.

The Company evaluates goodwill for impairment when a triggering event occurs that indicates that the fair value of a reporting unit may be below its carrying amount. Such triggering events could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a one-step quantitative goodwill impairment test. This step involves comparing the fair value of the applicable reporting unit with its carrying value.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Goodwill (Continued)**

The Company estimates the fair values of its reporting units using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the amount, by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. Since management of the Company noted no triggering events during 2018 that indicated that the fair value of a reporting unit may have been below its carrying value, no further evaluation of impairment of goodwill was conducted by management of the Company.

**Intangible Assets**

Intangible assets are amortized on a straight-line basis over their respective useful lives. The useful life of the intangible asset is the period over which the asset is expected to contribute directly or indirectly to the entity's future cash flows. An asset for which no legal, regulatory, contractual, competitive, economic, or other factors limit its useful life is considered to have an indefinite useful life.

The Company evaluates the recoverability of identifiable intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. Such circumstances could include, but are not limited to (1) a significant decrease in the market value of an asset, (2) a significant adverse change in the extent or manner in which an asset is used, or (3) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset. The Company measures the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds its fair value. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows.

The evaluation of asset impairment requires the Company to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts. The Company's evaluation of intangible assets completed during the years presented, resulted in no impairment losses.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, to defer the effective date of ASU 2014-09 by 1 year. Accordingly, ASU 2014-09 will now be effective for the Company's year ending December 31, 2019. The adoption of ASU 2014-09 must be made using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined with ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Company has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 and ASU 2015-14 on its combined financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires an entity to recognize the rights and obligations resulting from leases as lease assets and lease liabilities on the balance sheet, including leases previously recorded and classified as operating leases. Pursuant to this new guidance, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use assets (lease asset) representing its right to use the underlying asset for the lease term, initially measured at the present value of the lease payments. This new standard is effective for the Company for the year ended December 31, 2020, with early application permitted, using a modified retrospective approach. The Company is currently evaluating the impact of the pending adoption of ASU 2016-02 on its combined financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) did not or are not believed to have a material impact on the Company's present or future combined financial statements.

**Reclassifications**

Certain prior year items have been reclassified to conform to the current year presentation. These reclassifications do not affect retained earnings or net operations as previously reported.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 3 - PROPERTY AND EQUIPMENT**

As of December 31, 2018 and 2017, property and equipment consisted of the following:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Furniture and fixtures	\$ 49,795	\$ 55,620
Automobiles	21,000	21,000
Leasehold improvements	59,394	53,569
Equipment	43,467	9,830
Totals	173,656	140,019
Less: accumulated depreciation	(129,910)	(114,359)
<b>Property and Equipment - Net</b>	<b>\$ 43,746</b>	<b>\$ 25,660</b>

Depreciation expense on property and equipment was \$15,551 and \$16,887 for the years ending December 31, 2018 and 2017, respectively.

**NOTE 4 - GOODWILL**

The carrying amount of goodwill, net of accumulated amortization of \$31,060 and \$18,193 as of December 31, 2018 and 2017 was \$57,943 and \$40,810. Amortization expense for the years ended December 31, 2018 and 2017 was \$12,867 and \$5,900, respectively. As discussed in Note 7, during 2018 the Company reported an additional \$30,000 in goodwill, which represents the fair market value of the contingent consideration received at acquisition date, which had been previously unreported by the Company.

**NOTE 5 - INTANGIBLE ASSETS**

Intangible assets consisted of the following as of December 31, 2018 and 2017:

	<b>Average Amortization Period</b>	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
		<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Franchise agreements	5 years	\$ 346,146	\$ 282,685	\$ 346,146	\$ 213,456
Trademarks	indefinite	236,701	n/a	236,701	n/a
Total		\$ 582,847	\$ 282,685	\$ 582,847	\$ 213,456
<b>Total Intangibles, Net</b>			<b>\$ 300,162</b>		<b>\$ 369,391</b>

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 5 - INTANGIBLE ASSETS (Continued)**

No significant residual value is estimated for the intangible assets. The following table represents the total estimated amortization of the intangible assets for the five succeeding years:

<u>Years Ending December 31,</u>	
2019	\$ 63,461
Thereafter	<u>-</u>
<b>Total</b>	<b><u>\$ 63,461</u></b>

Amortization expense on the Company's intangible assets for the years ending December 31, 2018 and 2017 was \$69,229.

**NOTE 6 - NOTES PAYABLE**

Notes payable consisted of the following at December 31, 2018 and 2017:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Note payable to a financial institution, interest at 13% per annum, requires monthly installments of \$1,813 including interest, matured in 2018.	\$ -	\$ 10,532
Note payable to an individual, interest at 6% per annum, requires monthly installments of interest only payments of \$1,000 for the first twenty-four months and principal and interest payments of \$3,867 thereafter, matures December 1, 2021, secured by business assets.	127,808	170,168
Notes payable to a financial institution for equipment, interest at 9.07% per annum, requires monthly installments of principal and interest of \$698, matures March 7, 2024, guaranteed by owner and secured by equipment.	<u>28,837</u>	<u>-</u>
<b>Total notes payable</b>	156,645	180,700
Less: current portion	<u>(45,873)</u>	<u>(50,356)</u>
<b>Long-term portion of notes payable</b>	<b><u>\$ 110,772</u></b>	<b><u>\$ 130,344</u></b>

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 6 - NOTES PAYABLE (Continued)**

Principal maturities of the notes payable are as follows:

**Years Ending December 31,**

2019		\$ 45,873
2020		48,901
2021		52,843
2022		7,889
2023		1,139
Thereafter		-
<b>Totals</b>		<b>\$ 156,645</b>

**NOTE 7 - CONTINGENCIES**

**Operating Leases**

The Company conducts its operations from facilities that are leased with unrelated parties. The leases contain escalating payment terms as defined in the agreements and expire in 2022 and 2025. The future minimum lease payments include those payments as outlined in the lease agreement.

The following is a schedule of future minimum rental payments required under the Company's non-cancelable leases as of December 31, 2018:

**Years Ending December 31,**

2019		\$ 75,072
2020		77,324
2021		79,644
2022		82,033
2023		54,353
Thereafter		51,935
<b>Totals</b>		<b>\$ 420,361</b>

Rent expense during the years ended December 31, 2018 and 2017 was \$85,360 and \$66,965, respectively.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 7 - CONTINGENCIES (Continued)**

**Acquisition Related Contingencies – Phantom Stock**

In a prior year, Cookie Cutters entered into an Asset Purchase Agreement (“the Agreement”) whereby Cookie Cutters purchased substantially all of the assets of CC Franchising, Inc. (“the Seller”). As part of the consideration transferred to the Seller in connection with the Agreement, the Company granted the Seller shares of phantom stock (“phantom shares”) representing a five percent (5%) phantom equity interest in the Company. The phantom shares represent the right to receive, solely in cash, the value of an equivalent number of shares of the Company’s common stock upon the sale or merger of the Company. The phantom shares do not entitle the Seller to any other rights afforded to the shareholders of the Company. The phantom shares had an initial fair market value of \$30,000 as defined in the Agreement and have been included as additional consideration transferred in connection with the Agreement. The Company had not reported this additional consideration in its previous financial statements and as such the amount been reported as additional goodwill in December 2018 combined financial statements.

The acquisition liability associated with the phantom shares was valued at \$30,000 and has been included in other liabilities on the Company’s combined balance sheet as of December 31, 2018. Due to the lack of marketability of the phantom shares and the difficulty in determining a reliable estimate related to fair market value for the phantom shares as of December 31, 2018, the Company has not reported any additional market adjustments to the liability associated with the contingent consideration.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

**Notes Receivable – Related Party**

In a prior year, the Company advanced funds to various shareholders of the Company. The advances are non-interest bearing and are due on demand. As of December 31, 2018 and 2017, the total advances outstanding was \$68,738 and \$70,240, respectively.

In a prior year, the Company loaned funds to an employee of the Company. The note bears interest at a rate of 4% per annum, requires monthly principal and interest payments of \$526 and matures on November 1, 2020. As of December 31, 2018 and 2017, the total outstanding balance on the note receivable was \$12,122 and \$17,830, respectively.

**Notes Payable – Related Party**

In a prior year, the Company received loans from its various shareholders of the Company. The notes bear interest at a rate of 8% per annum, require monthly interest only payments and have maturity dates of December 1, 2018 (note considered past due as of December 31, 2018 and is considered due on demand) and February 21, 2019. As of both December 31, 2018 and 2017, the total outstanding balance on the related party notes payable was \$68,356.

**COOKIE CUTTERS FRANCHISING, INC. AND UCANAH FOR KIDS, L.C.**  
**Notes to the Combined Financial statements**  
**December 31, 2018 and 2017**

**NOTE 9 - FRANCHISING**

During the years ended December 31, 2018 and 2017, the Company entered into agreements with its franchisees to open an additional 27 and 110 stores, respectively, and reported initial franchise fee revenue of \$1,247,427 and \$528,583, respectively. Deferred revenue at December 31, 2018 and 2017, represents the portion of revenue from initial franchise sales or other franchise related sales for which substantially all initial services have not been rendered by the Company. Initial fees included in deferred revenue at December 31, 2018 and 2017 was \$2,971,247 and \$3,483,675, respectively.

**NOTE 10 -SUBSEQUENT EVENTS**

The Company has evaluated events subsequent through March 26, 2019, the date which the combined financial statements were available to be issued, and noted no material subsequent events that would require adjustment to or disclosure in these combined financial statements as of December 31, 2018.

## EXHIBIT E

### LIST OF FRANCHISE OWNED SALONS

as of December 31, ~~2019~~2020

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>ADDRESS</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
TanTom LLC*	Todd Hengst	1028 Marble Terrace Hoover, AL 35244	Alabama	(205) 377-2642
<del>CC Haircuts of Alaska LLC***</del>	<del>Stephen Thornton</del>	<del>19523 Canyon View Drive Eagle River, AK 99577</del>	<del>Alaska</del>	<del>(907) 351-6122</del>
CCAZI, LLC*	Leasa Chaon	7000 E. Mayo Blvd. Phoenix, AZ 85054	Arizona	(480) 419-2900
Stitt Haircutters LLC***	Gavin & Jenna Stitt	2450 W. Happy Valley Road Phoenix, AZ 85085	Arizona	(504) 613-7721
Black Derrick Holdings, Inc.*	Brad Black & Scott Derrick	266 S. Beverly Drive Beverly Hills, CA 80212	California	(310) 734-7556
Dauber Holdings, Inc.*	JP Dauber	16391 Sierra Lakes, Parkway, Suite 120 Fontana, CA 92336	California	(909) 581-2100
IRIL Inc.*	Jeff Walters	7881 N. Via Del Rio Fresno, CA 93720	California	(559) 457-8588
<del>J&amp;J Haircuts 4 Kids Dauber Holdings, Inc.*</del>	<del>Jill Berlin &amp; Joel Roth, JP Dauber</del>	1036 E. Bastanchury Road Fullerton, CA 92835	California	<del>(657) 909-2865</del> <del>81-5565</del> <del>2100</del>
Black Derrick Holdings, Inc.*	Brad Black & Scott Derrick	11740 San Vicente Blvd., Suite 108 Los Angeles, CA 90049	California	(213) 948-6874
Grom Ventures Inc.*	Jeff Kyle	1751 Artesia Blvd., Suite F Manhattan Beach, CA 90266	California	(424) 203-6460
SoCalCC*	<del>Sam Levis &amp; Suki Liebow</del>	<del>2183 Vista Way Oceanside, CA 92054</del>	<del>California</del>	<del>(760) 696-3341</del>
Spaderock, LLC*	Brad Podduturi	2820 Del Paso Road, Suite 200 Sacramento, CA 95834	California	(916) 212-2444

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>ADDRESS</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
SoCalCC*	Sam Levis & Suki Liebow	3365 Rosecrans Street, Suite A San Diego, CA 92110	California	(619) 255-4157
C-Rain Management Corp.*	Richard Chin	4750 Almaden Expy San Jose, CA 95118	California	(408) 891-8193
ZM Square, Inc.*	Naila Razvi	352 Hillsdale Mall San Mateo, CA 94403	California	(650) 740-3611
Lil' Hare, Inc.*	Shawn Heatherman	56 Mission Circle, Suite B Santa Rosa, CA 95409	California	(707) 791-8511
CPW Enterprises LLC*	Chris & Pam Worden	5627 Barnes Rd. Colorado Springs, CO 80917	Colorado	(719) 822-4788
CPW Enterprises LLC*	Chris & Pam Worden	9697 Prominent Point Colorado Springs, CO 80924	Colorado	(719) 368-6324
Far West Investments, Inc.*	Cindy Rayfield	7660 W. Virginia Avenue, Suite B Lakewood, CO 80226	Colorado	(303) 625-3190
Far West Investments, Inc.*	Cindy Rayfield	2030 E. County Line Road, Unit D Englewood, CO 80113	Colorado	(303) 501-4698
CCNoCo, LLC*	Ashley McDaniels	700 Ken Pratt Blvd. Longmont, CO 80501	Colorado	(970) 980-8245
CCNoCo, LLC*	Ashley McDaniels	1617 Fall River Drive Loveland, CO 80538	Colorado	(970) 980-8245
Lorgus Enterprises***	Joan Lorgus	68 N. Sandpiper Drive Dover, DE 19901	Delaware	(610) 529-0106
Slappy Feet Inc.*	Jeff & Maureen Parke	2723 Gulf to Bay Blvd. Clearwater, FL 33759	Florida	(727) 786-8568
Kids Fun Cuts, Inc.*	Julian Alexander	6554 N. State Road 7 Coconut Creek, FL 33073	Florida	(954) 637-4948
B&Z Cuts*	Bobby & Zaira Knudsen	14035 Beach Blvd Jacksonville, FL 32224	Florida	(904) 327-3144
KDB Partners, Inc.△* —	Karen & Dave Brooks	83968324 Merchants Way Jacksonville, FL 32222	Florida	(904) 849-7099

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>ADDRESS</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
Syfft, LLC *	Alex Kramarchuk	1695 W. Indiantown Road, Suite 1 Jupiter, FL 33485	Florida	(561) 307-7930
Clean Innovation, Inc.*	Jorge Ulloa	4268 SW 152 <sup>nd</sup> Avenue Miami, FL 33185	Florida	(305) 773-1228
Syfft, LLC *	Alex Kramarchuk	9920 Alt A1A, Suite 802 Palm Beach Gardens, FL 33410	Florida	(561) 557-9854
Vech Central, LLC*	Vincent Richinelli	12950 Race Track Road Tampa, FL 33626	Florida	(813) 347-7299
<del>Vech Central, LLC^</del>	<del>Vincent Richinelli</del>	<del>5304 N. Central Avenue Tampa, FL 33626</del>	Florida	<del>(813) 347-7299</del>
KDB Partners, Inc.*	Karen & Dave Brooks	463909 State Road 200 Yulee, FL 32097	Florida	(904) 849-7099
Nitrous Ventures Corporation*	Ajit Chetty Cotha	5070 Peachtree Blvd., Suite B-120 Chamblee, GA 30341	Georgia	(470) 349-8812
Small One Inc.*	Grace Small	1615 Ridenour Blvd., Suite 202 Kennesaw, GA 30182	Georgia	(678) 903-8140
Hair Stylz 4 Kids, Inc.*	Shanti Talkad	13077 Highway 9 Milton, GA 30004	Georgia	(470) 385-6134
Nitrous Ventures Corporation*	Ajit Chetty Cotha	4316 Lawrenceville Hwy. Tucker, GA 30084	Georgia	(678) 395-7428
BK Smith Enterprises, LLC*	Katie Smith	8071 W. Emerald Street Boise, ID 83714	Idaho	(208) 900-8813
Katie Smith*	Katie Smith	6500 Linder Road Meridian, ID 83646	Idaho	(208) 949-9585
Elegant Looks*	Neeraj Sharma	203 S. Randall Road Algonquin, IL 60102	Illinois	(224) 333-0818
Anita Haircuts	John Graham	2768 E. 146th Street Carmel, IN 46033	Indiana	(317) 574-0399
Cookie Cutters Inc.	Larry Shelton	4335 W. 106th Street, Suite 600 Carmel, IN 46032	Indiana	(317) 445-7774

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>ADDRESS</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
Anita Haircuts	John Graham	8964 E. 96th Street Fishers, IN 40638	Indiana	(317) 577-7854
Cookie Cutters Inc.	Larry Shelton	1001 SR 135 Greenwood, IN 46142	Indiana	(317) 445-7774
Cookie Cutters Inc.	Larry Shelton	55 South Raceway Rd Indianapolis, IN 46231	Indiana	(317) 445-7774
Anita Haircuts	John Graham	13170 Harrell Parkway, Suite 900 Noblesville, IN 46060	Indiana	(317) 773-4449
Dilis, Inc.*	Fig Newton	4321 E. Joppa Rd. Baltimore, MD 21236	Maryland	(443) 725-5230
Sheerly Hairific, LLC*	Ship Patel	5725 Richards Valley Road, Unit A-6 Ellicott City, MD 21043	Maryland	(410) 696-1577
Sheerly Hairific, LLC <sup>△</sup> *	Ship Patel	<del>11710 East Market Place, Fulton, MD 20759</del> 4913 <del>Ellis Lane Ellicott City, MD 21043</del>	Maryland	(410) 696-1577
Dilis, Inc.*	Fig Newton	1510 York Road, Suite 1510 Lutherville, MD 21093	Maryland	(443) 725-5230
So Nova	Wendy Pietrangelo	44308 Cherry Hill Rd Canton, MI 48187	Michigan	(734) 753-5125
Jaskiewicz Corporate Enterprise, Inc.	Jodi Jaskiewicz	17927 Haggerty Road Northville, MI 48168	Michigan	(734) 956-6060
One 3 16 Inc.*	Chris & Susie Mueller	5121 28 <sup>th</sup> Street SE Grand Rapids, MI 49512	Michigan	(616) 240-2055
Jaskiewicz Corporate Enterprise, Inc.	Jodi Jaskiewicz	215 E. Twelve Mile Road Royal Oak, MI 48073	Michigan	(248) 917-1431
CB Shepherd, Inc.*	Chad & Bonnie Shepherd	6311 Ronald Reagan Drive Lake St. Louis, MO 63367	Missouri	(636) 265-0151
TABL Investments	Amy Meyer	900 East Battlefield Springfield, MO 65807	Missouri	(417) 889-4386
CB Shepherd, Inc. <sup>△</sup> *	Chad & Bonnie Shepherd	11922 Greenwalk Drive St. Louis, MO 63146	Missouri	(314) 432-8769

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>ADDRESS</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
Haircuts for Kids, LLC*	Tyler Stinson	7345 S. Durango Drive, #110 Las Vegas, NV 89147	Nevada	(702) 333-2959
Haircuts for Kids, LLC*	Tyler Stinson	1120 Silverado Ranch Blvd. Las Vegas, NV 89183	Nevada	(702) 944-7444
Haircuts for Kids, LLC <sup>△</sup> *	Tyler Stinson	<del>5401 Bristol Bend Court</del> <u>4210 West Craig Rd, North Las Vegas, NV 8913589032</u>	Nevada	(702) 944-7444
DGW Endeavors LLC*	Dave Williams	1111 Steamboat Parkway Reno, NV 89521	Nevada	(775) 357-8988
Haircuts4Fun, LLC*	Erica Liang	68 The Promenade Edgewater, NJ 07020	New Jersey	(201) 917-3723
KKLC Mahoney, Inc.*	Kate Mahoney	3290 Route 9 South Freehold, NJ 07728	New Jersey	(732) 379-4031
<del>KKLC Mahoney, Inc.</del> <sup>△</sup>	<del>Kate Mahoney</del>	<del>9 Maxim Court Jackson, NJ 08527</del>	New Jersey	<del>(732) 379-4031</del>
DeepLeela LLC*	Neetu Jain & Arvind	277 Eisenhower Parkway Livingston, NJ 07039	New Jersey	(973) 435-9325
NJ Junior Cuts, LLC*	Jennifer Pirot	380 Route 17 South Mahavah, NJ 07430	New Jersey	(201) 642-4172
Rivas Global Enterprises, LLC	Joakim Rivas	116 US Highway 22 North Plainfield, NJ 07060	New Jersey	(908) 822-6570
Catherine Henry Co.*	Matt Murphy	1233 Kildaire Farm Rd. Cary, NC 27511	North Carolina	(919)-655-8066
Carolina Cool Cuts, LLC*	Rich Zinser	14130 Rivergate Pkwy. Charlotte, NC 28273	North Carolina	(980)-237-3450
MacMasB3 Services, Inc.*	Nathan Simms	1839 Martin Luther King Jr. Pkwy. Durham, NC 27707	North Carolina	(984) 888-5007
Catherine Henry Co.*	Matt Murphy	6300 Creedmoor Rd. Raleigh, NC 27612	North Carolina	(919) 581-5008
<del>Another Door Enterprises, Inc.</del> **	<del>Zach Miller</del>	<del>125 Quail Run, Archbold, Ohio 43502</del>	Ohio	<del>(419) 579-1234</del>

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>ADDRESS</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
VASA, LLC*	Valerie Wells	2495 Commons Blvd. Beavercreek, OH 45431	Ohio	(937) 956-6022
JTAP Enterprises, Inc*	Joe Vincent	3710 Center Road Brunswick, OH 44212	Ohio	(234) 802-9565
MiniCuts	Alison Cellentano	7438 Sawmill Rd Columbus, OH 43235	Ohio	(614) 580-3711
MiniCuts	Alison Cellentano	4359 Morse Rd Columbus, OH 43230	Ohio	(614) 580-3711
VASA, LLC*	Valerie Wells	2417 Miamisburg- Centerville Rd Dayton, OH 45459	Ohio	(513) 315-9533
JoMa GC, LLC	Chad & Ioulia Boggs	4147 Buckeye Pkwy. Grove City, OH 43123	Ohio	(614) 745-9182
MiniCuts	Alison Cellentano	3233 Hilliard Rome Rd Hilliard, OH 43026	Ohio	(614) 876-7700
MiniCuts	Alison Cellentano	1198 East Powell Rd Lewis Center, OH 43035	Ohio	(614) 428-9999
<u>CC TI, LLC*</u>	<u>Jeff Williams</u>	<u>25684 N Dixie Highway, Perrysburg, OH 43551</u>	<u>Ohio</u>	<u>(419) 283-1350</u>
MiniCuts	Alison Cellentano	1726 Hill Rd North Pickerington, OH 73147	Ohio	(614) 522-0220
VASA, LLC*	Valerie Wells	7684 Voice of America Drive West Chester, OH 45069	Ohio	(513) 315-9533
<del>CC TI, LLC**</del>	<del>Jeff Williams</del>	<del>6517 Saddle Bridge Drive E Whitehouse, OH 43571</del>	<del>Ohio</del>	<del>(419) 283-1350</del>
Mackenzie Enterprises, LLC*	Ron Brown	14845 SW Murray Scholls Dr. Beaverton, OR 97077	Oregon	(503)-746-7955
Meisterhaft, LLC	Alex & Annett Siegel	171 Rossanley Drive, Suite 105 Medford, OR 97501	Oregon	(541) 646-5010
KMBPDX, Inc.*	Katie Braman	3020 SE 58th Avenue, Portland, OR 97206	Oregon	(971)-506-4359
<del>Ken Russo*</del>	<del>Ken Russo</del>	<del>4149 Washington Road McMurray, PA 15317</del>	<del>Pennsylvania</del>	<del>(724) 809-3782</del>

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>ADDRESS</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
ARUMBU LLC**	Elangovan Subramanian	<u>2056 County Line Rd.</u> <u>Huntington Valley, PA 19006</u> <u>2511 Dianas Way</u> <u>Warrington, PA 18976</u>	Pennsylvania	(612) 401-9318
<u>GTM Enterprises Inc</u>	<u>Teresa Matosky</u>	<u>4149 Washington Road</u> <u>McMurray, PA 15317</u>	<u>Pennsylvania</u>	<u>(607)-742-7782</u>
K&L Ventures LLC*	Jeff Smith	1516 Paoli Pike West Chester, PA 19380	Pennsylvania	(484) 947-2872
B&C Cuts, LLC*	Bill & Chris Hopper	5008 Thoroughbred Lane Brentwood, TN 37027	Tennessee	(615) 891-3446
KBHC LLC*	Don Avena	5400 Brodie Lane Austin, TX 78745	Texas	(512) 358-4040
KBHC LLC*	Don Avena	9828 Great Hills Trail Austin, TX 78759	Texas	(512) 243-8770
Musoma Enterprises, LLC	Aubrey Musoma	1561 SW Wilshire Blvd., Suited 425 Burleson, TX 76028	Texas	(817) 882-6080
LMJones Inc.	Latasha Jones	1520 Bay Area Blvd. Friendswood, TX 77546	Texas	(832) 284-4055
CCF Balaji, LLC△*	Ramu Vinjamaram	<u>13178 Dolomite Drive</u> <u>1710 FM 423,</u> <u>Frisco, TX 7503575034</u>	Texas	(214) 335-4096
Bruton Investments, LLC***	Chad Bruton	202 Red Eagle Trail Hudson Oaks, TX 76087	Texas	(817) 304-4513
KBHC LLC*	Don Avena	1713 FM 685 Pflugerville, TX 78660	Texas	(512)-305-3575
CCR Balaji, LLC*	Ramu Vinjamaram	1360 W. Campbell Rd. Richardson, TX 75080	Texas	(972) 807-2598
KBHC LLC*	Don Avena	2200 E. Palm Valley Blvd. Round Rock, TX 78665	Texas	(512) 953-5100

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>ADDRESS</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
Fe y Familia, LLC*	Fred Bachicha	11745 IH-10 West, Suite 405 San Antonio, TX 78230	Texas	(210) 437-0099
MaterNostra Ventures, LLC*	Imowo Akpan	6630 Spring Steubner Road, Suite 507 Spring, TX 77389	Texas	(281) 901-0935
Tabor Group, Inc.*	Usifo Ighedosa	5418 W. Grand Pkwy. Sugar Land, TX 77406	Texas	(346) 717-5677
Leslie Warner	Leslie Warner	1875 Fort Union Blvd Cottonwood Heights, UT 84121	Utah	(801) 943-8121
Mac's Cuts, LLC	McKenzie Bergquist	1223 E. Draper Pkwy Draper, UT 84040	Utah	(801)718-3649
Ponce Family, LLC*	Arlene & Jesus Ponce	700 N. Main Street, Suite A Layton, UT 84041	Utah	(801) 499-1664
Cookie Cutters of Utah South, L.C.	Michael Hayes	1438 Main St, Suite 11 Lehi, UT 84043	Utah	(801) 341-5110
SWH Cutters, LLC	Weston & Stephanie Hayes	394 E. University Pkwy Orem, UT 84058	Utah	(801) 224-1726
Cutter Cookies, LLC	David Essuman	15 S. River Road Saint George, UT 84790	Utah	(435) 522-9897
Leslie Warner	Leslie Warner	1295 E. Miller Avenue Salt Lake City, UT 84106	Utah	(801) 466-4643
SWH Cutters, LLC	Weston & Stephanie Hayes	1261 N. Canyon Creek Pkwy. Spanish Fork, UT 84660	Utah	(385) 267-0916
Leslie Warner	Leslie Warner	535 W. 400 N. West Bountiful, UT 84010	Utah	(801) 298-2986
<del>Brenda Larsen</del> Leslie Warner	<del>Brenda Larsen</del> Leslie Warner	3069 S. Colt Plaza Dr, Suite 1 West Valley, UT 84120	Utah	(801) 955-3882
CC Jackson, LLC*	Maria Jackson	940 Cedar Rd. Chesapeake, VA 23322	Virginia	(757) 410-0741
Wild Child Salon*	<del>Nedra &amp; Wade</del> Albrecht	206 Bellevue Way NE Bellevue, WA 98004	<del>Washington</del>	<del>(425) 505-2977</del>
InnoSense LLC*	Nikhil Balagopalan	4575 NE 4th Street, Unit 4 Renton, WA 98059	Washington	(425) 572-6011

\*These franchisees are Cookie Cutters Area Developers and have the right to open multiple Cookie Cutters locations.

The following franchisees have signed a franchise agreement, but the location is not yet open for business:

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>ADDRESS</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
<u>CC Haircuts of Alaska LLC</u>	<u>Stephen Thornton</u>	<u>19523 Canyon View Drive Eagle River, AK 99577</u>	<u>Alaska</u>	<u>(907) 351-6122</u>
<u>Lorgus Enterprises</u>	<u>Joan Lorgus</u>	<u>68 N. Sandpiper Drive Dover, DE 19901</u>	<u>Delaware</u>	<u>(610) 529-0106</u>
<u>AMS Ventures Midwest Inc.*</u>	<u>Aaron Stoeger</u>	<u>74742 Highway 83 Maywood, NE 69038</u>	<u>Nebraska</u>	<u>(515) 991-6837</u>
<u>Haircuts for Kids, LLC*</u>	<u>Tyler Stinson</u>	<u>5401 Bristol Bend Court Las Vegas, NV 89135</u>	<u>Nevada</u>	<u>(702) 944-7444</u>
<u>CASAS Enterprises Corp.*</u>	<u>Alvin Burgos</u>	<u>211 Lakeview Avenue Rockville Centre, New York 11570</u>	<u>New York</u>	<u>(646) 279-5445</u>
<u>CC Linhope Hillside, LLC</u>	<u>Noori Abdulghani</u>	<u>1222 E. Arapaho Road, Suite 323 Richardson, TX 75081</u>	<u>Texas</u>	<u>(214) 609-6717</u>
<u>Savvy Cuts for Kiddos LLC**</u>	<u>Melissa Murray</u>	<u>12132 W. Capitol Drive Wauwatosa, WI 53222</u>	<u>Wisconsin</u>	<u>(631) 579-3739</u>

\*These franchisees are Cookie Cutters Area Developers and have the right to open multiple Cookie Cutters locations.

~~\*\*These franchisees are current Area Developers that have signed an AD Agreement but have not yet opened a Cookie Cutters location.~~

~~\*\*\*These franchisees are single unit franchisees that have signed a franchise agreement but have not yet opened their Cookie Cutters location.~~

~~△\* These franchisees are Area Developers that have signed a franchise agreement for a second or additional location for which that location has not yet opened.~~

The following ~~two~~five franchisees were terminated, not renewed or reacquired or otherwise voluntarily ceased doing business during ~~2019~~2020:

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>LOCATION</u>	<u>PHONE NUMBER</u>
<u>PRM4B14Cookie Cutters Inc.</u>	<u>Shawn Smith</u> <u>Larry Shelton</u>	<u>South Lyon, MI4335 W. 106th Street, Suite 600</u> <u>Carmel, IN 46032</u>	<u>(248)317-7524</u> <u>45-10237774</u>
<u>Michael BusathSoCalCC*</u>	<u>Michael Busath</u> <u>Sam Levis &amp; Suki Liebow</u>	<u>Allen, TX3365 Rosecrans Street, Suite A</u> <u>San Diego, CA 92110</u>	<u>(214)760-7236</u> <u>96-86433341</u>
<u>SoCalCC*</u>	<u>Sam Levis &amp; Suki Liebow</u>	<u>2183 Vista Way</u> <u>Oceanside, CA 92054</u>	<u>(760) 696-3341</u>
<u>Wild Child Salon*</u>	<u>Nedra &amp; Wade Albrecht</u>	<u>206 Bellevue Way NE</u> <u>Bellevue, WA 98004</u>	<u>(425) 505-2977</u>
<u>CPW Enterprises LLC*</u>	<u>Chris &amp; Pam Worden</u>	<u>9697 Prominent Point</u> <u>Colorado Springs, CO 80924</u>	<u>(719) 368-6324</u>

The following ~~three franchisees~~ franchisee transferred their ~~franchises~~its franchise to a new ~~owner~~owner during ~~2019~~2020 and are ~~is~~ no longer in the Cookie Cutters system. The ~~Pennsylvania franchise was transferred to us.~~

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>LOCATION</u>	<u>PHONE NUMBER</u>
<u>Scott Rifkin Consulting LLC</u> <u>J&amp;J Haircuts 4 Kids, Inc.*</u>	<u>Scott Rifkin</u> <u>Jill Berlin &amp; Joel Roth</u>	<u>1036 E. Bastanchury Road</u> <u>PhoenixFullerton, AZCA 92835</u>	<u>(602)657-3772</u> <u>86-21265565</u>
<u>CJB Group, LLC</u>	<u>Candace &amp; Jerome Barnes</u>	<u>East Brunswick, NJ</u>	<u>(404) 697-5334</u>
<u>CC Emprises LLC</u>	<u>Gregory Hockenberry</u>	<u>Wexford, PA</u>	<u>(412) 996-0713</u>

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

No franchisees have not communicated with us during 10 weeks prior to issuance of this Disclosure Document.

**EXHIBIT F**

**TABLE OF CONTENTS TO COOKIE CUTTERS CONFIDENTIAL OPERATIONS  
MANUAL**

**Table of Contents to Cookie Cutters Confidential Operations Manual**

**CONFIDENTIALITY AGREEMENT ..... 5**

    Salon Operating Procedures ..... 8

    Owner, Manager, and Receptionist ..... 9

**Answering the Telephone..... 9**

        Selling the Service ..... 10

        Price Shopping ..... 11

        Multiple Lines ..... 11

**Booking Appointments (optional) ..... 13**

        Wait Time ..... 13

        Walk-ins ..... 14

        Stylist Speed..... 16

        The Appointment Book..... 17

        Making the Appointment ..... 18

        Client without Appointment (Walk-in) ..... 19

        Stylist Request ..... 21

        Scheduling Breaks..... 22

        Appointment Summary ..... 23

**Greeting Customers..... 23**

        Appointment or Walk-in ..... 24

        Rescheduling..... 25

        The Sign in Sheet ..... 25

        Sample of other Services..... 26

        Behind Schedule ..... 26

        Stylist Request ..... 27

        Walk-in Sign up Procedure ..... 27

**Ringing Sales..... 28**

        Cash Sale or Check Sale ..... 29

        Credit Card Sale ..... 33

        Discount Sale ..... 35

        Return Sale..... 35

        Multiple Quantity Sale ..... 37

        Gift Certificates..... 38

        Setting up Stylists in Software ..... 40

**Fill Helium Balloons..... 41**

**Video and Printing ..... 43**

        The Photo ..... 44

        Printing the Picture..... 46

<b>Close of the Day .....</b>	<b>47</b>
Credit Card Batch Close .....	47
Counting the Checks .....	49
Counting the Cash.....	49
Printing Close Report.....	49
The Bank Deposit .....	50
Closing the Drawer Summary Sheet.....	51
<b>Summary of Owner/Operator/Receptionist Position .....</b>	<b>53</b>
<b>STYLIST MANUAL .....</b>	<b>55</b>
Stylist.....	56
Stylist Selection.....	57
Rotation List.....	58
Coordinating Sign-in Sheets.....	59
Greeting the Clients! .....	60
The Hair Cut.....	61
Hair Cutting Tools.....	62
The Hair Cut is Finished .....	63
Cleaning Up .....	64
Other Stylist Duties .....	65
<b>MARKETING.....</b>	<b>66</b>
Kids Cut .....	67
Kids Cut with Shampoo .....	67
Baby's First Hair Cut Package.....	68
The Photo .....	68

The First Cut .....	68
French Braiding.....	69
Shirley Temple Manicure.....	69
Fake or Mock Shave.....	70
Bangs Only.....	72
Styling without Cut .....	73
Photo .....	74
Selling Additional Photos.....	74
Adult Cut with shampoo and Styling .....	76
Custom Services .....	77
Perms.....	78
Girls Day Out .....	78
Guys Day Out.....	80
Birthday Party Specials .....	80
<b>SECURITY EMERGENCIES.....</b>	<b>83</b>
Approved Vendors .....	85
<b>DAILY AND WEEKLY FORMS .....</b>	<b>88</b>
Price List -Other Forms.....	90
Sales Reporting Requirements .....	90
Royalty Reporting Form.....	92
Weekly Sales, and payroll reporting forms .....	93
Who to call .....	94
Phone Summary list .....	95
<b>SITE SELECTION.....</b>	<b>96</b>
Population .....	96
Numbers of Families .....	97
Household Income.....	98
Females with Children.....	98
Average Household Income .....	98
Other Factors .....	99
Strip Center or Mall.....	99
<b>OPENING PROCEDURES .....</b>	<b>101</b>
Equipment and Other Required Items .....	101
Licensees for operation: .....	101
Fantasy Chairs (6),	
Adult Chairs (2),	
Juvenile Chairs (2) .....	101
Televisions, VCR's, and Video Games.....	102
Laminate.....	102

Children's Bathroom and other Equipment .....	102
POS System.....	103
Retail Fixtures .....	104
Initial Supplies.....	106
Opening Drawer setup Procedure.....	106
Hair supplies.....	109
Nail supplies .....	110
Video supplies .....	110
Camera supplies .....	111
Helium and balloon supplies .....	111
Marketing supplies .....	111
Grand opening.....	111
Initial inventory requirements .....	112
Passa flume products .....	112

**EXHIBIT G**  
**STATE SPECIFIC ADDENDA**

## CALIFORNIA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

### COOKIE CUTTERS FRANCHISING INC.

**THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE FRANCHISE DISCLOSURE DOCUMENT.**

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

1. No person identified in Item 2 of the Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A 78a *et seq.*, suspending or expelling such person from membership in such association or exchange.
2. The following is added to Item 2:

**Area Representative: John Paul Dauber**

Mr. Dauber has been an Area Representative for Cookie Cutters under the entity Dauber Holdings, Inc. in Fontana, California for the territory of California since April 2017. Mr. Dauber has also been an owner/operator of Inland Valley Properties, a residential real estate business in Rancho Cucamonga, California since June 2010.

3. The following is added to Item 3:

No litigation is required to be disclosed in this Item with relation to the Cookie Cutters Area Representatives.

4. The following is added to Item 4:

No bankruptcy is required to be disclosed in this Item with relation to the Cookie Cutters Area Representatives.

5. California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination or nonrenewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.
6. The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 *et seq.*).
7. The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California Law.

8. The Franchise Agreement requires dispute resolution by arbitration in the State of Utah, with the costs being borne by the non-prevailing party. You are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.
9. The Franchise Agreement requires application of the laws of the State of Utah. This provision may not be enforceable under California law.
10. You must sign a general release if you transfer your franchise. California Corporations Code 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).
11. THE CALIFORNIA INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE FRANCHISE DISCLOSURE DOCUMENT. SECTION 31125 OF THE FRANCHISE INVESTMENT LAW REQUIRES US TO GIVE TO YOU A DISCLOSURE DOCUMENT APPROVED BY THE COMMISSIONER OF CORPORATIONS BEFORE WE ASK YOU TO CONSIDER A MATERIAL MODIFICATION OF YOUR FRANCHISE AGREEMENT.
12. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF ~~BUSINESS—OVERSIGHT~~FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF ~~BUSINESS—OVERSIGHT~~FINANCIAL PROTECTION AND INNOVATION AT [www.dbodfpi.ca.gov](http://www.dbodfpi.ca.gov).

## ILLINOIS ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

### COOKIE CUTTERS FRANCHISING INC.

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

1. Item 5. Due to our financial condition, the Illinois Attorney General's Office has required, and we have agreed, to defer collection of all the initial fees and payments as described in Item 5 of the Disclosure Document until we have completed all of our pre-opening obligations to you and you are open for business.
2. Item 7. We have agreed, to defer collection of all the initial fees and payments until we have completed all of our pre-opening obligations to you and you are open for business.
3. Item 17.v. Choice of Forum is revised to state that any action will be brought in a state or federal court of general jurisdiction in Illinois.
4. Item 17.w. Choice of Law is revised to state that Illinois law shall apply.
5. Illinois law governs the Franchise Agreement and Area Development Agreement.
6. Payment of the initial franchise fee and/or development fees will be deferred until we have met our initial obligations to you and you have commenced doing business. This financial assurance requirement was imposed by the Office of the Illinois Attorney General due to our financial condition.
7. In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.
8. Your rights upon termination or non-renewal are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure Act.
9. In conformance with Section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation, or provision purporting to bind any person acquiring a franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

**ILLINOIS ADDENDUM TO THE FRANCHISE AGREEMENT**

**COOKIE CUTTERS FRANCHISING INC.**

This Amendment (“**Amendment**”) is effective as of \_\_\_\_\_, 20\_\_ to that certain Cookie Cutters Franchise Agreement dated \_\_\_\_\_, 20\_\_ (“**Agreement**”) by and between Cookie Cutters Franchising, Inc., a Utah corporation (“**Cookie Cutters**”), and \_\_\_\_\_ (“**Franchisee**”). Notwithstanding any provisions in the Agreement, Cookie Cutters and Franchisee hereby agree to the following:

1. **Fee Deferral.** Payment of all of Franchisee’s initial fees and payments are due once Cookie Cutters has met its pre-opening obligations and once Franchisee is open for business. This financial assurance requirement was imposed by the Office of the Illinois Attorney General due to Cookie Cutters’ financial condition.
2. **Waivers Void.** Any condition, stipulation or provision in the Agreement requiring Franchisee to waive his or her rights under the Illinois Franchise Disclosure Act (the “Act”) or any other Illinois law shall be void.
3. **Forum.** Section 32.8 of the Agreement is amended to state that any action will be brought in a state or federal court of general jurisdiction in Illinois.
4. **Choice of Law.** Section 29.6 of the Agreement is amended to state that Illinois law shall apply.
5. **Termination and Non-Renewal.** Franchisee’s rights upon termination or non-renewal are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure Act.

**IN WITNESS WHEREOF**, the parties have executed this Amendment to be effective as of the date set forth above:

**COOKIE CUTTERS:**

**FRANCHISEE:**

Cookie Cutters Franchising, Inc.

Name of Franchisee

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

**ILLINOIS ADDENDUM TO THE AREA DEVELOPMENT AGREEMENT**

**COOKIE CUTTERS FRANCHISING INC.**

This Amendment (“**Amendment**”) is effective as of \_\_\_\_\_, 20\_\_ to that certain Cookie Cutters Area Development Agreement dated \_\_\_\_\_, 20\_\_ (“**Agreement**”) by and between Cookie Cutters Franchising, Inc., a Utah corporation (“**Cookie Cutters**”), and \_\_\_\_\_ (“**AD**”). Notwithstanding any provisions in the Agreement, Cookie Cutters and Franchisee hereby agree to the following:

1. **Choice of Law; Forum.** Section 10.1 of the Agreement is amended to state that any action will be brought in a state or federal court of general jurisdiction in Illinois and Illinois law shall apply. Notwithstanding the foregoing, any arbitration will take place at the location indicated in the Agreement.
2. **Fee Deferral.** Payment of all of AD’s initial fees and payments are due once Cookie Cutters has met its pre-opening obligations for the first salon to be developed and once the first salon is open for business. This financial assurance requirement was imposed by the Office of the Illinois Attorney General due to Cookie Cutters’ financial condition.
3. **Waivers Void.** Any condition, stipulation or provision in the Agreement requiring Franchisee to waive his or her rights under the Illinois Franchise Disclosure Act (the “Act”) or any other Illinois law shall be void.
4. **Termination and Non-Renewal.** Franchisee’s rights upon termination and non-renewal are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure Act.

**IN WITNESS WHEREOF**, the parties have executed this Amendment to be effective as of the date set forth above:

**COOKIE CUTTERS:**

**FRANCHISEE:**

Cookie Cutters Franchising Inc.

Name of Franchisee

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## MARYLAND ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

### COOKIE CUTTERS FRANCHISING INC.

1. Pursuant to COMAR 02.02.08.16L, the general release required as a condition of renewal, sale and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
2. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.
3. The provision in the franchise agreement providing for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law.
4. **Item 2** of the disclosure document is amended to add the following as the last paragraph:

**Area Director: Glenn Gustafsson**

Mr. Gustafsson has been an Area Director for Cookie Cutters under the entity Hairman of the Board, LLC in Bel Air, Maryland for the territories of Delaware, Maryland, New Jersey, Pennsylvania, and the District of Columbia since December 2015 and Virginia since August 2016. Mr. Gustafsson has also been an Area Director for 4 Gus Development, LLC since October 2011 in Bel Air, Maryland and an Area Director for Hogies Heroes, LLC in Bel Air, Maryland since March 2016.

5. **Item 5** of the disclosure document is amended to add the following as the last paragraph:

Based on the financial information submitted, the Commissioner has determined that all fees paid to us by you, including any initial franchise fees and payments for goods and services received from us before your business opens, shall be deferred until you are open for business and we have satisfied all or our pre-opening obligations to you.

**MARYLAND ADDENDUM TO THE FRANCHISE AGREEMENT**

**COOKIE CUTTERS FRANCHISING INC.**

This Amendment (“**Amendment**”) is effective as of \_\_\_\_\_, 20\_\_ to that certain Cookie Cutters Franchise Agreement dated \_\_\_\_\_, 20\_\_ (“**Agreement**”) by and between Cookie Cutters Franchising, Inc., a Utah corporation (“**Cookie Cutters**”), and \_\_\_\_\_ (“**Franchisee**”). Notwithstanding any provisions in the Agreement, Cookie Cutters and Franchisee hereby agree to the following:

1. **Release, Estoppel or Waiver of Liability.** All representations requiring Franchisee to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.
2. **Venue.** Franchisee may bring lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
3. **Statute of Limitations.** Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.
4. **Release.** The general release required as a condition of renewal, sale and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
5. **Bankruptcy.** The provision in the franchise agreement providing for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law.
6. **Fee Deferral.** Payment of all of Franchisee’s initial fees and payments are due once Cookie Cutters has met its pre-opening obligations and once Franchisee is open for business.

**IN WITNESS WHEREOF**, the parties have executed this Amendment to be effective as of the date set forth above:

**COOKIE CUTTERS:**

**FRANCHISEE:**

Cookie Cutters Franchising, Inc.

Name of Franchisee

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

**MARYLAND ADDENDUM TO THE AREA DEVELOPMENT AGREEMENT**

**COOKIE CUTTERS FRANCHISING INC.**

This Amendment (“**Amendment**”) is effective as of \_\_\_\_\_, 20\_\_\_\_ to that certain Cookie Cutters Area Development Agreement dated \_\_\_\_\_, 20\_\_\_\_ (“**Agreement**”) by and between Cookie Cutters Franchising, Inc., a Utah corporation (“**Cookie Cutters**”), and \_\_\_\_\_ (“**Developer**”). Notwithstanding any provisions in the Agreement, Cookie Cutters and Developer hereby agree to the following:

1. **Release, Estoppel or Waiver of Liability.** All representations requiring Developer to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.
2. **Venue.** Developer may bring lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
3. **Statute of Limitations.** Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.
4. **Release.** The general release required as a condition of renewal, sale and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
5. **Bankruptcy.** The provision in the Agreement providing for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law.
6. **Fee Deferral.** Payment of all of Developer’s initial fees and payments are deferred until Developer opens the first franchise under the Agreement.

**IN WITNESS WHEREOF**, the parties have executed this Amendment to be effective as of the date set forth above:

**COOKIE CUTTERS:**

Cookie Cutters Franchising, Inc.

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Title:

**DEVELOPER:**

Name of Developer

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Title:

## MINNESOTA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

### COOKIE CUTTERS FRANCHISING INC.

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

1. Minnesota Statutes, Section 80C.21 and Minnesota Rules 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee's rights as provided for in Minnesota Statutes, Chapter 80C, or (2) franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.
2. With respect to the franchises governed by Minnesota law, the franchisor will comply with Minnesota Statute Section 80C.14, Subd. 3-5, which require (except in certain specified cases) (1) that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the franchise agreement and (2) that consent to the transfer of the franchise will not be unreasonably withheld.
3. The franchisor will protect the franchisee's rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify the franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name. Minnesota considers it unfair not to protect the franchisee's right to use the trademarks. Refer to Minnesota Statutes, Section 80C.12, Subd. 1(g).
4. Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.
5. With respect to the franchises governed by Minnesota law, any limitations of claims must comply with Minnesota Statutes Section 80C.17, Subd. 5.
6. The franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. See Minn. Rule 2860.4400J. Also, a court will determine if a bond is required.
7. Special Risk to Consider About this Franchise:

**No Exclusive Territory.** You will not receive an exclusive territory under the franchise agreement. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

## MINNESOTA ADDENDUM TO THE FRANCHISE AGREEMENT

### COOKIE CUTTERS FRANCHISING INC.

This Addendum (“**Addendum**”) is effective as of \_\_\_\_\_, 20\_\_ to that certain Franchise Agreement dated \_\_\_\_\_, 20\_\_ (“**Agreement**”) by and between Cookie Cutters Franchising, Inc., a Utah corporation (“**Cookie Cutters**”), and \_\_\_\_\_ (“**Franchisee**”). Notwithstanding any provisions in the Agreement, Cookie Cutters and Franchisee hereby agree to the following:

1. **Release.** Minnesota Rule 2860.4400D prohibits Cookie Cutters from requiring Franchisee to consent to a general release. The Agreement is modified accordingly, to the extent required by Minnesota law.
2. **Dispute Resolution.** Section 32 is amended, to the extent required under Minnesota law, to comply with Minn. Statutes, Sec. 80C.21 and Minn. Rule Part 2860.4400J, which may prohibit Cookie Cutters from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring Franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Agreement can abrogate or reduce (1) any of Franchisee’s rights as provided for in Minnesota Statutes, Chapter 80C, or (2) Franchisee’s rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.
3. **Notice.** With respect to the franchises governed by Minnesota law, Cookie Cutters will comply with Minnesota Statute Section 80C.14, Subd. 3-5, which require (except in certain specified cases) (1) that Franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice for non-renewal of the Agreement and (2) that consent to the transfer of the franchise will not be unreasonably withheld.
4. **Indemnification for Use of Trademark.** Cookie Cutters will protect Franchisee’s rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify Franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name. Minnesota considers it unfair not to protect Franchisee’s right to use the trademarks. Refer to Minnesota Statutes, Section 80C.12, Subd. 1(g).
5. **Limitation of Claims.** With respect to the franchises governed by Minnesota law, any limitations of claims must comply with Minnesota Statutes Section 80C.17, Subd. 5.
6. **Injunctive Relief.** Franchisee cannot consent to Cookie Cutters obtaining injunctive relief. Cookie Cutters may seek injunctive relief. See Minn. Rule 2860.4400J. Also, a court will determine if a bond is required.

*[Signatures to follow]*

**IN WITNESS WHEREOF**, the Parties have executed this Addendum to be effective as of the date set forth below:

Date: \_\_\_\_\_

**COOKIE CUTTERS:**

Cookie Cutters Franchising, Inc.

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

Name of Franchisee

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## NEW YORK ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

### COOKIE CUTTERS FRANCHISING INC.

As a supplement to the information disclosed in this disclosure document, the following additional paragraphs are added:

1. Except as disclosed in **Item 3** of the disclosure document, neither we, our predecessors, affiliates or any person identified in **Item 2**, or an affiliate offering franchises under the franchisor's principal trademark:
  - A. Has any administrative, criminal or civil action pending that person alleging: a felony, a violation of a franchise, antitrust or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices or comparable civil or misdemeanor allegations. In addition, there are no pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations.
  - B. Has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten (10) year period immediately preceding the application for registration, been convicted or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud, or securities law, fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices or comparable allegations.
  - C. Is subject to any currently effective injunctive or restrictive order or decree relating to the franchise, or under a federal, state, or Canadian franchise, securities, antitrust, trade regulation, or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency, or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.
2. Except as disclosed in **Item 4** of the disclosure document, neither we, nor our affiliates, predecessors, officers, or general partners during the ten (10) year period immediately before the date of this disclosure document: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal

officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within one (1) year after the officer or general partner of the franchisor held this position in the company or partnership.

3. **Item 5** is amended to add the following as the final paragraph:

The Initial Franchise Fee will be used to cover our costs related to review and approve your application, provide all initial training, prepare legal and other documentation related to your purchase of the franchise, and defray other expenses and constitutes part of our general operating funds to be used as such in our discretion.

4. The summary in **Item 17.c.**, Requirements for franchisee to renew or extend, and **Item 17.m.**, Conditions for franchisor approval of transfer are amended to add the following:

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

5. The summary in **Item 17.d.**, Termination by Franchisee, is amended to state the following:

You may terminate the Franchise Agreement and any ancillary agreements upon any other grounds available by law.

6. The summary in **Item 17.j.**, Assignment, is amended to add the following:

However, no assignment will be made except to an assignee who, in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor's obligations under the Franchise Agreement.

7. The summary in **Item 17.v.**, Choice of Forum, and **Item 17.w.**, Choice of Law, are amended to add the following:

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon Franchisee by Article 33 of the General Business Law of the State of New York.

8. Special Risk to Consider About This Franchise:

**Negative Stockholders Equity**. You will be required to make an initial investment ranging from \$132,000 to \$339,500. This amount exceeds our stockholders equity as of December 31, ~~2019~~2020, which is \$(~~52,434,482,241~~).

## NORTH DAKOTA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

### COOKIE CUTTERS FRANCHISING INC.

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

1. You must sign a general release if you renew or transfer your franchise. North Dakota law voids a waiver of certain rights under a general release.
2. The Franchise Agreement contains a liquidated damages clause and termination penalties. Under North Dakota law, certain liquidated damages clauses and termination penalties are unenforceable.
3. All covenants restricting competition are subject to NDCC Section 9-08-06.
4. The Franchise Agreement and AD Agreement require mediation and arbitration in the State of Utah. These provisions may not be enforceable under North Dakota law.
5. The Franchise Agreement and AD Agreement require you to consent to jurisdiction in the State of Utah. These provisions may not be enforceable under North Dakota law.
6. The Franchise Agreement and AD Agreement require application of the laws of the State of Utah. These provisions may not be enforceable under North Dakota law.
7. The AD Agreement requires you to consent to a waiver of trial by jury. This provision may not be enforceable under North Dakota law.
8. With respect to franchises governed by North Dakota law, payment of the initial franchise fees are deferred until the franchisor has met its preopening obligations and the franchisee is open for business.

**SOUTH DAKOTA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

**COOKIE CUTTERS FRANCHISING INC.**

1. **Item 5** of the disclosure document is amended to add the following as the last paragraph:

Based on the financial information submitted, the Division has determined that all initial fees paid to us by you before your business opens, including the initial franchise fee and initial training fee, shall be deferred until you are open for business and we have satisfied all or our pre-opening obligations to you.

**SOUTH DAKOTA ADDENDUM TO THE FRANCHISE AGREEMENT**

**COOKIE CUTTERS FRANCHISING INC.**

This Amendment (“**Amendment**”) is effective as of \_\_\_\_\_, 20\_\_ to that certain Cookie Cutters Franchise Agreement dated \_\_\_\_\_, 20\_\_ (“**Agreement**”) by and between Cookie Cutters Franchising, Inc., a Utah corporation (“**Cookie Cutters**”), and \_\_\_\_\_ (“**Franchisee**”). Notwithstanding any provisions in the Agreement, Cookie Cutters and Franchisee hereby agree to the following:

1. **Fee Deferral.** Payment of all of Franchisee’s initial fees and payments due to Cookie Cutters from Franchisee before Franchisee’s business opens are due once Cookie Cutters has met its pre-opening obligations and once Franchisee is open for business.

**IN WITNESS WHEREOF**, the parties have executed this Amendment to be effective as of the date set forth above:

**COOKIE CUTTERS:**

**FRANCHISEE:**

Cookie Cutters Franchising, Inc.

Name of Franchisee

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## VIRGINIA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

### COOKIE CUTTERS FRANCHISING INC.

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

Any securities offered or sold by the Investor Franchisee as part of the Cookie Cutters Franchise must either be registered or exempt from registration under Section 13.1-514 of the Virginia Securities Act.

The following is added to Item 2:

**Area Director: Glenn Gustafsson**

Mr. Gustafsson has been an Area Director for Cookie Cutters under the entity Hairman of the Board, LLC in Bel Air, Maryland for the territories of Delaware, Maryland, New Jersey, Pennsylvania, and the District of Columbia since December 2015 and Virginia since August 2016. Mr. Gustafsson has also been an Area Director for 4 Gus Development, LLC since October 2011 in Bel Air, Maryland and an Area Director for Hogies Heroes, LLC in Bel Air, Maryland since March 2016.

The following is added to Item 3:

No litigation is required to be disclosed in this Item with relation to the Cookie Cutters Area Directors.

The following is added to Item 4:

No bankruptcy is required to be disclosed in this Item with relation to the Cookie Cutters Area Directors.

The following is added to Item 5:

The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise agreement.

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Disclosure Document for Cookie Cutters Franchising Inc. for use in the Commonwealth of Virginia shall be amended as follows:

The following statements are added to Item 17.h:

Under Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any ground for default or termination stated in the franchise agreement or development agreement does not constitute “reasonable cause,” as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

Special Risks to Consider About This Franchise:

**Financial Condition.** ~~The Franchisor's financial condition, as reflected in its financial statements (See Item 21), calls into question the Franchisor's ability to provide services and support to you.~~

**Intangible Assets.** Please note that ~~8%~~8.9% of the Franchisor's assets are intangible.

**VIRGINIA ADDENDUM TO THE FRANCHISE AGREEMENT**

**COOKIE CUTTERS FRANCHISING INC.**

This Amendment (“**Amendment**”) is effective as of \_\_\_\_\_, 20\_\_ to that certain Cookie Cutters Franchise Agreement dated \_\_\_\_\_, 20\_\_ (“**Agreement**”) by and between Cookie Cutters Franchising, Inc., a Utah corporation (“**Cookie Cutters**”), and \_\_\_\_\_ (“**Franchisee**”). Notwithstanding any provisions in the Agreement, Cookie Cutters and Franchisee hereby agree to the following:

1. **Fee Deferral.** The Virginia State Corporation Commission’s Division of Securities and Retail Franchising requires Cookie Cutters to defer payment of the initial franchise fee and other initial payments owed by Franchisee to Cookie Cutters until Cookie Cutters has completed its pre-opening obligations under the Agreement.

**IN WITNESS WHEREOF**, the parties have executed this Amendment to be effective as of the date set forth above:

**COOKIE CUTTERS:**

**FRANCHISEE:**

Cookie Cutters Franchising, Inc.

Name of Franchisee

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**VIRGINIA ADDENDUM TO THE AREA DEVELOPMENT AGREEMENT**

**COOKIE CUTTERS FRANCHISING INC.**

This Amendment (“**Amendment**”) is effective as of \_\_\_\_\_, 20\_\_ to that certain Cookie Cutters Area Development Agreement dated \_\_\_\_\_, 20\_\_ (“**Agreement**”) by and between Cookie Cutters Franchising, Inc., a Utah corporation (“**Cookie Cutters**”), and \_\_\_\_\_ (“**AD**”). Notwithstanding any provisions in the Agreement, Cookie Cutters and AD hereby agree to the following:

1. **Fee Deferral.** The Virginia State Corporation Commission’s Division of Securities and Retail Franchising requires Cookie Cutters to defer payment of the development fee owed by AD to Cookie Cutters until Cookie Cutters has completed its pre-opening obligations under the Agreement.

**IN WITNESS WHEREOF**, the parties have executed this Amendment to be effective as of the date set forth above:

**COOKIE CUTTERS:**

**AD:**

Cookie Cutters Franchising Inc.

Name of AD

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## WASHINGTON ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

### COOKIE CUTTERS FRANCHISING INC.

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW, shall prevail.
2. A release or waiver of rights executed by you shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act may not be enforceable.
3. Transfer fees are collectable to the extent that they reflect our reasonable estimated or actual costs in effecting a transfer.
4. The state of Washington has a statute, RCW 19.100.180 which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.
5. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.
7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions

contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

8. Item 5 is amended to state that payment of the franchise fee is deferred until we have met our pre-opening obligations and once you are open for business.

9. Special Risks to Consider About This Franchise:

**Limited Resources.** The Franchisor has limited financial resources which might not be adequate to fund its pre-opening obligations to each franchisee and pay operating expenses.

**Limited Operating History.** The Franchisor has a limited franchise operating history to assist a prospective franchisee in deciding to make an investment.

## WASHINGTON ADDENDUM TO THE FRANCHISE AGREEMENT

### COOKIE CUTTERS FRANCHISING INC.

This Amendment (“**Amendment**”) is effective as of \_\_\_\_\_, 20\_\_ to that certain Cookie Cutters Franchise Agreement dated \_\_\_\_\_, 20\_\_ (“**Agreement**”) by and between Cookie Cutters Franchising, Inc., a Utah corporation (“**Cookie Cutters**”), and \_\_\_\_\_ (“**Franchisee**”). Notwithstanding any provisions in the Agreement, Cookie Cutters and Franchisee hereby agree to the following:

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW, shall prevail.
2. A release or waiver of rights executed by Franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the Agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act may not be enforceable.
3. Transfer fees are collectable to the extent that they reflect Cookie Cutters’ reasonable estimated or actual costs in effecting a transfer.
4. The state of Washington has a statute, RCW 19.100.180 which may supersede the Agreement in Franchisee’s relationship with Cookie Cutters including the areas of termination and renewal of the franchise. There may also be court decisions which may supersede the Agreement in Franchisee’s relationship with Cookie Cutters including the areas of termination and renewal of the franchise.
5. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee’s earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor’s earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for

inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.
8. Payment of the franchise fee is deferred until Cookie Cutters has met its pre-opening obligations and until Franchisee is open for business.

***[Signatures on following page]***

**IN WITNESS WHEREOF**, the parties have executed this Amendment to be effective as of the date set forth above:

**COOKIE CUTTERS:**

**FRANCHISEE:**

Cookie Cutters Franchising, Inc.

Name of Franchisee

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## WASHINGTON ADDENDUM TO THE AREA DEVELOPMENT AGREEMENT

### COOKIE CUTTERS FRANCHISING INC.

This Amendment (“**Amendment**”) is effective as of \_\_\_\_\_, 20\_\_ to that certain Cookie Cutters Area Development Agreement dated \_\_\_\_\_, 20\_\_ (“**Agreement**”) by and between Cookie Cutters Franchising, Inc., a Utah corporation (“**Cookie Cutters**”), and \_\_\_\_\_ (“**Franchisee**”). Notwithstanding any provisions in the Agreement, Cookie Cutters and Franchisee hereby agree to the following:

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW, shall prevail.
2. A release or waiver of rights executed by Franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the Agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act may not be enforceable.
3. Transfer fees are collectable to the extent that they reflect Cookie Cutters’ reasonable estimated or actual costs in effecting a transfer.
4. The state of Washington has a statute, RCW 19.100.180 which may supersede the Agreement in Franchisee’s relationship with Cookie Cutters including the areas of termination and renewal of the franchise. There may also be court decisions which may supersede the Agreement in Franchisee’s relationship with Cookie Cutters including the areas of termination and renewal of the franchise.
5. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee’s earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor’s earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for

inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.
8. Because Cookie Cutters has material pre-opening obligations with respect to each franchised business Franchisee opens under the Agreement, payment of the franchise fee will be released proportionally with respect to each franchise opened and is deferred until Cookie Cutters has met its pre-opening obligations and until Franchisee is open for business with respect to each such location.

***[Signatures on following page]***

**IN WITNESS WHEREOF**, the parties have executed this Amendment to be effective as of the date set forth above:

**COOKIE CUTTERS:**

**FRANCHISEE:**

Cookie Cutters Franchising, Inc.

Name of Franchisee

Name:

Name:

Title:

Title:

**DELAWARE, NEW JERSEY, PENNSYLVANIA, AND THE DISTRICT OF COLUMBIA  
ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

**COOKIE CUTTERS FRANCHISING INC.**

The following is added to Item 2:

**Area Director: Glenn Gustafsson**

Mr. Gustafsson has been an Area Director for Cookie Cutters under the entity Hairman of the Board, LLC in Bel Air, Maryland for the territories of Delaware, Maryland, New Jersey, Pennsylvania, and the District of Columbia since December 2015 and Virginia since August 2016. Mr. Gustafsson has also been an Area Director for 4 Gus Development, LLC since October 2011 in Bel Air, Maryland and an Area Director for Hogies Heroes, LLC in Bel Air, Maryland since March 2016.

The following is added to Item 3:

No litigation is required to be disclosed in this Item with relation to the Cookie Cutters Area Directors.

The following is added to Item 4:

No bankruptcy is required to be disclosed in this Item with relation to the Cookie Cutters Area Directors.

**EXHIBIT H**

**STATE EFFECTIVE DATES**

## STATE EFFECTIVE DATES

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the states, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered, or exempt from registration, as of the Effective Date stated below:

State	Effective Date
California	<del>May 19, 2020</del>
Illinois	<del>May 15, 2020</del>
Indiana	<del>July 1, 2020</del>
Maryland	<del>July 8, 2020</del>
Michigan	<del>May 28, 2020</del>
Minnesota	<del>June 29, 2020</del>
New York	<del>July 6, 2020</del>
North Dakota	<del>June 2, 2020</del>
Rhode Island	<del>May 19, 2020</del>
South Dakota	<del>May 15, 2020</del>
Virginia	<del>May 29, 2020</del>
Washington	<del>June 30, 2020</del>
Wisconsin	<del>May 15, 2020</del>

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

**EXHIBIT I**  
**RECEIPT PAGE**

**RECEIPT**

This Disclosure Document summarizes certain provisions of the franchise agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If Cookie Cutters Franchising Inc. offers you a franchise, Cookie Cutters Franchising Inc. must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us in connection with the proposed franchise sale. Under New York and Michigan law, if applicable, this period may be 10 business days, which could be longer than 14 calendar days. In addition, under New York law, if applicable, Cookie Cutters Franchising Inc. may be required to provide this Disclosure Document to you at your first personal meeting to discuss the franchise.

If Cookie Cutters Franchising Inc. does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and those state administrators listed on **Exhibit A**. Cookie Cutters Franchising Inc. authorizes the respective state agencies identified on **Exhibit A** to receive service of process for us in the particular state. Neal Courtney, 8 East Broadway, Suite 420, Salt Lake City, Utah 84111 is authorized as our agent for service of process where Cookie Cutters Franchising Inc. is formed.

The franchisor is Cookie Cutters Franchising Inc. located at 8 East Broadway, Suite 420, Salt Lake City, Utah 84111. Its telephone number is (317) 334-1680.

Our franchise sellers involved in this offering and selling the franchise to you are listed below (with address and telephone number), or will be provided to you separately before you sign a franchise agreement

Neal Courtney	8 East Broadway, Suite 420 Salt Lake City, Utah 84111	(317) 334-1680
_____	_____	_____
_____	_____	_____

I have received a Disclosure Document with an issuance date of ~~May 12, 2020~~ **March 26, 2021** that included the following Exhibits:

- |                               |  |
|-------------------------------|--|
| A. State Agencies             | E. List of Franchisees                 |
| B. Franchise Agreement        | F. Operations Manual Table of Contents |
| C. Area Development Agreement | G. State Specific Addenda              |
| D. Financial Statements       | H. State Effective Dates               |
|                               | I. Receipt Page                        |

Date: \_\_\_\_\_ Your name (please print): \_\_\_\_\_

Your signature: \_\_\_\_\_

You should return one copy of the signed receipt either by signing, dating, and mailing it to Cookie Cutters Franchising Inc. at 8 East Broadway, Suite 420, Salt Lake City, Utah 84111, or by faxing a copy of the

signed receipt to Cookie Cutters Franchising Inc. at (801) 474-1367. You may keep the second copy for your records.

**RECEIPT**

This Disclosure Document summarizes certain provisions of the franchise agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If Cookie Cutters Franchising Inc. offers you a franchise, Cookie Cutters Franchising Inc. must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us in connection with the proposed franchise sale. Under New York and Michigan law, if applicable, this period may be 10 business days, which could be longer than 14 calendar days. In addition, under New York law, if applicable, Cookie Cutters Franchising Inc. may be required to provide this Disclosure Document to you at your first personal meeting to discuss the franchise.

If Cookie Cutters Franchising Inc. does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and those state administrators listed on **Exhibit A**. Cookie Cutters Franchising Inc. authorizes the respective state agencies identified on **Exhibit A** to receive service of process for us in the particular state. Neal Courtney, 8 East Broadway, Suite 420, Salt Lake City, Utah 84111 is authorized as our agent for service of process where Cookie Cutters Franchising Inc. is formed.

The franchisor is Cookie Cutters Franchising Inc. located at 8 East Broadway, Suite 420, Salt Lake City, Utah 84111. Its telephone number is (317) 334-1680.

Our franchise sellers involved in this offering and selling the franchise to you are listed below (with address and telephone number), or will be provided to you separately before you sign a franchise agreement.

Neal Courtney	8 East Broadway, Suite 420 Salt Lake City, Utah 84111	(317) 334-1680

I have received a Disclosure Document with an issuance date of ~~May 12, 2020~~ **March 26, 2021** that included the following Exhibits:

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>A. State Agencies</li> <li>B. Franchise Agreement</li> <li>C. Area Development Agreement</li> <li>D. Financial Statements</li> </ul> | <ul style="list-style-type: none"> <li>E. List of Franchisees</li> <li>F. Operations Manual Table of Contents</li> <li>G. State Specific Addenda</li> <li>H. State Effective Dates</li> <li>I. Receipt Page</li> </ul> |
|---|--|

Date: \_\_\_\_\_ Your name (please print): \_\_\_\_\_

Your signature: \_\_\_\_\_

You should return one copy of the signed receipt either by signing, dating, and mailing it to Cookie Cutters Franchising Inc. at 8 East Broadway, Suite 420, Salt Lake City, Utah 84111, or by faxing a copy of the signed receipt to Cookie Cutters Franchising Inc. at (801) 474-1367. You may keep the second copy for your records.

