



**FRANCHISE DISCLOSURE DOCUMENT**  
**Salon Professional Education Company, LLC**  
**(A North Dakota Limited Liability Company)**  
**4377 15<sup>th</sup> Avenue South, Fargo, ND 58103**  
**Telephone Number: 888-478-6856**  
[www.SPECfranchise.com](http://www.SPECfranchise.com)  
[JKrahn@SPECfranchise.com](mailto:JKrahn@SPECfranchise.com)

Salon Professional Education Company, LLC, doing business as SPEC, offers franchisees the right to establish and operate a distinctive school for training students in hairstyling and other cosmetology services under one of the following cosmetology school brands that you select: ***The Salon Professional Academy (“TSPA”), Elevate Salon Institute (“ESI”), or Academy for Salon Mastery (“ASM”), or Elevate Salon Institute (“ESI”).*** All brands are operated under our service mark **SPEC**. The system’s distinguishing characteristics include: uniform standards and procedures for business operations; ongoing training in the operation, management, and promotion of the franchised business; advertising and promotional programs; quality education facilities; customer development and service techniques; student recruiting and development; and other technical assistance.

The total investment necessary to begin operation of open and operate a franchise new cosmetology school is \$626,645,000 to \$1,055,056,500 for our smaller model and \$788,737,500 to \$1,527,458,500 for our base model. This includes \$383,950 paid as an initial franchise fee to the franchisor. This applies regardless of the service mark you may choose for operating your franchise. The total investment necessary to convert an existing cosmetology school is \$107,000 to \$685,500. This also includes the \$39,500 paid as an initial franchise fee to the franchisor, and applies regardless of the service mark you may choose for operating your franchise.

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 governmental 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 Jill Krahn at SPEC, 4377 15<sup>th</sup> Avenue South, Fargo, ND 58103, 888-478-6856, or [JKrahn@SPECfranchise.com](mailto:JKrahn@SPECfranchise.com).

The terms of your contract will govern your franchise relationship. Do not rely on the disclosure document alone to understand your contract. Read all of your contracts carefully. Show your contracts and this disclosure document to an advisor, like a lawyer or an 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. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at 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.

The date of issuance of this disclosure document is: ~~December 31, 2015~~ March 8, 2017

## State Cover Page

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

Call the state franchise administrator listed on Exhibit D for information about the franchisor, or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

1. YOU MUST RESOLVE DISPUTES WITH US BY AN INFORMAL MEETING, ARBITRATION OR LITIGATION IN NORTH DAKOTA. OUT OF STATE MEETING, ARBITRATION OR LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO SETTLE, BRING AN ARBITRATION CLAIM OR SUE US IN NORTH DAKOTA THAN IN YOUR HOME STATE.
2. THE FRANCHISE AGREEMENT STATES THAT NORTH DAKOTA LAW GOVERNS THE AGREEMENT, EXCEPT TO THE EXTENT THAT THE LANHAM ACT OR FEDERAL ARBITRATION ACT GOVERNS. NORTH DAKOTA LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. THE PARTIES WAIVE THEIR RIGHT TO A JURY TRIAL WITH RESPECT TO DISPUTES RELATING TO THE FRANCHISE AGREEMENT.
4. YOU WILL NOT RECEIVE AN EXCLUSIVE TERRITORY AND MAY FACE COMPETITION FROM US AND OTHER FRANCHISEES. WE OFFER FRANCHISES FOR COSMETOLOGY SCHOOLS UNDER DIFFERENT TRADEMARKS. THESE FRANCHISEES MAY COMPETE WITH YOUR FRANCHISE BOTH WITHIN AND OUTSIDE YOUR PROTECTED TERRITORY.
5. A FRANCHISEE'S INITIAL INVESTMENT OF FROM ~~\$626,645,000~~ TO \$1,527,458,500 EXCEEDS THE FRANCHISOR'S MEMBER'S EQUITY AS OF DECEMBER 31, ~~2015~~2016 OF ~~\$97,152,176,565~~. A PROSPECTIVE FRANCHISEE SHOULD REFER TO THE FINANCIAL STATEMENTS FOR COMPLETE DETAILS.
6. STARTING IN THE SIXTH FULL CALENDAR MONTH AFTER YOU SIGN THE FRANCHISE AGREEMENT, YOU MUST PAY US A MINIMUM MONTHLY ROYALTY FEE OF \$1,500 EVEN IF YOU HAVE NO INCOME.
7. DEPENDING ON THE TRADEMARK YOU SELECT FOR YOUR FRANCHISED BUSINESS, THE TRADEMARK MAY NOT YET HAVE FEDERAL REGISTRATION, WHICH MEANS IT DOES NOT HAVE AS MANY LEGAL BENEFITS AND RIGHTS AS SA FEDERALLY REGISTERED TRADEMARK. IF OUR RIGHT TO USE THE TRADEMARK IS CHALLENGED, YOU MAY HAVE TO CHANGE TO AN ALTERNATIVE TRADEMARK, WHICH MAY INCREASE YOUR EXPENSES.

8. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE INCLUDING QUALIFYING, AND MAINTAINING THE QUALIFICATION OF, YOUR SCHOOL TO RECEIVE FINANCIAL AID FOR ITS STUDENTS, ENSURING THAT STUDENTS WHO PERFORM SERVICES FOR THE GENERAL PUBLIC ARE NOT CLASSIFIED AS EMPLOYEES, AND COMPLYING WITH OTHER INDUSTRY REGULATIONS (see Item 1).

See next page for effective dates in certain states.

**FRANCHISE DISCLOSURE DOCUMENT**  
**STATE EFFECTIVE DATES**

The states listed in the table below require that the Franchise Disclosure Document be registered or filed with the state, and the effective date of our registration or exemption is included below:

California	
Illinois	
Indiana	
Maryland	
Michigan	
Minnesota	
New York	
North Dakota	
South Dakota	
Virginia	
Washington	
Wisconsin	<u>April 19, 2017</u>

In all the other states, the effective date of this Franchise Disclosure Document is the issuance date of ~~December 31, 2015~~March 8, 2017

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**EXHIBITS:**

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- EXHIBIT B – TABLE OF CONTENTS- OPERATING MANUAL
- EXHIBIT C – FINANCIAL STATEMENTS
- EXHIBIT D – LIST OF STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS
- EXHIBIT E – LIST OF CURRENT FRANCHISEE OUTLETS
- EXHIBIT F – LIST OF FRANCHISEE OUTLETS TERMINATED, NOT-RENEWED, ETC.
- EXHIBIT G – FRANCHISEE QUESTIONNAIRE
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- EXHIBIT I – SAMPLE FORM OF GENERAL RELEASE (~~STATE OF MARYLAND~~)
- EXHIBIT J – STATE ADDENDA

## ITEM 1. THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

To simplify the language in this disclosure document, "SPEC" means Salon Professional Education Company, LLC, the franchisor. "We", "us", and "our" also refer to SPEC. "You" and "your" mean the person who buys the franchise, the franchisee. If the purchaser of the franchise is a partnership, corporation, limited liability company, or other entity, with respect to obligations you owe us, "you" includes the franchisee's owners, who must join, and agree to be bound by, the Franchise Agreement, which is attached as Exhibit A to this disclosure document.

Unless otherwise defined, all initially capitalized terms appearing in this disclosure document have the meanings given to them in your Franchise Agreement.

### Franchisor's Corporate Information

We are a North Dakota limited liability company, reorganized in North Dakota on December 23, 2015 (from its original organization in Minnesota on July 13, 2004), and doing business under the name SPEC. Before December 24, 2012, the name of the company was APS, LLC. Our principal business address is 4377 15<sup>th</sup> Avenue South, Fargo, ND 58103.

Our agent for service of process is listed on Exhibit D to this disclosure document.

### Parents and Predecessors

We have no parent. We have no predecessors from whom we acquired, directly or indirectly, the major portion of our assets within the past 10-year period.

### Affiliates Providing Goods or Services to Franchisees

Our affiliate Salon Brand It, LLC, whose principal business address is 4377 15<sup>th</sup> Ave. S., Fargo, ND 58103, is a designated supplier of certain promotional products. In addition, our affiliate Fuel Productions, LLC (d/b/a Fuel Education Systems), whose principal business address is ~~38 E. 21<sup>st</sup> Street, 9<sup>th</sup> Floor, New York, NY 10010~~ 15125 E. Sundown Dr., Fountain Hills, AZ 85268, is a designated supplier of certain training materials. Neither Salon Brand It, LLC nor Fuel Productions, LLC have ever owned or operated a cosmetology school franchise or offered franchises for any other line of business.

### Franchisor's Business

Our principal business is selling and supporting cosmetology school franchises, which we have been doing since 2008. Before December 24, 2012, we sold franchises under our previous name, APS, LLC. We have never ourselves operated a cosmetology school franchise or offered franchises for any other line of business. From 2004 to 2008, we provided consulting services to cosmetology schools and hair salons, under our previous name, APS, LLC. Since 2008 we have not provided consulting services to cosmetology schools or hair salons.

### The Franchised Business

A franchise grants you the right to own and operate a distinctive school training students in hairstyling and other cosmetology services. The franchised business may be operated under one of two different-sized models that you may choose from. Each model is substantially the same in all respects except the square footage of the facility. Our schools may also offer training in massage services, but most do not. Because some do, and you may elect to do so also (if you have sufficient space), references in this disclosure document to a cosmetology school or cosmetology services apply also to massage services to the extent you choose to offer training in this type of service. Each franchise operates under the trademarks ***The Salon Professional Academy, Elevate Salon Institute, or Academy for Salon Mastery*** or ***Elevate Salon Institute***. You choose which trademark you prefer to use for your cosmetology school. You

may use only one of the three and your choice is known as your "Selected Trademark." When you choose your Selected Trademark you are entitled to use a particular line of products at your school that corresponds to your Selected Trademark. Specifically, if you choose **The Salon Professional Academy** you use *Redken* products, if you choose ~~**Academy for Salon Mastery**~~ you use ~~*Matrix*~~ products, and if you choose ~~**Elevate Salon Institute**~~ you use *L'Oréal Professionnel* products, and if you choose **Academy for Salon Mastery** you use *Matrix* products. Your choice of Selected Trademark determines which SPEC-authorized brands you want to be associated with. The method of applying or teaching the use of certain hair products (like coloring or cutting techniques) may differ based on brand, but the same types of hair products are used in all of our concepts regardless of which Selected Trademark you choose. All of our topics of instruction, and all of our operating requirements, are the same among all of our concepts regardless of which Selected Trademark you choose. No other material differences exist among our concepts.

In addition to these trademarks, our franchise system features uniform standards and procedures for business operations; ongoing training in the operation, management, and promotion of the franchised business; advertising and promotional programs; quality education facilities; customer development and service techniques; student recruiting and development; and other technical assistance.

### **General Market and Competition**

The market for services consists of members of the general public who wish to be trained in cosmetology. Sales are not seasonal. The market for cosmetology schools is developing.

The cosmetology school industry is highly competitive. You may compete with other local and national brand name schools including "Paul Mitchell," "Toni & Guy," and "Aveda," other schools that we or our affiliates own or franchise, as well as high schools and colleges that offer hairstyling or other cosmetology programs.

### **Industry Regulations**

Risks to operating in the cosmetology training industry include dependence on the following assumptions, which are subject to change as a result of pending or proposed legislation and litigation that may have a material adverse effect on the industry: (1) financial aid under Title IV of the Higher Education Act of 1965 will be available to promote student enrollment; and not restricted due to a lack of federal funding or regulatory constraints such as "gainful employment"; (2) state licensure requirements that mandate formal education and licensure to provide salon services will continue to exist to support demand for educational services your franchised business offers; and (3) non-employee status for students who provide salon services to the public for a reduced fee, as part of the training hours they need to obtain their cosmetology license, will continue to be recognized instead of requiring a school to pay the students as employees and otherwise treat them as employees for the training time they spend ~~on~~ providing such services.

You must secure and maintain in force all required licenses, permits and certificates relating to the operation of your Franchised Business and the other licenses applicable to your employees, if any. These include, but are not limited to, maintaining certifications and licenses with applicable state agencies that regulate cosmetology or massage services. In California, for example, the California Board of Barbering and Cosmetology and the Bureau of Private Postsecondary Education oversee regulations applicable to cosmetology services. Also in California, as another example, the California Massage Therapy Council (CAMTC) oversees regulations for it to approve schools and their curriculum for its students to satisfy state certification requirements applicable to massage services. If you choose to offer financial aid at your school, you must comply with state and federal student loan laws and regulations. Some jurisdictions may require you to comply with conditions to providing hair cutting and other services to the public for a

fee. In Pennsylvania, for example, these conditions have included that the fee is based on the reasonable cost of materials used in such service, the students must have minimum experience levels, and an appropriate sign is posted advising of the student services.

There may be other laws, rules and regulations that affect your Franchised Business, including minimum wage and labor laws, the Americans with Disabilities Act, the Occupational, Health and Safety Act and Title IV of The Higher Education Act of 1965. It will be your responsibility for researching all applicable laws, and we strongly advise that you consult with a local attorney and/or contact local, state and federal agencies before signing your Franchise Agreement, to determine your legal obligations and evaluate the possible effects on your costs and operations.

## **ITEM 2. BUSINESS EXPERIENCE**

### **Jodi Ellingson: Chief Manager/President and Treasurer**

Jodi Ellingson became our Chief Manager/President and Treasurer, in Fargo, North Dakota, on December 21, 2012. From 2008 through December 21, 2012, Ms. Ellingson served as our Senior VP Marketing and Advertising. Ms. Ellingson has also owned and operated a TSPA school in Fargo, ND since 2003. Ms. Ellingson has also been a partner in a TSPA school in Winnipeg, MB, since 2016. Ms. Ellingson has also co-owned and operated Hair Success Salons & Day Spas in Fargo, ~~North Dakota~~ND since 1984.

### **Jill Krahn: Executive Vice President and Secretary**

Jill Krahn became our Secretary and an Executive Vice President, in Fargo, North Dakota, on December 21, 2012. From 2008 through December 21, 2012, Ms. Krahn served as our Senior Vice President of Business Sales and Growth. Ms. Krahn has also owned and operated a TSPA school in Fargo, ND since 2003. Ms. Krahn has also been a partner in a TSPA school in Winnipeg, MB, since 2015. Ms. Krahn has also co-owned and operated Hair Success Salons & Day Spas in Fargo, ~~North Dakota~~ND since 1984.

### **Sonja Plunkett: Executive Vice President Operations**

Sonja Plunkett became one of our Executive Vice Presidents, in Maxwell, Iowa, on December 21, 2012. From 2008 through December 21, 2012, Ms. Plunkett served as our Senior Vice President of Education and Consulting. Ms. Plunkett has ~~more than 3233~~ years of experience in the areas of school operations and education, and has an ownership interest in two TSPA school locations – Dallas, TX and Shorewood, IL.

### **Marilyn Fulkerson: Executive Vice President Admissions/Student Loan Programs/Regulations**

Marilyn Fulkerson became one of our Executive Vice Presidents, in Ankeny, IA, on December 21, 2012. From 2008 through December 21, 2012, Ms. Fulkerson served as our Director of Admissions and Financial Aid. Ms. Fulkerson has worked in the field of cosmetology for ~~4344~~ years.

### **Samuel Shimer: Director and Chairman**

Samuel Shimer became one of our Directors, in Chappaqua, New York, on December 21, 2012. Since 2010, Mr. Shimer has served as Managing Director of SLC Capital Partners, LLC, a private equity firm in St. Petersburg, Florida. From 2004 to 2010, Mr. Shimer served as partner at JHW Greentree Management Co., LLC, a private equity firm in New Canaan, Connecticut. Mr. Shimer also currently serves on the Board of Directors of the following companies: Heritage Global, Inc., ~~Jan Pro Franchising International~~, JP Florida Holdings, and Honest-1 Auto Care and TBA Global Events. Mr. Shimer has had an ownership interest in a TSPA school in Altoona, PA since 2014.

### **Christopher Baran: Director**

Christopher Baran became one of our Directors, in New York City, New York, on December 21, 2012. Since 2001, Mr. Baran has served as Global Artistic Director for Redken 5<sup>th</sup> Avenue in New York City, New York. Since 2006, Mr. Baran has also owned and operated Fuel Productions LLC, a production company in New York City, New York that offers cosmetology educational and training materials. Since 2012, Mr. Baran has also owned and operated Chaos Complex Entertainment, LLC, a television and film writing and production company in New York City, New York. Mr. Baran has had an ownership interest in a TSPA school in Altoona, PA since 2014.

### **ITEM 3. LITIGATION**

In 2008 we sold one unregistered franchise in the state of Washington and in 2010 we sold one unregistered franchise in the state of California. The Washington sale arose before an application was submitted. The California sale arose shortly after a registration lapsed. Each sale was an inadvertent violation. On November 13, 2013, we entered into a consent order with the state of Washington Department of Financial Institutions Securities Division (Order No: S-13-1358-CO01), and agreed to cease and desist from violating the Franchise Investment Protection Act of the state of Washington. We received a notice from California and are complying with all its requirements regarding that sale. California has not initiated any formal administrative action. At its request we notified the one affected franchisee of its rights regarding any claims for damages and/or rescission, who elected to remain in our franchise system, and have accepted the terms California requires that we continue to comply with their registration and disclosure requirements.

Other than the items listed above, there is no litigation 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**

When you sign your Franchise Agreement, you must pay us a ~~\$38~~39,500 Initial Franchise Fee.

None of the payments described in this Item are refundable.

Except as follows, all initial fees are uniformly imposed. Several franchisees who acquired franchise rights from us before December 31, 2013, may be entitled to waivers of initial fees due to special previous arrangements made for future franchised locations that they open. Similarly, under franchise rights we previously granted, several franchisees are entitled to reductions in royalties from developing and operating multiple locations. We reserve the right to grant reductions or waivers of initial fees and royalties, but we have no obligation to do so.

**ITEM 6. OTHER FEES**

<b>OTHER FEES</b>			
<b>TYPE OF FEE<sup>1,2,3</sup></b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS</b>
Royalty Fee	6% of Gross Revenues (subject to the minimum monthly royalty amount).	By the 10 <sup>th</sup> of each month for the prior month's Gross Revenues. However, the minimum monthly Royalty Fee is due regardless of the opening date of the franchised business or the amount of the Gross Revenues, starting in the sixth full calendar month after signing the franchise agreement.	<p>"Gross Revenues" includes all your revenues (actually received and net of actual refunds, which must be documented to our reasonable satisfaction) arising out of the ownership or operation of the Franchised Business or any other business at or about the Premises.</p> <p>The minimum monthly Royalty Fee is \$1,500.</p> <p><del>Several franchisees who acquired franchise rights from us before December 31, 2013, may be entitled to reduced royalty payments on future franchised locations that they open.</del></p>

OTHER FEES			
TYPE OF FEE <sup>1,2,3</sup>	AMOUNT	DUE DATE	REMARKS
Local Advertising	Not less than 2% of your monthly Gross Revenues (as defined in the remarks above for Royalties)	Each month in any quarter that your average Student Capacity for the immediately previous quarter is less than 80-85 %, as we further describe in the remarks column.	Except as stated below, we do not currently require you to spend any minimum amount on Local Marketing (although we encourage you to conduct Local Marketing). On the first day of each calendar quarter, beginning with the first day of the first full calendar quarter following the date that you sign your Franchise Agreement, you shall determine the average Student Capacity for the immediately previous calendar quarter. If the average Student Capacity for the immediately previous calendar quarter is less than the applicable Capacity Percentage, then for each of the months of the current calendar quarter you shall spend a minimum of 2% of that month's Gross Revenues on Local Advertising. "Student Capacity" means, for any month, the fraction, expressed as a percentage, the numerator of which is the number of enrolled students in your Franchised Business as of the last day of that month, and the denominator of which is the maximum student capacity of your Franchised Business as of the last day of that month. "Capacity Percentage" means: (i) 80% if the date of determination is during the first five years of the Term; and (ii) 85% if the date of determination is during the sixth and subsequent years of the Term. You do not pay us these amounts, you pay them to third parties.

OTHER FEES			
TYPE OF FEE <sup>1,2,3</sup>	AMOUNT	DUE DATE	REMARKS
Technology Fee	Currently there is no required Technology Fee but this is subject to change	By the 10 <sup>th</sup> of each month	We may provide, maintain, or assist you in obtaining (or obtaining access to) some or all of the Software that you are required to purchase or use, including a cloud based customer relationship management system. If we do, we may charge you a monthly fee to reimburse us for the costs and expenses we incur, including an administrative fee for us, of up to \$250. We may periodically increase the Technology Fee upon 90 days prior notice to you if we incur more fees or costs in connection with such Software; provided, that, we will not increase the maximum amount we are permitted to charge by an average of more than 20% per year in any consecutive five year period unless approved by a franchise advisory committee.
Monthly Website Fee	Currently \$240 per month, but subject to change	Upon receipt of invoice	This fee is for the maintenance of your microsite. Currently, you pay these amounts directly to the designated third party supplier. However, for administrative purposes, we may require you to pay the monthly website fee directly to us instead of the third party supplier. If we do, we may use the monthly website fee to reimburse us for expenses to third parties and to provide us with an administrative fee that we designate in connection therewith. We may periodically increase the monthly website fee if we incur more fees or costs in connection with providing website services; provided, that, we will not increase the maximum amount we are permitted to charge by an average of more than 20% per year in any consecutive five-year period.
Initial Franchise Training	No fee, but you must pay your trainees' out-of-pocket expenses.	Before or during training	You must pay your expenses and each trainee's other expenses, including travel, lodging, and meal expenses. You do not pay us these amounts, you pay them to third parties.



<b>OTHER FEES</b>			
<b>TYPE OF FEE<sup>1,2,3</sup></b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS</b>
Transfer Fee	\$20,000	Before transfer	Your transferee must pay this amount if you transfer your Franchise. The transferee pays this instead of paying an initial franchise fee. <sup>3</sup>
Renewal Costs	All expenses we incur in connection with renewing your Franchise, up to a maximum of \$5,000.	Before entering Successor Franchise Agreement	You must reimburse us for all expenses we incur in connection with renewing your Franchise if you wish to enter a Successor Franchise Agreement when your current agreement expires. You pay this amount instead of an initial franchise fee under the Successor Franchise Agreement.
Audit	The understated amount and interest plus, if applicable, costs and expenses in connected with the audit and inspection.	Upon demand	If any inspection discloses that you have understated the amount of the Royalty Fee (or any other amount) actually due us, you must reimburse us for these amounts plus interest. If the understatement is 3% or more, you must reimburse us for the costs and expenses connected with the inspection (including reasonable accounting and attorneys' fees and costs).
Reinspection	Our Standard Charges (currently \$150 per hour with a four-hour minimum, but subject to change) plus any actual out-of-pocket expenses, but subject to change	Upon demand	If, after performing an inspection, we notify you of deficiencies that you must correct, you must reimburse us for all of our costs and expenses connected with any reinspection (including our then current fee and any out-of-pocket expenses).
Interest on Late Payments	Lesser of (i) 18% per year or (ii) maximum legal rate	Upon demand	Imposed if any payment you owe us is overdue.
Late Payment Charge	\$200 per late payment	Upon demand	Imposed if any payment you owe us is more than ten days overdue.
<u>Unauthorized Marketing Fee</u>	<u>\$100 per occurrence</u>	<u>Upon demand</u>	<u>Imposed for each notice of violation that we send you per occurrence of unauthorized advertising, marketing or promotions, up to \$300 per occurrence. Such fee is in addition to all, and not in limitation of any, of our rights and remedies for each occurrence of a violation by you.</u>

<b>OTHER FEES</b>			
<b>TYPE OF FEE<sup>1,2,3</sup></b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS</b>
Review of Unapproved Suppliers	The reasonable cost of the inspection and the actual cost of the testing.	Upon demand	If you propose to purchase products or services from an unapproved supplier, you must submit to us a written request, or request the supplier itself to do so. As a condition of our approval, we may require that our representatives be permitted to inspect the supplier's facilities, and that samples from the supplier be delivered, either to us or to an independent, certified laboratory we designate for testing.
Indemnification	Amount of damages suffered	Upon demand	You must indemnify us and our affiliates, and our and their respective officers, directors, owners, employees and representatives for all damages it suffers and costs any of those parties incur relating in any manner to your ownership or operation of your Franchised Business.
Liquidated Damages – Expiration of Designated Brands IP	\$500 per occurrence	Upon demand	A Designated Brands Manufacturer may inform us of expiration dates relating to the use of certain Designated Brands IP. As of each expiration date, you shall immediately cease all use of the applicable Designated Brands IP and remove or replace that Designated Brands IP. For each failure by you to comply with these obligations, we may require you to pay us this amount; provided, that you will not be required to pay this amount for your first failure to comply with these obligations.
Marketing Fund	If we establish a marketing fund, you will be required to contribute no more than 2% of monthly Gross Revenues to the fund.	Concurrently with your monthly royalty payment.	We do not currently maintain a marketing fund, however, we retain the right to create, maintain and administer a marketing fund. If we require you to contribute 2% of monthly Gross Revenues to the fund, we will decrease any applicable Local Advertising spending requirements to 1% of monthly Gross Revenues.
Liquidated Damages Upon Termination	See endnote 4	Upon termination of your Franchise Agreement for cause	See endnote 4

<sup>1</sup> Except as indicated otherwise, all fees are payable to us, are nonrefundable and are uniformly imposed.

<sup>2</sup> All fees and any monies due Franchisor under this Agreement the amount of which are not based upon a percentage of Gross Revenues, are subject to annual adjustment based upon increases (but not decreases) in the Consumer Price Index.

<sup>3</sup> You must pay us by means of a Payment System using pre-authorized transfers from your operating account through the use of electronic fund transfers or special checks or any other payment system we designate. We may process the transfers at the time any payment is due and owing. You must implement the Payment System no later than 15 days before the Opening Date.

<sup>4</sup> If we terminate your Franchise Agreement for cause, you must pay us a lump-sum payment equal to the total of all Royalty Fees for a period determined as follows:

- (a) if your Franchised Business has been operating for 24 months or more, and at the time of termination there are 24 months or more remaining in the Term had it naturally expired and not been terminated, the 24 months of operating your Franchised Business preceding your default;
- (b) if your Franchised Business has been operating for 24 months or more, and at the time of termination there are less than 24 months remaining in the Term had it naturally expired and not been terminated (the number of the remaining months, the "Remaining Months"), the period of months (and any portion thereof) equal to the number of Remaining Months; or
- (c) if your Franchised Business has been operating for less than 24 months or never started operating, an amount equal to 24 times the greater of (i) the average monthly Royalty Fee then required to have been paid through the date of termination, or (ii) the Minimum Royalty Fee.

**ITEM 7. ESTIMATED INITIAL INVESTMENT**

**FOR A NEW SCHOOL TO BE OPENED**

<b>YOUR ESTIMATED INITIAL INVESTMENT<sup>1</sup></b>					
<b>TYPE OF EXPENDITURE</b>	<b>SMALLER MODEL ESTIMATED AMOUNT LOW-HIGH</b>	<b>BASE MODEL ESTIMATED AMOUNT LOW-HIGH</b>	<b>METHOD OF PAYMENT</b>	<b>WHEN DUE</b>	<b>TO WHOM PAYMENT IS TO BE MADE</b>
Initial Franchise Fee	<del>\$38</del> 39,500	<del>\$38</del> 39,500	Lump sum	When you sign your Franchise Agreement	SPEC
Website Fee	\$4,000	\$4,000	Lump Sum	When you sign your Franchise Agreement	Vendors
Real Estate Improvements <sup>2</sup>	\$192,500 to \$480,000	\$240,000 to \$750,000	Lump sum	As incurred	Contractors, vendors and suppliers
Equipment/Furnishings <sup>3</sup>	<del>\$230</del> 225,000 to <del>\$280</del> 250,000	<del>\$325</del> 250,000 to <del>\$400</del> 300,000	Lump sum	As incurred	Vendors and suppliers
Exterior Building Signage <sup>4</sup>	<del>\$18</del> 11,500 to \$35,000	<del>\$18</del> 11,500 to \$35,000	Lump sum	As incurred	Contractors, vendors and suppliers
Initial Training Attendance <sup>5</sup>	\$5,000 to \$7,500	\$5,000 to \$7,500	Lump sum	As incurred	Vendors

YOUR ESTIMATED INITIAL INVESTMENT <sup>1</sup>					
TYPE OF EXPENDITURE	SMALLER MODEL ESTIMATED AMOUNT LOW-HIGH	BASE MODEL ESTIMATED AMOUNT LOW-HIGH	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Computer Equipment/Phone and Alarm Systems <sup>6</sup>	\$30,000 to \$40,000	\$30,000 to \$40,000	Lump sum	As incurred	Vendors and suppliers
Inventory to Begin Operating	<del>\$15</del> 25,000 to <del>\$20</del> 30,000	<del>\$15</del> 25,000 to <del>\$20</del> 30,000	As incurred	Before opening	Vendors and suppliers
Insurance <sup>7</sup>	\$4,000 to \$8,000	\$4,000 to \$10,000	Lump sum	Before opening	Insurance Companies
Utility Deposits and Other Prepaid Expenses	\$2,000 to \$6,000	\$2,000 to \$6,000	Lump sum	Before opening	Vendors and suppliers
Licenses and Permits <sup>8</sup>	\$3,500 to \$7,500	\$3,500 to \$7,500	Lump sum	Before opening	Governmental authorities
Professional Fees	\$3,000 to \$9,000	\$3,000 to \$9,000	Lump sum	Before opening	Lawyers, accountants, etc.
<del>Grand</del> Initial School Opening Marketing and Advertising Funds <sup>9</sup>	<del>\$15</del> 35,000 to <del>\$20</del> 40,000	<del>\$15</del> 35,000 to <del>\$20</del> 40,000	As incurred	As incurred	Vendors/suppliers
Additional Funds (3-month initial phase) <sup>10</sup>	\$65,000 to \$100,000	\$85,000 to \$180,000	Various	As incurred	Employees, suppliers, etc.
Total <sup>11</sup>	<del>\$62</del> 645,000 to <del>\$1,05</del> 505,500	<del>\$78</del> 737,500 to <del>\$1,52</del> 745,500			

<sup>1</sup> Any fees you pay us or our affiliates are non-refundable, including the initial franchise fee. Whether fees payable to third parties are refundable is a matter you will have to discuss and negotiate with them. The square footage for the smaller model and the base model are estimated to be 5,500-6,000 and 8,000-10,000, respectively.

<sup>2</sup> The cost of real estate improvements will vary depending on numerous factors, including (a) the size and configuration of the premises, (b) pre-construction costs, (c) cost of materials and labor, (d) location of the premises and local conditions, and (e) whether the landlord will grant a buildout allowance, and the amount of the grant. The estimated amount of the allowance granted ranges from \$0 per square foot to \$30 per square foot. These costs include, but are not limited to, third party design fees, architectural and engineering fees, demolition, rough carpentry, finish carpentry, ceilings, tile flooring and walls, millwork, carpet and floor finishes, wall finishes, fire protection, HVAC, walls, electrical systems, plumbing, lighting and fixtures.

<sup>3</sup> Equipment/Furnishings includes the estimated costs of furniture, desks, and office equipment (including but not limited to styling stations, pedicure stations, color bar, front desk, sinks and cabinetry), as well as interior signage, classroom dividers, and a site assessment/supervision fee of \$2,500. The cost of these items will vary depending on the size and configuration of the premises.

<sup>4</sup> The high end amount of this range assumes that you have exercised your option, or have been required by your landlord, to obtain a monument or readerboard sign. The estimated cost range for these types of signs is \$20,000-\$25,000. This amount does not include installation which will vary depending upon your market location. Your actual costs may also be affected by any restrictions placed by your landlord on interior and exterior signage.

<sup>5</sup> You must pay each trainee's expenses, including travel, lodging and meal expenses.

<sup>6</sup> This amount includes the computer equipment and software necessary to operate your Franchised Business, as well as student record software, telephone, audio and alarm systems.

<sup>7</sup> These amounts represent the estimated annual cost of the premiums for the policies required under your Franchise Agreement.

<sup>8</sup> These costs include the costs for obtaining local business licenses which typically remain in effect for one year. These costs do not include occupancy and construction permits which ~~were~~are included in the real estate improvement costs. These costs will vary substantially depending on the location of your Franchised Business. You should consult with your attorney to determine any applicable licensing or permit fees you must obtain to operate your Franchised Business.

<sup>9</sup> This represents our recommended level of marketing and advertising costs during the first three months of operation of your Franchised Business, including the cost of a marketing study, online audit, and the fees to launch your website with the necessary search engine optimization.

<sup>10</sup> This represents an estimate of only the range of expenses for your initial start-up phase, which is estimated to be three months from when you open your Franchised Business. The additional funds you will need to operate during this initial phase include payroll costs, rent (including landlord deposits) and utilities, among other operating costs—but do not include any salary or allowance for an owner's draw; any royalty fees, advertising contributions, any other amounts you must pay us, or any additional inventory you may need after your initial inventory is consumed. These figures are estimates and we cannot guarantee that you will not have additional expenses starting the business. The actual amount of additional funds you will need during the initial phase of operating will depend on factors such as: the size and location of your Franchised Business, how well (and how much) you follow our methods and procedures; your management skill, experience, and business acumen; local economic conditions; the local market for your products and services; competition, and other factors. By providing these estimates of your costs, we are not making any representation that you will have any level of sales. The estimates are of your expenses only and do not reflect any offsetting sales revenue you may earn from operations to pay those expenses. We do not make any ~~earnings claims~~financial performance representations. The estimate of Additional Funds for three months shown on the table above is not an estimate of working capital that you will need, but relates only to certain (but not necessarily all) expenses for the three-month time period. The three-month time period is not a representation of, nor is intended to suggest, when you should expect to break even, if ever.

<sup>11</sup> We relied on our management's past experience, and that of existing cosmetology school businesses that we franchised or that our affiliates have owned, as well as industry trends, to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise. We do not offer direct or indirect financing for any items.

**FOR CONVERTING AN EXISTING COSMETOLOGY SCHOOL**

**THIS TABLE APPLIES TO EXISTING COSMETOLOGY SCHOOLS THAT ARE LICENSED AND OPERATING THAT CONVERT THEIR SCHOOL TO A SPEC FRANCHISE.**

<b>YOUR ESTIMATED INITIAL INVESTMENT</b>				
<b><u>TYPE OF EXPENDITURE</u></b>	<b><u>ESTIMATED LOW-HIGH</u></b>	<b><u>METHOD OF PAYMENT</u></b>	<b><u>WHEN DUE</u></b>	<b><u>TO WHOM PAYMENT IS TO BE MADE</u></b>
<u>Initial Franchise Fee</u> <sup>1</sup>	<u>\$39,500</u>	<u>Lump sum</u>	<u>When you sign your Franchise Agreement</u>	<u>SPEC</u>
<u>Website Fee</u>	<u>\$4,000</u>	<u>Lump Sum</u>	<u>When you sign your Franchise Agreement</u>	<u>Vendors</u>
<u>Real Estate Improvements</u> <sup>2</sup>	<u>\$0 to \$250,000</u>	<u>Lump sum</u>	<u>As incurred</u>	<u>Contractors, vendors and suppliers</u>
<u>Equipment/Furnishings</u> <sup>3</sup>	<u>\$25,000 to \$200,000</u>	<u>Lump sum</u>	<u>As incurred</u>	<u>Vendors and suppliers</u>
<u>Exterior Building Signage</u> <sup>4</sup>	<u>\$11,500 to \$35,000</u>	<u>Lump sum</u>	<u>As incurred</u>	<u>Contractors, vendors and suppliers</u>
<u>Initial Training Attendance</u> <sup>5</sup>	<u>\$5,000 to \$7,500</u>	<u>Lump sum</u>	<u>As incurred</u>	<u>Vendors</u>

<sup>1</sup> Any fees you pay us or our affiliates are non-refundable, including the initial franchise fee. Whether fees payable to third parties are refundable is a matter you will have to discuss and negotiate with them.

<sup>2</sup> The cost of real estate improvements will vary depending on numerous factors, including (a) the size and configuration of the premises, (b) the condition of the premises, (c) cost of materials and labor, (d) location of the premises, and (e) whether the landlord will grant a buildout allowance, and the amount of the grant (none is assumed above). These costs include, but are not limited to, third party design fees, architectural and engineering fees, demolition, rough carpentry, finish carpentry, ceilings, tile flooring and walls, millwork, carpet and floor finishes, wall finishes, fire protection, HVAC, walls, electrical systems, plumbing, lighting and fixtures.

<sup>3</sup> Equipment/Furnishings includes the estimated costs of furniture, desks, and office equipment (including but not limited to styling stations, pedicure stations, color bar, front desk, sinks and cabinetry), as well as interior signage, classroom dividers, and a site assessment/supervision fee of \$2,500. The cost of these items will vary depending on the condition, size and configuration of the premises.

<sup>4</sup> The high end amount of this range assumes that you have exercised your option, or have been required by your landlord, to obtain a monument or readerboard sign. The estimated cost range for these types of signs is \$20,000-\$25,000. This amount does not include installation which will vary depending upon your market location. Your actual costs may also be affected by any restrictions placed by your landlord on interior and exterior signage.

<sup>5</sup> You must pay each trainee's expenses, including travel, lodging and meal expenses.

**YOUR ESTIMATED INITIAL INVESTMENT**

<u>TYPE OF EXPENDITURE</u>	<u>ESTIMATED LOW-HIGH</u>	<u>METHOD OF PAYMENT</u>	<u>WHEN DUE</u>	<u>TO WHOM PAYMENT IS TO BE MADE</u>
Computer Equipment/Phone and Alarm Systems <sup>6</sup>	\$0 to \$25,000	Lump sum	As incurred	Vendors and suppliers
Inventory to Begin Operating	\$0 to \$20,000	As incurred	As incurred	Vendors and suppliers
Insurance <sup>7</sup>	\$4,000 to \$8,000	Lump sum	As incurred	Insurance Companies
Utility Deposits and Other Prepaid Expenses	\$0	Lump sum	As incurred	Vendors and suppliers
Licenses and Permits <sup>8</sup>	\$0 to \$7,500	Lump sum	As incurred	Governmental authorities
Professional Fees	\$3,000 to \$9,000	Lump sum	As incurred	Lawyers, accountants, etc.
Initial School Opening Marketing and Advertising Funds <sup>9</sup>	\$10,000 to \$30,000	As incurred	As incurred	Vendors/suppliers
Additional Funds (3-month initial phase) <sup>10</sup>	\$5,000 to \$50,000	Various	As incurred	Employees, suppliers, etc.

<sup>6</sup> This amount includes the computer equipment and software necessary to operate your Franchised Business, as well as student record software, telephone, audio and alarm systems.

<sup>7</sup> These amounts represent the estimated annual cost of the premiums for the policies required under your Franchise Agreement.

<sup>8</sup> These costs include the costs for obtaining local business licenses which typically remain in effect for one year. These costs do not include occupancy and construction permits which were included in the real estate improvement costs. These costs will vary substantially depending on the location of your Franchised Business. You should consult with your attorney to determine any applicable licensing or permit fees you must obtain to operate your Franchised Business beyond the ones you already have for your business.

<sup>9</sup> This represents our recommended level of incremental marketing and advertising costs over and above your current expenditure level during the first three to four months of operation of your Franchised Business, including the cost of a marketing study, online audit, and the fees to launch your website with the necessary search engine optimization.

<sup>10</sup> This represents an estimate of only the range of expenses for your initial conversion phase, which is estimated to be up to three months from when you convert your school to a Franchised Business. The additional funds you will need to operate during this initial conversion phase include incremental payroll and marketing costs, among other operating costs—but do not include any incremental salary or allowance for an owner’s draw; any royalty fees, advertising contributions, any other amounts you must pay us, or any additional inventory you may need after your initial inventory is consumed. These figures are estimates and we cannot guarantee that you will not have additional expenses converting the business. The actual amount of additional funds you will need during the initial conversion phase of operating will depend on factors such as: the size and location of your Franchised Business,

<b>YOUR ESTIMATED INITIAL INVESTMENT</b>				
<b><u>TYPE OF EXPENDITURE</u></b>	<b><u>ESTIMATED LOW-HIGH</u></b>	<b><u>METHOD OF PAYMENT</u></b>	<b><u>WHEN DUE</u></b>	<b><u>TO WHOM PAYMENT IS TO BE MADE</u></b>
Total <sup>11</sup>	\$107,000 to \$685,500			

how well (and how much) you follow our methods and procedures; your current staffing levels, your management skill, experience, and business acumen; local economic conditions; the local market for your products and services; competition, existing enrollment, pending enrollment, aging of your receivables and general cash flow, financial obligations you may have to third parties and other factors. By providing these estimates of your costs, we are not making any representation that you will have any level of sales. The estimates are of your expenses only and do not reflect any offsetting sales revenue you may earn from operations to pay those expenses. We do not make any financial performance representations. The estimate of Additional Funds for three months shown on the table above is not an estimate of working capital that you will need, but relates only to certain (but not necessarily all) expenses for the three-month time period. The three-month time period is not a representation of, nor is intended to suggest, when you should expect to break even, if ever.

<sup>11</sup> We relied on our management's past experience, and that of existing and converted cosmetology school businesses that we franchised or that our affiliates have owned, as well as industry trends, to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise. We do not offer direct or indirect financing for any items.

## ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

### Authorized Specifications and Suppliers

To the extent we may periodically require, you must purchase or lease equipment, supplies, advertising materials, various printed goods, and other products and services used to operate your Franchised Business according to our standards and specifications and solely from manufacturers and suppliers we authorize in writing. We may revoke a supplier's authorization at any time. Manufacturers and suppliers must demonstrate, to our continuing satisfaction, that they possess: (a) the ability to meet our reasonable standards and specifications for the items; and (b) adequate quality controls and capacity to supply your needs promptly and reliably. When considering whether to approve suppliers for our franchisees and Company-Owned Units, we may consider any other relevant factors, including any factors relating to the price and quality of the products or services, the reliability of the supplier, and the economic benefits and incentives the supplier may provide to us (including rebates). We may approve a single supplier for any product or service. We may concentrate purchases with one or more suppliers to obtain the lowest prices or the best advertising support or services for any group of franchised businesses or Company-Owned Units. However, our authorization or approval of a supplier is not, directly or indirectly, a representation or warranty relating to the supplier's products or services. Our authorization or approval is an expression only that our minimum requirements for us to grant it have been met, or waived, in our sole discretion. We may periodically designate ourselves or an affiliate as an authorized or exclusive supplier of any product or service used to operate your Franchised Business. Except as set forth below, neither we, our affiliates, nor any of our suppliers are the exclusive suppliers of any product or service used to operate your Franchised Business. Our affiliate Salon Brand It, LLC is an authorized supplier for certain promotional products. You are not required to purchase anything from it, but we may require purchases of goods or services from it in the future. Our affiliate Fuel Productions, LLC is an exclusive supplier for certain training materials. We designate the independent third party suppliers that you must use for printing services for your marketing materials.

None of our officers owns an interest in any required supplier.

### Designated Brands Manufacturers

We may designate certain parties as designated brands manufacturers (each, a "Designated Brands Manufacturer") for supplying certain cosmetology or esthetician products and services (and advertising and promotional materials related to these products and services). We have currently designated the following Designated Brands Manufacturers: (a) L'Oréal USA Creative, Inc. ("L'Oréal"), the owner or affiliate of the owner of the **Redken**, **Matrix**, and **L'Oréal Professionnel** and **Matrix** trademarks, and (b) Fuel Productions, LLC (d/b/a Fuel Education Systems), the owner of the **Fuel for Design** brand. We may enter into agreements with the Designated Brands Manufacturers to provide certain services and products and to allow us to authorize our franchisees to use certain materials in their franchised businesses and to promote the Designated Brands Manufacturers. Unless we otherwise require, you will purchase those services, products and materials directly from the Designated Brands Manufacturer or its designees. Each Designated Brands Manufacturer is our independent contractor and is not our agent, franchisor, legal representative, subsidiary, joint venture, partner, employee, or affiliate for any purposes whatsoever. You shall have no direct license with L'Oréal or any other Designated Brands Manufacturer during the Term (unless we otherwise authorize).

Subject to the applicable Designated Brands Manufacturer's and our requirements, standards, and usage guidelines, as may be periodically changed, you shall: (a) exclusively use and promote those goods and services relating to those brands of the Designated Brands Manufacturers that we designate for the

Selected Trademark (the “Designated Brands”); (b) maintain the goodwill related to Designated Brands; (c) utilize the Designated Brands Manufacturer’s educational support materials, training modules, and training techniques, for the Designated Brands, in our curriculum; (d) procure an install furniture and fixtures bearing the Designated Brands Manufacturer’s trademarks for the Designated Brands; and (e) display the Designated Brands’ trademarks and images for the Designated Brands in advertising and promotions.

The manner and use of the Designated Brands Manufacturer’s goods, services, trademarks, brands, advertising, images and other intellectual property (collectively, the “Designated Brands IP”) is in the sole discretion of the Designated Brands Manufacturer and us (and, if applicable, the owners of the trademarks of the Designated Brands IP). We authorize you to use the Designated Brands IP only as authorized by us and only in accordance with standards, guidelines and specifications periodically set by the Designated Brands Manufacturer or us and in a manner consistent with the premium quality associated with the Designated Brands IP. At your sole cost and expense, you agree to furnish to the Designated Brands Manufacturer or us samples of any materials incorporating the Designated Brands IP for inspections to assurance conformance to applicable standards (and make any corresponding payments directly to them and not to us).

You have no right, title, or interest in the Designated Brands IP (including, without limitation, all advertising, layouts, copy, artwork, photographs, videos, recordings, and fixture designs), and all use of the Designated Brands’ trademarks shall inure to the benefit of the Designated Brands Manufacturer and its affiliates. The Designated Brands’ trademarks may not be used as a source identifier for your Franchised Business.

In addition, if we require, you shall enter into, and comply with all of the provisions of, any agreements with the Designated Brands Manufacturer that we prescribe (each, a “Designated Brands Manufacturer Agreement”), which may include a term shorter than the term of your Franchise Agreement. Accordingly, we may require you to enter into an extension to that agreement or a replacement agreement to coincide with the length of the term of your Franchise Agreement. As part of our agreements with L’Oréal, if your Franchised Business meets certain standards, we may, in its discretion, annually designate your Franchised Business as having achieved a special designation (the “Special Designation”), which you may represent to the public in accordance with standards and specifications periodically established by us. We may describe in the Manuals or otherwise in writing the conditions necessary for you to achieve and maintain the Special Designation. We may change any of these conditions or standards or discontinue the Special Designation program upon written notice to you. You must allow L’Oréal or its designees (or, if L’Oréal is no longer a Designated Brands Manufacturer, any other Designated Brands Manufacturer or its designees, as specified by us) the first opportunity to recruit students trained by you.

### **Approval of New Suppliers**

If you want to purchase or lease products or services from a supplier or source that has not been previously approved by us, you (or the supplier) must first submit a written request to us for our approval. Our criteria for approving suppliers are available upon written request. We have the right to require as a condition of our approval that our representatives be permitted to inspect the supplier’s facilities, and samples from the supplier be delivered either to us or an independent expert that we designate for testing. We may also require the supplier to present satisfactory proof of insurance as a condition of our approval. We will notify you of approval or disapproval of your request to use an unapproved supplier within a reasonable time (generally, not more than 30 days) after receiving your written submission, taking into account any inspection, testing, and review of samples and documents presented by the supplier. Since we devote our resources where we deem appropriate, we are not required to consider additional or replacement suppliers. However, if we do so, you or the prospective supplier must pay a

charge not to exceed the reasonable cost of inspection and the actual cost of testing. We will not approve any unapproved supplier for products or services that we determine are competitive with the products or services offered by any Designated Brands Manufacturer.

We reserve the right to reinspect the facilities and products of any approved supplier and continue to sample the products. If the supplier fails to continue to meet our standards and specifications, we will provide the supplier with a default notice and a reasonable opportunity to cure. If you had submitted the original request to have the applicable supplier approved, we will notify you that we have sent this supplier a default notice. If the supplier fails to cure the default within the applicable cure period, we reserve the right to terminate that supplier. If we terminate that supplier, we will provide written notice to you.

### **Construction of the Premises**

You must retain a qualified architect or engineer to prepare a site plan and plans and specifications adapting our Design Specifications to your approved location and to applicable laws and lease requirements and restrictions and market conditions (collectively, the "Plans"). You may choose between two different sizes we offer for the Design Specifications. You shall not begin construction without our advance written approval of the Plans. Your architect or engineer must comply with all zoning, signage, seating capacity, and parking requirements, as well as with any other federal, state, or local laws pertaining to the design or construction of the Premises, including the Americans with Disabilities Act. If compliance with the requirements or laws necessitates any material modification to the Plans the modification must be approved in writing by us, and the modified Plans may not be materially changed or modified again without our additional written approval.

You must retain a qualified general contractor and any necessary and qualified subcontractors to construct the Premises according to the Design Specifications. We may designate an architect, engineer, or designer to prepare, or participate in the preparation of, the Plans, and to supervise the construction of the Premises. If you have not used one of our recommended architects, engineers or designers, and we designate an architect, engineer or designer to participate or supervise, you are responsible for all costs and expenses of our designated architect, engineer or designer. However, your use of, or our designation of, one of our recommended architects, engineers or designers is not, directly or indirectly, a representation or warranty relating to its services.

You must complete construction (including all exterior and interior carpentry, electrical, painting and finishing work, and installation of all approved fixtures, equipment and signs) in accordance with the approved Plans.

### **Refurbishing**

You shall refurbish your Franchised Business at your expense to conform to the building design, exterior facade, Trade Dress, signage, furnishings, decor, color schemes, and presentation of the Proprietary Marks in a manner consistent with the image then in effect for new cosmetology school businesses that want to operate under your Selected Trademark. However, you will not be required to undertake refurbishment more frequently than once every seven years (and you will not be required to undertake refurbishment during the first year after your Opening Date). Refurbishing may include, among other things, remodeling, redecoration, and modifications to existing improvements, as we may require in writing. However, general maintenance, repairs, additions, and replacements to maintain your Franchised Business in the highest and most uniform degree of sanitation, repair, appearance, condition and security in the manner set forth in the Manuals will not be considered refurbishing.

## Insurance

You must purchase insurance policies in at least the amounts that we specify. Currently, you must, at a minimum, carry the following insurance:

- a. commercial general liability insurance of not less than \$1,000,000 each occurrence, \$2,000,000 general aggregate, \$2,000,000 products/completed operations aggregate, and \$1,000,000 personnel and advertising injury limits;
- b. workers' compensation coverage in the amounts required by statute or rule of the state in which the Franchised Business is located;
- c. beauty school professional liability insurance in the amount of at least \$1,000,000 for each accident; and
- d. any insurance required by applicable law.

## Computer System

You must purchase, and install at the Premises, the Computer System that we specify for the Franchised Business. We may designate the supplier or suppliers from whom you must purchase the various items constituting the Computer System.

## Curriculum

Unless required by applicable law, you shall use only our curriculum and not offer any courses that have not been approved by us. You shall use all elements of the curriculum required by us or applicable law. If you are required by applicable law to offer one or more programs or courses not approved by us in the Manuals or otherwise, you shall take all actions requested by us to distinguish the cosmetology program from the other programs or courses, including: (a) at all times conspicuously displaying, in the form and manner as required by us, on one or more signs on your Premises and on all materials provided in connection with those programs or courses, a disclaimer stating that (i) only the cosmetology program is affiliated with us, and no other programs or courses offered by you are affiliated with or approved by us, and (ii) we are in no way responsible for those programs or courses; and (b) before enrolling in those programs or courses, requiring all students to sign an acknowledgement that they understand this disclaimer.

## Revenues Derived from Required Purchases and Leases

Except for the rebates discussed below that were received by our affiliates, we do not currently derive any revenues from your required purchases of the goods and services that you will sell or need to operate your franchised business. In 2015~~2016~~, our affiliate, Fuel Productions, LLC, had ~~\$384,936~~338,830 in revenues from franchisees' purchases of certain training materials. Some of the vendors that we require you to purchase from pay sponsorship fees to us that we use to reduce the costs of our annual franchisee conference and student competition. Without those vendor sponsorship fees, your costs to attend the annual franchisee conference and help promote the student competition program would be higher. In 2015~~2016~~, SPEC received ~~\$7884,000~~ in such sponsorship fees from various vendors, including ~~\$7179,000~~ for them to attend our annual franchisee conference, and ~~\$75,000~~ from Redken as a sponsor of our student competition, none of which was retained by SPEC.

The cost of purchases from designated sources or according to our specifications is estimated to represent approximately 30-35% of your total purchases in connection with the establishment of your Franchised Business. After you open, the cost of purchases from designated sources or according to our specifications

is estimated to represent approximately 75%-80% of your total purchases to operate your Franchised Business.

### Supplier Rebates

In ~~2015~~2016, we accrued \$3,734,790 in rebates from one of our suppliers based on its sale of a product included in the student kits that our franchisees purchase. The rebates are based on a percentage of the value of the products such supplier provides for in the student kits. We expect to receive such rebates in the future. Other than as we disclose in this Item, in our last fiscal year we did not derive, nor do we currently expect to derive, revenue or other material consideration from required purchases or leases by franchisees.

### Purchasing or Distribution Cooperatives; Purchase Arrangements

No purchasing or distribution cooperatives exist. However, we may negotiate purchase arrangements (including price terms) with suppliers in order to obtain pricing for the System that individual franchisees may not be able to obtain by dealing directly with the suppliers.

Other than the subsidies that we describe above in this item, we do not provide material benefits to you based upon your purchase of particular products or services or use of particular suppliers.

### 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.

FRANCHISEE'S OBLIGATIONS*		
OBLIGATION	SECTION IN FRANCHISE AGREEMENT	DISCLOSURE DOCUMENT ITEM
a. Site selection and acquisition/lease	Sections 2.2, <u>4.1</u> and <u>4.12</u>	Items 8, 11, and 12
b. Pre-opening purchases/leases	Sections 2.3, 2.4, 4.1, 4.9, 4.12, <u>4.13</u> and <u>4.12</u>	Items 7, 8 and 11
c. Site development and other preopening requirements	Sections 4.1, 4.2, 4.3, <u>4.4</u> and <u>4.42</u>	Items 7, 8 and 11
d. Initial and ongoing training	Sections 2.5, <u>2.7</u> and <u>2.74.21</u>	Item 11
e. Opening	Sections 4.4 and <u>4.21</u>	Items 7 and 11
f. Fees	Article 3	Items 5, 6, and 7
g. Compliance with standards and policies/ operating manuals	Sections 4.5, 4.6, 4.7, 4.8, 4.12, <u>4.13</u> , <u>4.21</u> , 6.1 and 6.3	Items 8 and 11
h. Trademarks and proprietary information	<u>Section 4.21</u> , Articles 5 and 6	Items 13 and 14
i. Restrictions on products/services offered	<u>Section</u> Sections 4.7, 4.8, 4.20 and <u>4.21</u>	Item 16
j. Warranty and customer service requirements	Sections 4.7 and 4.10	Not applicable
k. Territorial development and sales quotas	Not applicable	Not applicable

FRANCHISEE'S OBLIGATIONS*		
OBLIGATION	SECTION IN FRANCHISE AGREEMENT	DISCLOSURE DOCUMENT ITEM
l. Ongoing product/service purchases	Sections 2.3, 2.4, 4.5, 4.6, 4.7, 4.9, 4.12, 4.15 and 4.19	Item 8
m. Maintenance, appearance and remodeling	Sections 4.5, 4.6, 4.7, 4.9, 4.19, <u>4.21</u> and 16.2	Items 6 and 17
n. Insurance	Article 9	Items 7 and 8
o. Advertising	Article 7	Items 6, 7, and 11
p. Indemnification	Sections 14.2 and 18.15	Item 6
q. Owner's participation/management/staffing	Sections 4.4, 4.11 and 4.12	Item 15
r. Records/reports	Article 8	Not applicable
s. Inspections/audits	Sections 4.12, 4.22, 4.25, Article 8, and 9.3	Item 6
t. Transfer	Article 10	Items 6 and 17
u. Renewal	Article 16	Items 6 and 17
v. Post-termination obligations	Article 12	Item 17
w. Non-competition covenants	Article 13	Item 17
x. Dispute resolution	<del>Article</del> Articles 17 and 19, <del>Sections 18.10, 18.14, 18.23 and 18.24</del>	Item 17
<p><b>*NOTE FOR CONVERSION FRANCHISEES:</b> We may (but have no obligation to) modify our requirements under the Franchise Agreement with you if, upon signing the Franchise Agreement, you already have a cosmetology school that you desire to convert into a Franchised Business. In such case, we will determine which of our and your respective obligations are to be waived or modified. We will make such determinations, if any, and provide, before you sign the Franchise Agreement, notice to you of such waivers or modifications. They may vary, depending on the circumstances of your preexisting operations. They may vary, also, from terms for other franchisees, regardless of whether they may be considered similarly situated. We have sole discretion to make such determinations as we deem appropriate, and you must comply with them as part of the Agreement. They control in the event of any conflict with the terms of ARTICLE 2, ARTICLE 4, or any other terms of the Franchise Agreement.</p> <p>Examples may, but do not necessarily, include the following:</p> <p><u>For Site Selection/Construction</u> – as a conversion school, you already are operating in an existing site. Your location has been approved to operate a Franchised Business, subject to a plan to bring it into compliance with the minimum trade dress requirements that we require of you. To the extent that you receive a waiver of certain trade dress items through the renewal of your lease or the passage of a fixed period of time, you will be required to bring your location fully into trade dress compliance in the future. (Reference sections that don't apply or may apply in the future)</p> <p><u>For Training</u> – as a Conversion School, you will not undergo the pre-opening training normally required for nonconversion schools. Instead, you will receive a similar amount of training hours that such schools prior to opening and in their first year of operation during your first year as a SPEC franchise owner. We may provide training onsite, online, at regional trainings, or otherwise as we determine is appropriate to transition your school to our standards. Because all schools are different, we cannot define the hours required for training in your transition to a Franchised Business until we have received and evaluated information about your converting cosmetology school.</p> <p>Generally, the requirements for an existing cosmetology school to convert to a Franchised Business will be less extensive for you and us, and will take less time and investment from you. Before you sign your Franchise Agreement with us, we will provide you with the terms specific to your cosmetology school of any requirements that we</p>		

FRANCHISEE'S OBLIGATIONS*		
OBLIGATION	SECTION IN FRANCHISE AGREEMENT	DISCLOSURE DOCUMENT ITEM
determine are appropriate to waive or modify. If you are not satisfied with the terms you have no obligation to enter a Franchise Agreement with us.		

#### ITEM 10. FINANCING

We do not offer direct or indirect financing. We do not guarantee your note, lease, or obligation.

Franchisees are eligible for expedited and streamlined SBA loan processing through the SBA's Franchise Registry Program, [www.franchiseregistry.com](http://www.franchiseregistry.com).

#### ITEM 11. FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING

**Except as listed below, we are not required to provide you with any assistance.**

**If you are converting an existing cosmetology school into a Franchised Business, please see the note in ITEM 9 for conversion franchisees, because the terms below are subject to change depending on the circumstances of your own preexisting operations.**

##### Pre-Opening Assistance

Before you open your Franchised Business, we will:

- if upon signing of your Franchise Agreement the Site for your Franchised Business has not been approved, provide you with our Site-Selection Criteria. If we consider on-site evaluation necessary or appropriate (either on our own initiative or at your request), we may make on-site evaluations of your proposed Site. Our approval of a Site is not a representation or warranty that your Franchised Business will be profitable or that your sales will attain any predetermined levels—our approval only indicates that the proposed Site meets our minimum criteria for identifying sites, if any (Franchise Agreement, Sections 2.2 and 4.1);
- provide you with specifications, if any, of our requirements for design, decoration, layout, equipment, furniture, fixtures and signs for your Franchised Business (the "Design Specifications") (Franchise Agreement, Section 2.3);
- provide you with specifications, if any, for uniforms for your employees and/or students (Franchise Agreement, Section 2.3);
- provide you with a list of required equipment, supplies, materials, inventory and other items necessary to operate your Franchised Business and a list of approved and/or recommended suppliers of these items (Franchise Agreement, Section 2.4);
- provide you with a list of items, if any, that you must purchase from our affiliates or us (Franchise Agreement, Section 2.4);
- provide you with a list, if any, of recommended, but not required, equipment, supplies and other items, and a list of approved and/or recommended suppliers of these items (Franchise Agreement, Section 2.4);
- provide you with an initial set of forms, including various operational forms (Franchise Agreement, Section 2.4)
- either supply you with standardized accounting and cost-control systems or designate Software that you must acquire (Franchise Agreement, Section 2.4);

- provide Initial Franchise Training for you, your Operations Director, and any of your employees that we require or approve to attend training (Franchise Agreement, Section 2.5); and
- provide you a copy of the Manuals (with periodic revisions as required), which may be provided in an electronic medium, including by download from our website. (Franchise Agreement, Section 2.6 – The table of contents of the present form of the Manual, including its total number of pages and the number of pages devoted to each topic, is attached to this disclosure document as Exhibit B).

### **Post-Opening Assistance**

During the operation of your Franchised Business, we will:

- if we consider it advisable, make staff reasonably accessible for routine consultation or other routine assistance that is not considered “special assistance” (as defined below) in person or by telephone, fax, written communication, email, or other electronic means (including Skype or other web-based assistance). In any year of the Term, we will not count the time we spend on routine or special assistance toward the time for Regular Training until you have obtained at least 12 hours of such assistance during such year. (Franchise Agreement, Section 2.7);
- if you request non-routine guidance or other assistance (“special assistance”) to deal with your unusual or unique operating problems, make multiple assistance requests in a limited period, or request training of new staff after we have provided staff training before you open the Franchised Business, to the extent we can reasonably accommodate your request we may furnish that special assistance. Special assistance is different than the Post-Opening Training (as defined below) that we periodically offer, and we may, in our discretion, determine whether any consultation, guidance or assistance is “special assistance” or routine assistance as stated above. (Franchise Agreement, Section 2.7);
- if we consider it advisable, generally promote our franchisees through advertising and public-relations campaigns (Franchise Agreement, Section 2.7);
- if we consider it advisable, provide you with continuing advisory assistance in the operation and promotion of your Franchised Business; this assistance may include communicating new developments, improvements in equipment and supplies, and new techniques in advertising, service, and management that are relevant to operating your Franchised Business (Franchise Agreement, Section 2.7);
- if we consider it advisable, provide refresher, advanced or additional training programs and seminars (Franchise Agreement, Section 2.7); and

### **Advertising**

#### Local Advertising

On the first day of each calendar quarter, beginning with the first day of the first full calendar quarter following the Opening Date, you are required to determine the average Student Capacity for the immediately previous calendar quarter. If the average Student Capacity for the immediately previous calendar quarter is less than the applicable Capacity Percentage, then for each of the months of that calendar quarter you must, during or within 30 days of the end of such month, spend a minimum of 2% of such month’s Gross Revenues on Local Advertising. “Student Capacity” means, for any month, the fraction, expressed as a percentage, the numerator of which is the number of enrolled students in the Franchised Business as of the last day of such month, and the denominator of which is the maximum student capacity of the Franchised Business as of the last day of such month. “Capacity Percentage” means: (i) 80% if the date of determination is during the first five years of the Term; and (ii) 85% if the

date of determination is during the sixth and subsequent years of the Term. Except as stated above, we do not currently require you to spend any minimum amount on Local Advertising (although we encourage you to conduct Local Advertising). (Franchise Agreement, Section 7.1.a)

You must demonstrate your compliance with any advertising expenditure requirements in the manner and form that we may periodically require. Before production, publication or airing, you must provide us for our approval with all materials to be used for Local Advertising (or for any other advertising, marketing or promotional activities you may conduct), unless they have already been approved or consist solely of materials provided by us. We will attempt to review these materials within 10 days from when we receive them. If you do not receive written approval within those 10 days, the submitted materials are considered disapproved. All materials on which our proprietary marks are used must include the applicable designation of service mark or other designation as we may specify. We may notify you to withdraw and/or discontinue the use of any promotional materials or advertising materials, even if they were previously approved. (Franchise Agreement, Section 7.1)

#### Internet Restrictions

Except as stated in the next paragraph, we retain the sole right to advertise on the Internet, create or operate a website or sites, and use the Proprietary Marks as part of any domain name. We exclusively own all rights in those domain names. You have no ownership interests in those domain names or any domain names that may be confusingly similar. You shall not register any domain name in any class or category that contains the words ***The Salon Professional Academy, Elevate Salon Institute, or Academy for Salon Mastery, or Elevate Salon Institute***, or any abbreviation, acronym, component, or variation of these words.

We shall maintain a website that provides general information about the System. In addition, in consideration of an initial website fee and an ongoing monthly fee, our designated supplier shall establish and maintain a microsite for your Franchised Business. The current website fee is ~~\$240~~250 per month. We may periodically increase the monthly website fee as described in Item 6. You shall have the option to choose the content of your microsite from the content options periodically offered by us. You may request customizations to the microsite that are not included in our offered content and are approved by us in advance, but you will be solely responsible to pay our designated supplier's then current hourly rate for customized microsite work. For administrative purposes, we may require you to pay the monthly website fee directly to us instead of the third party supplier. In addition, you shall have the right to advertise, market, or otherwise promote your Franchised Business on the Internet or through any social media as long as you comply with our Internet policies periodically in effect. Except as provided in this paragraph, without our prior written consent, you shall not develop, establish, operate, own, license, use or participate in a website on which the Proprietary Marks appear or otherwise use any of the Proprietary Marks on or in connection with the Internet, including (a) in domain names (including top level or country code domain names and folder extensions in domain names), (b) in metatags in your website, (c) in social media user names, (d) by publishing, linking or deeplinking to any of our websites in connection with social media websites, or (e) in sponsored advertising programs. (Franchise Agreement, Section 7.3)

#### Marketing Funds, Cooperatives, and Advertising Councils

Although we currently do not have a marketing fund, cooperative, or advertising council, we reserve the right to establish a marketing fund, cooperative, or advertising council in the future. If we establish a marketing fund, cooperative, or advertising council, it will be established and operated according to rules and regulations promulgated by the NASAA Guidelines. If we establish a marketing fund, we will administer the fund, and may require you to contribute to the fund; provided, that we will not require you to contribute greater than 2% of monthly Gross Revenues to the fund. If we do require you to

contribute 2% of monthly Gross Revenues to the fund, we will decrease any applicable Local Advertising spending requirements to 1% of monthly Gross Revenues. Advertising contributions made by you will be on the same basis. We have no company-owned units, but we expect that if we have any in the future that they will also be on the same basis. We intend to require substantially all franchisees who buy franchises after the date of this offering to contribute at the same rate. The purpose of an advertising council would be to advise us about advertising, marketing, operations, new product and services suggestions, and other matters relating to the System. (Franchise Agreement, Section 7.2) We currently do not require you to join a regional or local advertising cooperative. We are not required to spend any amount on advertising in the area or territory where your Franchised Business is located. If we establish a marketing fund in the future, the fund will not be independently audited; however, a report of the operations of the fund will be prepared every year at the expense of the fund and you will be able to obtain a copy either electronically or by mail upon written request.

### **Computer System**

To operate your Franchised Business, you must obtain and use a Computer System according to our specifications. Computer hardware and the appropriate software for the Computer System must comply with specifications that are established by us. The specifications may be revised by us in the future and we may require you to use our designated suppliers. (Franchise Agreement, Section 4.9) Our current minimum hardware and software requirements are: point-of-sale hardware and software; at least one server or Windows Server 2008+/Windows 7 Pro (8-16 GB Random Access Memory and 500 GB hard drive, 15+ inch LCD monitor); at least six PC workstations (Dell Optiplex 3010 or equivalent, Intel® Core™ I5 Processor 3+ Ghz or equivalent, Windows 7 Pro 64 bit, 4 GB Random Access Memory, 250-500 GB hard drive, 20+ inch LCD monitor); Ethernet 10/100 internal or Wireless network adaptor; QuickBooks Pro or similar program (to calculate and record accounting and financial information necessary for the operation of your Franchised Business); and an anti-virus program (such as Norton Anti-Virus or McAfee). ~~The estimated~~Given the nature of technology, the above requirements are subject to change. We estimate the cost for the Computer System is to be between \$7,500 and \$10,000.

You must maintain in good repair, upgrade, replace, update, and otherwise improve your Computer System and other computer hardware and software as may be required in the future by us. There are no limitations on the frequency and cost of your obligation to maintain, upgrade, update, and otherwise improve your Computer System and other computer hardware and software. However, you will not be required to replace the entire Computer System more frequently than once every two years. (Franchise Agreement, Section 4.9) We estimate the annual cost to maintain, upgrade and/or update QuickBooks Pro will be between \$400 and \$600. We estimate the annual cost to maintain, upgrade and/or update the other components of your Computer System or other computer hardware and software will range from \$2,000 to \$5,000.

We have the right to independently access and retrieve any data and information from your Computer System. You must provide us any assistance we require to provide us with this independent access. There are no contractual limits on our right to access this information and data. (Franchise Agreement, Section 4.9)

### **The Site for Your Franchised Business**

You are solely responsible for selecting the Site of the Premises for your Franchised Business. We merely have the right to approve or disapprove your selection. If a Site for your Franchised Business has not yet been selected and approved at the time you sign your Franchise Agreement, you must select a Site acceptable to us within the Reserved Area in the manner described below. (Franchise Agreement, Section 4.1)

If you have not selected an approved Site by the time you sign your Franchise Agreement, you must submit to us a proposed Site within the Reserved Area within 120 days after signing your Franchise Agreement. We will not unreasonably withhold approval of any site that meets our Site-Selection Criteria. Our Site-Selection Criteria include minimum standards, if any, for or concerning demographic characteristics, traffic patterns, parking, the predominant character of the neighborhood, competition from other businesses providing similar services within the area, the proximity to other businesses and the nature of these businesses, the size, appearance, and other physical characteristics of the Site, and any other factors that we may consider relevant to approving or disapproving a Site. We will review Site approval submissions on a first-in basis. If we reject your selected Site, you have 90 days after delivery of written notice of rejection to submit a new Site within the Reserved Area for our written approval. If a Site has not been approved by us within 210 days of the date that you sign your Franchise Agreement, we may terminate your Franchise Agreement. Within 270 days after the date you sign your Franchise Agreement, you must, at your expense, complete the acquisition or lease arrangements to acquire or lease the Premises for your Franchised Business. If you do not complete the acquisition or lease of the Premises within this 270-day period, we may terminate your Franchise Agreement. (Franchise Agreement, Section 4.1)

### **Construction of the Premises**

You must retain a qualified architect or engineer to prepare a site plan and plans and specifications adapting our Design Specifications to your approved location and to applicable laws and lease requirements and restrictions and market conditions (collectively, the "Plans"). You shall not begin construction without our advance written approval of the Plans. Your architect or engineer must comply with all zoning, signage, seating capacity, and parking requirements, as well as with any other federal, state, or local laws pertaining to the design or construction of the Premises, including the Americans with Disabilities Act. If compliance with the requirements or laws necessitates any material modification to the Plans the modification must be approved in writing by us, and the modified Plans may not thereafter be materially changed or modified without our further written approval.

You must retain a qualified general contractor and any necessary and qualified subcontractors to construct the Premises according to the Design Specifications. We may designate an architect, engineer, or designer to prepare, or participate in the preparation of, the Plans, and to supervise the construction of the Premises. If you have not used one of our recommended architects, engineers or designers, and we designate an architect, engineer or designer to participate or supervise, you are responsible for all costs and expenses of our designated architect, engineer or designer. However, your use of, or our designation of, one of our recommended architects, engineers or designers is not, directly or indirectly, a representation or warranty relating to its services.

You must complete construction (including all exterior and interior carpentry, electrical, painting and finishing work, and installation of all approved fixtures, equipment and signs) in accordance with the approved Plans.

### **Time between Signing Your Franchise Agreement and Opening the Franchised Business**

The typical length of time between your signing of your Franchise Agreement and the opening of your business is expected to be from six to ~~nine~~twelve months. Factors that may affect this typical time period include your ability to negotiate and obtain a lease at a satisfactory location, negotiate and obtain financing, procure the requisite building permits, comply with zoning and local ordinances, install equipment, fixtures, and signage, recruit competent staff, and schedule and complete Initial Franchise Training. However, if you don't satisfy all of the conditions pertaining to opening your Franchised Business

as stated in your Franchise Agreement and open your Franchised Business within 12 months of the date you sign your Franchise Agreement, we may terminate your Franchise Agreement.

## **Employees**

You are exclusively responsible for the terms of your employees' employment and compensation and, except for training provided by us under your Franchise Agreement, for the proper training of your employees in operating your Franchised Business. You are solely responsible for making and performing all employment decisions and functions, including those related to hiring, firing, establishing wage and hour requirements, disciplining, supervising and record keeping.

## **Training**

### Initial Franchise Training

We will provide your Trainees with a minimum of 172 hours of pre-opening Initial Franchise Training for operating your Franchised Business ("Initial Franchise Training") at a location designated by us, which may be on-site, online, at our training facilities in Fargo, North Dakota, or at another training location in the US that we designated. A "Trainee" is any person required or approved by us to attend Initial Franchise Training. Currently, the Franchise Owner and your Operations Director are required to attend Initial Regional Franchise Trainings. All Trainees must complete all Initial Franchise Trainings to our satisfaction. At our expense, we provide instructors, facilities, and training materials in connection with Initial Franchise Training for you to provide instruction at your school in all cosmetology services (including massage, if you so elect before Initial Franchise Training) that we authorize you to deliver to your students to help them comply with the state certification requirements in your state. You are responsible for all other expenses the Trainees incur in connection with attending Initial Franchise Training (including travel, lodging, and meal expenses), if any. In our sole discretion, we may provide Initial Franchise Training to multiple franchisees at the same time. You are responsible to ensure that all Trainees attend Initial Franchise Training at the applicable times and locations offered by us, which training is generally held at least 30-60 days before opening your Franchised Business and generally during normal business hours. We have no obligation to provide Initial Franchise Training at other times or locations, or on an individual franchisee basis. Initial Franchise Training includes instruction in the following areas: marketing, promotions, and advertising; management; cosmetology education and training; recruiting and admissions; hiring; operations; and computer applications. We reserve the right to modify the content of Initial Franchise Training. (Franchise Agreement, Section 2.5)

If we determine that any Trainee has failed to satisfactorily complete Initial Franchise Training by the scheduled Opening Date of your Franchised Business, we may, at your expense, retrain the failing Trainee or allow you to hire a substitute Trainee who must attend and satisfactorily complete Initial Franchise Training. Alternatively, we may elect to terminate the Franchise Agreement. (Franchise Agreement, Section 2.5)

The following charts show the subject, hours of classroom training, hours of on-the-job training, and the location where the training is held for Initial Franchise Training

**TRAINING PROGRAM**  
**(Initial Franchise Training-Before Opening)**

SUBJECT	HOURS OF CLASSROOM TRAINING	HOURS OF ON-THE-JOB TRAINING	LOCATION WHERE TRAINING HELD
Introduction to Franchise Training and the System	6 hours	N/A	Online; telephone
Site Selection and Buildout	18 hours	N/A	On-site; telephone
Marketing	3 hours	N/A	Online; telephone
Management of Books and Records	1 hour	N/A	Online; telephone
Admissions Training	20 hours	20 hours	Training location in your region; online; telephone
Education Training	73 hours	20 hours	Training location in your region; online; telephone; on-site
Staff Development Training	3 hours	8 hours	Online; telephone
TOTAL	124 hours	48 hours	

Marilyn Fulkerson has worked in the field of cosmetology for ~~43~~44 years, specializing in Student Financial Aid. She has been with SPEC for ~~13~~14 years and is currently our Executive Vice President of Admissions/Student Loan Programs/Regulations. She provides admissions, compliance and regulations training.

Sonja Plunkett holds licenses in cosmetology, esthetics, electrology, and instructor, and has been in the industry for -33 years. She specializes in Academy Operations and Education, and has been a Director of Operations for over 10 years for a major beauty school. She has been with SPEC for- 15 years and is currently our Executive Vice President of Operations. She provides operations training.

Mary Watson joined SPEC as Director of Education in September 2016. She has been a licensed cosmetologist for over 30 years and a licensed instructor for 10 years. She was also a TSPA school owner for 10 years. She provides operations training.

Heather Kelts has worked in the field of cosmetology for over 10 years. From 2006-2012, she was office and front desk manager for a salon. She also worked in a TSPA location from before it opened in 2010, to managing the financial aid area in 2010 and 2011. She was Operations Director of the academy from mid-2012 to November 2015. She provides training in Financial Aid.

Lisa Brinkmeyer has worked in the cosmetology industry for 28 years, including 10 years as an instructor at TSPA Evansville, Indiana, where she currently services as Lead Educator. She provides training in classroom and salon area education.

Amber Fox has worked in the cosmetology industry for 12 years, including 8 years as an instructor at TSPA Shorewood, Illinois, of which she is an owner and currently serves as the Director of Operations. She provides training in classroom and salon area education, as well as school operations.

Kim Hofer has been involved in the beauty school industry since 1991, buying a school in 2006. In 2010, she became a The Salon Professional Academy franchisee and converted her school to TSPA Altoona. In

2016, Kim received the Operations Director of the Year Award. She provides training in admissions and operations.

~~Sarah Lundblad has worked in the field of cosmetology for over 17 years, specializing in Student Admissions. She has been with SPEC for over 13 years, as a trainer in Admissions/Academy Operations Director. She provides training in admissions and operations.~~

~~Eric Plunkett has 13 years in Sales, Staff Management and Business Development in a variety of businesses. He has been a staff development trainer for SPEC for 4 years.~~

~~Sonja Plunkett holds licenses in cosmetology, esthetics, electrology, and instructor, and has been in the industry for 32 years. She specializes in/Academy Operations and Education, and has been a Director of Operations for 10 years for a major beauty school. She has been with SPEC for 13 years and is currently our Executive Vice President of Operations/Director. She provides training in admissions and operations training.~~

~~Mona Radermacher is a licensed cosmetology instructor and has been in the field of cosmetology for 30 years. She has been a curriculum and principle based design instructor with SPEC for 11 years.~~

~~Matt Schmoker is President and CEO of Legacy Solutions and has been an award-winning enrollment management expert and coach with over 21 years of experience in the field. He has provided training in student recruitment and admissions for SPEC for lessmore than a year.~~

~~Mary Watson is a licensed cosmetologist and instructor. She is a beauty school and salon owner and Kerri Schultz has been in the beauty industry for 3125 years. She holds licenses in cosmetology, esthetics, and as a beauty culture instructor. Kerri has worked as an educator for TSPA Evansville, IN, for the last 8 years, where she currently serves as a Lead Educator (and was recognized as SPEC's "Educator of the Year" in 2016). In addition, since the fall of 2016, she has provided training for SPEC in education and operationssystemss for less than a yearSPEC.~~

Your instructional materials for the training may include the following: the Manuals, videos, job aides, workbooks other online materials.

### Post-Opening Training

We will offer the following amounts of additional training programs and seminars (collectively, "Regular Training"): (i) during the first year following your Opening Date, 156 hours of Regular Training; (ii) during the second year following your Opening Date, 111 hours of Regular Training; and (iii) during the third and each of the subsequent years following your Opening Date, 100 hours of Regular Training. We may also offer refresher, advanced or additional programs and seminars over and above the Regular Training ("Special Training," and collectively with the Regular Training, "Post-Opening Training"). Post-Opening Training shall be offered at a location designated by us, which may be on-site, online, at our principal training facility, or at another location designated by us. We may require you, your Operations Director and any of your other employees that we may designate to attend Post-Opening Training. At our expense, we shall provide instructors, facilities, training materials, and technical training tools in connection with the Regular Training. You are responsible for all other expenses your attendees incur in connection with attending Regular Training, including all travel, lodging, and meal expenses. However, you are solely responsible for all costs and expenses associated with any Special Training, including the then current training fee we charge for this training, if any, as well as all travel, meal, and lodging expenses that your attendees incur, if any. In our discretion, we may provide Post-Opening Training to multiple franchisees at the same time. You are responsible to ensure that your attendees attend Post-Opening Training at the applicable times and locations offered by us. We have no obligation to provide Post-Opening Training at any specific times or locations, or on an individual franchisee basis. If you do not complete the full amount

of hours of the Regular Training in any year of the Term, you may not carry over any unused hours to the next year of the Term. Post-Opening Training may include instruction in one or more of the following areas: marketing, promotions, and advertising; management; cosmetology education and training; recruiting and admissions; student placement; accreditation; and operations. We reserve the right to modify the content of the Post-Opening Training. (Franchise Agreement, Sections 2.5 and 2.7)

#### Assistance vs. Training.

Neither routine nor special assistance that we may provide as outlined above in the “Post-Opening Assistance” section of this Item shall be considered Post-Opening Training (though time devoted in excess of the limits set forth in your franchise agreement may count toward the time we offer for Regular Training). Routine and special assistance may be provided by us upon your request and are specific to your Franchised Business. Post-Opening Training will be made available by us to multiple franchisees and not necessarily upon your prior request. Accordingly, you cannot require Post-Opening Training, but can only participate in any Post-Opening Training offered by us.

### **ITEM 12. TERRITORY**

#### **Grant for a Specific Area**

Your franchise is granted for a specific location that you select and we approve if acceptable. This location may not be changed. If we, in our sole discretion, decide to permit relocation of your Franchised Business, one factor we may consider is whether the proposed new site meets our then current Site-Selection Criteria (our current Site-Selection Criteria are discussed in Item 11, but these criteria may periodically change.)

You may operate your Franchised Business only at the Premises specifically designated in your Franchise Agreement and not from or at any other location, whether on a permanent or temporary basis, even if the location is within the Protected Territory.

*You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.*

Your license of the Proprietary Marks is not exclusive. However, as long as you comply with your franchise agreement, we grant you a “protected territory.” Your Protected Territory will be designated and described in your Franchise Agreement. The size and scope of the Protected Territory will be determined according to a number of factors, including the population, demographics, competition, location of any existing franchises in the area, and site availability. A protected territory will generally consist of a geographic area that has a population of approximately 600,000 to 1 million individuals, measured according to publicly available population information (such as that produced by the U.S. Census Bureau or other governmental agency or commercial source). However, we reserve the right to define the Protected Territory by other factors. You have the right to solicit and service customers and students that reside outside of your Protected Territory (including through the Internet and direct marketing) as long as those customers or students do not reside within any other franchisee’s protected territory. During the Term, if you are not in default, we may not ourselves operate—or grant a third party the right to operate—a cosmetology school using your Selected Trademark and the System within your Protected Territory, except as we otherwise describe in this FDD.

Competition may arise from various sources. We have described this generally in Item 1. For example, you may face competition from other channels of distribution or schools operating under competitive brands that we or our affiliates control. In addition to our right to use and grant others the right to use the Proprietary Marks anywhere outside the Protected Territory, all rights not expressly granted to you in your Franchise Agreement concerning the Proprietary Marks or other matters are reserved by us,

including (a) the right to sell, within or outside your Protected Territory, through dissimilar channels of distribution (including the Internet), or through any of the trademarks you were entitled to select as your Selected Trademark but did not, under any terms that we consider appropriate, products and services similar or identical to those authorized for your Franchised Businesses using the Proprietary Marks; and (b) the right to establish, develop, and license or franchise other systems, different from our franchise system licensed under your franchise agreement, within or outside the Protected Territory, without offering or providing you any rights in, to, or under the other systems. Additionally, if we acquire a competitive system, we have a limited period of one year to transfer or close that system’s schools in the Protected Territory.

There are no other circumstances that permit us to modify your Protected Territory rights.

We need not pay you any compensation if we exercise any of the rights specified above inside your Protected Territory.

The continuation of your territorial ~~exclusivity~~ protection does not depend on achieving a certain sales volume, market penetration, or other contingency—it does depend, however, on complying with your Franchise Agreement.

Your Franchise Agreement does not grant you any options, rights of first refusal, or similar rights to acquire additional franchises within your protected territory or contiguous territories.

**ITEM 13. TRADEMARKS**

**Principal Trademarks**

Under your Franchise Agreement, we grant you the right to operate your Franchised Business under **SPEC**, the **SPEC logo**, **GROWING SALON LEADERS ONE STUDENT AT A TIME**, and your Selected Trademarks. These are the principal trademarks used to identify your Franchised Business and are owned by us. The following tables summarize the pertinent information concerning our principal trademarks as they pertain to you.

The following pertains to you regardless of your Selected Trademark:

TRADEMARK REGISTERED ON THE U.S. PATENT AND TRADEMARK OFFICE (“PTO”)			
PRINCIPAL REGISTER			
TRADEMARK	OWNER	REGISTRATION NO.	REGISTRATION DATE
<b>SPEC.</b>	SPEC	4,526,714	5/6/2014
<b>SPEC. logo</b>	SPEC	4,526,715	5/6/2014
<b><u>GROWING SALON LEADERS ONE STUDENT AT A TIME</u></b>	<u>SPEC</u>	<u>5,035,831</u>	<u>9/6/2016</u>

Because these marks have not yet been registered for five years, we have not yet filed Section 8 or 15 affidavits for them.

If your Selected Trademark is **The Salon Professional Academy**, the following pertains to you:

TRADEMARK REGISTERED ON THE U.S. PATENT AND TRADEMARK OFFICE ("PTO") PRINCIPAL REGISTER			
TRADEMARK	OWNER	REGISTRATION NO.	REGISTRATION DATE
<b>THE SALON PROFESSIONAL ACADEMY</b>	SPEC	4,010,746	8/16/2011
<b>THE SALON PROFESSIONAL ACADEMY LOGO</b>	SPEC	4,523,016	4/29/14

Because these marks have the mark **THE SALON PROFESSIONAL ACADEMY**, Registration no. 4,523,016, has not yet been registered for five years, we have not yet filed a Section 8 or 15 affidavit for it. On February 9, 2017, we filed Section 8 and 15 affidavits for them. the mark THE SALON PROFESSIONAL ACADEMY, Registration no. 4,010,746. On April 8, 2017, the Patent and Trademark Office accepted our Section 8 and 15 affidavits for Registration no 4,010,746, THE SALON PROFESSIONAL ACADEMY.

If your Selected Trademark is **Academy for Salon Mastery**, the following pertains to you:

TRADEMARK FOR WHICH INTENT-TO-USE APPLICATION FOR REGISTRATION ON PTO'S PRINCIPAL REGISTER IS PENDING			
TRADEMARK	OWNER	SERIAL NO.	APPLICATION DATE
<b>ACADEMY FOR SALON MASTERY</b>	SPEC	86,226,749	03/20/2014

We do not yet have a federal registration for the trademark listed above. Therefore, this trademark does not have as many legal benefits and rights as a federally registered trademark. If our right to use this trademark is challenged, you may have to change to an alternative trademark, which may increase your expenses.

If your Selected Trademark is **Elevate Salon Institute**, the following pertains to you:

TRADEMARK FOR WHICH INTENT-TO-USE APPLICATION FOR REGISTRATION ON PTO'S PRINCIPAL REGISTER IS PENDING			
TRADEMARK	OWNER	SERIAL NO.	APPLICATION DATE
<b>ELEVATE SALON INSTITUTE</b>	SPEC	86,278,886*	5/12/2014
<del><b>GROWING SALON LEADERS ONE STUDENT AT A TIME</b></del>	SPEC	86,886,823	1/26/2016

\* Filed as an Intent to use application.

We do not yet have a federal registration for the trademarks listed above. Therefore, these trademarks do not have as many legal benefits and rights as a federally registered trademark. If our rights to use these trademarks is challenged, you may have to change to an alternative trademark, which may increase your expenses.

### **Currently Effective Trademark Determinations**

There are no currently effective material determinations of the U.S. Patent and Trademark Office, Trademark Trial and Appeal Board, the trademark administrator of this state or any court; pending infringement, opposition or cancellation proceedings; or pending material litigation involving the principal marks.

### **Agreements Significantly Limiting Your Rights to Use the Marks**

There are no agreements that significantly limit our right to use or license the use of our principal marks in a manner material to you.

### **Protection of Your Right to Use the Trademarks**

If you become aware of any claim of infringement, unfair competition, or other challenge to your right to use the Proprietary Marks, you must notify us within seven days. In our sole discretion, we determine whether to take any action in connection with any infringement, challenge or claim, and have the right to exclusively control any litigation or other proceeding arising out of any infringement, challenge or claim.

We will indemnify you for all damages for which you are held liable pursuant a final, binding, and nonappealable judgment entered in connection with any litigation or proceeding arising out of your use of our Proprietary Marks. But we need do so only if:

- your use of the Proprietary Marks was in accordance with your Franchise Agreement;
- you timely notified us of the litigation or proceeding and the underlying claim in accordance with your Franchise Agreement;
- you give us sole control of the defense and settlement of the action in accordance with your Franchise Agreement; and
- you have complied with the other provisions of your Franchise Agreement.

If we believe that it is appropriate to modify or discontinue using any Proprietary Mark or use one or more additional or substitute names or marks, you must modify or discontinue the use of that Proprietary Mark within 360 days of our request (or a shorter period we may designate if we deem necessary or desirable). We may reimburse you by granting you a credit for these expenditures against Royalty Fees due to us. If this occurs, we are liable solely to reimburse you for your reasonable direct printing and signage expenses incurred to modify or discontinue the use of the Proprietary Mark and to substitute a different mark. These reimbursable expenses do not include any expenditures you make to promote a modified or substituted mark.

### **Knowledge of Superior Rights or Infringing Uses**

We have no actual knowledge of superior prior rights or infringing uses that could materially affect your use of the principal marks in this state or the state in which your Franchised Business is to be located.

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

No patents are material to the franchise. The Manuals may be subject to federal copyright protection, although we have not filed federal-copyright applications for these materials. We have no obligation to defend, or indemnify you for, your use of copyrighted materials.

You must maintain the confidentiality of the Manuals, as well as all knowledge, know-how, technologies, techniques and other proprietary information that we reveal to you as being confidential or a reasonable person would expect it to be considered confidential, and treat this information as trade secrets. You must strictly limit access to the confidential information to your employees who have a “need to know” in order to perform their jobs. All persons to whom you grant access to the Manuals or any other confidential

information must be required to comply with the confidentiality provisions of your Franchise Agreement and may be required to sign our standard confidentiality agreement. You may use our Proprietary Property only in connection with operating your Franchised Business in accordance with the terms of your Franchise Agreement, and, without our written consent, you shall not sublicense or otherwise grant any third party the right to use our Proprietary Marks in their advertising, website or otherwise.

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

Your Franchised Business must be supervised by an operations director (your “Operations Director”). Your Operations Director shall devote, on a full-time basis, his or her best efforts to managing and operating your Franchised Business. At all times it is open for business, your Franchised Business requires your Operations Director’s day-to-day supervision. A Franchise Owner<sup>12</sup> must either serve as your Operations Director or you must hire a qualified individual to serve as your Operations Director. The initial and any successor Operations Director must, to our satisfaction, complete Initial Franchise Training and meet our minimum requirements, if any, for education, certification, as well as experience relevant to managing operating your Franchised Business. If your Operations Director is an individual other than a Franchise Owner, and your Operations Director fails to satisfy his or her obligations due to death, disability, termination of employment, or for any other reason, a Franchise Owner shall satisfy these obligations until you designate a new Operations Director of your Franchised Business in accordance our requirements.

We may require each Franchise Owner and your Operations Director to agree to be bound by the same confidentiality, non-competition and non-solicitation obligations as you.

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

You are permitted to sell only goods and services approved by us and must sell all goods and services authorized by us. We currently provide the option, but not the obligation, for you to offer instruction in massage services. However, we may change the types of authorized goods and services that you must sell and there are no limits to our right to make changes.

You may operate your Franchised Business only at the Premises and not from or at any other location, whether on a permanent or temporary basis, even if the location is within the Protected Territory.

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

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

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
a. Length of the franchise term	Section 16.1	Initial term is 10 years.
b. Renewal or extension	Section 16.2	If you satisfy the conditions in the Franchise Agreement, you may obtain a Successor Franchise Agreement for one additional term of 10 years.

<sup>12</sup> The “Franchise Owner” is: (a) if Franchisee is one or more individuals, each such individual; (b) if Franchisee is an entity, each individual that, directly or indirectly, owns any ownership or voting interests in such entity.

<b>THE FRANCHISE RELATIONSHIP</b>		
<b>PROVISION</b>	<b>SECTION IN FRANCHISE AGREEMENT</b>	<b>SUMMARY</b>
c. Requirements for you to renew or extend	Section 16.2	Requirements to renew or extend include that you must: Provide prior notice to us; satisfy all monetary obligations to us; not be in default (and not have received three or more notices of default during term); sign a Successor Franchise Agreement, the terms of which may materially differ from the terms of your initial franchise agreement (including an increased Royalty Fee and Technology Fee, if any); sign a release; reimburse us for all expenses incurred entering the Successor Franchise Agreement (but not more than \$5,000); perform any required renovation or replacement of equipment and facilities; and be lawfully entitled to occupy the Premises for the entire Successor Term.
d. Termination by you	None	Not Applicable
e. Termination by Franchisor without cause	None	Not Applicable
f. Termination by Franchisor with cause	Sections 11.1, 11.2, and 11.3	We can terminate your Franchise only if you default under the Franchise Agreement.
g. "Cause" defined-curable defaults	Section 11.3	You have 30 days after notice to cure all defaults other than those in Sections 11.1 and 11.2 of the Franchise Agreement.
h. "Cause" defined-non-curable defaults	Sections 11.1 and 11.2	Non-curable defaults include: bankruptcy; insolvency; appointment of a receiver; abandoning your Franchised Business; breach of confidentiality and non-competition covenants; forbidden transfer of your rights or the Franchise Agreement; failure to pay any amount due us within 10 days after we deliver notice of nonpayment; misuse or unauthorized use of the Proprietary Property; receiving three or more notices of default in any 12 month period (regardless of whether the defaults were cured); default by you or any of your affiliates under any agreement with third parties that we require you to enter according to your Franchise Agreement.

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
i. Your obligations on termination/nonrenewal	Article 12	Obligations include: ceasing current operations; at our option assigning your lease to us; distinguishing future operations; paying amounts due; removal of internet references; and returning Confidential Information.
j. Assignment of contract by Franchisor	Section 10.1	No restrictions on our right to assign.
k. "Transfer" by you-defined	Section 10.2	Without our prior written consent, you may not sell, assign, convey, or otherwise dispose of—voluntarily, involuntarily, directly or indirectly, by operation of law or otherwise—any direct or indirect interest in your Franchise Agreement. The term "transfer" refers to any of the preceding actions.  A transfer of 25% or more of the ownership or voting interests in corporate, limited liability company, or partnership franchisees, is considered a transfer of an interest in your Franchise Agreement.
l. Franchisor's approval of transfer by franchisee	Sections 10.2 and 10.4	We have the right to approve all transfers, except the following transfers (if the conditions in your Franchise Agreement are met): (a) from an individual franchisee to a wholly-owned corporation or limited liability company (as long as the individual owners guarantee all obligations of the entity); or (b) of all or part of an interest in you to one of the other original shareholders, members, or partners. However, we will not unreasonably withhold our consent to a proposed transfer if all of the conditions in Section 10.2 of your Franchise Agreement are met.

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
m. Conditions for Franchisor's approval of transfer	Section 10.2	Conditions include: We have not exercised our right of first refusal; you are not in default; transferee has sufficient experience; transferee satisfactorily completes our application; at our option, transferee assumes all your obligations as stated in an assignment and assumption agreement or signs our then standard form of franchise agreement (the terms of which may significantly differ from the terms of your Franchise Agreement— including an increased Royalty Fee and Technology Fee, if any); transferee agrees to perform required renovations and replacements of equipment, and completes training; transferee or transferor pays a \$20,000 transfer fee; and transferee and you satisfy any other conditions we reasonably impose.
n. Franchisor's right of first refusal to acquire your business	Section 11.4	We can match any offer or offers for: (a) the ownership interests of one or more Franchise Owners that, if one or more of the offers are consummated, would result in the transferee owning a majority of the ownership interests or profits of the Franchisee; (b) your interest in the Franchise Agreement; or (c) for all or a material part of your assets. We have no right of first refusal if the proposed transferee is your spouse, son, or daughter, or a trust formed for those individuals.
o. Franchisor's option to purchase your business	None	Not Applicable

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
p. Death or disability of franchisee	Section 11.3	If a Franchise Owner is serving as your Operations Director and he or she dies or becomes disabled, you have six months to retain a replacement to perform his or her obligations under the Franchise Agreement. If a satisfactory replacement is not hired within that six-month period, that Franchise Owner (or his or her legal representative) must transfer his or her ownership interests in Franchisee in accordance with your Franchise Agreement within an additional six months.
q. Non-competition covenants during the term of the franchise	Article 13	No involvement with a competing business anywhere.
r. Non-competition covenants after the franchise is terminated or expires	Article 13	For 24 months after expiration or termination of your Franchise Agreement no involvement with a competing business within 50 miles of your Premises or the premises of any other cosmetology school business authorized to use your Selected Trademark that is either to open in a reserved area or specific location that we already approved, or that is already open.
s. Modification of the agreement	Article 13 and Sections 6.3, <del>18</del> <u>19</u> .2, and <del>18</del> <u>19</u> .3	No modifications unless signed by the party against whom enforcement is sought, but we may unilaterally revise the Manuals, modify our System, and reduce the scope of your non-compete covenant.
t. Integration/merger clause	Section <del>18</del> <u>19</u> .20	Only the terms of the Franchise Agreement and other contracts that you sign in connection with such agreement are intended to be binding (subject to state law). We do not intend for any other promises or representations to be enforceable. This is not intended to disclaim, or require you to waive reliance on, any representation made in this Franchise Disclosure Document, except with respect to specific contract terms and conditions stated in this Franchise Disclosure Document that you voluntarily waive during the course of franchise-sale negotiations.

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
u. Dispute resolution by arbitration or mediation	<del>Not applicable</del> <u>Articles 17</u>	<del>Disputes may not be mediated or arbitrated or mediated in Cass County, North Dakota.</del> <u>Many types of disputes must be mediated or arbitrated or mediated in Cass County, North Dakota.</u>
v. Choice of forum	<del>18</del> <u>19.11</u>	Litigation must be brought in the courts of record of the State of North Dakota, Cass County, or the District Court of the United States, District of North Dakota. But we may seek injunctive relief in any jurisdiction that has jurisdiction over you. The parties waive their right to a jury trial. All the foregoing terms are subject to state laws.
w. Choice of law	<del>18</del> <u>19.10</u>	Except to the extent the Lanham Act, Copyright Act, or Federal Arbitration Act governs, North Dakota law applies, subject to state laws.

NOTE: The provision in the Franchise Agreement which terminates your Franchised Business upon your bankruptcy may be unenforceable under federal bankruptcy law Title 11, United States Code Section 101.

#### ITEM 18. PUBLIC FIGURES

We do not currently use any public figure to promote our franchise system, but we reserve the right to do so in the future.

#### ITEM 19. FINANCIAL PERFORMANCE REPRESENTATION

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: (a) a franchisor provides the actual records of an existing outlet you are considering buying; or (b) 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 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 your future income from us, our employees or our representatives, you should report it to the franchisor's management by contacting Jill Krahn at SPEC, 4377 15<sup>th</sup> Avenue South, Fargo, ND 58103, 888-478-6856 (or [JKrahn@SPECfranchise.com](mailto:JKrahn@SPECfranchise.com)), the Federal Trade Commission, and the appropriate state regulatory agencies.

**ITEM 20. OUTLETS AND FRANCHISEE INFORMATION**

**SYSTEMWIDE OUTLET SUMMARY  
FOR YEARS ~~2013~~2014 TO ~~2015~~2016**

**TABLE 1**

OUTLET TYPE	YEAR	OUTLETS AT THE START OF THE YEAR TSPA/ASM/ESI	OUTLETS AT THE END OF THE YEAR TSPA/ASM/ESI	NET CHANGE TSPA/ASM/ESI
FRANCHISED	<del>2013</del> 2014	<del>24</del> 23/0/0	<del>23</del> 26/0/0	<del>-1</del> +3/0/0
	2014 <del>2015</del>	<del>23</del> 26/0/0	<del>26</del> 31/0/ <del>0</del> 4	<del>+3</del> 5/0/ <del>0</del> +4
	<del>2015</del> 2016	<del>26</del> 31/0/ <del>0</del> 4	<del>31</del> 35/0/4	<del>+5</del> 4/0/ <del>+4</del> 0
COMPANY-OWNED	<del>2013</del> 2014	0/0/0	0/0/0	0/0/0
	<del>2014</del> 2015	0/0/0	0/0/0	0/0/0
	<del>2015</del> 2016	0/0/0	0/0/0	0/0/0
TOTAL OUTLETS	<del>2013</del> 2014	<del>24</del> 23/0/0	<del>23</del> 26/0/0	<del>-1</del> +3/0/0
	2014 <del>2015</del>	<del>23</del> 26/0/0	<del>26</del> 31/0/ <del>0</del> 4	<del>+3</del> 5/0/ <del>0</del> +4
	<del>2015</del> 2016	<del>26</del> 31/0/ <del>0</del> 4	<del>31</del> 35/0/4	<del>+5</del> 4/0/ <del>+4</del> 0

**TRANSFER OF OUTLETS FROM FRANCHISEES TO NEW OWNERS (OTHER THAN THE FRANCHISOR)  
FOR THE YEARS ~~2013~~2014 TO ~~2015~~2016**

**TABLE 2**

STATE	YEAR	NUMBER OF TRANSFERS TSPA/ASM/ESI
IOWA	<del>2013</del> 2014	<del>0</del> 0/0/0
	2014 <del>2015</del>	<del>0</del> 0/0/0
	<del>2015</del> 2016	<del>1</del> 0/0/0
TOTAL OUTLETS	<del>2013</del> 2014	0/0/0
	2014 <del>2015</del>	0/0/0
	<del>2015</del> 2016	<del>0</del> 1/0/0

**STATUS OF FRANCHISED OUTLETS  
FOR YEARS ~~2013~~2014 TO ~~2015~~2016**

**TABLE 3**

STATE	YEAR	OUTLETS AT START OF YEAR TSPA/ASM/ESI	OUTLETS OPENED TSPA/ASM/ESI	TERMINATIONS TSPA/ASM/ESI	NON-RE-NEWALS TSPA/ASM/ESI	REACQUIRED BY FRANCHISOR TSPA/ASM/ESI	CEASED OPERATIONS-OTHER REASONS TSPA/ASM/ESI	OUTLETS AT END OF THE YEAR TSPA/ASM/ESI
CA	<del>2013</del> 2014	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0

STATE	YEAR	OUTLETS AT START OF YEAR TSPA/ASM/ESI	OUTLETS OPENED TSPA/ASM/ESI	TERMINATIONS TSPA/ASM/ESI	NON-RE-NEWALS TSPA/ASM/ESI	REACQUIRED BY FRANCHISOR TSPA/ASM/ESI	CEASED OPERATIONS-OTHER REASONS TSPA/ASM/ESI	OUTLETS AT END OF THE YEAR TSPA/ASM/ESI
	<del>2014</del> <u>2015</u>	1/0/0	<del>1</del> /0/0 <u>1</u>	0/0/0	0/0/0	0/0/0	0/0/0	<del>1</del> 2/0/0 <u>1</u>
	<del>2015</del> <u>2016</u>	<del>1</del> 2/0/0 <u>1</u>	<del>1</del> 3/0/1 <u>0</u>	0 <u>1</u> /0/0	0/0/0	0/0/0	0/0/0	<del>2</del> 4/0/1
CO	<del>2013</del> <u>2014</u>	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	<del>2014</del> <u>2015</u>	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	<del>2015</del> <u>2016</u>	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
<del>FL</del>	<del>2013</del>	<del>4</del> /0/0	<del>0</del> /0/0	<del>0</del> /0/0	<del>0</del> /0/0	<del>0</del> /0/0	<del>0</del> /0/0	<del>4</del> /0/0
<u>FL</u>	2014	4/0/0	0/0/0	0/0/0	2/0/0	0/0/0	0/0/0	2/0/0
	2015	2/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/0/0
<del>IA</del>	<del>2013</del> <u>2016</u>	<del>1</del> 2/0/0	<del>0</del> 1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>1</del> 3/0/0
<u>IA</u>	2014	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	2015	1/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/0/0
<del>IL</del>	<del>2013</del>	<del>0</del> /0/0	<del>1</del> /0/0	<del>0</del> /0/0	<del>0</del> /0/0	<del>0</del> /0/0	<del>0</del> /0/0	<del>1</del> /0/0
	<del>2014</del> <u>2016</u>	<del>1</del> 2/0/0	<del>1</del> 0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/0/0
<u>IL</u>	<u>2014</u>	<u>1</u> /0/0	<u>1</u> /0/0	<u>0</u> /0/0	<u>0</u> /0/0	<u>0</u> /0/0	<u>0</u> /0/0	<u>2</u> /0/0
	2015	2/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/0/0
<del>ID</del>	<del>2013</del> <u>2016</u>	<del>0</del> 2/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>0</del> 2/0/0
<u>ID</u>	2014	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	2015	1/0/0	0/0/1	0/0/0	0/0/0	0/0/0	1/0/0	0/0/1
<del>IN</del>	<del>2013</del> <u>2016</u>	<del>1</del> 0/0/1	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>1</del> 0/0/1
<u>IN</u>	2014	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	2015	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
<del>KY</del>	<del>2013</del> <u>2016</u>	1/0/0	<del>0</del> 1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>1</del> 2/0/0
<u>KY</u>	2014	1/0/0	0/0/0	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0
	2015	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
<del>MD</del>	<del>2013</del> <u>2016</u>	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
<u>MD</u>	2014	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0

STATE	YEAR	OUTLETS AT START OF YEAR TSPA/ASM/ESI	OUTLETS OPENED TSPA/ASM/ESI	TERMINATIONS TSPA/ASM/ESI	NON-RE-NEWALS TSPA/ASM/ESI	REACQUIRED BY FRANCHISOR TSPA/ASM/ESI	CEASED OPERATIONS-OTHER REASONS TSPA/ASM/ESI	OUTLETS AT END OF THE YEAR TSPA/ASM/ESI
	2015	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
<del>MI</del>	<del>2013</del> <u>2016</u>	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
<u>MI</u>	2014	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
	2015	0/0/0	1/0/1	0/0/0	0/0/0	0/0/0	0/0/0	1/0/1
<del>MN</del>	<del>2013</del> <u>2016</u>	<del>1/0/0</del> <u>01</u>	<del>02</del> 0/0	<del>01</del> 0/0	0/0/0	0/0/0	0/0/0	<del>2/0/0</del> <u>01</u>
<u>MN</u>	2014	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	2015	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
<del>MT</del>	<del>2013</del> <u>2016</u>	1/0/0	<del>01</del> 0/0	0/0/0	<del>1</del> 0/0 <u>0</u>	0/0/0	0/0/0	<del>02</del> 0/0
<u>MT</u>	2014	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
	2015	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
<del>MO</del>	<del>2013</del> <u>2016</u>	<del>1</del> 0/0 <u>0</u>	0/0/0	<del>1</del> 0/0 <u>0</u>	0/0/0	0/0/0	0/0/0	0/0/0
<u>MO</u>	2014	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
	2015	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
<del>NC</del>	<del>2013</del> <u>2016</u>	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
<u>NC</u>	2014	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
	2015	0/0/0	0/0/1	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1
<del>NJ</del>	<del>2013</del> <u>2016</u>	<del>1</del> 0/0 <u>1</u>	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>1</del> 0/0 <u>1</u>
<u>NJ</u>	2014	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	2015	1/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/0/0
<del>NY</del>	<del>2013</del> <u>2016</u>	<del>12</del> 0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>12</del> 0/0
<u>NY</u>	2014	<del>1</del> 0/0 <u>0</u>	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>1</del> 0/0 <u>0</u>
	2015	<del>1</del> 0/0 <u>0</u>	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>1</del> 0/0 <u>0</u>
<del>ND</del>	<del>2013</del> <u>2016</u>	<del>1</del> 0/0 <u>0</u>	<del>01</del> 0/0	<del>1</del> 0/0 <u>0</u>	0/0/0	0/0/0	0/0/0	<del>1</del> 0/0 <u>0</u>
<u>NY</u>	2014	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	2015	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	<u>2016</u>	<u>1/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>1/0/0</u>
<u>ND</u>	<u>2014</u>	<u>1/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>1/0/0</u>
	<u>2015</u>	<u>1/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>1/0/0</u>
	<u>2016</u>	<u>1/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>1/0/0</u>

STATE	YEAR	OUTLETS AT START OF YEAR TSPA/ASM/ESI	OUTLETS OPENED TSPA/ASM/ESI	TERMINATIONS TSPA/ASM/ESI	NON-RE-NEWALS TSPA/ASM/ESI	REACQUIRED BY FRANCHISOR TSPA/ASM/ESI	CEASED OPERATIONS-OTHER REASONS TSPA/ASM/ESI	OUTLETS AT END OF THE YEAR TSPA/ASM/ESI
OH	<del>2013</del> <u>2014</u>	3/0/0	0/0/0	0/0/0	<del>0</del> <u>2</u> /0/0	0/0/0	0/0/0	<del>3</del> <u>1</u> /0/0
	2014	<del>3</del> <u>0</u> /0/0	0/0/0	0/0/0	<del>2</del> <u>0</u> /0/0	0/0/0	0/0/0	<del>1</del> <u>0</u> /0/0
	2015	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
<del>OR</del> <u>OR</u>	<del>2013</del> <u>2016</u>	<del>0</del> <u>1</u> /0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>0</del> <u>1</u> /0/0
<u>OR</u>	2014	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	2015	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
<del>PA</del> <u>PA</u>	<del>2013</del> <u>2016</u>	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
<u>PA</u>	2014	1/0/0	2/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/0/0
	2015	3/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/0/0
<del>SD</del> <u>SD</u>	<del>2013</del> <u>2016</u>	<del>0</del> <u>3</u> /0/0	0/0/0	<del>0</del> <u>1</u> /0/0	0/0/0	0/0/0	0/0/0	<del>0</del> <u>2</u> /0/0
<u>SD</u>	2014	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
	2015	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
<del>TX</del> <u>TX</u>	<del>2013</del> <u>2016</u>	<del>2</del> <u>1</u> /0/0	<del>1</del> <u>0</u> /0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>3</del> <u>1</u> /0/0
<u>TX</u>	2014	3/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/0/0
	2015	3/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/0/0
<del>VA</del> <u>VA</u>	<del>2013</del> <u>2016</u>	<del>0</del> <u>4</u> /0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>0</del> <u>4</u> /0/0
<u>VA</u>	2014	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
	2015	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
<del>VT</del> <u>VT</u>	<del>2013</del> <u>2016</u>	1/0/0	0/0/0	0/0/0	<del>1</del> <u>0</u> /0/0	0/0/0	0/0/0	<del>0</del> <u>1</u> /0/0
<u>VT</u>	2014	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
	2015	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
<del>WA</del> <u>WA</u>	<del>2013</del> <u>2016</u>	<del>1</del> <u>0</u> /0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>1</del> <u>0</u> /0/0
<u>WA</u>	2014	1/0/0	0/0/0	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0
	2015	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
	2016	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>
Wash. D.C.	<del>2013</del> <u>2014</u>	0/0/0	<del>0</del> <u>1</u> /0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>0</del> <u>1</u> /0/0
	2014	0/0/0	<del>1</del> <u>0</u> /0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>1</del> <u>0</u> /0/0
	2015	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0

STATE	YEAR	OUTLETS AT START OF YEAR TSPA/ASM/ESI	OUTLETS OPENED TSPA/ASM/ESI	TERMINATIONS TSPA/ASM/ESI	NON-RE-NEWALS TSPA/ASM/ESI	REACQUIRED BY FRANCHISOR TSPA/ASM/ESI	CEASED OPERATIONS-OTHER REASONS TSPA/ASM/ESI	OUTLETS AT END OF THE YEAR TSPA/ASM/ESI
<del>WI</del>	<del>2013</del> <u>2016</u>	<del>21</del> /0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	<del>21</del> /0/0
<u>WI</u>	2014	2/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/0/0
	2015	3/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/0/0
<u>TOTAL</u>	<del>2013</del> <u>2016</u>	<del>243</del> /0/0	<del>240</del> /0/0	1/0/0	<del>240</del> /0/0	0/0/0	0/0/0	<del>232</del> /0/0
<u>TOTAL</u>	2014	23/0/0	9/0/0	0/0/0	6/0/0	0/0/0	0/0/0	26/0/0
	2015	26/0/0	6/0/4	0/0/0	0/0/0	0/0/0	1/0/0	31/0/4
	<u>2016</u>	<u>31</u> /0/4	<u>9</u> /0/0	<u>5</u> /0/0	<u>0</u> /0/0	<u>0</u> /0/0	<u>0</u> /0/0	<u>35</u> /0/4

**STATUS OF COMPANY-OWNED OUTLETS  
FOR YEARS ~~2013~~2014 TO ~~2015~~2016**

**TABLE 4**

STATE	YEAR	OUTLETS AT START OF YEAR TSPA/ASM/ESI	OUTLETS OPENED TSPA/ASM/ESI	OUTLETS REACQUIRED FROM FRANCHISEE TSPA/ASM/ESI	OUTLETS CLOSED TSPA/ASM/ESI	OUTLETS SOLD TO FRANCHISEE TSPA/ASM/ESI	OUTLETS AT END OF THE YEAR TSPA/ASM/ESI
<u>TOTAL</u>	<del>2013</del> <u>014</u>	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
	<del>2014</del> <u>015</u>	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
	<del>2015</del> <u>016</u>	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0

**PROJECTED OPENINGS AS OF DECEMBER 31, ~~2015~~2016 [LAST DAY OF LAST FISCAL YEAR]**

**TABLE 5**

STATE	FRANCHISE AGREEMENTS SIGNED BUT OUTLETS NOT OPENED TSPA/ASM/ESI	PROJECTED NEW FRANCHISED OUTLETS IN THE NEXT FISCAL YEAR TSPA/ASM/ESI	PROJECTED NEW COMPANY-OWNED OUTLETS IN THE NEXT FISCAL YEAR TSPA/ASM/ESI
California	<del>2</del> /0/0 <u>1</u>	<del>1</del> /0/0 <u>0</u>	0/0/0
Florida	<u>1</u> /0/0	<u>0</u> /0/0	<u>0</u> /0/0
Illinois	1/0/0	0/0/0	0/0/0
Idaho	<del>1</del> /0/0 <u>0</u>	0/0/0	0/0/0
<del>Michigan</del> <u>Indiana</u>	<u>0</u> 1/0/0	<del>2</del> /0/0 <u>0</u>	0/0/0

STATE	FRANCHISE AGREEMENTS SIGNED BUT OUTLETS NOT OPENED TSPA/ASM/ESI	PROJECTED NEW FRANCHISED OUTLETS IN THE NEXT FISCAL YEAR TSPA/ASM/ESI	PROJECTED NEW COMPANY-OWNED OUTLETS IN THE NEXT FISCAL YEAR TSPA/ASM/ESI
Michigan	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>
Minnesota	1/0/0	0/0/0	0/0/0
New Jersey	<del>1</del> /0/0 <u>0</u>	<del>1</del> /0/0 <u>0</u>	0/0/0
North Carolina	0/0/1	0/0/0	0/0/0
Oregon	<del>1</del> /0/0 <u>0</u>	0/0/0	0/0/0
Pennsylvania	<del>2</del> /0/0 <u>0</u>	0/0/0	0/0/0
South Dakota	1/0/0	0/0/0	0/0/0
Texas	1/0/0	<del>1</del> /0/0 <u>0</u>	0/0/0
Virginia	1/0/0	<del>1</del> /0/0 <u>0</u>	0/0/0
Washington D.C.	<del>1</del> /0/0 <u>0</u>	0/0/0	0/0/0
Wisconsin	<del>1</del> /0/0 <u>0</u>	0/0/0	0/0/0
Total	<del>13</del> 9/0/ <del>1</del> 2	<del>6</del> /0/0 <u>0</u>	0/0/0

A list of the names, addresses and telephone numbers of all the franchises under franchise agreements with us as of December 31, ~~2015~~2016, is attached as Exhibit E to this disclosure document.

A list of the names, addresses and telephone numbers of franchisees who have had a franchise agreement terminated, canceled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently completed fiscal year or who have not communicated with us within 10 weeks of the application date, is attached as Exhibit F to this disclosure document. There are ~~no~~5 former franchisees listed in that attachment.

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

### Confidentiality Clauses

In the last three fiscal years, no franchisees have entered any confidentiality agreements that restrict their ability to speak openly about their experience with our franchise system.

### Trademark-Specific Franchisee Organizations

There are no trademark-specific franchisee organizations.

## **ITEM 21. FINANCIAL STATEMENTS**

Attached to this disclosure document as Exhibit C are our audited, fiscal year-end financial statements for December 31, ~~2013~~2014, December 31, ~~2014~~2015, and December 31, ~~2015~~2016. If the date of our most recent audited balance sheet and statement of operations is as of a date more than 90 days before the application date, Exhibit C will also contain an unaudited balance sheet and statement of operations as of a date within 90 days of the issuance date.

## **ITEM 22. CONTRACTS**

The Franchise Agreement is attached to this disclosure document as Exhibit A. The Franchisee Questionnaire is attached to this disclosure document as Exhibit G. The SBA Loan Addendum is attached to this disclosure document as Exhibit H. A sample form of General Release ~~for the State of Maryland~~ is attached to this disclosure document as Exhibit I.

## **ITEM 23. RECEIPTS**

Two copies of a document acknowledging your receipt of this disclosure document appear at the end of this disclosure document (following the exhibits and attachments). Please sign both copies, return one copy to us and retain the other copy for your records.

**Exhibit A to the Franchise Disclosure Document**

**FRANCHISE AGREEMENT**

**Exhibit B to the Franchise Disclosure Document  
TABLE OF CONTENTS-OPERATING MANUAL**

SUBJECT	NUMBER OF PAGES DEVOTED TO SUBJECT
Table of Contents and Introduction	6
Pre-Opening Procedures	<del>14</del> <u>13</u>
<del>Support and Training and Support</del>	<del>12</del> <u>13</u>
Staff Development	<del>31</del> <u>27</u>
Operating Procedures	<del>79</del> <u>73</u>
<del>Student Placement</del>	<del>1</del>
Financial Reporting and Data Collection	1
Closing	1
TOTAL	<del>145</del> <u>134</u> PAGES

**Exhibit C to the Franchise Disclosure Document**

**FINANCIAL STATEMENTS**

**(see attached)**

**Exhibit D to the Franchise Disclosure Document**  
**STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS**  
**(see attached)**

**Exhibit E to the Franchise Disclosure Document**

**CURRENT FRANCHISEE OUTLETS**

**THE SALON PROFESSIONAL ACADEMY (TSPA)**

California

The Salon Professional Academy San Jose  
Westgate Shopping Center  
1600 Saratoga Ave, Suite 103  
San Jose, CA 95129  
Viola Wozniakowski: (408) 307-2109

The Salon Professional Academy Redding (To Be Opened)  
1202 Lombard Trail  
Redding, CA 96001  
Sherri Dotter: (530) 524-5736

The Salon Professional Academy Bakersfield, CA (TBD)  
Brittany Burns (c) 661.808.3027 and Emily Garver (c) 760.608.3027

The Salon Professional Academy Simi Valley, CA  
1101-1313 Los Angeles Avenue, Mountain Gate Plaza  
Simi Valley, CA 93065  
Scot Sherman and Coni Sherman (c) 805.795.4224

Colorado

The Salon Professional Academy Colorado Springs  
4388 Austin Bluffs Parkway  
Colorado Springs, CO 80918  
Marla Knapp: (719) 266-9400

District of Columbia

The Salon Professional Academy Washington DC (~~To Be Opened~~)  
~~1242 Neal~~90 K Street-NE, N, Suite 103  
Washington, DC 20002  
Patrick Guarniere: (703) 304-3648

Florida

The Salon Professional Academy Ft. Myers  
1388 Colonial Blvd  
Fort Myers FL 33907  
Chris Lewis: (239) 841-0283

The Salon Professional Academy Melbourne  
1700 W New Haven Ave  
Melbourne, FL 32904  
Kristen Kohl: (321) 863-4995

The Salon Professional Academy Orlando, FL (Coming soon TBD)  
Owner Min Wermuth (c) 321.266.6080 and Rick Wermuth (c) 321.266.6081

#### Illinois

The Salon Professional Academy Shorewood  
335 Vertin Blvd  
Shorewood, IL 60404  
Rich Dramato: (708) 567-7696

The Salon Professional Academy (Chicago area - To Be Opened)  
361 W. Chestnut St.  
Chicago, IL 60610  
Alexandra Schuler: (312) 493-0761

#### Iowa

The Salon Professional Academy Iowa City  
1550 South First Avenue  
Iowa City, IA 52240  
~~Mary Watson: (319) 631-4353~~  
Alexandra Schuler (312) 494-0761

The Salon Professional Academy Cedar Falls (Relocating)  
~~722 Water Street #201~~  
~~Waterloo~~1350 University Avenue  
College Square Mall  
Cedar Falls, IA 5070350613  
Deb McFarland: (319) 830-6648

#### Indiana

The Salon Professional Academy Evansville  
5545 Vogel Road  
Evansville, IN 47715  
Robin Halter: (812) 437-8772

#### Michigan

The Salon Professional Academy ~~Marysville~~Fort Wayne, IN (Coming Soon TBD)  
~~1871 Gratiot Blvd~~  
~~Marysville, MI 48040~~  
~~Mark Van Kehrberg: (810) 364-9537~~  
10200 Coldwater Road, Pine Valley Shopping Center, Fort Wayne, IN 46825  
Cheryl Livingston-Schaffer (c) 260.750.2680 and Aimee Black (c) 260-433-4198

#### Michigan

The Salon Professional Academy Battle Creek MI  
1416 W. Columbia Ave, Battle Creek, MI 49015  
Terri Sill (c) 269-967-7110

The Salon Professional Academy Holland, MI  
2975 West Shore Drive, Holland, Michigan  
Scott Harned (c) 616.403.3391 and Rachel Harned (c) 616.856.0860

#### Minnesota

The Salon Professional Academy (To Be Opened) Rochester  
7884 Main Street  
Maple Grove 4229 Hwy 52  
North Rochester, MN 55369 55901  
Daniel Link: (612) 817-0167

The Salon Professional Academy Northeast MN TBD  
Julie Mitchell 715.246.4701  
Courtney Gorres 715.977.0042

#### New Jersey

The Salon Professional Academy South Plainfield, New Jersey  
501 Second Street South  
4985 Stelton Road (Hadley Center)  
South Plainfield, NJ 07080  
John Sickles: (888) 450-0780

The Salon Professional Academy Howell (To Be Opened)  
18 Pleasant Valley Road  
Morganville 4741 US Route 9  
Howell, NJ 07751  
Sujal and Jyoti Wadhia: (732) 236-7467

#### New York

The Salon Professional Academy Buffalo  
2309 Eggert Road  
Tonawanda, NY 14150  
Paul Grenauer: (716) 440-3034

#### North Dakota

The Salon Professional Academy Fargo  
4377 15<sup>th</sup> Avenue South  
Fargo, ND 58103  
Jill Krahn: (888) 478-6856

#### Ohio

The Salon Professional Academy Cleveland

Mayfield Ridge Shopping Center  
5919 Mayfield Road  
Mayfield Heights, OH 44124  
Nina Bogus: (440) 749-0493

#### Oregon

The Salon Professional Academy Portland ~~(To Be Opened)~~  
~~3518 SE 63rd Ave~~  
~~Portland~~ 8502 SW Main Street 400  
Wilsonville, OR 97206 97070  
Nancy Ferguson: (503) 267-8202

#### Pennsylvania

The Salon Professional Academy Altoona  
415 D Orchard Avenue  
Altoona, PA 16601  
Kim Hofer: (814) 931-5636

The Salon Professional Academy ~~(To Be Opened)~~ Collegeville  
~~206 S. Deerwood Drive~~  
~~Westchester, PA 19382~~  
~~Nick Scamuffa: (610) 999-4747~~

~~The Salon Professional Academy~~ 130 West Main  
~~Collegeville (To Be Opened)~~  
~~1603 Diane Circle~~  
~~Phoenixville, PA 19460~~  
Roseann Hawley (484) 995-3140

#### South Dakota

The Salon Professional Academy Aberdeen ~~(To Be Opened)~~  
379979 N. Shore Dr  
Aberdeen, SD 57401  
Fallon Helm: (605) 228-4437

#### Texas

The Salon Professional Academy Dallas  
2440 B S Stemmons Fwy  
Lewisville, TX 75067  
Anna Geleske: (469) 585-0309

The Salon Professional Academy San Antonio  
16640 San Pedro Ave  
San Antonio, TX ~~78232~~ 78232 Dana Robinson (210) 602-3420  
~~Brandy Soden: (210) 379-4247~~

The Salon Professional Academy Georgetown  
901 South I-H35, Suite 102

Georgetown, TX ~~78626~~78635  
Shane and Tuesday Wilson: (512) 818-4163

The Salon Professional Academy ~~Tyler (To Be Opened)~~Whitehouse  
~~151 Dr. M. Rooper Parkway Suite 400~~  
~~Bullard, TX 75757~~  
610 North Hwy 110  
Whitehouse, TX 75791  
Jeff and Melinda Meler: (903) 283-8633

Virginia  
The Salon Professional Academy Harrisonburg (To Be Opened)  
353 Neff Avenue  
Harrisburg, VA 22801  
Judi Crawford: (540) 746-8188

Wisconsin  
The Salon Professional Academy Appleton  
3355 West College Avenue  
Appleton, WI 54914  
Josif Witnik: (920) 968-0434

The Salon Professional Academy ~~Eau Claire~~  
~~3408 Mall Drive~~  
~~Eau Claire, WI 54701~~  
~~Shawn Rauckman: (715) 835-2345~~

~~The Salon Professional Academy Madison~~  
East Town Mall  
555 S Midvale Blvd #117,  
Madison, WI 53711  
Anthony Santini: (608)-345-1021

Canada  
The Salon Professional Academy Winnipeg  
1395 Ellis Ave  
Winnipeg MB R3G 3P2  
Jodi Ellingson: (204) 772-8772

## **ELEVATE SALON INSTITUTE (ESI)**

California  
Elevate Salon Institute (Bay Area -To Be Opened)  
2215 Larkspur Landing Circle

Larkspur, CA 94939  
Ali Cooper: (415) 244-9191

Michigan

~~Elevate Salon Institute Detroit (To Be Opened)~~  
~~16650 18 Mile Rd~~  
~~Clinton Township~~4050 Crooks Road  
Royal Oak, MI 4803848073  
Mike Bianchi: (586) 405-3591

Idaho

~~Elevate Salon Institute (To Be Opened)~~Chubbuck  
~~4289 N. Pennfield Pl.~~  
~~Boise~~141 E Chubbuck Road  
Chubbuck, ID 8371383202  
Mark Dilworth: (208) 866-8971

North Carolina

~~Elevate Salon Institute Durham (Raleigh/Durham – To Be Opened)~~  
~~5826 Fayetteville Rd #103~~300 East Main Street, Suite 100  
Durham, NC 2771327701  
Terry Richardson (919) 491-7808

**CANADA**

The Salon Professional Academy Winnipeg  
1395 Ellis Ave  
Winnipeg MB R3G 3P2  
Jodi Ellingson: (204) 772-8772

**Exhibit F to the Uniform Franchise Disclosure Document**

**FRANCHISEE OUTLETS TERMINATED, NOT-RENEWED, ETC.**

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

SHA Properties, Inc.  
P.O. Box 21614,  
El Sobrante, CA 94820  
Attention: Amal Dias

YDOC, Inc.  
1001 Golf Course Rd. SE  
Rio Rancho, NM 87124

Email: [bob@callasbeauty.com](mailto:bob@callasbeauty.com) NONE

The Salon Professional Academy Marysville  
1871 Gratiot Blvd  
Marysville, MI 48040  
Mark Van Kehrberg: (810) 364-9537

The Salon Professional Academy  
206 S. Deerwood Drive  
Westchester, PA 19382  
Nick Scamuffa: (610) 999-4747

The Salon Professional Academy Eau Claire  
3408 Mall Drive  
Eau Claire, WI 54701  
Shawn Rauckman: (715) 808-1212

**Exhibit G to the Uniform Franchise Disclosure Document**

**FRANCHISEE QUESTIONNAIRE**

**(see attached)**

**Exhibit H to the Uniform Franchise Disclosure Document**  
**SBA LOAN ADDENDUM**



**RECEIPT**

**STATE OF \_\_\_\_\_**

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 SPEC offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

New York State Law requires a franchisor to provide the franchise disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If SPEC 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 and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency listed in Exhibit D to this disclosure document.

Our agent in this state authorized to receive service of process is listed in Exhibit D to this disclosure document.

Franchise seller(s) who assisted in the offer/sale of the franchise: Jill Krahn \_\_\_\_ at SPEC, LLC, 4377 15th Avenue South, Fargo, ND 58103, (888) 478-6856, or JKrahn@SPECfranchise.com; Samuel Shimer \_\_\_\_ at SPEC, LLC, 4377 15th Avenue South, Fargo, ND 58103, (727) 289-7749, or sshimer@SPECfranchise.com; Jodi Ellingson \_\_\_\_ at SPEC, LLC, 4377 15th Avenue South, Fargo, ND 58103, (888) 478-6856, or jellingson@SPECfranchise.com; Sonja Plunkett \_\_\_\_ at SPEC, LLC, 4377 15th Avenue South, Fargo, ND 58103, (515) 450-4290, or splunkett@SPECfranchise.com; Marilyn Fulkerson \_\_\_\_ at SPEC, LLC, 4377 15th Avenue South, Fargo, ND 58103, (515) 450-4994, or mfulkerson@SPECfranchise.com; Christopher Baran \_\_\_\_ at SPEC, LLC, 4377 15th Avenue South, Fargo, ND 58103, (212) 995-8263, or cbaran@SPECfranchise.com; and David Berg \_\_\_\_ at SPEC, LLC, 4377 15th Avenue South, Fargo, ND 58103, (888) 478-6856, or dberg@SPECfranchise.com

Issuance date: ~~December 31, 2015~~ March 8, 2017

I have received a disclosure document dated ~~December 31, 2015~~ March 8, 2017, that included the following Exhibits:

- Exhibit A – Franchise Agreement
- Exhibit B – Table of Contents-Operating Manuals
- Exhibit C – Financial Statements
- Exhibit D – List of State Administrators/Registered Agents
- Exhibit E – Current Franchisee Outlets
- Exhibit F – Franchise Outlets Terminated
- Exhibit G – Franchisee Questionnaire
- Exhibit H – SBA Loan Addendum
- Exhibit I – Sample Form of General Release (~~State of Maryland~~)
- Exhibit J – State Addenda

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

\_\_\_\_\_  
Signature

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

You should return one copy of the signed receipt either by signing, dating, and mailing it to Jill Krahn at SPEC, LLC, 4377 15<sup>th</sup> Avenue South, Fargo, ND 58103, 888-478-6856, or by faxing or emailing (as an attachment) a copy of the signed receipt to Jill Krahn at 701-461-9180 or at [JKrahn@SPECfranchise.com](mailto:JKrahn@SPECfranchise.com). You should keep the second copy for your records.