

# FRANCHISE DISCLOSURE DOCUMENT



## COOKIE CUTTERS FRANCHISING INC.

1495 East 3300 South  
Salt Lake City, Utah 84106  
(877) 877-0775

[cookiecuttersutah@gmail.com](mailto:cookiecuttersutah@gmail.com)  
[www.kidscuts.com](http://www.kidscuts.com)

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

The total investment necessary to begin operation of your first Cookie Cutters business is from \$90,500 to \$261,000, including \$37,500 that you must pay the franchisor.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Neal Courtney at 1495 East 3300 South, Salt Lake City, Utah 84106, by phone at (877) 877-0775, or by email at [nealcourtney@haircutsarefun.com](mailto:nealcourtney@haircutsarefun.com).

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

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

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

Issuance Date: March 30, 2016

## 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 in Exhibit A 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. THE FRANCHISE AGREEMENT REQUIRES YOU TO MEDIATE, ARBITRATE OR SUE IN UTAH UNLESS THE PARTIES MUTUALLY AGREE TO AN ALTERNATIVE LOCATION. OUT-OF-STATE MEDIATION, ARBITRATION OR LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT. IT MAY ALSO COST YOU MORE TO MEDIATE, ARBITRATE OR LITIGATE WITH US IN UTAH THAN IN YOUR HOME STATE.
2. THE FRANCHISE AGREEMENT STATES THAT UTAH LAW GOVERNS THE AGREEMENT.
3. YOU MUST MEET A MINIMUM GROSS SALES LEVEL AFTER THE FIRST 3 YEARS IN BUSINESS. IF YOU DO NOT MAINTAIN THAT LEVEL OF SALES, YOUR FRANCHISE MAY BE TERMINATED.
4. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

We use the services of one or more FRANCHISE BROKERS or referral sources to assist us in selling our franchise. A franchise broker or referral source represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of the franchise.

**Effective Date: See the next page for state effective dates**



## STATE EFFECTIVE DATES

The following states require that the disclosure document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This disclosure document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

State	Effective Date
California	
Illinois	
Indiana	
Maryland	
Michigan	
Minnesota	
New York	
North Dakota	
Rhode Island	
South Dakota	
Virginia	
Washington	
Wisconsin	

In all other states, the effective date of this disclosure document is the issuance date of March 30, 2016.



## MICHIGAN STATE COVER PAGE

### COOKIE CUTTERS FRANCHISING INC.

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE DOCUMENTS, THE PROVISIONS ARE VOID AND COANNOT BE ENFORCED AGAINST YOU.

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



7. A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
  - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
  - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
  - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
  - (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.
8. A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (3).
9. A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

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

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

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



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## **ITEM 1**

### **THE FRANCHISOR, PARENTS, PREDECESSORS, AND AFFILIATES**

#### **Franchisor, Parent and Affiliates**

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

CCF is a Utah corporation incorporated on October 16, 2014. We do business under our corporate name, Cookie Cutters Franchising Inc. and “Cookie Cutters.” Since our incorporation, our principal business address has been 1495 East 3300 South, Salt Lake City, Utah 84106. We act as franchisor for the COOKIE CUTTERS franchise system. We have not and currently do not conduct business in any other line of business.

We do not have any parent companies.

Our affiliate is Ucanah For Kids, L.C. (“Ucanah”). Its principal business address is 2581 Lynwood Drive, Salt Lake City, Utah 84109. In 2015, Ucanah transferred two salons to franchisees and now owns and operates one Cookie Cutters salon in the Salt Lake City, Utah area.

#### **Predecessors**

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

#### **The Business We Offer**

In March 2015, we began offering franchises for COOKIE CUTTERS HAIRCUTS FOR KIDS businesses which primarily provide haircuts, shampoos and related products and services for children ages 12 and under. The businesses use formats, signs, equipment layouts, systems, methods, procedures and designs specified by us (the “Cookie Cutter System” or “System”).

The System was developed to make the event of a haircut pleasurable for children. A COOKIE CUTTERS salon represents a revolutionary breakthrough in the hair care industry. Through the integration of home entertainment videos, computer and hand-held games, entertainment centers, playground equipment, carousel chairs and fire truck wash shampoos, the



System has converted what was once an uneventful and frequently traumatic experience into an engaging, fun-filled frolic, entertaining for both the child and the parents.

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

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

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

A Cookie Cutters Salon is typically located in strip shopping centers or malls and is a facility of approximately 1,200 square feet with 8 to 10 chairs employing a manager, 2 associate managers and a staff of cutters, all of whom must be licensed barbers, beauticians or cosmetologists. The Cookie Cutters System emphasizes employee motivation through, among other things, a commission system for production. High customer volume is generated by careful site selection on well-traveled thoroughfares, standardized decor and signage, aggressive advertising, first haircuts promotional package and parental involvement. While Cookie Cutters haircut salons are devoted primarily to haircutting, related hair care services and children's entertainment, a limited line of hair care products and accessories may also be offered by the Franchised Business.

## **Competition**

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

## **Applicable Regulations**

As the operator of a COOKIE CUTTERS business, you must comply with laws and regulations specific to the operation of hair care businesses, whether primarily for children or adults. For example, all states have license requirements for stylists. Some also may have



cosmetology license requirements for managers and shampoo assistants. In addition, environmental laws and regulations, such as water discharge regulations, may apply. You must comply with all local, state and federal laws, regulations and ordinances applicable to the operation of any business. We urge you to make inquiries about these laws, regulations and ordinances.

## **ITEM 2 BUSINESS EXPERIENCE**

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

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

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

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

### **Director of Operations and Training: Christy Fossett**

Ms. Fossett began working for our predecessor, CC Franchising, Inc. in January 2006 as the Director of Operations and Training and has served in the same capacity with us since we purchased the COOKIE CUTTERS franchise system in December 2014.

## **ITEM 3 LITIGATION**

No litigation is required to be disclosed in this Item.

## **ITEM 4 BANKRUPTCY**

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



**ITEM 5  
INITIAL FEES**

Initial Franchise Fee

You must pay us an initial franchise fee of \$35,000 for your first salon, due when you sign the Franchise Agreement. The initial franchise fee is non-refundable, unless we cannot agree on a site within 120 days after signing a Franchise Agreement, in which case, we may terminate the Franchise Agreement, and refund you the initial franchise fee, less \$3,000 (to compensate us for our efforts in connection with evaluating the proposed premises and assisting you in any other manner after execution of the Franchise Agreement) plus expenses incurred (including the reasonable transportation, meal and lodging expenses of personnel when traveling to and from your area). The initial franchise fee shall be fully earned when you pay it to us. This fee is uniform. If you open subsequent COOKIE CUTTERS franchised salons, you pay us an initial franchise fee of \$20,000 for the second salon and \$10,000 for each salon thereafter.

Initial Training Fee

You must also pay us an initial training fee amounting to \$2,500, which will cover the cost of training associated with 2 individuals attending our initial training program as outlined in Item 11. The initial training fee does not cover costs and expenses incurred in attending the initial training program, including but not limited to, travel, lodging, meals and salary expenses. The initial training fee is due upon receipt of an invoice from CCF approximately one week before the initial training begins. Initial training will not commence until the initial training fee is paid in full. The initial training fee is deemed fully earned and non-refundable upon receipt.

**ITEM 6  
OTHER FEES**

	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Royalty Fee	5% of Gross Sales (1)	Payable by 10th business day of each month via bank draft	Any gift certificates which we may sell to you, when redeemed, will be credited against your royalty fee at face value (gift certificates must be redeemed in the month you receive them). If you default in payments, we have the right to require you to pay weekly instead of monthly.
Systemwide Advertising & Promotional Fund(2)	1% of Gross Sales (with an option by us to raise up to 3%) (1)	Payable by 10th business day of each month, via bank draft	We administer a systemwide advertising and promotional fund (see Item 11); you will not be required to spend more than 6% of Gross Sales on Systemwide Advertising, Cooperative Advertising and Local Advertising.



	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Cooperative Advertising Contributions(3)	Established by members, up to 3% of quarterly Gross Sales (1)	Established by members	Contributions are credited to your local advertising expenditure obligation (See Section 16.2 of Franchise Agreement).
Remedial or Follow-up Training and Certification(4)	Currently \$50 per day per trainee(5)	10 days after billing	We provide remedial or follow-up training if we, in our sole and absolute right, deem it necessary for you or your manager(s) (7)
Stylist Certification(4)(6)	Current \$50 per day per trainee (5)	10 days after billing	Required only if your manager or stylist fails to meet our certification or recertification requirements
Initial Training of Replacement Manager (4)	Currently \$50 per day per trainee (5)	10 days after billing	
Annual Seminar (4)	Currently \$500 per location operated by you (5)	10 days after billing	
Certificate Program Support Fee	Currently \$2 per month per location (5)	10 days after billing	This covers the costs related to the first haircut certificate program.
Server Support and Maintenance Fee	Currently \$18 per month per location (5)	10 days after billing	This fee covers the costs of maintaining servers used to support the Cookie Cutters system.
Equipment, Supply or Supplier Testing or Inspection and Grant or Approval of Equipment, Supplies or Suppliers	Out-of-pocket expenses, plus the then-current per diem charges for our personnel (5)	On receipt of bill for estimated out-of-pocket expenses; Additional amounts 10 days after billing.	This fee covers the cost of testing or inspecting, granting or approving new equipment, supplies or suppliers you propose.
Management	To be determined under circumstances	10 days after billing	Payable during any period that our appointed manager operates the franchised business on your death or disability.
Transfer Fee	25% of then-current initial franchise fee for a single unit franchise, plus our out-of-pocket travel, lodging and meal expenses (fee covers legal and administrative expenses and training)	Before transfer	Payable when franchise agreement or controlling interest in franchise is transferred; no charge if transfer is to corporation, LLC or partnership which original franchisee controls

	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Renewal	10% of then-current initial franchise fee for a single unit franchise	On signing renewal franchise agreement	
Audit	Cost of inspection or audit, plus any amount found to be owed to us	10 days after billing	Payable only if audit shows, that you have underpaid or understated any amount owed to us by 2% or more or if the examination or audit is made necessary by your failure to furnish required information or documents to us in a timely manner.
Attorneys' Fees and Costs	Will vary under circumstances	As incurred	Upon breach of any Agreement, the prevailing party may seek to recover attorneys' fees and costs.
Late Fees	\$50	When billed	If no due date is specified, interest begins to run 10 days after billing.
Penalty for Default in Reporting Gross Sales and in Submitting Reports or in Paying Fees	\$100 per day	Beginning on 15 <sup>th</sup> day after default	You must pay a \$100 per day penalty if you fail to report Gross Sales, submit required reports, furnish supporting data, or pay amounts when due, as specified in the Franchise Agreement and/or Operations Manual
Penalty for your salon not meeting our standards for cleanliness or your not complying with requirements	\$50 per day	Beginning on 15 <sup>th</sup> day after default	You must pay a \$50 per day penalty if your salon does not meet our standards for cleanliness or otherwise doesn't comply with our requirements
Assessment for Bank Draft being Dishonored	\$25 per transaction	On demand	You must pay a \$25 assessment fee if any bank draft we attempt is dishonored, due to insufficient funds or a change in your bank account
Indemnification	Will vary under circumstances	As incurred	You must reimburse us if we are held liable for claims arising from operation of franchise business.

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

**Note 1:** Gross Sales means the aggregate gross amount of all revenues from whatever source derived (whether in form of cash, credit, agreements to pay or other consideration including the actual retail value of any goods or services traded, bartered, or otherwise received by the Franchisee in exchange for any form of non-monetary consideration, whether or not payment is received at the time of sale or any such amount is proved uncollectable) from in conjunction with the Franchised Business. Whether such business is conducted in compliance with or in



violation of the terms of the Franchise Agreement, Gross Sales includes all sales or products or services made from the Premises. Gross Sales includes proceeds received from “loss of business” insurance. However, Gross Sales does not include (i) sales or use taxes collected by the Franchisee; (ii) the amount of any refunds or allowances made on products or services returned by customers; (iii) returns to shippers, vendors and manufacturers; (iv) proceeds derived from the sale of equipment or supplies used by the Franchisee in the conduct of its business and not provided for resale; (v) sales of products and services to other Cookie Cutters Franchisees and to the Franchisee’s employees; and (vi) sums received in settlement of claims or loss or damage to fixtures, equipment or leasehold improvement.

**Note 2:** You must contribute to the System wide Advertising & Promotional Fund (“Fund”). The current contribution is ½% of your Monthly Gross Sales. See Item 11.

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

**Note 4:** As to all training sessions and annual seminars, you must pay for your trainees’ and attendees’ salaries and benefits, and for their travel lodging and meal expenses. Also as to all training sessions, if our trainers are requested by you or required to travel outside of the Salt Lake City, Utah or Indianapolis, Indiana area to give training, you must pay us the then current per diem charges for those trainers, and must reimburse us for those trainers’ actual and reasonable travel, lodging and meal expenses.

**Note 5:** These fees are subject to change, but not so as unreasonably to increase your obligations. For example, we may develop new training courses, which may require fees different from those currently charged. In addition, these fees may be increased once in any fiscal year, or on a cumulative annual basis effective from the most recent increase, to reflect increases in the Consumer Price Index for Urban Consumers - All Items (1982-1984 = 100) from the date of the Franchise Agreement, as published by the U.S. Department of Labor, or in a successor index.

**Note 6:** We reserve the right to require remedial or follow-up training until a manager or stylist meets the certification and/or re-certification requirements contained in our Confidential Operations Manual.

## ITEM 7 ESTIMATED INITIAL INVESTMENT

### YOUR ESTIMATED INITIAL INVESTMENT

	Estimated Amount or Estimated High-Low Range	Method of Payment	When Due	To Whom Paid
Initial Franchisee Fee (1)	\$35,000	Lump Sum	When you sign the Franchise Agreement	CCF
Initial Training Fee (2)	\$2,500	Lump Sum	Upon receipt of invoice from CCF, one week before commencement of the initial training program	CCF



	<b>Estimated Amount or Estimated High-Low Range</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Paid</b>
First month's rent(3)	\$0 - \$4,000	Lump Sum	As specified in lease or sublease	Landlord
Rent, Security Deposit(3)	\$0 - \$4,000	Lump Sum	As specified in lease or sublease	Landlord
Construction, leasehold improvements, mill work (4)	\$5,000 - \$93,000	As Agreed	As incurred	Outside suppliers
Signage	\$4,000 - \$8,500	As agreed	As incurred	Outside suppliers
Equipment, furniture (salon equipment, chairs, electronics, playground)(5)	\$23,500 - \$45,000	As agreed	As incurred	Outside suppliers and/or CCF
Software Computer hardware	\$3,500 - \$5,000	As agreed	As incurred	Outside suppliers
Accounting software package or manual accounting package	\$500 - \$1,000	As agreed	As incurred	Outside suppliers and/or CCF
Initial inventory of products for resale	\$2,500 - \$5,000	As agreed	As incurred	Outside suppliers and/or CCF
Grand Opening(6)	\$5,000 - \$15,000	As agreed	As incurred	Third party supplier
Travel, lodging, meals for initial training in Indianapolis or Salt Lake City	\$2,000 - \$3,000	As agreed	As incurred	Outside suppliers
Initial supplies (stationery, business cards, brochures, presentation folders, paper, etc.) (for first 3 months)	\$2,000 - \$4,000	As agreed	As incurred	Outside suppliers and/or CCF
Business licenses, permits, personal property taxes, etc. (for first year)	\$500 - \$1,000	As agreed	As incurred	Outside suppliers
Insurance (7) (first 3 months)	\$500 - \$1,000	As agreed	As incurred	Outside suppliers
Professional Fees (legal, architectural, accounting)	\$500 - \$7,000	As agreed	As incurred	Outside suppliers
Artwork	\$500 - \$2,000	As agreed	As incurred	Outside suppliers and/or CCF
Additional Funds (7) (first 3 months)	\$3,000 - \$25,000	As agreed	As incurred	Outside suppliers and/or CCF
<b>TOTALS</b>	<b>\$90,500 - \$261,000</b>			

In the event, we cannot agree on a site within 120 days after signing a Franchise Agreement, we may terminate the Franchise Agreement, and refund you the initial franchise fee, unless we cannot agree on a site within 120 days after signing a Franchise Agreement, in which case, we may terminate the Franchise Agreement, and refund you the initial franchise fee, less



\$3,000 (to compensate us for our efforts in connection with evaluating the proposed premises and assisting you in any other manner after execution of the Franchise Agreement) plus expenses incurred (including the reasonable transportation, meal and lodging expenses of personnel when traveling to and from your area). All other fees are non-refundable.

**Note 1:** Your franchise fee for your first COOKIE CUTTERS salon is \$35,000, \$20,000 for your second salon, and \$10,000 for subsequent salons.

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

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

**Note 2:** You must pay us an initial training fee amounting to \$2,500, which will cover the cost of training associated with 2 individuals attending our initial training program as outlined in Item 11. The initial training fee does not cover costs and expenses incurred in attending the initial training program, including but not limited to, travel, lodging, meals and salary expenses. The initial training fee is due upon receipt of an invoice from CC approximately one week before the initial training begins. Initial training will not commence until the initial training fee is paid in full. The initial training fee is deemed fully earned and non-refundable upon receipt.

**Note 3:** Depending on the real estate market in your area, you may be able to negotiate for a certain number of free months' rent and/or to negotiate the rent security deposit.

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

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

**Note 6:** You must spend a minimum of \$5,000 on your grand opening. Our experience shows that the expenses for such a grand opening falls between \$5,000 to \$15,000 but may be higher.

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

**Note 8:** We have relied on our own experience in the children's hair care business and information supplied by franchisees to compile these estimates. You should review these figures carefully with a business advisor before making any decision to invest in a COOKIE CUTTERS business. This amount for additional funds includes both the Certificate Program Support Fee and Server Support and Maintenance Fee outlined in Item 6.



## **ITEM 8**

### **RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

#### Required and Approved Suppliers

You must purchase from our approved vendor the proprietary computer system developed and modified for us by Shortcuts Software Ltd. You must also purchase equipment and trade dress for the build out of your salon from our approved supplier, FC Dadson. We are an approved supplier of certain required fixtures, equipment and supplies, but not the only approved supplier of those items. There are no approved suppliers, other than CCF, in which any of our officers or directors own an interest.

#### Required Purchases

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

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

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

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

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



## Approval of Alternative Suppliers and Specifications

Specifications and standards for equipment and supplies are contained in our Confidential Operations Manual and are not otherwise issued to franchisees or suppliers except when we deem it necessary, e.g., updates of specifications, or instructions to suppliers). Our management periodically formulates, reviews and modifies these specifications and standards based on quality, price, ability to supply, and consistency. We will consider any request for the modification of a specification or acceptance of alternative equipment or supplies, or approval of alternative suppliers on submission by you of a written request including, in the case of a modification, the reason for the modification and, in the case of acceptance or approval of a supplier, sufficient technical data and specifications to enable us to determine if the equipment or supply meets our specifications. We will provide you with notification of acceptance or disapproval within 30 days after receipt of your request. We reserve the right to perform tests that we deem necessary to determine if any supplier, equipment or supply meets our specifications. We will accept a request if we determine that the supplier, equipment or supply meets our specifications then in effect. Grant or revocation is subject to a fee equal to our out-of-pocket expenses related to granting or evoking approval, plus the then-current per diem charges for our personnel.

## Revenue from franchisee purchases

Our total revenue from all sources in our last fiscal year ending December 31, 2015 was \$745,686.00 and the revenues received by us during the same period due to the purchase of required equipment or products from our approved suppliers was \$0 or 0% of our total revenues. You are required to purchase our standard Cookie Cutters equipment and trade dress package from our approved supplier, FC Dadson. Beginning in 2016, this supplier pays us a rebate of \$5,000 for the purchase of such equipment and trade dress for each franchised location. This rebate covers our costs in developing our standard equipment and trade dress.

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

## ITEM 9 FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Agreement	Item in Franchise Disclosure Document
a. Site Selection and acquisition/lease	Section 2.2 and 5.4 of Franchise Agreement	Items 7 and 11



Obligation	Section in Agreement	Item in Franchise Disclosure Document
b. Pre-opening purchases/leases	Sections 5.1, 5.3, 14, 15 and 18 of Franchise Agreement	Item 8
c. Site development and other pre-opening requirements	Sections 5.2 and 15 of Franchise Agreement	Items 6, 7 and 11
d. Initial and ongoing training	Section 11 of Franchise Agreement	Item 11
e. Opening	Section 5 of Franchise Agreement	Item 11
f. Fees	Sections 9, 11, 16 and 25.2 of Franchise Agreement	Items 5, 6 and 7
g. Compliance with standards and policies/Operations Manual	Sections 1, 12 and 14 of Franchise Agreement	Item 11
h. Trademarks and proprietary information	Sections 19 and 20 of Franchise Agreement	Items 13 and 14
i. Restrictions on products/services offered	Section 7 of Franchise Agreement	Items 8, 11 and 16
j. Warranty and customer service requirements	None	
k. Territorial development and sales quota	Section 26.2(h) of Franchise Agreement	Item 17
l. Ongoing product/service purchases	Section 14 of Franchise Agreement	Item 8
m. Maintenance, appearance and remodeling requirements	Sections 5.2, 14 and 15 of Franchise Agreement	Item 11
n. Insurance	Section 17 of Franchise Agreement	Items 7 and 8
o. Advertising	Section 16 of Franchise Agreement	Items 6, 7 and 11
p. Indemnification	Section 24 of Franchise Agreement	Item 6
q. Owner's participation/management/staffing	Section 4 of Franchise Agreement	Items 11 and 15
r. Records and reports	Section 13 of Franchise Agreement	
s. Inspections and audits	Sections 13.6 and 22 of Franchise Agreement	Item 6
t. Transfer	Section 25 of Franchise Agreement	Item 17
u. Renewal	Section 3.2 of Franchise Agreement	Item 17
v. Post-termination obligations	Section 27 of Franchise Agreement	Item 17
w. Non-competition covenants	Section 21 of Franchise Agreement	Item 17

Obligation	Section in Agreement	Item in Franchise Disclosure Document
x. Dispute resolution	Section 32 of Franchise Agreement	Item 17

## ITEM 10 FINANCING

CCF does not offer direct or indirect financing, nor does it guarantee your note, lease or obligation.

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

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

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

### Our Obligations Before Opening

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

- (1) Initial training for you, your original manager, if any, and up to two additional persons chosen by you in your discretion. See Training below in this Item 11. (Sections 10.1(a) and 11.2(a)).
- (2) Confidential Operations Manual (Section 10.1(b)). (See "Confidential Operations Manual" below).
- (3) A store design package for either a strip shopping center or a mall, including: general fixture plans, floor finish plans, ceiling plans, interior elevations, fixture drawings, including wall merchandising units, merchandising/video cabinets, computer cabinets, video blade walls, cutting stations, shampoo bench and step stool, cash wrap window display fixtures, art table and gallery fixtures, closet fixtures, stockroom base cabinets and shelving; artwork and specifications for interior and exterior signage; and logo materials. (Sections 10.1(d) and 14).
- (4) Samples of initial advertising and marketing materials, and assistance in implementing an initial advertising program. (Section 10.1(e)).
- (5) Assistance in the location of and/or the negotiations for an acquired or leased site for the franchised business, including a site location guide manual and one to two days of training. (Section 10.1(h)).



- (6) Preliminary merchandise assortment plan. (Section 10.1(j)).
- (7) Assistance in locating suppliers whose fixtures, equipment, supplies and services meet our specifications. (Section 10.1(k)).
- (8) Merchandise schematic for display and presentation that you must follow. (Section 10.1(l)).
- (9) The Franchisor may (but is not obligated to) recommend architects, engineers, and/or contractors to supervise and construct the Premises and to install the equipment, fixtures and furnishings. The Franchisee shall pay all costs incurred in connection with any construction design, furnishings and equipment of the franchised business.

### Our Obligations during Operation

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

- (1) Reports of improvements in administrative, bookkeeping, accounting, inventory control and general operating procedures, and business merchandising method (including pricing methods), as they may be developed (Section 10.1(f)).
- (2) Revisions of the Confidential Operations Manual to incorporate improvements and new developments in the COOKIE CUTTERS System, including improvements in products and services to be offered by you to your clients, and suggested prices, as they may be developed. These revisions may be made at any time, but may not unreasonably increase your financial obligations to us. (Section 12.2).
- (3) Initial training of replacement managers at a location in the Indianapolis, Indiana or Salt Lake City, Utah area or other location designated by us in our sole and absolute right. You must pay training fees for replacement managers, including the fees to attend regional or national seminars. (Section 11.2(b)).
- (4) Reasonable efforts to negotiate, enter into and maintain, through volume purchasing, contracts for fixtures, equipment, supplies and services that we may determine to make available for purchase by you. (Section 14.3).
- (5) Review of proposed fixtures, equipment, supplies or service contracts to determine if they meet specifications under the COOKIE CUTTERS System. (Section 14.2).
- (6) Administration of a systemwide advertising and promotional fund. (Section 16.1). (See “Advertising and Promotion “ below)
- (7) Continuing assistance by personal visits, telephone, voice mail, facsimile, mail, newsletter, e-mail, or other methods. (Our policy and practice is to provide continuing assistance that we, in our sole and absolute right, deem reasonable and appropriate under the circumstances). (Section 10.1(i)).



## **Advertising and Promotion**

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

You must contribute to our System-wide Advertising and Promotional Fund (“Fund”). The current contribution is 1% of your Monthly Gross Sales, but we have the right to increase it to 3% of Monthly Gross Sales. During our most recent fiscal year (2014), we had no Fund to expend as we just became the Franchisor so we cannot report how such funds were expended.

In the future, the Fund may be used for creative, design, print, radio, and possibly television. Initially, coverage will be local, but as additional salons open within the same area, coverage will be regional (see Regional Advertising Cooperative below). We will create advertisements and promotional materials primarily in-house, but we may use advertising agencies.

We may use the fund for stylist recruiting and for stylist shows. Other than reimbursement for reasonable costs and overhead incurred in activities related to the administration or direction of the Fund (up to 15%), we will not receive any payment for providing products or services to the fund, but if we spend more than the contributions accumulated in the fund during any fiscal year, we will have the right to receive, on demand, reimbursement or credit during the same year or subsequent years to the extent of the excess expenditure.

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

We are not required to spend any amount from the Fund on advertising or promotions in your area. If any balance in the Fund account is not spent in the fiscal year in which they accrue, they will remain in the Fund for use in following years. We reserve the right to terminate the Fund at any time, but we will not do so until all monies in the Fund have been expended for the purposes described in the Franchise Agreement or returned to contributors on a prorated basis.

We will have the power to form an advertising council composed of franchisees that advises us on advertising and promotional policies. Initially, we will form the council and select, in our sole and absolute right, about 10 franchisees to be members. Later, franchisees will elect members to the council by region. The council will serve in an advisory capacity only, and we will reserve the right to change or dissolve it.

### **Local Advertising**

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



## Regional Advertising Cooperative

When there are 4 or more COOKIE CUTTERS businesses in the Area of Dominant influence (as determined by Arbitron Ratings Company or its successor) in which your franchised business is located, we may, in our sole and absolute right, require you to participate in a regional advertising cooperative (“Cooperative”) of COOKIE CUTTERS businesses (including those businesses owned by us) located in the Area of Dominant Influence. You will contribute to the advertising cooperative the amounts determined by the Cooperative, not to exceed 3% of the Gross Sales of your business for each quarter. Any contributions to a Cooperative that are not spent in the fiscal year in which they accrue will accumulate for use by the Cooperative in the next year.

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

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

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

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

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

## Computer Hardware and Software

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

You may obtain the computer, monitor, laser or ink jet printer, from any vendor, provided they are compatible with our software. You must purchase from our approved vendor the proprietary computer system developed and modified for us by Shortcuts Software Ltd.



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

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

### Confidential Operations Manual

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

### Site Selection

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

If you propose to Lease the premises for the franchised business, the lease for the premises must: (i) be subject to the Franchise Agreement and to our execution and prior written approval; (ii) not be inconsistent with the terms of the Franchise Agreement; (iii) provide for concurrent notice to us of, and our right to cure, your default under the lease; (iv) provide for your right to assign your interest under the lease to us without the lessor’s further consent, if the franchise expires or is terminated or repurchased; (v) authorize and require the lessor to disclose to us, on our request, sales and other information furnished to the lessor by you; (vi) provide that we will have the sole and absolute right on repurchase, termination or expiration of the franchise to assume the lease; (vii) not create any rights against or obligations on us; (viii) provide that the premises may only be used for the operation of the franchised business and that you may not assign or sublease all or any part of your occupancy rights without our prior written approval; (ix) provide that we may enter the premises at any time during normal business hours to enforce our rights under the Franchise Agreement or for routine visits; (x) provide that you and/or we may display our Marks according to our specifications in our confidential operations manual, as they may be modified in our sole and absolute right; and (xi) be delivered in executed form to us within 5 days after execution. Furthermore, as a Lessee you should attempt to get an exclusivity provision from the Lessor, wherein no other haircutting salon will be allowed in the mall, strip center or outlet area where your business is located.



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

We must accept or reject a site within a reasonable time after receiving written notice of your proposed location. If a site has not been located by you and accepted by us prior to execution of the Franchise Agreement, it will be your obligation to locate, within 120 days after execution of the Franchise Agreement, premises suitable for the operation of the business and acceptable to us, we may, at any time, terminate the Franchise Agreement and refund the initial franchise fee, less \$3,000 plus expenses incurred, to compensate us for our efforts and for our expenses (including the compensation of our personnel, and the reasonable transportation, meal and lodging expenses of those personnel when traveling to and from your area) incurred in connection with evaluating the proposed premises, training you or your personnel, or assisting you in any other manner after the execution of the Franchise Agreement. If you are delayed from locating suitable premises within 105 days, you must immediately provide us with either a written confirmation that you will locate suitable premises before the end of the 120-day period or a written request for extension. The request must state: (1) that a delay is anticipated; (2) the reasons which caused the delay; (3) the efforts that you are making to locate suitable premises; and (4) an anticipated date of compliance. In considering the request, we will not unreasonably withhold our consent to a delay up to a maximum of 60 days, if you have been earnestly looking for suitable premises. Your “earnestness” may be supported by your use of a broker, your communications and correspondence with us, and other similar factors. Any extension of the time for locating suitable premises will correspondingly extend the deadline for opening the franchised business.

### Opening of Franchised Business

You must open the franchised business within 9 months after signing the Franchise Agreement or paying any consideration for the franchise. Should circumstances beyond your control prevent you from opening within 9 months, you must immediately provide us with a written request to delay opening. The request must state: (1) that a delay is anticipated; (2) the reasons which caused the delay; (3) the efforts that you are making to proceed with the opening; and (4) an anticipated opening date. In considering the request, we will not unreasonably withhold our consent to a delay up to a maximum period of 60 days less the number of days of extension you may have previously received for locating suitable premises for the franchised business, if you have been diligently pursuing the opening.

The typical length of time between the execution of a Franchise Agreement and the opening of a franchisee’s business is expected to be between 6 to 9 months. Factors which may affect this time period include ability to obtain business licenses and permits, zoning and local ordinances, weather conditions, shortages, delayed installation of fixtures, equipment and signs, and finding and purchasing or leasing a suitable location.

### Training

We provide training to you as follows:



(1) You (or your managing shareholder or partner) and an original manager, if any, must successfully complete initial training at training and on-site locations in the Indianapolis, Indiana or Salt Lake City, Utah areas or any other location designated by us in our sole and absolute right. This training generally will include 5 days initial training including one Saturday. We reserve the right to require stylists to successfully complete relevant initial training classes. At your option, up to 2 additional management personnel may attend the initial training sessions. We are flexible in scheduling initial training to accommodate new franchisees and our personnel. There currently is no fixed (e.g., monthly or bi-monthly) training schedule. No training is successfully completed until you receive certification from us, and we may require you (or your managing shareholder or partner), each manager or stylist to be recertified on a regular basis. You will not be charged for initial training, except that you will be responsible for the travel, lodging, and meal expenses for trainees and any compensation or benefits due trainees during any training period.

(2) Your employees (other than an original manager if applicable) will be trained by you prior to the opening and during the initial operation of the franchised business.

(3) If the original or any succeeding manager leaves your employ, a replacement manager must successfully complete the next available initial training class, subject to scheduling by us.

(4) Each year, you (or your managing shareholder or partner) may be required to attend a regional or national seminar scheduled and conducted by us. The focus of the seminar generally will be discussion and review of new business, marketing and styling ideas and concepts. You must pay fees to attend regional or national seminars. The fee for such national or regional seminars is currently \$500, not including all wages and benefits and all travel, lodging and meal expenses of all attendees, which are also your responsibility. (Section 11.2(c)).

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

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



## TRAINING PROGRAM

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

We use the Operations Manual as our instructional materials. The hours devoted to each subject are estimates only and may vary substantially based on how quickly trainees grasp the material, their prior experience with the subject, and scheduling. The training will be under the supervision of Christy Fossett, who is disclosed in Item 2 above. Franchisor reserves the right to substitute or add instructors with equal experience such as a store manager, consultant or other representative. The instructors or any alternate we designate will have a minimum of 1 year of experience in the subject being taught.

## **ITEM 12 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. We may establish other franchised or company owned locations that may compete with your location.

You will operate one location and must obtain our written consent before relocating. You have no options, rights or first refusal or similar rights to acquire additional franchises in any other locations, unless you have purchased the right to three locations as described in Item 5.

We retain the right, in our sole discretion:

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



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

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

Continuation of your COOKIE CUTTER business is dependent on you maintaining a minimum gross sales level after the first 3 years of the initial term of your Franchise Agreement. That level is, for any 2 consecutive calendar quarters, 60% of the average gross sales for mall locations, if your location is in a mall, or for strip locations, if your location is in a strip center, of all franchised and company-owned locations in your region. If you fail to maintain that level of gross sales, it is a default under your Franchise Agreement, and we have the right to terminate your Franchise Agreement with notice but without an opportunity to cure.

### **ITEM 13 TRADEMARKS**

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

#### Federal and State Registration Applications

The principal trademarks used by us (“Marks”) include COOKIE CUTTERS CC (WITH DESIGN), which was registered on the Principal Register of the United States Patent and Trademark Office (“PTO”) on November 14, 1995, Registration Number 1935088. All required affidavits have been filed.

#### Determinations

There are no effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, or any state trademark administrator or court, any pending interference, opposition, or cancellation proceedings involving any of the above-referenced Trademarks. There are no other agreements currently in effect that significantly limit



our rights to use or license the use of the Trademarks listed in this section in a manner material to you. There are no infringing uses or superior previous rights known to us that can materially affect your use of the Trademarks in this state or any other state in which the franchised business is to be located. There is no pending material federal or state court litigation regarding our use or ownership rights in any Trademark.

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

### Protection of Rights

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

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

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

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

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



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

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

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

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

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

## **ITEM 14**

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

#### **Patents**

No patents are material to the franchise.

#### **Copyrights**

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

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

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

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



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

### **Proprietary Information**

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

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

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

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

You must have any manager and any supervisory employee execute a Confidentiality and Non-competition Agreement (Attachment 6 to the Franchise Agreement) in which he or she acknowledges the confidentiality of the COOKIE CUTTERS System, agrees not to use any information about the system for his or her own benefit without an appropriate license, and agrees not to compete in certain respects with your business and other franchisees' businesses. You also must have non-managerial employees execute a Nondisclosure-Noncompetition Agreement (sample attached as Attachment 7 to the Franchise Agreement). You must deliver a copy of such agreements to us within one week of their execution. Under our current Confidential Operations Manual, any manager and any employee who may come into physical contact with children must clear a personal and character background check (conducted by you at your expense) as described in our Confidential Operations manual and must also obey the rules of conduct toward children contained in the Manual.



If you are a corporation, limited liability company, or partnership, each shareholder, member and partner must personally guarantee your obligations under the Franchise Agreement and also agree to be personally bound by, and personally liable for breach of, every term of the Franchise Agreement. This guaranty is included as Attachment 4 to the Franchise Agreement.

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

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

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

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

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

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

**THE FRANCHISE RELATIONSHIP**

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

<b>Obligation</b>	<b>Provision in Franchise Agreement</b>	<b>Summary</b>
a. Length of the Franchise term	Section 3.1	10 years
b. Renewal or extension of the term	Section 3.2	2 successive 5-year terms



Obligation	Provision in Franchise Agreement	Summary
c. Requirements for Franchisee to renew or extend	Section 3.2	Pay renewal fee (See Item 6); sign new franchise agreement. The renewal agreement may contain materially different terms and conditions than your original contract, but the royalty fee will not be greater than the royalty fee that we then impose on similarly-situated renewing franchisees
d. Termination by Franchisee	Section 26.4	With cause, notice, opportunity for us to cure. You must be in compliance.
e. Termination by Franchisor without cause	None	
f. Termination by Franchisor with cause	Sections 26.1, 26.2, 26.3	With cause (automatic termination); with cause and notice; with cause, notice and 30 days to cure.
g. "Cause" defined – curable faults	Section 26.3	Failure to pay obligations when due, failure to report or properly maintain books and records; failure to obtain required approvals; misuse of System or Marks. We will give you notice and a 30 day cure period before terminating your franchise.
h. "Cause" defined – non-curable defaults	Sections 26.1, 26.2	Automatic Termination – No Notice: General assignment for creditors, adjudication of bankruptcy, court-appointed receivership, foreclosure suit not dismissed within 30 days, premises or equipment sold after levy, or conviction of crime of moral turpitude. Termination Effective Immediately Upon Notice: Insolvency; illegal conduct; material misrepresentation; repeated defaults; danger to public; abandonment; unauthorized transfer, violation of non-competition or confidentiality provisions; tax lien, levy or enforcement suit; under payment to us or underreporting in excess of certain amounts; failure after the 1st 3 years of your initial term to maintain minimum gross sales; loss of possession of premises, failure to open on schedule.

Obligation	Provision in Franchise Agreement	Summary
i. Franchisee's obligations on termination / nonrenewal	Section 27	No use of Marks, System, confidential information, materials; assign premises of franchised business to us (if we elect); de-identification; return or destruction of confidential information, materials, plans and records; assignment of telephone number(s) to us; customer and lists to us; final accounting; (see also (r)).
j. Assignment of contract by Franchisor	Section 25.1	No restriction on CCF's right to assign.
k. "Transfer" by Franchisee – definition	Section 25.2	Includes transfer of any interest in Franchise Agreement, assets or ownership change in you.
l. Franchisor's approval of transfer by Franchisee	Section 25.2	We have the right to approve all transfers, our consent not to be unreasonably withheld.
m. Conditions for Franchisor's approval of transfer	Sections 25.2(b), 25.3, 25.6	Payments current; general release; compliance with agreement; our consent to material terms and conditions of transfer; subrogation of transferor's rights; transferee qualification and training; transferee's execution of then-current agreement; transfer fee (see also (n)).
n. Franchisor's right of first refusal to acquire Franchisee's business	Section 25.5	We can match any offer.
o. Franchisor's option to purchase Franchisee's business	Section 27.3	We can purchase tangible assets, take assignment of lease on termination or expiration for the formula price described in the Franchise Agreement.
p. Death or disability of Franchisee	Section 25.6	On death or permanent incapacity of any person with interest in Franchisee, the executor, administrator or personal representative must transfer such interest to an acceptable third party within 180 days after assuming such capacity. If such interest is not disposed of within 60 days after this period, we may terminate the Franchise Agreement or purchase the franchise at fair market value.

Obligation	Provision in Franchise Agreement	Summary
q. Non-competition covenants during the term of the franchise	Sections 21.3, 21.4	During the term, you will not, without our prior written consent, own, operate or perform any similar business within a 25 mile radius of your location. During the term and for 1 year after expiration or termination, you will not, without our written consent, employ, engage any person who has been our employee within the prior 6 months.
r. Non-competition covenants after the franchise is terminated or expires	Sections 21.3, 21.4	For 2 years after the term, you will not, without our prior written consent, own, operate or perform any similar business within a 25 mile radius of your location. For 1 year after expiration or termination, you will not, without our written consent, employ, engage any person who has been our employee within the prior 6 months.
s. Modification of agreement	Section 28.3	The Franchise Agreement may not be modified except by written agreement signed by both parties.
t. Integration/merger clause	Section 28.1	The Franchise Agreement and related agreements are the entire agreement of the parties. Any representations not a part of the agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	Section 32	Agreement must be mediated and then arbitrated in accordance with the commercial mediation rules of the American Arbitration Association in the State of Utah.
v. Choice of forum	Section 32.3	Arbitration must be in Utah.
w. Choice of law	Section 29.6	Utah law applies.

## ITEM 18 PUBLIC FIGURES

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

## ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the Disclosure



Document. Financial performance information that differs from that included in Item 19 may be given only if (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

The following table presents unaudited information about the revenues and certain expenses of certain Cookie Cutters franchise operations for the calendar year 2015. The numbers in the table below represent 18 of the 22 Cookie Cutters franchised locations in the United States that have been operating for more than one year as of December 31, 2015. The four franchised locations not included did not report numbers to us. Franchised locations operating for less than one full calendar year are not included.

<u>Gross Sales</u>	<u># of Stores</u>	<u>Average Gross Sales</u>	<u>Median Gross Sales</u>	<u>Average Net Profit</u>	<u>Median Net Profit</u>	<u>Net Profit %</u>
Greater than \$275,000	4	\$295,969	\$284,390	\$90,647	\$82,995	30.6%
\$200,000 - \$275,000	4	\$222,585	\$223,086	\$54,740	\$59,306	24.6%
\$150,000 - \$200,000	7	\$174,465	\$177,855	\$37,328	\$35,472	21.4%
Less than \$150,000	3	\$113,031	\$119,191	\$9,895	\$8,962	8.8%
Total	<b>18</b>	<b>\$210,839</b>	<b>\$182,473</b>	<b>\$53,873</b>	<b>\$42,570</b>	<b>25.6%</b>

<u>Range</u>	<u>Low</u>	<u>High</u>
Gross Sales	\$90,281	\$338,385
Net Profit	\$2,257	\$125,829
Net Profit %	1.9%	37.2%

The following table presents unaudited information about the revenues and certain expenses of the Cookie Cutters company-owned location for the calendar year 2015. Because the company-owned location did not pay royalties, an expense of 5.5% of Gross Sales is built-in for comparison purposes.

<u>Gross Sales</u>	<u># of Stores</u>	<u>Gross Sales</u>	<u>Net Profit</u>	<u>Net Profit %</u>
Greater than \$275,000	1	\$371,368	\$151,052	40.7%

#### Item 19 Notes

- (1) **Expenses.** As used in Item 19, “**Expenses**” means the actual cost for products (customer refunds, cash discounts, charges for damaged products and other waste, as well as drop charges, packaging and shipping charges, certain supplies and other goods), labor and employee costs, marketing and advertising (radio, print, television and other advertising media as well as fliers, point of sale advertising, etc.), cost of utilities (water, gas, disposal, HVAC, telephone, etc.), franchise fees (royalties, ad fund, etc.), bank charges, computer equipment, rental fees, fines, rental costs, postage, property, insurance, uniforms, employee recruitment,



and other costs not hereinafter excluded. Expenses does not include compensation paid in cash distributions taken by the owner(s) of each Cookie Cutters franchise, debt payments, interest, amortization, depreciation, taxes and other extraordinary owner expenses.

- (2) **Gross Revenues.** As used in Item 19, “**Gross Revenues**” means that aggregate amount of all sales of Cookie Cutters services and products made and rendered in connection with the operation of a Cookie Cutters franchise, excluding all federal, state or municipal sales or use taxes collected from customers and paid to the appropriate taxing authority.
- (3) **Net Profit.** As used in Item 19, “**Net Profit**” means Gross Revenues minus Expenses as such terms are defined and described herein.
- (4) **Percentage of Net Profit.** As used in Item 19, “**Percentage of Net Profit**” means the Net Profit divided by Gross Revenues.

**Some outlets have sold or earned this amount. Your individual results may differ. There is no assurance that you’ll sell or earn as much.** Each franchise’s results may vary based on many factors including your own business acumen, location, demographics or other factors.

Except as outlined above, we do not furnish or authorize our salespersons to furnish any oral or written information to prospective franchisees concerning the actual or potential sales, costs, revenue or profits of a Cookie Cutters franchise. Written substantiation for this financial performance representation will be made available upon request.

## ITEM 20 OUTLETS AND FRANCHISEE INFORMATION

**Table No. 1  
Systemwide Outlet Summary for Years 2013 to 2015**

Outlet Type	Year	Outlets at Start of the Year	Outlets at End of the Year	Net Change
<b>Franchised</b>	2013	23	19	-4
	2014	19	20	+1
	2015	20	25	+5
<b>Company Owned</b>	2013	3	5	+2
	2014	5	3	-2
	2015	3	1	-2
<b>Total</b>	2013	26	24	-2
	2014	24	23	-1
	2015	23	26	+3



**Table No. 2**  
**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor) For**  
**Years 2013 to 2015**

State	Year	Number of Transfers
Utah	2013	0
	2014	2
	2015	0
Michigan	2013	0
	2014	0
	2015	0
Total	2013	0
	2014	2
	2015	0

**Table No. 3**  
**Status Franchised Outlets for Years 2013 to 2015**

State	Year	Outlets Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reason	Outlets End Year
Alabama	2013	0	0	0	0	0	0	0
	2014	0	0	0	0	0	0	0
	2015	0	1	0	0	0	0	1
Indiana	2013	5	0	0	0	2	1	2
	2014	2	6 <sup>1</sup>	0	0	0	0	8
	2015	8	0	0	0	0	0	8
Iowa	2013	1	0	0	0	0	1	0
	2014	0	0	0	0	0	0	0
	2015	0	0	0	0	0	0	0
Michigan	2013	1	0	0	0	0	0	1
	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
Missouri	2013	1	0	0	0	0	0	1
	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
Ohio	2013	8	0	0	0	0	0	8
	2014	8	0	0	0	0	1	7
	2015	7	0	0	0	0	0	7
Utah	2013	7	0	0	0	0	0	7
	2014	7	0	0	0	0	4	3
	2015	3	4 <sup>2,3</sup>	0	0	0	7	7
Totals	2013	23	0	0	0	2	2	19
	2014	19	6	0	0	0	5	20
	2015	20	5	0	0	0	0	25

**Note 1:** The outlets owned by our predecessor, which were listed as company-owned outlets in Table 4 at the beginning of 2014 are now listed as franchised outlets.

**Note 2:** Our franchised outlet in Providence, Utah temporarily closed in 2014 to relocate, and the outlet re-opened in Orem, Utah in 2015.

**Note 3:** Our affiliate, Ucanah, transferred two of its salons to franchisees in 2015 and now owns and operates one COOKIE CUTTERS salon in Utah listed as a company-owned outlet in Table 4.

**Table No. 4  
Status of Company-Owned Outlets for Years 2013 to 2015**

State	Year	Outlets Start of Year	Outlets Opened	Outlets Reacquired From Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets End Year
Indiana	2013	3	0	2	0	0	5
	2014	5	0	0	0	5	0 <sup>1</sup>
	2015	0	0	0	0	0	0
Utah	2013	0	0	0	0	0	0
	2014	0	3	0	0	0	3 <sup>1</sup>
	2015	3	0	0	0	2	1
<b>Totals:</b>	2013	3	0	2	0	0	5
	2014	5	3	0	0	5	3 <sup>1</sup>
	2015	3	0	0	0	2	1

**Note 1:** Our affiliate, Ucanah, owns and operates three COOKIE CUTTERS salons in Utah that are listed as company-owned outlets in Table 4 for 2014. In 2015, Ucanah sold two of these outlets to franchisees. The outlets owned by our predecessor, which were listed as company-owned outlets at the beginning of 2014 are now listed as franchised outlets in Table 3.

**Table 5  
Projected Openings as of December 31, 2015**

State	Franchise Agreements signed but Outlet not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected Company Owned Outlets in the Next Fiscal Year
Alabama	0	1	0
Arizona	0	1	0
California	0	3	0
Colorado	2	4	0
Idaho	0	0	1
Louisiana	0	2	0
Maryland	0	1	0



State	Franchise Agreements signed but Outlet not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected Company Owned Outlets in the Next Fiscal Year
Michigan	0	1	0
Nevada	0	1	0
<b>Total</b>	2	14	1

Attached as Exhibit “D” is a list of the names, addresses, and telephone numbers of all current franchisees and a list of the name, city and state and current business telephone number (or, if unknown, last known home telephone number) of every franchise who has had his or her franchise rights terminated, canceled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the license agreement during the previous twelve months or who has not communicated with us or our representative within the last 10 week period. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

In some instances, current and former franchisees sign provisions restricting their ability to speak only about their experience with CCF. You may wish to speak with current and former franchisees, but be aware that not all such franchisee will be able to communicate with you.

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

## ITEM 21 FINANCIAL STATEMENTS

Attached to this Franchise Disclosure Document are our audited fiscal year end financial statements as of December 31, 2015. We have not been in business for three years or more and cannot include all of the financial statements typically required by franchise rules.

## ITEM 22 CONTRACTS

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

- Site Addendum (Attachment 1)
- Entity Ownership Addendum (Attachment 2)
- Guaranty Agreement (Attachment 3)
- Lease Addendum (Attachment 4)



## **ITEM 23 RECEIPT**

The last page of the Franchise Disclosure Document, Exhibit “G,” is a detachable document prepared in duplicate, acknowledging receipt of the Franchise Disclosure Document by the prospective franchisee. You must sign both copies. Keep one copy for your records. Please return the other copy to us by mailing it to Cookie Cutters Franchising Inc., at 1495 East 3300 South, Salt Lake City, Utah 84106, or by faxing a copy of the signed receipt to Cookie Cutters Franchising Inc. at (801) 474-1367.



## EXHIBIT A

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

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

STATE	STATE ADMINISTRATOR/AGENT	ADDRESS
California	Commissioner of the Department of Business Oversight	320 West 4 <sup>th</sup> Street, Suite 750 Los Angeles, CA 90013-2344 (866) 275-2677
Hawaii (State Administrator)	Commissioner of Securities Dept. of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch	335 Merchant Street Room 203 Honolulu, HI 96813
Illinois	Illinois Attorney General	500 South Second Street Springfield, IL 62706
Indiana (State Administrator)	Indiana Securities Commissioner Securities Division	302 West Washington Street, Room E111 Indianapolis, IN 46204
Indiana (Agent)	Indiana Secretary of State	302 West Washington Street, Room E018 Indianapolis, IN 46204
Maryland (State Administrator)	Office of the Attorney General Division of Securities	200 St. Paul Place Baltimore, MD 21202-2020
Maryland (Agent)	Maryland Securities Commissioner	200 St. Paul Place Baltimore, MD 21202-2020
Michigan	Michigan Department of Attorney General Consumer Protection Division	Williams Building, 7th Floor 525 West Ottawa Street Lansing, MI 48909
Minnesota	Commissioner of Commerce Minnesota Department of Commerce	85 7th Place East, Suite 500 St. Paul, MN 55101-2198
New York (State Administrator)	Office of the New York State Attorney General Investor Protection Bureau Franchise Section	120 Broadway, 23rd Floor New York, NY 10271-0332
New York (Agent)	New York Secretary of State New York Department of State	One Commerce Plaza 99 Washington Avenue, 6 <sup>th</sup> Floor Albany, NY 12231-0001



<b>STATE</b>	<b>STATE ADMINISTRATOR/AGENT</b>	<b>ADDRESS</b>
North Dakota	Securities Commissioner	600 East Boulevard Avenue, 5 <sup>th</sup> Floor Bismarck, ND 58505-0510
Rhode Island	Director, Department of Business Regulation, Securities Division	1511 Pontiac Avenue John O. Pastore Complex – Building 69-1 Cranston, RI 02920
South Dakota	Department of Labor and Regulation Director Division of Securities Division of Securities	124 South Euclid, Suite 104 Pierre, SD 57501
Virginia (State Administrator)	Virginia State Corporation Commission Division of Securities and Retail	1300 East Main Street, 9th Floor Richmond, VA 23219-3630
Virginia (Agent)	Clerk of the State Corporation Commission	1300 East Main Street, 1st Floor Richmond, VA 23219-3630
Washington	Department of Financial Institutions Securities Division	150 Israel Road SW Tumwater, WA 98501
Wisconsin	Commissioner of Securities	Department of Financial Institutions Division of Securities 345 W. Washington Ave., 4th Floor Madison, WI 53703



**EXHIBIT B**

**FRANCHISE AGREEMENT AND RELATED AGREEMENTS**



**FRANCHISE AGREEMENT**

**BETWEEN**

**COOKIE CUTTERS FRANCHISING INC.**

a Utah corporation  
1495 East 3300 South  
Salt Lake City, Utah 84103  
Telephone: (877) 877-0775  
Website: [www.kidscuts.com](http://www.kidscuts.com)

**AND**

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

**Date of Franchise Agreement**

\_\_\_\_\_, 20\_\_\_\_



## FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (“Agreement”) is entered into by between and amongst Cookie Cutters Franchising Inc., a Utah corporation with its principal office at 1495 East 3300 South, Salt Lake City, Utah 84106 (hereinafter referred to as “Cookie Cutters” or “CC”), and \_\_\_\_\_ whose address is \_\_\_\_\_ (hereinafter sometimes referred to as “Franchisee”).

### **RECITALS:**

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

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

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

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

### **DEFINITIONS:**

1. **Advertising** - The advertising, promotional programs, public relations programs and marketing programs.
2. **Advertising Fund** - The fund derived from contributions by Franchisees and the Franchisor which shall be exclusively maintained and administered by the Franchisor or its designee for national and/or regional Advertising. Contributions from both types of Franchisees may be paid into the same fund.
3. **Commencement Date** - The date upon which the Franchise Business begins revenue production. The Commencement Date will usually be 1 week prior to the “Grand Opening:” and one week after hair cutter training commences. Pre-opening obligations of all parties to the



Agreement relate to the projected Commencement Date designated on the Summary Pages. Post opening obligations relate to the actual Commencement Date which will be noted on the Summary Page after the business actually opens.

4. **Due Date** - The date when all payments and statements due the Franchisor must be submitted on forms prescribed by the Franchisor.
5. **Effective Date** - The last date upon which the last of the parties to the Franchise Agreement executes it.
6. **Expiration Date** - The date on which the Agreement expires.
7. **Franchise** - The rights granted by the Franchise Agreement.
8. **Franchise** - The individual(s), corporation or other entity to which the Franchise is granted. The term Franchisee often includes the Shareholders or guarantors of a Franchise which is a corporation or partnership.
9. **Franchise Disclosure Document (“FDD”)** – the Franchisor’s Disclosure Document furnished to prospective franchisees as required by the Amended FTC Rule on Franchising.
10. **Franchisee’s Manager or Manager** - The individual approved by the Franchisor who shall be responsible for the operation of the Franchised Business.
11. **Franchised Business** - The Business operated pursuant to a license granted by the Franchise which utilizes the Names and Marks and the Cookie Cutters System.
12. **Franchised Hair Care Center** - See Franchised Business.
13. **Fund** - The Advertising Fund.
14. **Grand Opening Advertising** - An Advertising program conducted and coordinated by the Franchisor.
15. **Gross Sales** - The aggregate gross amount of all revenues from whatever source derived (whether in form of cash, credit, agreements to pay or other consideration including the actual retail value of any goods or services traded, bartered, or otherwise received by the Franchisee in exchange for any form of non-monetary consideration, whether or not payment is received at the time of sale or any such amount is proved uncollectable) from in conjunction with the Franchised Business. Whether such business is conducted in compliance with or in violation of the terms of the Franchise Agreement, Gross Sales includes all sales or products or services made from the Premises. Gross Sales includes proceeds received from “loss of business” insurance. However, Gross Sales does not include:
  - a) sales or use taxes collected by the Franchisee;



- b) the amount of any refunds or allowances made on products or services returned by customers;
  - c) returns to shippers, vendors and manufacturers;
  - d) proceeds derived from the sale of equipment or supplies used by the Franchisee in the conduct of its business and not provided for resale;
  - e) sales of products and services to other Cookie Cutters Franchisees and to the Franchisee's employees; and
  - f) sums received in settlement of claims or loss or damage to fixtures, equipment or leasehold improvement.
16. **Name and Marks** - Trademarks and trade names, service marks, associated logos, symbols and trade dress owned or licensed by the Franchisor, including those enumerated on Schedule 1 and other such marks, logos and names as the Franchisor may designate.
17. **Manager** - See Franchisee's Manager.
18. **Manual or Confidential Policies and Procedures Manual** - The various written instructions and confidential manuals, including amendments thereto, relating to the operation of the Franchised Business which are provided to the Franchisee by the Franchisor.
19. **Premises** - The site from which a Franchised Business operates as described on the Summary Pages.
20. **Shareholder** - Any person possessing a legal or beneficial interest or holding a share of stock of any kind or nature in the Franchise.
21. **Survivor** - A surviving spouse, heir or estate of any deceased person owning stock or any other interest in the Franchise.
22. **System or Cookie Cutters System** - The system is the plan and system developed by the Franchisor or relating to the operation of the Franchised Business, including, but not limited to, hair care products and services, selection, marketing, purchasing and inventory control methods, accounting forms, advertising, sales and promotional ideas, Franchise training, personnel training and other matters relating to the efficient operation and supervision of the Franchised Business and the maintenance of high quality standards.
23. **Termination Date** - The date a notice of termination becomes effective.
24. **Transfer** - To give away, sell, assign, pledge, lease, sublease, devise or otherwise transfer, either directly or by operation of law or in any other manner, the Franchise Agreement, the Premises, any of the Franchisee's rights or obligations there under, or any interest or shares of stock of any kind or nature in the Franchise or the Premises.



## **AGREEMENT:**

In consideration of the recitals above and of the terms below, CC and Franchisee agree:

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

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

1.2. The Franchise includes the right and obligation to use the complete System, as it exists or may be supplemented or modified during the term of the Franchise, as to the COOKIE CUTTERS services and products which Franchisee is entitled to market. Franchisee acknowledges that the System will continue to evolve in order to reflect changing market conditions and to meet new and changing consumer demands, and that variations and additions to the System may be required in order to preserve and enhance the public image of the System and to ensure the continuing operation efficiency of COOKIE CUTTERS businesses generally. Accordingly, Franchisee agrees that CC may, on notice and acting reasonably, add to, modify and change the System, including the adoption and use of new and modified service marks, trademarks, trade names, trade dresses, equipment of COOKIE CUTTERS services and products, but any modifications or changes may not unreasonably increase Franchisee’s obligations under this Agreement or place an excessive economic burden on the Franchised Business. Franchisee further agrees to promptly accept, implement, use and display in the operation of the Franchised Business all of those additions, modifications and changes at its expense.

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

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

2.1. Site. When Franchisee has located a site for the business acceptable to CC, the parties agree that the site will be identified in the Site Addendum (Attachment 1), which may be executed at or after the execution of this Agreement. If Franchisee has not located a site for the business at the time of execution of this Agreement, Franchisee shall be subject to the obligations outlined in Section 5.4. If the ownership of or lease for the premises of the business expires or terminates without fault of Franchisee, or if the premises are destroyed, condemned or otherwise



rendered unusable, or if in the sole and absolute judgment of CC there is a change in character of the site of the business sufficiently detrimental to its business potential to warrant its relocation, CC will grant permission for relocation of the business to another site acceptable to CC . Any relocation will be at Franchisee's sole expense.

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

### 3. TERM OF FRANCHISE

3.1. Initial Term. The Franchise will begin on the execution date of this Agreement and will continue for ten (10) years or for a period concurrent with the initial term or option period of the lease for the premises of the Franchised Business, whichever period is shorter, unless the Franchise is sooner terminated under Section 26.

3.2. Renewal Term. Franchisee will have the right to renew the Franchise for two successive terms of five (5) years each, if:

- (a) CC has not given Franchisee at least one hundred eighty (180) days before the expiration of the period term, written notice of CC's intention not to renew the Franchise:
  - (i) for good cause, including the failure of Franchisee to comply with any term of this Agreement or not cure any default noticed under Section 26;
  - (ii) because CC is withdrawing from the market area in its sole and absolute right;
  - (iii) because CC is exercising any then-current right to purchase the Franchised Business; or
  - (iv) because CC is permitting Franchisee, during the one hundred eighty (180) days before the expiration of the period term, to transfer the Franchised Business to a transferee meeting CC's then-current qualifications and requirements, or is permitting Franchisee after expiration of the period term to continue to operate its business at its location under a different trade name.
- (b) Franchisee is solvent (is able to pay its debts as they come due and has assets that are greater than its debts), has not abandoned the Franchised Business, is not operating the Franchised Business in a manner that endangers public health or safety, has not repeatedly committed defaults of this Agreement during the initial term which have been noticed by CC, has not repeatedly failed to submit timely reports to CC during the initial term, and has not repeatedly submitted false or incomplete reports to CC during the initial term;
- (c) Franchisee, or any principal officer or partner of Franchisee, if Franchisee is a corporation or partnership, has not been convicted of a felony or a crime involving moral turpitude, consumer fraud or any other offense that is reasonably likely, in the



sole and absolute judgment of CC, to have an adverse effect on the Marks, the System, the goodwill associated with the Marks or System, or CC's interest in the Marks or System; and

- (d) Franchisee has executed CC's then-current standard franchise agreement, which may contain terms substantially different from those in this Agreement, including different fees and advertising contributions, different training requirements, and a requirement to pay a renewal fee of ten percent (10%) of CC's then-current initial franchise fee for a comparable franchise, but which may not contain a requirement to pay an initial franchise fee similar to that payable under Section 9.1 or any renewal rights beyond those granted in this Section 3.2.

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

4.1. Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner), or a Manager who has successfully completed all required CC training, will personally manage the Franchised Business at all times.

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

#### **5. DEVELOPMENT AND OPENING OF BUSINESS**

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

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

- (a) Before leasing, purchasing or building out the premises of the Franchised Business, prepare and submit to CC for acceptance, which will not be unreasonably withheld, plans for the business (or any deviations from the plans) (including, but not limited



to, construction, dimensions, exterior design, materials, interior layout, equipment, installation, fixtures, furniture, signs and decorating)(which plans will comply with CC's specifications and recommendations for COOKIE CUTTERS business. In connection with the preparation and any modification of the plans, CC will provide Franchisee with assistance regarding the design and layout of the business, and the selection of equipment and supplies. After being accepted, the plans may be further modified only to the extent necessary to comply with applicable ordinances and building codes, and applicable permit, lease and deed requirements and restrictions. All plans and modifications will be subject to prior written acceptance by CC;

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

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



standards, which determination will be made and communicated to Franchisee within a reasonable time. CC will have the right to charge Franchisee a reasonable amount to cover the expenses incurred by it in connection with any testing or inspection. See Section 14.2.

5.4. Selection of Premises. If the premises of the business have not been located by Franchisee and accepted by CC prior to execution of this Agreement, it will be the obligation of Franchisee to locate, within one hundred twenty (120) days after execution of this Agreement, premises suitable for the operation of the business and acceptable to CC. If Franchisee is delayed from locating suitable premises within one hundred five (105) days, Franchisee must immediately provide CC with either a written confirmation that Franchisee will locate suitable premises before the end of the one hundred twenty (120) day period or a written request for an extension. The request must state: (1) that a delay is anticipated; (2) the reasons which caused the delay; (3) the efforts that Franchisee is making to locate suitable premises; and (4) an anticipated date of compliance. In considering the request, CC will not unreasonably withhold its consent to a delay, up to a maximum period of sixty (60) days, if Franchisee has been earnestly looking for suitable premises. Franchisee's "earnestness" may be supported by its use of a broker, its communications and correspondence with CC, and other similar factors. Any extension granted under this Section 5.4 will correspondingly extend the deadline for opening the Franchised Business under Section 5.5. CC will not unreasonably withhold acceptance of any premises that meet its minimum standards for demographic characteristics, traffic patterns, parking, the predominant character of the neighborhood, median income, competition from other businesses providing similar services or products in the area, proximity to other businesses, exclusivity granted to other franchises or developers of CC, the nature of other businesses in proximity to the premises and other commercial characteristics, and size, appearance and other physical characteristics of the premises. CC will give written notice of acceptance or rejection of the proposed site within a reasonable time after receiving Franchisee's written proposal and letter of intent or other evidence satisfactory to CC confirming Franchisee's favorable letter of intent or other evidence satisfactory to CC confirming Franchisee's favorable prospects of obtaining the proposed site. Franchisee acknowledges that CC's acceptance of any premises does not constitute any assurance that a COOKIE CUTTERS business will be profitable at those premises or more profitable at those premises in comparison to other premises. CC's acceptance is only an indication that the particular premises meet CC's minimum criteria. If Franchisee is unable to locate the acceptable premises within the period specified above, CC may, at any time, terminate this Agreement and refund the initial franchise fee, less \$3,000 plus expenses incurred, to compensate CC for its efforts and for CC's expenses (including the compensation of CC personnel, and the reasonable transportation, meal and lodging expenses of those personnel when traveling to and from the area of interest) incurred in connection with evaluating the proposed premises, training Franchisee or its personnel, or assisting Franchisee in any other manner after the execution of this Agreement.

5.5. Business Opening. Franchisee agrees to open the premises for business within nine (9) months after signing the Franchise Agreement or paying any consideration for the Franchise, but if Franchisee is delayed from opening within eight (8) months, Franchisee must immediately provide CC with either a written confirmation that Franchisee will open before the end of the nine (9) month period or a written request to delay opening. The request must state: (1) that a



delay is anticipated; (2) the reasons which caused the delay; (3) the efforts that Franchisee is making to proceed with the opening; and (4) an anticipated opening date. In considering the request, CC will not unreasonably withhold its consent to a delay, up to a maximum period of sixty (60) days, less the number of any days of extension Franchisee has previously received from locating suitable premises under Section 5.4, if Franchisee has been diligently pursuing the opening.

5.6. Grand Opening. Franchisee agrees to conduct a grand opening advertising and having a promotional program for the business during the first 45 days after opening the Franchised Business, and to expend at least \$5,000, or any lesser amount that may be permitted by CC in writing, on advertising and promotion during that period. This advertising and promotion program will be in addition to advertising and promotion conducted under Section 16.2 of this Agreement and will utilize marketing and public relations programs and media and advertising materials approved by CC. CC will furnish advice and guidance to Franchisee with respect to the grand opening advertising and promotion program.

5.7. Financing. Within fourteen (14) days after execution of this Agreement, Franchisee will submit a written plan for Franchisee's financing in a form reasonably acceptable to CC which will include details of the sources and terms of the financing and any other information or documents required by CC. Franchisee may not begin development of the Franchised Business until CC has accepted the plan. CC must give or withhold acceptance, in its sole and absolute right, by written notice to Franchisee within a reasonable time after CC receives the plan. Once CC accepts a plan, Franchisee must complete development of the business in accordance with it. Franchisee acknowledges that CC's acceptance of a financing plan does not constitute any assurance that the financing plan is adequate, favorable or not unduly burdensome. Acceptance is only an indication that a financing plan meets CC's minimum criteria. If an acceptable plan has not been submitted by Franchisee to CC within fourteen (14) days after execution of this Agreement, Franchisee will have a thirty (30) day cure period within which to submit an acceptable plan, after which period, CC may, in its sole and absolute right, terminate the Franchise and refund the initial fee, less \$3,000 plus expenses incurred.

## 6. CONTINUOUS OPERATION OF BUSINESS

6.1. Franchisee must operate the Franchised Business on a continuous basis throughout the year, and must be open for business each week for the minimum hours and minimum days specified in the Confidential Operations Manual.

6.2. Breach in Continuous Operation. During or any time after the occurrence of any breach in the continuous operation of the business, CC, or its designee, will have the right, but not the obligation, subject to the term of Franchisee's lease, to take possession of the business for the account of Franchisee and to operate the business in all respects as if it were Franchisee, provided that CC will not have the right to assign, transfer, pledge, encumber or otherwise dispose of any interest of Franchisee in the Franchised Business. In that event, Franchisee will pay CC reasonable compensation for its services. CC will have the right to terminate its possession and operation of the business at any time, in its sole and absolute right. For purposes



of this Section 6.2, “breach” will mean Franchisee’s failure to open for business for four (4) consecutive business days or for three (3) or more business days in any thirty (30) month period, without CC’s prior written consent.

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

## **7. LIMITATIONS ON ACTIVITIES OF BUSINESS**

7.1. In order to preserve the System and the identification of COOKIE CUTTERS businesses, operating under the Marks, Franchisee agrees that the Franchised Business will not engage in activities other than those approved under the System. Franchisee further agrees that is must obtain CC’s prior written consent to offer any services or sell any products other than those approved under the System.

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

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

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

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

9.1. Initial Franchise Fee. If this Agreement is not being executed as part of a renewal or transfer of the Franchise, Franchisee must pay to CC, by cashier’s check, on execution, an initial franchise fee of \$35,000. The initial franchise fee for the second location for which Franchisee enters into a franchise agreement is \$20,000. The initial franchise fee for each additional location thereafter for which Franchisee enters into a franchise agreement is \$10,000.

Except as specified below, this fee or any portion of the fee is nonrefundable and fully earned by CC when paid. CC may cancel this Agreement and refund the initial franchise fee, less \$3,000 plus expenses incurred, if Franchisee is unable to secure any license required for the operation of the business, or if Franchisee fails to locate a site acceptable to CC within four (4) months after execution of this Agreement. Any refund of the initial franchise fee will be reduced by the amount of any Reservation Deposit previously credited toward the initial franchise fee.

9.2. Initial Training Fee. Franchisee must pay to CC an initial training fee of \$2,500, which will cover the cost of training associated with two (2) individuals to attend CC’s initial



training program. The initial training fee does not cover costs and expenses incurred in attending the initial training program, including but not limited to, travel, lodging, meals and salary expenses. The initial training fee is due upon receipt of an invoice from CC approximately one week before the initial training begins. Initial training will not commence until the initial training fee is paid in full. The initial training fee is deemed fully earned and non-refundable upon receipt.

9.3. Royalty Fee. Franchisee must pay to CC a royalty fee equal to five percent (5%) of Franchisee's monthly Gross Sales (as defined in Section 9.10), by the tenth (10<sup>th</sup>) day of each month for the preceding month, by bank draft, as described in Section 9.15 below.

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

9.4. Advertising and Promotional Payments. See Section 16.

9.5. Training Fees. See Sections 11.2(b) and (d), 11.4 and 11.5.

9.6. Annual Seminar Fee. See Section 11.2(c).

9.7. Audit Fee. See Section 13.7.

9.8. Renewal Fee. If this Agreement is being executed as part of a renewal of the Franchise, Franchisee must pay to CC, on execution, a renewal fee equal to ten percent (10%) of CC's then-current initial franchise fee for a comparable franchise. This fee will be nonrefundable and fully earned by CC when paid.

9.9. Transfer Fee. See Section 25.2(b)(viii).

9.10. Interest and Late Fees. If any sum required to be paid by Franchisee to CC under this Agreement is not actually received by CC by the due date, that sum will bear interest calculated daily after the due date until paid at the lesser of a rate equal to one and one half percent (1.5%)



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

9.11. Gross Sales. For purposes of this Agreement, “Gross Sales” and/or “Monthly Gross Sales” shall have the meaning given in the definition section of this Agreement.

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

9.13. Equipment, Supply or Supplier Testing or Inspection, and Approval or Grant of Equipment, Supplies or Suppliers. See Section 5.3 and 14.2.

9.14. Certificate Program Support Fee. Franchisee must pay a fee of \$2 per month per location to support the first haircut certificate program. licensed from CC.

9.15. Server Support and Maintenance Fee. Franchisee agrees to pay a fee of \$18 per month to Franchisor for use in maintaining and repairing servers used to support Franchisee’s salon and the Cookie Cutters system.

9.16. Management Fee. See Section 25.7.

9.17. Bank Draft Plan. Franchisee shall make payments of the royalty fee and Advertising and Promotional Payments, and all other payments due Franchisor through a Bank Draft Plan on a bank account Franchisee is required to establish and maintain for the purpose of making payments to Franchisor. Franchisee shall execute such documents as may be required from time to time by Franchisor to permit Franchisor to withdraw from Franchisee's general operating checking account the amounts due Franchisor.

- (a) In the event Franchisee fails to submit required reports to Franchisor, Franchisor will withdraw an estimated amount for the royalty fee and Advertising and Promotional Payments, based on the average sales for the last two (2) reported months. If Franchisee fails to report sales, Franchisor will withdraw an estimated amount for the royalty fee and Advertising and Promotional Payments, based on the average sales, plus ten percent (10%) for the last two (2) reported months.



- (b) Franchisee may not make any change in its banking relationships, including any change in the account number of its general operating account, or any change in banks, without Franchisor's prior written approval, and without executing all documents and paying any out-of-pocket expenses required to authorize payments to Franchisor by bank draft from Franchisee's new bank account.
- (c) In the event any bank draft is declined, dishonored, or refused, due to insufficient funds, Franchisor will attempt another bank draft. In the event the subsequent bank draft is dishonored, Franchisee shall pay the Franchisor an assessment of \$25.00. Franchisee shall also immediately remedy the reason the bank draft was dishonored, and notify Franchisor that the bank draft will be honored.
- (d) In the event any bank draft is declined, dishonored, or refused, due to the bank account being closed, Franchisee shall pay the Franchisor an assessment of \$25.00 per transaction. Franchisee shall also provide

Franchisor new bank account information, execute all documents and pay any out-of-pocket expenses required to authorize payments to Franchisor by bank draft from Franchisee's new bank account.

- (e) In the event a bank draft is not honored after following the steps described above, Franchisee will, within five (5) days' notice from Franchisor, cure the default. In addition, Franchisee will be deemed to be in material breach of this Agreement and be subject to all the remedies available to Franchisor in this Agreement.

## **10. SERVICES AND PRODUCTS FURNISHED BY CC**

10.1. During the term of the Franchise, CC will provide the following:

- (a) Training programs and assistance as described in Section 11;
- (b) A Confidential Operations Manual as described in Section 12;
- (c) Updates to the Confidential Operations Manual as described in Section 12;
- (d) A non-specific store design for either a strip shopping center or a mall; specifications for fixtures, equipment, inventory, supplies and services used under the System, and continued efforts to negotiate purchasing agreements with suppliers for fixtures, equipment, inventory, supplies and services, as described in Section 14; artwork and specifications for interior and exterior signage; and logo materials;
- (e) Samples of initial advertising and promotional materials (ads, brochures, etc.), and assistance in implementing an initial advertising and promotional program;
- (f) Periodic efforts to report improvements in the System to Franchisee as they may be developed or acquired by CC in its sole and absolute right;



- (g) Manuals, catalogs and related materials other than the Confidential Operations Manual which CC, in its sole and absolute right, may select;
- (h) Assistance in the location and/or the negotiation for an acquired or leased site for the Franchised Business, including a site location guide manual and one (1) to two (2) days of training;
- (i) Continuing assistance by personal visits, telephone, voice mail, facsimile, mail, newsletters, E-Mail or other methods. CC's policy and practice is to provide continuing assistance that CC, in its sole and absolute right, deems reasonable and appropriate under the circumstances;
- (j) Preliminary merchandise assortment plan;
- (k) Assistance in locating suppliers whose fixtures, equipment, supplies and services meet CC's specifications; and
- (l) Merchandise schematic for display and presentation that Franchisee must follow.

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

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

## 11. TRAINING

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

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

- (a) CC will provide Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner) and Franchisee's original Manager, if any, or one (1) additional management personnel approved by CC, initial training for the operation of a COOKIE CUTTERS business, at a location in the Indianapolis, Indiana or Salt Lake City, Utah areas or any other location designated by CC in its sole and absolute right. This training generally will include five (5) days initial training including one Saturday. Franchisee (or if Franchisee is not an individual,



Franchisee's principal operating officer or partner) and Franchisee's original Manager, if any, or such other person approved by CC must successfully complete initial training to CC's satisfaction twenty-one (21) days or more before opening the Franchised Business. Franchisee must bear the cost of trainees' wages and benefits, and trainees' travel, lodging and meal expenses. CC reserves the right to require Franchisee's stylists to successfully complete relevant initial training classes. No training class is successfully completed until Franchisee receives certification from CC. CC may require Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner), each manager and each stylist to be recertified on a regular basis.

- (b) If the original or any succeeding Manager leaves the employ of Franchisee, a replacement Manager must successfully complete the next available initial training class at a location in the Indianapolis, Indiana or Salt Lake City, Utah area or any location designated by CC in its sole and absolute right, subject to scheduling by CC. Franchisee must pay CC its then-current training fees, and must bear the cost of the succeeding Manager's wages and benefits, and travel, lodging and meal expenses.
- (c) CC may conduct an annual seminar for its franchisees to discuss and review new business, marketing and hair care ideas and concepts. The seminar may be held on a regional, national or international basis. CC will provide Franchisee with notice of the time and place of the seminar, which time and place will be determined by CC. Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner) or Franchisee's Manager must attend the seminar. For each location owned by Franchisee, Franchisee must pay a nonrefundable fee (currently \$500) to CC and also must pay all wages and benefits, and all travel, lodging and meal expenses, of its attendees.
- (d) Franchisee (or if Franchisee is not an individual, Franchisee's principal operating officer or partner), Franchisee's Manager, if any, and Franchisee's stylists, must successfully complete remedial or follow-up training, if, in the sole and absolute judgment of CC, that training is necessary. As to that remedial or follow-up training, Franchisee must pay CC's then-current training fees, and must bear the cost of Franchisee's and its manager(s)' and stylists(s)' wages and benefits, and its and their travel, lodging and meal expenses. If remedial or follow-up training is held in Franchisee's territory, Franchisee also must bear the then-current per diem charges for CC's trainers, and the actual and reasonable travel, lodging and meal expenses of those trainers.

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

11.4. If CC's trainers are requested by Franchisee to travel outside of the Indianapolis, Indiana or Salt Lake City, Utah metropolitan area, to give any initial, remedial or follow-up



training, Franchisee must bear the actual and reasonable travel, lodging and meal expenses of those trainers.

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

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

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

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

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

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

12.5. Franchisee must treat the Confidential Operations Manual, any additional manuals or materials developed by CC and loaned to Franchisee that are designated as "Confidential", and



the information in those manuals and materials, as confidential, and must take all reasonable precautions to maintain those manuals' and materials' confidentiality. Franchisee may not, without CC's prior written consent, copy, duplicate, record or otherwise reproduce the Confidential Operations Manual or any additional manual or material developed by CC, in whole or in part, or otherwise make the same available to any person who is not bound by the confidentiality terms of this Agreement or who has not signed a separate confidentiality agreement (see Section 20.2).

### **13. ACCOUNTING PROCEDURES**

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

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

13.3. Franchisee must provide CC annually, within three (3) months after Franchisee's fiscal year end, with a statement of revenues, expenses and income (or loss) for the year, and of assets and liabilities as of the end of the year, which statement must be prepared in accordance with accounting methods acceptable to CC, consistently applied. At CC's option, it may require this statement to be prepared by an independent certified public accountant in accordance with the standards for a compilation or review. Simultaneously with this statement, Franchisee must provide CC with copies of all tax returns filed by Franchisee for the year as to the Franchised Business, including federal and state income tax returns and state sales or equivalent tax returns, and with business names, contact names, addresses and telephone numbers for all facilities at which COOKIE CUTTERS services and products were offered by Franchisee at any time during the year.

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

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

13.6. CC will have the right to use any financial or statistical information provided by Franchisee as CC deems appropriate. CC will not disclose any information shown in any tax



returns of Franchisee (other than information disclosed in other documents submitted to CC) except: (i) with Franchisee's permission; (ii) as required by law or compulsory order; or (iii) in connection with audits or collections under this Agreement.

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

13.8. During and for five (5) years after the term of the Franchise, and for any longer period during which any indemnification or monetary obligation or claim between the parties exists, is alleged, or is reasonably foreseeable, Franchisee must maintain and preserve all books, records and accounts of the Franchised Business for at least five (5) years after the close of the fiscal year to which the books, records and accounts relate.

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

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

- (a) CC may, in its sole and absolute right, require Franchisee to purchase from CC any affiliate or other designated source(s), certain proprietary products and materials, including: computer software for Franchisee's point of sale system; a software service contract; logo items; pre-numbered forms for receipts; certain private label retail and other merchandise; gift certificates (to be credited against royalty fees when redeemed); decor items (such as art work in the shape of an elephant head) and other items that CC will, in its sole and absolute right, designate in the future. Franchisee must upgrade its point of sale system as new enhancements are made to the system and has developments in software dictate changes in hardware.



- (b) Store design, fixtures, equipment, inventory, artwork, signage, supplies and services used by Franchisee must meet specifications prescribed by CC in the Confidential Operations Manual. The purpose of these specifications is to protect and maintain the goodwill of the System and the Marks.
- (c) Franchisee agrees that the Franchised Business will at all times maintain, carry and promote, as designated by CC, an adequate and representative inventory of all products and services permitted by CC, at least sufficient to meet customer demand.

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

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

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

14.4. To the extent CC is not the manufacturer of any equipment or supply which it may sell or provide to Franchisee, unless specifically stated otherwise in writing, CC does not provide



any warranty or guarantee to Franchisee or any third party, and Franchisee may not make any representation to the contrary to any third party. If CC is able to secure from any manufacturer any warranty, guarantee or assumption of liability which it is authorized to convey to Franchisee, it will so notify Franchisee.

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

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

15.1. Condition and Appearance of Business. The appearance and decor of a COOKIE CUTTERS business is part of CC's trade dress. Franchisee agrees to maintain the condition and appearance of the business consistent with CC's trade dress and the image of the business as a clean, attractive, modern, sanitary, convenient and efficiently operated store selling high quality products. If at any time, in CC's reasonable judgment, the general state of repair, appearance or cleanliness of the premises of the business or its equipment, fixtures, furniture, signs or decor does not meet CC's standards, CC will so notify Franchisee, specifying the action to be taken by Franchisee to correct the deficiency. If Franchisee fails or refuses to initiate, within ten (10) days after receipt of notice, and then continue, a bona fide program to undertake and complete any required maintenance within the timetable set by CC, its failure or refusal will be considered a default for which CC may terminate the Franchise. In addition, CC will have the right, but will not be obligated, to enter the premises of the business and effect required repairs, painting, decorating and/or replacements of equipment, fixtures, furniture, signs or decor on behalf of Franchisee, and Franchisee will have the obligation to pay the entire cost to CC on demand. Franchisee's obligation to initiate and continue any required maintenance will be suspended during any period in which the maintenance is impractical due to war, civil disturbance, natural disaster, labor dispute or other event beyond Franchisee's reasonable control.

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

15.3. Business Refurbishing. Franchisee agrees to refurbish the business (in addition to regular maintenance and repair) as CC may require, no more frequently than every five (5) years, during the initial and any renewal terms, to maintain or improve the appearance and efficient operation of the business and/or increase its sales potential. Refurbishing may include: (i) replacement of worn out or obsolete equipment, fixtures, furniture, signs and decor; (ii) the substitution or addition of new or improved equipment, fixtures, furniture, signs and decor; (iii) redecoration; (iv) repair of the interior and exterior of the premises and repair and resurfacing of parking facilities; and (v) structural modifications and remodeling of the premises. Franchisee will not be required to make aggregate expenditures for refurbishing in excess of two percent (2%) of the Gross Sales of the business from the date of its opening to the date of any required



refurbishing or, except in connection with the renewal of the Franchise, to effect any refurbishing of the business during the last twelve (12) months of the initial term or any renewal term of the Franchise.

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

## 16. ADVERTISING AND PROMOTION

16.1. Systemwide Fund. Recognizing the value of marketing and the importance of the standardization of promotions and public relations programs to the furtherance of the goodwill and public image of the System and the Marks, Franchisee agrees to contribute, on a monthly basis during the term of the Franchise, one percent (1%) of Franchisee's monthly Gross Sales to a systemwide advertising and promotional fund ("Systemwide Fund"), via the Bank Draft procedure set forth in Section 9.15. CC has the right to increase Franchisee's contribution to the Systemwide Fund to up to three percent (3%) of its monthly Gross Sales (as determined by CC in its sole and absolute right). The Systemwide Fund will be maintained and administered as follows:

- (a) Franchisee will contribute to the fund on or before the 10th day of each month based on its Gross Sales for the preceding month.
- (b) CC's company-owned COOKIE CUTTERS businesses will make contributions to the fund on a basis at least equal to that described in Section 16.1.
- (c) CC will direct all advertising and promotional programs, with discretion over the approval of agencies, spokespersons, creative concepts, materials, media placement and allocation used in the programs. Franchisee agrees that the fund is intended to maximize general public recognition and acceptance of the Marks for the benefit of the System, and that CC and its designees undertake no obligation in administering the fund to make expenditures for Franchisee which are equivalent or proportionate to its contributions, or to ensure that Franchisee benefits directly or pro rata from the placement of advertising.
- (d) Franchisee agrees that the fund may be used for stylist recruiting and for stylist shows, and to meet the costs of researching, preparing, maintaining, administering and directing advertising and promotional materials and programs (including the costs of preparing and conducting television, radio, magazine, newspaper, direct mail and coupon advertising campaigns, and other public relations activities; employing advertising agencies; and providing promotional brochures and other marketing materials to franchisees in the System). All sums contributed to the fund will be maintained in a separate account from CC's general funds and will not be used to defray CC's general operating expenses, except for reasonable costs and



overhead incurred in activities related to the administration or direction of the fund (up to fifteen percent (15%)), including conducting market research, preparing and distributing advertising and promotional materials, and collecting and accounting for contributions to the fund.

- (e) If CC expends less than the total of all contributions to the fund during any fiscal year, it will have the right to retain those contributions for use in subsequent years. If CC expends more than the contributions accumulated in the fund during any fiscal year, it will have the right to receive, on demand, reimbursement or credit during the same year or subsequent years to the extent of the excess expenditure.
- (f) An unaudited summary report on the operation of the fund will be prepared annually, and will be made available to Franchisee upon request ninety (90) to one hundred twenty (120) days after fiscal year end.
- (g) Although the fund is intended to be of perpetual duration, CC retains the right to terminate the fund. The fund will not be terminated, however, until all contributions to the fund have been used for the purposes described above or returned to contributors on a prorated basis.

#### 16.2. Franchise Advertising.

- (a) Franchisee will spend exclusively for local advertising and promotion of the Franchised Business (excluding classified telephone directory listings and advertising discounts, coupon redemptions and the cost of services or products given without charge) not less than one percent (1%) of the Gross Sales of the Franchised Business for every quarter. CC reserves the option, in its sole and absolute right, to raise the required percentage up to five percent (5%). Exceptions can be made only with CC's prior written consent. Without limiting this obligation, Franchisee will endeavor to spend during each calendar month the amount designated by CC equal to one percent (1%) (with an option by CC to raise up to five percent (5%) in its sole and absolute right) of the Franchised Business's Gross Sales for the month. Franchisee will submit quarterly verification, in a form prescribed by CC, of its expenditures for advertising and promotion for the previous calendar quarter. Amounts paid to a regional advertising cooperative by Franchisee under Section 16.2(b) will be credited toward Franchisee's local advertising expenditure obligation. Amounts spent for local advertising and promotion of the business will not be credited toward Franchisee's local advertising expenditure obligation under this Agreement to the extent that Franchisee is reimbursed for the expenditures or the expenditures are made by a supplier of the business. In addition, if a majority of franchisees in Franchisee's market decide to undertake supplemental advertising over and above what is specifically required under this Agreement, Franchisee must participate on a pro rata basis. For example, Franchisee may be required to jointly advertise in a classified telephone directory listing.



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

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

## 17. INSURANCE

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

- (a) Worker's compensation or similar insurance as required by the law of the state or jurisdiction in which Franchisee is engaged in business. This insurance must be maintained for trainees, as well as for those employed or engaged in the operation of the Franchised Business.
- (b) "All risk" business personal property insurance covering one hundred percent (100%) of all costs of rebuilding the location, including the replacement value of all furniture, fixtures, equipment and inventory located at the premises of the business, and providing business interruption insurance covering at least 1 full year of



interruption, and glass, sign, electronic data processing, theft and employee dishonesty coverages at least equal to the coverages of insurance specified in the Confidential Operations Manual.

- (c) Comprehensive general liability insurance providing \$1 million per occurrence and \$2 million aggregate coverage on a combined single limit basis, subject to a maximum deductible of \$250 per occurrence, and \$5,000 per person medical payment coverage, including broad form personal injury, property damage (including fire, extended coverage and vandalism), product liability, contractual liability and advertising injury coverage.
- (d) Products and completed operations insurance with the same limits as your comprehensive general liability insurance.
- (e) Professional liability insurance providing \$1 million aggregate coverage.
- (f) If Franchisee uses or requires or permits its employees or agents to use automobiles in the operation of its business, automobile liability insurance for owned, hired and non-owned automobiles providing \$1 million per occurrence coverage.

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

17.3. Each insurance policy maintained by Franchisee for the Franchised Business must: name CC, and CC's affiliates, successors, assigns, shareholders, partners, officers, directors, employees and agents as additional insureds on a primary basis; require the insurer to defend each person or entity if there is a claim provided that any liability coverage afforded applies separately to each person or entity against which a claim is brought as though a separate policy had been issued to that person or entity; contain no provision which limits or reduces coverage if there is a claim by one or more additional insureds, or by reason of any insurance which may be maintained by CC and provide coverage for Franchisee's indemnification obligation under Section 24.2 of this Agreement. Coverage for the additional insureds will apply on a primary basis irrespective of any other insurance, whether collectable or not. All insurance policies must be issued by insurance companies with performance ratings of at least A+ as rated in the most recent edition of Best's Insurance Reports or comparable publication.

17.4. Within thirty (30) days after opening the Franchised Business and then annually when annual financial statements are provided, Franchisee must furnish to CC a then-current copy of each insurance policy, including all amendments and endorsements, evidencing the limits noted above or as then required, and proof of premium payments, and providing that the insurance will



not be canceled, amended or modified without thirty (30) days' prior written notice to CC, together with evidence of payment of premiums.

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

17.6. Franchisee's business interruption insurance must at least cover payments of its royalty fees and its contributions as to the systemwide advertising and promotional fund. Coverage for these payments and contributions must be determined by a formula equivalent to the amounts of payments or contributions over the 6-month period prior to the business interruption.

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

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

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

18.3. Franchisee must promptly notify CC of the commencement of any action, suit or proceeding, or of the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality, that may adversely affect the operation or financial condition of the Franchised Business.

18.4. If there is any bona fide dispute as to any liability for taxes assessed or other indebtedness, Franchisee may contest the validity of the amount of the tax or indebtedness in accordance with procedures of the taxing authority or applicable law; however, Franchisee may not permit a tax sale or seizure by levy or execution or similar writ or warrant, or attachment by a creditor to occur against the premises of the Franchised Business or any of its improvements.

## **19. PROPRIETARY MARKS**



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

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

19.3. Franchisee agrees that when any Mark is affixed to any packaging or point of sale display, or is used in advertising or promotional materials, the Mark will be accompanied either by an appropriate notice immediately following the Mark ("TM" if on a product packaged and "SM" if advertising a service) or by an asterisk immediately following the Mark and the legend "Service" mark or trademark of COOKIE CUTTERS FRANCHISING INC. (or other appropriate corporate name) printed on or in the package, display, advertisement or material. A suitably abbreviated form of the legend, approved by CC, may be used where space restrictions so require. After a Certificate of Registration is received by CC from the United States Patent and Trademark Office for any Mark, the symbol "®" will be substituted for the notices described above, and the word "Registered" will precede the word "service" in the legend described above, as required by written notice from CC to Franchisee.

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



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

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

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

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

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

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

20.1. Franchisee acknowledges that the System involves trade secrets owned by CC and that, during its relationship with CC, Franchisee will acquire knowledge of confidential information, including know-how, sales, organizational, operational and other information concerning the System.

20.2. Franchisee agrees that, without CC's prior written consent, it will never either during or after the term of the Franchise, use or allow the use of any trade secret or confidential information except in connection with the operation of the Franchised Business by persons actively involved in the operation of the business. Franchisee further agrees that it will not disclose the contents of any manuals, plans, records or other documents relating to the Franchised Business to any third party, except a party who is actively involved in the operation of the business and who has a valid need for disclosure. Any third party or employee to whom a



trade secret or confidential information is disclosed will be informed that the trade secret or confidential information is confidential and proprietary to CC and that it may not be used except under a franchise agreement with CC. Franchisee must have each of its Managers, supervisory employees and persons attending initial, remedial or follow-up training enter into a Confidentiality and Noncompetition Agreement in a form approved by CC in its reasonable discretion.

20.3. Franchisee must not disclose confidential information and/or financial information to CC, or the Franchised Business to any competitor or potential competitor of CC or of any CC franchisee or area developer. Franchisee must keep records subject to inspection by CC, identifying all persons to whom Franchisee reveals the financial information, and must have each person sign a confidentiality agreement in a form approved by CC in its sole discretion.

20.4. Franchisee agrees to promptly reveal to CC discoveries, inventions, innovations or improvements made by Franchisee or any of Franchisee's Managers, instructors, employees or independent contractors relating to materials, devices, methods or processes in any way connected with the System, and further agrees that all proprietary interests in the information, materials, devices, methods, techniques, know-how and processes utilizing those discoveries, inventions, innovations and improvements will be the property of CC.

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

## **21. NONCOMPETITION**

21.1. Unless otherwise specified in this Agreement, the term "Franchisee" in this Section 21 includes, collectively and individually, each shareholder, partner, officer and director, and each direct or indirect holder (and each shareholder, partner, officer or director of each holder) of any beneficial interest in Franchisee.

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

21.3. Franchisee agrees that during the term of the Franchise, and for an uninterrupted period of one (1) year after repurchase, expiration or termination of the Franchise, regardless of the cause of repurchase, expiration or termination, Franchisee will not, without the prior written



consent of CC, directly or indirectly, for itself, or through, on behalf of or in conjunction with any person or entity, employ, engage as an independent contractor, or seek to employ or engage as an independent contractor, any person who, within the prior six (6) months, has been an employee of CC or any CC franchisee, area developer or subfranchisor, or induce or seek to induce any person who is an employee of CC or any CC franchisee, area developer or subfranchisor to leave his or her employment.

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

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

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

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



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

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

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

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

## **22. INSPECTION BY CC**

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

22.2. During any inspection, Franchisee agrees to cooperate fully and to give any assistance reasonably requested. Promptly after receiving notice of any deficiencies detected in an inspection, Franchisee agrees to take steps necessary to correct the deficiencies, including if necessary the temporary closing of the Franchised Business. Without limiting CC's other rights



and remedies, CC will have the right, if Franchisee fails or refuses to act promptly, to make or cause to be made any required corrections and to charge the costs of correction to Franchisee.

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

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

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

## **24. INDEMNIFICATION**

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

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



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

24.4. The indemnification obligations of CC and Franchisee will survive the expiration or termination of the Franchise for as long as any potential for liability under any applicable law, rule, ordinance, statute or judicial decision remains. In this regard, to the maximum extent permitted by law, CC and Franchisee each waives the effect of any statute of limitation which would, by lapse of time, limit its indemnification obligations.

## 25. TRANSFERS OF INTEREST

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

25.2. Transfer by Franchisee.

- (a) Franchisee acknowledges that its rights and obligations under this Agreement are personal to Franchisee, and that CC has granted the Franchise in reliance on Franchisee’s and/or its principals’ business skill, financial capacity, personal character, and reputation for honesty, integrity and fair dealing. Accordingly, Franchisee, any immediate or remote successor to any part of Franchisee’s interest in Franchisee, this Agreement, any related agreements, the Franchise or the Franchised Business, any shareholder if Franchisee is a corporation, or any general or limited partner (including any person or entity which controls, directly or indirectly, any general or limited partner) if Franchisee is a partnership, may not transfer any interest in Franchisee, this Agreement, any related agreement, the Franchise or the Franchised Business, without the prior written consent of CC. Any purported transfer not having the prior written consent of CC, including any purported transfer to a creditor, will be null and void.
- (b) CC will not unreasonably withhold its consent to a transfer of any interest in Franchisee, this Agreement, any related agreement, the Franchise or the Franchised Business, but if a transfer, alone or together with other previous, simultaneous or proposed transfers, would have the effect of transferring either a controlling interest in or operating control of Franchisee, this Agreement, any related agreement, the Franchise or the Franchised Business, CC may, in its sole and absolute right, require as conditions to its consent that:
  - (i) Franchisee is in compliance with the terms of this Agreement;



- (ii) The transferee (including any person with a beneficial interest in the transferee if it is a partnership or corporation) has demonstrated to CC that it meets the then-current standards which CC would normally apply to any prospective franchisee. The transferee, for example, has demonstrated that it meets CC's educational, personal, managerial and business standards; possesses a good moral character and a good business reputation; has the aptitude and ability to conduct the Franchised Business (as may be shown by prior related experience); has adequate financial resources and capital to operate the Franchised Business; is financially responsible and has a good credit rating; will be likely in CC's sole and absolute judgment to comply with the terms of this Agreement or CC's then-current standard franchise agreement and Confidential Operations Manual; and has no direct or indirect connection with any actual or potential competitor of CC or any CC franchise;
- (iii) Franchisee's debts to CC and others relating to the Franchised Business have been satisfied;
- (iv) Franchisee and the transferor have executed a general release, in a form satisfactory to CC, of any claims against CC and its partners, shareholders, officers, directors, employees and agents, in their corporate and individual capacities;
- (v) The transferee (including any person with a beneficial interest in the transferee if it is a partnership or corporation) has entered into a written transfer agreement, in a form satisfactory to CC, assuming and agreeing to discharge Franchisee's agreement, and/or the transferor's obligations under this Agreement and any related agreements;
- (vi) The transferee (including any person with a beneficial interest in the transferee if it is a partnership or corporation) has entered into a written transfer agreement, in a form satisfactory to CC, assuming and agreeing to discharge Franchisee's and/or the transferor's obligations under this Agreement and any related agreements;
- (vii) The transferee and its Manager, if any, have agreed to successfully complete (at the transferee's expense and to CC's satisfaction) any then-current training programs;
- (viii) Franchisee or the transferor has paid a transfer fee equal to thirty (30%) of CC's then-current initial franchise fee for a comparable franchise, plus full reimbursement for any actual and reasonable travel, lodging and meal expenses incurred by CC in connection with the transfer;
- (ix) CC has decided not to exercise its right of first refusal, if any, under Section 25.5;



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

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

- (a) The corporation's or partnership's activities will be confined exclusively to operating the Franchised Business;
- (b) Franchisee will own a majority stock interest or partnership interest in the transferee corporation or partnership, and will act as its principal operating officer or partner;



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

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

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

25.5. CC's Right of First Refusal.

- (a) If Franchisee or any other person or entity at any time determines to sell an interest in Franchisee, the Franchise or the Franchised Business, a true and complete copy of the offer (and any proposed ancillary agreements) will immediately be submitted to CC by Franchisee or the other person or entity involved. The offer must apply only to an interest in Franchisee, the Franchise or the Franchised Business. It must not include the purchase of any other property or rights of Franchisee (or its shareholder or partner), but if the offeror proposes to buy any other property or rights of Franchisee (or its shareholder or partner) under a separate, contemporaneous offer, the price and terms of purchase offered to Franchisee (or its shareholder or partner) for the interest in Franchisee, the Franchise or the Franchised Business will reflect the bona fide price offered and will not reflect any value for any other property or right. CC will have the right, exercisable by written notice delivered to Franchisee or the person or entity involved within 30 days after receipt of the copy of the offer, to purchase the interest for the price, and on the terms and conditions contained in the offer, but CC may substitute cash, a cash equivalent, or marketable securities of



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

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

25.6. Transfer On Death, Permanent Incapacity or Dissolution. On the death or permanent incapacity of any person with an interest in Franchisee, this Agreement, any related agreement, the Franchise or the Franchised Business, or on the dissolution of Franchisee if it is a corporation or partnership, the executor, administrator, personal representative or trustee ("personal representative") of that person or entity will transfer his, her or its interest to a third party acceptable to CC within one hundred eighty (180) days after assuming that capacity. Any transfer of this type, including a transfer by devise or inheritance, will be subject to the same requirements as other transfers under this Agreement, but if the transfer is to be a spouse, child or parent, the fee required under Section 25.2(b)(viii) will not be required. If the personal representative is unable to meet these conditions, the personal representative will have an additional sixty (60) days to dispose of the interest, which disposition will be subject to the requirements for transfers in this Agreement, including the requirements of this Section 25. If the interest is not disposed of within sixty (60) days, CC may terminate this Agreement, or may exercise an option to purchase the Franchised Business at fair market value, determined by



reference to the income and asset value of the Franchised Business as a going concern, but the earnings multiple used to determine the going concern value will be reduced to exclude any goodwill associated with Franchisee's use of the Marks. The going concern value, which will be determined as of the date of the transfer, will be payable in cash or cash equivalent at closing, unless otherwise agreed by the parties. If the parties fail to agree on a going concern value, three appraisers will be designated (one by Franchisor, one by the personal representative, and one by the first two appraisers), and their determination will be binding. The parties will share the appraisers' fees and expenses equally.

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

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

25.9. Public or Private Offering. Securities of Franchisee or a person or entity owning a direct or indirect equity interest in Franchisee, the Franchise or the Franchised Business may be offered to the public in a private or public offering only with the prior written consent of CC (whether or not CC's consent is required under Section 25.2), which consent will not be unreasonably withheld. The terms of Section 20, including Section 20.03, apply to offerings under this Section 25.9. No offering will imply (by use of the Marks or otherwise) that CC is participating in an underwriting, issuance or offering of securities. Franchisee will reimburse CC for its reasonable expenses incurred in connection with the offering or proposed offering (including attorneys' fees which the prevailing party may seek to recover). The prospectus or other literature utilized in any offering must contain the following language in bold-face type on its first textual page:

**“NEITHER COOKIE CUTTERS, INC. NOR ANY AFFILIATE IS DIRECTLY OR INDIRECTLY THE ISSUER OF THE SECURITIES OFFERED, AND NEITHER**



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

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

## **26. DEFAULT AND TERMINATION**

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

26.2. Termination upon Notice. Except as may be prohibited by federal bankruptcy law or applicable state law, Franchisee will be in default and CC may, in its sole and absolute right, terminate the Franchise, without giving Franchisee any opportunity to cure the default, on giving at least ninety (90) days written notice of termination to Franchisee, if:

- (a) Franchisee is insolvent (is unable to pay its debts as they come due or has debts that are greater than its assets) and not otherwise subject to automatic termination under Section 26.1;
- (b) Franchisee, without CC’s prior written consent, abandons the Franchised Business (i.e., Franchisee fails to open for business for four (4) consecutive business days or for three (3) or more business days in any three (3) month period);
- (c) Franchisee (or a principal officer, shareholder or partner of Franchisee, if Franchisee is a corporation or partnership) is convicted of a felony, a crime involving consumer



fraud, or any other crime that is reasonably likely, in the sole and absolute judgment of CC, to have an adverse effect on the System, the Marks, the goodwill associated with the System or the Marks, or CC's interest in the System or the Marks);

- (d) The operation of the Franchised Business is creating a threat or danger to public health or safety;
- (e) Franchisee has repeatedly failed to make timely payments of royalty fees or any other monies owed to CC, or has repeatedly committed defaults of this Agreement, within twelve (12) months of any prior default for which CC has given Franchisee written notice;
- (f) Franchisee knowingly makes a material false or incomplete statement in any report submitted to CC, including underpayment or underreporting any amount owed to CC, its affiliates or subsidiaries by five percent (5%) or ten percent (10%) twice in any twenty four (24) month period, or by ten percent (10%) or more for any one (1) month period;
- (g) CC discovers that the Franchisee knowingly made a material false or incomplete statement to CC to obtain the Franchise;
- (h) Franchisee fails after the first three (3) years of the initial term, to maintain gross sales for any two (2) consecutive three (3) month periods, at least equal to sixty percent (60%) of the average gross sales for mall locations, if the location is in a mall, or for strip locations, if the location is in a strip, of all franchised and company-owned locations in Franchisee's region (if the Franchised Business is the only one in its region, then the standard for calculating average gross sales will be sixty percent (60%) of the business's gross sales for the prior year) (CC may, in its sole and absolute right, group locations other than by region in calculating the average gross sales figure);
- (i) Franchisee or any other person or entity purportedly transfers any interest contrary to Section 25;
- (j) Franchisee participates in in-term competition contrary to Section 21;
- (k) Franchisee improperly discloses the contents of the Confidential Operations Manual, or any other information learned or received under this Agreement and designated as "Confidential", contrary to Sections 12 or 20;
- (l) An approved transfer is not effected following death, permanent incapacity or dissolution as required by Section 25.6;
- (m) Franchisee suffers any federal, state or local tax lien, levy or suit to enforce the same, brought against Franchisee or Franchisee's property;



- (n) Franchisee suffers cancellation of or fails to renew or extend the lease for, or otherwise fails to maintain possession of, the premises of the Franchised Business, or if the premises are destroyed, condemned or otherwise rendered unusable, or if CC notifies Franchisee that there is a change in character of the site of the business sufficiently detrimental to its business potential to warrant its relocation, and Franchisee fails to secure a suitable alternative premises acceptable to CC and reopen for business within ninety (90) days of any one of these occurrences (or within one hundred fifty (150) days if the occurrence could not have been anticipated); or
- (o) Franchisee fails to either locate suitable premises for the Franchised Business or to open for business within the time periods specified in Sections 5.4 and 5.5 of this Agreement.

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

- (a) Franchisee fails, refuses or neglects to pay to CC or any affiliated company, the systemwide fund, or any cooperative any sum owing when due, or to submit to CC any required information when due;
- (b) Franchisee fails to maintain any standard or specification or procedure required to be maintained or followed by this Agreement or the Confidential Operations Manual;
- (c) Franchisee fails, refuses or neglects to obtain CC's prior written acceptance, approval or consent as required by this Agreement;
- (d) Franchisee misuses or makes any unauthorized use of the System or the Marks, or otherwise materially impairs the goodwill associated with or CC's rights in the System or the Marks;
- (e) Franchisee or its Manager fails to comply with the requirement of personal attention in Section 4;
- (f) Franchisee fails to maintain books and records as specified in the Confidential Operations Manual and other manuals, and in a manner which permits an accurate determination of Gross Sales and Franchisee's Point of Sale and Management Information Systems activities;



- (g) Franchisee fails or refuses to initiate and continue a bona fide program to undertake and complete any required maintenance or refurbishing within the timetable set by CC according to Sections 15.1 and 15.3 of this Agreement;
- (h) Franchisee fails, refuses or neglects to pay to any third party, including any landlord, major supplier, or government taxing or licensing authority, any sum owing when due, or to satisfy any other material obligation relating to the Franchised Business; or
- (i) Franchisee fails to submit to CC an acceptable financing plan within 14 days after the execution of this Agreement.

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

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

## 27. OBLIGATIONS ON REPURCHASE, EXPIRATION OR TERMINATION

27.1. On repurchase, expiration or termination of the Franchise, in addition to meeting its other continuing obligations under this Agreement:

- (a) Franchisee promptly will surrender to CC or its designee, or, if directed by CC, destroy and immediately discontinue the use of any materials or designations indicating or tending to indicate that Franchisee is in any way a CC franchisee;
- (b) Franchisee immediately and permanently will discontinue use of the System and any information received under this Agreement and designated as “Confidential”;
- (c) Franchisee promptly will deliver to CC or its designee the Confidential Operations Manual and all other manuals, bulletins, instruction sheets, forms, devices and other materials, and all copies of the same, received by Franchisee under this Agreement;
- (d) Franchisee promptly will pay all charges due for telephone services and for its COOKIE CUTTERS telephone listings, must assign those telephone listings to CC or its designee, and must discontinue any radio, newspaper or other advertising which may in any way identify Franchisee with CC’s services or products;



- (e) Franchisee promptly will take any action necessary to cancel any assumed name or equivalent registration that contains the mark COOKIE CUTTERS or any other Mark, and submit to CC proof of compliance with this obligation within thirty (30) days after repurchase, termination or expiration.

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

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

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

The closing of the purchase will take place no later than 90 days after receipt by Franchisee of notice of the exercise of this option to purchase. CC will have the option of paying the purchase price at the closing, or in twelve (12) equal monthly installments of principal and interest calculated at the rate of twelve percent (12%) per annum, with the first installment due at the closing. If the purchase price is paid at the closing (in cash, cash equivalents or marketable



securities of equal value), at the closing, Franchisee will deliver instruments transferring to CC or its assignee: (a) good and merchantable title to the assets purchased, free and clear of all liens and encumbrances (other than liens and security interests, acceptable to CC or its assignee), with all sales and other transfer taxes paid by Franchisee; (b) all licenses and permits for the Franchised Business which may be assigned or transferred; and (c) the lease for the premises of the Franchised Business. If the purchase price is paid in installments (in cash, cash equivalents or marketable securities of equal value), at the closing, Franchisee will deliver the same instruments to CC as those described above, except that the documents may reserve liens and encumbrances for the benefit of Franchisee relating to the installments. If Franchisee cannot deliver clear title to all of the purchased assets or if there are other unresolved issues, the closing of the sale will be accomplished through an escrow.

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

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

28.1. This Agreement and the related agreements are the entire agreement of the parties, superseding all prior written or oral agreements of the parties concerning the same subject matter. The terms of this Agreement are binding on the parties, and on their heirs, executors, administrators, successors and assigns.

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

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

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



## **29. INTERPRETATION**

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

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

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

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

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

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

## **30. PARTIAL INVALIDITY**

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

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

## **31. WAIVER AND ESTOPPEL**

31.1. No failure of CC to exercise any right reserved to it under this Agreement, or to insist on compliance by Franchisee with any term of this Agreement, and no custom or practice of the



parties at variance with any term of this Agreement, will constitute a waiver of CC's right to demand compliance with any term of this Agreement. Waiver by CC of any default will not affect or impair CC's rights as to any subsequent default of the same or a different nature; nor will any delay, forbearance or omission by CC to exercise any right as to any default of any term of this Agreement affect, impair or be a waiver by CC of any right as to any subsequent default. CC's rights and remedies under this Agreement are cumulative, and CC's exercise or enforcement of any right or remedy under this Agreement will not preclude CC from exercising or enforcing any other right or remedy to which it is entitled.

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

32.1. Except as otherwise specified in this Agreement, the parties agree that if any dispute between them or any claim by one or more of them, concerning this Agreement, any related agreement, the Franchise or the Franchised Business, cannot be settled through negotiation, after diligent effort, they will first attempt in good faith to settle the dispute or claim by non-binding mediation conducted under the then-prevailing commercial mediation rules of the American Arbitration Association ("AAA") and initiated at and supervised by the AAA office nearest the home office of CC, unless agreed otherwise by the parties, before resorting to arbitration, litigation or some other dispute resolution procedure. The parties agree to participate in at least six (6) hours of mediation in the State of Utah and to split equally the costs of the mediation, including the mediator's fees and expenses. The mediation will be confidential and nondiscoverable. The parties' obligation to mediate will be deemed to be satisfied when six (6) hours of mediation have been completed (whether or not the parties have resolved their differences) or sixty (60) days after a mediation demand has been made if any party fails to appear or participate in good faith in the mediation.

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

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

32.4. If any dispute or claim cannot be the subject of arbitration, the parties agree that the dispute or claim will be separated from all other disputes and claims, which other disputes and



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

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

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

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

**32.8. Franchisee and CC each also agree that any action brought by either of them relating to this Agreement, any related agreement, the Franchise or the Franchised Business will be brought in a state or federal court of general jurisdiction in the county or city in which the home office of CC is located at the time.**

### **33. NOTICES**

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

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

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

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



34.2. Whenever this Agreement requires the prior acceptance, approval or consent of CC, Franchisee will make a timely written request to CC for the acceptance, approval or consent, which will be obtained in writing.

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

## **35. ACKNOWLEDGMENTS BY FRANCHISEE**

35.1. Franchisee acknowledges that:

- (a) It has conducted an independent investigation of the business contemplated by this Agreement and recognizes that it involves significant risks, making the success of the business largely dependent on the abilities and attention of Franchisee. CC expressly disclaims the making of, and Franchisee acknowledges that it has not received or relied on, any representation, warranty or guarantee, expressed or implied, as to the potential sales, profits or success of the Franchised Business.
- (b) In entering into this Agreement, it has not relied on any representation by CC or any officer, director, shareholder, employee or agent of CC concerning the Franchised Business which are contrary to the terms of this Agreement, the documents incorporated into this Agreement or attached to it, or the disclosure document provided to Franchisee by CC.
- (c) It (and each partner or shareholder if Franchisee is a partnership or a corporation) has read and understood this Agreement and all related agreements; CC has fully and adequately explained the terms of each to its satisfaction; and CC has accorded it ample time and opportunity to consult, and it has consulted, with existing franchisees, and with financial, legal and other advisors of its own choosing, about the potential benefits and risks of entering into this Franchised Business.
- (d) It acknowledges that complete and detailed uniformity among CC franchisees under varying conditions may be inadvisable, impractical or impossible, and accordingly agrees that CC, in its sole and absolute right, may modify or vary aspects of the System as to any franchisee or group of franchisees based on, for example, local sales potential, demographics, competition, business practices or other conditions. It further agrees that CC will have no obligation to disclose or offer the same or similar variances to Franchisee. It is aware that other CC franchisees may operate under different agreements, and, consequently, that CC's obligations and rights as to those franchisees may differ materially in certain circumstances.
- (e) The Franchisee acknowledges that this instrument constitutes the entire agreement of the parties. The Agreement terminates and supersedes any prior agreement between the parties concerning the same subject matter and any oral or written



representations which are inconsistent with the terms of this instrument and its accompanying Franchise Disclosure Document.

- (f) It has made no payment to CC before the execution of this Agreement.
- (g) It has received a Franchise Disclosure Document at least fourteen (14) calendar days (or ten (10) business days if Franchisee is located in or will operate from New York, Washington or Wisconsin) before entering into a binding agreement with or making any payment to you and have read same and that you have been requested to state in writing hereafter any terms, claims, covenants, promises, or representations, including representations as to any income or gross revenue projections that were made to you by us or our representatives, including the persons making same, the location and date. If no such representations, etc. were made, the undersigned should write the word “none” on the following:

\_\_\_\_\_

FRANCHISEE’S INITIALS: \_\_\_\_\_

Each of the undersigned agrees to the terms of this Agreement, and in witness whereof, the parties have executed this Agreement the day indicated below.

FRANCHISEE  
 (“\_\_\_\_\_”)

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

FRANCHISOR  
 (“COOKIE CUTTERS FRANCHISING INC.”)

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



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

**Authorized Site:**

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

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

**FRANCHISOR**

**FRANCHISEE**

COOKIE CUTTERS FRANCHISING INC.

\_\_\_\_\_

\_\_\_\_\_

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

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

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

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



**Attachment 2**

**ENTITY OWNERSHIP ADDENDUM**

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

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

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

3. Date of Addendum. The date of this Addendum is \_\_\_\_\_, 201\_\_.



### Attachment 3

#### GUARANTY AGREEMENT

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

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

Each of the undersigned agrees that:

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



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

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

GUARANTOR:

Name \_\_\_\_\_

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

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

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

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

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

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

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



## Attachment 4

### LEASE ADDENDUM

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

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

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

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

#### 1. ASSIGNMENT

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

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



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

## **2. CONSENT TO ASSIGNMENT**

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

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

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

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

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



**4. TERMINATION OF RIGHTS OF FRANCHISEE**

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

**5. VACATE FRANCHISE LOCATION**

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

**6. INDEMNIFICATION**

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

**7. REMEDIES CUMULATIVE**

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

**8. NOTICES**

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

**FRANCHISOR:** 1495 East 3300 South  
Salt Lake City, Utah 84106  
Attn: Neal Courtney

with copy to: Kirton McConkie PC  
1800 World Trade Center  
60 East South Temple  
Salt Lake City, UT 84111  
Attn: Lee A. Wright

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



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

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

**9. MISCELLANEOUS**

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



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

**10. GOVERNING LAW**

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

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

COOKIE CUTTERS FRANCHISING INC:

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

LANDLORD:

FRANCHISEE:

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

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

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

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

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



CONSENT OF GUARANTORS:

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

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**EXHIBIT C**

**FRANCHISOR'S FINANCIAL STATEMENTS**





**AUDITORS' CONSENT**

The Jensen Group CPAs, Inc. consents to the use in the Franchise Disclosure Document issued by Cookie Cutters Franchising Inc. ("Franchisor") on March 30, 2016, as it may be amended, of our report dated March 29, 2016, relating to the financial statements of Franchisor for the period ending December 31, 2015.

*The Jensen Group CPAs, Inc.*  
March 30, 2016

CPAs &  
BUSINESS  
ADVISORS

2150 SOUTH 1300 EAST  
SUITE 150  
SALT LAKE CITY UT 84106

JENSENGROUPCPA.COM  
T 801-363-1040  
F 801-990-93594849-3884-4947.1



**COOKIE CUTTERS FRANCHISING, INC.**

**Consolidated Financial Statements**

**December 31, 2015**



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## INDEPENDENT AUDITORS' REPORT

To Management  
Cookie Cutters Franchising, Inc.  
Salt Lake City, UT

We have audited the accompanying consolidated balance sheet of Cookie Cutters Franchising, Inc. as of December 31, 2015 and the related consolidated statements of income and retained earnings, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cookie Cutters Franchising, Inc. as of December 31, 2015, and the consolidated results of the operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*The Jensen Group CPAs, Inc.*

The Jensen Group CPAs, Inc.  
March 29, 2016

CPAs &  
BUSINESS  
ADVISORS

2150 SOUTH 1300 EAST  
SUITE 150  
SALT LAKE CITY UT 84106

JENSENGROUPCPA.COM  
T 801-363-1040  
F 801-990-9359



**COOKIE CUTTERS FRANCHISING INC.**  
**CONSOLIDATED BALANCE SHEET**  
December 31, 2015

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	176,534
Accounts receivables		23,245
Deferred franchise agreement cost		44,333
Other current assets		10,369
		254,481
Property & equipment, net		37,832
Intangible assets, net		507,849
Goodwill, net		52,611
Notes receivable		30,451
Note receivable - related party		68,538
		951,762
TOTAL ASSETS	\$	951,762

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$	5,657
Accrued expenses		4,381
Payroll liabilities		41,839
Current portion of long-term debt		20,547
		72,424
Long-term notes payable, net of current portion		271,472
Other liability		100,000
Deferred Revenue		106,667
		550,563

SHAREHOLDERS' EQUITY

Common Stock		405,145
Retained deficit		(3,946)
		401,199
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	951,762

See accompanying notes to consolidated financial statements.



**COOKIE CUTTERS FRANCHISING INC.**  
**CONSOLIDATED STATEMENT OF INCOME**  
For the Year Ended December 31, 2015

REVENUE

Continuing franchise & services fees	\$ 182,074
Service sales	407,751
Product sales	<u>155,861</u>
Total Revenue	<u>745,686</u>

COST OF GOODS SOLD

Cost of good sold	<u>109,340</u>
Total Cost of Goods Sold	<u>109,340</u>
Gross Profit	<u>636,346</u>

OPERATING EXPENSES

Selling, general and administrative	615,352
Amortization expense	75,130
Depreciation expense	<u>17,999</u>
Total Operating Income	<u>708,481</u>

OTHER EXPENSES

Interest expense	15,762
Loss on sale of assets	<u>51,217</u>
Total Other Expenses	<u>66,979</u>

NET LOSS	<u><u>\$ (139,114)</u></u>
----------	----------------------------

See accompanying notes to consolidated financial statements.



**COOKIE CUTTERS FRANCHISING INC.**  
CONSOLIDATED STATEMENT OF RETAINED EARNINGS  
For the Year Ended December 31, 2015

RETAINED EARNINGS AT THE BEGINNING OF THE YEAR	\$ 135,168
NET LOSS	<u>(139,114)</u>
RETAINED EARNINGS AT THE END OF THE YEAR	<u><u>\$ (3,946)</u></u>

See accompanying notes to consolidated financial statements.

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**COOKIE CUTTERS FRANCHISING INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (139,114)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation & amortization	93,128
Disposal of fixed assets	17,866
Reduction in goodwill due to sale of assets	168,350
Changes in operating assets and liabilities	
(Increase) decrease:	
Accounts receivable	(19,915)
Deferred franchise costs	(44,333)
Inventory	(419)
Increase (decrease):	
Accounts payable	(9,789)
Accrued expenses	(1,449)
Payroll liabilities	31,952
Net Cash Provided by Operating Activities	<u>96,277</u>

CASH FLOW FROM INVESTING ACTIVITIES:

Purchase of equipment	(26,745)
Issuance of notes receivable - related party	(68,538)
Issuance of notes receivable	<u>(25,585)</u>
Net Cash Used by Investing Activities	<u>(120,868)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Reduction of notes payable	(42,331)
Issuance of other liability	100,000
Proceeds from deferred revenue	<u>106,667</u>
Net Cash Provided by Financing Activities	<u>164,336</u>

NET INCREASE IN CASH	139,745
CASH AT BEGINNING OF PERIOD	<u>36,789</u>
CASH AT END OF PERIOD	<u>\$ 176,534</u>

SUPPLEMENTAL DISCLOSURES

Interest paid	\$ 15,762
Taxes paid	\$ 100

The accompanying notes are an integral part of these financial statements.



**COOKIE CUTTERS FRANCHISING, INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Business

Cookie Cutters Franchising, Inc. ("the Company") was started in Salt Lake City, Utah, December of 2014. The Company is a children's hair care franchise. Currently, the franchise has 28 store locations in 6 states and Canada. The Company's primary sources of revenue are from franchising and royalty fees in addition to service sales generated from hair cuts at the consolidated franchisee stores.

Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements are as follows:

a. Accounting Method

The Company's consolidated financial statements are prepared using the accrual method of accounting. The Company has elected a December 31 year-end.

b. Principles of Consolidation

The Company's majority owners control UCANAH for Kids, L.C., a Utah Limited Company, which is in the business of owning Cookie Cutter Franchisee stores. The accompanying consolidated financial statements include the accounts Ucanah for Kids, L.C. All significant inter-company balances and transactions have been eliminated in the consolidation.

c. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

d. Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

e. Inventory

Inventory consists of finished goods and is stated at the lower of cost (first-in, first-out) or market value.

f. Advertising

The Company expenses advertising costs as they are incurred. Advertising expenses for the year ended December 31, 2015 was \$17,651.

**COOKIE CUTTERS FRANCHISING, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2015

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(continued)

**g. Income Taxes**

The Company has been incorporated for less than one year as of the balance sheet date. Therefore, no provision or liability for federal income taxes has been included within the consolidated financial statements.

**j. Property and Equipment**

Property and equipment is recorded at cost. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes at rates based on the following estimated useful lives:

	Years
Furnitures and fixtures	3-10
Machinery and equipment	3-10
Leasehold improvements	3-10

Major additions and improvement are capitalized. The cost and related accumulated depreciation of equipment retired or sold are removed from the accounts and any differences between the undepreciated amount and the proceeds from the sale are recorded as gain or loss on sale of equipment. It is the Company's policy to capitalize property and equipment over \$500.

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2015:

Furnitures and fixtures	\$ 55,630
Machinery and equipment	9,829
Leasehold improvements	53,560
	119,019
Less: accumulated depreciation	(81,187)
	\$ 37,832

Depreciation expense on property and equipment was \$17,999 for the year ended December 31, 2015.

**NOTE 3 - NOTES RECEIVABLE – RELATED PARTIES**

As of December 31, 2015, the Company held a noninterest-bearing unsecured note receivable to the owners of the Company for \$68,538 which is due in five years.



**COOKIE CUTTERS FRANCHISING, INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2015

NOTE 4 - INTANGIBLE ASSETS

Intangible assets at December 31, 2015 consist of the following:

Amortized Intangibles:	
Franchise agreements	\$ 346,146
Accumulated amortization	<u>(74,998)</u>
Balance, net	271,148
Unamortized Intangibles:	
Trademark	<u>236,701</u>
Total Intangible Assets	<u>\$ 507,849</u>

Franchise agreements amortization expense for the year ended December 31, 2015, was \$69,229. Estimated aggregate amortization expense for each of the next five fiscal years is as follows:

Year ending December 31,	
<u>2016</u>	\$ 69,229
2017	69,229
2018	69,229
2019	69,229
2020	5,769

NOTE 5 - GOODWILL

Goodwill amortization expense for the year ended December 31, 2015, was \$5,900. Changes in the gross carrying amounts of goodwill and accumulated amortization for the year ended December 31, 2015 are as follows:

Goodwill:

Balance at beginning of year	\$ 227,353
Goodwill related to sale of assets	<u>(168,350)</u>
Balance at end of year	<u>\$ 59,003</u>

Accumulated amortization of goodwill:

Goodwill	\$ 59,003
Accumulated amortization	<u>(6,392)</u>
Balance, net	<u>\$ 52,611</u>

The Company amortizes goodwill on the straight-line method over ten years unless a shorter useful life can be demonstrated.



**COOKIE CUTTERS FRANCHISING, INC.**  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2015

NOTE 6 - LONG-TERM NOTES PAYABLE

Long-term notes payable at December 31, 2015, consisted of the following:

6% note payable through an eighty-four month note secured by the business assets. The first twenty-four months are interest only payments of \$1,000. During the remaining sixty months, the loan amount balance will be amortized at a set monthly payment of \$3,867.	\$ 200,000
\$50,000 note payable to be paid on an installment basis of \$2,500 per Cookie Cutters store opening for the first twenty stores, or up to the total \$50,000. If at the end of three years, the \$50,000 remaining balance is not paid in its entirety, then a balloon payment for the difference will be made. Note is secured by the business assets.	47,500
11.13% note payable due to a financing company, due in monthly installments of \$1,813 including interest, through April 2018, secured with equipment.	44,519
Less amount due within one year	<u>(20,547)</u>
	<u><u>\$ 271,472</u></u>

Maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 20,547
2017	105,296
2018	44,821
2019	40,064
2020	42,625
Thereafter	38,666

Additionally, the stockholders have personally guaranteed substantially all indebtedness.

NOTE 7 - FRANCHISING

The Company executes franchise agreements that set the terms of its arrangement with each franchisee. The franchise agreements require the franchisee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to the Company's approval and payment of a renewal fee, a franchisee may generally renew its agreement upon its expiration. Direct costs of sales and servicing of franchise agreements are charged to general and administrative expenses as incurred.



**COOKIE CUTTERS FRANCHISING, INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2015

NOTE 7 - FRANCHISING (Continued)

When an individual franchise is sold, the Company agrees to provide certain services to the franchisee such as training. The Company recognizes initial fees as revenue when substantially all initial services required by the franchise agreement are performed, which is generally upon opening of a store. Continuing fees are recognized as earned, with an appropriate provision for estimated uncollectible amounts charged to general and administrative expense. The Company recognizes renewal fees in income when a renewal agreement becomes effective.

Initial fees included in revenues for the year ended December 31, 2015 were \$8,333. Deferred revenue at December 31, 2015 represents that portion of total revenue from initial franchise sales for which substantially all initial services have not been rendered by the franchisor. Initial fees deferred for the year ended December 31, 2015 are \$106,667.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Rent expense was \$85,598 for the year ended December 31, 2015.

NOTE 9 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date that the financial statements were available to be issued.

During 2015, an investor contributed \$100,000 for the purchase of common stock. On January 1, 2016, that contribution converted to 161,400 shares of common stock which gave the investor 28.51% ownership in Cookie Cutters Franchising, Inc.



**UNAUDITED OPENING BALANCE SHEET AS OF DECEMBER 31, 2014**

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





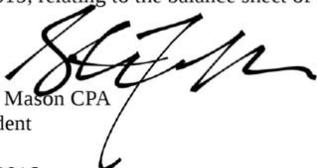
Phone (801) 554-1517  
4622 Pale Moon Ln  
South Jordan, UT 84095

steve@masoncpa.com  
www.masoncpa.com

Fax (866) 476-4310  
520 N Marketplace Dr. Ste 200  
Centerville, UT 84014

#### ACCOUNTANTS' CONSENT

Mason CPA consents to the use in the Franchise Disclosure Documents issued by Cookie Cutters Franchising, Inc. ("Franchisor") on March 30, 2016, as they may be amended, of our report dated March 12, 2015, relating to the balance sheet of Franchisor as of December 31, 2014.

  
Steve Mason CPA  
President

3/30/2016





Phone (801) 554-1517  
4622 Pale Moon Ln  
South Jordan, UT 84095

steve@masoncpa.com  
www.masoncpa.com

Fax (866) 476-4310  
520 N Marketplace Dr. Ste 200  
Centerville, UT 84014

#### ACCOUNTANT'S COMPILATION REPORT

To Management  
Cookie Cutters Franchising, Inc.  
Salt Lake City, UT

We have compiled the accompanying balance sheet of Cookie Cutters Franchising, Inc. (a corporation) as of December 31, 2014. We have not audited or reviewed the accompanying financial statement and, accordingly, do not express an opinion or provide any assurance about whether the financial statement is in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statement.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statement.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included with the balance sheet, they might influence the user's conclusions about the Company's financial position. Accordingly, this balance sheet is not designed for those who are not informed about such matters.

MASON CPA  
March 12, 2015



# Cookie Cutters Franchising, Inc.

## Balance Sheet

As of December 31, 2014

	<b>TOTAL</b>
<b>ASSETS</b>	
<b>Other Assets</b>	
Trademarks & Goodwill	\$650,000.00
Accumulated Amortization	(3,611.11)
<b>Total Other Assets</b>	<b>646,388.89</b>
<b>TOTAL ASSETS</b>	<b>\$646,388.89</b>
<b>LIABILITIES AND EQUITY</b>	
<b>Liabilities</b>	
<b>Long-Term Liabilities</b>	
N/P-CC Franchising Inc	250,000.00
<b>Total Long-Term Liabilities</b>	<b>250,000.00</b>
<b>Total Liabilities</b>	<b>250,000.00</b>
<b>Equity</b>	
Additional Paid in Capital	390,000.00
Common Stock	10,000.00
Retained Earnings	(3,611.11)
<b>Total Equity</b>	<b>396,388.89</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$646,388.89</b>



## EXHIBIT D

### LIST OF FRANCHISE OWNED SALONS

as of December 31, 2015

<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>SALON CITY</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
Handley, LLC	Brittany & Cris Handley	1345 Opelika Rd, Suite 5 Auburn, AL 36830	Alabama	(334) 541-8201
Anita Haircuts	John Graham	2768 E. 146th Street Carmel, IN 46033	Indiana	(317) 339-8855
Cookie Cutters Inc.	Larry Shelton	4335 W. 106th Street, Suite 600 Carmel, IN 46032	Indiana	(317) 445-7774
Anita Haircuts	John Graham	8964 E. 96th Street Fishers, IN 40638	Indiana	(317) 339-8855
Cookie Cutters Inc.	Larry Shelton	11501 Geist Pavilion Drive, Ste 110 Fishers, IN 46037	Indiana	(317) 445-7774
Cookie Cutters Inc.	Larry Shelton	1001 SR 135 Greenwood, IN 46142	Indiana	(317) 445-7774
Cookie Cutters Inc.	Larry Shelton	55 South Raceway Rd Indianapolis, IN 46231	Indiana	(317) 445-7774
Cookie Cutters Inc.	Larry Shelton	2605 E. 62nd Street Indianapolis, IN 46220	Indiana	(317) 445-7774
Anita Haircuts	John Graham	13170 Harrell Parkway, Suite 900 Noblesville, IN 46060	Indiana	(317) 339-8855
So Nova	Wendy Pietrangelo	44308 Cherry Hill Rd Canton, MI 48187	Michigan	(734) 753-5125
TABL Investments	Amy Meyer	900 East Battlefield Springfield, MO 65807	Missouri	(417) 353-5690
MiniCuts	Alison Cellentano	7438 Sawmill Rd Columbus, OH 43235	Ohio	(614) 580-3711
MiniCuts	Alison Cellentano	4359 Morse Rd Columbus, OH 43230	Ohio	(614) 580-3711
Vasa, LLC	Valerie Wells	2417 Miamisburg-Centerville Rd Dayton, OH 45459	Ohio	(513) 315-9533
MiniCuts	Alison Cellentano	3233 Hilliard Rome Rd Hilliard, OH 43026	Ohio	(614) 580-3711
MiniCuts	Alison Cellentano	1198 East Powell Rd Lewis Center, OH 43035	Ohio	(614) 580-3711



<u>FRANCHISEE</u>	<u>CONTACT</u>	<u>SALON CITY</u>	<u>STATE</u>	<u>PHONE NUMBER</u>
MiniCuts	Alison Cellentano	1726 Hill Rd North Pickerington, OH 73147	Ohio	(614) 580-3711
Vasa, LLC	Valerie Wells	7684 Voice of America Drive West Chester, OH 45069	Ohio	(513) 315-9533
Leslie Warner	Leslie Warner	1875 Fort Union Blvd Cottonwood Heights, UT 84121	Utah	(801) 598-8327
Mac's Cuts, LLC	McKenzie Bergquist	1223 E. Draper Pkwy Draper, UT 84040	Utah	(801)718-3649
Cookie Cutters of Utah South, L.C.	Michael Hayes	1438 Main St, Suite 11 Lehi, UT 84043	Utah	(801) 341-5110
SWH Cutters, LLC	Weston & Stephanie Hayes	394 E. University Pkwy Orem, UT 84058	Utah	(801) 783-9248
Leslie Warner	Leslie Warner	1295 E. Miller Avenue Salt Lake City, UT 84106	Utah	(801) 598-8327
Leslie Warner	Leslie Warner	535 W. 400 N. West Bountiful, UT 84010	Utah	(801) 598-8327
Brenda LarsenLeslie Warner	Brenda LarsenLeslie Warner	555 W. 100 N., Suite E Providence, UT 843323069 S. Colt Plaza Dr, Suite 1 West Valley, UT 84120	Utah	(801) 556-8888955-3882

No franchisees were terminated, not renewed or reacquired or otherwise voluntarily ceased doing business during 2015.

No franchisees have not communicated with us during 10 weeks prior to issuance of this Disclosure Document. No franchisees transferred a franchise during 2015.

Our affiliate, Ucanah, sold two salons to franchisees in 2015 and now owns and operates one COOKIE CUTTERS salon in Utah listed as a company-owned outlet in Item 20, Table 4 but were listed as having ceased operations during 2014 as a franchise store in Item 20, Table 3. This location is not included in this table.

Our franchised location in Providence, Utah temporarily closed in 2014 and relocated to Orem, Utah in 2015.



**EXHIBIT E**

**TABLE OF CONTENTS TO COOKIE CUTTERS CONFIDENTIAL OPERATIONS  
MANUAL**



**Table of Contents to Cookie Cutters Confidential Operations Manual**

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## EXHIBIT F

### TO THE FRANCHISE DISCLOSURE DOCUMENT

#### FRANCHISE DISCLOSURE QUESTIONNAIRE

As you know, Cookie Cutters Franchising Inc. ("The Franchisor") and you are preparing to enter into a Franchise Agreement for the operation of a COOKIE CUTTERS Salon. The purpose of this Questionnaire is to determine whether any statements or promises were made to you, either orally or in writing, that the Franchisor has not authorized and that may be untrue, inaccurate or misleading. Please review each of the following questions carefully and provide honest and complete responses to each question.

- |  | YES   | NO    |
|--|-------|-------|
| 1. Have you received and personally reviewed the Franchise Agreement and each exhibit attached to it?  | _____ | _____ |
| 2. Do you understand all of the information contained in the Franchise Agreement and each exhibit attached to it?  | _____ | _____ |
| If no, what parts of the Franchise Agreement do you not understand?<br>(Attach additional pages, if necessary.)  |       |       |
| 3. Have you received the Franchise Agreement you are to execute with all the blanks completed?   | _____ | _____ |
| If so, on what date did you receive the completed Franchise Agreement?<br>_____  |       |       |
| 4. Have you received and personally reviewed the Franchisor's Franchise Disclosure Document we provided to you?  | _____ | _____ |
| On what date did you receive the Franchise Disclosure Document?<br>_____   |       |       |
| 5. Did you sign a receipt for the Franchise Disclosure Document indicating the date you received it?   | _____ | _____ |
| 6. Do you understand all of the information contained in the Franchise Disclosure Document?  | _____ | _____ |
| If no, what parts of the Franchise Disclosure Document do you not understand? (Attach additional pages, if necessary.)   |       |       |
| 7. Have you discussed the benefits and risks of operating a COOKIE CUTTERS SALON Franchise with an attorney, accountant or other professional advisor and do you understand those risks? | _____ | _____ |
| If not, did you have the opportunity to do so?<br>_____  |       |       |
| 8. Do you understand that the success or failure of your franchise will depend in  | _____ | _____ |



YES NO

large part upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms and other economic and business factors?

- 9. Were you advised, prior to receiving the Franchise Disclosure Document, of the various ways you could be furnished the Franchise Disclosure Document (hard copy, CD, email, etc.)? \_\_\_\_\_
- 10. Did you receive the receipt page with the names completely filled in of all the franchise sellers that were involved in your purchase of the franchise? \_\_\_\_\_

**NOTE:** Questions 11 through 17 do not relate to information you may have been given directly by any existing franchisees of the Franchisor.

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

If you have answered "Yes" to any of questions eleven (11) through seventeen (17), please provide a full explanation of your answer in the following blank lines. (Attach additional pages, if necessary,



YES NO

and refer to them below.) If you have answered "No" to each of the foregoing questions, please leave the following lines blank.

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

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

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

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

**Print Name:**

**Print Name:**

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

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



**EXHIBIT G**  
**RECEIPT PAGE**



**RECEIPT**

This Disclosure Document summarizes certain provisions of the franchise agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If Cookie Cutters Franchising Inc. offers you a franchise, Cookie Cutters Franchising Inc. must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us in connection with the proposed franchise sale. Under New York, Washington and Wisconsin law, if applicable, this period may be 10 business days, which could be longer than 14 calendar days. In addition, under New York law, if applicable, Cookie Cutters Franchising Inc. may be required to provide this Disclosure Document to you at your first personal meeting to discuss the franchise.

If Cookie Cutters Franchising Inc. does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and those state administrators listed on **Exhibit A**. Cookie Cutters Franchising Inc. authorizes the respective state agencies identified on **Exhibit A** to receive service of process for us in the particular state. Neal Courtney, 1495 East 3300 South, Salt Lake City, Utah 84106 is authorized as our agent for service of process where Cookie Cutters Franchising Inc. is formed.

The franchisor is Cookie Cutters Franchising Inc. located at 1495 East 3300 South, Salt Lake City, Utah 84106. Its telephone number is (877) 877-0775.

Our franchise sellers involved in this offering and selling the franchise to you are listed below (with address and telephone number), or will be provided to you separately before you sign a franchise agreement

Neal Courtney	1495 East 3300 South Salt Lake City, UT 84106	(877) 877-0775
_____	_____	_____
_____	_____	_____

I have received a Disclosure Document with an issuance date of March 12, 2015 that included the following Exhibits:

- A. State Agencies
- B. Franchise Agreement
- C. Financial Statements
- D. List of Franchisees
- E. Operations Manual Table of Contents
- F. Franchise Disclosure Questionnaire

Date: \_\_\_\_\_ Your name (please print): \_\_\_\_\_

Your signature: \_\_\_\_\_

You should return one copy of the signed receipt either by signing, dating, and mailing it to Cookie Cutters Franchising Inc. at 1495 East 3300 South, Salt Lake City, Utah 84106, or by faxing a copy of the signed receipt to Cookie Cutters Franchising Inc. at (801) 474-1367. You may keep the second copy for your records.



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