



FRANCHISE DISCLOSURE DOCUMENT

SALON PROFESSIONAL EDUCATION COMPANY, LLC

d/b/a S.P.E.C. LLC

(A Minnesota Limited Liability Company)

4377 15th Avenue South, Fargo, ND 58103

Telephone Number: 888-478-6856

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Salon Professional Education Company, LLC (d/b/a S.P.E.C. LLC) offers franchisees the right to establish and operate a distinctive school for training students in hairdressing and cosmetology. The system's distinguishing characteristics include: uniform standards and procedures for business operations; ongoing training in the operation, management, and promotion of the franchised business; advertising and promotional programs; quality education facilities; customer development and service techniques; student development; and other technical assistance.

The total investment necessary to begin operation of a The Salon Professional Academy franchise is \$540,500 to \$805,500 for our smaller model and \$961,500 to \$1,386,500 for our base model. This includes \$35,000 paid as an initial franchise fee to 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 governmental agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Jill Krahn at Salon Professional Education Company, LLC, 4377 15th Avenue South, Fargo, ND 58103, 888-478-6856, or JKrahn@SPECfranchise.com.

The terms of your contract will govern your franchise relationship. Do not rely on the disclosure document alone to understand your contract. Read all of your contracts carefully. Show your contracts and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "[A Consumer's Guide to Buying a Franchise](#)," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

The date of issuance of this disclosure document is: April 30, 2014

State Cover Page

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

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

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

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

1. YOU MUST RESOLVE DISPUTES WITH US BY LITIGATION IN NORTH DAKOTA. OUT OF STATE LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO SUE US IN NORTH DAKOTA THAN IN YOUR HOME STATE.
2. THE FRANCHISE AGREEMENT STATES THAT NORTH DAKOTA LAW GOVERNS THE AGREEMENT, EXCEPT TO THE EXTENT THAT THE LANHAM ACT OR FEDERAL ARBITRATION ACT GOVERNS. NORTH DAKOTA LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. THE PARTIES WAIVE THEIR RIGHT TO A JURY TRIAL WITH RESPECT TO DISPUTES RELATING TO THE FRANCHISE AGREEMENT.
4. YOU WILL NOT RECEIVE AN EXCLUSIVE TERRITORY AND MAY FACE COMPETITION FROM US AND OTHER FRANCHISEES. WE PLAN TO OFFER FRANCHISES FOR COSMETOLOGY SCHOOLS UNDER ANOTHER TRADEMARK. THESE FRANCHISEES MAY COMPETE WITH YOUR FRANCHISE BOTH WITHIN AND OUTSIDE YOUR PROTECTED TERRITORY. THESE FRANCHISEES MAY BE LOCATED AS CLOSE AS ONE MILE FROM YOUR FRANCHISE LOCATION.
5. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

See next page for effective dates in certain states.

FRANCHISE DISCLOSURE DOCUMENT
STATE EFFECTIVE DATES

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

California	Pending
Michigan	10.18.2013
New York	Pending
Wisconsin	July 3, 2014
Minnesota	
Indiana	
South Dakota	

In all the other states, the effective date of this Franchise Disclosure Document is the issuance date of April 30, 2014.

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EXHIBITS:

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

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

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

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

Franchisor's Corporate Information

We are a Minnesota limited liability company, organized on July 13, 2004, and doing business under the name S.P.E.C. LLC. Before December 24, 2012, the name of the company was APS, LLC. Our principal business address is 4377 15th Avenue South, Fargo, ND 58103.

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

Parents and Predecessors

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

Affiliates Providing Goods or Services to Franchisees

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

Franchisor's Business

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

The Franchised Business

A franchise grants you the right to own and operate a distinctive school training students in hairdressing and cosmetology. Each franchise operates under the trademarks ***The Salon Professional Academy***[®] and ***The Salon Professional Academy*** logos.

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

General Market and Competition

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

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

Industry Regulations

You must secure and maintain in force all required licenses, permits and certificates relating to the operation of your Franchised Business and the other licenses applicable to your employees, if any. These include, but are not limited to, maintaining certifications and licenses with applicable state cosmetology boards. In California, for example, this includes the California Board of Barbering and Cosmetology and the Bureau of Private Postsecondary Education. If you choose to offer financial aid at your school, you must comply with state and federal student loan laws and regulations.

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

ITEM 2. BUSINESS EXPERIENCE

Jodi Ellingson: Chief Manager/President and Treasurer

Jodi Ellingson became our Chief Manager/President and Treasurer, in Fargo, North Dakota, on December 21, 2012. From 2008 through December 21, 2012, Ms. Ellingson served as our Senior VP Marketing and Advertising. Ms. Ellingson has also owned and operated a The Salon Professional Academy in Fargo, ND since 2003. Ms. Ellingson has also co-owned and operated Hair Success Salons & Day Spas in Fargo, North Dakota since 1984.

Jill Krahn: Executive Vice President and Secretary

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

Sonja Plunkett: Executive Vice President

Sonja Plunkett became one of our Executive Vice Presidents, in Maxwell, Iowa, on December 21, 2012. From 2008 through December 21, 2012, Ms. Plunkett served as our Senior Vice President of Education and Consulting. Ms. Plunkett has 20 years of experience in the areas of school operations and education, and has an ownership interest in two The Salon Professional Academy locations – Dallas, TX and Shorewood, IL.

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

Marilyn Fulkerson became one of our Executive Vice Presidents, in Ankeny, IA, on December 21, 2012. From 2008 through December 21, 2012, Ms. Fulkerson served as our Director of Admissions and Financial Aid Officer. Ms. Fulkerson has worked in the field of cosmetology for 41 years.

Samuel Shimer: Director and Chairman

Samuel Shimer became one of our Directors, in Chappaqua, New York, on December 21, 2012. Since 2010, Mr. Shimer has served as Managing Director of SLCCP Management Co., LLC, a private equity firm in Chappaqua, New York. From 2004 to 2010, Mr. Shimer served as partner at JHW Greentree Management Co., LLC, a private equity firm in New Canaan, Connecticut. Mr. Shimer also currently serves on the Board of Directors of the following companies: Heritage Global, Inc., Jan-Pro Franchising International, JP Florida Holdings, Honest-1 Auto Care and TBA Global Events.

Christopher Baran: Director

Christopher Baran became one of our Directors, in New York City, New York, on December 21, 2012. Since 2001, Mr. Baran has served as artistic director for Redken 5th Avenue in New York City, New York. Since 2006, Mr. Baran has also owned and operated Fuel Productions LLC, a production company in New York City, New York that offers cosmetology educational and training materials. Since 2012, Mr. Baran has also owned and operated Chaos Complex Entertainment, LLC, a television and film writing and production company in New York City, New York.

ITEM 3. LITIGATION

In 2008 we sold one unregistered franchise in the state of Washington and in 2010 we sold one unregistered franchise in the state of California. The Washington sale arose before an application was submitted. The California sale arose shortly after a registration lapsed. Each sale was an inadvertent violation. On November 13, 2013, we entered into a consent order with the state of Washington Department of Financial Institutions Securities Division, and agreed to cease and desist from violating the Franchise Investment Protection Act of the state of Washington. We received a notice from California and are complying with all its requirements regarding that sale. California has not initiated any formal administrative action. At its request we notified the one affected franchisee of its rights regarding any claims for damages and/or rescission, who elected to remain in our franchise system, and have accepted the terms California requires that we continue to comply with their registration and disclosure requirements.

Other than the items listed above, there is no litigation required to be disclosed in this Item.

ITEM 4. BANKRUPTCY

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

ITEM 5. INITIAL FEES

When you sign your Franchise Agreement, you must pay us a \$35,000 Initial Franchise Fee.

None of the payments described in this Item are refundable.

Except as follows, all initial fees are uniformly imposed. We may, in our sole discretion, waive the initial franchise fee for each franchisee that an existing The Salon Professional Academy franchisee as of December 31, 2013, that signs a replacement franchise agreement for its existing franchise location, or that opens one or more additional locations within a designated time period.

ITEM 6. OTHER FEES

OTHER FEES			
TYPE OF FEE^{1,2,3}	AMOUNT	DUE DATE	REMARKS
Royalty Fee	6.00% of Gross Revenues.	By the 10 th of each month for the prior month's Gross Revenues.	<p>"Gross Revenues" includes all your revenues (actually received and net of actual refunds, which must be documented to our reasonable satisfaction) arising out of the ownership or operation of the Franchised Business or any other business at or about the Premises.</p> <p>The minimum monthly Royalty Fee shall be \$1,500</p> <p>We may discount the Royalty Fees for each franchisee that is an existing The Salon Professional Academy franchisee as of December 31, 2013, that signs a replacement franchise agreement for its existing franchise location within 45 days of the date of this disclosure document (or a longer period that we agree to). For these franchisees, the Royalty Percentage may be reduced to a range between 3.00% and 4.00%.</p>

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

OTHER FEES			
TYPE OF FEE^{1,2,3}	AMOUNT	DUE DATE	REMARKS
Technology Fee	Currently there is no required Technology Fee but this is subject to change	By the 10 th of each month	We may provide, maintain, or assist you in obtaining (or obtaining access to) some or all of the Software that you are required to purchase or use, including a cloud based customer relationship management system. If we do, we may charge you a monthly fee to reimburse us for the costs and expenses we incur, including an administrative fee for us, of up to \$250. We may periodically increase the Technology Fee upon 90 days prior notice to you if we incur more fees or costs in connection with such Software; provided, that, we will not increase the maximum amount we are permitted to charge by an average of more than 20% per year in any consecutive five year period unless approved by a franchise advisory committee.
Monthly Website Fee	Currently \$220 per month, but subject to change	Upon receipt of invoice	This fee is for the maintenance of your microsite. Currently, you pay these amounts directly to the designated third party supplier. However, for administrative purposes, we may require you to pay the monthly website fee directly to us instead of the third party supplier. If we do, we may use the monthly website fee to reimburse us for expenses to third parties and to provide us with an administrative fee that we designate in connection therewith. We may periodically increase the monthly website fee if we incur more fees or costs in connection with providing web site services; provided, that, we will not increase the maximum amount we are permitted to charge by an average of more than 20% per year in any consecutive five year period.
Initial Franchise Training	No fee, but you must pay your trainees' out-of-pocket expenses.	Before or during training	You must pay your expenses and each trainee's other expenses, including travel, lodging, and meal expenses. You do not pay us these amounts, you pay them to third parties.

OTHER FEES			
TYPE OF FEE^{1,2,3}	AMOUNT	DUE DATE	REMARKS
Post-Opening Training	No fee for Regular Training, but you must pay your attendees' out-of-pocket expenses. For any Special Training, our standard charges plus your attendees' out-of-pocket expenses. The current standard charges are as follows, but are subject to change: (a) for on-site training, \$2,000 for the first day and \$1,800 each additional consecutive day; (b) for Skype or other web-based training, \$150 per hour (with a three hour minimum); (c) for phone training after the first year following your opening date, \$125 per hour; (d) for certain regional training \$150-\$500 per attendee; and (e) for our annual conference, \$250-\$2,000 per attendee.	Periodically throughout each year of the Term	Post-Opening Training shall be offered at a location designated by us, which may be on-site, online, on-site, at our principal training facility, or any other location we designate. We may require you, your Operations Director, and any of your other employees to attend Post-Opening Training. At our expense, we shall provide instructors, facilities, training materials, and technical training tools in connection with the Regular Training. You are responsible for all other expenses your attendees incur in connection with attending Regular Training, including all travel, lodging, and meal expenses. However, you are solely responsible for all costs and expenses associated with any Special Training, including the then current training fee we charge for this training, if any, as well as all travel, meal, and lodging expenses that your attendees incur, if any. See Item 11 of this disclosure document for a further description of Post-Opening Training.

OTHER FEES			
TYPE OF FEE^{1,2,3}	AMOUNT	DUE DATE	REMARKS
Special Assistance	Our standard charges plus any actual out-of-pocket expenses. Our current standard charges are as follows, but are subject to change: (a) for on-site assistance, \$2,000 for the first day and \$1,800 each consecutive additional day; (b) for Skype or other web-based assistance, \$150 per hour (with a three hour minimum); and (c) for phone assistance, \$125 per hour.	Upon receipt of invoice	If you request non-routine guidance or other assistance to deal with your unusual or unique operating problems, make multiple requests in a limited period, or request training of your staff after we provide our initial training for you to open your Franchised Business, and we can reasonably accommodate your request, we will furnish that guidance and assistance. However, we will not charge any fee for the first 12 hours of special assistance in each year of the Term (but you will still be responsible for any out of pocket expenses we incur in providing special assistance).
Transfer Fee	\$20,000	Before transfer	Your transferee must pay this amount if you transfer your Franchise. The transferee pays this instead of paying an initial franchise fee. ⁵
Renewal Costs	All expenses we incur in connection with renewing your Franchise, up to a maximum of \$5,000.	Before entering Successor Franchise Agreement	You must reimburse us for all expenses we incur in connection with renewing your Franchise if you wish to enter a Successor Franchise Agreement when your current agreement expires. You pay this amount instead of an initial franchise fee under the Successor Franchise Agreement.
Audit	The understated amount and interest plus, if applicable, costs and expenses in connected with the audit and inspection.	Upon demand	If any inspection discloses that you have understated the amount of the Royalty Fee (or any other amount) actually due us, you must reimburse us for these amounts plus interest. If the understatement is 3% or more, you must reimburse us for the costs and expenses connected with the inspection (including reasonable accounting and attorneys' fees and costs).

OTHER FEES			
TYPE OF FEE^{1,2,3}	AMOUNT	DUE DATE	REMARKS
Reinspection	Our Standard Charges (currently \$150 per hour with a four hour minimum, but subject to change) plus any actual out-of-pocket expenses, but subject to change	Upon demand	If, after performing an inspection, we notify you of deficiencies that you must correct, you must reimburse us for all of our costs and expenses connected with any reinspection (including our then current fee and any out-of-pocket expenses).
Interest on Late Payments	Lesser of (i) 18% per year or (ii) maximum legal rate	Upon demand	Imposed if any payment you owe us is overdue.
Late Payment Charge	\$200 per late payment	Upon demand	Imposed if any payment you owe us is more than ten days overdue.
Review of Unapproved Suppliers	The reasonable cost of the inspection and the actual cost of the testing.	Upon demand	If you propose to purchase products or services from an unapproved supplier, you must submit to us a written request, or request the supplier itself to do so. As a condition of our approval, we may require that our representatives be permitted to inspect the supplier's facilities, and that samples from the supplier be delivered, either to us or to an independent, certified laboratory we designate for testing.
Indemnification	Amount of damages suffered	Upon demand	You must indemnify us and our affiliates, and our and their respective officers, directors, owners, employees and representatives for all damages it suffers and costs any of those parties incur relating in any manner to your ownership or operation of your Franchised Business.
Liquidated Damages – Expiration of Designated Brands IP	\$500 per occurrence	Upon demand	A Designated Brands Manufacturer may inform us of expiration dates relating to the use of certain Designated Brands IP. As of each expiration date, you shall immediately cease all use of the applicable Designated Brands IP and remove or replace that Designated Brands IP. For each failure by you to comply with these obligations, we may require you to pay us this amount; provided, that you will not be required to pay this amount for your first failure to comply with these obligations.

OTHER FEES			
TYPE OF FEE ^{1,2,3}	AMOUNT	DUE DATE	REMARKS
Marketing Fund	If we establish a marketing fund, you will be required to contribute no more than 2% of monthly Gross Revenues to the fund.	Concurrently with your monthly royalty payment.	We do not currently maintain a marketing fund, however, we retain the right to create, maintain and administer a marketing fund. If we require you to contribute 2% of monthly Gross Revenues to the fund, we will decrease any applicable Local Advertising spending requirements to 1% of monthly Gross Revenues.
Liquidated Damages Upon Termination	See endnote 6	Upon termination of your Franchise Agreement for cause	See endnote 6

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

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

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

⁶ If we terminate your Franchise Agreement for cause, you must pay us a lump-sum payment equal to the total of all Royalty Fees for a period determined as follows:

- (a) if your Franchised Business has been operating for 24 months or more, and at the time of termination there are 24 months or more remaining in the Term had it naturally expired and not been terminated, the 24 months of operating your Franchised Business preceding your default;
- (b) if your Franchised Business has been operating for 24 months or more, and at the time of termination there are less than 24 months remaining in the Term had it naturally expired and not been terminated (the number of the remaining months, the "Remaining Months"), the period of months (and any portion thereof) your Franchised Business has been operating preceding your default equal to the number of Remaining Months; or
- (c) if your Franchised Business has been operating for less than 24 months, the period of time your Franchised Business has been operating preceding your default, projected on a 24-month basis.

ITEM 7. ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT ¹					
TYPE OF EXPENDITURE	SMALLER MODEL ESTIMATED AMOUNT LOW-HIGH	BASE MODEL ESTIMATED AMOUNT LOW-HIGH	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Initial Franchise Fee	\$35,000	\$35,000	Lump sum	When you sign your Franchise Agreement	SPEC

YOUR ESTIMATED INITIAL INVESTMENT ¹					
TYPE OF EXPENDITURE	SMALLER MODEL ESTIMATED AMOUNT LOW-HIGH	BASE MODEL ESTIMATED AMOUNT LOW-HIGH	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Website Fee	\$4,000	\$4,000	Lump Sum	When you sign your Franchise Agreement	Vendors
Real Estate Improvements ²	\$250,000 to \$385,000	\$500,000 to \$600,000	Lump sum	As incurred	Contractors, vendors and suppliers
Building Signage ³	\$7,000 to \$35,000	\$7,000 to \$35,000	Lump sum	As incurred	Contractors, vendors and suppliers
Equipment/Furnishings ⁴	\$160,000 to \$175,000	\$300,000 to \$450,000	Lump sum	As incurred	Vendors and suppliers
Initial Training Attendance ⁵	\$4,000 to \$6,000	\$4,000 to \$6,000	Lump sum	As incurred	Vendors
Computer Equipment/Phone and Alarm Systems ⁶	\$12,000 to \$20,000	\$12,000 to \$20,000	Lump sum	As incurred	Vendors and suppliers
Inventory to Begin Operating	\$6,000 to \$12,000	\$12,000 to \$24,000	As incurred	Before opening	Vendors and suppliers
Insurance ⁷	\$4,000 to \$8,000	\$4,000 to \$12,000	Lump sum	Before opening	Insurance Companies
Utility Deposits and Other Prepaid Expenses	\$2,000 to \$9,000	\$2,000 to \$9,000	Lump sum	Before opening	Vendors and suppliers
Licenses and Permits ⁸	\$3,500 to \$7,500	\$3,500 to \$7,500	Lump sum	Before opening	Governmental authorities
Professional Fees	\$3,000 to \$9,000	\$3,000 to \$9,000	Lump sum	Before opening	Lawyers, accountants, etc.
Additional Funds (3 month initial phase) ⁹	\$50,000 to \$100,000	\$75,000 to \$175,000	Various	As incurred	Employees, suppliers, etc.
Total ¹⁰	\$540,500 to \$805,500	\$961,500 to \$1,386,500			

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

² The cost of real estate improvements will vary depending on numerous factors, including (a) the size and configuration of the premises, (b) pre-construction costs, (c) cost of materials and labor, (d) location of the premises and local conditions, and (e) whether costs will be incurred by the landlord if the premises is leased. These costs include, but are not limited to, demolition, rough carpentry, finish carpentry, ceilings, tile flooring and walls,

millwork, carpet and floor finishes, wall finishes, fire protection, HVAC, walls, electrical systems, plumbing, lighting and fixtures.

³ The high end amount of this range assumes that you have exercised your option to obtain, or have been required by your landlord to obtain, a monument or readerboard sign. The estimated range of costs for these types of signs is \$20,000-\$25,000. This amount does not include installation which will vary depending upon your market location. Your actual costs may also be affected by any restrictions placed by your landlord on interior and exterior signage.

⁴ This amount includes the estimated costs of furniture, desks, and office equipment (including but not limited to styling stations, pedicure stations, color bar, sinks and cabinetry). The cost of these items will vary depending on the size and configuration of the premises.

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

⁶ This amount includes the computer equipment and software necessary to operate your Franchised Business, as well as telephone and alarm systems.

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

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

⁹ These represent an estimate of only the range of expenses for your initial start-up phase, which is estimated to be three months from when you begin operating your Franchised Business. The additional funds you will need to operate during this phase include payroll costs, rent, utilities, and on-going advertising—but do not include any salary or allowance for an owner's draw; any royalty fees, advertising contributions, any other amounts you must pay us, or any additional inventory you may need after your initial inventory is consumed. These figures are estimates and we cannot guarantee that you will not have additional expenses starting the business. The actual amount of additional funds you will need during the initial phase of operating will depend on factors such as: the size and location of your Franchised Business, how much you follow our methods and procedures; your management skill, experience, and business acumen; local economic conditions; the local market for your products and services; competition, and other factors. By providing these estimates of your costs, we are not making any representation that you will have any level of sales. The estimates are of your expenses only and do not reflect any offsetting sales revenue you may earn from operations to pay those expenses. We do not make any earnings claims. The estimate of Additional Funds for three months shown on the table above is not an estimate of working capital that you will need, but relates only to certain (but not necessarily all) expenses for the three month time period. The three month time period is not a representation of, nor is intended to suggest, when you should expect to break even, if ever.

¹⁰ We relied on our management's past experience, and that of existing The Salon Professional Academy businesses, as well as industry trends, to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise. We do not offer direct or indirect financing for any items.

ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Authorized Specifications and Suppliers

To the extent we may periodically require, you must purchase or lease equipment, supplies, advertising materials, various printed goods, and other products and services used to operate your Franchised Business according to our standards and specifications and solely from manufacturers and suppliers we authorize in writing. We may revoke a supplier's authorization at any time. Manufacturers and suppliers must demonstrate, to our continuing satisfaction, that they possess: (a) the ability to meet our reasonable standards and specifications for the items; and (b) adequate quality controls and capacity to supply your

needs promptly and reliably. When considering whether to approve suppliers for our franchisees and Company-Owned Units, we may consider any other relevant factors, including any factors relating to the price and quality of the products or services, the reliability of the supplier, and the economic benefits and incentives the supplier may provide to us (including rebates). We may approve a single supplier for any product or service. We may concentrate purchases with one or more suppliers to obtain the lowest prices or the best advertising support or services for any group of franchised businesses or Company-Owned Units. However, our authorization or approval of a supplier is not, directly or indirectly, a representation or warranty relating to the supplier's products or services. Our authorization or approval is an expression only that our minimum requirements for us to grant it have been met, or waived, in our sole discretion. We may periodically designate ourselves or an affiliate as an authorized or exclusive supplier of any product or service used to operate your Franchised Business. Except as set forth below, neither we, our affiliates, nor any of our suppliers are the exclusive suppliers of any product or service used to operate your Franchised Business. Our affiliate Salon Brand It, LLC is an authorized supplier for certain promotional products. You are not required to purchase anything from it, but we may require purchases of goods or services from it in the future. Our affiliate Fuel Productions, LLC is an exclusive supplier for certain training materials.

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

Designated Brands Manufacturers

We may designate certain parties as designated brands manufacturers (each, a "Designated Brands Manufacturer") for supplying certain cosmetology, hairdressing or esthetician products and services (and advertising and promotional materials related to these products and services). We have currently designated the following Designated Brands Manufacturers: (a) L'Oréal USA Creative, Inc., the owner of the **Redken and Redken 5th Avenue NYC** trademarks ("L'Oréal"), and (b) Fuel Productions, LLC (d/b/a Fuel Education Systems), the owner of the **Fuel for Design** brand. We may enter into agreements with the Designated Brands Manufacturers to provide certain services and products and to allow us to authorize our franchisees to use certain materials in their franchised businesses and to promote the Designated Brands Manufacturers. Unless we otherwise require, you will purchase those services, products and materials directly from the Designated Brands Manufacturer or its designees. Each Designated Brands Manufacturer is our independent contractor and is not our agent, franchisor, legal representative, subsidiary, joint venture, partner, employee, or affiliate for any purposes whatsoever. You shall have no direct license with L'Oréal during the Term.

Subject to the applicable Designated Brands Manufacturer's and our requirements, standards, and usage guidelines, as may be periodically changed, you shall: (a) exclusively use and promote those goods and services relating to those brands of the Designated Brands Manufacturers that we designate (the "Designated Brands"); (b) maintain the goodwill related to Designated Brands; (c) utilize the Designated Brands Manufacturer's educational support materials, training modules, and training techniques in our curriculum; (d) procure an install furniture and fixtures bearing the Designated Brands Manufacturer's trademarks; and (e) display the Designated Brands' trademarks and images in advertising and promotions.

The manner and use of the Designated Brands Manufacturer's goods, services, trademarks, brands, advertising, images and other intellectual property (collectively, the "Designated Brands IP") is in the sole discretion of the Designated Brands Manufacturer and us (and, if applicable, the owners of the trademarks of the Designated Brands IP). We authorize you to use the Designated Brands IP only as authorized by us and only in accordance with standards, guidelines and specifications periodically set by the Designated Brands Manufacturer or us and in a manner consistent with the premium quality associated with the Designated Brands IP. At your sole cost and expense, you agree to furnish to the Designated Brands Manufacturer or us samples of any materials incorporating the Designated Brands IP for inspections to

assurance conformance to applicable standards (and make any corresponding payments directly to them and not to us).

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

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

Approval of New Suppliers

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

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

Construction of the Premises

You must retain a qualified architect or engineer to prepare a site plan and plans and specifications adapting our Design Specifications to your approved location and to applicable laws and lease

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

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

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

Refurbishing

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

Insurance

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

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

Computer System

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

Curriculum

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

Revenues Derived from Required Purchases and Leases

Except for the rebates discussed below that were received by our affiliates, we do not currently derive any revenues from your required purchases of the goods and services that you will sell or need to operate your franchised business. In 2013, our affiliate, Fuel Productions, LLC, had \$323,505 in revenues from franchisees' purchases of certain training materials.

The cost of purchases from designated sources or according to our specifications is estimated to represent approximately 30-35% of your total purchases in connection with the establishment of your Franchised Business. After you open, the cost of purchases from designated sources or according to our specifications is estimated to represent approximately 75%-80% of your total purchases to operate your Franchised Business.

Supplier Rebates

Neither our affiliates nor we receive, and did not receive in the past year, any rebates from required purchases or leases.

Purchasing or Distribution Cooperatives; Purchase Arrangements

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

We do not provide material benefits to you based upon your purchase of particular products or services or use of particular suppliers.

ITEM 9. FRANCHISEE'S OBLIGATIONS

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

FRANCHISEE'S OBLIGATIONS		
OBLIGATION	SECTION IN FRANCHISE AGREEMENT	DISCLOSURE DOCUMENT ITEM
a. Site selection and acquisition/lease	Sections 2.2 and 4.1	Items 8, 11, and 12
b. Pre-opening purchases/leases	Sections 2.3, 2.4, 4.1, 4.9, 4.12 and 4.13	Items 7, 8 and 11
c. Site development and other preopening requirements	Sections 4.1, 4.2, 4.3, and 4.4	Items 7, 8 and 11
d. Initial and ongoing training	Sections 2.5 and 2.7	Item 11
e. Opening	Sections 4.4	Items 7 and 11
f. Fees	Article 3	Items 5, 6, and 7
g. Compliance with standards and policies/ operating manuals	Sections 4.5, 4.6, 4.7, 4.8, 4.12, 4.13, 6.1 and 6.3	Items 8 and 11
h. Trademarks and proprietary information	Articles 5 and 6	Items 13 and 14
i. Restrictions on products/services offered	Section 4.7, 4.8, 4.20	Item 16
j. Warranty and customer service requirements	Sections 4.7 and 4.10	Not applicable
k. Territorial development and sales quotas	Not applicable	Not applicable
l. Ongoing product/service purchases	Sections 2.3, 2.4, 4.5, 4.6, 4.7, 4.9, 4.12, 4.15 and 4.19	Item 8
m. Maintenance, appearance and remodeling	Sections 4.5, 4.6, 4.7, 4.9, 4.19, and 16.2	Items 6 and 17
n. Insurance	Article 9	Items 7 and 8
o. Advertising	Article 7	Items 6, 7, and 11
p. Indemnification	Sections 14.2 and 18.15	Item 6
q. Owner's participation/management/staffing	Sections 4.4, 4.11 and 4.12	Item 15
r. Records/reports	Article 8	Not applicable
s. Inspections/audits	Sections 4.12, 4.22, 4.25, Article 8, and 9.3	Item 6
t. Transfer	Article 10	Items 6 and 17
u. Renewal	Article 16	Items 6 and 17
v. Post-termination obligations	Article 12	Item 17
w. Non-competition covenants	Article 13	Item 17

FRANCHISEE'S OBLIGATIONS		
OBLIGATION	SECTION IN FRANCHISE AGREEMENT	DISCLOSURE DOCUMENT ITEM
x. Dispute resolution	Article 17, Sections 18.10, 18.14, 18.23 and 18.24	Item 17

ITEM 10. FINANCING

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

Franchisees are eligible for expedited and streamlined SBA loan processing through the SBA's Franchise Registry Program, www.franchiseregistry.com.

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

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

Pre-Opening Assistance

Before you open your Franchised Business, we will:

- if upon signing of your Franchise Agreement the Site for your Franchised Business has not been approved, provide you with our Site-Selection Criteria. If we consider on-site evaluation necessary or appropriate (either on our own initiative or at your request), we may make on-site evaluations of your proposed Site. Our approval of a Site is not a representation or warranty that your Franchised Business will be profitable or that your sales will attain any predetermined levels—our approval only indicates that the proposed Site meets our minimum criteria for identifying sites, if any (Franchise Agreement, Sections 2.2 and 4.1);
- provide you with specifications, if any, of our requirements for design, decoration, layout, equipment, furniture, fixtures and signs for your Franchised Business (the "Design Specifications") (Franchise Agreement, Section 2.3);
- provide you with specifications, if any, for uniforms for your employees and/or students (Franchise Agreement, Section 2.3);
- provide you with a list of required equipment, supplies, materials, inventory and other items necessary to operate your Franchised Business and a list of approved and/or recommended suppliers of these items (Franchise Agreement, Section 2.4);
- provide you with a list of items, if any, that you must purchase from our affiliates or us (Franchise Agreement, Section 2.4);
- provide you with a list, if any, of recommended, but not required, equipment, supplies and other items, and a list of approved and/or recommended suppliers of these items (Franchise Agreement, Section 2.4);
- provide you with an initial set of forms, concluding various operational forms (Franchise Agreement, Section 2.4)
- either supply you with standardized accounting and cost-control systems or designate Software that you must acquire (Franchise Agreement, Section 2.4);
- provide Initial Franchise Training for you, your Operations Director, and any of your employees that we require or approve to attend training (Franchise Agreement, Section 2.5); and
- provide you a copy of the Manuals (with periodic revisions as required), which may be provided in an electronic medium, including by download from our website. (Franchise Agreement, Section

2.6 – The table of contents of the present form of the Manual, including its total number of pages and the number of pages devoted to each topic, is attached to this disclosure document as Exhibit B).

Post-Opening Assistance

During the operation of your Franchised Business, we will:

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

Advertising

Local Advertising

On the first day of each calendar quarter, beginning with the first day of the first full calendar quarter following the Agreement Date, you are required to determine the average Student Capacity for the immediately previous calendar quarter. If the average Student Capacity for the immediately previous calendar quarter is less than the applicable Capacity Percentage, then for each of the months of that calendar quarter you must spend a minimum of 2% of such month’s Gross Revenues on Local Advertising. “Student Capacity” means, for any month, the fraction, expressed as a percentage, the numerator of which is the number of enrolled students in the Franchised Business as of the last day of such month, and the denominator of which is the maximum student capacity of the Franchised Business as of the last day of such month. “Capacity Percentage” means: (i) 80% if the date of determination is during the first five years of the Term; and (ii) 85% if the date of determination is during the sixth and subsequent years of the Term. Except as stated above, we do not currently require you to spend any minimum amount on Local Advertising (although we encourage you to conduct Local Advertising). (Franchise Agreement, Section 7.1.a)

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

Internet Restrictions

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

We shall maintain a website that provides general information about the System. In addition, in consideration of an initial website fee and an ongoing monthly fee, our designated supplier shall establish and maintain a microsite for your Franchised Business. The current website fee is \$220 per month. We may periodically increase the monthly website fee as described in Item 6. You shall have the option to choose the content of your microsite from the content options periodically offered by us. You may request customizations to the microsite that are not included in our offered content and are approved by us in advance, but you will be solely responsible to pay our designated supplier's then current hourly rate for customized microsite work. For administrative purposes, we may require you to pay the monthly website fee directly to us instead of the third party supplier. In addition, you shall have the right to advertise, market, or otherwise promote your Franchised Business on the Internet or through any social media as long as you comply with our Internet policies periodically in effect. Except as provided in this paragraph, without our prior written consent, you shall not develop, establish, operate, own, license, use or participate in a website on which the Proprietary Marks appear or otherwise use any of the Proprietary Marks on or in connection with the Internet, including (a) in domain names (including top level or country code domain names and folder extensions in domain names), (b) in metatags in your website, (c) in social media user names, (d) by publishing, linking or deeplinking to any of our websites in connection with social media websites, or (e) in sponsored advertising programs. (Franchise Agreement, Section 7.3)

Marketing Funds, Cooperatives, and Advertising Councils

Although we currently do not have a marketing fund, cooperative, or advertising council, we reserve the right to establish a marketing fund, cooperative, or advertising council in the future. We do not intend to start a marketing fund unless and until there are at least 50 franchisees in the Chain. If we establish a marketing fund, cooperative, or advertising council, it will be established and operated according to rules and regulations promulgated by the NASAA Guidelines. If we establish a marketing fund, we will administer the fund, and may require you to contribute to the fund; provided, that we will not require you to contribute greater than 2% of monthly Gross Revenues to the fund. If we do require you to contribute 2% of monthly Gross Revenues to the fund, we will decrease any applicable Local Advertising spending requirements to 1% of monthly Gross Revenues. Advertising contributions made by you will be on the same basis. We have no company-owned units, but we expect that if we have any in the future that they will also be on the same basis. We intend to require substantially all franchisees who buy

franchises after the date of this offering to contribute at the same rate. The purpose of an advertising council would be to advise us about advertising, marketing, operations, new product and services suggestions, and other matters relating to the System. (Franchise Agreement, Section 7.2) We currently do not require you to join a regional or local advertising cooperative. We are not required to spend any amount on advertising in the area or territory where your Franchised Business is located. If we establish a marketing fund in the future, the fund will not be independently audited; however, a report of the operations of the fund will be prepared every year at the expense of the fund and you will be able to obtain a copy either electronically or by mail upon written request.

Computer System

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

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

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

The Site for Your Franchised Business

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

If you have not selected an approved Site by the time you sign your Franchise Agreement, you must submit to us a proposed Site within the Reserved Area within 120 days after signing your Franchise Agreement. We will not unreasonably withhold approval of any site that meets our Site-Selection Criteria. Our Site-Selection Criteria include minimum standards, if any, for or concerning demographic characteristics, traffic patterns, parking, the predominant character of the neighborhood, competition from other businesses providing similar services within the area, the proximity to other businesses and the nature of

these businesses, the size, appearance, and other physical characteristics of the Site, and any other factors that we may consider relevant to approving or disapproving a Site. We will review Site approval submissions on a first-in basis. If we reject your selected Site, you have 90 days after delivery of written notice of rejection to submit a new Site within the Reserved Area for our written approval. If a Site has not been approved by us within 210 days of the date that you sign your Franchise Agreement, we may terminate your Franchise Agreement. Within 270 days after the date you sign your Franchise Agreement, you must, at your expense, complete the acquisition or lease arrangements to acquire or lease the Premises for your Franchised Business. If you do not complete the acquisition or lease of the Premises within this 270 day period, we may terminate your Franchise Agreement. (Franchise Agreement, Section 4.1)

Construction of the Premises

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

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

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

Time between Signing Your Franchise Agreement and Opening the Franchised Business

The typical length of time between your signing of your Franchise Agreement and the opening of your business is expected to be from six to nine months. Factors that may affect this typical time period include your ability to negotiate and obtain a lease at a satisfactory location, negotiate and obtain financing, procure the requisite building permits, comply with zoning and local ordinances, install equipment, fixtures, and signage, recruit competent staff, and schedule and complete Initial Franchise Training. However, if you don't satisfy all of the conditions pertaining to opening your Franchised Business as stated in your Franchise Agreement and open your Franchised Business within 12 months of the date you sign your Franchise Agreement, we may terminate your Franchise Agreement.

Employees

You are exclusively responsible for the terms of your employees' employment and compensation and, except for training provided by us under your Franchise Agreement, for the proper training of your employees in operating your Franchised Business. You are solely responsible for making and performing all

employment decisions and functions, including those related to hiring, firing, establishing wage and hour requirements, disciplining, supervising and record keeping.

Training

Initial Franchise Training

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

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

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

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

SUBJECT	HOURS OF CLASSROOM TRAINING	HOURS OF ON-THE-JOB TRAINING	LOCATION WHERE TRAINING HELD
Introduction to Franchise Training and the System	5 hours	N/A	Online; telephone
Site Selection and Buildout	19 hours	N/A	On-site; telephone
Marketing	3 hours	N/A	Online; telephone
Management of Books and Records	1 hour	N/A	Online; telephone
Admissions Training	1 hour	40 hours	Training location in your region; online; telephone

SUBJECT	HOURS OF CLASSROOM TRAINING	HOURS OF ON-THE-JOB TRAINING	LOCATION WHERE TRAINING HELD
Education Training	7 hours	88 hours	Training location in your region; online; telephone; on-site
Staff Development Training	N/A	8 hours	Online; telephone
TOTAL	36 hours	136 hours	

Jesse Bienlenberg is a licensed cosmetology instructor, with ten years of experience in the field, specializing in the principles of hair color, and has been with SPEC for six years. She provides hair coloring and curriculum training.

Marilyn Fulkerson has worked in the field of cosmetology for 41 years, specializing in Student Financial Aid. She has been with SPEC for eleven years and is currently our Executive Vice President of Admissions/Student Loan Programs/Regulations. She provides admissions and financial aid training.

Kimberlee Janssen has worked in the field of cosmetology for 20 years, specializing in front office sales. She has been SPEC's Director of Sales for four years. She provides front office training.

Sarah Ludblad has worked in the field of cosmetology for 15 years, specializing in Student Admissions. She has been with SPEC for 11 years as our Admissions /Academy Operations Director. She provides training in admissions and curriculum.

Eric Plunkett has 12 years of experience in Sales and Staff Management Development with various businesses. He has been a staff development trainer with SPEC for three years.

Sonja Plunkett is a licensed cosmetology instructor and has been in the field of cosmetology for 30 years. She specializes in Academy Operations and Education, and has been a Director of Operations for 10 years for a major beauty school. She has been with SPEC for 11 years and is currently an Executive Vice President of us. She provides operations training.

Mona Radermacher is a licensed cosmetology instructor and has been in the field of cosmetology for 28 years. She has been a curriculum and principle based design instructor with SPEC for nine years.

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

Post-Opening Training

We will offer the following amounts of additional training programs and seminars (collectively, "Regular Training"): (i) during the first year following your Opening Date, 156 hours of Regular Training; (ii) during the second year following your Opening Date, 111 hours of Regular Training; and (iii) during the third and each of the subsequent years following your Opening Date, 100 hours of Regular Training. We may also offer refresher, advanced or additional programs and seminars over and above the Regular Training ("Special Training," and collectively with the Regular Training, "Post-Opening Training"). Post-Opening Training shall be offered at a location designated by us, which may be on-site, online, at our principal training facility, or at another location designated by us. We may require you, your Operations Director and any of your other employees that we may designate to attend Post-Opening Training. At our expense, we shall provide instructors, facilities, training materials, and technical training tools in connection with the Regular Training. You are responsible for all other expenses your attendees incur in connection with attending Regular Training, including all travel, lodging, and meal expenses. However, you are solely

responsible for all costs and expenses associated with any Special Training, including the then current training fee we charge for this training, if any, as well as all travel, meal, and lodging expenses that your attendees incur, if any. In our discretion, we may provide Post-Opening Training to multiple franchisees at the same time. You are responsible to ensure that your attendees attend Post-Opening Training at the applicable times and locations offered by us. We have no obligation to provide Post-Opening Training at any specific times or locations, or on an individual franchisee basis. If you do not complete the full amount of hours of the Regular Training in any year of the Term, you may not carry over any unused hours to the next year of the Term. Post-Opening Training may include instruction in one or more of the following areas: marketing, promotions, and advertising; management; cosmetology education and training; recruiting and admissions; student placement; accreditation; and operations. We reserve the right to modify the content of the Post-Opening Training. (Franchise Agreement, Sections 2.5 and 2.7)

Assistance vs. Training.

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

ITEM 12. TERRITORY

Grant for a Specific Area

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

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

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

Competition may arise from various sources. We have described this generally in Item 1. For example, you may face competition from other channels of distribution or schools operating under competitive brands that we or our affiliates control. In addition to our right to use and grant others the right to use the Proprietary Marks anywhere outside the Protected Territory, all rights not expressly granted to you in your Franchise Agreement concerning the Proprietary Marks or other matters are reserved by us, including the right to establish, develop, and license or franchise other systems, different from our franchise system licensed under your franchise agreement, within or outside the Protected Territory, without offering or providing you any rights in, to, or under the other systems. We are working with L’Oreal (or its affiliate) for us or our affiliate to establish in the future a franchise system offering the operation of cosmetology schools under a different trademark, which may be inside or outside the Protected Territory. We expect the timetable for implementing this plan to be within the next year. If we or our affiliate does establish this new system, we do not intend that there will be any franchisor-owned outlets. In addition, although we do not plan on maintaining a separate physical office for the new system, we expect that we or our affiliate will maintain separate operational and support systems (including training systems) for the new system. Customers and students will choose which locations to visit based upon their preferences, including the distinguishing characteristics of the franchise system, pricing, location and the specific services offered. If any conflicts arise between franchisees and us or between the franchisees of each system regarding territory, customers or franchisor support, we expect to gather all relevant facts and determine in our sole discretion whether any action should be taken regarding such matter. Additionally, if we acquire a competitive system, we have a limited period of one year to transfer or close that system’s schools in the Protected Territory.

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

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

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

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

ITEM 13. TRADEMARKS

Principal Trademarks

Under your Franchise Agreement, we grant you the right to operate your Franchised Business under the trademarks *The Salon Professional Academy* and the logo displayed below. These are the principal trademarks used to identify your Franchised Business and are owned by us. The following tables summarize the pertinent information concerning our principal trademarks.

TRADEMARK REGISTERED ON THE U.S. PATENT AND TRADEMARK OFFICE (“PTO”)			
PRINCIPAL REGISTER			
TRADEMARK	OWNER	REGISTRATION NO.	REGISTRATION DATE
<i>THE SALON PROFESSIONAL ACADEMY</i>	SPEC	4,010,746	8/16/2011

TRADEMARK REGISTERED ON THE U.S. PATENT AND TRADEMARK OFFICE ("PTO")			
PRINCIPAL REGISTER			
TRADEMARK	OWNER	REGISTRATION NO.	REGISTRATION DATE
<i>GROWING SALON LEADERS ONE STUDENT AT A TIME</i>	SPEC	3,615,463	5/5/2009
<i>THE SALON PROFESSIONAL ACADEMY LOGO</i>	SPEC	4,523,016	4/29/14

We have filed the Section 8 affidavit for *GROWING SALON LEADERS ONE STUDENT AT A TIME* and will file our Section 15 affidavit for that mark when we believe we are eligible to do so. Because the other marks have not yet been registered for five years, we have not yet filed Section 8 or 15 affidavits for them.

Currently Effective Trademark Determinations

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

Agreements Significantly Limiting Your Rights to Use the Marks

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

Protection of Your Right to Use the Trademarks

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

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

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

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

Knowledge of Superior Rights or Infringing Uses

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

ITEM 14. PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION.

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

You must maintain the confidentiality of the Manuals, as well as all knowledge, know-how, technologies, techniques and other proprietary information that we reveal to you as being confidential and treat this information as trade secrets. You must strictly limit access to the confidential information to your employees who have a “need to know” in order to perform their jobs. All persons to whom you grant access to the Manuals or any other confidential information must be required to comply with the confidentiality provisions of your Franchise Agreement and may be required to sign our standard confidentiality agreement. You may use our Proprietary Property only in connection with operating your Franchised Business in accordance with the terms of your Franchise Agreement, and, without our written consent, you shall not sublicense or otherwise grant any third party the right to use our Proprietary Marks in their advertising, website or otherwise;

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

Your Franchised Business must be supervised by an operations director (your “Operations Director”). Your Operations Director shall devote, on a full-time basis, his or her best efforts to managing and operating your Franchised Business. At all times it is open for business, your Franchised Business requires your Operations Director’s day-to-day supervision. A Franchise Owner¹ must either serve as your Operations Director or you must hire a qualified individual to serve as your Operations Director. The initial and any successor Operations Director must, to our satisfaction, complete Initial Franchise Training and meet our minimum requirements, if any, for education, certification, as well as experience relevant to managing operating your Franchised Business. If your Operations Director is an individual other than a Franchise Owner, and your Operations Director fails to satisfy his or her obligations due to death, disability, termination of employment, or for any other reason, a Franchise Owner shall satisfy these obligations until you designate a new Operations Director of your Franchised Business in accordance our requirements.

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

ITEM 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You are permitted to sell only goods and services approved by us and must sell all goods and services authorized by us. We may change the types of authorized goods and services that you must sell and there are no limits to our right to make changes.

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

¹ The “Franchise Owner” is: (a) if Franchisee is one or more individuals, each such individual; (b) if Franchisee is an entity, each individual that, directly or indirectly, owns any ownership or voting interests in such entity.

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

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

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
a. Length of the franchise term	Section 16.1	Initial term is 10 years.
b. Renewal or extension	Section 16.2	If you satisfy the conditions in the Franchise Agreement, you may obtain a Successor Franchise Agreement for one additional term of 10 years.
c. Requirements for you to renew or extend	Section 16.2	Requirements to renew or extend include that you must: Provide prior notice to us; satisfy all monetary obligations to us; not be in default (and not have received three or more notices of default during term); sign a Successor Franchise Agreement, the terms of which may materially differ from the terms of your initial franchise agreement (including an increased Royalty Fee and Technology Fee, if any); sign a release; reimburse us for all expenses incurred entering the Successor Franchise Agreement (but not more than \$5,000); perform any required renovation or replacement of equipment and facilities; and be lawfully entitled to occupy the Premises for the entire Successor Term.
d. Termination by you	None	Not Applicable
e. Termination by Franchisor without cause	None	Not Applicable
f. Termination by Franchisor with cause	Sections 11.1, 11.2, and 11.3	We can terminate your Franchise only if you default under the Franchise Agreement.
g. "Cause" defined-curable defaults	Section 11.3	You have 30 days after notice to cure all defaults other than those in Sections 11.1 and 11.2 of the Franchise Agreement.

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
h. "Cause" defined-non-curable defaults	Sections 11.1 and 11.2	Non-curable defaults include: bankruptcy; insolvency; appointment of a receiver; abandoning your Franchised Business; breach of confidentiality and non-competition covenants; forbidden transfer of your rights or the Franchise Agreement; failure to pay any amount due us within 10 days after we deliver notice of nonpayment; misuse or unauthorized use of the Proprietary Property; receiving three or more notices of default in any 12 month period (regardless of whether the defaults were cured); default by you or any of your affiliates under any agreement with third parties that we require you to enter according to your Franchise Agreement.
i. Your obligations on termination/nonrenewal	Article 12	Obligations include: ceasing current operations; at our option assigning your lease to us; distinguishing future operations; paying amounts due; removal of internet references; and returning Confidential Information.
j. Assignment of contract by Franchisor	Section 10.1	No restrictions on our right to assign.
k. "Transfer" by you-defined	Section 10.2	Without our prior written consent, you may not sell, assign, convey, or otherwise dispose of—voluntarily, involuntarily, directly or indirectly, by operation of law or otherwise—any direct or indirect interest in your Franchise Agreement. The term "transfer" refers to any of the preceding actions. A transfer of 25% or more of the ownership or voting interests in corporate, limited liability company, or partnership franchisees, is considered a transfer of an interest in your Franchise Agreement.

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
l. Franchisor's approval of transfer by franchisee	Sections 10.2 and 10.4	We have the right to approve all transfers, except the following transfers (if the conditions in your Franchise Agreement are met): (a) from an individual franchisee to a wholly-owned corporation or limited liability company (as long as the individual owners guarantee all obligations of the entity); or (b) of all or part of an interest in you to one of the other original shareholders, members, or partners. However, we will not unreasonably withhold our consent to a proposed transfer if all of the conditions in Section 10.2 of your Franchise Agreement are met.
m. Conditions for Franchisor's approval of transfer	Section 10.2	Conditions include: We have not exercised our right of first refusal; you are not in default; transferee has sufficient experience; transferee satisfactorily completes our application; at our option, transferee assumes all your obligations as stated in an assignment and assumption agreement or signs our then standard form of franchise agreement (the terms of which may significantly differ from the terms of your Franchise Agreement—including an increased Royalty Fee and Technology Fee, if any); transferee agrees to perform required renovations and replacements of equipment, and completes training; transferee or transferor pays a \$20,000 transfer fee; and transferee and you satisfy any other conditions we reasonably impose.
n. Franchisor's right of first refusal to acquire your business	Section 11.4	We can match any offer or offers for: (a) the ownership interests of one or more Franchise Owners that, if one or more of the offers are consummated, would result in the transferee owning a majority of the ownership interests or profits of the Franchisee; (b) your interest in the Franchise Agreement; or (c) for all or a material part of your assets. We have no right of first refusal if the proposed transferee is your spouse, son, or daughter, or a trust formed for those individuals.

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
o. Franchisor's option to purchase your business	None	Not Applicable
p. Death or disability of franchisee	Section 11.3	If a Franchise Owner is serving as your Operations Director and he or she dies or becomes disabled, you have six months to retain a replacement to perform his or her obligations under the Franchise Agreement. If a satisfactory replacement is not hired within that six month period, that Franchise Owner (or his or her legal representative) must transfer his or her ownership interests in Franchisee in accordance with your Franchise Agreement within an additional six months.
q. Non-competition covenants during the term of the franchise	Article 13	No involvement with a competing business anywhere.
r. Non-competition covenants after the franchise is terminated or expires	Article 13	For 24 months after expiration or termination of your Franchise Agreement no involvement with a competing business within 50 miles of your Premises or the premises of any other The Salon Professional Academy business then in operation or under construction.
s. Modification of the agreement	Article 13 and Sections 6.3, 18.2, and 18.3	No modifications unless signed by the party against whom enforcement is sought, but we may unilaterally revise the Manuals, modify our System, and reduce the scope of your non-compete covenant.
t. Integration/merger clause	Section 18.20	Only the terms of the Franchise Agreement and other contracts that you sign in connection with such agreement are intended to be binding (subject to state law). We do not intend for any other promises or representations to be enforceable. This is not intended to disclaim, or require you to waive reliance on, any representation made in this Franchise Disclosure Document, except with respect to specific contract terms and conditions stated in this Franchise Disclosure Document that you voluntarily waive during the course of franchise-sale negotiations.

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
u. Dispute resolution by arbitration or mediation	Not applicable	Disputes may not be arbitrated or mediated.
v. Choice of forum	Section 18.11	Litigation must be brought in the courts of record of the State of North Dakota, Cass County, or the District Court of the United States, District of North Dakota. But we may seek injunctive relief in any jurisdiction that has jurisdiction over you. The parties waive their right to a jury trial. All the foregoing terms are subject to state laws.
w. Choice of law	Section 18.10	Except to the extent the Lanham Act, Copyright Act, or Federal Arbitration Act governs, North Dakota law applies, subject to state laws.

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

ITEM 18. PUBLIC FIGURES

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

ITEM 19. FINANCIAL PERFORMANCE REPRESENTATION

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

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Jill Krahn at Salon Professional Education Company, 4377 15th Avenue South, Fargo, ND 58103, 888-478-6856 (or JKrahn@SPECfranchise.com), the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20. OUTLETS AND FRANCHISEE INFORMATION

**SYSTEMWIDE OUTLET SUMMARY
FOR YEARS 2011 TO 2013**

TABLE 1

OUTLET TYPE	YEAR	OUTLETS AT THE START OF THE YEAR	OUTLETS AT THE END OF THE YEAR	NET CHANGE
FRANCHISED	2011	23	24	+1
	2012	24	24	0
	2013	24	23	-1
COMPANY-OWNED	2011	0	0	0
	2012	0	0	0
	2013	0	0	0
TOTAL OUTLETS	2011	23	24	+1
	2012	24	24	0
	2013	24	23	-1

**TRANSFER OF OUTLETS FROM FRANCHISEES TO NEW OWNERS (OTHER THAN THE FRANCHISOR)
FOR THE YEARS 2011 TO 2013**

TABLE 2

STATE	YEAR	NUMBER OF TRANSFERS
TOTAL OUTLETS	2011	0
	2012	0
	2013	0

**STATUS OF FRANCHISED OUTLETS
FOR YEARS 2011 TO 2013**

TABLE 3

STATE	YEAR	OUTLETS AT START OF YEAR	OUTLETS OPENED	TERMINATIONS	NON-RENEWALS	REACQUIRED BY FRANCHISOR	CEASED OPERATIONS-OTHER REASONS	OUTLETS AT END OF THE YEAR
CA	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
FL	2011	3	1	0	0	0	0	4
	2012	4	0	0	0	0	0	4
	2013	4	0	0	0	0	0	4

STATE	YEAR	OUTLETS AT START OF YEAR	OUTLETS OPENED	TERMINATIONS	NON-RENEWALS	REACQUIRED BY FRANCHISOR	CEASED OPERATIONS-OTHER REASONS	OUTLETS AT END OF THE YEAR
IA	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
IL	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
IN	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
KY	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
MT	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	1	0	0	0
MO	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	1	0	0	0	0
NJ	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
NY	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
ND	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
OH	2011	3	0	0	0	0	0	3
	2012	3	0	0	0	0	0	3
	2013	3	0	0	0	0	0	3
PA	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1

STATE	YEAR	OUTLETS AT START OF YEAR	OUTLETS OPENED	TERMINATIONS	NON-RENEWALS	REACQUIRED BY FRANCHISOR	CEASED OPERATIONS-OTHER REASONS	OUTLETS AT END OF THE YEAR
TX	2011	2	0	0	0	0	0	2
	2012	2	0	0	0	0	0	2
	2013	2	1	0	0	0	0	3
VT	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	1	0	0	0
WA	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
WI	2011	2	0	0	0	0	0	2
	2012	2	0	0	0	0	0	2
	2013	2	0	0	0	0	0	2
TOTAL	2011	23	1	0	0	0	0	24
	2012	24	0	0	0	0	0	24
	2013	24	2	1	2	0	0	23

**STATUS OF COMPANY-OWNED OUTLETS
FOR YEARS 2011 TO 2013**

TABLE 4

STATE	YEAR	OUTLETS AT START OF YEAR	OUTLETS OPENED	OUTLETS REACQUIRED FROM FRANCHISEE	OUTLETS CLOSED	OUTLETS SOLD TO FRANCHISEE	OUTLETS AT END OF THE YEAR
TOTAL	2011	0	0	0	0	0	0
	2012	0	0	0	0	0	0
	2013	0	0	0	0	0	0

PROJECTED OPENINGS AS OF DECEMBER 31, 2013 [LAST DAY OF LAST FISCAL YEAR]

TABLE 5

STATE	FRANCHISE AGREEMENTS SIGNED BUT OUTLETS NOT OPENED	PROJECTED NEW FRANCHISED OUTLETS IN THE NEXT FISCAL YEAR	PROJECTED NEW COMPANY-OWNED OUTLETS IN THE NEXT FISCAL YEAR
Illinois	0	1	0
Michigan	0	1	0
Ohio	1	0	0
Oregon	0	1	0

STATE	FRANCHISE AGREEMENTS SIGNED BUT OUTLETS NOT OPENED	PROJECTED NEW FRANCHISED OUTLETS IN THE NEXT FISCAL YEAR	PROJECTED NEW COMPANY-OWNED OUTLETS IN THE NEXT FISCAL YEAR
Texas	1	0	0
Total	2	3	0

A list of the names, addresses and telephone numbers of all the franchises under franchise agreements with us as of December 31, 2013, is attached as Exhibit E to this disclosure document.

A list of the names, addresses and telephone numbers of franchisees who have had a franchise agreement terminated, canceled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently completed fiscal year or who have not communicated with us within 10 weeks of the application date, is attached as Exhibit F to this disclosure document. There are 3 former franchisees listed in that attachment.

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

Confidentiality Clauses

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

Trademark-Specific Franchisee Organizations

There are no trademark-specific franchisee organizations.

ITEM 21. FINANCIAL STATEMENTS

Attached to this disclosure document as Exhibit C are our audited, fiscal year-end financial statements for December 31, 2011, December 31, 2012, and December 31, 2013. If the date of our most recent audited balance sheet and statement of operations is as of a date more than 90 days before the application date, Exhibit C will also contain an unaudited balance sheet and statement of operations as of a date within 90 days of the issuance date.

ITEM 22. CONTRACTS

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

ITEM 23. RECEIPTS

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

Exhibit A to the Franchise Disclosure Document

FRANCHISE AGREEMENT

FRANCHISE AGREEMENT

between

SALON PROFESSIONAL EDUCATION COMPANY, LLC (d/b/a S.P.E.C. LLC)

and

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SCHEDULES:

- 1.2 The Premises and Reserved Area
- 1.3 The Protected Territory

EXHIBITS

- 4.1.b Agreement With Landlord
- 12.1 Limited Power of Attorney to Transfer Telephone and Internet Listings

FRANCHISE AGREEMENT

This FRANCHISE AGREEMENT is entered into by Salon Professional Education Company, LLC (d/b/a S.P.E.C. LLC), a Minnesota limited liability company (“Franchisor”), and _____ (“Franchisee”), a _____, on the date set forth in the parties’ signature page below.

A. As the result of the expenditure of time, skill, effort, and money, Franchisor has a special System for developing and operating a distinctive school training students in hairdressing/cosmetology. The System operates under the service mark The Salon Professional Academy®.

B. The System’s distinguishing characteristics include: uniform standards and procedures for business operations; ongoing training in the operation, management, and promotion of the franchised business; advertising and promotional programs; quality education facilities; customer development and service techniques; student development; and other technical assistance, all of which may be changed, improved or further developed by Franchisor.

C. Franchisee recognizes the benefits to be derived from receiving a Franchise from Franchisor and desires to enter into this Franchise Agreement subject to the conditions and controls prescribed herein and to receive the benefits provided by Franchisor in connection with this Agreement. Franchisor has reviewed Franchisee’s application and has decided to award a Franchise to Franchisee in accordance with the terms of this Agreement.

The parties, therefore, agree as follows:

ARTICLE 1.

APPOINTMENT

- 1.1. **Grant.** Subject to the terms and conditions contained in this Agreement, Franchisor grants to Franchisee the right—and Franchisee undertakes the obligation—to operate the Franchised Business in accordance with the System.
- 1.2. **Location of the Franchised Business.** The “Premises” means the entire real property—either owned or leased by Franchisee—where the Franchised Business is located, as more fully described in Schedule 1.2. If Schedule 1.2 is not complete as of the Agreement Date, the Premises must be designated and Schedule 1.2 completed after Franchisee selects a Site within the Reserved Area in accordance with Section 4.1. The failure to insert the address for the Premises shall not render this Agreement unenforceable. Without Franchisor’s prior consent and Franchisee’s compliance with Franchisor’s then current relocation procedures, the location of the Premises cannot be changed. Franchisee shall operate the Franchised Business only at the Premises and not from or at any other location, whether on a permanent or temporary basis, even if such location is within the Protected Territory.
- 1.3. **Protected Territory.** Subject to Section 5.6, during the Term for so long as Franchisee is not in default, Franchisor shall not itself operate—or grant a third party the right to operate—a The Salon Professional Academy business using the System within the territory described in Schedule 1.3 (the “Protected Territory”).

ARTICLE 2.

FRANCHISOR’S DUTIES

So long as Franchisee is not in default under this Agreement, Franchisor shall assist and provide certain services to Franchisee, as follows:

- 2.1. **License.** During the term, Franchisor licenses to Franchisee the right to use the Proprietary Property as authorized under this Agreement.
- 2.2. **Site-Selection Criteria.** Franchisor may supply the Site-Selection Criteria and such on-site evaluation as it deems advisable in accordance with Section 4.1.a.

2.3. **Plans and Specifications.** Franchisor shall loan to Franchisee Franchisor's plans or specifications, if any, for design, decoration, layout, equipment, furniture, fixtures and signs for the Franchised Business (collectively, the "Design Specifications"). The Design Specifications shall be for two different sizes that Franchisor offers for the Premises. On or before the Opening Date, or, if sooner, the Opening Date Deadline, Franchisee shall return to Franchisor the Design Specifications.

2.4. **Systems, Lists, Forms and Schedules.**

- a. Franchisor shall provide Franchisee with a list of standardized accounting, cost control, portion control and inventory control systems or Software that Franchisee must acquire prior to opening the Franchised Business.
- b. Franchisor shall provide Franchisee with an initial set of forms, including various operational forms. Such forms may be provided through access to Franchisor's designated website for franchisees.
- c. Franchisor shall provide Franchisee with a list of required equipment, supplies, materials, inventory, and other items necessary to operate the Franchised Business and a list of designated, approved or recommended suppliers of all such items.
- d. Franchisor may provide Franchisee with a schedule of items, if any, that Franchisee must purchase from Franchisor or its affiliates. Such items may include inventory, business forms, uniforms, promotional materials and brochures, and other items.
- e. Franchisor may provide Franchisee with a schedule of recommended, but not required, items such as equipment and supplies and a list of approved or recommended suppliers of these items.

2.5. **Initial Franchise Training.**

- a. Initial Franchise Training. Franchisor shall provide Trainees a minimum of 172 hours of initial training for operating the Franchised Business ("Initial Franchise Training") at a location designated by Franchisor, which may be on-site, online, at Franchisor's principal training facilities or at such other location designated by Franchisor. A "Trainee" shall be a person required or approved by Franchisor to attend Initial Franchise Training. All Trainees must be acceptable to Franchisor. The Franchise Owner must attend Initial Franchise Training. Initial Franchise Training includes instruction in the following areas: site selection and buildout; marketing, promotions, and advertising; management; cosmetology education and training; recruiting and admissions; operations; hiring; and computer applications. At its expense, Franchisor shall provide instructors, facilities, training materials, and technical training tools in connection with Initial Franchise Training. Franchisee is responsible for all other expenses the Trainees incur in connection with attending Initial Franchise Training, including all travel, lodging, and meal expenses. In its discretion, Franchisor may provide Initial Franchise Training to multiple franchisees at the same time. Franchisee is responsible to ensure that all Trainees attend Initial Franchise Training at the applicable times and locations offered by Franchisor. Franchisor has no obligation to provide Initial Franchise Training at other times or locations, or on an individual franchisee basis.
- b. Failure to Complete Initial Franchise Training. All Trainees must complete Initial Franchise Training prior to the Opening Date. If Franchisor, determines that any Trainee has failed to satisfactorily complete Initial Franchise Training it may, at Franchisee's expense, retrain such Trainee or allow Franchisee to hire a substitute Trainee who must attend and satisfactorily complete Initial Franchise Training. Alternatively, Franchisor may elect to terminate this Agreement.

2.6. **Manuals.** Franchisor will provide Franchisee a copy of the Manuals (with periodic revisions as required). Franchisor may provide the Manuals in an electronic medium, including by download from Franchisor's website.

2.7. **Continued Assistance and Support.**

- a. Routine Assistance. Franchisor, to the extent it considers advisable, may make its staff reasonably accessible for routine consultation or other routine assistance that is not considered special assistance pursuant to Section 2.7.d in person or by telephone, facsimile, written communication, email, or other electronic means (including Skype or other medium).
- b. Advertising. Franchisor, to the extent it considers advisable, may generally promote its franchisees through advertising and public relation campaigns in such manner as it deems advisable.
- c. Post-Opening Training.
 - i. Franchisor shall offer the following amounts of refresher or additional training programs and seminars (collectively, the "Regular Training"): (i) during the first year following the Opening Date, 156 hours of Regular Training; (ii) during the second year following the Opening Date, 111 hours of Regular Training; and (iii) during the third and each of the subsequent years following the Opening Date, 100 hours of Regular Training. Franchisor will track the number of hours of routine and special assistance provided to Franchisee under Sections 2.7.a and 2.7.d. Franchisor's tracking of its time to provide assistance under Sections 2.7.a or 2.7.d, if any, will be done in ten minute increments with a minimum of ten minutes for each task (e.g., telephone conference or email). Except as follows, neither routine nor special assistance is considered Post-Opening Training. All time that the Franchisor spends on any such assistance in any year of the Term will count toward the hours Franchisor is required to offer during such year for the Regular Training. If Franchisee does not complete the full amount of hours of the Regular Training in any year of the Term, Franchisee may not carry over any unused hours to the next year of the Term.
 - ii. Franchisor may also offer refresher, advanced or additional programs and seminars over and above the Regular Training ("Special Training," and collectively with the Regular Training, "Post-Opening Training").
 - iii. Post-Opening Training shall be offered at a location designated by Franchisor, which may be on-site, online, at Franchisor's principal training facility, or at such other location designated by Franchisor. Post-Opening Training may include instruction in one or more of the following areas: new developments; improvements in equipment and supplies, new techniques and materials in advertising, service, or management; marketing, promotions, and advertising; cosmetology education and training; recruiting and admissions; student placement; accreditation; and operations. Franchisor may require each Franchise Owner, the Operations Director and any of Franchisee's employees as Franchisor may designate, to attend Post-Opening Training. At its expense, Franchisor shall provide instructors, facilities, training materials, and technical training tools in connection with the Regular Training. Franchisee is responsible for all other expenses its attendees incur in connection with attending Regular Training, including all travel, lodging, and meal expenses. Franchisee is solely responsible for all costs and expenses associated with any Special Training, including the then prevailing training fee Franchisor charges for such training, if any, as well as all travel, lodging and meal expenses Franchisee's attendees incur. In its discretion, Franchisor may provide Post-Opening Training to multiple franchisees at the same time. Franchisee is responsible to ensure that its attendees attend Post-Opening Training at the applicable times and locations offered by Franchisor. Franchisor has no obligation to provide Post-Opening Training at other times or locations, or on an individual franchisee basis. Franchisee may object to not receiving any requisite number of hours of Regular Training in any year, or being overcharged for any assistance in any year. To do so, Franchisee must deliver a notice of such claim within 90 days of the end of such year. Any failure to do so within the provided time constitutes a waiver of any right to make such claim thereafter. Franchisee shall cooperate with Franchisor as it reasonably requests to help it evaluate the claim. If Franchisor confirms the claim is correct Franchisor shall promptly take action to provide the missed training or credit (or, if already paid, refund) any overpayment.

d. Special Assistance. If Franchisee requests non-routine guidance or other assistance to deal with Franchisee's unusual or unique operating problems, makes multiple assistance requests in a limited period, or requests training of new staff, to the extent that Franchisor determines that it can reasonably accommodate such requests, Franchisor will furnish such assistance and training at its then current fees, which Franchisee shall pay Franchisor together with any out-of-pocket expenses that Franchisor incurs providing such guidance and assistance. Franchisor shall, in its discretion, determine whether any assistance is special assistance pursuant to this Section 2.7.d or routine assistance pursuant to Section 2.7.a. Notwithstanding the foregoing, Franchisor will not charge any fee for the first 12 hours of special assistance in each year of the Term (but Franchisee will still be responsible for any out-of-pocket expenses that Franchisor incurs in providing such special assistance). Special assistance may be provided by Franchisor upon the request of Franchisee and is specific to Franchisee. For clarification, Post-Opening Training is not offered specifically for or at the Franchisee's request. It is offered to Franchisee as part of larger programs for multiple franchisees, including the Franchisee.

2.8. ***Duties Solely to Franchisee; Delegation***. All of Franchisor's obligations under this Agreement are solely to Franchisee. No other party may rely on, enforce, or obtain relief for breach of such obligations either directly or by subrogation. Franchisor may delegate any or all of its duties under this Agreement to a Delegatee. To the extent Franchisor periodically requests, Franchisee shall discharge its duties with respect to such Delegatee in the same manner that it is otherwise required to do so with Franchisor.

ARTICLE 3.

FEES AND PAYMENTS

3.1. ***Types of Fees***. In consideration of Franchisor's executing this Agreement, in addition to any other fees that may be required under this Agreement, Franchisee shall pay the following fees to Franchisor:

a. Initial Franchise Fee. Upon the execution of this Agreement, Franchisee shall pay Franchisor an initial franchise fee of \$35,000 (the "Initial Franchise Fee"). At such time, the Initial Franchise Fee is fully earned by Franchisor and nonrefundable.

b. Royalty Fee.

i. Calculation of Royalty Fee. Franchisee shall pay Franchisor a continuing monthly non-refundable royalty fee (the "Royalty Fee") equal to 6% of monthly Gross Revenues.

ii. Minimum Royalty Fee. The minimum monthly Royalty Fee that Franchisee must pay is \$1,500.

c. Technology Fee. Franchisor may provide, maintain, or assist Franchisee in obtaining (or obtaining access to) some or all of the Software that Franchisee is required to purchase or use under this Agreement, including a cloud based customer relationship management system. If it does, Franchisor may charge Franchisee a monthly fee of up to \$250 (the "Technology Fee") to reimburse Franchisor for expenses to third parties and to provide an administrative fee that Franchisor designates in connection therewith. Franchisor may periodically increase the limit set forth above upon 90 days prior notice to Franchisee if, after the date of this Agreement, Franchisor incurs more fees or costs in connection with such Software; provided, that, Franchisor will not increase the maximum amount it is permitted to charge by an average of more than 20% per year in any consecutive five year period unless approved by its franchise advisory committee.

3.2. ***Payment Schedule***. No later than the 10th day of each month during the Term, Franchisee shall pay Franchisor the Royalty Fee and Technology Fee (if any) for the preceding month, and deliver any required monthly reports. All other amounts due to Franchisor from Franchisee shall be paid as specified in this Agreement or, if no time is specified, such amounts are due upon receipt of an invoice from Franchisor. Any payment or report not actually received by Franchisor on or before its due date shall be deemed overdue.

- 3.3. **Payment System.** All required payments by Franchisee to Franchisor or to any of its affiliates must be effectuated by a payment system using pre-authorized transfers from Franchisee's operating account through the use of electronic fund transfers, or by any other payment system designated by Franchisor (the "Payment System"). Franchisor may process such transfers at the time any payment is due and owing. Franchisee shall cooperate with Franchisor in all respects to implement the Payment System within 15 days before the scheduled Opening Date. Franchisee shall cooperate with Franchisor in maintaining the efficient operation of the Payment System (including depositing all Gross Revenues it receives in the operating account accessed by the Payment System within three business days of receipt). With respect to the Payment System, Franchisee shall pay all charges imposed by its financial institution and Franchisor shall pay all the charges imposed by its financial institution.
- 3.4. **Payment Obligations.** Franchisee's obligations to make payments in accordance with this Agreement and any other agreement entered into with Franchisor or any of its affiliates with respect to the Franchised Business—and the rights of Franchisor and its affiliates, if any, to receive such payments—are absolute and unconditional. They are not subject to any abatement, reduction, setoff, defense, counterclaim or recoupment due or alleged to be due to any past, present, or future claims that Franchisee has or may have against Franchisor, any of its affiliates, any of its Delegates, or against any other person for any reason whatsoever.
- 3.5. **Interest on Late Payments; Late Charge.** Each failure to pay monies when due is a material breach of this Agreement. To encourage prompt payment and to cover the costs involved in processing late payments, if any payment under this Agreement or any other agreement between Franchisor and Franchisee is overdue for any reason, Franchisee shall pay to Franchisor on demand, in addition to the overdue amount, interest on such overdue amount from the date it was due until paid at a rate (the "Contract Interest Rate") equal to the lesser of: (a) 18% per annum; and (b) the maximum rate of interest permitted by law. In addition to interest on overdue amounts, Franchisee shall pay a late charge on demand of up to \$200 for each payment that is more than 10 days overdue to cover Franchisor's administrative costs in dealing with the late payment. Nothing in this Agreement may be construed to mean that Franchisee is to pay, or has contracted to pay, any sum in excess of that which may lawfully be charged or contracted for under any applicable law. The parties intend to strictly conform to applicable usury laws. If an amount in excess of such laws is inadvertently collected, it must be applied to reduce outstanding amounts owed for Royalty Fees and Technology Fees, if any.
- 3.6. **Application of Payments.** Notwithstanding any designation by Franchisee, Franchisor has the absolute and unlimited discretion to apply any payments made by Franchisee or effectuated through the Payment System to any past due indebtedness of Franchisee, including Royalty Fees, purchases from Franchisor or its affiliates, late charges, or any other indebtedness of Franchisee to Franchisor or its affiliates in any manner chosen by Franchisor.
- 3.7. **Security Interest.** Subject to any subordination agreement that Franchisor may enter into pursuant to the last sentence of this Section 3.7, to secure the payment and performance of all Franchisee's monetary and other obligations to Franchisor or its affiliates arising under or relating to this Agreement or any other agreement, Franchisee grants to Franchisor a first-priority security interest in all Franchisee's assets used in connection with the Franchised Business (including all accessions thereto and proceeds thereof and any and all after acquired property). These assets include the lease for the Premises and all furniture, fixtures, machinery, equipment, inventory and all other property, (tangible or intangible), now owned or later acquired by Franchisee, used in connection with the Franchised Business, wheresoever located, as well as all contractual and related rights of Franchisee under this Agreement and all other agreements between the parties. Upon Franchisor's request, Franchisee shall execute such financing statements, continuation statements, notices of lien, assignments or other documents as may be required in order to perfect and maintain Franchisor's security interest, including attaching a collateral description of the aforesaid collateral as Franchisor may deem advisable. Alternatively, Franchisee hereby authorizes Franchisor to

execute, in its own name, and file such financing statements, continuation statements, and other documents (using such descriptions of the aforesaid collateral), as Franchisor may deem advisable. Franchisee shall pay all filing fees and costs for perfecting Franchisor's security interest. Notwithstanding the foregoing, Franchisor will not unreasonably withhold its consent to enter into a subordination agreement, in form and substance satisfactory to it, whereby it will subordinate its security interest to: (a) the security interest of a reputable institutional lender relating to a loan to Franchisee for reasonable working capital or construction purposes; or (b) the purchase money security interest of an approved equipment vendor for any equipment purchased or leased by Franchisee and used in the operation of the Franchised Business.

- 3.8. **Rebates.** Suppliers that provide Franchisee with products or services may pay Franchisor rebates, or provide it with other benefits, based on franchisees' purchases of those products and services. Franchisee hereby acknowledges the existence of such payments and that nothing in this Agreement prevents Franchisor from receiving them and hereby authorizes Franchisor to keep or use such payments for any purpose Franchisor considers advisable, including keeping them for its own account.

ARTICLE 4.

THE FRANCHISEE'S DUTIES

4.1. **Acquisition of the Site.**

- a. **Site Approval.** Franchisee is entitled to determine which of two general sizes it desires to operate for the Premises, in accordance with the Design Specifications. If, as of the Agreement Date, the Premises have not already been approved by Franchisor, Franchisee shall select a site for the Premises within the Reserved Area and present it to Franchisor for its approval within 120 days of the Agreement Date (each proposed site, a "Site"). In such case, Franchisor may supply its Site-Selection Criteria. If Franchisor (either on its own initiative or at Franchisee's request) considers on-site evaluation necessary or advisable, Franchisee shall reimburse Franchisor for all reasonable expenses it incurs in connection with such on-site evaluation (including the cost of travel, lodging and meals). Franchisee is solely responsible for selecting the Site and Franchisor has the right to accept or reject the Site at its discretion; provided, that, Franchisor will not unreasonably withhold approval of any Site that meets the Site-Selection Criteria. If Franchisor rejects Franchisee's selected Site, Franchisee has 90 days after delivery of written notice of such rejection to submit a new Site for Franchisor's approval. If a Site, however, has not been approved by Franchisor within 210 days of the Agreement Date, Franchisor may elect to terminate this Agreement. A Site will not become the Premises unless and until approved by Franchisor. Franchisor will review site approval submissions on a first-in basis. Within 270 days of the Agreement Date, Franchisee, at its expense, shall complete the acquisition or lease arrangements to acquire or lease the Premises for the Franchised Business. If Franchisee fails to so acquire or lease the Premises for the Franchised Business within such 270-day period, Franchisor may elect to terminate this Agreement.
- b. **Lease of the Premises.** If Franchisee intends to enter into any lease or sublease of the Premises, such lease or sublease must be approved by Franchisor, unless (i) the lease or sublease contains the provisions substantially similar to those contained in the form attached as Exhibit 4.1.b (the "Tri-Party Agreement"), or (ii) Franchisee enters an agreement substantially similar to the Tri-Party Agreement with its landlord and Franchisor. Within seven days of its execution, Franchisee shall deliver a copy of the signed lease or sublease (together with the Tri-Party Agreement executed by Franchisee and Landlord, if applicable) to Franchisor. Without Franchisor's prior approval, Franchisee shall not execute or agree to any modification of the lease or sublease (or Tri-Party Agreement) that would adversely affect Franchisor's rights.

- 4.2. **Construction Plans and Permits.** Franchisee shall not commence any construction with respect to a Site until it has become the Premises. Prior to commencing such construction, Franchisee shall perform the following actions:
- a. Franchisee shall retain, at its sole expense, Franchisor's designated designer to prepare the designs (the "Designs") for the Franchised Business in accordance with the Design Specifications. Once the Designs are complete, Franchisee shall retain, at its sole expense, a qualified architect or engineer to prepare a site plan and plans and specifications adapting the Designs to the Premises and to applicable laws and lease requirements and restrictions (collectively, the "Plans"). Franchisee shall not commence construction without Franchisor's advance approval of the Plans. Franchisee's architect or engineer must comply with all zoning, signage, seating capacity, parking requirements and storage requirements, as well as with any other federal, state, or local laws pertaining to the design or construction of the Premises, including the Americans with Disabilities Act. If compliance with such requirements or laws necessitates any material modification to the Plans, such modification must be approved by Franchisor, and such modified Plans may not thereafter be materially changed or modified without Franchisor's further approval.
 - b. Franchisee shall obtain all such permits and certifications as may be required for the lawful construction and operation of the Franchised Business. It shall also obtain certifications from all governmental authorities having jurisdiction over the Premises and the Franchised Business that all necessary permits have been obtained and that all requirements for construction and operation have been met, including zoning, access, sign, fire, health, environmental and safety requirements. Notwithstanding anything in this Agreement to the contrary, Franchisor may designate an architect, engineer, or designer to prepare, or participate in the preparation of, the Plans, and to supervise the construction of the Premises. If Franchisee has not used Franchisor's recommended architect, engineer or designer, and Franchisor designates an architect, engineer or designer to participate or supervise, Franchisee shall be responsible for all costs and expenses of such designated architect, engineer or designer. However, Franchisee agrees that Franchisor has no liability for their conduct. In addition, Franchisee shall provide to Franchisor such periodic progress reports as Franchisor may require with respect to the construction of the Premises.
- 4.3. **Construction Requirements.** Within 60 days after an approved Site is obtained, Franchisee shall commence construction of the Franchised Business. Commencement of construction shall be defined as the time at which any Premises construction work is initiated on-site by or on behalf of Franchisee as Franchisor determines in its reasonable discretion. Within 10 days after commencement, Franchisee shall provide Franchisor with notice of the date it began construction. Franchisee shall retain a qualified general contractor and any necessary and qualified subcontractors to construct the Premises in accordance with the Design Specifications. Franchisee shall maintain continuous construction of the Premises. Within six months after an approved Site is obtained (but in no event later than the Opening Date Deadline), at its sole expense, Franchisee shall complete construction (including all exterior and interior carpentry, electrical, painting and finishing work, and installation of all approved fixtures, equipment and signs). Franchisor and its representatives may, but are not obligated to, inspect the construction at all reasonable times. Within 90 days after completing construction, Franchisee shall obtain a Certificate of Occupancy. With respect to locating and acquiring the Premises and constructing and opening the Franchised Business, time is of the essence.
- 4.4. **Conditions Precedent to Opening.** Franchisee shall not open the Franchised Business for business until:
- a. all of its obligations pursuant to Sections 4.1 through 4.3 are fulfilled;
 - b. Franchisor determines that the Franchised Business has been constructed, furnished, equipped, and decorated in accordance with Franchisor's requirements;
 - c. each Trainee has completed Initial Franchise Training to Franchisor's satisfaction;

- d. Franchisee has acquired all required Federal, state and local licenses, permits, certificates, bonds and accreditations;
- e. the Initial Franchise Fee and all other amounts due to Franchisor and its affiliates prior to opening under this Agreement have been paid in full;
- f. Franchisor has been furnished with certificates of insurance and copies of all insurance policies or such other evidence of insurance coverage as Franchisor reasonably requests, as set forth in ARTICLE 9;
- g. Franchisee satisfies any other conditions that Franchisor reasonably imposes; and
- h. Franchisor approves of the opening of the Franchised Business, which approval shall not be unreasonably withheld if Franchisee satisfies the foregoing conditions.

Franchisee shall open the Franchised Business within seven days of Franchisor's delivery of approval. In any event, Franchisee shall satisfy all conditions pertaining to opening the Franchised Business and be prepared to open for business within 12 months after the Agreement Date (the date on which such period expires, the "Opening Date Deadline"), time being of the essence. Franchisor will not unreasonably withhold its consent to a request by Franchisee to extend the Opening Date Deadline by up to 90 days if, through no fault of Franchisee, the sole reason for such request is a delay by the applicable governing agency in granting a Certificate of Occupancy.

- 4.5. **Maintenance and Repairs.** Franchisee shall maintain the Franchised Business in the highest and most uniform degree of sanitation, repair, appearance, condition and security in the manner set forth in the Manuals. Franchisee shall make such additions, alterations, repairs and replacements to the Premises as may be reasonably required for that purpose, including such periodic repainting, changes in appearance, repairs to impaired equipment, and replacement of obsolete signs and graphics as Franchisor may reasonably direct.
- 4.6. **Refurbishing.** Franchisee shall refurbish the Franchised Business at its expense to conform to the building design, exterior facade, Trade Dress, signage, furnishings, decor, color schemes, and presentation of the Proprietary Marks in a manner consistent with the image then in effect for new The Salon Professional Academy businesses. Franchisee need not, however, undertake such refurbishment more frequently than once every seven years (but not during the first year after the Opening Date). Such refurbishing may include, among other things, remodeling, redecoration, and modifications to existing improvements, as Franchisor may require in writing. Maintenance, repairs, and other actions performed under Section 4.5 are not considered refurbishing under this Section 4.6.
- 4.7. **Operational Requirements.** To ensure that the highest degree of quality and service is uniformly maintained, Franchisee shall operate the Franchised Business in conformity with such uniform methods, standards and specifications as Franchisor may from time to time prescribe in the Manuals or otherwise in writing. Without limiting the foregoing, Franchisee shall:
 - a. use the Premises solely for operating and promoting the Franchised Business and not use or permit or suffer the use of the Premises for any other purpose or activity;
 - b. record all Gross Revenues on the approved Computer System and otherwise use it for such functions and in such manner as Franchisor may prescribe;
 - c. comply with the procedures and systems instituted by Franchisor, including those relating to sales, good business practices, advertising and other operating requirements of Franchisor;
 - d. maintain in sufficient supply (as Franchisor may describe in the Manuals or otherwise in writing) and use at all times only such inventory, equipment, materials, advertising methods and formats, and

supplies that conform to Franchisor's standards and specifications therefor, if any, at all times sufficient to meet the anticipated volume of business;

- e. adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct in all dealings with customers, suppliers, employees, students, independent contractors, Franchisor, and the public;
- f. sell or offer for sale only such products and services that meet Franchisor's uniform standards of quality and quantity, and that have been expressly approved or required for sale by Franchisor, at retail to consumers from and through the Franchised Business, and shall not sell such items for redistribution or resale;
- g. purchase, install and maintain, at Franchisee's expense, all fixtures, furnishings, signs, equipment, and Software as Franchisor may periodically specify; maintain such items in a condition that meets the operational standards specified in the Manuals or otherwise in writing; and, if Franchisor reasonably determines that additional or replacement items are needed because of a change in technology, health or safety considerations, or any other factors Franchisor considers relevant, install the additional or replacement items within the time specified by Franchisor;
- h. within each student kit, include all equipment and materials (including any equipment or materials from a Designated Brands Manufacturer) required by Franchisor or applicable law;
- i. within each student admission packet, include all forms and releases required by Franchisor or applicable law;
- j. ensure that all of Franchisee's employees and students, when at the Premises, wear the distinctive The Salon Professional Academy uniforms or other approved attire, if any, as specified by Franchisor, and ensure that there is on hand at all times sufficient uniforms to outfit all employees and students (Franchisor reserves the right to change the style and appearance on the uniforms and Franchisee shall be required to promptly implement any such changes);
- k. if requested by Franchisor, participate in any new product or service test in accordance with Franchisor's standards;
- l. maintain credit-card relationships as Franchisor may designate and otherwise comply with all Franchisor's credit-card policies as prescribed in the Manuals; and
- m. continuously maintain a phone system and high-speed Internet service in accordance with the Manuals.

4.8. **Curriculum.** Unless required by applicable law, Franchisee shall use only Franchisor's curriculum and not offer any courses that have not been approved by Franchisor. Further, Franchisee shall use all elements of the curriculum required by Franchisor or applicable law. If Franchisee is required by applicable law to offer one or more programs or courses not approved by Franchisor in the Manuals or otherwise, Franchisee shall take all actions requested by Franchisor to distinguish the cosmetology program from such other programs or courses, including: (a) at all times conspicuously displaying, in such form and manner as required by Franchisor, on one or more signs on the Premises and on all materials provided in connection with such programs or courses, a disclaimer stating that (i) only the cosmetology program is affiliated with The Salon Professional Academy and no other programs or courses offered by Franchisee are affiliated with or approved by The Salon Professional Academy, and (ii) The Salon Professional Academy is in no way responsible for such programs or courses; and (b) prior to enrolling in such programs or courses, requiring all students to sign an acknowledgement that they understand the foregoing disclaimer.

4.9. **Computer System.**

- a. Before commencing operation of the Franchised Business, Franchisee shall purchase and install the Computer System at the Premises in accordance with the specifications and sourcing requirements

set forth in the Manuals or otherwise in writing. Franchisee shall provide any assistance Franchisor requires to allow Franchisor to independently access and retrieve, at any time, such data and information from Franchisee's Computer System as Franchisor, in its discretion, deems necessary, desirable or advisable. If the Computer System fails to provide such access or retrieval, and Franchisee does not correct such failure within 30 days, Franchisee is exclusively responsible for the cost of such access and retrieval. All of the foregoing items specified to be installed or purchased, or acts specified to be undertaken by Franchisee, and the delivery of all hardware and Software, are at Franchisee's sole expense.

- b. Franchisee shall, at its expense, keep the Computer System in good maintenance and repair. Franchisor may, from time to time, require that Franchisee acquire additional, new or substitute items comprising the Computer System or require Franchisee to replace or upgrade the entire Computer System with a system that Franchisor specifies. Franchisee shall make such additions, substitutions, replacements or upgrades at its sole expense, on those dates and within those times specified by Franchisor in its discretion, in the Manuals or otherwise in writing. Franchisee shall delete all software and related applications from all memory and storage and provide Franchisor with evidence satisfactory to Franchisor that it has done so. Notwithstanding the foregoing, Franchisee shall not be required to replace the entire Computer System more frequently than once every two years.

4.10. **Hiring, Training and Appearance of Employees.** Franchisee shall maintain a competent, conscientious staff and employ such minimum number of employees as are necessary to meet the anticipated volume of business. Franchisee is exclusively responsible for the terms of their employment and compensation and, except for training provided by Franchisor under this Agreement, for the proper training of such employees in operating the Franchised Business. Franchisee is solely responsible for making and performing all employment decisions and functions, including those related to hiring, firing, establishing wage and hour requirements, disciplining, supervising and record keeping. Without the prior written permission of Franchisor or such other franchisee, Franchisee shall not recruit or hire any employee of a Company-Owned Unit or franchised unit operated by another franchisee within the Chain. Franchisee is solely responsible for locating and recruiting students for the Franchised Business and Franchisor has no obligation to review or approve student applications; provided, that, each student shall meet Franchisor's minimum criteria, if any.

4.11. **Management of the Franchised Business.** The Franchised Business must be supervised by an operations director (the "Operations Director"). The Operations Director shall devote, on a full-time basis, his or her best efforts to managing and operating the Franchised Business. At all times it is open for business, the Franchised Business requires the Operations Director's day-to-day supervision. A Franchise Owner must either serve as the Operations Director or Franchisee must hire a qualified individual to serve as the Operations Director. The initial and any successor Operations Director must, to Franchisor's satisfaction, complete Initial Franchise Training and meet Franchisor's minimum requirements, if any, for education, certification, as well as experience relevant to managing operating the Franchised Business. Without limitation, the Franchise Owner, Operations Director and any other person Franchisor designates must, unless waived in writing by Franchisor, attend any annual franchise convention that Franchisor offers. At its expense, Franchisor shall generally provide instructors, facilities, training materials, and technical training tools in connection with the annual convention. Franchisor may charge for certain third party expenses (or reimbursement for them) for optional programs or materials. Franchisee is responsible for all other expenses its attendees incur in connection with the annual convention, including all travel, lodging, and meal expenses. If the Operations Director is an individual other than a Franchise Owner, and such Operations Director fails to satisfy his or her obligations due to death, disability, termination of employment, or for any other reason, a Franchise Owner shall satisfy such obligations until Franchisee designates a new Operations Director of the Franchised Business in accordance with this Section 4.11. Franchisee is solely responsible for the costs and expenses associated therewith, including Training Fees.

4.12. ***Approved Specifications and Sources of Supply; Designated Brands Manufacturer.***

- a. Authorized Specifications and Suppliers. To the extent Franchisor may periodically require, Franchisee shall purchase or lease equipment, supplies, inventory, advertising materials, and any other products and services used to operate the Franchised Business solely from manufacturers and suppliers Franchisor authorizes, as well as in accordance with any specifications that Franchisor authorizes. Franchisor may revoke such authorization at any time. Such manufacturers and suppliers shall demonstrate, to Franchisor's continuing satisfaction, that they possess: (i) the ability to meet Franchisor's reasonable standards and specifications for such items; and (ii) adequate quality controls and capacity to supply Franchisee's needs promptly and reliably. When considering whether to approve suppliers for the System, Franchisor may consider any other relevant factors, including any factors relating to the price and quality of the products or services, the reliability of the supplier, and the economic benefits and incentives the supplier may provide to Franchisor (including rebates). Such approval may be provisional, pending Franchisor's further evaluating such supplier. Franchisor may approve a single supplier for any product or service. Franchisor may concentrate purchases with one or more suppliers to obtain the lowest prices or the best advertising support or services for any group of franchised businesses or Company-Owned Units within the Chain. Franchisor may from time to time designate itself or an affiliate as an authorized or exclusive supplier of any product or service used to operate the Franchised Business.
- b. Approval of New Specifications and Suppliers. If Franchisee proposes to purchase or lease any equipment, supplies, inventory or other products or services from an unapproved supplier, Franchisee shall submit to Franchisor a request for such approval, or request the supplier itself to do so. As a condition of its approval, Franchisor may require that its representatives be permitted to inspect the supplier's facilities, and that samples from the supplier be delivered, at Franchisor's option, either to Franchisor or to an independent, certified laboratory Franchisor designates for testing. Franchisor is not liable for damage to any sample that may result from the testing process. Because Franchisor shall devote its resources where it deems advisable it is not required to consider additional or replacement suppliers. Franchisor will use its discretion in doing so. If it does so, Franchisee or the prospective supplier shall pay a charge not to exceed the reasonable cost of the inspection and the actual cost of the testing. Franchisor may, at its option, reinspect any such approved supplier's facilities and products and continue to sample the products at the supplier's expense and to revoke approval upon the supplier's failure to continue to meet Franchisor's standards and specifications. Franchisor may also require as a condition to its approval, that the supplier present satisfactory evidence of insurance, such as product-liability insurance, protecting Franchisor and its franchisees against any and all claims arising from the use of the supplied item(s) within the System. Franchisor will not approve any previously unapproved supplier for products or services that it determines, in its discretion, are competitive with the products and services offered by any Designated Brands Manufacturer.
- c. Designated Brands Manufacturers.
 - i. Franchisor may designate certain parties as designated brands manufacturers (each, a "Designated Brands Manufacturer") for supplying certain goods and services to Franchisee. Franchisor has designated the following as Designated Brands Manufacturers: (i) L'Oréal USA Creative, Inc., the owner of the **Redken** and **Redken 5th Avenue NYC** trademarks ("L'Oréal"), and (ii) Fuel Productions, LLC (d/b/a Fuel Education Systems), the owner of the **Fuel for Design** brand. Franchisor may enter into agreements with the Designated Brands Manufacturers to provide certain services and products and to allow Franchisor to authorize its franchisees to use certain materials in their Franchised Businesses and to promote the Designated Brands Manufacturers. Unless Franchisor otherwise requires, Franchisee shall purchase such services, products and materials directly from the Designated Brands Manufacturer or its designees (and make any

corresponding payments directly to such party and not to Franchisor). Each Designated Brands Manufacturer is Franchisor's independent contractor and is not an agent, franchisor, legal representative, subsidiary, joint venture, partner, employee, or affiliate of Franchisor for any purposes whatsoever. Neither Franchisor nor any Designated Brands Manufacturer has any right to make any contract, agreement, warranty, or representation on the other's behalf. Franchisee acknowledges that Franchisee shall have no direct license with L'Oréal during the Term.

- ii. Subject to the applicable Designated Brands Manufacturer's and Franchisor's requirements, standards, and usage guidelines, as may be changed from time to time, Franchisee shall: (1) exclusively use and promote those goods and services relating to those brands of the Designated Brand Manufacturers that Franchisor designates (the "Designated Brands"); (2) maintain the goodwill related to Designated Brands; (3) utilize the Designated Brands Manufacturer's educational support materials, training modules, and training techniques in Franchisor's curriculum; (4) procure an install furniture and fixtures bearing the Designated Brands Manufacturer's trademarks; and (5) display the Designated Brands' trademarks and images in advertising and promotions.
- iii. Franchisee acknowledges that the manner and use of the Designated Brands Manufacturer's goods, services, trademarks, brands, advertising, images and other intellectual property (collectively, the "Designated Brands IP") is in the sole discretion of Franchisor and the Designated Brands Manufacturer (and, if applicable, the owner of such Designated Brands IP). Franchisor authorizes Franchisee to use the Designated Brands IP only as authorized by Franchisor and only in accordance with standards, guidelines and specifications set by Franchisor or the Designated Brands Manufacturer from time to time and in a manner consistent with the premium quality associated with the Designated Brands IP. At its sole cost and expense, Franchisee agrees to furnish to Franchisor or the Designated Brands Manufacturer samples of any materials incorporating the Designated Brands IP for inspections to assurance conformance to applicable standards.
- iv. Franchisee agrees that it shall not, directly or indirectly, infringe or contest or aid in contesting the validity of, or the rights of Franchisor or the Designated Brands Manufacturer in or to, the Designated Brands IP, or take any other action in derogation of such rights. Franchisee must obtain Franchisor's consent (who, in turn, may have to obtain the Designated Brands Manufacturer's consent) prior to modifying any of the Designated Brands IP. Franchisee acknowledges that it will have no right, title, or interest in the Designated Brands IP (including, without limitation, all advertising, layouts, copy, artwork, photographs, videos, recordings, and fixture designs), and that all use of the Designated Brands' trademarks shall inure to the benefit of the Designated Brands Manufacturer and its affiliates. The Designated Brands' trademarks may not be used as a source identifier for the Franchised Business. If, in any jurisdiction, Franchisee secures any rights whatsoever to any Designated Brands IP not expressly granted under this Agreement, Franchisee shall immediately notify Franchisor and assign all of Franchisee's right, title and interest to the Designated Brands IP not expressly granted under this Agreement to the Designated Brands Manufacturer.
- v. In addition, if required by Franchisor, Franchisee shall enter into, and comply with all of the provisions of, any agreements with the Designated Brands Manufacturer that Franchisor prescribes (each, a "Designated Brands Manufacturer Agreement"), which may include a term shorter than the Term. Accordingly, Franchisor may require Franchisee to enter into an extension to such agreement or a replacement agreement to coincide with the length of the Term.
- vi. If Franchisor's agreement with a Designated Brands Manufacturer expires or is terminated or if Franchisor notifies Franchisee that Franchisee has been using the Designated Brands IP in a manner that does not comply with Franchisor's or the Designated Brands Manufacturer's

standards or specifications, Franchisee acknowledges that it may be required to immediately discontinue and abandon any and all uses of the Designated Brands IP and to dispose of such materials in a manner specified by Franchisor or the Designated Brands Manufacturer.

- vii. A Designated Brands Manufacturer may inform Franchisor of expiration dates relating to the use of certain Designated Brands IP. As of each expiration date, Franchisee shall immediately cease all use of the applicable Designated Brands IP and remove or replace such Designated Brands IP. For each failure by Franchisee to comply with its obligations under this Section 4.12.c.vii, Franchisor may require Franchisee to pay Franchisor \$500 as liquidated damages; provided, that Franchisee will not be required to pay such amount for its first failure to comply with such obligations. The foregoing liquidated damages do not include the amount of any expenses Franchisor may incur to remove or cause the cessation of any such use (including legal fees) or any damages that the Designated Brands Manufacturer may seek to recover from Franchisor or Franchisee, which amounts Franchisee shall pay Franchisor on demand. The payments described in this Section 4.12.c.vii are not penalties. A precise calculation of the full extent of damages that Franchisor will incur upon Franchisee's failure to comply with this Section 4.12.c.vii cannot be reasonably determined. Nevertheless, each lump-sum payment provided under this Section 4.12.c.vii is reasonable in light of the damages that Franchisor may reasonably be expected to incur as a result of such event. Each sum is not a penalty and is intended by the parties only as a compensatory remedy for past breaches and not as a preventative remedy to deter future breaches. Each sum does not represent a price for the privilege of not performing and each sum's payment does not represent an alternative manner of performance. Accordingly, this Section 4.12.c.vii does not preclude, nor is it inconsistent with, a court granting Franchisor specific performance or any other equitable remedies, such as an injunction, to prevent future breaches.
- viii. As part of Franchisor's agreement with L'Oréal, if Franchisee's Franchised Business meets certain standards, Franchisor may, in its discretion, annually designate the Franchised Business as having achieved a special designation (the "Special Designation"), which Franchisee may represent to the public in accordance with standards and specifications established by Franchisor from time to time. Franchisor may describe in the Manuals or otherwise in writing the conditions necessary for Franchisee to achieve and maintain the Special Designation. Franchisor may change any such conditions or standards or discontinue the Special Designation program upon notice to Franchisee. Further, Franchisee shall allow L'Oréal or its designees (or, if L'Oréal is no longer a Designated Brands Manufacturer, any other Designated Brands Manufacturer or its designees, as specified by Franchisor) the first opportunity to recruit students trained by Franchisee.

4.13. Compliance with Laws, Rules and Regulations; Accreditation.

- a. Franchisee shall comply with all Federal, state, and local laws, rules and regulations (including Title IV of the Higher Education Act of 1965 and any amendments thereto or replacements thereof). Franchisee shall timely obtain, maintain, and renew when required any and all permits, certificates, licenses or franchises necessary for the full and proper conduct of the Franchised Business under this Agreement (including qualification-to-do-business; fictitious, trade, or assumed-name registration; building and construction permits; occupational licenses; sales-tax permits; health and sanitation permits and ratings; fire clearances and environmental permits). In addition, within four years of the Opening Date, Franchisee shall obtain accreditation from an Accrediting Agency (an "Accreditation").
- b. Within two days of Franchisee's receipt of such items, Franchisee shall forward to Franchisor copies of all inspection reports, warnings, certificates, and ratings issued by any governmental entity in connection with the conduct of the Franchised Business that indicate Franchisee's material non-compliance with any applicable law, rule or regulation. In addition, Franchisee shall notify Franchisor immediately in writing if any of its permits, certificates, licenses, franchises (including the Accreditation) are, or Franchisee has reason to believe may be, suspended or terminated for any

reason. If an Accreditation is suspended or terminated, Franchisor may (but is not obligated to) use a third party or take such other actions it deems necessary to reestablish such Accreditation. If Franchisor does so Franchisee shall promptly reimburse Franchisor for any costs and expenses incurred in connection therewith.

- c. Within 10 days of its submission (but in no event later than 10 days prior to the due date), Franchisee shall provide Franchisor with a copy of the Accrediting Agency annual report prepared by Franchisee for submission to the applicable Accrediting Agency. Franchisee may request Franchisor to provide special assistance, in accordance with Section 2.7.d, to furnish information needed to obtain or maintain an Accreditation.

4.14. **Tax Payments; Contested Assessments.** Franchisee shall promptly pay when due all taxes levied or assessed by any Federal, state or local tax authority. Such taxes include unemployment taxes, withholding taxes, sales taxes, income taxes, tangible commercial personal-property taxes, real estate taxes, intangible taxes and any and all other indebtedness incurred by Franchisee in the conduct of the Franchised Business. Franchisee shall pay to Franchisor an amount equal to any sales tax, goods and services taxes, gross-receipts tax, or similar tax imposed on Franchisor with respect to any payments to Franchisor required under this Agreement. It shall do so unless the tax is measured by or related to Franchisor's net income or its corporate status in a state. If Franchisor pays any such tax, Franchisee shall promptly reimburse it for the amount paid. In the event of any bona-fide dispute as to liability for taxes assessed or other indebtedness, Franchisee may contest the validity or the amount of the tax or indebtedness in accordance with procedures of the taxing authority or applicable law. In no event, however, may Franchisee permit a tax sale or seizure by levy of execution or similar writ or warrant, or attachment by a creditor, to occur against the Premises or any assets used in connection with the Franchised Business.

4.15. **Inspections.** Franchisee shall permit Franchisor or its designees to enter the Premises, and, if not located at the Premises, Franchisee's office, to conduct inspections at any time during normal business hours. Franchisee shall cooperate fully with Franchisor and its designees in such inspections by rendering such assistance as they may reasonably request and by permitting them, at their option, to observe the manner in which Franchisee is selling products, rendering services and maintaining the Premises (including with respect to the Designated Brands IP), and to confer with Franchisee's students, employees and customers. The inspections may be conducted without prior notice at any time when Franchisee or one of its employees is at the Franchised Business. The inspections will be performed in a manner that minimizes interference with operating the Franchised Business. Upon notice from Franchisor, and without limiting Franchisor's other rights under this Agreement, Franchisee shall take such steps as may be necessary to immediately correct any deficiencies detected during such inspections. Such steps may include immediately ceasing from the further use of any equipment, advertising, materials, products, supplies, or other items that do not conform to Franchisor's then current requirements. If Franchisee fails or refuses to correct such deficiencies, Franchisor may, without any claim to the contrary by Franchisee, enter the Premises, or Franchisee's office, without being guilty of trespass or any other tort, to make or cause to be made the required corrections. All such corrections are at Franchisee's expense. In addition, Franchisee must reimburse Franchisor for all of Franchisor's costs and expenses connected with any reinspection (including Franchisor's then current reinspection fee).

4.16. **Notices to Franchisor.** If any Notification Event occurs and such event is reasonably likely to have a material adverse effect on Franchisee or the Franchised Business, within five days of the occurrence thereof (unless a shorter period is required elsewhere in this Agreement), Franchisee shall notify Franchisor in writing. If any Notification Event occurs and such event is not reasonably likely to have a material adverse effect on Franchisee or the Franchised Business, within 15 days of the occurrence thereof (unless a shorter period is required elsewhere in this Agreement), Franchisee shall notify Franchisor in writing. "Notification Event" means any of the following events in connection with the Franchised Business: (a) the commencement of any action, suit, countersuit, or other proceeding against Franchisee

or any of its employees; (b) the receipt of any notice of noncompliance by Franchisee or any of its employees with any law, rule or regulation; or (c) the issuance of any order, writ, injunction, award, or decree of any court, agency, or other governmental instrumentality entered against Franchisee or any of its employees. Within five days of request, Franchisee shall provide Franchisor with any information it requests about the progress and outcome of any Notification Event.

- 4.17. **Operating Suggestions.** Franchisee is encouraged to submit suggestions to Franchisor for improving elements of the System (such as products, services, equipment, service format, advertising, marketing and any other relevant matters). Franchisor may consider such suggestions when adopting or modifying standards, specifications, and procedures for the System. Franchisor, however, has no obligation to use such suggestions or to compensate Franchisee therefor, although it may choose to do so. Without Franchisor's prior consent, Franchisee may not implement any suggestions inconsistent with its obligations under this Agreement. If Franchisee or any of its employees develop any new concept, process, product or improvement in the operation or promotion of the Franchised Business (whether or not it submitted a suggestion for such item), Franchisee is required to promptly notify Franchisor and provide Franchisor with all related information. Franchisee acknowledges that any such concept, process, product or improvement will immediately become the property of Franchisor, and Franchisor may use or disclose such information to other franchisees or developers as it determines to be advisable, also without the benefit of compensation.
- 4.18. **Certification of Performance.** No later than three days after requested by Franchisor, Franchisee shall execute and deliver to Franchisor a certification (the "Certification of Performance"), in a form Franchisor reasonably requests, confirming that Franchisor has performed its pre-opening obligations under this Agreement. If, however, Franchisee does not reasonably believe that Franchisor has performed all its pre-opening obligations hereunder, it shall, within such three-day period, provide Franchisor with notice specifically describing the obligations that Franchisor has not performed. In such case, Franchisee shall execute and deliver the Certification of Performance not later than three days after Franchisor completes all the non-performed obligations specifically described in such notice. Franchisee shall execute and deliver the Certification of Performance to Franchisor even if Franchisor performed such obligations after the time performance was due under this Agreement. If Franchisee does not deliver the Certification of Performance within such time period, Franchisor shall be deemed to have performed all of its pre-opening obligations. The term "pre-opening obligations" means such of Franchisor's obligations to Franchisee under this Agreement that shall be performed before the Opening Date.
- 4.19. **Quality-Control Programs.** Franchisor may, from time to time, designate an independent evaluation service to conduct a "mystery shopper," or similar type, quality-control and evaluation program with respect to The Salon Professional Academy businesses. Franchisee shall participate in such programs as required by Franchisor. If Franchisee receives an unsatisfactory or failing report in connection with any such program, it shall immediately implement any remedial actions Franchisor requires at Franchisee's expense.
- 4.20. **Maximum and Minimum Rates and Prices.** Franchisor may, from time to time, suggest maximum and minimum tuition rates and retail prices for the goods and services that Franchisee may sell or offer to sell. However, Franchisee will be responsible for setting such rates and prices; except to the extent that Franchisor lawfully adopts any price floors or ceilings and requires Franchisee to comply with them for any of its goods or services.

ARTICLE 5.

PROPRIETARY PROPERTY

- 5.1. **Franchisee's Use of the Proprietary Property.** Franchisee may use the Proprietary Property and the Designated Brands IP only in accordance with standards and specifications Franchisor determines from time to time. Without limiting the foregoing:

- a. Franchisee shall use the Proprietary Property and Designated Brands IP only in connection with operating the Franchised Business at the Premises, in accordance with Section 7.1 and other terms of this Agreement, and, without Franchisor's consent, shall not sublicense or otherwise grant any third party the right to use the Proprietary Marks or Designated Brands IP in their advertising, website or otherwise;
 - b. Franchisee shall use the Proprietary Marks as the sole service-mark/trademark identifications for the Franchised Business and prominently display the Proprietary Marks on or in connection with all materials Franchisor designates, and only in the manner Franchisor prescribes;
 - c. Franchisee shall not use the Proprietary Property or Designated Brands IP as security for any obligation or indebtedness nor in any manner encumber it;
 - d. Franchisee shall not use the Proprietary Marks or Designated Brands IP as part of its corporate, partnership, limited liability company or other legal name;
 - e. Franchisee shall not use or attempt to register any other trademarks, service marks, or other commercial symbol that is the same as or similar to any of the Proprietary Marks or Designated Brands IP, or any mark with phonetic or graphic similarity thereto;
 - f. Franchisee shall comply with Franchisor's instructions concerning filing and maintaining the requisite fictitious, trade, or assumed-name registrations for the Proprietary Marks, and execute any documents Franchisor or its counsel deems reasonably necessary to obtain protection for the Proprietary Property or Designated Brands IP and Franchisor's (or the Designated Brands Manufacturer's, as applicable) interest therein;
 - g. all materials including letterhead, business cards, marketing and advertising materials, flooring, wall hangings, designated equipment, uniforms, premiums, supplies, and packaging materials used in connection with the System must bear Franchisor's Proprietary Marks, as prescribed by Franchisor; and
 - h. in addition to, and without limiting any other obligations of Franchisee, Franchisee shall exercise caution when using Franchisor's Proprietary Property and Designated Brands IP to ensure that the Proprietary Property is not jeopardized in any manner.
- 5.2. **Infringement by Franchisee.** Any use of the Proprietary Property or Designated Brands IP not in accordance with, or outside the scope of, this Agreement, without Franchisor's prior written consent, infringes Franchisor's, or the Designated Brands Manufacturer's, as applicable, rights in the Proprietary Property. Both during and after the Term, Franchisee shall not, directly or indirectly, infringe or contest or aid in contesting the validity of, or the rights of Franchisor in or to, the Proprietary Property or Designated Brands IP, or take any other action in derogation of such rights.
- 5.3. **Claims Against the Proprietary Property.** In the event of any claim of infringement, unfair competition, or other challenge to Franchisee's right to use any Proprietary Property or Designated Brands IP, or in the event Franchisee becomes aware of any use of, or claims to, any Proprietary Property or Designated Brands IP by persons other than Franchisor or its franchisees, Franchisee shall notify Franchisor in writing no later than seven days thereafter. Except pursuant to judicial process, Franchisee shall not communicate with anyone except Franchisor (or the Designated Brands Manufacturer, as applicable) and its counsel in connection with any such infringement, challenge, or claim. Franchisor (or the Designated Brands Manufacturer, as applicable) has discretion whether it takes any action in connection with any such infringement, challenge or claim, and has the right to exclusively control any litigation or other proceeding arising out of any infringement, challenge or claim relating to any Proprietary Property or Designated Brands IP. Such discretion includes determining whether or not to settle such infringement, challenge, or claim, and on what terms. Franchisee shall sign all instruments and documents, render any assistance, and perform any acts that Franchisor's (or the Designated Brands Manufacturer's, as applicable) attorneys

deem necessary or advisable to protect and maintain Franchisor's (or the Designated Brands Manufacturer's, as applicable) interest in any litigation or proceeding related to the Proprietary Property or Designated Brands IP or otherwise to protect and maintain Franchisor's interests in the Proprietary Property or Designated Brands IP.

- 5.4. **Indemnification of Franchisee.** Franchisor shall indemnify Franchisee for all damages for which it is held liable pursuant a final, binding, and nonappealable judgment against Franchisee entered in connection with any litigation or proceeding arising out of its use of any Proprietary Property. Franchisor need do so only if:
- a. Franchisee's use of the Proprietary Property was in strict accordance with this Agreement;
 - b. Franchisee timely notified Franchisor of such litigation or proceeding and the underlying claim in accordance with Section 5.3;
 - c. Franchisee gives Franchisor sole control of the defense and settlement of the action in accordance with Section 5.3; and
 - d. Franchisee has complied with all other provisions in this Agreement.
- 5.5. **Franchisor's Right to Modify the Proprietary Marks.** If, at any time, in Franchisor's discretion, it becomes advisable to modify or discontinue the use of any Proprietary Mark or use one or more additional or substitute names or marks—for reasons including the rejection of any pending application for registration or revocation of any existing registration of any of the Proprietary Marks, or the existence of superior rights of senior users—Franchisee shall do so at its sole expense within 360 days of Franchisor's request (such period, the "Interim Period"). Franchisor may shorten the Interim Period if, in its discretion, it becomes advisable to do so for reasons including those set forth in the previous sentence. During the Interim Period, Franchisee may use any existing inventory that includes the unmodified or discontinued Proprietary Marks, but shall not obtain any additional inventory that includes, or make new uses of, such Proprietary Marks. In such event, Franchisor is liable solely to reimburse Franchisee for its reasonable direct printing expenses incurred to modify or discontinue the use of the Proprietary Mark and substitute a different Proprietary Mark. Such reimbursable expenses do not include any expenditures Franchisee makes to promote a modified or substitute Proprietary Mark.
- 5.6. **Franchisor's Reservation of Rights.**
- a. The license of the Proprietary Marks granted to Franchisee is non-exclusive. In addition to Franchisor's right to use and grant others the right to use the Proprietary Marks outside the Protected Territory (regardless how closely located to the Premises), all rights not expressly granted in this Agreement to Franchisee concerning the Proprietary Marks or other matters are reserved by Franchisor, including the rights set forth in Section 5.6.b and the right to establish, develop, and license or franchise other systems, different from the System licensed by this Agreement, within or outside the Protected Territory, without offering or providing Franchisee any rights in, to, or under such other systems.
 - b. If Franchisor acquires a Competitive Academy and the physical building containing the educational facility of any such Competitive Academy is within Franchisee's Protected Territory, Franchisor has one year from the date of closing on acquiring the Competitive Academy to sell or close such location without being in default under this Agreement.
- 5.7. **Ownership; Inurement Solely to Franchisor.** Except as expressly granted in this Agreement, Franchisee has no ownership or other rights in the Proprietary Property. Franchisor is the owner, or authorized licensee, of the Proprietary Property. All goodwill associated with the Franchised Business inures directly and exclusively to Franchisor's or its licensor's benefit. Such goodwill is Franchisor's exclusive property, except to the extent it results from the profit received from the operation or possible permitted sale of the

Franchised Business during the Term. If, in any jurisdiction, Franchisee secures any rights whatsoever to any Proprietary Mark (or any other Proprietary Property) not expressly granted under this Agreement, Franchisee shall immediately notify Franchisor and assign all of Franchisee's right, title and interest to the Proprietary Marks (or any other Proprietary Property) not expressly granted under this Agreement to Franchisor.

ARTICLE 6.

MANUALS AND OTHER CONFIDENTIAL INFORMATION

- 6.1. ***In General.*** To protect the reputation and goodwill of Franchisor, and to maintain uniform standards of operation under the Proprietary Marks, Franchisee shall conduct its Franchised Business in accordance with the Manuals (which may be in paper or electronic format). The Manuals are an integral part of this Agreement and have the same force and effect as if fully set forth herein.
- 6.2. ***Confidential Use.*** At all times, Franchisee shall treat and maintain the Confidential Information as confidential and trade secrets of Franchisor. At all times, Franchisee shall keep the Manuals in a secure area within the Premises. Franchisee shall strictly limit access to the Confidential Information to its employees to the extent they have a "need to know" in order to perform their jobs. Franchisee shall report the theft, loss, or destruction of the Manuals, or any portion thereof, immediately to Franchisor. Without Franchisor's prior consent, Franchisee shall not, at any time, copy, record, or otherwise reproduce any of the Confidential Information, in whole or in part. Each Restricted Party, and all persons to whom Franchisee grants access to the Manuals or any other Confidential Information, must first be required by Franchisee to sign Franchisor's form of confidentiality agreement. Promptly after execution of all such confidentiality agreements Franchisee shall deliver copies thereof to Franchisor.
- 6.3. ***Periodic Revisions.*** Franchisor may periodically revise and change the contents of the Manuals; provided, that such changes will not modify the Royalty Fee. Beginning on the 30th day (or such longer time as specified by Franchisor) after delivery of notice from Franchisor, Franchisee shall comply with each new or changed provision. Franchisor may notify the Franchisee of updates by posting them on its intranet, or in any other manner that Franchisor elects. Revisions to the Manuals must be based on what Franchisor, in its discretion, deems in the best interests of the System, including promoting quality, enhancing goodwill, increasing efficiency, decreasing administrative burdens, or improving profitability of Franchisor or its franchisees. Because complete and detailed uniformity under many varying conditions may not be possible or practical, Franchisor may, in its discretion and as it may deem in the best interests of all concerned in any specific instance, vary standards for any franchisee based upon the peculiarities of the particular site or circumstances, density of population, business potential, population of trade area, existing business practices, or any condition that Franchisor deems important to the successful operation of such franchisee's franchised business. Franchisee is not entitled to require Franchisor to grant to Franchisee a like or similar variation under this Agreement. Franchisee shall at all times ensure that its copy of the Manuals contains all updates Franchisor delivers. In the event of any dispute as to the contents of the Manuals, the terms contained in the master copy of each of the Manuals Franchisor maintains at Franchisor's home office are controlling.
- 6.4. ***Prior Information.*** All Confidential Information received before the Agreement Date was unknown to Franchisee except through disclosure by Franchisor in connection with the grant of a Franchise. The marketing practices and operating procedures developed by Franchisor and franchised to Franchisee for operating the Franchised Business are important for the success of the System. To the extent Franchisee receives any Confidential Information after the Agreement Date, and, within 30 days thereafter, Franchisee does not object in writing to Franchisor that any or all of the information comprising the Confidential Information should not be considered Confidential Information, then Franchisee is deemed to have irrevocably waived its right to make any such objection.

ARTICLE 7.
ADVERTISING

7.1. Local Advertising by Franchisee.

- a. Except as set forth below, Franchisor does not currently require Franchisee to spend any minimum amount on Local Advertising (although it encourages Franchisee to conduct Local Advertising). On the first day of each calendar quarter, beginning with the first day of the first full calendar quarter following the Agreement Date, Franchisee shall determine the average Student Capacity for the immediately previous calendar quarter. If such average Student Capacity for the immediately previous calendar quarter is less than the applicable Capacity Percentage, then for each of the months of such calendar quarter Franchisee shall spend a minimum of 2% of such month's Gross Revenues on Local Advertising. "Student Capacity" means, for any month, the fraction, expressed as a percentage, the numerator of which is the number of enrolled students in the Franchised Business as of the last day of such month, and the denominator of which is the maximum student capacity of the Franchised Business as of the last day of such month. "Capacity Percentage" means: (i) 80% if the date of determination is during the first five years of the Term; and (ii) 85% if the date of determination is during the sixth and subsequent years of the Term. By way of example, if the Agreement Date is July 1, 2013, and as of July 1, 2014, the Student Capacities for April, May and June 2014 were 81%, 80% and 76%, respectively, then the average Student Capacity for such quarter is 79%, and in the months of July, August and September 2014, Franchisee shall spend a minimum of 2% of each of those month's Gross Revenues on Local Advertising. Franchisee shall substantiate its compliance with the foregoing requirement in such manner and form as Franchisor may require from time to time.
- b. Before production, publication or airing, Franchisee shall provide to Franchisor for its approval all materials to be used for Local Advertising (or for any other advertising, promotional, or marketing activities it may conduct), unless they have already been approved or consist solely of materials provided by Franchisor. Without limiting the foregoing, Franchisee shall not copy or otherwise use the Proprietary Property or Designated Brands IP in any manner other than for internal operational documents in accordance with this Agreement, unless Franchisee has received consent for such use from the Franchisor. If, within 10 days from the date Franchisor receives materials submitted for approval, Franchisee does not receive Franchisor's approval thereof, they are considered disapproved. All materials on which the Proprietary Marks are used must include the applicable designation service mark SM, trademark ™, registered ®, copyright ©, or such other designation as Franchisor may specify. If, in Franchisor's judgment, such materials or advertising may injure or harm the System, Franchisor may notify Franchisee to withdraw or discontinue the use of any promotional materials or advertising, even if previously approved. Within five days after delivery of such notice, Franchisee must withdraw and discontinue use of the relevant promotional materials and advertising. Notwithstanding anything in this Agreement to the contrary, Franchisee may not use any advertising, promotional, or marketing materials that have not been approved in writing by Franchisor.

7.2. Marketing Fund. Franchisor does not currently maintain a marketing fund for the benefit of all franchisees and Company-Owned Units that contribute to it. However, it retains the right to create, maintain and administer such a marketing fund, but will not exercise such right until there are at least 50 franchisees in the Chain. If it does so, it may require Franchisee to contribute to the fund; provided, that Franchisor will not require Franchisee to contribute greater than 2% of monthly Gross Revenues to the fund; provided, further, if Franchisor requires Franchisee to contribute 2% of monthly Gross Revenues to the fund, it will decrease any applicable Local Advertising spending requirements to 1% of monthly Gross Revenues.

7.3. Internet Advertising.

- a. Except as provided in Section 7.3.b, with respect to any aspect of the System, Chain, or Franchised Business (including the use of the Proprietary Marks), Franchisor retains the sole right to advertise on

the Internet, create or operate a website or sites, and use the Proprietary Marks as part of any domain name. Franchisor exclusively owns all rights in such domain names and such other domain names as Franchisor designates in the Manuals. Franchisee unconditionally disclaims any ownership interests in such domain names and any domain names that may be confusingly similar. Franchisee shall not register any domain name in any class or category that contains the words The Salon Professional Academy or any abbreviation, acronym or variation of such words.

- b. Franchisor shall maintain a website that provides general information about the System. In addition, Franchisor's designated supplier shall establish and maintain a microsite for the Franchised Business. Franchisee shall have the option to choose the content of its microsite from the content options offered by such designated supplier from time to time. Franchisee shall pay such designated supplier its initial fee to establish such microsite as in effect from time to time (which initial fee is currently \$3,500) as well as its monthly website fee may be in effect from time to time (which fee is currently \$220 per month). Franchisee may request customizations to the microsite that are not included in such offered content and are approved by Franchisor in advance, but Franchisee will be solely responsible to pay such designated supplier's then current charges for customized microsite work. Franchisee shall also have the right advertise, market, and otherwise promote the Franchised Business on the Internet and through social media, provided that it complies with Franchisor's website and internet policies in effect from time to time. For administrative purposes, Franchisor may require Franchisee to pay the monthly website fee directly to Franchisor instead of the third party supplier. Franchisor may use the monthly website fee to reimburse it for expenses to third parties and to provide Franchisor with an administrative fee that Franchisor designates in connection therewith. Franchisor may periodically increase the monthly website fee if Franchisor incurs more fees or costs in connection with providing web site services; provided, that, Franchisor will not increase the maximum amount it is permitted to charge by an average of more than 20% per year in any consecutive five year period.
- c. Except as provided in Section 7.3.b, without Franchisor's prior written consent, Franchisee shall not develop, establish, operate, own, license, use or participate in a website on which the Proprietary Marks appear or otherwise use any of the Proprietary Marks on or in connection with the Internet, including (i) in domain names (including top level or country code domain names and folder extensions in domain names), (ii) in metatags in Franchisee's website, (iii) in social media user names, (iv) by publishing, linking or deeplinking to any of Franchisor's websites in connection with social media websites, or (v) in sponsored advertising programs.

ARTICLE 8.

ACCOUNTING AND RECORDS

- 8.1. **Books and Records.** Franchisee shall maintain complete and accurate books and records for the Franchised Business's operations and shall do so in such manner and form as Franchisor may prescribe in writing from time to time. Such books and records must not contain information not relating to the Franchise, and must be preserved for at least six years (including the period after this Agreement expires or is sooner terminated) from the dates they were prepared.
- 8.2. **Reports and Statements.** By the 10th day of each month during the Term, Franchisee shall submit to Franchisor accurate records reflecting the preceding month's Gross Revenues, and such other information as Franchisor requires from time to time. Such records, reports and information must be in the forms Franchisor prescribes from time to time. Within 90 days after the end of each fiscal year, Franchisee shall submit an audited year-end balance sheet and audited annual income statement prepared in accordance with generally accepted accounting principles consistently applied. Within 30 days after the end of each of its fiscal quarters, Franchisee shall submit to Franchisor an interim quarterly balance sheet and income statement prepared in accordance with generally accepted accounting principles consistently applied. Promptly upon the request of Franchisor, Franchisee shall also provide Franchisor with copies of its federal-

and state-income tax returns. The financial statements described above must be signed by Franchisee or by Franchisee's treasurer or chief financial officer attesting that the financial statements are true and correct and fairly present Franchisee's financial position as at and for the times indicated. In addition, the financial statements and other periodic reports described above must segregate the Franchised Business's income and related expenses from those of any other business that Franchisee may conduct.

8.3. **Review and Audit by Franchisor.**

- a. At any reasonable times during the Term, and during the three-year period beginning on the expiration or sooner termination of this Agreement, and at Franchisor's expense, Franchisor and its representatives may examine and copy Franchisee's books and records, as well as inspect all cash-control devices and systems and conduct a physical inventory. At any time, Franchisor may access, and retrieve any information it desires from, Franchisee's Computer System to determine, among other things, sales activity, and Gross Revenues. At any time, Franchisor may also have an independent audit made of Franchisee's books and records. The provisions of this Section 8.3 survive the expiration or sooner termination of this Agreement.
- b. If an inspection reveals that any financial information reported to Franchisor (such as Gross Revenues or payments owed to Franchisor) has been understated in any report, Franchisee, upon demand, shall immediately pay Franchisor the amount to which it is actually entitled but has not been paid because of such understatement, as well as interest thereon. Such interest accrues at the Contract Interest Rate commencing from the time the required payment was due.
- c. In addition to the amounts described in Section 8.3.a, if any inspection discloses that Franchisee has for any period understated the amount of the Royalty Fee (or any other amount) actually due Franchisor for such period by 3% or more, Franchisee must reimburse Franchisor for the costs and expenses connected with the inspection (including reasonable accounting and attorneys' fees and costs). Furthermore, at such time if it has not already done so, Franchisor may require all Franchisee's future year-end financial statements to be audited and prepared and certified, at Franchisee's expense, by an independent certified public accountant designated by Franchisor. The remedies in this Section 8.3 are in addition to any other remedies Franchisor may have under this Agreement or under applicable law. If an audit discloses an overpayment of any amount paid by Franchisee to Franchisor, Franchisor will promptly pay Franchisee the amount of such overpayment or offset such overpayment against any amounts owed to Franchisor.

ARTICLE 9. INSURANCE

9.1. **Types and Amounts of Coverage.** Throughout the Term, Franchisee shall maintain such types of insurance in such amounts as Franchisor may require. Such insurance is in addition to any other insurance that may be required by applicable law, Franchisee's landlord, or otherwise. Such policies must be written by an insurance company reasonably satisfactory to Franchisor with a Best rating of "A" or better, and to the extent legally permissible, must name Franchisor and L'Oréal (or any other brands manufacturers that Franchisor designates) as additional insured. Additional insured coverage shall apply as primary insurance with respect to any other insurance afforded to Franchisor. At a minimum, such policies include the following:

- a. commercial general liability insurance of not less than \$1,000,000 each occurrence, \$2,000,000 general aggregate, \$2,000,000 products/completed operations aggregate, and \$1,000,000 personnel and advertising injury limits. Such insurance shall cover liability arising from premises, operations, independent contractors, products-completed operations, personal and advertising injury, and liability assumed under an insured contract;

- b. workers' compensation coverage in the amounts required by statute or rule of the state in which the Franchised Business is located;
- c. beauty school professional liability insurance in the amount of at least \$1,000,000 for each accident. Where applicable, professional services shall include permanent cosmetics, manicures, beautician, wax removal, eyebrow/eyelash tinting and enhancement, massage, facials (including peels), microdermabrasion, airbrush tanning and tanning;
- d. license bond, if required by applicable law; and
- e. such other insurance, in such amounts, as Franchisor reasonably requires for its own and Franchisee's protection.

At any time, Franchisor may adjust the amounts of coverage required under such insurance policies and require different or additional kinds of insurance, including excess liability insurance. It may do so to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards, or other changes in circumstances or factors that Franchisor considers relevant.

- 9.2. **Evidence of Insurance.** No later than the earliest of the dates set forth below, an approved insurance company must issue a certificate of insurance showing compliance with the insurance requirements in Section 9.1, and Franchisee must furnish Franchisor with a paid receipt showing the certificate number: (a) five days before beginning construction of the Premises; (b) if the Premises are constructed and presently owned or leased by Franchisee, 30 days from the Agreement Date; or (c) if the Premises are not presently owned or leased, 30 days after ownership of the Premises is conveyed to Franchisee or a lease of the Premises is signed. The certificate of insurance must include a statement by the insurer that the policy or policies must not be canceled, subject to non-renewal, or materially altered without at least 30 days' prior notice to Franchisor. Upon Franchisor's request, Franchisee must supply it with copies of all insurance policies and proof of payment. Every year, Franchisee must send current certificates of insurance to Franchisor (along with a paid receipt showing the certificate number).
- 9.3. **Franchisor's Right to Participate in Claims Procedure.** Franchisor, or its insurer, may participate in discussions with Franchisee's insurance company or any claimant (in conjunction with Franchisee's insurance company) regarding any claim.
- 9.4. **Waiver of Subrogation.** To the extent this Section 9.4 may be effective without invalidating, or making it impossible to secure, insurance coverage from responsible insurance companies doing business in the state in which the Franchised Business is located (even though an extra premium may result), with respect to any loss covered by insurance Franchisee then carries, Franchisee's insurance company does not have any right of subrogation against Franchisor or its insurance companies.
- 9.5. **Effect of Franchisor's Insurance.** The insurance maintained by Franchisor does not in any way limit or affect Franchisee's obligation to obtain and maintain the foregoing policy or policies in the amounts specified in this ARTICLE 9. Franchisor's performance of Franchisee's obligations shall not relieve Franchisee of liability under the indemnity provisions set forth in this Agreement.
- 9.6. **Franchisee's Failure to Maintain Insurance.** If, for any reason, Franchisee fails to procure or maintain the insurance required by this Agreement (as revised from time to time by Franchisor), Franchisor has the right (but not the duty) to immediately procure such insurance. If it does so, Franchisor may charge the cost of such insurance to Franchisee, plus interest at the Contract Interest Rate. Upon demand, Franchisee shall immediately pay Franchisor such charges, together with a reasonable fee for Franchisor's expenses in so acting.

ARTICLE 10.
TRANSFERS

10.1. **Transfer by Franchisor.** Without Franchisee's consent, Franchisor has the absolute right to transfer or delegate any or all of its rights or obligations under this Agreement to any person. If Franchisor's transferee or delegatee assumes Franchisor's obligations under this Agreement, within seven days of Franchisor's delivery of notice thereof, Franchisee shall execute and deliver to Franchisor a written release of Franchisor. Without Franchisee's consent, Franchisor may also transfer its stock, engage in public and private securities offerings, merge, consolidate, reorganize, acquire other businesses (including competing businesses), sell all or substantially all of its assets, borrow money (with or without providing collateral), and otherwise deal in its assets or operate its business.

10.2. **Transfer by Franchisee.**

- a. **Personal Rights.** The rights and duties set forth in this Agreement are personal to Franchisee. Franchisor grants the Franchise in reliance on Franchisee's, and its owners' (if any), business and personal skill, reputation, aptitude, and financial capacity. Accordingly, unless otherwise expressly permitted by this Agreement, without Franchisor's prior consent, Franchisee may not sell, assign, convey, or otherwise dispose of—voluntarily, involuntarily, directly or indirectly, by operation of law or otherwise—this Agreement or any direct or indirect interest in this Agreement. (For the purposes of this Section 10.2, the term "transfer" refers to any of the preceding actions.) Notwithstanding the foregoing, Franchisor will not unreasonably withhold its consent to a transfer if all of the conditions of Section 10.2.d are satisfied.
- b. **Entity Franchisees.** Except as set forth in Section 10.4, if Franchisee is a corporation, partnership, limited liability company, or other entity, a transfer of 25% or more of such voting or ownership interests—individually or in the aggregate, directly or indirectly—is considered a transfer of an interest in this Agreement by Franchisee, as is a transfer of a material portion of Franchisee's assets. Any purported or attempted transfer by Franchisee—by operation of law or otherwise—in violation of this Agreement is null and void, and a material breach of this Agreement.
- c. **No Encumbrances.** Except as set forth in Section 3.7, neither Franchisee nor its owners (or their respective owners) may create, permit, or suffer a lien against, nor pledge, mortgage, hypothecate, grant a security interest in, or in any manner encumber this Agreement (or any interest herein) or 25% or more of Franchisee's other assets or any 25% or more of the voting or ownership interests in Franchisee (or in any owner of Franchisee). Any of the acts described in the foregoing sentence is considered a transfer of an interest in this Agreement Franchisee.
- d. **Permitted Transfer.** Unless Franchisee satisfies all the following conditions—any of which Franchisor, in its discretion, may waive—Franchisor need not consent to a transfer of any interest in this Agreement:
 - i. Franchisee has complied with its obligations under Section 10.5 and Franchisor has not exercised its right of first refusal;
 - ii. all Franchisee's accrued monetary obligations and all other outstanding obligations to Franchisor have been satisfied;
 - iii. Franchisee is not in default under any provision of this Agreement or any other agreement between Franchisee and Franchisor or its affiliates;
 - iv. Franchisee has executed a general release of all claims against Franchisor, its affiliates, and their respective officers, directors, owners, managers, employees and representatives (in their corporate and individual capacities) in form and substance satisfactory to Franchisor;

- v. the transferee enters an assumption agreement, in form and substance satisfactory to Franchisor, under which it assumes all of the transferor's obligations under this Agreement; or, if Franchisor requests, the transferee enters the form of franchise agreement Franchisor then offers to new franchisees (for a term equal to the then remaining Term of this Agreement) and such other ancillary agreements as Franchisor may require for the Franchised Business; the terms of which may significantly differ from the terms of this Agreement, including—a smaller Protected Territory, higher Royalty Fees, or a higher Technology Fee;
- vi. the transferor pays Franchisor a transfer fee of \$20,000 (the "Transfer Fee") for expenses that Franchisor incurs in connection with such transfer, including providing training to the transferee; if Franchisor requires the transferee to enter a new franchise agreement, the transferee need not pay any initial franchise fee due thereunder, the Transfer Fee being in lieu thereof;
- vii. the transferee has been interviewed at Franchisor's principal office, without expense to Franchisor, and has demonstrated to Franchisor's satisfaction that the transferee has the business and personal skills, reputation, and financial capacity Franchisor requires;
- viii. the transferee has satisfactorily completed Franchisor's application procedures for new franchisees;
- ix. If any Designated Brands Manufacturer Agreement requires the consent of the applicable Designated Brands Manufacturer, such Designated Brands Manufacturer has provided such consent and transferee and Franchisee have executed all documentation required by such Designated Brands Manufacturer.
- x. the transferee agrees to renovate, at its expense and within the time Franchisor reasonably specifies, the Franchised Business to conform to the Trade Dress and operating or design concepts then used in the System;
- xi. the transferee has demonstrated to Franchisor's sole satisfaction that it, he, or she has properly assumed, and will be able to comply with, all of its, his, or her obligations in connection with the Franchised Business—if the Premises are leased, the foregoing includes the transferee assuming the lease; notwithstanding such assumption, Franchisee remains liable for all obligations to Franchisor in connection with the Franchised Business arising before the effective date of the transfer;
- xii. Franchisor is reasonably satisfied that the proposed sale terms and other factors involved in the transfer do not materially reduce the transferee's ability to assume and carry out its obligations effectively; Franchisor, however, has no duty to consider such factors; and
- xiii. Franchisee and the transferee timely satisfy any other conditions Franchisor reasonably imposes.

Franchisor's approval of a proposed transfer is not an expression of its opinion concerning the appropriateness or fairness of the terms of the transfer or the likelihood of the transferee's success. If Franchisor disapproves of the transfer because all the transfer conditions contained in this Section 10.2.d or elsewhere in this Agreement have not been satisfied (or for any other reason), it has no liability of any nature to Franchisee or the transferee in connection therewith. Notwithstanding anything in this Agreement to the contrary, Franchisee may not make, permit, or suffer any transfer of this Agreement or any interest herein if it, or any of its direct or indirect owners, is the subject of either a voluntary or involuntary bankruptcy proceeding. For the purposes of the foregoing sentence, a debtor's or trustee-in-bankruptcy's assumption of this Agreement under Section 365 of the Bankruptcy Act (11 U.S.C. §365), or any other Section thereof, is considered a transfer of this Agreement by Franchisee.

Franchisor's consent to a transfer does not constitute a waiver of (1) any claims it may have against Franchisee (or any other transferor) or (2) Franchisor's right to demand the transferee's exact compliance with all the terms of this Agreement. Without limiting the foregoing, even if Franchisor approves the transfer, no transfer releases Franchisee (or any other transferor) of liability for its conduct prior to the transfer, including conduct in breach of this Agreement. Franchisee (or other transferor) shall execute any agreements or documents that Franchisor may request to evidence continuing liability for such conduct prior to the transfer.

10.3. **Death; Disability.** If a Franchise Owner is serving as the Operations Director and he or she dies, or is disabled from any cause and, as a result thereof, for a continuous period of more than three consecutive months is unable to perform his or her obligations under this Agreement; then, within six months thereafter, Franchisee (or its legal representative) shall hire and maintain a replacement in accordance with Section 4.11. If a satisfactory replacement is not hired within such six month period, such Franchise Owner (or its legal representative) must transfer his or her interests in Franchisee (or in any of Franchisee's owners) or in this Agreement in accordance with the terms of Section 10.2 within an additional six months.

10.4. **Transfers to Related Parties.**

- a. If Franchisee is a corporation, partnership, limited liability company, or other entity, upon 30 days' prior notice to Franchisor, any owner of Franchisee may transfer all or any part of its interest in Franchisee to one of the other owners of Franchisee. In addition, if Franchisee is one or more individuals, upon 30 days' prior notice to Franchisor, each individual Franchisee will have the right to transfer or assign this Agreement to any member of such individual's immediate family or trust(s) or family limited partnerships for such individual's immediate family. Any transfer pursuant to this Section 10.4.a may be made without the consent of Franchisor and without any additional payment to Franchisor; provided, that all transferees complete all required training to Franchisor's satisfaction and the transferee enters an assumption agreement in form and substance satisfactory to Franchisor, under which it assumes all of the transferor's obligations under this Agreement.
- b. Franchisee, if one or more individuals, will have the right to transfer or assign this Agreement to a corporation, limited liability company or a partnership, wholly owned by that individual or individuals, without any additional payment to Franchisor; subject, however, to satisfaction of all of the following conditions—any of which Franchisor, in its discretion, may waive:
 - i. that the individual or individuals constituting Franchisee collectively own all of the issued and outstanding equity of such entity, that a list of owners be delivered to Franchisor and that each such owner delivers a certificate to Franchisor, in form and substance satisfactory to Franchisor, that he or she has no interest in any Competitive Academy and that he or she agrees that no additional equity will be issued at any time without Franchisor's consent;
 - ii. that the corporation unconditionally assumes all of the obligations of Franchisee under this Agreement;
 - iii. that the individual or individuals constituting Franchisee unconditionally guaranty all of the obligations of Franchisee under this Agreement;
 - iv. that Franchisee pays to Franchisor all amounts then payable by it to Franchisor pursuant to this Agreement;
 - v. that all corporate documentation requirements provided for within Section 18.8 of this Agreement be delivered to Franchisor; and
 - vi. that a document or documents reflecting the foregoing provisions and acceptable to Franchisor be signed and delivered to Franchisor by the assigning Franchisee, the new corporate Franchisee and Franchisor.

10.5. **Franchisor's Right of First Refusal.**

- a. If, at any time:
 - i. one or more Franchise Owners receives one or more arm's length written offers from an independent third party or parties to purchase an amount of such parties' ownership interests in Franchisee that, if one or more such offers are accepted and consummated, would result in such third party or parties owning at least 50% of the then voting power of the owners of Franchisee or 50% of the value of the then outstanding profits interests in Franchisee (such interest, or the part thereof, subject to the offer referred to as the "Interest," and such offer referred to as the "Interest Offer"); or
 - ii. Franchisee receives an arm's length written offer from an independent third party to purchase Franchisee's interests under this Agreement or, outside the ordinary course of business, a material part or all of the Franchised Business's operating assets, including the Premises if owned by Franchisee or an affiliate (such interests and assets subject to the offer referred to as the "Assets," and such offer referred to as the "Asset Offer");

and such person receiving the Interest Offer, or Franchisee receiving the Asset Offer, as the case may be (in either case the person receiving such third-party's offer referred to as the "Offeror"), desires to accept such offer, then such party must first offer to sell Franchisor the Interest or the Assets for the consideration and on the terms set forth in such third party's written offer. The Offeror's Interest Offer or Asset Offer (in either case, the "Offer") must be made by notice to Franchisor setting forth the name and address of the prospective purchaser and the price and terms of the Offer. The notice must also include a franchise application completed by the prospective purchaser, as well as any other information Franchisor reasonably requests to evaluate the Offer. Such information may include, among other things, any purchase and sale and related agreements executed, or proposed to be executed, by Franchisee or the third party. Franchisor has a first-priority option to purchase the Interest or the Assets that is superior to any third-party's right to purchase the Interest or Assets. Franchisor may exercise such option by delivering notice of acceptance of the Offer ("Notice of Exercise") to the Offeror within 30 days after receipt thereof (including all information Franchisor requests pertaining thereto).

- b. If Franchisor accepts the Offer, the Offeror shall sell the Interest or the Assets to Franchisor—and Franchisor shall purchase the Interest or the Assets from the Offeror—for the consideration and upon the terms set forth in the Offer, less any broker's commission that would have been due if Franchisor had not exercised its right of first refusal and the sale made instead to the proposed third-party purchaser. Franchisor's creditworthiness must be deemed at least equal to the proposed purchaser's creditworthiness.
- c. If an independent third party's written offer (and the Offeror's corresponding Offer to Franchisor) provides for the purchaser's payment of a Unique Consideration, then Franchisor may, in lieu thereof, substitute a cash consideration. If Franchisor elects to do so, it must inform the Offeror of such election in its Notice of Exercise. Within 15 days after Franchisor delivers its Notice of Exercise, the Offeror and Franchisor shall agree on the amount of the cash to be substituted for the Unique Consideration. If the parties cannot conclude an agreement within such time, an independent appraiser Franchisor selects must determine the amount of cash. "Unique Consideration" is any noncash consideration that is of such a nature that Franchisor cannot reasonably duplicate it.
- d. If the proposed sale includes assets of the Offeror not related to operating the Franchised Business, Franchisor may, at its option, elect to purchase only the assets related to operating Franchised Business. In such event, Franchisor, exercising reasonable discretion, must determine an equitable purchase price for such operating assets, which it must allocate to each asset included in the proposed sale.

- e. Unless the Offeror and Franchisor agree otherwise, the closing of the purchase of the Interest or the Assets must be held at Franchisor's then principal office, or any other location Franchisor designates, no later than the 30th day after it delivers its Notice of Exercise to the Offeror. Notwithstanding the foregoing, the closing of any such purchase for which the amount of the cash is determined by an appraiser in accordance with Section 10.5.c must be held on the 15th day after such amount is finally determined. At any such closing, the Offeror shall deliver to Franchisor an assignment and any other documents Franchisor reasonably requests to evidence and document the transfer of ownership of the Interest or the Assets (such assignment and other documents, collectively, the "Transfer Documents."). The Transfer Documents must evidence and document that the transfer is free and clear of all liens, claims, pledges, security interests, options, restrictions, charges, and encumbrances, and that Franchisor shall determine the tax allocations related to the transfer. The Transfer Documents must be in proper form for transfer (if they are negotiable securities or documents or like instruments) and be accompanied by evidence of payment of all applicable transfer taxes by the Offeror. Simultaneously therewith, after setting off any amounts the Offeror owes Franchisor against the amount due the Offeror, Franchisor shall pay the consideration due Franchisee for the Interest or the Assets, as the case may be, by delivery of a cashier's check or certified check drawn on a bank or thrift institution doing business in the county of its principal place of business. The remaining terms of such purchase and sale are those set forth in the Offer.
- f. If Franchisor does not accept the Offer (or is deemed under this Agreement to have waived its right to do so because it did not timely deliver a Notice of Exercise) as provided above, for a period of 60 days after Franchisor elected not to exercise its option (or is deemed to have waived its right to do so), the Offeror may sell the Interest or the Assets to the independent third party for the consideration and upon the terms specified in such third party's written offer. Such sale is, however, subject to Franchisor's prior approval and must strictly comply with all the provisions of this Agreement relating to transfers, including those set forth in Section 10.5.c. As a condition precedent to any sale of an Interest or Assets to an independent third party, such party must deliver to Franchisor a written acknowledgement that the Interest it is purchasing is subject to all the terms of this Agreement. Without limiting the generality of the foregoing, the written acknowledgment must also contain the third party's agreement to be bound by all the terms of this ARTICLE with respect to the transfer of the Interest or Assets, as the case may be, in the same manner as the Offeror. If, within the aforesaid 60-day period, the Offeror does not sell the Interest or the Assets as provided above, any transfer by him or her of the Interest or the Assets is again subject to the restrictions set forth in this Agreement.

ARTICLE 11.

DEFAULT AND TERMINATION

11.1. *Termination by Franchisor—Without Notice.*

- a. Subject to applicable law, upon the occurrence of any of following events, Franchisor may immediately terminate this Agreement:
 - i. Franchisee becomes insolvent or makes a general assignment for the benefit of creditors;
 - ii. a petition in bankruptcy is filed by Franchisee or such a petition is filed against or consented to by Franchisee and such petition is not dismissed within 45 days;
 - iii. Franchisee is adjudicated as bankrupt;
 - iv. a bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is filed and consented to by Franchisee;
 - v. a receiver or other custodian (permanent or temporary) of Franchisee's business or assets is appointed by any court of competent jurisdiction;

- vi. proceedings for a composition with creditors under Federal or any state law is instituted by or against Franchisee;
 - vii. a final judgment against Franchisee in excess of \$15,000 remains unsatisfied or of record for 30 days or longer (unless a supersedeas bond is filed);
 - viii. execution is levied against Franchisee's operation or property, or suit to foreclose any lien or mortgage against the Premises or its other assets is instituted against Franchisee and not dismissed within 45 days; or
 - ix. a substantial portion of Franchisee's real or personal property used in the Franchised Business is sold after levy thereupon by any sheriff, marshal, or constable.
- b. Each of the foregoing events in Section 11.1.a is a "Material Default" under this Agreement. If Franchisor elects to terminate this Agreement due to a Material Default, it need not provide Franchisee with any notice or opportunity to cure. Within three days of the occurrence of a Material Default, Franchisee shall provide notice thereof to Franchisor.

11.2. **Termination by Franchisor—After Notice.** Upon the occurrence of any of the following events, without providing Franchisee with any opportunity to cure, Franchisor may, by written notice, immediately terminate this Agreement:

- a. Franchisee fails to satisfy any of the conditions in Section 4.4 pertaining to opening the Franchised Business—or is not otherwise prepared to open for business—by the Opening Date Deadline;
- b. Franchisee fails to pay Franchisor or any affiliate any amount due under this Agreement or any other Agreement within 10 days after Franchisor or its representative delivers notice of nonpayment;
- c. Franchisee or any of its owners made any material misrepresentation in obtaining the Franchise, including in any franchise application submitted to Franchisor;
- d. Franchisee abandons the Franchised Business or, for more than seven consecutive days or 14 days in any calendar year, Franchisee ceases to conduct the Franchised Business at the Premises; Franchisee, after the expiration of all redemption periods, loses the right to possess the Premises; or Franchisee otherwise forfeits the right to do or transact business in the jurisdiction where the Franchised Business is located;
- e. a serious or imminent threat or danger to public health or safety results from constructing, maintaining, or operating the Franchised Business and such threat or danger remains uncorrected for five days after Franchisor or any governmental authority delivers written notice thereof (or such shorter cure period as the governmental authority may require)—unless a cure cannot be reasonably completed in such time, in which event Franchisee shall immediately begin to take all reasonable steps to cure, and such cure is not completed within 30 days after delivery of such written notice (or such shorter cure period as the governmental authority may require);
- f. Franchisee fails or refuses to comply with any mandatory specification, standard or operating procedure Franchisor prescribes in this Agreement, in the Manuals, or otherwise in writing, relating to the cleanliness or sanitation of the Franchised Business or violates any health, safety, or sanitation law, ordinance, or regulation and does not correct such failure or refusal within 10 days after Franchisor or any governmental authority delivers written notice thereof (or such shorter cure period as the governmental authority may require)—unless a cure cannot be reasonably completed in such time, in which event Franchisee shall immediately begin to take all reasonable steps to cure, and such cure is not completed within 30 days after delivery of such written notice (or such shorter cure period as the governmental authority may require);

- g. Franchisee, or any of its officers, directors, owners or managerial employees is convicted of, or pleads nolo contendere to, a felony, a crime of moral turpitude or any other crime or offense that Franchisor believes is likely to have a material adverse effect on the System, the Proprietary Property, the goodwill associated with the Proprietary Marks, or Franchisor's interest in any of the Proprietary Property unless Franchisee promptly and legally terminates such individual as an officer, director, owner, or employee of Franchisee;
- h. Franchisee denies Franchisor the right—or otherwise interferes with, impedes, or impairs Franchisor's exercise of its right—to inspect the Franchised Business or to audit the sales and accounting records of the Franchised Business or to access or retrieve information from the Computer System;
- i. Franchisee engages in conduct that is harmful to, or reflects unfavorably on, Franchisee, Franchisor, or the System; or Franchisee engages in conduct that exhibits a reckless disregard for the physical or mental well-being of employees, customers, students, Franchisor's representatives, or the public at large—such conduct includes battery, assault, sexual harassment or discrimination, racial harassment or discrimination, alcohol or drug abuse, or other forms of threatening, outrageous, or unacceptable behavior;
- j. except as expressly permitted hereunder, any person attempts or purports to transfer any rights or obligations under this Agreement without Franchisor's prior consent or otherwise breaches any of the provisions of ARTICLE 10;
- k. any breach occurs under ARTICLE 6 or Section 13.1, or any other provisions related to Confidential Information or noncompetition;
- l. Franchisee knowingly maintains false books or records, or knowingly submits any false reports to Franchisor;
- m. Franchisee misuses or makes any unauthorized use of the Proprietary Property (or the proprietary property of any Designated Brands Manufacturer) or otherwise engages in conduct that may materially impair the goodwill associated with the Proprietary Property or Franchisor's rights in the Proprietary Property (or the proprietary property of any Designated Brands Manufacturer or the Designated Brands Manufacturer's rights therein);
- n. Franchisee fails to procure or maintain any insurance required by this Agreement;
- o. during any 12-consecutive-month period, Franchisee receives from Franchisor three or more Notices of Default—whether for the same or different defaults—notwithstanding that such defaults might have been cured;
- p. Franchisee fails to obtain an Accreditation within four years of the Opening Date;
- q. Franchisee or any of its affiliates defaults under any other agreement with Franchisor or any of its affiliates (including any other franchise agreement) and Franchisor or any of its affiliates terminates such agreement on account thereof; or
- r. Franchisee or any of its affiliates defaults under any agreement with a Designated Brands Manufacturer and fails to cure such breach within any permitted cure period.

11.3. Termination by Franchisor—After Notice and Right to Cure. In addition to the defaults specified in Sections 11.1 and 11.2, Franchisee is in default under this Agreement if it fails to comply with any other obligation or requirement imposed by this Agreement, as it may from time to time be revised or supplemented by the Manuals. Except as otherwise provided in Sections 11.1 and 11.2, or elsewhere in this Agreement, Franchisee has 30 days after Franchisor delivers a notice of default (a "Notice of Default") to cure any default described therein and provide evidence of cure satisfactory to Franchisor. A Notice of Default must briefly describe the nature of the default. Except as otherwise provided in Sections 11.1 and

11.2, or elsewhere in this Agreement, if any default described in a Notice of Default is not cured within such 30-day period—or such longer period as applicable law may require—without any further notice to Franchisee, Franchisor may immediately terminate this Agreement. To the extent a cure is permitted under this Agreement, Franchisee has the burden of proving it properly and timely cured any default.

ARTICLE 12.

OBLIGATIONS OF FRANCHISEE UPON TERMINATION OR EXPIRATION

Upon the expiration or sooner termination of this Agreement, all rights granted under this Agreement to Franchisee terminate immediately, and the Sections of this ARTICLE 12 apply to the rights and obligations of the parties. The provisions of this ARTICLE 12 contemplate and are intended, among other things, to enable Franchisor, if it so chooses, to immediately, without any interruption, take over and continue to operate the Franchised Business under its ownership upon the expiration or sooner termination of this Agreement (subject to any applicable federal, state or local law).

12.1. **Cease Operations.** Franchisee shall immediately cease operating the Franchised Business. Franchisee shall not, directly or indirectly: (a) use any of the Proprietary Property; (b) represent itself as a present or former franchisee of Franchisor (except to the extent required by federal or state franchise-registration and -disclosure laws); or (c) in any other way affiliate or associate itself with the System. Franchisee shall immediately cease using all stationery, signage, and any other materials containing the Proprietary Marks. Franchisee shall also immediately cease using any telephone and internet listings and any related numbers or contact information for the Franchised Business used at any time before such expiration or termination. To ensure that Franchisee has ceased such use, and Franchisor may continue using them or transferring them to another user, Franchisee authorizes Franchisor to take whatever actions are necessary to comply with the foregoing in accordance with the Limited Power of Attorney to Transfer Telephone and Internet Listings, which Franchisee is executing concurrently with this Agreement, in substantially the same form as Exhibit 12.1. However, nothing in the Limited Power of Attorney may be construed as authority for Franchisee to obtain internet listings or engage in Internet advertising or promotion unless this Agreement otherwise so authorizes.

12.2. **Payment of Outstanding Amounts.** Franchisor may retain all fees paid under this Agreement. In addition, within 10 days after the effective date of termination or expiration (or such later date(s) as it is determined that amounts are due to Franchisor), Franchisee shall pay Franchisor all Royalty Fees, Technology Fees, amounts owed for products or services Franchisee purchased from Franchisor or its affiliates, and all other unpaid amounts Franchisee owes to Franchisor or its affiliates.

12.3. **Assignment of Lease of Premises.** If the Premises are leased from a third party and if Franchisor requests, Franchisee shall immediately assign its interest in its lease to Franchisor or its designee and immediately surrender possession of the Premises to Franchisor or its designee. Franchisee is and remains liable for all of its obligations accruing up to the effective date of any lease assignment.

12.4. **Distinguishing Operations.**

- a. If Franchisor does not exercise its rights under Section 12.3 and Franchisee desires to operate a business at the Premises, it may do so as long as (i) such operation is not a breach of Section 12.5, Section 13.1 or any other noncompete obligations of Franchisee, and (ii) it makes such modifications or alterations to the Premises that may be needed to distinguish the appearance of the Premises from that of other franchised units and Company-Owned units under the System. Franchisee shall make all such modifications and alterations immediately upon termination or expiration of this Agreement. At such time, Franchisee shall also make such specific additional changes to the Premises as Franchisor reasonably requests for that purpose—including, changing the use of the Premises. Franchisee shall not take any action that impairs the goodwill of its customers or potential customers toward Franchisor, its franchisees, or any other aspect of the System.

- b. In the manner Franchisor specifies, Franchisee shall immediately remove all identifying architectural superstructure and signage on or about the Premises bearing the name or logos of The Salon Professional Academy (or any name or logo similar to The Salon Professional Academy) or any other of the Proprietary Marks. Upon request, Franchisee shall hold for delivery to Franchisor, at the latter's expense, all such property belonging to Franchisor. Until the time of their removal, Franchisee shall completely cover any signage that Franchisee cannot remove within one business day of the expiration or termination of this Agreement.
- c. Until all modifications and alterations required by this Section 12.4 are completed, Franchisee shall:
 - (i) maintain a conspicuous sign, in the form Franchisor specifies, at the Premises stating that Franchisee's facilities are no longer associated with Franchisor's System; and (ii) advise all customers or prospective customers telephoning Franchisee's business that Franchisee and its business are no longer associated with Franchisor's System.
- d. If Franchisee fails or refuses to comply with the requirements of this Section 12.4, Franchisor may enter upon the Premises to make, or cause to be made, the required modifications, alterations, and changes. It does so at Franchisee's sole risk and expense, without responsibility for any actual or consequential damages to the property of Franchisee or others, and without liability for trespass or other tort or criminal act. Franchisee's failure to make such modifications, alterations, or changes will cause irreparable injury to Franchisor.

12.5. **Unfair Competition.** If Franchisee, or any of its owners, continues to operate, or subsequently begins to operate, any other business, it may not, in connection with such business or the promotion thereof, use any reproduction or colorable imitation of the Proprietary Marks, imitate any methods of operation, or undertake any other conduct that is likely to cause confusion, mistake, or deception, or that is likely to dilute Franchisor's rights in and to the Proprietary Marks. In addition, neither Franchisee nor any of its owners shall use any designation of origin or description or representation that falsely suggests or represents an association or connection with the System or Franchisor, or any of its affiliates. Any such action undertaken by Franchisee or any of its owners is considered unfair competition. This Section 12.5 does not, directly or indirectly, discharge Franchisee's obligations under ARTICLE 13.

12.6. **Return of Materials; Cooperation.** At its expense, Franchisee shall immediately deliver to Franchisor at its then current headquarters all tangible and intangible Proprietary Property (together with all copies and any other forms of reproductions of such materials) in Franchisee's possession or control. All such Proprietary Property, as well as all copies and reproductions thereof, are Franchisor's exclusive property. At Franchisor's request, Franchisee shall execute a certification that it has complied with this Section 12.6 and has not directly or indirectly retained copies of any such Proprietary Property (including any electronic copies). Without limiting Franchisor's other rights, Franchisee shall cooperate with Franchisor as it may request to inspect the Premises, interview employees, and review books and records, to ensure Franchisee's compliance with all of its obligations following expiration or sooner termination of this Agreement.

12.7. **Remove Internet References.** Not later than 30 days after the expiration or sooner termination of this Agreement, Franchisee shall remove, or cause to remove, as the case may be, all references existing on the Internet—whether direct or indirect or human-readable or machine-readable only—to the Franchised Business, the System (including the Proprietary Marks), or Franchisor or its owners, officers, or employees (collectively "Internet References"). Such references include or may appear on or be embedded in: (a) websites, Webpages, URLs; (b) metatags; (c) links from one website or page to another in which the Internet Reference exists; (d) search-engine optimization arrangements; and (e) social media, including Facebook, Twitter, Pinterest and YouTube. Nothing in this section entitles Franchisee to have Internet References, but to the extent it does it must comply with the terms of this Section.

12.8. Liquidated Damages for Premature Termination. If Franchisor terminates this Agreement in accordance with ARTICLE 11, Franchisee shall pay Franchisor a lump-sum payment equal to the total of all Royalty Fees for a period determined as follows:

- a. if the Franchised Business has been operating for 24 months or more and at the time of termination there are 24 months or more remaining in the Term had it naturally expired and not been terminated, the 24 months of operating the Franchised Business preceding Franchisee's default;
- b. if the Franchised Business has been operating for 24 months or more and at the time of termination there are less than 24 months remaining in the Term had it naturally expired and not been terminated (the number of such remaining months, the "Remaining Months"), the period of months (and any portion thereof) the Franchised Business has been operating preceding Franchisee's default equal to the number of Remaining Months; or
- c. if the Franchised Business has been operating for less than 24 months, the period of time the Franchised Business has been operating preceding the default, projected on a 24-month basis.

This payment constitutes liquidated damages for causing the premature termination of this Agreement and not a penalty. A precise calculation of the full extent of damages that Franchisor will incur if this Agreement terminates because Franchisee defaults cannot be reasonably determined. Nevertheless, the lump-sum payment provided under this Section 12.8 is reasonable in light of the damages for premature termination that Franchisor may reasonably be expected to incur in such event.

This sum is not a penalty and is intended by the parties only as a compensatory remedy for past breaches and not as a preventative remedy to deter future breaches. Nor does this sum represent a price for the privilege of not performing or its payment represent an alternative manner of performance. Accordingly, as a purely liquidated damage provision, this Section 12.8 does not preclude, nor is inconsistent with, a court granting Franchisor specific performance or any other equitable remedies, such as an injunction, to prevent future breaches. Franchisor's rights to liquidated damages and specific performance or any other equitable relief are not mutually exclusive.

ARTICLE 13.

INDEPENDENT COVENANTS OF THE FRANCHISEE

13.1. Diversion of Business; Competition and Interference With Franchisor.

- a. Franchisor would be unable to protect the Confidential Information against unauthorized use or disclosure and would be unable to encourage a free exchange of ideas and information among franchisees in the Chain if franchisees were permitted to hold interests in any Competitive Academy. Accordingly, during the Term, neither Franchisee nor any of its owners, officers, managers or directors or any of their respective spouses (Franchisee and such other persons, collectively, the "Restricted Parties" and, individually, a "Restricted Party") may, directly or indirectly:
 - i. solicit or otherwise attempt to induce (by combining or conspiring with, or attempting to do so), or influence in any other manner any of Franchisor's Business Affiliates to terminate or modify his, her, or its business relationship with Franchisor or to compete against Franchisor;
 - ii. as owner, officer, director, manager, employee, agent, lender, lessor, broker, consultant, franchisee, or in any other similar capacity whatsoever be connected in any manner with the ownership, management, operation or control, or conduct of a Competitive Academy anywhere; or
 - iii. in any manner interfere with, disturb, disrupt, impair, diminish, or otherwise jeopardize the business of Franchisor or any of its other franchisees.

- b. Furthermore, during the 24-month period after the expiration or sooner termination of this Agreement, neither Franchisee nor any of the other Restricted Parties may, directly or indirectly:
 - i. solicit or otherwise attempt to induce (by combining or conspiring with, or attempting to do so), or influence in any other manner any of Franchisor's Business Affiliates to terminate or modify his, her, or its business relationship with Franchisor or to compete against Franchisor;
 - ii. as owner, officer, director, manager, employee, agent, lender, lessor, broker, consultant, franchisee, or in any other similar capacity whatsoever be connected in any manner with the ownership, management, operation or control, or conduct of a Competitive Academy within 50 miles of the Premises or the premises of any other The Salon Professional Academy business then in operation or under construction; or
 - iii. in any manner interfere with, disturb, disrupt, impair, diminish, or otherwise jeopardize the business of Franchisor or any of its other franchisees.

13.2. **Reasonableness of Provisions.** Franchisee, for itself and each of the other Restricted Parties acknowledges and confirms that the scope of activities prohibited in Section 13.1, as well as the length of the term and geographical restrictions contained therein, are necessary to protect Franchisor's legitimate business interests and are fair and reasonable and not the result of overreaching, duress, or coercion of any kind. Franchisee's and each of the other Restricted Parties' full, uninhibited, and faithful observance of each of the covenants contained in this Section will not cause any undue hardship, financial or otherwise. Enforcement of each of the covenants contained in Section 13.1 will not impair Franchisee's or any of the other Restricted Parties' ability to obtain employment commensurate with its abilities and on terms fully acceptable to it or otherwise to obtain income required for the comfortable support of itself and its family, and the satisfaction of the needs of its creditors. Franchisee's and the other Restricted Parties' special knowledge of a The Salon Professional Academy business (and anyone acquiring such knowledge through Franchisee or the other Restricted Parties) is such as would cause Franchisor and its franchisees serious injury and loss if it (or anyone acquiring such knowledge through Franchisee or the other Restricted Parties) were to use such knowledge to the benefit of a competitor or were to compete with Franchisor or any of its franchisees.

13.3. **Severability.** If any court finally holds that the time or territory for or to which Section 13.1 applies or the scope of activities prohibited thereunder—or that any provision stated in this ARTICLE 13—constitutes an unreasonable restriction upon Franchisee or the other Restricted Parties, the provisions of this Agreement are not thereby rendered void, but apply as to time and territory or to such other extent as such court finally concludes or indicates is a reasonable restriction under the circumstances. The time periods set forth in Section 13.1 are suspended during any period in which Franchisee or any of the other Restricted Parties is breaching any of its terms or involved in a legal action or proceeding challenging the validity or enforceability thereof.

13.4. **Reduction of Scope.** Without Franchisee's or the other Restricted Parties' consent, Franchisor, in its discretion, may reduce the scope of any covenants set forth in this ARTICLE 13. Any such reduction is effective immediately upon Franchisor's delivery of written notice. Franchisee and the other Restricted Parties shall comply immediately with any covenant as so modified. Such modified covenant is fully enforceable to the extent permitted by applicable law.

13.5. **Agreement.** All Franchisee's owners and its managerial employees shall sign Franchisor's standard form of noncompetition and confidentiality agreement containing provisions similar to those contained in this ARTICLE 13 prior to acquiring their ownership interest or beginning employment. Promptly after execution of all such agreements, Franchisee shall deliver copies thereof to Franchisor.

13.6. **Independent Covenants.** The foregoing covenants in this ARTICLE 13 is to be construed as independent of any other covenant or provision of this Agreement. The existence of any claim Franchisee or any other

Restricted Party may have against Franchisor or any of its affiliates (regardless of whether arising from this Agreement) is not a defense to the enforcement of the foregoing covenants against Franchisee or any of the other Restricted Parties.

ARTICLE 14.

INDEPENDENT CONTRACTOR; INDEMNIFICATION

- 14.1. **Independent Status.** This Agreement does not create a fiduciary relationship between the parties to this Agreement. Franchisee is an independent contractor. Unless expressly provided to the contrary, nothing in this Agreement is intended to constitute either party an agent, legal representative, subsidiary, joint venturer, partner, employee, affiliate or servant of the other party for any purpose whatsoever. Nothing in this Agreement authorizes Franchisee to make any contract, agreement, warranty, or representation on Franchisor's behalf. Franchisee shall not incur any debt or other obligation in Franchisor's name. Franchisee shall take such affirmative action as Franchisor requests to disclose to the public that Franchisee is an independent contractor. Such actions may include placing and maintaining a plaque in a conspicuous place within the Premises and a notice on all stationery, menus, business cards, sales literature, contracts, and similar documents that states that the Franchised Business is independently owned and operated by Franchisee. The content of such plaque and notice is subject to the prior written approval of Franchisor.
- 14.2. **Indemnification.** Franchisee shall indemnify and hold harmless Franchisor, its affiliates, each Designated Brands Manufacturer, and their respective officers, directors, owners, employees, managers and representatives (collectively, the "Indemnified Parties," and each, an "Indemnified Party") from any and all actions, judgments, damages, liabilities, losses, costs, and expenses (including reasonable attorney's fees and costs, even if incident to appellate, postjudgment, or bankruptcy proceedings) to which any Indemnified Party becomes subject or that it incurs arising from or relating in any manner to Franchisee's ownership or operation of the Franchised Business. In no event, however, need Franchisee indemnify Franchisor for any matter caused directly by Franchisor's gross negligence or intentional misconduct. Notwithstanding the expiration or sooner termination of this Agreement, this indemnity continues in full force and effect.

ARTICLE 15.

ACKNOWLEDGMENTS, REPRESENTATIONS AND WARRANTIES

- 15.1. **No Reliance.** Except as expressly provided to the contrary in this Agreement, Franchisor makes no representations, warranties, or guarantees upon which Franchisee may rely. Franchisor does not assume any liability or obligation to Franchisee by providing any waiver, approval, consent, or suggestion to Franchisee in connection with this Agreement; or by reason of any neglect, delay, or denial of any request therefor unless such conduct would otherwise constitute a breach of an express obligation of Franchisor under this Agreement.
- 15.2. **True Copies.** Franchisee represents and warrants that copies of all documents it furnishes to Franchisor in connection with obtaining the Franchise, and as required in the future, have been and will be true and complete copies of such documents (including all amendments or modifications thereof) and contain no misleading or incorrect statements or material omissions.
- 15.3. **Receipt of FDD.** Franchisee acknowledges that it received from Franchisor an FDD for the state where the Franchised Business will be located and, if different, the state where Franchisee resides (with all exhibits and supplements thereto), at least 14 calendar days before signing this Agreement or any other binding agreement with, or making any payment to, Franchisor or an affiliate in connection with the sale of the Franchise.
- 15.4. **Receipt of Completed Franchise Agreement.** Franchisee acknowledges that it received from Franchisor a completed copy of this Agreement and all related agreements, containing all material terms, with all blanks

filled in (except for the date, signatures and any minor matters not material to the agreements) at least seven calendar days before signing this Agreement.

15.5. Acknowledgement of Risk. Franchisee acknowledges and agrees to the following:

- a. FRANCHISEE'S SUCCESS IN OWNING AND OPERATING THE FRANCHISED BUSINESS IS SPECULATIVE AND WILL DEPEND ON MANY FACTORS. SUCH FACTORS INCLUDE, TO A LARGE EXTENT, FRANCHISEE'S INDEPENDENT BUSINESS ABILITY. EXCEPT AS SPECIFICALLY INCLUDED IN THIS AGREEMENT, NO REPRESENTATIONS OR PROMISES, EXPRESS OR IMPLIED, HAVE BEEN MADE BY FRANCHISOR OR ANY EMPLOYEE, BROKER, OR REPRESENTATIVE OF FRANCHISOR, TO INDUCE FRANCHISEE TO ENTER INTO THIS AGREEMENT. FRANCHISEE UNDERSTANDS THAT NO EMPLOYEE, OFFICER, DIRECTOR, BROKER OR REPRESENTATIVE IS AUTHORIZED TO DO OTHERWISE.
- b. FRANCHISEE ACKNOWLEDGES THAT, IN ALL OF ITS DEALINGS WITH FRANCHISOR'S OWNERS, OFFICERS, DIRECTORS, EMPLOYEES, AND REPRESENTATIVES, SUCH INDIVIDUALS ACT ONLY IN THEIR REPRESENTATIVE CAPACITY AND NOT IN AN INDIVIDUAL CAPACITY. FRANCHISEE FURTHER ACKNOWLEDGES THAT THIS AGREEMENT AND ALL BUSINESS DEALINGS BETWEEN FRANCHISEE AND SUCH INDIVIDUALS AS A RESULT OF THIS AGREEMENT ARE SOLELY BETWEEN FRANCHISEE AND FRANCHISOR. NOTWITHSTANDING THE FOREGOING, IF FRANCHISOR ENGAGES ANY BROKER, SUCH BROKER SHALL BE SOLELY LIABLE FOR ITS CONDUCT IN CONNECTION WITH FRANCHISEE EXCEPT THAT FRANCHISOR SHALL REMAIN LIABLE FOR THE BROKER'S CONDUCT SOLELY TO THE EXTENT OF FRANCHISOR'S OWN CRIMINAL, INTENTIONAL OR GROSSLY NEGLIGENT CONDUCT REGARDING ENGAGING SUCH BROKER.
- c. IN ADDITION, FRANCHISOR MAKES NO WARRANTY AS TO FRANCHISEE'S ABILITY TO OPERATE THE FRANCHISED BUSINESS IN THE JURISDICTION IN WHICH THE FRANCHISED BUSINESS IS TO BE OPERATED. FRANCHISEE ITSELF MUST SEEK OR OBTAIN ADVICE OF COUNSEL SPECIFICALLY WITH RESPECT TO THIS ISSUE. IF LEGISLATION ENACTED, OR REGULATION PROMULGATED, BY ANY GOVERNMENTAL BODY PREVENTS FRANCHISEE FROM OPERATING THE FRANCHISED BUSINESS, FRANCHISOR IS NOT LIABLE FOR DAMAGES NOR REQUIRED TO INDEMNIFY FRANCHISEE IN ANY MANNER WHATSOEVER OR TO RETURN ANY MONIES RECEIVED FROM FRANCHISEE.

15.6. Business Opportunity Disclaimers. Franchisor makes no representation, warranty, or guaranty—express or implied—concerning any of the following matters:

- a. that it will purchase any products made, produced, fabricated, or modified by Franchisee using supplies or services sold to Franchisee; or
- b. that Franchisee may or will earn a profit or derive income from the Franchise that exceeds the price paid for it;
- c. that Franchisor will refund all or part of the purchase price for the Franchise, or
- d. that Franchisor will repurchase any of the products, equipment, or supplies provided by Franchisor if Franchisee is unsatisfied with the Franchise.

15.7. Antiterrorism Laws. Franchisee acknowledges that the President of the United States of America has issued Executive Order 13224 (the "Executive Order") prohibiting transactions with terrorists and terrorist organizations and that the government of the United States has adopted and may in the future adopt other anti-terrorism measures. Franchisor therefore requires certain representations and covenants that the parties with whom it deals are not directly or indirectly involved in terrorism. Therefore, Franchisee represents and covenants that neither Franchisee nor any of its employees, agents, representatives or, as applicable, Franchisee's principals, members, officers or directors, nor any other person or entity associated with Franchisee (each, individually, a "Party" and collectively, the "Parties") is a person or entity listed in the Annex to the Executive Order; or a person or entity otherwise determined pursuant to the

Executive Order to have committed acts of terrorism or to pose a significant risk of committing acts of terrorism (such a person or entity and those persons and entities listed in the Annex to the Executive Order are referred to herein as “Terrorists”); or a person or entity who assists, sponsors or who supports Terrorists or acts of terrorism (“Sponsors of Terrorism”); or owned or controlled by Terrorists or Sponsors of Terrorism. Furthermore, Franchisee represents and covenants that neither Franchisee nor any Party will, during the term of this Agreement, become a person or entity described above.

ARTICLE 16.

TERM

- 16.1. **Term.** Unless sooner terminated under ARTICLE 11, the Term of this Agreement commences on the Agreement Date and expires 10 years thereafter. Upon the expiration of the Term, Franchisee may extend its Franchisor franchise for one additional ten year term as provided in Section 16.2.
- 16.2. **Option to Obtain Successor Franchise Agreement.** Upon the expiration (but not the sooner termination) of the Term, Franchisee may enter a Successor Franchise Agreement with a ten year successor term. Franchisee may do so only if the following conditions are satisfied at the time the option is exercised (unless another time is specifically set forth below) and remain satisfied at all times thereafter:
- a. not less than 9 months nor more than 12 months before the end of the Term, Franchisee shall give Franchisor notice of its intention to exercise the option to obtain a Successor Franchise Agreement by submitting its application for a Successor Franchise Agreement;
 - b. if Franchisor, in its discretion, chooses to inspect the Franchised Business at least 6 months prior to the expiration of the Term, and gives notice to Franchisee of any required maintenance, refurbishing, renovating, and upgrading, Franchisee shall, to Franchisor’s satisfaction, complete all such required maintenance, refurbishing, renovating, and upgrading no later than 90 days prior to expiration of the Term;
 - c. Franchisee shall satisfy all its monetary obligations owed to Franchisor and its affiliates;
 - d. Franchisee shall not be in default of any provision of (and shall not have received more than three notices of default under—whether for the same or different defaults—notwithstanding that such defaults might have been cured) this Agreement or any other agreement between Franchisee and Franchisor or its affiliates;
 - e. within 30 days before Term expires, Franchisee shall execute, and deliver to Franchisor, a Successor Franchise Agreement, the terms of which may significantly differ from the terms of this Agreement, including a smaller Protected Territory, higher Royalty Fees, or a higher Technology Fee;
 - f. Franchisee reimburses Franchisor for all expenses not exceeding \$5,000 that Franchisor incurs in connection with extending the franchise—this reimbursement is in lieu of any initial franchise fee due under the Successor Franchise Agreement;
 - g. Franchisee shall execute a general release of all claims against Franchisor and its affiliates, and their respective officers, directors, owners, agents, and employees, managers and representatives in form and substance satisfactory to Franchisor; and
 - h. Franchisee is lawfully entitled to continue to occupy the Premises for the entire following successor term.
- 16.3. **Reinstatements and Extensions.** If termination or expiration of the Term would violate any applicable law, Franchisor may reinstate or extend the Term to comply with such laws. Franchisor may do so by written notice to Franchisee. Such reinstatement or extension is for the period set forth in the notice. Such reinstatement or extension does not waive any of Franchisor’s rights under this Agreement or otherwise modify it.

ARTICLE 17.
DEFINITIONS

17.1. **Definitions.** For the purposes of this Agreement, the following terms have the following meanings:

“Accreditation” has the meaning set forth in Section 4.13.a.

“Accrediting Agency” means any educational institution accrediting agency approved by Franchisor in the Manuals or otherwise in writing (which currently include the National Accrediting Commission of Career Arts and Sciences and the Accrediting Commission of Career Schools and Colleges).

“Affiliate,” or **“affiliate,”** means, with respect to a corporation or other business entity, any person controlling, controlled by, or under common control with that corporation or business entity. With respect to an individual, affiliate means that individual’s immediate family members, as well as such immediate family members’ spouses, and the corporations or other business entities such individual and his or her family members, directly or indirectly, control. For the purposes of this definition, “control” means the ownership of more than 50% of the outstanding ownership or voting interests in an entity.

“Agreement” means this Franchise Agreement, as it may be amended, supplemented, or otherwise modified in accordance with Section 18.2.

“Agreement Date” means the date this Agreement was entered, which is set forth in the first paragraph hereof.

“Business Affiliate” means any of Franchisor’s employees, officers, directors, agents, consultants, representatives, contractors, suppliers, distributors, franchisees or other business contacts.

“Chain” means the group of Company-Owned Units and franchised units each operating a The Salon Professional Academy business under the System.

“Company-Owned Unit” means a The Salon Professional Academy business operated under the System and owned by Franchisor or any of its affiliates.

“Competitive Academy” means an academy or school offering training in cosmetology, hairdressing, aesthetician, nails or massage (including any business with a student salon area).

“Computer System” means the computer hardware, Software, peripherals, web-based applications and related services (including high-speed Internet service) that Franchisee must purchase and use in accordance with Franchisor’s specifications contained in the Manuals or otherwise specified in writing by Franchisor.

“Confidential Information” means any knowledge, know-how, technologies, processes, techniques, and any other information that Franchisor designates as confidential, proprietary, or trade secrets or that is not readily available in the public domain. Confidential Information includes the Manuals, training materials, and any customer list Franchisee may create and maintain.

“Consumer Price Index” means the Consumer Price Index – All Items – Urban Consumers (CPI-U) (December 2012 = 100), or its successor, as published by the U.S. Government.

“Contract Interest Rate” has the meaning set forth in Section 3.5.

“Delegatee” means one or more of Franchisor’s representatives who are independent contractors and appointed by Franchisor to perform certain of its duties under this Agreement.

“Design Specifications” has the meaning set forth in Section 2.3.

“Designated Brands” has the meaning set forth in Section 4.12.c.ii.

“Designated Brands IP” has the meaning set forth in Section 4.12.c.iii.

“Designated Brands Manufacturer” has the meaning set forth in Section 4.12.c.i.

“Designated Brands Manufacturer Agreement” has the meaning set forth in Section 4.12.c.v.

“Dispute” means any dispute, claim, or controversy arising under or relating to this Agreement or any agreement entered by the parties in connection with this Agreement (including any dispute relating to Franchisor’s offer, sale, or negotiation of a The Salon Professional Academy franchise or the relationship of the parties arising therefrom or from entering this Agreement or any claim that this Agreement, or any part thereof, is invalid, illegal, or otherwise voidable or void).

“FDD” means Franchisor’s Franchise Disclosure Document and all exhibits and supplements thereto current at the time delivered to Franchisee.

“Franchise” means the rights granted to Franchisee under this Agreement.

“Franchised Business” means The Salon Professional Academy business that Franchisee is authorized to establish and operate at the Premises under this Agreement.

“Franchisee” means all persons signing the signature page of this Agreement as Franchisee, jointly and individually.

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

“Gross Revenues” means all Franchisee’s revenues (actually received and net of actual refunds, which must be documented to Franchisor’s reasonable satisfaction) arising out of the ownership or operation of the Franchised Business or any other business at or about the Premises. Gross Revenues may be evidenced by cash, credit card charges, collected accounts receivable, checks, and the cash value of property or services that the Franchisee received for providing goods or services. Gross Revenues consisting of goods or services that the Franchisee received are valued at the prices applicable, at the time of Franchisee’s receipt, for the products or services that Franchisee provided therefor. The proceeds of Franchisee’s business-interruption insurance are included in Gross Revenues. Gross Revenues exclude, however, the amount of any sales taxes that Franchisee collected and actually paid to the taxing authority. For purposes of clarity, Gross Revenues include revenues received as a result of education services provided by Franchisee, including tuition paid, registration fees and over contract fees (but excluding revenues from the sale of student start-up kits), student salon service revenue and product sales.

“Initial Franchise Fee” has the meaning set forth in Section 3.1.a.

“Initial Franchise Training” has the meaning set forth in Section 2.5.

“Local Advertising” means advertising and promotion undertaken by Franchisee in media directed primarily at Franchisee’s local market area including television, Internet, radio, newspapers, magazines, billboards, posters, handbills, direct mail, collateral promotional and novelty items (e.g., matchbooks, pens and pencils, bumper stickers, calendars) that prominently display a Proprietary Mark, and advertising on public vehicles such as taxis and buses. Local Advertising also includes the cost of producing materials necessary to participate in these media, agency commissions related to the production of such advertising, and amounts paid to a merchant's association for advertising of which the Franchisee is a member. Local Advertising does not include payments in connection with permanent on-premises signs, lighting, purchasing or maintaining vehicles (even if such vehicles display in some manner a Proprietary Mark), contributions or sponsorships (unless Franchisor’s Proprietary Marks are prominently displayed by the group or activity receiving the contribution or sponsorship), premium or similar offers (e.g. discounts, price reductions, special offers, free offers and sweepstakes offers—except that the media costs associated with promoting the premium offers are included); employee-incentive programs, and other similar payments that Franchisor, in its discretion, determines should not be included in determining whether Franchisee has met its obligations for Local Advertising.

“L’Oréal” has the meaning set forth in Section 4.12.c.i.

“Manuals” means all manuals, and any revisions thereto, prepared for the internal use of the Franchised Business currently or subsequently produced by, or for the benefit of, Franchisor.

“Opening Date” means the date on which the Franchised Business is first opened for business to the general public.

“Opening Date Deadline” has the meaning set forth in Section 4.4.

“Operations Director” has the meaning set forth in Section 4.11.

“Payment System” has the meaning set forth in Section 3.3.

“Post-Opening Training” has the meaning set forth in Section 2.7.

“Premises” has the meaning set forth in Section 1.2.

“Proprietary Marks” means the service marks **The Salon Professional Academy**® (word mark and logos), **Growing Salon Leaders One Student at a Time**®, Trade Dress, and all other trademarks, service marks, trade names, logos and commercial symbols that Franchisor authorizes as part of the System.

“Proprietary Property” means the Proprietary Marks, Confidential Information, and copyrighted (or copyrightable) information of Franchisor or its affiliates that Franchisee may use under this Agreement.

“Protected Territory” has the meaning set forth in Section 1.3.

“Reserved Area” means the area described in Schedule 1.2 in which Franchisee will conduct its Site-selection process to identify and submit proposed Sites for Franchisor’s approval in accordance with its Site-approval process. The Reserved Area does not include any protected territory pertaining to a Company-Owned Unit or another franchisee within the Chain who already has a Franchised Business in operation or to be operated in the Reserved Area.

“Restricted Party” has the meaning set forth in Section 13.1.

“Royalty Fee” has the meaning set forth in Section 3.1.b.

“Site” has the meaning set forth in Section 4.1.

“Site-Selection Criteria” means Franchisor’s minimum standards, if any, for or concerning demographic characteristics, traffic patterns, parking, predominant character of the neighborhood, competition from other businesses providing similar services within the area, proximity to other businesses and the nature of such businesses, the size, appearance, and other physical characteristics of a Site, and any other factors that Franchisor may consider relevant to approving or disapproving a Site.

“Software” means the computer software that Franchisor designates as part of the Computer System. Such software may be proprietary or produced or provided by third parties. Some or all of the Software may be online programs or applications that Franchisee may access on Franchisor’s or a third party’s website, including a cloud based customer relationship management system.

“Successor Franchise Agreement” means a successor franchise agreement that is the then-current form of franchise agreement for new franchisees at the time Franchisee enters into such agreement in accordance with Section 16.2.

“System” means Franchisor’s system for operating a The Salon Professional Academy business. The system includes specific standards and procedures and Proprietary Property—all of which may be improved, further developed, or otherwise modified as well as those features described in this Agreement.

“Term” has the meaning set forth in Section 16.1.

“Trade Dress” means the business design and image developed and owned by Franchisor or its affiliates for The Salon Professional Academy business as may, from time to time, be revised and further developed by Franchisor. The Trade Dress currently emphasizes a unified color scheme throughout the Franchised Business and includes the following features: all signage, whether inside or outside of the facilities; uniform interior graphics package; banners; floor design; and uniforms and dress code.

"Trainee" has the meaning set forth in Section 2.5.a.

"Training Fees" means, as of any date, Franchisor's then prevailing fees for Initial Franchise Training.

"Transfer Fee" means the fee described in Section 10.2.d.vi.

"Tuition Revenues" means revenues received as a result of education services provided by Franchisee, including tuition paid, registration fees and over contract fees (but excluding revenues related to student start-up kits).

17.2. **Other Definitional Provisions.**

- a. "Including (include)" means "including (include), without limitation." "Or," as in "A or B," means "A or B or both." "Herein," "hereunder," and "hereof" refer to this Agreement, and not to the specific section in which that term occurs.
- b. The term "person" includes any corporation, partnership, limited liability company, estate, trust, association, branch, bureau, subdivision, venture, associated group, individual, government, institution, instrumentality, and other entity, enterprise, association, or endeavor of every nature and kind.

ARTICLE 18.

GENERAL PROVISIONS

18.1. **Release of Prior Claims.** By executing this Agreement, Franchisee, and each of its successors under this Agreement, forever releases and discharges Franchisor and its affiliates, its Delegates, franchise sales brokers, if any, and other agents, and their respective owners, officers, directors, representatives, employees and agents, from any and all claims of any kind, in law or in equity, that may exist as of the Agreement Date relating to this Agreement or any other agreement between the parties, or relating in any other way to the conduct of Franchisor, its affiliates, its Delegates, franchise sales brokers, if any, or other agents, and their respective officers, directors, representatives, employees and agents before the Agreement Date, including any and all claims, whether presently known or unknown, suspected or unsuspected, arising under the franchise, business opportunity, securities, antitrust or other laws of the United States, any state or locality. Nothing in the foregoing release is intended to disclaim, or require Franchisee to waive reliance on, any representation made in the FDD that Franchisor has provided it, except with respect to specific contract terms and conditions set forth in the FDD that Franchisee has voluntarily waived during the course of franchise-sale negotiations.

18.2. **Amendments.** The provisions of this Agreement may be amended, supplemented, waived or changed only by a written document signed by the party as to whom enforcement of any such amendment, supplement, waiver, or modification is sought and making specific reference to this Agreement. With respect to Franchisor, only the President of Franchisor has the authority to execute any amendment on behalf of Franchisor. None of Franchisor's other officers, employees, or agents have authority to execute any amendment. This Section is subject to the terms of Sections 6.3, 13.1, and 18.3.

18.3. **Modification of the System.** FROM TIME TO TIME AFTER THE AGREEMENT DATE, FRANCHISOR MAY CHANGE OR MODIFY THE SYSTEM (INCLUDING THE TYPES OF GOODS AND SERVICES OFFERED BY THE FRANCHISED BUSINESS). FRANCHISEE SHALL ACCEPT, AND IS BOUND BY, SUCH CHANGES TO AND MODIFICATIONS OF THE SYSTEM AS IF THEY WERE PART OF THIS AGREEMENT AT THE TIME IT WAS EXECUTED. FRANCHISEE SHALL MAKE ALL SUCH EXPENDITURES AS FRANCHISOR MAY REASONABLY REQUIRE TO TIMELY AND EXPEDITIOUSLY IMPLEMENT AND COMPLY WITH SUCH CHANGES OR MODIFICATIONS.

18.4. **Binding Effect.** All of the terms and provisions of this Agreement, whether so expressed or not, are binding upon, inure to the benefit of, and are enforceable by the parties and their respective personal representatives, legal representatives, heirs, successors, and permitted assigns.

18.5. **Notices.** All notices, requests, approvals, demands, consents and other communications required or permitted under this Agreement must be in writing and must be (as elected by the person giving such notice) hand delivered by messenger or courier service, mailed by registered or certified mail (postage prepaid), return receipt requested, or sent by facsimile or email (provided that the sender confirms the facsimile or email by delivering an original confirmation copy by mail or expedited delivery service, in accordance with this Section 18.5, within three days after transmission), addressed to the appropriate party at its address set forth below or to such other address as that party may designate by notice complying with the terms of this Section 18.5. Each such notice is deemed delivered: (a) on the date delivered if by personal delivery; (b) on the date of transmission (provided confirmation is sent as described above), if by facsimile or email; or (c) on the date upon which the return receipt is signed or delivery is refused or the notice is designated by the postal authorities or courier service as not deliverable, as the case may be, if mailed or couriered.

Franchisor's address is Salon Professional Education Company, LLC (d/b/a S.P.E.C. LLC), 4377 15th Avenue South, Fargo, ND 58103, Attention: Jodi Ellingson, President; Facsimile: 701-461-9180; Email: jellingson@specfranchise.com.

Franchisee's address is _____; Facsimile: _____; Email: _____.

18.6. **Headings.** The headings and subheadings contained in this Agreement are for convenience of reference only. They must not be considered a part of this Agreement and do not limit or otherwise affect, in any way, the meaning or interpretation of this Agreement.

18.7. **Severability.**

- a. If any provision of this Agreement, or any other agreement entered into under this Agreement, is contrary to, prohibited by, or deemed invalid under applicable law or regulation, such provision is inapplicable and deemed omitted to the extent so contrary, prohibited, or invalid, but the remainder of this Agreement is not invalidated thereby and must be given full force and effect so far as possible. If any provision of this Agreement may be construed in two or more ways, one of which would render the provision invalid or otherwise voidable or unenforceable and another of which would render the provision valid and enforceable, such provision has the meaning that renders it valid and enforceable.
- b. If any applicable law of any jurisdiction requires greater prior notice of termination, or nonrenewal, of this Agreement than is required hereunder, or the taking of some action not required under this Agreement, the greater prior notice or other action required by such law must be substituted for its counterpart under this Agreement. If, under any applicable law of any jurisdiction, any provision of this Agreement or any requirement prescribed by Franchisor is invalid or unenforceable, Franchisor may, in its discretion, modify such invalid or unenforceable requirement to the extent required to be valid and enforceable. Unless Franchisor elects to give them greater applicability, the foregoing substitutions and modifications to this Agreement are effective only in the jurisdiction in which they are required. In all other jurisdictions, this Agreement must be enforced as originally made and entered.

18.8. **Entity Franchisee.** If Franchisee is a corporation, limited liability company, partnership or other entity, it shall, at or prior to its execution of this Franchise Agreement, provide to Franchisor the following: (a) formation documents filed with the state of its formation certified to be true and correct by the appropriate official of such state and a "good standing" certificate as to Franchisee from such appropriate official, (b) a list of owners together with each owner's corresponding ownership interest, (c) a certificate from each owner stating that it (and its owners) has no interest in any Competitive Academy, (d) a certificate of incumbency of managers, officers and directors, as applicable, and (e) minutes or written consent authorizing the execution of this Franchise Agreement, certified to be true and correct by the secretary of Franchisee. The owners of all the issued and outstanding voting equity of the entity as certified

by an authorized officer shall be and remain, at all times, parties, individually, to this Franchise Agreement and jointly and severally liable for all of the obligations and undertakings of Franchisee hereunder.

- 18.9. **Waivers.** The failure or delay of any party at any time to require performance by another party of any provision of this Agreement, even if known, does not affect the right of such party to require performance of that provision or to exercise any right, power or remedy hereunder. A waiver by any party of any breach of any provision of this Agreement must not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right, power or remedy under this Agreement. No notice to or demand on any party in any case, of itself, entitles such party to any other or further notice or demand in similar or other circumstances.
- 18.10. **Governing Law.** Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§ 1051 et seq.), this Agreement and any other agreement relating thereto, and all transactions contemplated thereby, as well as Franchisor's offer, sale, or negotiation of a The Salon Professional Academy franchise or the relationship of the parties arising therefrom or from entering this Agreement, are governed by, and must be construed and enforced in accordance with, the internal laws of North Dakota, without regard to its conflict-of-laws principles. NOTWITHSTANDING THE FOREGOING, ANY STATUTES IN THE FOREGOING JURISDICTION REGULATING THE OFFER OR SALE OF FRANCHISES, BUSINESS OPPORTUNITIES, OR SIMILAR INTERESTS OR GOVERNING THE RELATIONSHIP BETWEEN THE PARTIES TO THIS AGREEMENT, OR BETWEEN FRANCHISOR AND FRANCHISEE'S GUARANTORS AND OWNERS, IF ANY, DO NOT APPLY UNLESS THEIR RESPECTIVE JURISDICTIONAL REQUIREMENTS ARE MET INDEPENDENTLY WITHOUT REFERENCE TO THIS SECTION.
- 18.11. **Jurisdiction and Venue.** Each of the parties irrevocably and unconditionally: (a) agrees that any suit, action or legal proceeding arising out of or relating to any Dispute must be brought only in the courts of record of the State of North Dakota in Cass County or the District Court of the United States, District of North Dakota; (b) consents to the jurisdiction of each such court in any suit, action, or proceeding; (c) waives any objection that he, she or it may have to the laying of venue of any such suit, action, or proceeding in any of such courts; and (d) agrees that service of any court paper may be effected on such party by mail, as provided in this Agreement, or in such other manner as may be provided under applicable laws or court rules in the State of North Dakota.
- 18.12. **Waiver of Punitive, Consequential and Exemplary Damages Claims.** TO THE FULLEST EXTENT PERMITTED BY LAW, THE PARTIES MUTUALLY AND WILLINGLY WAIVE ANY RIGHT TO, OR CLAIM FOR, ANY PUNITIVE, CONSEQUENTIAL OR EXEMPLARY DAMAGES AGAINST THE OTHER (INCLUDING LOSS OF REVENUE, INCOME OR PROFITS). IN THE EVENT OF A DISPUTE BETWEEN THE PARTIES, EACH IS LIMITED TO RECOVERING ONLY THE ACTUAL DAMAGES IT SUSTAINS.
- 18.13. **Waiver of Jury Trial.** THE PARTIES MUTUALLY AND WILLINGLY WAIVE THE RIGHT TO A TRIAL BY JURY OF ANY AND ALL CLAIMS MADE BETWEEN THEM WHETHER NOW EXISTING OR ARISING IN THE FUTURE—INCLUDING ANY AND ALL CLAIMS, DEFENSES, COUNTERCLAIMS, CROSS CLAIMS, THIRD-PARTY CLAIMS AND INTERVENOR'S CLAIMS—WHETHER ARISING FROM OR RELATED TO THE SALE, NEGOTIATION, EXECUTION, OR PERFORMANCE OF THE TRANSACTIONS TO WHICH THIS AGREEMENT RELATES.
- 18.14. **Equitable Relief.** The Franchised Business is intended to be one of a large number of businesses identified by the Proprietary Marks selling the public the products and services associated with the Proprietary Marks. Consequently, a single franchisee's failure to comply with the terms of its franchise agreement is likely to cause irreparable damage to Franchisor, and damages at law would, therefore, be an inadequate remedy. Accordingly, in the event of a breach or threatened breach of any of the terms of the Agreement by Franchisee, Franchisor may seek an injunction restraining such breach or a decree of specific performance (together with recovery of reasonable attorneys' fees and costs incurred in obtaining such equitable relief). It may do so without demonstrating or proving any irreparable damage. Moreover, Franchisor may seek such relief without posting any bond or security (but if a court of competent

jurisdiction requires a bond or security, a bond or security of \$1,000 will be adequate). The foregoing equitable remedies are in addition to all other rights or remedies to which Franchisor may otherwise be entitled because of any breach of this Agreement by Franchisee. Notwithstanding anything in this Agreement to the contrary, Franchisor may seek equitable and injunctive relief in any jurisdiction that has jurisdiction over Franchisee or any Restricted Party.

- 18.15. **Enforcement Costs.** If any legal action, or other proceeding (is instituted for the enforcement of this Agreement or to resolve any other Dispute, the successful or prevailing party or parties is entitled to recover reasonable attorneys' fees (including reasonable pre-institution and post-institution attorneys' fees), court costs and all expenses even if not taxable as court costs (including all such fees, costs and expenses incident to appellate, bankruptcy and post-judgment proceedings), incurred in connection with such action or proceeding, in addition to any other relief to which such party or parties may be entitled. If Franchisor is required to engage legal counsel or other professionals in connection with any failure by Franchisee to pay when due any monies owed under this Agreement or submit when due any reports, information or supporting records, or in connection with any failure otherwise to comply with this Agreement, Franchisee shall reimburse Franchisor on demand for all of the above-listed costs and expenses it incurs, whether or not a legal action or other proceeding is initiated.
- 18.16. **Remedies Cumulative.** Except as otherwise expressly provided in this Agreement, no remedy in this Agreement conferred upon any party is intended to be exclusive of any other remedy. Each and every such remedy is cumulative and is in addition to every other remedy given under this Agreement or, subject to any choice of law provided in this Agreement, now or later existing at law or in equity or by statute or otherwise. No single or partial exercise by any party of any right, power, or remedy under this Agreement precludes any other or further exercise of such right, power, or remedy.
- 18.17. **Effectiveness; Counterparts.** This Agreement is not effective or binding or enforceable against Franchisor until it is executed by an authorized officer of Franchisor. This Agreement may be executed in two or more counterparts, each of which is an original, but all of which together constitute one and the same instrument. Confirmation of execution by facsimile, or scanned and emailed, signature page is binding upon any party to such confirmation.
- 18.18. **Consents, Authorization, Approvals or Other Satisfaction.** Whenever Franchisor's consent, authorization, approval, or other satisfaction (collectively, "Approval") is required under this Agreement, unless such Approval is in writing and signed by a duly authorized executive officer, such Approval is not binding upon Franchisor. No other officer, employee, or agent of Franchisor has authority to execute Approval on behalf of Franchisor. Franchisor's Approval, whenever required, may be withheld if any default by Franchisee exists under this Agreement. Unless the Agreement expressly states otherwise, any Approval of Franchisor under or arising out of this Agreement shall be granted or withheld in its discretion and judgment. Further, any Approval provided by Franchisor under or arising out of this Agreement (including the approval of a Site or the approval of suppliers) is not, directly or indirectly, a representation or warranty (including whether the Franchised Business will be profitable or whether Franchisee's sales will attain any predetermined levels) relating to the subject of such Approval. Such Approval is an expression only that Franchisor's minimum requirements for Franchisor to grant it have been met, or waived, in Franchisor's discretion. Additionally, Franchisee shall not claim that the provision or withholding of any Approval by Franchisor imposes any liability on Franchisor.
- 18.19. **Interpretation.** Each of the parties has been or has had the opportunity to have been represented by their own counsel throughout the negotiations, as well as at the execution of this Agreement and all the other documents executed incidental to this Agreement. Therefore, while this Agreement is effective as well as after its expiration or sooner termination, none of the parties may claim or assert that any provision of this Agreement or of the other documents should be construed against the drafter thereof.

- 18.20. **Entire Agreement.** This Agreement (together with its exhibits and schedules, and all other written agreements related to this Agreement that are expressly referenced herein) represents the entire understanding and agreement between the parties with respect to the subject matter of this Agreement, and supersedes all other negotiations, understandings, and representations, if any, made by and between the parties. No representation, inducement, promise, or agreement, oral or otherwise, if any, not embodied in this Agreement, its exhibits or schedules, or any other written agreement related to this Agreement and expressly referenced herein is of any force and effect. Nothing in this Section 18.20 is intended to disclaim, or require Franchisee to waive reliance on, any representation made in the FDD that Franchisor has provided it, except with respect to specific contract terms and conditions set forth in the FDD that Franchisee has voluntarily waived during the course of franchise-sale negotiations.
- 18.21. **Survival.** All Franchisor's and Franchisee's respective obligations that expressly or by their nature survive the expiration or sooner termination of this Agreement continue in full force and effect subsequent to and notwithstanding its expiration or termination. Such obligations continue in full force and effect until they are satisfied or by their nature expire.
- 18.22. **Force Majeure.** Neither party is liable for loss or damage, or deemed in breach of this Agreement, if its failure to perform its obligations results from any of the following causes: (a) telecommunications and utilities interruptions (including loss of Internet and electrical service), computer malfunctions (including malfunctioning computer hardware and software and peripherals), extreme weather and climatic conditions (including hurricanes, cyclones, and flooding), transportation shortages or inadequate supply of equipment, merchandise, labor, material, or energy; (b) compliance with any applicable law; (c) war, acts of terrorism, strikes, natural disaster, or acts of God; or (d) any cause beyond its control. Any delay in a party's performance resulting from any of said causes extends the time for performance accordingly or excuses performance, in whole or in part, as may be reasonable. Without limiting the generality of the foregoing, Franchisee acknowledges that services involving, or depending upon, computers or the Internet may be unreliable and that service interruptions thus will occur even in the exercise of the greatest care. Accordingly, Franchisor disclaims any representations, warranties, and covenants—express or implied—that the services it is obligated to perform that involve, or depend upon, using computers, software, or the Internet will be provided free from interruption or malfunction.
- 18.23. **Third Parties.** Except as provided in this Agreement to the contrary with respect to any affiliates of Franchisor, nothing in this Agreement, whether express or implied, confers any rights or remedies under or by reason of this Agreement on any persons (including other than The Salon Professional Academy franchisees) other than the parties and their respective personal or legal representatives, heirs, successors, and permitted assigns. Further, except as provided in this Agreement to the contrary with respect to any Delegatee of Franchisor, nothing in this Agreement relieves or discharges the obligation or liability of any third persons to any party to this Agreement. No provision of this Agreement shall give any third persons any right of subrogation or action over or against any party to this Agreement. Notwithstanding anything to the contrary contained in this Agreement, the parties agree that: (a) each of their respective owners, officers, directors, managers, employees, agents, attorneys and other representatives are third-party beneficiaries of the provisions of Sections 15.5, 18.10, 18.11, 18.12, 18.13, 18.14, and 18.15; and (b) L'Oréal is a third party beneficiary of Sections 4.12.c, 14.2, 18.10, 18.11, 18.12, 18.13, 18.14, as well as any other provisions that relate to the Designated Brands Manufacturer or the Designated Brands IP, and may independently enforce in its own name Franchisee's obligations with respect thereto.
- 18.24. **Right of Parties.** If Franchisee defaults in performing any of its obligations under this Agreement, Franchisor has the right (but not the duty) to perform Franchisee's obligations. If it does, Franchisee shall immediately reimburse Franchisor for the actual costs of so performing. Interest accrues on all amounts due Franchisor under this Section 18.24 at the Contract Interest Rate commencing on the 10th day after Franchisor's demand for reimbursement.

- 18.25. **Cost of Living Adjustment.** The Technology Fee, if any, the Transfer Fee, and any other monies due Franchisor under this Agreement the amount of which are not based upon a percentage of Gross Revenues or Tuition Revenues, are subject to annual adjustment based upon increases (but not decreases) in the Consumer Price Index. Such dollar amounts must be adjusted annually on the first and each subsequent anniversary of the Agreement Date during the Term (the "Adjustment Date") to reflect increases in the Consumer Price Index. If the latest Consumer Price Index published immediately prior to the Adjustment Date (the "Adjustment Date Level") is at a level higher than the level at which such Consumer Price Index was as published immediately prior to the Agreement Date (the "Agreement Date Level"), then those dollar amounts that are subject to adjustment as specified above must be amended and adjusted as of the Adjustment Date by multiplying said amounts by a factor that is determined by dividing the Adjustment Date Level by the Agreement Date Level. From time to time, Franchisor may, in its discretion, waive or defer the adjustments required in this Section 18.25, provided that such waiver or deferral is subject to the terms of Section 18.9. Unless Franchisor otherwise agrees, any failure of Franchisor to timely make or require the adjustments required under this Agreement is deemed a deferral of such adjustments until such time as Franchisor may specify that such adjustments are necessary or have been waived for any particular year or years. If the Consumer Price Index is discontinued, Franchisor must substitute a comparable index reflecting changes in the cost of living or the purchasing power of money, published or recognized as being reliable by the U.S. Government.
- 18.26. **Joinder.** If Franchisee is an entity, all Franchisee's legal and beneficial owners shall enter the Joinder set forth below. Likewise, all Restricted Parties other than Franchisee and its owners shall enter the Restricted Party Joinder set forth below. A default by any such owner or Restricted Party of its obligations under any such joinder is considered a default of Franchisee under this Agreement.

[Remainder of Page Intentionally Left Blank]

This Agreement is dated _____.

FRANCHISOR:

SALON PROFESSIONAL EDUCATION COMPANY, LLC

By: _____
Print Name: _____
Its: _____

FRANCHISEE:

By: _____
Print Name: _____
Its: _____

JOINDER

The parties signing below constitute all Franchisee’s beneficial and legal owners. The Franchisee and such parties are jointly and severally liable for their respective obligations under this Agreement, as it may be modified from time to time (with or without that party’s consent), and each owner is bound by the Agreement as if he or she were Franchisee thereunder (as well as bound by all the provisions of the Agreement applicable to Restricted Parties under Section 13.1).

Print Name: _____
Ownership Percentage: _____ %

RESTRICTED PARTY JOINDER

Each of the parties signing below, being a “Restricted Party” under Section 13.1 of the Franchise Agreement, agrees that he or she is bound by the terms of ARTICLE 13, and by all other provisions in the Franchise Agreement pertaining to preserving Franchisor’s confidential information and trade secrets, including those in ARTICLE 6.

(signature)
Print Name: _____

(signature)
Print Name: _____

Schedule 1.2
The Premises and Reserved Area

The Premises are _____
_____.

The Reserved Area is _____.

Schedule 1.3
The Protected Territory

The Protected Territory is _____
_____.

Exhibit 4.1.b
Agreement With Landlord

THIS AGREEMENT (this "Agreement") dated this ____ day of _____, 20__ among **Salon Professional Education Company, LLC (d/b/a S.P.E.C. LLC)** ("Franchisor"), a Minnesota limited liability company, with principal offices located at 4377 15th Avenue South, Fargo, ND 58103, _____ ("Landlord") a _____ with principal offices located at _____, and _____ ("Tenant"), a _____ with principal offices located at _____.

- A. On _____, Tenant and Franchisor entered a Franchise Agreement (the "Franchise Agreement"). Under the Franchise Agreement, Franchisor granted Tenant the right—and Tenant undertook the duty—to operate a **The Salon Professional Academy**[®] franchised business (the "Franchised Business") at a location that must be approved by, and acceptable to, Franchisor.
- B. Concurrently with entering this Agreement, Landlord and Tenant are entering a lease agreement (the "Lease"). Under the Lease, Tenant leases the premises described known as _____ (the "Premises").
- C. To ensure that a **The Salon Professional Academy**[®] business continues to operate at the Premises and to protect Franchisor's rights and interests under the Franchise Agreement, Landlord grants certain rights to Franchisor under the Lease as set forth below.

The parties, therefore, agree as follows:

- 1. **Consideration.** As consideration for Landlord's entering this Agreement, Tenant must pay Landlord \$250 when Tenant signs this Agreement. Landlord hereby acknowledges receipt of the aforesaid \$250 and further acknowledges that its entering this Agreement has induced Franchisor to consent to Tenant's operating the Franchised Business at the Premises, which Franchisor would not have done but for, and in reliance upon, Landlord's entering this Agreement.
- 2. **Lease Incorporation.** This Agreement is considered an integral part of the Lease and, as such, is binding upon Landlord's heirs, successors, and assigns as if originally made part of and integrated into the Lease.
- 3. **Use of Premises.** During the term of the Franchise Agreement, Tenant must use the Premises to operate the Franchised Business. It may not use the Premises for any other purpose.
- 4. **Proprietary Marks.** Landlord permits Tenant to use and display all proprietary marks, signs, décor items, color schemes, graphic packages, trade dress, and related components of Franchisor's franchise system that Franchisor may from time to time prescribe for the Franchised Business.
- 5. **Notices.** At the same time such notices are sent to Tenant, Landlord must provide Franchisor with copies of all written notices it sends to Tenant (including, without limitation, all notices of default). Landlord must send such copies by first-class mail, postage prepaid, to Franchisor at its address set forth above or such other address as Franchisor may notify Landlord in writing.
- 6. **Right to Cure.** If Tenant defaults under the Lease, Franchisor has the right (but not the duty) to cure such default within 30 days after it receives written notice thereof from Landlord (or such longer period of time if the default cannot reasonably be cured within 30 days and Franchisor diligently proceeds to cure the default). Furthermore, in such event, without Landlord's consent, Franchisor may immediately commence occupancy of the Premises as the tenant under the Lease. The Franchisor may thereafter assign the Lease to another The Salon Professional Academy franchisee or company-owned unit. If it does, Franchisor must first obtain Landlord's written approval of the assignee. Landlord, however, must neither unreasonably withhold nor delay its approval thereof. No assignment permitted under this Section ARTICLE 6 is subject to any assignment or similar fee. Nor will such an assignment cause any rental acceleration.

7. **Right to Assign.** At any time (including, without limitation, upon the expiration or sooner termination of the Franchise Agreement) without Landlord's prior consent, Tenant may assign the Lease to Franchisor. In such event, Franchisor may thereafter assign the Lease to another The Salon Professional Academy franchisee or company-owned unit. If it does, Franchisor must first obtain Landlord's written approval of the assignee. Landlord, however, must neither unreasonably withhold nor delay its approval thereof. No assignment permitted under this Section 7 is subject to any assignment or similar fee. Such an assignment will not cause any rental acceleration.
8. **Acknowledgement of Rights.** Landlord acknowledges Franchisor's rights under the Franchise Agreement to enter the Premises to take such actions as needed to protect its rights and interests under the Franchise Agreement. Such actions include, without limitation, altering the Premises, removing any signs and other items displaying Franchisor's proprietary marks, and curing defaults under the Franchise Agreement and the Lease.
9. **Modification of Lease.** Without Franchisor's prior written consent, neither Landlord nor Tenant may modify, supplement, terminate, renew or extend the Lease. Except as expressly provided otherwise in this Agreement, without Franchisor's prior written consent, Landlord may not consent to any transfer of the Lease by Tenant.
10. **Miscellaneous.** In the event of any inconsistency between the terms of this Agreement and the terms of the Lease, the terms of this Agreement control. All of the terms of this Agreement, whether so expressed or not, are binding upon, inure to the benefit of, and are enforceable by the parties and their respective legal representatives, heirs, successors and permitted assigns. The provisions of this Agreement may be amended, supplemented, waived or changed only by a written document signed by all the parties to this Agreement and making specific reference to this Agreement. This Agreement may be executed in two or more counterparts, each of which is an original, but all of which together constitute one and the same instrument. Confirmation of execution by facsimile, or scanned and emailed, signature page is binding upon any party to such confirmation.

This Agreement has been executed the date and year first above written.

FRANCHISOR:

LANDLORD:

SALON PROFESSIONAL EDUCATION COMPANY, LLC

By: _____

By: _____

Print Name:

Print Name:

Its:

Its:

TENANT:

By: _____

Print Name:

Its:

Exhibit 12.1

Limited Power of Attorney to Transfer Telephone and Internet Listings

THE UNDERSIGNED, having one or more telephone and internet listings and related telephone numbers or other contact information with any telephone company or other service provider hereby authorizes any officer of Salon Professional Education Company, LLC (the "Franchisor") as attorney-in-fact, to transfer such listings and contact information to the Franchisor as it requests, including the execution of all documents necessary to accomplish the transfer. A copy of this document may be relied on to the same extent as an original.

FRANCHISEE:

By: _____

Print Name: _____

Its: _____

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, ____ by _____, who represented himself/herself to be _____ of _____, Inc., a _____, on behalf of the _____. He or she personally appeared before me at the time of notarization, and is personally known to me or has produced _____ as identification and _____ (did/did not) take an oath.

(Seal)

NOTARY PUBLIC:

Print Name: _____

State of _____

My Commission Expires: _____

Exhibit B to the Franchise Disclosure Document

TABLE OF CONTENTS-OPERATING MANUAL

SUBJECT	NUMBER OF PAGES DEVOTED TO SUBJECT
Introduction	6
Pre-opening Procedures	11
Support and Training	15
Staff Development	65
Operating Procedures	105
Student Placement	1
Financial Reporting	1
Closing	1
TOTAL	205 PAGES

Exhibit C to the Franchise Disclosure Document

FINANCIAL STATEMENTS

(see attached)

SALON PROFESSIONAL EDUCATION COMPANY, LLC
Balance Sheet
June 30, 2014

ASSETS	June 30
CURRENT ASSETS	
Cash and cash equivalents	\$ (1,696)
Contract receivables, net of allowance for doubtful contracts of \$26,195	38,276
Due from wholly owned subsidiary	<u>17,725</u>
Total current assets	<u>54,305</u>
PROPERTY AND EQUIPMENT, net of depreciation	<u>2,306</u>
OTHER ASSETS	
Investment in subsidiary	(5,294)
Intangibles, net of amortization	<u>479,664</u>
Total other assets	<u>474,370</u>
Total assets	<u>\$ 530,981</u>
LIABILITIES AND MEMBERS' EQUITY (DEFICIT)	
CURRENT LIABILITIES	
Current maturities of long-term debt	\$ 95,906
Line of credit	75,000
Accounts payable	85,773
Accrued liabilities	5,005
Related party payable	<u>40,922</u>
Total current liabilities	<u>302,606</u>
LONG-TERM LIABILITIES	
Long-term debt, less current portion	<u>323,705</u>
Total liabilities	626,311
MEMBERS' EQUITY (DEFICIT)	<u>(95,330)</u>
Total liabilities and members' equity (deficit)	<u>\$ 530,981</u>

SALON PROFESSIONAL EDUCATION COMPANY, LLC
Income Statement
For the Six Months Ended June 30, 2014

STATEMENT OF INCOME	Six Months Ended 30-Jun
REVENUES	
Franchise fees	\$ 375,329
Support fees	60,750
Other income	<u>8,666</u>
Total revenues	444,745
COST OF REVENUES	<u>60,923</u>
Gross profit	<u>383,822</u>
GENERAL AND ADMINISTRATIVE EXPENSES	<u>284,868</u>
OTHER INCOME (EXPENSE)	
Equity earnings in subsidiary	7,338
Student competition awards	(5,081)
Interest expense	<u>(11,546)</u>
Total other income (expense)	<u>(9,289)</u>
Net income	<u>\$ 89,665</u>

STATEMENT OF CHANGES IN MEMBERS' EQUITY (DEFICIT)	
MEMBERS' EQUITY (DEFICIT), BEGINNING OF YEAR	\$ (184,995)
Net income	<u>89,665</u>
MEMBERS' EQUITY (DEFICIT), END OF YEAR	<u>\$ (95,330)</u>



4334 18th Avenue S.
Ste 101
Fargo, ND 58103-7414

Phone: 701.237.6022
Toll Free: 888.237.6022
Fax: 701.280.1495

Consent To Use Letter

Widmer Roel PC, consents to the use in the Franchise Disclosure Document issued by Salon Professional Education Company, LLC (d/b/a S.P.E.C. LLC) ("Franchisor"), on April 30, 2014, as it may be amended, of our report dated March 26, 2014, relating to the financial statements of Franchisor for the period ending December 31, 2013.

Date: July 8, 2014

Widmer Roel PC

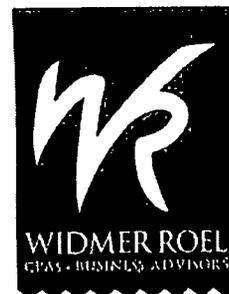
By: Tracee S. Buethner

Print Name: Tracee S. Buethner, CPA, CIA
Title: Partner

**SALON PROFESSIONAL
EDUCATION COMPANY, LLC**

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013, 2012 AND 2011**

WITH INDEPENDENT AUDITOR'S REPORT



4334 18th Avenue S.
Ste 101
Fargo, ND 58103-7414

Phone: 701.237.6022
Toll Free: 888.237.6022
Fax: 701.280.1495

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Salon Professional Education Company, LLC
Fargo, North Dakota

We have audited the accompanying consolidated financial statements of **Salon Professional Education Company, LLC and subsidiary** which comprise the consolidated balance sheets as of December 31, 2013 and 2012 and the related consolidated statements of income, changes in members' equity (deficit), and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Salon Professional Education Company, LLC** and subsidiary as of December 31, 2013 and 2012, and the consolidated results of its operations, changes in members' equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of **Salon Professional Education Company, LLC** as of December 31, 2011, were audited by other auditors whose report dated March 28, 2012, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script, appearing to read "William Row" followed by a stylized flourish.

Fargo, North Dakota
March 26, 2014

SALON PROFESSIONAL EDUCATION COMPANY, LLC

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013, 2012 AND 2011**

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 59,189	\$ 41,319	\$ 71,983
Contract receivables, net of allowance for doubtful contracts of \$26,195, \$111,005 and \$151,065, respectively	<u>39,515</u>	<u>164,852</u>	<u>189,551</u>
Total current assets	98,704	206,171	261,534
PROPERTY AND EQUIPMENT, net	<u>2,572</u>	<u>-</u>	<u>-</u>
OTHER ASSETS			
Long-term contract receivables	-	340,331	-
Intangibles, net	<u>496,331</u>	<u>529,667</u>	<u>-</u>
Total other assets	<u>496,331</u>	<u>869,998</u>	<u>-</u>
Total assets	<u>\$ 597,607</u>	<u>\$ 1,076,169</u>	<u>\$ 261,534</u>
<u>LIABILITIES AND MEMBERS' EQUITY (DEFICIT)</u>			
CURRENT LIABILITIES			
Current maturities of long-term debt	\$ 137,591	\$ 71,065	\$ -
Line of credit	75,000	-	-
Accounts payable	87,268	16,074	19,435
Accrued liabilities	13,131	6,890	1,470
Deferred revenue	<u>119,632</u>	<u>-</u>	<u>473,161</u>
Total current liabilities	<u>432,622</u>	<u>94,029</u>	<u>494,066</u>
LONG-TERM LIABILITIES			
Long-term debt, less current portion	349,980	467,225	-
Deferred revenue	<u>-</u>	<u>197,651</u>	<u>-</u>
Total long-term liabilities	<u>349,980</u>	<u>664,876</u>	<u>-</u>
Total liabilities	782,602	758,905	494,066
MEMBERS' EQUITY (DEFICIT)	<u>(184,995)</u>	<u>317,264</u>	<u>(232,532)</u>
Total liabilities and members' equity (deficit)	<u>\$ 597,607</u>	<u>\$ 1,076,169</u>	<u>\$ 261,534</u>

SALON PROFESSIONAL EDUCATION COMPANY, LLC

**CONSOLIDATED STATEMENTS OF INCOME AND CHANGES IN MEMBERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**

<u>STATEMENTS OF INCOME</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
REVENUES			
Franchise fees	\$ 428,681	\$ 580,480	\$ 334,556
Support fees	314,074	424,840	233,450
Bad debt recovery	15,121	44,010	32,555
Sales	41,525	39,319	-
Other income	58,740	20,353	13,025
Total revenues	858,141	1,109,002	613,586
COST OF REVENUES	138,195	281,986	239,938
Gross profit	719,946	827,016	373,648
GENERAL AND ADMINISTRATIVE EXPENSES	1,162,154	272,991	329,225
OTHER INCOME (EXPENSE)			
Website development	(35,666)	-	-
Interest expense	(24,385)	(4,229)	-
Total other income (expense)	(60,051)	(4,229)	-
Net income (loss)	\$ (502,259)	\$ 549,796	\$ 44,423
<u>STATEMENTS OF CHANGES IN MEMBERS' EQUITY (DEFICIT)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
MEMBERS' EQUITY (DEFICIT), BEGINNING OF YEAR	\$ 317,264	\$ (232,532)	\$ (156,955)
Net income (loss)	(502,259)	549,796	44,423
Purchase of members' interest	-	(162,000)	-
Contributions	-	162,000	-
Distributions to members	-	-	(120,000)
MEMBERS' EQUITY (DEFICIT), END OF YEAR	\$ (184,995)	\$ 317,264	\$ (232,532)

SALON PROFESSIONAL EDUCATION COMPANY, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ (502,259)	\$ 549,796	\$ 44,423
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation	89	-	-
Amortization	33,336	8,333	-
Change in assets and liabilities			
Contract receivables	(56,586)	(313,259)	(124,372)
Bad debt expense	522,254	44	77,205
Accounts payable	49,232	(4,148)	11,062
Accrued liabilities	22,241	2,794	-
Related party payable	21,962	996	-
Deferred revenue	(78,019)	(275,510)	119,265
Net cash provided by (used in) operating activities	<u>12,250</u>	<u>(30,954)</u>	<u>127,583</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	<u>(2,661)</u>	<u>-</u>	<u>-</u>
Net cash used in investing activities	<u>(2,661)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances on line of credit	75,000	-	-
Member capital contributions	-	162,000	-
Proceeds from issuance of debt	-	138,290	-
Cash paid for members' interest	-	(300,000)	-
Distributions to members	-	-	(120,000)
Principal payments on long-term debt	<u>(66,719)</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>8,281</u>	<u>290</u>	<u>(120,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,870	(30,664)	7,583
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>41,319</u>	<u>71,983</u>	<u>64,400</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 59,189</u>	<u>\$ 41,319</u>	<u>\$ 71,983</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid on long-term debt	<u>\$ 28,614</u>	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH FLOW INFORMATION			
Acquisition of intangibles with related party note payable	<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ -</u>
Interest rolled into note payable to former members, as defined	<u>\$ 16,000</u>	<u>\$ -</u>	<u>\$ -</u>
Acquisition of operation of Virtual Salon Campus with related party notes payables	<u>\$ 35,330</u>	<u>\$ -</u>	<u>\$ -</u>

SALON PROFESSIONAL EDUCATION COMPANY, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Salon Professional Education Company, LLC (the Company) is a Minnesota Limited Liability Company that was formerly known as A Parent School, LLC (APS, LLC) until it changed its name on December 21, 2012. The Company enters into franchise agreements and provides consulting services in opening and maintaining cosmetology schools throughout the United States of America under the name “The Salon Professional Academy”. The consulting includes, but is not limited to, developing proprietary business plans under The Salon Professional Academy name. The plans consist of assisting in the design and layout of new facilities, developing educational, marketing, admissions, financial aid, and operations plans and related training during the opening and operations of cosmetology schools.

Limited Liability Company

The Company is organized as a limited liability company under Section 322B.56 of Minnesota Statutes. In accordance with state statute, generally members, governors, agents and managers of a limited liability company are not personally liable for the acts, debts, and liabilities but shall not have the preemptive rights set forth in Section 322B.33 of Minnesota Statutes. Unless dissolved earlier according to law, the Company shall have perpetual existence.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Salon Brand It, LLC. Salon Brand It, LLC was formed in 2011 by the Company to provide promotional items to the franchisees and salons. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation

The financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash includes cash on hand, amounts on deposits at banks and outstanding checks and deposits in transit. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The Company’s cash balances are maintained in bank accounts. Occasionally, cash balances are in excess of federally insured limits.

(Continued)

SALON PROFESSIONAL EDUCATION COMPANY, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

Receivable and Credit Policy

Contract receivables are uncollateralized obligations due from service contract customers and franchisees. Generally, contract receivables are billed according to contract terms. The Company periodically reviews contract receivables and charges operations with those considered uncollectible. Interest is not charged on contract receivables unless a payment plan longer than 12 months has been requested and approved by the members.

Office Equipment

Office equipment is stated at cost at the date of acquisition. Depreciation is computed on the straight-line method of accounting over five years. Expenditures for maintenance and repairs are charged to expenses as incurred.

Intangible Assets

In 2012, the Company acquired and then sold membership interests. The acquisition was based on the fair market value as determined by an independent appraiser. The difference between the acquisition of the interests and the resulting sale of the interests resulted in the recognition of a covenant-not-to-compete in the amount of \$100,000 and goodwill in the amount of \$438,000. Generally accepted accounting principles require the value of the goodwill to be evaluated annually to determine whether the amount reflected in the balance sheet as an asset has been impaired. In management's opinion, there has been no impairment to the value of recorded goodwill during the year ended December 31, 2013.

The Company amortizes the covenant-not-to-compete using the straight-line method over 36 months.

Revenue Recognition

The Company enters into territory option contracts, and franchise agreements with unaffiliated franchisees to operate cosmetology schools throughout the United States.

The territory option agreement allows a business to reserve a stated territory for the future development of a cosmetology school. The option agreement is for a period of up to three years. The revenue on this contract is recognized upon entering into the agreement.

Under the various franchise agreements, third parties operate, or will operate, cosmetology schools that prepare cosmetology students for the state board exams under the Company's brand name. The contract provides for up to 400 hours of consulting services to be provided by the Company over 34 to 40 months. The contract also includes the design and image for The Salon Professional Academy, a list of approved vendors, support materials that include the business plan files, manuals and other items, inclusion on The Salon Professional Academy website, online training videos and advertising layouts.

The franchise agreement requires an initial franchise fee, which is recognized as revenue when the franchise opens for operation under the Salon Professional Academy name. Additional franchise fees, as defined, are payable starting one to seventeen months after the franchise agreement is entered into and are recognized as revenue when due once the franchise has started operations.

Several franchise agreements also requires additional service fees for advertising, website and on-going support. Advertising and website fees are payable beginning eleven months after the franchise agreement is

SALON PROFESSIONAL EDUCATION COMPANY, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

entered into in most cases and are recognized as revenue when due if the franchise has started operations. On-going support fees, if applicable, are payable beginning forty-nine months after the franchise agreement is entered into.

Franchise agreements entered into in 2013 and thereafter include a royalty based fee determined by franchisee revenue and an agreed upon royalty percent.

The Company had the following number of franchises that had been sold but not opened as of December 31:

2013	2
2012	1
2011	2

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. Advertising and marketing costs totaled \$48,386, \$32,578 and \$83,474 for the years ended December 31, 2013, 2012 and 2011, respectively.

Income Taxes

The Company has elected to be taxed as a partnership under the provisions of the Internal Revenue Code of 1986. Under those provisions, the Company does not pay any federal income taxes on its earnings. Instead, the members are liable for individual federal income taxes on their respective share of the Company's items of income, deductions, losses and credits on their personal income tax returns. Accordingly, the accompanying financial statements do not include a provision for income taxes.

With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2010.

Use of Estimates

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

Reclassification

Certain amounts in the December 31, 2012 and 2011, financial statements have been reclassified to conform to the December 31, 2013 presentation. Such reclassifications had no effect on reported net income.

NOTE 2 – CONTRACT RECEIVABLES

Contract receivables, as of December 31, 2013, 2012 and 2011, primarily consist of uncollateralized receivables from franchisees and service contract customers. Interest is not charged on accounts receivable unless a payment plan longer than 12 months has been requested and approved by the members. There is an annual review of the contract receivables and an allowance is determined for contracts that management feels will not be collected.

SALON PROFESSIONAL EDUCATION COMPANY, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

As of December 31, 2013, 2012 and 2011, an allowance for doubtful contracts is reflected net of current contract receivables.

During 2012, the Company was negotiating the payment terms of several of its 2013 contract receivables. The payment terms ranged from 12-36 months with interest rates ranging from 0% to 10%. Based on the negotiations, management recorded receivables as current the amounts it expected to receive in 2013. The remaining receivables were classified as an other asset on the balance sheet.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following on December 31:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Office Equipment	\$ 5,822	\$ 3,161	\$ 3,161
Accumulated depreciation	<u>(3,250)</u>	<u>(3,161)</u>	<u>(3,161)</u>
	<u>\$ 2,572</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for the years ended December 31, 2013, 2012 and 2011 was \$89, \$-0-, and \$-0-, respectively.

NOTE 4 – INTANGIBLE ASSETS

Intangible assets consist of the following at December 31:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Goodwill	\$ 438,000	\$ 438,000	\$ -
Covenant-not-to-compete	<u>100,000</u>	<u>100,000</u>	<u>-</u>
	538,000	538,000	-
Accumulated amortization	<u>(41,669)</u>	<u>(8,333)</u>	<u>-</u>
	<u>\$ 496,331</u>	<u>\$ 529,667</u>	<u>\$ -</u>

Amortization expense totaled \$33,336, \$8,333 and \$-0- for the years ended December 31, 2013, 2012 and 2011, respectively. Future amortization expenses are as follows:

2014	\$ 33,333
2015	<u>24,998</u>
	<u>\$ 58,331</u>

The Company's future cash flows are not materially impacted by its ability to renew or extend agreements related to its covenant-not-to-compete.

SALON PROFESSIONAL EDUCATION COMPANY, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 5 – LINE OF CREDIT AND LONG-TERM DEBT

During 2013, the Company obtained a \$75,000 bank line of credit maturing July 17, 2014; interest is payable monthly at U.S. Prime rate plus 1.75% with an interest rate floor of 5.00%. The line is secured by the assets of the Company, royalties, and franchise payments, and the personal guarantees of the members of the Company. The credit line balance outstanding at December 31, 2013 was \$75,000.

Long-term debt consisted of the following at December 31:

	<u>2013</u>	<u>2011</u>	<u>2011</u>
5.5% note payable to Union State Bank of Fargo due in four interest only payments followed by 20 monthly payments of \$7,253 through December 31, 2014. The note is secured by the assets of the Company, royalties, and franchise payments, and the personal guarantees of the members of the Company.	\$ 84,513	\$ 138,290	\$ -
4.0% note payable to former members (related party). The first year's interest to be added to principal and starting October 1, 2013, monthly payments of \$5,686 through September 1, 2020. The note is secured by membership interest.	<u>403,058</u>	<u>400,000</u>	<u>-</u>
	487,571	538,290	-
Current maturities	<u>(137,591)</u>	<u>(71,065)</u>	<u>-</u>
Total	<u>\$ 349,980</u>	<u>\$ 467,225</u>	<u>\$ -</u>
† Future maturities on long-term debt:			
2014	\$ 137,591		
2015	55,425		
2016	57,683		
2017	60,033		
2018	62,479		
Thereafter	<u>114,360</u>		
	<u>\$ 487,571</u>		

Interest expense on long-term debt totaled \$24,385, \$4,229 and \$-0- for the years ended December 31, 2013, 2012 and 2011, respectively.

In accordance with the Union State Bank of Fargo agreement, the Company is required to comply with certain covenants, including a debt service coverage ratio of 1.2 or better measured at the end of the year.

The Company has complied with or has received a waiver for the covenants as of December 31, 2013.

NOTE 6 – MEMBERS' EQUITY

Members' equity consists of Class A and B units. The Class B units were issued to new members in 2012 and are subject to certain restrictions as defined.

SALON PROFESSIONAL EDUCATION COMPANY, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 7 – MAJOR CUSTOMERS

Franchise fee revenue was received from two franchisees during 2013, which exceeded 35% of total revenue for 2013.

Initial franchise fee revenue was recognized from five franchisees during 2012. The revenues recognized from five franchisees exceeded 10% of total revenue for 2012.

Initial franchise fee revenue was recognized from three franchisees during 2011. The revenues recognized from three franchisees exceeded 10% of total revenue for 2011.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Company paid member owners for consulting services provided to franchisees. The payments totaling \$3,000, \$21,997, and \$43,350 in 2013, 2012 and 2011, respectively, are treated as cost of revenue. The Company paid guaranteed payments to its members for services provided to the Company totaling \$85,200, \$46,800 and \$42,427 in 2013, 2012 and 2011, respectively. These payments are treated as general and administrative expenses. The Company has a payable balance of \$16,225, \$-0-, and \$-0- to member owners as of December 31, 2013, 2012, and 2011, respectively.

The Company made distribution payments to members in the amount of \$-0-, \$-0-, and \$120,000 in 2013, 2012 and 2011, respectively.

Some of the members of the Company have ownership in a franchise. Revenue earned from this related party franchise amounted to \$27,090, \$16,800, and \$15,600 in 2013, 2012 and 2011, respectively. During 2013, the related party franchise reduced a portion of its outstanding accounts payable with royalty fees due. The outstanding contract receivable balance for the related party franchise as of December 31, 2013, 2012 and 2011 was \$-0-, \$1,200, and \$2,400, respectively. In addition, the franchise is to be reimbursed for Company expenses totaling \$5,467, \$996 and \$-0- as of December 31, 2013, 2012 and 2011, respectively.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Company entered into an agreement in 2012 with former members whereas if the Company were sold as defined while the related party note payable is outstanding, the former members could receive an Earn Out of up to a maximum of \$700,000, subject to certain conditions.

In accordance with the member control agreement, the Company has the right of first refusal in the event that an existing member chooses to sell, transfer, give or otherwise dispose of interest. The determination of the purchase price is defined by the agreement.

Various legal claims also arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Company's financial statements.

NOTE 10 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 26, 2014, which is the date the financial statements were available to be issued.

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

LIST OF STATE ADMINISTRATORS

The following 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 we are registered in their states). The list also includes the names, addresses and telephone numbers of other agencies, companies or entities serving as our agents for service of process.

<p>CALIFORNIA <u>Department of Business Oversight</u> <i>San Diego</i> 1350 Front Street, Room 2034 San Diego, California 92101-3697 (619) 525-4233 or 866 ASK CORP <i>San Francisco</i> Department of Business Oversight One Sansome Street, Suite 600 San Francisco, CA 94105-2980 (415) 972-8559 (866) 275-2677 or 866 ASK CORP <i>Sacramento</i> 1515 K Street, Suite 200 Sacramento, California 95814-4052 (916) 445-7205 or 866 ASK CORP</p>	<p>NEW YORK New York State Department of Law 120 Broadway, Room 23-138 New York, NY 10271 P-(212) 416-8200 F-(212) 416-8816</p>
<p>HAWAII Commissioner of Securities Department of Commerce and Consumer Affairs Business Registration Division 335 Merchant Street, 2nd Floor Honolulu, Hawaii 96813 (808) 586-2722</p>	<p>NORTH DAKOTA North Dakota Securities Department 600 East Blvd. Avenue, 5th Floor Bismarck, ND 58505-0510 (701) 328-4712 (Phone) (701) 328-2946 (Fax) (800) 297-5124</p>
<p>ILLINOIS Illinois Attorney General 500 S. Second Street Springfield, IL 62706 (217) 782-4465</p>	<p>RHODE ISLAND State of Rhode Island and Providence Plantations Department of Business Regulations Securities Division 1511 Pontiac Avenue John O. Pastore Complex - Building 69-1 Cranston, RI 02920 P-(401) 462-9527 F-(401) 462-9645</p>
<p>INDIANA Indiana Securities Division 302 West Washington Street, Room E-111 Indianapolis, IN 46204 (317) 232-6681- Phone (317) 233-3675 – Fax</p>	<p>SOUTH DAKOTA Franchise Administrator Department of Labor and Regulation Division of Securities 445 E. Capitol Avenue Pierre, SD 57501 (605) 773-4823</p>
<p>MARYLAND Office of the Attorney General Division of Securities 200 St. Paul Place Baltimore, MD 21202-2020 P - (410) 576-6360 F - (410) 576-6532</p>	<p>VIRGINIA State Corporate Commission Division of Securities and Retail Franchising 1300 E. Main St., 9th Floor Richmond, VA 23219-3630 (804) 371-9051</p>

<p>MICHIGAN Franchise Administrator Office of the Attorney General Consumer Protection Division Williams Building, 6th Floor Lansing, MI 48933 (517) 373-7117</p>	<p>WASHINGTON Department of Financial Institutions Securities Division P.O. Box 9033 Olympia, WA 98507-9033 (360) 902-8760</p>
<p>MINNESOTA Commissioner Department of Commerce 85 7th Place East, Suite 500 St. Paul, Minnesota 55101-2198 P - (651) 296-6328 F - (651) 297-1959</p>	<p>WISCONSIN Commissioner of Securities Division of Securities, 4th Floor 345 W. Washington Avenue Madison, Wisconsin 53703 Phone (608) 261-9555 Fax (608) 261-7200</p>

LIST OF AGENTS FOR SERVICE OF PROCESS

The following list includes the names, addresses and telephone numbers of state agencies serving as our agents for service of process (to the extent we are registered in their states). The list also includes the names, addresses and telephone numbers of other agencies, companies or entities serving as our agents for service of process.

CALIFORNIA	California Commissioner of the Department of Business Oversight 320 West 4th Street, Suite 750 Los Angeles, California 90013 (213) 576-75005 (866) 275-2677
HAWAII	Commissioner of Securities Department of Commerce and Consumer Affairs 335 Merchant Street, 2 nd Floor Honolulu, Hawaii 96813 (808) 586-2722
ILLINOIS	Illinois Office of the Attorney General 500 South Second Street Springfield, IL 62706 (217) 782-4465
INDIANA	Secretary of State 201 State House 200 West Washington St. Indianapolis, IN 46204 (317) 232-6681-Phone (317) 233-3675-Fax
MARYLAND	Maryland Securities Commissioner Office of the Attorney General 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360
MICHIGAN	Michigan Department of Commerce, Corporations and Securities Bureau Consumer Protection Division, Franchise Section P.O. Box 30213 Lansing, Michigan 48913 (517) 373-7117
MINNESOTA	Minnesota Department of Commerce 85 7 th Place East, Suite 500 St. Paul, Minnesota 55101-2198 P - (651) 296-6328 F - (651) 297-1959
NEW YORK	Secretary of State of the State of New York 41 State Street Albany, New York 11231 (518) 474-4650
NORTH DAKOTA	North Dakota Securities Department 600 East Blvd. Avenue, 5th Floor Bismarck, ND 58505-0510 (701) 328-4712 (Phone) (701) 328-2946 (Fax) (800) 297-5124
OREGON	Department of Consumer and Business Services Division of Finance and Corporate Securities Salem, Oregon 97310 (503) 378-4140

RHODE ISLAND	State of Rhode Island and Providence Plantations Department of Business Regulations Securities Division 1511 Pontiac Avenue John O. Pastore Complex - Building 69-1 Cranston, RI 02920 P-(401) 462-9527 F-(401) 462-9645
SOUTH DAKOTA	Department of Labor and Regulation Division of Securities 445 E. Capitol Avenue Pierre, SD 57501 (605) 773-4823
TEXAS	Office of the Secretary of State Business Opportunity Section P.O. Box 12887 Austin, TX 78711-3563 (512) 475-1769
VIRGINIA	Clerk of the State Corporation Commission 1300 East Main Street, 1 ST Floor Richmond, VA 23219-3630 (804) 371-9051
WASHINGTON	Director, Department of Financial Institutions Securities Division 150 Israel Rd SW Tumwater, Washington 98501 (360) 902-8760 Fax (360) 902-0524
WISCONSIN	Commissioner of Securities of Wisconsin 345 W. Washington Avenue Madison, Wisconsin 53703 (608) 261-2801
ALL OTHER STATES	Jodi Ellingson 23657 Fish Lake Trl Pelican Rapids MN 56572

Exhibit E to the Franchise Disclosure Document

CURRENT FRANCHISEE OUTLETS

California

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

Colorado

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

Florida

The Salon Professional Academy Ft. Myers
1388 Colonial Blvd
Fort Myers FL 33907
Chris Lewis (239) 841-0283
David & Nancy Diamond (239) 823-1413

The Salon Professional Academy Gainesville
6915 NW 4th Blvd., Suite B
Gainesville, FL 32607
Joni Jarrell (352) 262-43053

The Salon Professional Academy Tampa
482 Gunn Highway, Suite 144
Tampa, FL 32607
Joanne Powers (813) 908-8020

The Salon Professional Academy Melbourne
1700 W New Haven Ave
Melbourne, FL 32904
Kristen Kohl (321) 951-0595

Illinois

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

Iowa

The Salon Professional Academy Iowa City
1550 South First Avenue
Iowa City, IA 52240
Melissa Moreland (319) 248-2958
Mary Watson (319) 631-4353

Indiana

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

Kentucky

The Salon Professional Academy Lexington
1300 New Circle road, Suite 110
Lexington, KY 40505
Leslie Foster (859) 266-5531

New Jersey

The Salon Professional Academy New Jersey
501 Second Street South
South Plainfield, NJ 07080
John Sickles (888) 450-0780

New York

The Salon Professional Academy Buffalo
2309 Eggert Road
Tonawanda, NY 14150
Paul Grenauer (716) 833-8772

North Dakota

The Salon Professional Academy Fargo
4377 15th Avenue South
Fargo, ND 58103
Jill Krahn (701) 478-1772

Ohio

The Salon Professional Academy Cincinnati
3330 Parkcrest Lane
Cincinnati, OH 45211
Leslie Foster (513) 481-2222

The Salon Professional Academy Perrysburg
116 West South Boundary Street
Perrysburg, OH 43551
Charlie Soto (419) 873-9999

The Salon Professional Academy Cleveland
Mayfield Ridge Shopping Center
5919 Mayfield Road
Mayfield Heights, OH 44124
Nina Bogus (440) 749-0493

Pennsylvania

The Salon Professional Academy Altoona
705 12th St.
Altoona, PA 16602
Ken and Kim Hofer (814) 931-5636

Texas

The Salon Professional Academy Dallas
2440 B S Stemmons Fwy
Lewisville, TX 75067
Anna Geleske (972) 420-7036

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

The Salon Professional Academy Georgetown
901 South I-H35, Suite 102
Georgetown, Texas 78626
Shane & Tuesday Wilson (512) 818-4163

Washington

The Salon Professional Academy Tacoma
3702 South Fife Street
Tacoma, WA 98409
Michael Shea (253) 617-7010

Wisconsin

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

The Salon Professional Academy Eau Claire
3408 Mall Drive
Eau Claire, WI 54701
Will Rauchman (715) 835-2345

Exhibit F to the Uniform Franchise Disclosure Document

FRANCHISEE OUTLETS TERMINATED, NOT-RENEWED, ETC.¹

Missouri

The Salon Professional Academy Branson
4720 N Gretna Road
Branson, MO 65616
Bradley Dixon (501) 551-6269

Montana

The Salon Professional Academy Great Falls
501 Second Street South
Great Falls, MT 59405
Linda McPherson (406) 771-8772

Vermont

The Salon Professional Academy Williston
400 Cornerstone Drive, Suite 200
Williston, VT 05495
Rita Jutras (802) 879-4811

¹ If you buy the franchise offered in this disclosure document, your contact information may be disclosed to other buyers when you leave our franchise system.

Exhibit G to the Uniform Franchise Disclosure Document

FRANCHISEE QUESTIONNAIRE

(see attached)



SALON PROFESSIONAL EDUCATION COMPANY, LLC
FRANCHISEE QUESTIONNAIRE

As you know, SALON PROFESSIONAL EDUCATION COMPANY, LLC (d/b/a S.P.E.C LLC) ("SPEC") and you are preparing to enter into a Franchise Agreement for operating a The Salon Professional Academy franchised business. The purpose of this Questionnaire is to determine whether any statements or promises were made to you, either orally or in writing, that The Salon Professional Academy has not authorized and that may be untrue, inaccurate or misleading, to help ensure that The Salon Professional Academy has complied with its franchise obligations and to ensure that your decision to purchase a The Salon Professional Academy franchise is based upon your own independent investigation and judgment. Please review each of the following questions carefully and provide an honest and complete response to each question. Once you have completed the questions, review the acknowledgments that follow and fill in the information required by acknowledgment 7. Then, if you are satisfied that the acknowledgments are correct in all respects, please sign and date this Questionnaire.

Questions

1. *Have you received and personally reviewed your The Salon Professional Academy Franchise Disclosure Document, (including, but not limited to, any addenda, exhibits, and other attachments, including those listed below), for the state where you reside and where your franchised business will be located?*

- Yes _____ No _____
- | | | |
|------------------------------------------------------------|-----------|----------|
| Franchise Agreement | Yes _____ | No _____ |
| Table of Contents-Operating Manual | Yes _____ | No _____ |
| Financial Statements | Yes _____ | No _____ |
| List of State Administrators/Agents For Service of Process | Yes _____ | No _____ |
| List of Current Franchisee Outlets | Yes _____ | No _____ |
| List of Franchisee Outlets Terminated Not-Renewed, Etc. | Yes _____ | No _____ |
| Franchisee Questionnaire | Yes _____ | No _____ |
| SBA Loan Addendum | Yes _____ | No _____ |

2. *Did you receive your The Salon Professional Academy Franchise Disclosure Document at least 14 calendar days before you paid any money and before you signed any agreement to buy your franchise?*

Yes _____ No _____

3. *Have you received and personally reviewed your Franchise Agreement (including, but not limited to, the addenda, exhibits, and/or other attachments, including those listed below)?*

- Yes _____ No _____
- | | | |
|---------------------------|-----------|----------|
| Agreement with Landlord | Yes _____ | No _____ |
| Limited Power of Attorney | Yes _____ | No _____ |

4. *Have all blanks in the Franchise Agreement, all related agreements (including but not limited to the agreements listed above), each attachment (if any), and all inserts and changes (if any) been completed and delivered to you in final form at least 7 calendar days before you signed them?*

Yes _____ No _____

5. *Have you discussed the benefits and risks of operating a The Salon Professional Academy franchise with an attorney, accountant or other professional advisor and do you understand those risks?*

Yes _____ No _____

6. If you answered "No" to question 5, did you have the opportunity to discuss the benefits and risks of operating a The Salon Professional Academy franchise with an attorney, accountant or other professional advisor?

Yes _____ No _____

7. Do you understand that the success or failure of your franchise will depend in large upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms and other economic and business factors?

Yes _____ No _____

8. Has any employee or other person speaking on behalf of SPEC made any written or oral statement or promise concerning the actual or projected revenues, profits or operating costs of a The Salon Professional Academy business (other than what is clearly included in your Franchise Disclosure Document or Franchise Agreement)?

Yes _____ No _____

9. Has any employee or other person speaking on behalf of SPEC made any written or oral statement or promise regarding the amount of money you may earn in operating your The Salon Professional Academy franchise (other than what is clearly included in your Franchise Disclosure Document or Franchise Agreement)?

Yes _____ No _____

10. Has any employee or other person speaking on behalf of SPEC made any written or oral statement or promise concerning the likelihood of success that you should or might expect to achieve from operating your The Salon Professional Academy franchise?

Yes _____ No _____

11. Has any employee or other person speaking on behalf of SPEC made any written or oral statement, promise or agreement concerning the advertising, marketing, training, support services or assistance that The Salon Professional Academy will furnish to you that is contrary to, or different from, the information contained in your Franchise Disclosure Document or Franchise Agreement?

Yes _____ No _____

12. Has any employee or other person speaking on behalf of SPEC made any other written or oral statement, promise or agreement relating to your The Salon Professional Academy franchise that is contrary to, or different from, the information contained in your Franchise Disclosure Document or Franchise Agreement?

Yes _____ No _____

If you have answered "Yes" to any of questions 8 through 12, please provide a full explanation of your answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.) If you have answered "No" to each of questions 8 through 12, please leave the following lines blank.

Acknowledgments

1. No employee or other person speaking on behalf of The Salon Professional Academy made any other written or oral statement, promise or agreement relating to the financial statements or financial conditions of any of The Salon Professional Academy's affiliates (including any parent corporation or individual owner), which statement, promise, or agreement is contrary to, or different from, any information contained in my Franchise Disclosure Document or Franchise Agreement.
2. I have made my own independent determination that I have adequate working capital to develop, open and operate my franchise.
3. I am not relying on any promises of SPEC which are not contained in my The Salon Professional Academy Franchise Agreement.
4. I understand that my investment in a The Salon Professional Academy franchise has substantial business risks and that there is no guarantee that it will be profitable.
5. I have been advised by SPEC and its representatives to seek professional legal and financial advice in all matters concerning the purchase of my The Salon Professional Academy franchise.
6. I acknowledge that the success of my The Salon Professional Academy franchise depends in large part upon my ability as an independent business person and my active participation in the day to day operation of the business.
7. The name(s) of the person(s) with whom I dealt in the purchase of my The Salon Professional Academy franchise is/are _____.
8. I hereby disclaim that I have relied on the financial condition of any of SPEC's affiliates (including any parent corporation or any individual owner) except for any information pertaining to the financial condition of any of those affiliates disclosed in the Franchise Disclosure Document or Franchise Agreement.
9. I acknowledge that The Salon Professional Academy will use reasonable efforts to assist me in locating a site for my franchise (as provided in my Franchise Agreement), but I also understand that I am exclusively responsible for selecting a suitable site and that The Salon Professional Academy merely approves it if it meets their minimum site criteria. I further acknowledge that the ultimate site-selection decision is mine and mine alone.

You understand that your answers are important to us and that we will rely on them. You also understand that _____ and other officers, directors, employees and representatives of The Salon Professional Academy (and, if you have had any contact with any of The Salon Professional Academy's affiliates, of such affiliates) have acted in a representative and not an individual capacity in all conduct with you; and that none is personally liable for any reason.

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

Date: _____

Signature above

Print Name: _____

Exhibit H to the Uniform Franchise Disclosure Document
SBA LOAN ADDENDUM

**ADDENDUM
RELATING TO
SALON PROFESSIONAL EDUCATION COMPANY, LLC
FRANCHISE AGREEMENT**

THIS ADDENDUM (Addendum) is made and entered into on _____, 20____, by **SALON PROFESSIONAL EDUCATION COMPANY, LLC**, located at **14377 15th Avenue South, Fargo, ND 58103** (Franchisor), and _____, located at _____ (Franchisee).

Recitals.

Franchisor and Franchisee entered into a Franchise (or License) Agreement on _____, 20__, (Franchise Agreement). The Franchisee agreed among other things to operate and maintain a franchise located at _____ designated by Franchisor as Unit #_____ (Unit). Franchisee has obtained from a lender a loan (Loan) in which funding is provided with the assistance of the United States Small Business Administration (SBA). SBA requires the execution of this Addendum as a condition for obtaining the SBA assisted financing.

NOW, THEREFORE, in consideration of the mutual promises below, and for good and valuable considerations in hand paid by each of the parties to the others, the receipt and sufficiency of which the parties acknowledge, the parties agree as follows:

- Franchise Agreement is in full force and effect, and Franchisor has sent no official notice of default to Franchisee under the Franchise Agreement that remains uncured on the date hereof.
- Notwithstanding anything to the contrary in Section 4.20 of the franchise agreement, the franchisee shall have the discretion to set pricing for its products and services provided that, subject to applicable antitrust laws, such pricing: (1) is at or below any maximum price cap programs established by the franchisor for its franchise system; or (2) is at or above any minimum price threshold programs established by the franchisor for its franchise system; or (3) conforms to any bona fide promotional programs or national or regional accounts programs established from time to time by the franchisor for its franchise system.
- The following is added to the end of Section 10.5 of the Franchise Agreement:
However, the Franchisor may not exercise a right of first refusal:
 - (a) If a proposed Transfer is between or among individuals (including members of their immediate families and their respective spouses) who, at the time of the proposed Transfer, have an ownership interest in the Franchisee or the Franchise, and who have guaranteed the Franchisee's obligations under a then outstanding indebtedness which is guaranteed by the United States Small

Business Administration (“SBA”) (Owner/Guarantors); or

- (b) If a proposed Transfer involves a Person other than an Owner/Guarantor and the proposed Transfer involves a noncontrolling ownership interest in the Franchisee or the Franchise, unless such noncontrolling interest: (1) represents less than a 20% ownership interest in the Franchisee or in the Franchise, or (2) the Franchisor (in combination with the Franchisee) qualifies as a small business and the exercise of the right does not affect the eligibility of the borrower to qualify for the SBA loan guarantee program.

The Franchisor’s right to approve or to disapprove a proposed Transfer or transferee, or to exercise its right of first refusal with respect to a Transfer of a controlling interest in Franchisee or the Franchise, shall not be affected by any of the foregoing provisions. If the Franchisor does not qualify as a small business under SBA regulations, the parties acknowledge and understand that the Franchisor’s exercise of its right of first refusal may result in an SBA guaranteed loan becoming immediately due and payable.

- This Addendum automatically terminates on the earliest to occur of the following: (i) a Termination occurs under the Franchise Agreement; (ii) the Loan is paid; or (iii) SBA no longer has any interest in the Loan.

IN WITNESS WHEREOF, the parties hereto have duly signed and executed this Addendum as of the day and year first above written.

FRANCHISOR:

FRANCHISEE:

**SALON PROFESSIONAL
EDUCATION COMPANY, LLC**

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

**Exhibit I to SALON PROFESSIONAL EDUCATION COMPANY, LLC
Franchise Disclosure Document**

The following is a sample form of General Release. It is subject to change and may be altered to fit the particular circumstances attending the renewal or transfer of your franchise.

GENERAL RELEASE

Franchisee, for itself and its affiliates and their respective officers, directors, owners, agents, employees, representatives, successors and assigns (collectively, the "Franchisee-Releasers"), does hereby remise, release and forever discharge Franchisor and its affiliates and their respective officers, directors, owners, agents, employees, representatives, successors and assigns, of and from any and all manner of action and actions, cause and causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, variances, trespasses, damages, judgments, executions, claims and demands whatsoever, in law or in equity, which one or more of the Franchisee-Releasers have had, or has or hereafter can, shall or may have, for, upon or by reason of any matter, cause or thing whatsoever—including any matter relating, directly or indirectly, to the Franchise Contracts, Franchisor's offer, sale, or negotiation of a _____ franchise, the relationship of the parties arising therefrom, or Franchisor's conduct in obtaining and entering into agreements, if any, with prospects to purchase franchisee's territory—from the beginning of the world to the date of this Agreement.

Date: _____ FRANCHISEE:

By: _____

Print Name: _____

EXHIBIT J TO THE FRANCHISE DISCLOSURE DOCUMENT

STATE ADDENDA

**ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT
THE SALON PROFESSIONAL ACADEMY
FOR THE STATE OF CALIFORNIA**

THIS ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT (“Addendum”) sets forth modifications to the Franchise Disclosure Document (“FDD”) for purposes of offering franchises in the State of California (the “State”).

WHEREAS, the State has certain laws and regulations affecting the sale of franchises; and

WHEREAS, Salon Professional Education Company, LLC desires to comply with all such applicable laws and regulations of the State.

NOW, THEREFORE, the FDD is hereby modified as follows solely to the extent that the laws of the State requires such modifications be made to the FDD and apply to either the parties or the transactions described, without acknowledging the application of such laws:

1. The Cover Page of the FDD is modified by adding the following Risk Factor:

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE FRANCHISE BE DELIVERED TOGETHER WITH THE OFFERING CIRCULAR.

OUR WEBSITE www.TheSalonProfessionalAcademy.com, HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT at www.dbo.ca.gov.

2. Item 17 to the FDD is modified by adding the following provisions:

If you must sign a general release of claims upon renewal or transfer of the franchise agreement, California Corporate Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Section 31000-31516). Business and Professional Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professional Code Section 20000-20043).

California Corporations Code, Section 31125 requires Salon Professional Education Company, LLC to give you a disclosure document, approved by the Department of Business Oversight before a solicitation of a proposed material modification of an existing franchise.

California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination or non-renewal of a franchise. If the franchise agreement is inconsistent with the law, the law will control.

The franchise agreement provides for termination upon bankruptcy, this provision may not be enforceable under Federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).

The franchise agreement requires application of the laws of North Dakota. This provision may not be enforceable under California law.

If the franchise agreement contains a covenant not to compete, which extends beyond the termination of the franchise, this provision may not be enforceable under California law.

If the franchise agreement contains a liquidated damages clause, under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

The California franchise investment law requires a copy of all proposed agreements relating to the franchise be delivered together with the offering circular.

If the franchise agreement provides for waiver of jury trial, this provision may not be enforceable under California law.

Neither Salon Professional Education Company, LLC, any person or franchise broker in Item 2 of the FDD is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1939, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

**ADDENDUM TO FRANCHISE AGREEMENT
THE SALON PROFESSIONAL ACADEMY
FOR THE STATE OF CALIFORNIA**

THIS ADDENDUM TO FRANCHISE AGREEMENT ("Addendum") is effective as of the date of execution of the Franchise Agreement between SALON PROFESSIONAL EDUCATION COMPANY, LLC ("Franchisor") and _____ ("Franchisee"), dated _____ (the "Franchise Agreement").

BACKGROUND

Contemporaneous with the execution of this Addendum, the parties have entered into a Franchise Agreement for the operation of THE SALON PROFESSIONAL ACADEMY franchise in _____, California.

The parties desire by this Addendum to amend certain terms of the Franchise Agreement entered into simultaneously herewith so as to comply with California law.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree that, solely to the extent the laws of California apply to the parties (without acknowledging such application), the following shall apply to the extent required by applicable law:

1. COVENANTS - Section 13.1 of the Franchise Agreement is modified by inserting the following sentence at the end of the last paragraph in that section:

The franchise agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may be unenforceable under California law.

2. DEFAULT AND TERMINATION - Section 11.1 of the Franchise Agreement is modified by inserting the following sentence at the end of the paragraph:

The franchise agreement provides for termination upon bankruptcy. This provision may be unenforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq).

3. APPLICABLE LAW - Sections 18.10 and 18.11 of the Franchise Agreement are modified by inserting the following sentence at the end of the paragraph:

The franchise agreement requires application of the laws of North Dakota. This provision may be unenforceable under California law.

4. LIQUIDATED DAMAGES FOR PREMATURE TERMINATION - Section 12.8 of the Franchise Agreement is modified by inserting the following sentence at the end of the paragraph:

The franchise agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

5. WAIVER OF JURY TRIAL. - Section 18.13 of the Franchise Agreement is modified by inserting the following sentence at the end of the paragraph:

The franchise agreement provides for waiver of jury trial, this provision may not be enforceable under California law.

6. ENTIRE AGREEMENT. - Section 18.20 of the Franchise Agreement is modified by inserting the following sentence at the end of the paragraph:

Nothing in this or in any related agreement, however, is intended to disclaim the representations we made in the franchise disclosure document that we furnished to you.

This Addendum shall modify the Franchise Agreement only to the extent expressly provided herein, and all other terms, conditions and obligations of the Franchise Agreement shall continue to remain in full force and effect. All initially capitalized terms not otherwise defined in this Addendum shall have the same meaning as defined in the Franchise Agreement

Witness:

SALON PROFESSIONAL EDUCATION COMPANY, LLC

By: _____

Its: _____

FRANCHISEE:

By: _____

Its: _____.

NOTICE REQUIRED BY MICHIGAN LAW

If Salon Professional Education Company, LLC, d/b/a The Salon Professional Academy, offers you a franchise, it must provide a disclosure document to you 10 business-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

The State of Michigan prohibits certain unfair provisions that are sometimes in franchise documents. If any of the following provisions are in these franchise documents, the provisions are void and cannot be enforced against you:

(a) A prohibition on the right of a franchisee to join an association of franchisees.

(b) 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.

(c) 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.

(d) 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 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.

(e) 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.

(f) 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.

(g) 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:

(1) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.

(2) The fact that the proposed transferee is a competitor of the franchisor.

(3) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(4) 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.

(h) 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 (c).

(i) 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.

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.

You have the right to request that Salon Professional Education Company, LLC arrange for the escrow of the initial fee and other funds paid to The Salon Professional Academy until its obligations to provide training are fulfilled.

Any questions regarding this notice should be directed to the Consumer Protection Division, Franchise Section, P.O. Box 30213, Lansing, Michigan 48913; Telephone Number: (517) 373-7117.

Franchisor's agent in this state authorized to receive service of process: Consumer Protection Division, Franchise Section, P. O. Box 30213, Lansing, Michigan 48913.

**ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT
OF THE SALON PROFESSIONAL ACADEMY
FOR THE STATE OF MINNESOTA**

THIS ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT (“Addendum”), sets forth modifications to the Franchise Disclosure Document (“FDD”) for purposes of offering franchises in the State of Minnesota (the “State”).

WHEREAS, the State has certain laws and regulations affecting the sale of franchises; and

WHEREAS, **SALON PROFESSIONAL EDUCATION COMPANY, LLC** desires to comply with all such applicable laws and regulations of the State.

NOW, THEREFORE, the FDD is hereby modified as follows solely to the extent that the laws of the State apply to either the parties or the transactions described, without acknowledging the application of such laws:

We will protect your rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name. Minn. Stat. Sec. 80C.12, Subd. 1(g) states that Minnesota considers it unfair to not protect your right to use the trademarks.

With respect to the franchises governed by Minnesota law, we will comply with Minnesota Statute 80C.14, Subd. 3, 4, and 5, which require (except in certain specific cases) (1) that you be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the franchise agreement and (2) that consent to the transfer of the franchise will not be unreasonably withheld.

Minn. Stat. 80C.21 and Minn. Rule 2860.4400(J) prohibits us from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring you to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of your rights as provided for in Minnesota Statutes, Chapter 80C, or (2) your rights to any procedure, forum, or remedies provided for by the law of the jurisdiction.

Minnesota law may limit our ability to unreasonably restrict your activity after the franchise agreement has ended.

A provision in the Franchise Agreement which terminates the franchise upon the bankruptcy of a franchisee may be unenforceable under Title 11, United States Code Section 101.

Liquidated damage provisions are void under the law of the State of Minnesota.

Minnesota Rule 2860.4400J. states that it is unfair and inequitable for us to require you to waive your rights to any forum provided for by the laws of Minnesota or to waive your rights to a jury trial. You cannot consent to us obtaining injunctive relief. We may seek injunctive relief. A court will determine if a bond is required.

The Limitations of Claims section must comply with Minnesota Statutes, Section 80C.17, Subd. 5.

Minnesota Rule 2860.4400D. prohibits us from requiring you to assent to a general release.

Witness:

FRANCHISOR:

Salon Professional Education Company, LLC

By: _____

Its: _____

FRANCHISEE:

By: _____

Its: _____

**ADDENDUM TO FRANCHISE AGREEMENT
OF THE SALON PROFESSIONAL ACADEMY
FOR THE STATE OF MINNESOTA**

THIS ADDENDUM TO FRANCHISE AGREEMENT ("Addendum"), is effective as of the date of execution of the Franchise Agreement by and between _____ ("Franchisor") and _____ ("Franchisee"), dated _____ (the "Franchise Agreement").

BACKGROUND

Contemporaneous with the execution of this Addendum, the parties have entered into a Franchise Agreement for the operation of a The Salon Professional Academy franchise in _____, Minnesota.

The parties desire by this Addendum to amend certain terms of the Franchise Agreement entered into simultaneously herewith so as to comply with Minnesota law.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree that, solely to the extent the laws of Minnesota apply to the parties (without acknowledging such application), the following shall apply to the extent required by applicable law:

We will protect your rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name. Minn. Stat. Sec. 80C.12, Subd. 1(g) states that Minnesota considers it unfair to not protect your right to use the trademarks.

With respect to the franchises governed by Minnesota law, we will comply with Minnesota Statute 80C.14, Subd. 3, 4, and 5, which require (except in certain specific cases) (1) that you be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the franchise agreement and (2) that consent to the transfer of the franchise will not be unreasonably withheld.

Minn. Stat. 80C.21 and Minn. Rule 2860.4400(J) prohibits us from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring you to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of your rights as provided for in Minnesota Statutes, Chapter 80C, or (2) your rights to any procedure, forum, or remedies provided for by the law of the jurisdiction.

Minnesota law may limit our ability to unreasonably restrict your activity after the franchise agreement has ended.

A provision in the Franchise Agreement which terminates the franchise upon the bankruptcy of a franchisee may be unenforceable under Title 11, United States Code Section 101.

Liquidated damage provisions are void under the law of the State of Minnesota.

Minnesota Rule 2860.4400J. states that it is unfair and inequitable for us to require you to waive your rights to any forum provided for by the laws of Minnesota or to waive your rights to a jury trial. You cannot consent to us obtaining injunctive relief. We may seek injunctive relief. A court will determine if a bond is required.

The Limitations of Claims section must comply with Minnesota Statutes, Section 80C.17, Subd. 5.

Minnesota Rule 2860.4400D. prohibits us from requiring you to assent to a general release.

This Addendum shall modify the Franchise Agreement only to the extent expressly provided herein, and all other terms, conditions and obligations of the Franchise Agreement shall continue to remain in full force and effect. All initially capitalized terms not otherwise defined in this Addendum shall have the same meaning as defined in the Franchise Agreement.

Witness:

FRANCHISOR:

Salon Professional Education Company, LLC

By: _____

Its: _____

FRANCHISEE:

By: _____

Its: _____

**ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT
OF SALON PROFESSIONAL EDUCATION COMPANY, LLC
FOR THE STATE OF NEW YORK**

This Addendum to the Franchise Disclosure Document (“Addendum”) sets forth modifications to the Franchise Disclosure Document (“FDD”) for purposes of offering franchises in the State of New York (the “State”).

INTRODUCTION

The State has certain laws and regulations affecting the sale of franchises; and

SALON PROFESSIONAL EDUCATION COMPANY, LLC desires to comply with all such applicable laws and regulations of the State.

NOW, THEREFORE, the FDD is modified as follows solely to the extent that the laws of the State apply to either the parties or the transactions described, without acknowledging the application of such laws:

1. ITEMS 3 and 4 of to the FDD are hereby deleted in their entirety and the following provisions are substituted in their place:

3. LITIGATION

The Franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor’s principal trademark:

- A. Has an administrative, criminal or civil action pending against them alleging: a felony; a violation of a franchise, antitrust or securities law; fraud, embezzlement, fraudulent conversion, misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations; pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of the franchisees and the size, nature or financial condition of the franchise system or its business operations.
- B. Has been convicted of a felony or pleaded nolo contendere to a felony charge, or within the ten-year period immediately preceding the application for registration, has been convicted of a or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud or securities law, fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices or comparable allegations..
- C. Is subject to any currently effective injunctive or restrictive order or decree relating to franchise, or under any federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or

proceeding brought by a public agency, or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

4. BANKRUPTCY

The franchisor, its affiliate, its predecessor, officers, or general partner during the 10-year period immediately before the date of this offering circular:

- (a) filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or
- (c) was a principal officer of any company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after the officer or general partner of the franchisor held such position in the company or partnership.

2. Item 17. (s) of the FDD is modified by adding the following paragraph:

No changes to the Manual will be made which would impose an unreasonable economic burden on the Franchisee or unreasonably increase its obligations.

3. Item 17. (w) of the FDD is modified by adding the following paragraph:

The choice of law provisions contained in the Franchise Agreement should not be considered waivers of any right conferred upon either the Franchisor or the Franchisee by the General Business Law of the State of New York, Article 33.

4. Item 17 (j) of the FDD is modified by adding the following sentence:

The Franchisee's rights to terminate the Franchise Agreement are limited to those rights, if any, which may be afforded under applicable contract law following a material breach by Franchisor.

AS TO ANY STATE LAW DESCRIBED IN THIS ADDENDUM THAT DECLARES VOID OR UNENFORCEABLE ANY PROVISION CONTAINED IN THE FRANCHISE AGREEMENT, THE FRANCHISOR RESERVES THE RIGHT TO CHALLENGE THE ENFORCEABILITY OF THE STATE LAW BY

BRINGING AN APPROPRIATE LEGAL ACTION OR BY RAISING THE CLAIM IN A LEGAL ACTION OR
ARBITRATION THAT YOU HAVE INITIATED

**ADDENDUM TO FRANCHISE AGREEMENT
OF SALON PROFESSIONAL EDUCATION COMPANY, LLC
FOR THE STATE OF NEW YORK**

This Addendum to Franchise Agreement ("Addendum") is effective as of the date of execution of the Franchise Agreement by and between _____ ("Franchisor") and _____ ("Franchisee"), dated _____ (the "Franchise Agreement").

Contemporaneous with the execution of this Addendum, the parties have entered into a Franchise Agreement for the operation of a The Salon Professional Academy franchise in _____, New York.

The parties desire by this Addendum to amend certain terms of the Franchise Agreement entered into simultaneously herewith so as to comply with New York law.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree that, solely to the extent the laws of New York apply to the parties (without acknowledging such application), the following shall apply to the extent required by applicable law:

1. Sections 18.10 and 18.11 of the Franchise Agreement entitled, "Governing Law" and "Jurisdiction and Venue" are amended by adding the following paragraph: "The foregoing choice of law should not be considered a waiver of any right conferred upon any party to this Agreement by the General Business Law of the State of New York, Article 33."

2. The Franchisee acknowledges that it received from Salon Professional Education Company, LLC a Franchise Disclosure Document for the State of New York with all exhibits referenced in the Franchise Disclosure Document on the following date: _____

This Addendum shall modify the Franchise Agreement only to the extent expressly provided herein, and all other terms, conditions and obligations of the Franchise Agreement shall continue to remain in full force and effect. All initially capitalized terms not otherwise defined in this Addendum shall have the same meaning as defined in the Franchise Agreement.

Witness:

SALON PROFESSIONAL EDUCATION COMPANY, LLC

By: _____
Its: _____

FRANCHISEE:

By _____
Its: _____

RECEIPT

STATE OF _____

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

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

If Salon Professional Education Company, LLC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency listed in Exhibit D to this disclosure document.

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

Franchise sellers Jill Krahn at Salon Professional Education Company, LLC, 4377 15th Avenue South, Fargo, ND 58103, (888) 478-6856, or JKrahn@SPECfranchise.com; Samuel Shimer at Salon Professional Education Company, LLC, 4377 15th Avenue South, Fargo, ND 58103, (914) 861-2405, or sshimer@SPECfranchise.com; Jodi Ellingson at Salon Professional Education Company, LLC, 4377 15th Avenue South, Fargo, ND 58103, (888) 478-6856, or jellingson@SPECfranchise.com; Sonja Plunkett at Salon Professional Education Company, LLC, 4377 15th Avenue South, Fargo, ND 58103, (515) 450-4290, or splunkett@SPECfranchise.com; Marilyn Fulkerson at Salon Professional Education Company, LLC, 4377 15th Avenue South, Fargo, ND 58103, (515) 450-4994, or mfulkerson@SPECfranchise.com; Christopher Baran at Salon Professional Education Company, LLC, 4377 15th Avenue South, Fargo, ND 58103, (212) 995-8263, or cbaran@SPECfranchise.com; David Berg at Salon Professional Education Company, LLC, 4377 15th Avenue South, Fargo, ND 58103, (888) 478-6856, or dberg@SPECfranchise.com; and Jenn Kazmierczak at Salon Professional Education Company, LLC, 4377 15th Avenue South, Fargo, ND 58103, (888) 478-6856, and jkazmierczak@SPECfranchise.com

Issuance date: April 30, 2014

I have received a disclosure document dated April 30, 2014 that included the following Exhibits:

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

Date: _____

Signature

Print Name:

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

RECEIPT

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