

SPECIAL RISKS TO CONSIDER ABOUT *THIS* FRANCHISE

Certain states require the following risks be highlighted:

1. **Out-of-State Dispute Resolution.** The Franchise Agreement requires you to resolve most disputes with us by mediation, arbitration or litigation only in New York. Out of state mediation, arbitration or litigation may force you to accept a less favorable settlement for disputes. It may also cost you more to mediate, arbitrate or litigate with us in New York than in your own state.

2. **Short Operating History.** We, as franchisor, are at an early stage of development and have a limited operating history. This franchise is likely to be a riskier investment than a franchise in a system with a longer operating history.

3. **Spousal Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the Franchise Agreement even though your spouse has no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.

4. **Unregistered Trademarks.** The primary trademark that you will use in your business is not federally registered. If the franchisor's right to use this trademark in your area is challenged, you may have to identify your business and its products or services with a name that differs from that used by other franchisees or the franchisor. This change can be expensive and may reduce brand recognition of the products or services you offer.

5. **Financial Condition.** The franchisor's financial condition, as reflected in its financial statements (See Item 21), calls into question the franchisor's financial ability to provide services and support to you.

6. **Supplier Control.** "You must purchase all or nearly all of the inventory or supplies that are necessary to operate your business from the franchisor, its affiliates, or suppliers that the franchisor designates, at prices the franchisor or they set. These prices may be higher than prices you could obtain elsewhere for the same or similar goods. This may reduce the anticipated profit of your franchise business."

~~5.7.~~ **Inventory Control:** You must make inventory and supply purchases, even if you do not need that much. Your inability to make these purchases or to maintain inventory levels at all times may result in termination of your franchise and loss of your investment.

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

any fixtures, furnishings, signs, equipment or other improvements not previously approved as meeting our standards and specifications.

Upon ~~sixty (60) years~~sixty (60) days written notice, but no more often than once every twelve (12) months, you, at your own expense, must upgrade and refurbish your Molly Tea Store. The upgrades and refurbishment may include, without limitation, those necessary to conform your Molly Tea Store decor, floor plan, trade dress, exterior signage and decor, color schemes and equipment with the then current standards and public image of new or remodeled Molly Tea Store operated by us or our other franchisees or as necessary to protect the System. The upgrade and renovation must be completed within ~~sixty (60) years~~sixty (60) days of notice.

You must maintain in sufficient supply and use at all times only the products, materials, ingredients, supplies and paper goods which conform with our standards and specifications, and must refrain from deviating from them by using nonconforming items without our prior written consent.

You must permit us or our agents, at any reasonable time, to take from the premises of your Molly Tea Store, at our option, samples of any inventory items, without payment, in amounts reasonably necessary for testing by us or an independent, certified laboratory to determine whether the samples meet our then-current standards and specifications. We may require you to bear the cost of the testing if we have not previously approved the supplier of the item or if the sample fails to conform to our specifications.

You must also maintain the Molly Tea Store in the highest degree of cleanliness, sanitation, repair and condition. Within ten (10) days after receipt of notice from us, you agree to make any additions, alterations, repairs and replacements that we reasonably require, including, without limitation, such periodic repainting, equipment repairs and replacement of obsolete signs, equipment and floor coverings (including carpet and tile) as we may reasonably direct. In the event that you fail or refuse to implement repair or maintain, we shall have the right, but not the obligation, to enter upon the Molly Tea Store for the purpose of making or causing to be made such corrections as may be required, with all costs to be paid by you.

Insurance

Within thirty (30) days after the execution of the lease or purchase of the premises for your Molly Tea Store you must obtain all required insurance policies solely from insurance agents/brokers or other providers approved by us or that meet our criteria as described below. We may or may not receive compensation or other economic benefits from approved insurance agents/brokers or other providers.

Such policy or policies will be written by an insurance carrier or insurance carriers that have received and maintain an A.M. Best Rating of “(A) V” or better and an A.M. Best Class Rating of VIII, and will include, at a minimum, the following for each Molly Tea Store:

A. Commercial General Liability. The commercial general liability policy will be written on an occurrence basis and will include coverage for products/completed operations on your Molly Tea Store premises through ISO form CG 24 07 or equivalent coverage and must not include an exclusion or sublimit for assault and battery. The commercial general liability policy will have a minimum per occurrence liability limit of \$1,000,000 and a general aggregate liability limit of \$2,000,000. The commercial general liability policy also will have the following endorsements: the additional insured coverage for us and our affiliates and their respective principals, directors, managers, officers, employees, agents, successors and assignees (collectively, the “*Franchisor Indemnitees*”) which will include premises-operations, contractual liability, independent contractors, and products and completed operations. The additional insured coverage will not be limited to our vicarious liability, and will include coverage for liability arising

out of, or occurring upon, or in connection with the condition, operation, use or occupancy of your Molly Tea Store.

B. Crime (inside/outside) and Employee Dishonesty Insurance. Crime (moneys and securities) inside/outside coverage will have a minimum per occurrence liability limit of \$100,000 for inside crime and a minimum per occurrence liability limit of \$100,000 for outside crime. Employee dishonesty coverage will have a minimum per occurrence liability limit of \$100,000.

C. Worker's Compensation Insurance. Worker's compensation insurance in amounts provided by applicable law or, if permissible under applicable law, any legally appropriate alternative providing substantially similar compensation for injured workers satisfactory to us, provided that you conduct and maintain a risk management and safety program for your employees as you deem appropriate.

D. Automobile Liability Insurance. Automobile liability insurance coverage for owned, non-owned and hired vehicles with a liability limit of not less than \$1,000,000 combined single limit.

E. Building and Personal Property Insurance. Property coverage for physical loss or damage to personal property and real property including leasehold improvements, at each Molly Tea Store location. The policy will include all risk replacement cost property insurance for your Molly Tea Store and its contents, including, without limitation, awnings, equipment, signs, glass, additions under construction, outdoor fixtures, personal property, as well as business interruption insurance for income loss for at least twelve (12) months and Royalty Fees due under your Franchise Agreement for the applicable Molly Tea Store, equipment breakdown, business ordinance, debris removal, preservation of property, fire department service charges, pollutant clean up and removal, newly acquired or constructed property, property of others, property off premises and stock. This policy will include us as a loss payee for equipment and supplies financed by us either by a loan, line of credit or an open account if we offer such financing to you.

F. Umbrella Liability Insurance. Umbrella coverage over the above-described general commercial liability, automobile liability and employer's liability insurance policies listed above, and which provides coverage at least as broad as these underlying policies. Such coverage will be written on a per occurrence basis. The policy must provide coverage of at least a \$1,000,000 per occurrence limit and \$1,000,000 aggregate limit. The umbrella liability insurance will also have the following endorsements: the additional insured coverage for Franchisor Indemnitees will not be limited to our vicarious liability, and will include coverage for liability arising out of or occurring upon or in connection with the condition, operation, use or occupancy of the franchised business.

G. Insurance Required Under Applicable Law. Any insurance which may be required by statute or rule of the state or locality in which your Molly Tea Store will be operated.

The insurance coverages described above may not have any deductible, self-insured retention, self-funded retention or any similar provision unless prior written consent is given by us.

Within thirty (30) days after the execution of the lease for your Molly Tea Store and, thereafter, at least ~~sixty (60) years~~sixty (60) days prior to the expiration of any such policy, you will deliver to us certificates of insurance indicating the insurance coverages contracted for as well as the description of special provisions (e.g., additional named insured status). As noted above, certain policies must name Franchisor Indemnitees as additional insureds; include a waiver of subrogation provision or endorsement in favor of Franchisor Indemnitees; be primary and non-contributory to any other insurance that any of Franchisor Indemnitees has procured itself; provide for thirty (30) days' prior written notice to us of any material modification, cancellation or expiration of such policy; and include such other provisions as we may require from time to time. You will also provide a binder, declarations page or confirmation of

**ADDITIONAL FRANCHISE DISCLOSURE DOCUMENT DISCLOSURES
REQUIRED BY THE STATE OF MINNESOTA**

The following provisions supplement or modify certain provisions of the Franchise Disclosure Document with respect to franchises offered and sold in the State of Minnesota:

1. Item 13, Supplemental Disclosure. Item 13 is supplemented by the following statement:

Pursuant to Minnesota Statutes, Section 80C.12, we will protect your right 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 our name.

2. Item 17, Supplemental Disclosures. Item 17 is supplemented by the following statements:

Minnesota Statutes, Section 80C.21 and Minnesota Rule 2860.4400(J) prohibit us from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring you to consent to liquidated damages, injunctive relief, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Documents or Franchise Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

Minnesota law provides you with certain termination and non-renewal rights. Minnesota Statutes, Section 80C.14, Subdivisions 3, 4 and 5 require, except in certain specified cases, that you be given ninety (90) days' notice of termination (with ~~sixty (60) years~~sixty (60) days to cure) and one hundred and eighty (180) days' notice for non-4887-3902-2323.2 renewal of the Franchise Agreement.

No release language set forth in the Franchise Agreement will relieve us or any other person, directly or indirectly, from liability imposed by the Minnesota Franchise Act.

You cannot consent to our obtaining injunctive relief. We may see injunctive relief. A court will determine if a bond is required.

3. Each provision of these additional disclosures shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Franchise Investment Law are met independently without reference to these additional disclosures.

The State of Minnesota has imposed a fee deferral due to our financial condition, which requires that we defer the collection of all initial fees from Minnesota franchisees until we have completed all of our pre-opening obligations and you are open for business.

No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including, fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed with the franchise.

injunctive relief is provided for in the Franchise Agreement, the Franchisee acknowledges that the Franchisor may seek injunctive relief. Further, in connection with injunctive relief, Franchisee and Franchisor acknowledge that a court will determine whether a bond is required.

9. Minn. Stat. §604.113 prohibits the Franchisor from requiring Minnesota franchisees to pay a service charge exceeding thirty dollars (\$30.00) per occurrence, for any dishonored check.

10. The following statement is added to the end of Section 4.1 of the Agreement:

Notwithstanding anything to the contrary in this Section 4.1, Franchisor shall defer collection of the initial franchise fee and other initial payments owed by Franchisee to Franchisor and/or its affiliates until such time as the franchise is operational.

8. NO STATEMENT, QUESTIONNAIRE, OR ACKNOWLEDGMENT SIGNED OR AGREED TO BY A FRANCHISEE IN CONNECTION WITH THE COMMENCEMENT OF THE FRANCHISE RELATIONSHIP SHALL HAVE THE EFFECT OF (I) WAIVING ANY CLAIMS UNDER ANY APPLICABLE STATE FRANCHISE LAW, INCLUDING FRAUD IN THE INDUCEMENT, OR (II) DISCLAIMING RELIANCE ON ANY STATEMENT MADE BY ANY FRANCHISOR, FRANCHISE SELLER, OR OTHER PERSON ACTING ON BEHALF OF THE FRANCHISOR. THIS PROVISION SUPERSEDES ANY OTHER TERM OF ANY DOCUMENT EXECUTED IN CONNECTION WITH THE FRANCHISE.

The State of Minnesota has imposed a fee deferral due to Franchisor's financial condition, which requires that the Franchisor defers the collection of all initial fees from Minnesota franchisees until Franchisor has completed all of its pre-opening obligations and the franchisee is open for business.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its equity owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound by it. The parties have duly executed and delivered this Amendment to the Agreement on _____, 20____.

FRANCHISEE: _____

BY: _____

NAME: _____

TITLE: _____

Mollytea Franchising, LLC

BY: _____

NAME: _____

TITLE: _____