

## Special Risks to Consider About *This* Franchise

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

1. **Out-of-State Dispute Resolution.** The franchise agreement and development agreement require you to resolve disputes with the franchisor by arbitration only in Minnesota. Out-of-state arbitration may force you to accept a less favorable settlement for disputes. It may also cost more to arbitrate with the franchisor in Minnesota than in your own state.
2. **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.
3. **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.
4. **Mandatory Minimum Payments.** You must make a minimum continuing fee, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.
5. **Minimum Development Quotas.** You must open the agreed-upon number of Smartstyle salons, whether just one or 3 or 6 ("Minimum Development Quotas") within specified development periods "(Development Periods)". If you fail to do so, your Franchise Agreement and Development Agreement will either be subject to termination or will automatically expire.
6. **Turnover rate. During the last 3 years, a high percentage of franchised outlets (more than 38%) were terminated, not renewed, re-acquired, or ceased operations for other reasons. This franchise could be a higher risk investment than a franchise in a system with a lower turnover rate.**

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.

Column 1 Type of Fee <sup>(1)</sup>	Column 2 Amount	Column 3 Due Date	Column 4 Remarks
Interest Charges & Late Fees	1.5% per month or the highest commercial contract interest rate the law allows, whichever is less. In addition, you must pay us a One-Hundred Dollar (\$100) administrative fee. \$100 late fee for failure to submit weekly sales reports on time.	On demand	For each payment not made to us or our affiliate when due (or for each dishonored payment). In addition, we may charge you a \$100 late fee if you fail to submit report of gross revenues with weekly Continuing Fees payment.
Electronic Communications Fee <sup>(8)</sup>	Up to \$500 per year	Within 5 days of receipt of an invoice indicating amount owed	If obtained through Smartstyle, you will reimburse Smartstyle for the affiliated fees. See Note (8)
Modernization <sup>(9)</sup>	\$50,000 adjusted for inflation for capital improvements to modernize and update Salon location or as required by Walmart	Every 10 years. Smartstyle may require that 25% be spent before end of seventh year or as demanded by Walmart	See Note (9)
Gift Card Transactions	ACH Monthly Settlement Service Fees of \$10/month per Bank Account	The 6th (Sixth) of each month or next business day	You buy cards from our approved supplier and make payments to our third-party vendor.  <i>See also</i> Item 8 of this disclosure document
Alternate Supplier Review	Amount not to exceed actual expenses of review	Upon demand	See Item 8. If you want to use a supplier Smartstyle has not approved, you must pay Smartstyle's expenses to review the supplier. Smartstyle is not required to approve the supplier.

- (1) Unless otherwise indicated, each fee is imposed by and payable to Smartstyle. All fees are uniformly imposed and are nonrefundable. Increases in fees and costs are possible and fees and cost may vary due to circumstances. ~~The Barbers may increase charges as the costs increase.~~
- (2) Smartstyle may require you to pay these fees by direct bank transfer to Smartstyle's bank account. If you do not submit your weekly report of Gross Sales with your weekly Continuing Fees payment, Smartstyle may charge you a \$100 late fee.
- (3) "Gross Sales" is, as defined in Article 29.5 of the Franchise Agreement, the gross total dollar income of the your Smartstyle Salon from all cash, credit or charge sales of all merchandise, products and services sold or rendered in, upon, about or resulting from, in connection with or as a result of the your Smartstyle Salon, and will include all sales, receipts and revenues, in any form and from any and all sources whatsoever, including the redemption of gift certificates and