



FRANCHISE DISCLOSURE DOCUMENT

SHEAR MADNESS FRANCHISING, LLC

(a Kansas limited liability company)

13425 W. 128th Street

Overland Park, Kansas 66213

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Shear Madness Franchising, LLC is offering franchises for the operation of a retail business that provides haircuts to children and sells hair care products, accessories, toys, manicures and pedicures.

The total estimated initial investment necessary to begin operation of a Shear Madness salon franchise ranges from \$154,700 to \$362,274. These amounts include \$36,000 that must be paid to the franchisor. See Items 5 and 7.

We also grant to qualified persons rights to a specific geographic area in which to develop a predetermined number of salons under a Development Agreement. If you execute a Development Agreement, a \$25,000 initial franchise fee for the first salon and a discounted initial fee for each subsequent salon to be developed in the agreement is due at the date of signing the Development Agreement.

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 us at 13425 W. 128th Street Overland Park, Kansas, (888) 984-6636.

The terms of your contract will govern your franchise relationship. Don't rely on the Disclosure Document alone to understand your contract. Read your entire contract carefully. Show your contract 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 "**Buying a Franchise: A Consumer Guide**" 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 IN THE NON-REGISTRATION STATES IS:

January 17, 2022

STATE COVER PAGE

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

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

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

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

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY ARBITRATION OR, AS APPLICABLE, LITIGATION ONLY IN KANSAS. OUT OF STATE ARBITRATION, OR AS APPLICABLE, LITIGATION, MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US OR, AS APPLICABLE, LITIGATE WITH US IN KANSAS THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT STATES THAT KANSAS LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. FRANCHISEES MAY BE ASKED TO HAVE THEIR LANDLORDS SIGN A COLLATERAL ASSIGNMENT OF LEASE TO THE FRANCHISOR AS SECURITY FOR THE FRANCHISEES
4. TIMELY PERFORMANCE OF ITS OBLIGATIONS UNDER THE FRANCHISE AGREEMENT.
5. IF THE FRANCHISE LOCATION IS A CORPORATION, PARTNERSHIP, OR A LIMITED LIABILITY COMPANY YOU MAY BE REQUIRED TO PUT UP PERSONAL GUARANTIES THAT PUT YOUR PERSONAL ASSETS AT RISK.
6. 6. THERE MAY BE OTHER RISK FACTORS

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

STATE EFFECTIVE DATES – REGISTRATION STATES

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

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

STATES	EFFECTIVE DATE
California	October 31 st , 2018
Hawaii	Not Registered
Illinois	Not Registered
Indiana	August 2 nd , 2018
Maryland	Not Registered
Michigan	Not Registered
Minnesota	Not Registered
New York	March 6, 2015
North Dakota	Not Registered
Rhode Island	Not Registered
South Dakota	Not Registered
Virginia	Not Registered
Washington	Not Registered
Wisconsin	01/17/2022

EXEMPTION/NOTICE FILING STATES

STATES	EFFECTIVE DATE
Connecticut	Not Registered
Florida	Registered 8/20/10
Kentucky	Not Registered
Nebraska	Registered 8/17/10
Texas	Registered 8/17/10
Utah	Not Registered

TABLE OF CONTENTS

SHEAR MADNESS FRANCHISING, LLC

ITEM 1 THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES	6
ITEM 2 BUSINESS EXPERIENCE	8
ITEM 3 LITIGATION	9
ITEM 4 BANKRUPTCY	10
ITEM 5 INITIAL FEES	10
ITEM 6 OTHER FEES	11
ITEM 7 ESTIMATED INITIAL INVESTMENT	14
ITEM 8 RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES	16
ITEM 9 FRANCHISEE’S OBLIGATIONS.....	19
ITEM 10 FINANCING.....	21
ITEM 11 FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING.....	21
ITEM 12 TERRITORY	28
ITEM 13 TRADEMARKS	29
ITEM 14 PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION	31
ITEM 15 OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS	31
ITEM 16 RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL	31
ITEM 17 RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION	32
ITEM 18 PUBLIC FIGURES.....	35
ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS	36
ITEM 20 OUTLETS AND FRANCHISEE INFORMATION.....	39
ITEM 21 FINANCIAL STATEMENTS	44
ITEM 22 CONTRACTS	44
ITEM 23 RECEIPTS	45

EXHIBITS

EXHIBIT A LIST OF STATE AGENCIES 46

EXHIBIT B SHEAR MADNESS FRANCHISING, LLC FRANCHISE AGREEMENT 53

 EXHIBIT I Addendum To Shear Madness Franchising, Llc Franchise Agreement 99

 EXHIBIT I-1 Rider To Addendum - Location Approval 100

 EXHIBIT II Guaranty And Assumption Of Franchisee’s Obligations..... 101

 EXHIBIT III Statement Of Ownership..... 103

 EXHIBIT I-IV TO THE FRANCHISE AGREEMENT..... 104

 EXHIBIT V AUTHORIZATION AGREEMENT FOR PREARRANGED PAYMENTS
(DIRECT DEBITS) 105

 EXHIBIT VI CREDIT CARD PAYMENT AUTHORIZATION 106

EXHIBIT C DEVELOPMENT AGREEMENT..... 107

 EXHIBIT C-1 TO DEVELOPMENT AGREEMENT BETWEEN SHEAR MADNESS
FRANCHISING, LLC AND _____ 114

 EXHIBIT C-2 TO DEVELOPMENT AGREEMENT BETWEEN SHEAR MADNESS
FRANCHISING, LLC AND _____ 115

 EXHIBIT C-3 TO DEVELOPMENT AGREEMENT BETWEEN SHEAR MADNESS
FRANCHISING, LLC AND _____ 116

EXHIBIT D COLLATERAL ASSIGNMENT OF LEASE 118

EXHIBIT E LIST OF FRANCHISEES..... 122

EXHIBIT F FRANCHISEES WHO HAVE LEFT THE SYSTEM..... 124

EXHIBIT G FINANCIAL STATEMENTS 126

EXHIBIT H OPERATIONS MANUAL TABLE OF CONTENTS 156

EXHIBIT I NONDISCLOSURE AND NONCOMPETITION AGREEMENT 157

EXHIBIT J SHEAR MADNESS FRANCHISING LLC Closing Acknowledgement..... 162

EXHIBIT K STATE ADDENDA AND RIDERS TO THE DISCLOSURE DOCUMENT,
FRANCHISE AGREEMENT, DEVELOPMENT AGREEMENT AND OTHER
AGREEMENTS..... 164

EXHIBIT L RELEASE..... 166

EXHIBIT M RECEIPTS OF DISCLOSURE DOCUMENT 170

ITEM 1
THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

The Franchisor and any Parents, Predecessors and Affiliates

The name of the franchisor is Shear Madness Franchising, LLC. Shear Madness Franchising, LLC will be referred to as “we”, “our”, “us” or “SMF” in this Disclosure Document. We will refer to the person who buys the franchise as “you” throughout this Disclosure Document. If the franchisee is a corporation, partnership or limited liability company, certain provisions of the Franchise Agreement will also apply to the owners and will be noted. Our principal offices are located at 13425 W. 128th Street Overland Park, Kansas 66213. We presently do business under the name “Shear Madness Franchising, LLC” and “Shear Madness.” We were formed on February 18, 2010, as a Kansas limited liability company. Our agents for service of process are listed on Exhibit A.

Shear Madness, Inc., a Kansas corporation (“SMI”), formed on May 9, 1997, is our predecessor and affiliate. SMI commenced operation of the first SHEAR MADNESS Salon in June of 1997. It’s A Mad, Mad Franchise, LLC, a Kansas limited liability company (“MMF”), formed on December 12, 2004, is also our predecessor and affiliate, In April of 2015, SMI entered into an agreement with Take Luck, Inc. (“TL”), a Kansas corporation, to acquire ownership of the original Shear Madness salon located in Olathe Kansas, the principal office address of SMI and MMF is 14975 West 119th, Olathe, Kansas,66062. JOTTO Investments, LLC formed in March of 2013 is an affiliated company and owns the Shear Madness franchise location in Lees Summit, MO. Vanguard Partners, LLC, formed in 2017 is also an affiliate Company and owns a franchised location in Kansas City, MO.

We have no parent company.

Our Business

We franchise the operation of businesses (“SHEAR MADNESS Salons” or “Salons”), that provide haircuts primarily to children, host parties for children, sell hair care products, toys and other merchandise approved by SMF, LLC and perform manicures, pedicures and ear piercing. SHEAR MADNESS Salons operate using our distinctive business format, systems, methods, procedures, designs, layouts, and specifications (collectively, the “Licensed Methods”). We franchise the operation of Salons under our trademark “SHEAR MADNESS” and other logos, trademarks, service marks and commercial symbols (collectively, the “Marks”).

The Franchise

Our Franchise Agreement (“Franchise Agreement”), attached as Exhibit B to this Disclosure Document, is signed for each SHEAR MADNESS Salon franchise purchased. As a franchisee, you will receive the right to use our Marks and Licensed Methods to operate your Salon, at a location approved by us (“Franchised Location”).

A SHEAR MADNESS Salon is typically located in a facility that will facilitate walk-in traffic such as a lifestyle shopping mall, power center or other suitable location that we must first approve before your development of the location. The Salons are typically between 1,200 and 1,700 square feet in leased retail space.

SHEAR MADNESS Salons have 4 to 8 work stations. Salons are bright and colorful and attractive to children and their parents. The Salons feature a fun atmosphere for children and their parents. While experiencing a great haircut, children can choose to watch a funny movie on

a little television, while sitting in a themed work station, such as a toy car. While waiting, kids have the opportunity to play with new toys; while parents do some shopping from the selection of toys, hair care products and other items available for purchase at the Salon. Pedicures, manicures, ear piercing, classes and parties are also services provided at SHEAR MADNESS Salons.

The retail products and additional services enhance the fun experience and parents want to take some of this fun home with them.

If you qualify, you may obtain from us the right to develop multiple SHEAR MADNESS Salons within a designated geographic area under our Development Agreement, which is attached as Exhibit C to this Disclosure Document. The Development Agreement designates a “Development Area” reserved for your development of Salons. The Development Agreement states the number of SHEAR MADNESS Salons that are to be developed and a schedule for development of those Salons. A separate Franchise Agreement will be executed for each Salon to be developed under the Development Agreement. The scope and term of any Development Agreement and the number of SHEAR MADNESS Salons to be developed is dependent upon your development plans and our determination of your financial capability and qualifications to develop multiple Salons in the Development Area.

Regulations

You must comply with all local, state and federal health and sanitation laws and regulations and, if applicable, all licensing laws and regulations as may be established by your state’s Board of Barbering and Cosmetology or comparable regulatory agency. All of the barbers and cosmetologists in your Salon must be licensed or otherwise certified as required by state and local laws. You must have at least one barber or cosmetologist on duty at the Salon during working hours. The licensing requirements vary from state-to-state. You are responsible for complying with these applicable federal, state and local laws, rules and regulations, as well as with all federal, state and local laws of a more general nature, which affect the operation of your business. You should consult with your attorney on this subject, especially regarding state and local laws, rules and regulations that may affect the operation of your SHEAR MADNESS Salon at your particular location. You are responsible for complying with employment, worker’s compensation, health, insurance, corporate, taxing, licensing, zoning and similar laws and regulations.

Market and Competition

The market for haircutting services is well established and highly competitive. SHEAR MADNESS Salons focus on the children’s haircut market. The hair care business is highly competitive as to price, service and quality. You will compete with national as well as regional haircutting chains and retailers of hair care products, toys and other approved items, operating under well-known and recognizable service marks, as well as with independent haircutting businesses and retailers. You may even experience competition from other SHEAR MADNESS Salons outside of your Protected Territory and, in the sale of hair care products and accessories, toys and other items, from us and our affiliates, as we may sell SHEAR MADNESS branded hair care products and accessories other brand name products, through websites, mail order catalogs, grocery stores and other retail stores, beauty supply specialty stores and other channels of trade. See Item 12.

Business Experience

Certain of our principals, through SMI and JI have experience in Salon operations. See Item 2. SMI currently operates one SHEAR MADNESS Salon in Olathe, Kansas. The original SHEAR MADNESS Salon opened in 1997 in Leawood, Kansas, and was moved to its current location in Olathe, Kansas. JI operates a salon in Lees Summit, MO - this salon opened in May of 2013, Vanguard Partners, LLC. Since Shear Madness Franchising LLC is limited to operating as a franchisor, it does not currently operate a Salon of the type to be operated by you. MMF does not operate a Salon of the type to be operated by you. We have offered franchises for SHEAR MADNESS Salons since July 2010. Neither we nor any affiliate or predecessor have offered franchises in any other lines of business. Other than MMF, which offered franchises for Shear Madness Salons from March 2005 to December 2006, no predecessor or affiliate has offered franchises for the same type of business to be operated by you.

ITEM 2 **BUSINESS EXPERIENCE**

President, Chief Executive Officer and Manager: **Janon R. Otto**

Ms. Otto has been our President, Chief Executive Officer, and a Manager since February 18, 2010. Since April 2003, she has been a realtor for Prudential Kansas City Realty, a real estate brokerage firm located in Overland Park, Kansas. Since July 2005, Mrs. Otto has been President of JOTTO Inc., a real estate and insurance agency firm located in Overland Park, Kansas. Ms. Otto is currently a multi-unit owner of two Shear Madness Salons which were opened in 2013 and 2017. Mrs. Otto holds an MBA in accounting from Kansas State University.

Vice President Founder : **Paula D. Thurman**

Ms. Thurman, the founder of the SHEAR MADNESS Salon concept, has been our Vice President of Operations and Training since February 18, 2010. Since May 1997 thru May 2015, she was the President and a Director of SMI, currently she is Corporate Secretary of SMI, which operates a SHEAR MADNESS Salon in Olathe, Kansas. From December 2004 thru January 2014 Ms. Thurman was President of MMF.

Vice President Franchise Development: **James E. Otto**

Mr. Otto has been our Vice President of Franchise Development since February 18, 2010. Since May 2005, he has been Vice President, a Director and Corporate Secretary for JOTTO, Inc. , Inc., a real estate and insurance agency located in Overland Park, Kansas. From February 2004 to August 2006, he was an independent agent located in Overland Park, Kansas for Banker's Life & Casualty, an insurance company. Currently Mr. Otto is a multi -unit owner of two Shear Madness Haircuts for Kids salons located in the Kansas City market.

Director of Creative Design and Marketing **Taylor Sifford**

Ms. Sifford recently joined our team as our Director of Creative Design and Marketing. She received her training at MCC Penn Valley with an Associate of Applied Science Degree in Graphic Design and Further from the Kansas City Art Institute year of Design Foundation. She previously worked for the Mid - Continent Public Library as a Marketing Liaison.

Certified Trainer and Field Representative:

Charese Penn

Ms. Penn has been a certified trainer for Shear Madness Franchising for 3 years and has worked as a manager for Shear Madness Salons for 5 years. She completed her certification in 2016 and has overseen the successful opening of Shear Madness franchise locations in various markets.

Certified Trainer and Field Representative:

McKenna Sanders

Ms. Sanders has been a certified trainer and manager for Shear Madness Franchising for 4 years and has managed Shear Madness salons. She completed her certification courses in 2018 and has overseen the successful opening of franchise locations as well as done additional training at franchise locations.

Franchise Operations Consultant, Advisory Board Member:

Dr. Joe Rei

Dr. Rei's professional experience includes leadership roles in franchise concept startups, franchise management, and higher education. He is a former president of the School of franchising located in Desoto Kansas. Dr. Rei is a frequent speaker and lecturer for professional organizations and is an excellent facilitator. A member of the Shear Madness Franchising Advisory Board, Dr. Rei is a graduate of Harvard's Management Development Program.

Marketing Consultant:

Georgia Ladlie

Ms. Ladlie's experience includes small business ownership, process management, strategy, leadership development, and franchise operations and ownership. She is the owner of Gencon LLC which provides marketing, business development and business management services. Ms. Ladlie is considered an expert in brand and intellectual property packaging and communication. She is a successful blogger with over 30,000 followers. She is a graduate of the University of Missouri at Columbia.

ITEM 3
LITIGATION

There is no litigation against Shear Madness Franchising LLC. And there are no items to be disclosed except the following.

It's a Mad, Mad Franchise, LLC v. 4 R Kidz, Inc., Erin E. Nystrom, and Dan L. Nystrom -- It's a Mad, Mad Franchise, LLC entered into a written Franchise Agreement dated August 22, 2005, with 4 R Kidz, Inc. Erin E. Nystrom and Dan L. Nystrom signed a written Guaranty and Assumption of Obligations, dated August 22, 2005. The Franchise Agreement provided for a term of ten years. However, 4 R Kidz, Inc., closed the Shear Madness salon on or about December 31, 2011. On May 8, 2012, It's a Mad, Mad Franchise, LLC, filed a Petition in the District Court of Johnson County, Kansas, Case No. 12CV03765, seeking a declaratory judgment and asserting claims of breach of contract and misappropriation of trade secrets. On June 1, 2012, defendants filed a Counterclaim/Third-Party Petition against It's a Mad, Mad Franchise, LLC, and Paula D. Thurman asserting counts of fraud, negligent misrepresentation, violation of the Kansas Consumer Protection Act, and breach of contract and seeking declaratory relief.

On September 26, 2013, the District Court entered summary judgment against defendants' Counterclaim/Third-Party Petition. Following a nonjury trial, on March 12, 2014, the District Court entered an Order and Judgment against 4 R Kidz, Inc., Erin E. Nystrom, and Dan L.

Nystrom, ruling that they breached the Franchise Agreement by closing the Shear Madness salon before the end of the term of the Agreement. The Court entered judgment against defendants for unpaid royalties and contributions to the advertising fund and ruled that It's a Mad, Mad Franchise, LLC, is entitled to recover its attorneys' fees from defendants.

The case was settled in favor of It's a Mad Mad Franchise, LLC in the District Court of Johnson County, Kansas in 2015.

ITEM 4 **BANKRUPTCY**

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

ITEM 5 **INITIAL FEES**

Franchise Agreement

You pay a non-refundable initial franchise fee of \$25,000 and a site selection fee of \$2,000 when you sign the Franchise Agreement. The franchise fee entitles you to the preopening manual, the operating manual, training prior to opening your store and the first few days your store is opened. The site selection fee pays for our travel to your desired city of location, demographic information helpful in deciding upon various possible location sites, and limited consultation on your lease .

When you attend the initial training program, you will also pay us \$9,000 for: (1) your front desk Point of Sale computer system, computer software, computer printer, credit card processor terminal, receipt printer, cash drawer, inclusion of your SHEAR MADNESS Salon on our website and initial set-up of and access to our Intranet site and merchandise ordering system (“**Computer and Technology System**”); (2) our assistance in the installation of the Computer and Technology System; and (3) the configuration of the Computer and Technology System. We also reserve the right to sell you branded merchandise and other items.

\$25,000 Franchise Fee + \$2,000 Site Selection Fee + \$9,000 Technology Fee = \$36,000 Initial Fees

Development Agreement

If you qualify and choose to purchase more than one franchise, you sign a Development Agreement together with the Franchise Agreement for the first SHEAR MADNESS Salon to be developed. When you sign the Development Agreement and first Franchise Agreement, you pay the \$25,000 initial franchise fee for the first SHEAR MADNESS Salon, plus a discounted initial franchise fee of \$22,500 for the second Salon and an initial franchise fee of \$20,000 for the third and subsequent Salons. You will sign the Franchise Agreement for the second and subsequent Salons not later than the date set forth in the Development Agreement which corresponds to the deadline for developing that SHEAR MADNESS Salon. A portion of these fees are refundable under certain circumstances in the Franchisor's sole discretion. You will still pay us \$9,000 for each franchise you purchase for the Computer and Technology System if you sign a Development Agreement. The \$2,000 Site Selection fee also applies to each salon and is payable with the signing of each Franchise Agreement.

Except as set forth above, all initial fees, once paid, are nonrefundable. Except as outlined in this Item 5, all franchisees currently acquiring a franchise pay the same initial fees as described above.

ITEM 6
OTHER FEES

TYPE OF FEE	AMOUNT	DUE DATE	REMARKS
Royalty ²	5% of Gross Sales	Payable on or before the 10th day of each month, based on prior month's Gross Sales	"Gross Sales" include all revenue from the Salon, including sales made away from the Salon premises. Gross Sales do not include sales taxes and discounts that have been approved by us in advance. Royalties are paid by electronic transfer of funds or other method we may designate.
Advertising Contribution ²	1% of Gross Sales	Payable on or before the 10th day of each month, based on prior month's Gross Sales	Contributions are used primarily for production of advertising and marketing for the Salons. See Item 11. Our company and affiliate-owned Salons contribute the same as franchisee-owned Salons. The Advertising Contribution is paid by electronic transfer of funds or other method we may designate.
Local Advertising Allocation ⁴	The greater of \$750 per month or a quarterly average of 3% of Gross Sales for the first, second and third years after commencement of operations of the Salon. The Local Advertising Allocation will be a quarterly average of 2% of Gross Sales beginning on the earlier of the fourth year after the Salon opens or the month after you open your third Salon in an area where at least two other Salons are then operating	As incurred	The Local Advertising Allocation is in addition to the Advertising Contribution, but this is retained by you for advertising your Salon. This is the minimum average which must be spent each calendar quarter, with a report of expenditures submitted to us on or before the 15th day after the end of each calendar quarter. If we establish a regional ad co-op which includes your Salon, your Local Advertising Allocation may be reallocated to the co-op.
Initial Promotional and Marketing Campaign	You must spend a minimum of <u>\$10,000</u> before and during the first two months after the	Payable to third parties during first two months after the Salon opens for	This amount is in addition to the Local Advertising Allocation.

TYPE OF FEE	AMOUNT	DUE DATE	REMARKS
	Salon opens for business	business	
Regional Advertising Co-ops ⁴	We reserve the right to allocate all or a portion of the amount of your Advertising Contribution and Local Advertising Allocation	Payable monthly or as directed by Co-op	As of the date of this Disclosure Document, there were no established cooperatives. Our Salons and affiliate operated Salons will contribute on the same basis as franchised businesses. See Item 11.
Technology Fee ²	A monthly fee of \$330 is currently charged for access to online salon software management and POS system, Online apt. booking, certain updates to the Salon management system, daily back-up of business activity, email marketing to existing customers and retail inventory tracking system. This amount is subject to increase based on supplier fee increases, other cost increases, service changes and for other reasons. In the event you request services in addition to the then current designated services, a fee of \$75 per hour or the then current rate is charged.	As Incurred	The monthly fee of \$330 is due on or before the 10th day of the month along with the Royalty and Advertising Contribution. In the event the Salon does not open on the first day of the month, the first month's fee will be prorated. In the event additional services are requested, the payment will be due along with the next month's Royalty and Advertising Contribution.
Interest and Late Charge ²	Lesser of 1.5% per month or highest rate of interest allowed by law, plus a \$50 late payment or late report charge.	Upon demand	Begins to accrue the day after payments or as to the \$50 late charge, payments and reports are due.
Costs of Inspection and Audit ²	Varies according to your location.	As incurred	Payable only if you underpay Royalties, Advertising Contributions or other fees by more than 2%, do not submit reports to us or fail to furnish reports on a timely basis for two or more consecutive reporting periods, or do not cooperate in performance of inspection and audit.

TYPE OF FEE	AMOUNT	DUE DATE	REMARKS
Transfer Fee ²	The greater of \$5,000 or 20% of the current initial franchise fee for a single first franchise, plus \$5,000 for transfer of each right to develop a franchise under any Development Agreement. Additionally, any legal and training expenses will apply	Before effectiveness of transfer	Payable when the franchise agreement, interest in the Salon or the franchise is transferred by you.
Successor Franchise Fee ²	The greater of \$5,000 or 20% of the then current initial franchise fee for a single first franchise.	When you sign the then current Franchise Agreement	Payable when you renew the term of your Franchise Agreement
Training Program Expenses ^{3,4}	Travel and living costs associated with attending mandatory training sessions	As incurred	Initial training is included as part of your initial franchise fee for two persons, except for those costs paid to other parties. We may require, at your expense, additional training at other times.
Additional and Refresher Training ²	\$250 to \$500 per day plus travel and lodging expenses or the current published rate whichever is greater.	As incurred	Payable for additional training, including the training of additional or replacement Principal Managers and Lead Stylists. See Item 11.
Costs and Attorneys Fees ²	Will vary depending on nature of your default or the claim brought	As incurred	Payable if we are successful in a legal action or arbitration proceeding.
Indemnification Under Franchise Agreement ²	Will vary depending on nature of the claim against us	As incurred	You have to reimburse us if we are held liable for claims resulting from your operation of your SHEAR MADNESS Salon.
Insurance Premiums ²	Will vary depending on your location and insurer	As incurred	If you do not pay your premiums, we can pay them for you and you must reimburse us.
Cost of Testing and Investigation ²	Will vary depending on investigation necessary	As incurred	You have to reimburse us for any and all reasonable costs we incur in investigating and determining whether any previously unapproved items or suppliers that you desire to use meet our standards and specifications.

TYPE OF FEE	AMOUNT	DUE DATE	REMARKS
Payments for Items Supplied by us or our affiliates ²	Current published prices.	As incurred	We charge you for items you purchase from or through us or our affiliates.

- (1) The fees apply to all franchises developed under a Development Agreement.
- (2) Fees which we charge and must be paid to SMF. We do not refund these fees. All fees and charges are payable by electronic funds transfer or other method we designate. Except as described in this Item, all fees are uniformly imposed upon franchisees currently acquiring a franchise. We reserve the right to modify these fees, under certain circumstances including, to resolve disputes, to address current business and economic conditions and under other circumstances.
- (3) Expenses associated with travel, meals and lodging while attending initial training sessions. All of these expenses are payable to third parties. These expenses will vary according to where you stay, where you eat and how far you have to travel.
- (4) Fees which are not paid to us but are not refundable.

ITEM 7
ESTIMATED INITIAL INVESTMENT

Type of Expenditures	Amount	Method of Payment	When Due	To Whom Payment is to Be Made
Initial Franchise Fee (See Note 1)	\$25,000	Lump Sum	Due at signing of Franchise Agreement	Us
Site Selection Fee	\$2,000	Lump Sum	Due at signing of Franchise	Us
Legal, Accounting, Architect	\$4,000 - \$10,000		Upon Receipt from provider	Supplier
Leasehold Improvements (See Note 2)	\$0-\$126,000	As incurred	Before Opening	Other Suppliers
Rent and Security Deposit (See Note 3)	\$2,200-\$5,000	As incurred	Before Opening	Landlord
Insurance	\$1,000-\$4,000	As incurred	Before Opening	Other Suppliers
Signs, Equipment, Supplies, Furniture and Fixtures (See Note 4)	\$59,500 - \$76,274	As incurred	Before Opening	Us and Other Suppliers
Computer and Technology System (See Note 5)	\$9,000	Lump Sum	At Training	Us
Opening Inventory (See Note 6)	\$18,000-\$25,000	As incurred	Before Opening	Us (reserve the right) and Other Suppliers
Initial Training Expenses (See Note 7)	\$1,000-\$6,000	As incurred	Before Opening	Suppliers
Initial Promotional and	\$12,000-\$20,000	As incurred	As incurred	Us and Other

Type of Expenditures	Amount	Method of Payment	When Due	To Whom Payment is to Be Made
Marketing Campaign (See Note 8)				Suppliers
Utility Deposits and Business Licenses (See Note 9)	\$1,000-\$4,000	As incurred	Before Opening	Other Suppliers
Additional Funds - 3 Months (See Note 10)	\$20,000-\$50,000	As incurred	As incurred	Us and Other Suppliers
TOTAL ESTIMATED INITIAL INVESTMENT (See Notes 11 and 12)	\$154,700 - \$362,274			

Explanatory Notes

Note 1: Initial Franchise Fee. If you qualify and elect to sign a Development Agreement, on signing you must pay the initial franchise fee for the total number of salons in the Development Agreement at the time of signing. The initial franchise fee for the first Salon is \$25,000, the second is \$22,500 each and the third and each subsequent Salon have a \$20,000 initial fee. See Item 5.

Note 2: Leasehold Improvements. You must obtain a facility that meets our standards and specifications. Typically, your SHEAR MADNESS Salon will be 1,200 to 1,700 square feet and be located in leased space. Your actual costs may vary under or over the estimates. Your up-front costs may be reduced if you are able to negotiate a tenant finish allowance with your Landlord. Your costs to improve the Franchised Location will depend in part on whether your space is completely constructed or is the remodel of an existing space, the square footage of your space, market rates for construction in your area and other factors. The leasehold improvements, which must be completed in accordance with our standards and specifications, customarily include interior remodeling, floor covering, painting, plumbing, additional electrical and other improvements which we designate. These costs may vary significantly from market to market. This estimate assumes that the space for your Salon is in vanilla condition (ceiling, HVAC, bathroom, basic electrical, concrete floor and other basic improvements). We reserve the right to require that you retain, at your cost, a construction manager designated by us. If you purchase property or a building, or both, for the Salon, your additional costs will depend on the location and size of the land and building. We do not typically invest in the land and building for a SHEAR MADNESS Salon. We are unable to estimate these costs due to the significant variances based on location and market conditions.

Note 3: Rent and Security Deposit. The Franchised Location will typically be located in leased space. We do not estimate the cost to purchase a Franchised Location. See Leasehold Improvements, Note 2 above. The rent estimated in the chart assumes a Franchised Location between 1,200 and 1,700 square feet and a rental rate between \$2017 to \$50 a square foot for a triple net lease. The estimate in the chart also assumes a security deposit of one to two months' rent and payment of one months' rent. If you locate your Salon in a large metropolitan area, your monthly rental rate may exceed the above estimate. You should investigate the rental rates in the area where you propose to locate your Salon.

Note 4: Signs, Equipment, Supplies, Furniture and Fixtures. This item includes interior and exterior signage, styling chairs, front desk and other furniture for the waiting area, mill work, and

other items designated by SMF. Supplies include beautician's operating supplies, as well as cleaning and office supplies, televisions, DVD players and other items.

Note 5: Computer and Technology System. This represents the cost of the Computer and Technology Systems. See Items 5, 8 and 11.

Note 6: Opening Inventory. This item includes merchandise for resale. You must open with and maintain an adequate supply of hair care products and accessories, toys and other items designated by us for resale.

Note 7: Initial Training Expenses. Your travel and living expenses when you attend our initial training program vary depending on the length of your instruction, the distance you must travel and the standard of living you desire while you attend the program. See Item 11.

Note 8: Initial Promotional and Marketing Campaign. This is the amount incurred for your initial promotional and marketing campaign. You are required to deposit \$10,000 in our marketing fund, we will use these funds to set up an initial marketing campaign for your location.

Note 9: Utility Deposits and Business Licenses. Utility deposits range from a nominal amount to approximately \$1,000 and business licenses range from a nominal amount to \$4,000.

Note 10: Additional Funds. This estimates your pre-operational expenses, which we have not listed above, as well as additional funds necessary for the first three months of your business operations. These figures are estimates and we cannot guarantee that you will not have additional expenses starting the business. Your costs depend on factors such as: how much you follow our methods and procedures, your management skill, experience and business acumen, local economic conditions, the local market for our products and services, the prevailing wage rate, competition, and the sales level reached during this initial period. This item includes a variety of expenses and working capital items during your start-up phase such as: additional rent, legal and accounting fees, royalties, additional advertising and promotional expenses and materials, employee salaries, and other miscellaneous costs. This item does not include a salary for you.

Note 11: Basis for Estimates; Financing. We relied on one of our principal's and our affiliates' experience operating Salons when preparing these figures. Because the ranges in the chart are only estimates, it is possible both to reduce and exceed the estimated range of costs listed in each item of the chart. In certain major metropolitan areas, actual costs may substantially exceed the high range estimates in the chart. You should review these figures carefully with a business advisor before making any decision to purchase a franchise. We do not offer any financing in connection with your initial investment (see Item 10). The availability and terms of financing from independent third parties depends on factors such as the availability of financing generally, your creditworthiness, other security and collateral you may have and policies of lenders. None of the fees and costs estimated in the chart above are refundable except deposits paid to third parties may be refundable.

Note 12: Multiple SHEAR MADNESS Salons. Except as mentioned above, if you sign a Development Agreement, you will incur the costs described in the chart for every SHEAR MADNESS Salon developed.

ITEM 8 **RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

Operations

Your SHEAR MADNESS Salon must be established and operated in compliance with your Franchise Agreement. It is mandatory that you comply with the standards and specifications contained in an operations manual we provide to you, in the form of one or more manuals, technical bulletins, electronically transmitted messages, or other written materials (“**Operations Manual**”), which we may modify. We provide you with our mandatory standards and specifications for the hair care, manicure and pedicure services and other approved services, and merchandise, including toys and hair care products and accessories, offered at or through your SHEAR MADNESS Salon and for the Franchised Location, décor, build-out, signs, fixtures, equipment, furnishings, employee attire, supplies, forms, insurance, advertising material, marketing and advertising, social media marketing, merchandise, entertainment for children and other items used at or sold through your Salon.

Salon Lease and Build-Out

We must approve any lease or, if applicable, any purchase agreement for your Salon before you execute any of these agreements. Then, a copy of the signed lease is to be delivered to us within 15 days after signing. The primary lease must contain certain provisions which grant us certain rights, as your franchisor, including:

- (i) The initial term of the lease, or the initial term together with any renewal terms must be for at least 5 years;
- (ii) The lease must give the landlord’s consent to your use of the Marks and signage which we initially prescribe for the Salon;
- (iii) We must have the right to enter the premises to make any modification necessary to protect the Marks and the Licensed Methods;
- (iv) Your lessor must agree to provide us with a notice of default and an opportunity to cure any default;
- (v) We or our designee, without the landlord’s approval, must have the option to assume your occupancy rights under the existing lease terms and have the right to assign the lease or sublet the premises, for all or part of the lease term, if you are in default under the lease or the Franchise Agreement or if the lease or Franchise Agreement is terminated; and
- (vi) The lease must contain a use provision which is acceptable to SMF.

You are responsible for obtaining the landlord’s consent to the terms described above.

Your lease is collaterally assigned to us as security for your timely performance of all obligations under the Franchise Agreement. You are responsible for obtaining the landlord’s consent to the collateral assignment. A copy of our standard form of Collateral Assignment of Lease is attached to this Disclosure Document as Exhibit D.

You must, at your expense, construct, convert, design and decorate and furnish the Salon in accordance with our plans and specifications, and through the assistance of contractors, architects and suppliers designated or approved by us. We reserve the right to designate a construction manager that you must utilize at your cost. We require that you obtain our written consent to any improvements to the Salon site before construction begins.

Computer and Technology System

You must purchase the Computer and Technology System directly from us for \$9,000.00. See Item 5. We reserve the right to develop and own proprietary software, license it to you and

to derive revenue from maintenance fees. You must participate in all credit card, gift card, electronic data capture and other similar programs that we deem mandatory. We reserve the right to change our designated supplier and our standards and specifications for the Computer and Technology System. See also Items 7 and 11.

Purchases from Designated or Approved Sources

As discussed above and in Item 5, you must purchase through us the Shear Madness Technology Package. You must also purchase through us or our affiliates certain branded items for resale and other items, including toys, hair care products and accessories, employee aprons and consumables. We are an approved supplier of certain marketing and advertising materials and services, the cost of which may be charged to the Advertising Fund or to you. We reserve the right to require that you purchase through us, our affiliates or designated suppliers other SHEAR MADNESS brand products and items for use or resale through your Salon and other items. You must maintain minimum inventory levels of hair care products and accessories, toys and other items of a brand designated by us. As of the date of this Disclosure Document and other than our affiliates, none of our officers own an interest in any approved or designated supplier.

You will purchase or lease the rest of your merchandise needs, equipment, supplies and services used, sold or leased through your Salon only from suppliers designated or approved by us in advance. We reserve the right to designate a single approved supplier, including SMF or our affiliates, for certain merchandise, equipment, supplies and services. If there is no designated or approved supplier for a particular item, you may purchase, lease, sell or use merchandise, equipment, supplies and services that meet our standards and specifications from any source approved by SMF. After you execute the Franchise Agreement, we give you a list of our approved suppliers, the standards and specifications for the equipment, supplies and merchandise to be used or sold by you through your SHEAR MADNESS Salon, as well as our criteria for approving a supplier, if any.

We and our affiliates reserve the right sell merchandise, equipment, supplies and services to franchisees and derive revenue from such sales. In the fiscal year ended December 31, 2021 we derived \$21,015 from sales of products to franchisees.

We estimate that the costs of your purchases from designated or approved sources, or according to our standards and specifications, may range from 30% to 70% of the total cost of establishing a SHEAR MADNESS Salon (if the payment of the initial franchise fee is counted as this type of cost) and approximately 15% to 25% of the total cost of operating a SHEAR MADNESS Salon after that time.

If you want to purchase or lease any merchandise, equipment, supplies, or services we have not approved, or purchase these items from a supplier who we have not approved, you must notify us in writing and obtain our written approval in advance. The notification should include sufficient specifications, photographs, drawings and other information and samples to determine whether those items or those suppliers meet our specifications. You must reimburse us for the actual cost of any testing and the reasonable cost of investigation to determine whether those items or suppliers meet our specifications. We will not unreasonably withhold our approval of a supplier of your choosing, if the supplier meets our published standards and specifications. We reserve the right to change the published standards regarding any approved supplier or any merchandise, equipment, supplies, or services used, offered for sale or leased by franchisees upon 30 days written notice to all franchisees and all approved suppliers.

We do not provide material benefits, such as renewal or granting additional franchises to franchisees based on your use of designated or approved sources or suppliers.

Advertising and Marketing

All marketing and promotion of your SHEAR MADNESS Salon must conform to our standards and specifications. You must submit to us samples of all advertising and promotional materials that have not been prepared or previously approved by us. You must conduct an initial advertising and marketing campaign as directed by us and with advertising and marketing materials approved or available through us. Your Salon must participate in promotions we institute from time to time for all SHEAR MADNESS Salons, or all Salons within a particular market area. We retain the right to develop and control all advertising using our Marks on the Internet, including social media sites or other electronic advertising. We reserve the right, upon 30 days prior written notice to you, to require that you participate in electronic advertising.

Insurance

You must procure, maintain and provide evidence of (i) commercial general liability insurance for the Franchised Location and its operations with a limit of not less than two million dollars combined single limit, or such greater limit as may be required as part of any lease agreement for the Franchised Location; (ii) unemployment and worker's compensation insurance with a broad form all-states endorsement coverage sufficient to meet the requirements of the law; (iii) all-risk personal property insurance in an amount equal to at least one hundred percent (100%) of the replacement costs of the contents and tenant improvements located at the SHEAR MADNESS Salon; (iv) stylist professional liability with limits of not less than one million dollars per occurrence; and (v) an Umbrella policy above all forms of liability insurance with a limit of not less than one million dollars. If you fail to purchase the insurance, we may demand that you cease operations, or we can obtain insurance for you and you must reimburse us for the cost of the insurance. All of the required policies of insurance must name us as an additional insured and must provide for a 30 day advance written notice to us of termination, amendment or cancellation. Upon 60 days prior written notice to you, we reserve the right to require you to change the type of insurance you are required to maintain, and to revise the required coverage limits.

Purchasing Arrangements

We have no purchasing or distribution cooperatives at the current time, although we may establish pricing programs with certain suppliers based on volumes purchased. Periodically, we may negotiate purchase arrangements with suppliers for the benefit of our franchisees. We can require that you participate in these arrangements and programs. However, you should not rely on the continued availability of any particular discount buying, pricing or distribution arrangement, or the availability of any particular product or brand in deciding whether to purchase the franchise. We and our affiliates have the right to receive payments from suppliers on account of their dealings with you and other Franchisees, including your purchase of the above- described items. During the fiscal year ending December 31, 2013, we did not receive payments from suppliers as a result of franchisee purchases. We retain the credit of any volume discounts, rebates or incentives received as a result of your purchases.

ITEM 9 **FRANCHISEE'S OBLIGATIONS**

This table lists your principal obligations under the Franchise Agreement, Development Agreement and other agreements. This will help you find more detailed information about your obligations in these agreements and other agreements and in other items of this Disclosure Document

Obligation	Section in Agreement	Item in Disclosure Document
a) Site selection and acquisition/lease	Sections 5.1 and 5.2 of Franchise Agreement; Sections 3.3 and 3.5 of Development Agreement	Items 8 and 11 and Exhibit D
b) Pre-opening purchases/leases	Sections 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.9 and 5.10 of Franchise Agreement	Items 5, 6, 7 and 8
c) Site development and other pre-opening requirements	Sections 5.3, 5.4, 5.5, 5.7 and 5.9 of Franchise Agreement	Items 7, 8 and 11
d) Initial and ongoing training	Article 6 of Franchise Agreement	Item 11
e) Opening	Sections 5.8 and 7.1 of Franchise Agreement; Section 3.1 of Development Agreement	Item 11
f) Fees	Sections 4.1, 4.2, 5.1, 5.6, 9.1, 9.2, 14.4, 14.6, 15.6, 16.4, 17.2, 18.3, 20.3, 25.6, 25.7 and Articles 11, 12, 13 and 24 of Franchise Agreement; Article 2 of Development Agreement	Items 5, 6 and 7
g) Compliance with standards and policies/Operations Manual	Articles 8 and 14 of Franchise Agreement	Items 11 and 14
h) Trademarks and proprietary information	Article 15 of Franchise Agreement	Items 13 and 14
i) Restrictions on products/services offered	Sections 10.1.d and e, 14.4, 14.5 and 14.6 of Franchise Agreement	Item 16
j) Warranty and customer service requirements	Not applicable	Not applicable
k) Territorial development and sales quotas	Sections 1.1, 1.2 and 3.1 of Development Agreement	Item 12
l) On-going product/service purchases	Sections 5.6, 5.9 and 10.1 and Article 11 of Franchise Agreement	Item 8
m) Maintenance, appearance and remodeling requirements	Sections 10.1 and 18.3 of Franchise Agreement	Item 8
n) Insurance	Article 22 of Franchise Agreement	Item 8
o) Advertising	Article 13 of Franchise Agreement	Items 5, 6, 7 and 11

Obligation	Section in Agreement	Item in Disclosure Document
p) Indemnification	Article 20.3 of Franchise Agreement	Item 6
q) Owner's participation/ management/staffing	Article 10.1 of Franchise Agreement	Items 11 and 15
r) Records and reports	Article 16 of Franchise Agreement	Items 6 and 11
s) Inspections/audits	Sections 14.3 and 16.4 of Franchise Agreement	Item 6
t) Transfer	Article 17 of Franchise Agreement; Article 5 of Development Agreement	Item 17; <u>Exhibit K</u>
u) Renewal	Article 18 of Franchise Agreement	Item 17; <u>Exhibit K</u>
v) Post-termination obligations	Section 19.4 of Franchise Agreement; Section 4.4 of Development Agreement	Item 17
w) Non-competition covenants	Article 21 of Franchise Agreement and <u>Exhibit VII</u> to the Franchise Agreement; Article 6 of Development Agreement;	Item 17
x) Dispute resolution	Article 23 of Franchise Agreement; Sections 8.1, 8.3 and 8.11 of Development Agreement	Item 17

ITEM 10
FINANCING

Neither we nor any of our agents or affiliates currently offer, directly or indirectly, any financing arrangements to you, nor do we guarantee any lease or other obligations for you. We do not have any past or present practice or intention to sell, assign or discount to any third party, in whole or in part, any note, contract or other instrument signed by you.

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

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

Pre-Opening Assistance

Before you open your Salon, we or our designee will:

1. Designate your Protected Territory. (Section 3.2 of Franchise Agreement)
2. Provide you Access to our "Mad House" proprietary Intranet Site
3. Assist you in locating the site for your Salon by providing you with written criteria for an acceptable site and by approving or disapproving your proposed site. Site selection assistance is also discussed below in this Item 11. You must locate the site within 90 days after signing the Franchise Agreement. We must approve of the site. We typically approve or disapprove a proposed site within ten business days of our receipt from you of a completed site information package. If a site is not agreed upon within 90 days after signing the Franchise

Agreement or any permitted extension of time to select a site, we may terminate the Franchise Agreement. (Sections 5.1 and 7.1.b of Franchise Agreement)

4. Furnish you with our available standards and specifications for the required conversion, design and decoration of the SHEAR MADNESS Salon premises, plus standards and specifications concerning interior and exterior signs, decor, color, products, inventory, equipment, uniforms and Salon layout. We must approve of your construction plans and specifications before construction begins. You are responsible for the cost of any architectural designs and drawings that you obtain. (Sections 5.3, 5.4, 5.5 and 7.1.c of Franchise Agreement)

5. Before the Salon's opening, we furnish an initial training program described below in this Item 11. (Sections 6.1 and 6.2 of Franchise Agreement)

6. Provide you with information and advice about approved and designated suppliers of the fixtures, supplies, equipment, materials and services used in and merchandise sold through your SHEAR MADNESS Salon. (Section 7.1.d of Franchise Agreement)

7. If you are opening your first Salon, provide up to 5 days of opening assistance on site at your Salon at or around time of opening. (Section 7.1.f of Franchise Agreement)

8. Loan you or make available one copy of our confidential and proprietary Operations Manual, covering the specifications, standards, and operating procedures that we require and information about your obligations. (Section 8.1 of Franchise Agreement.)

Continuing Assistance

During the operation of your Salon, we or our designee will:

1. Provide, at your reasonable request, consultation by telephone or electronic mail regarding the continued operation and management of your SHEAR MADNESS Salon and advice regarding customer services, merchandising, customer relations, customer marketing, and accounting. (Section 9.1.a of Franchise Agreement).

2. Give you access to advertising and promotional materials as we may develop, the cost of which may be passed on to you at our option and, at your reasonable request, assist you via telephone or electronic mail in determining the media, timing and placement for your ongoing marketing program. (Section 9.1.b of Franchise Agreement).

3. Provide you with on-going updates of information and programs regarding marketing and promotional programs, the competition, the hair care industry, the SHEAR MADNESS concept and related Licensed Methods, including information about special or new products and services which we develop and make available to Franchisees. (Section 9.1.c of Franchise Agreement).

4. Train replacement or additional Principal Managers and Lead Stylists during the term of the Franchise Agreement. We will charge a tuition or fee, commensurate with our current published prices, for training, payable in advance. You must pay all travel and living expenses for your personnel during the training programs. The availability of the training programs depends on space and timing considerations and prior commitments to new SHEAR MADNESS franchisees. (Section 9.1.d of Franchise Agreement) The provision of mandatory or voluntary continuing education courses we may develop regarding the operation of the SHEAR MADNESS Salon and the merchandise and services offered through the Salon. (Section 9.1.e of Franchise Agreement).

5. Make our employees or designated agents available to you at your Salon for advice and assistance regarding the on-going operation of the Salon. If you request additional assistance and we agree to provide it, we may charge you for all travel, lodging, living expenses,

telephone charges and other identifiable expenses associated with the assistance, plus a fee based on the time spent by each employee on your behalf. We charge you our then current hourly or daily rates at the time we assist you. (Section 9.2 of Franchise Agreement).

Advertising and Promotion

We or our designee and you will decide on the initial promotional and marketing campaign, to be conducted before and during the first 2 months after your Salon opens for business. See Item 7 for the cost of the initial promotional and marketing campaign. The minimum expenditure requirement for the campaign will be determined by us and will be included in an Addendum to your Franchise Agreement, upon execution of your Franchise Agreement. Within 30 days of the completion of your initial promotional and marketing campaign, you will submit to us a summary of your promotional and marketing expenditures.

You must remit to us an Advertising Contribution of up to 1% of Gross. We determine the date your Salon commences operation. The Advertising Contribution is due to us along with your Royalty payment, payable monthly on or before the 10th day of each month. We will deposit the Advertising Contribution in a separate bank, commercial account or savings account (“**Advertising Fund**”). All company and affiliate-owned Salons will pay into the Advertising Fund on an equal percentage basis with all SMF’s franchised Salons. If you request it in writing, we will send you an annual unaudited financial statement for the Advertising Fund that indicates how the Advertising Fund has been spent during the previous year. Because we will not have the Fund audited, audited financial statements will not be available to franchisees.

We will administer the Advertising Fund in our sole discretion. We may use the Advertising Fund for the creation, production and placement of commercial advertising, agency costs and commissions, creation and production of video, audio, digital and written advertisements, including direct mail, radio and other media advertising, administering multi-regional advertising programs, and employing advertising agencies and in-house staff assistance, gift card and other customer loyalty programs, website and other electronic advertising, social media marketing, supporting public relations, market research and other advertising and marketing activities. We will not spend the Advertising Fund’s money on soliciting franchisees.

We may reimburse ourselves and our affiliates from the Advertising Fund for administrative costs, salaries and overhead expenses related to the administration of the Advertising Fund and its marketing programs, including conducting market research, preparing material and collecting and accounting for Advertising Fund contributions. In any fiscal year we may spend an amount greater or less than the aggregate contribution of all SHEAR MADNESS Salons to the Advertising Fund in that year. The Advertising Fund may borrow from us or other lenders to cover deficits or cause the Advertising Fund to invest any surplus for future use. Any amounts remaining in the Advertising Fund at the end of each year accrue and we apply them toward the next year’s expenses. We do not guarantee that advertising expenditures from the Advertising Fund will benefit you or any other franchisee directly or on a pro rata basis. The Advertising Fund is not a trust fund, and we have no fiduciary obligation to you or other franchisees in regard to our administration of the Advertising Fund. We assume no other direct or indirect liability or obligation to you for collecting amounts due to the Advertising Fund or any other advertising account or for maintaining, directing or administering the Advertising Fund or any other advertising account.

We may use outside advertising agencies and personnel and in-house personnel to create local and regional advertising, including ad slicks, radio spots, direct mail and other marketing

pieces and programs. We may advertise on a national basis in the future. You must purchase local advertising separately through local marketing and media sources within a geographical area. Local advertising is primarily your responsibility.

Local Advertising

You are also required to spend the greater of an average per calendar quarter of 3% of Gross Sales for the first, second and third years or \$750 per month after commencement of the operation of your Salon. The local advertising amount drops to 2% of Gross Sales beginning on the earlier of the fourth year after your Salon opens or the month after you open your third Salon in an area where at least two other Salons are operating at that time. You must submit quarterly reports to us accounting for the use of these funds. You may create your own advertising and promotional materials; however, all local advertising and promotion by you must be in such media and of such type and format as we may approve, must be conducted in a dignified manner and must conform to the standards and requirements as we may specify. You may not use any advertising or promotional plans or materials, including electronic or Internet advertising, unless and until you have first received written approval from us.

Regional Advertising Co-op

We may, upon 30 days written notice to you, create a regional advertising Co-op (“Co-op”) in the market area where you are located, at which time you must become a member of the Co-op. We have the right to determine the geographic scope of the Co-op. We have the right to administer the Co-op, but may permit franchisees or a third party designated by us to administer the Co-op. In our sole discretion, we may require that all or a uniform designated portion of the local advertising commitment of all Salons in your market area be contributed into the Co-op. We may designate that these funds be contributed on a regular basis or intermittently for specific programs selected by the majority of the Co-op members and approved in advance by us. In our sole discretion, we may contribute back to the Co-op for marketing and advertising programs all or a portion of the Advertising Contribution payments received by us from franchisees in the market area of the Co-op. We may make these funds available on a regular basis or intermittently for programs selected by a majority of members and approved by us in advance. Therefore, your total local advertising commitment and Advertising Contribution may be paid and used at a regional level, in our sole determination. You receive credit for payments into the Co-op toward your local advertising commitment. If you are contractually bound by your lease to expend a required amount on advertising, the Co-op must factor this in when considering your dues and assessments to be paid to the Co-op. If we form a Co-op, you will be bound by the decisions of the majority of the members of the Co-op regarding expenditures, assessments and dues, to the extent we approve them. If you fail to participate in the Co-op or pay any Co-op dues, you breach the Franchise Agreement.

We must approve all advertising materials before they are used by a Co-op or furnished to its members. Each Co-op must prepare unaudited annual financial statements and send them to you if you request them. We can form, change and dissolve the Co-op. Each Co-op would operate under a written document which franchisees can view. Either SMF or the Co-op may create the Co-op’s advertising, but advertising created by the Co-op would be required to have our written approval before use.

See Item 6 of this Disclosure Document for more discussion of the costs related to advertising.

Operations Manual

Attached to this Disclosure Document as Exhibit H is the table of contents of our Operations Manual. There are approximately 250 pages in our Operations Manual.

Computer and Technology System

You will purchase the Computer and Technology System directly from us. The Computer and Technology System must be installed, configured and integrated in accordance with our standards and specifications, which we will assist you with at training. The Computer and Technology System will provide you with detailed information necessary to prepare financial statements and provide other operational information and provide information regarding customers for promotional and marketing programs for the Salon.

The Computer and Technology System permits us to receive information concerning your Salon's sales, customers and other information. You must store all data and information that we designate and report data and information in the manner we specify, including through any intranet/extranet system we develop or other online communications. You must maintain a high speed internet connection to your Computer System. You understand that the data storage, communication software, internet access, electronic mail account and all additional hardware and software needed to implement and maintain these services is at your cost. We have no contractual limitation on our right to receive information through the Computer and Technology System.

The cost of the Computer and Technology System is \$9,000. See Items 5 and 7. You must also pay a monthly marketing technology fee of \$330, for certain technology services we or our designees make available. These fees and the services provided are subject to change. See Items 5, 6 and 7.

We require you to join and pay for a high speed internet connection service to facilitate communication between you and SMF and among all SHEAR MADNESS franchisees. We also reserve the right to charge you a fee for access to other electronic or communication services we or designated third parties provide. We also reserve the right to independently access all Computer and Technology System information. We have no contractual limitation on our right to receive information through the Computer and Technology System. We may revise our specifications. We may require you to upgrade and update your Computer and Technology System, including the software, and other technology systems, during the term of your Franchise Agreement. The cost to upgrade the operating software for your POS System will not exceed \$5,000 in any 36 month period that we designate. Otherwise, no contractual limitation exists on the frequency or cost of this obligation. We and third parties may (i) develop additional proprietary software or other technology systems for use in SHEAR MADNESS Salons and charge you a license or other fee to license or purchase such software or other technology; (ii) derive revenue from computer software or other technology systems maintenance and upgrade fees, in the event other proprietary software or other technology systems are developed or required to be used in your Salon; and (iii) require that you participate, at your cost, in all credit card or other payment programs, in all electronic data capture, maintenance and warranty, electronic communication services or other similar programs that we deem mandatory.

Site Selection Assistance

You must select and acquire the location for your SHEAR MADNESS Salon. When you have selected a location for your Salon you must submit information to us regarding the location so that we may accept or reject the site. Our assistance with the selection and approval of a location includes criteria for a satisfactory Salon location and, later, a determination as to whether the location fulfills the requisite criteria. The following factors are considered when we

review a proposed site: location character, proximity to major highways and roads, income levels, demographics, competition, visibility, parking access and development stage of the surrounding community. If we disapprove of any proposed site, we will grant you an additional reasonable time to obtain approval for a site. Our acceptance of a location does not infer or guarantee the success or profitability of an approved location.

Schedule for Opening

We estimate that the typical length of time between the date you sign the Franchise Agreement and the date your Salon opens will be approximately 5 to 10 months. The factors which may affect this time period are your ability to locate a site, secure financing, and obtain a lease, as well as the extent to which an existing location must be upgraded or remodeled, the delivery schedule for equipment, inventory and supplies, recruiting and hiring employees, and completing your training. You must open your SHEAR MADNESS SALON within 10 months after you sign the Franchise Agreement. We may extend the time for opening your Salon if factors beyond your reasonable control prevent you from meeting this deadline, so long as you have made reasonable, continuing efforts to meet this opening schedule. You must apply for this extension before the development deadline passes.

If you execute a Development Agreement, you must meet the development schedule set forth in the Development Agreement.

Training Programs

We will provide an initial training program which will be conducted in Overland Park, Kansas and/or virtually. We offer you the initial training program within a reasonable amount of time after you sign the Franchise Agreement. We schedule our initial training as frequently as necessary. The initial training program consists of up to 5 days of virtual classroom training covering up to 17 sessions. We provide you with manuals for use in conjunction with the initial training via our intranet site. We may waive all or a portion of the training program, if you, your Principal Manager or Lead Stylist have sufficient prior experience or training, in our sole determination.

Two individuals are eligible to participate in our initial training program without charge of a tuition or fee, although you will purchase the Computer and Technology System for \$9,000 at the training program. If you train in Overland Park you must pay any and all transportation and living expenses which are incurred by your personnel in connection with attendance at the training program at our headquarters in Overland Park, Kansas. Before opening your Salon, you and your Principal Manager must attend and you or your Principal Manager must complete, to our satisfaction, the initial training program. Your Lead Stylist must also complete, to our satisfaction, portions of our on-site training program which is conducted at or near your Franchised Location at or around the time you open your Salon. We will make the initial training program available to replacement or additional Principal Managers during the term of the Franchise Agreement. We charge a tuition or fee, commensurate with our then current published prices, for such training, payable in advance and you must pay all travel and living expenses which are incurred by your personnel when they attend our training program. The availability of the training program to replacement or additional Principal Managers and Lead Stylists will be subject to prior commitments to new SMF franchisees and is scheduled on a space available basis.

If you are opening your first SHEAR MADNESS Salon, we provide up to 5 days of on-the-job training at your Salon at or around the time you open your business. This training is described in the column entitled “On-the-Job Training” in the chart below.

We may occasionally present seminars, conventions, continuing development programs or conduct meetings for your benefit. You, your Principal Manager, Lead Stylist and employees must attend certain seminars, conventions, programs or meetings offered by us during the term of your Franchise Agreement, when we announce them as being mandatory. We will give you at least 30 days written notice before any seminar, convention, program or meeting at which we will require your attendance. We will not require that you attend, at your expense, any mandatory national training program more than once a year. We may also require you, your Principal Manager, Lead Stylist and employees to attend or participate in, at your expense, local or regional seminars or meetings up to two times per year. We may charge a tuition or fee for training. You will also be responsible for all travel and living expenses which are associated with attendance at such programs.

Instructors for our initial training program include: Janon Otto, our President since February 2010, Jim Otto our director of franchise development, and Taylor Sifford our Director of Design and Social Media. See Item 2 of this Disclosure Document for additional information regarding their experience and backgrounds.

Training will be conducted after you have signed a Franchise Agreement. We currently provide the following initial training to franchisees:

TRAINING PROGRAM

Subject	Hours of Classroom Training¹	Hours of On-The-Job Training²	Location
Intro & Overview	1	2	Overland Park, Franchised Location
Marketing and Advertising	3	0	Overland Park, Franchised Location
Customer Service	2	4	Overland Park, Franchised Location
Recruiting	2	0.5	Overland Park, Kansas / Franchised Location
Employee Relationships	2	0	Overland Park, Kansas
Health & Sanitation	1	2	Overland Park, Kansas / Franchised Location
Vendor & Purchasing	3	3	Overland Park, Kansas / Franchised Location
Merchandise Coordinator	1	10	Overland Park, Kansas / Franchised Location
Ladeda Spa	0	3	Overland Park, Kansas / Franchised Location
Stylist Training	1	30	Franchised Location
Computer Training	4	7	Overland Park, Kansas / Franchised Location
Bookkeeping and Payroll	2	0	Overland Park, Kansas
Pink Starlets	1.5	2	Overland Park, Kansas/

			Franchised Location
Front Desk	4	24	Overland Park, Kansas and Olathe, Kansas / Franchised Location / Franchise location for receiving inventory
Total Franchise Training	27.5	87.5	

(1) This training will be provided virtually from our headquarters in Kansas or at the franchisee receiving location or by phone.

(2) This training will be conducted at or near your Salon’s location during the grand opening of your Salon.

ITEM 12
TERRITORY

You may operate your Salon and use the Marks and the Licensed Methods only at a specific location, which is referred to as the “Franchised Location” in the Franchise Agreement. You may not operate another SHEAR MADNESS Salon at any site other than the Franchised Location without first obtaining our written consent. We base our approval of your proposed Franchised Location on a variety of factors including the visibility of the location and demographics of the proposed Franchised Location. If you execute your Franchise Agreement before you select, and we approve a location for your SHEAR MADNESS Salon, then you must choose and acquire a location for your Salon within a “Designated Area,” listed in Exhibit I to the Franchise Agreement.

You are given a protected area (“**Protected Territory**”) surrounding your Franchised Location. The Protected Territory for your Salon will generally be a 4-mile radius from your Salon, although the radius may be more or less, but no less than 1 mile, depending on the demographics and other factors. Continuation of your Protected Territory does not depend on the achievement of any specified sales volume, market penetration or other contingency. You may not relocate your Franchised Location or change your Protected Territory without our written consent. Subject to our retention of the rights described in the last paragraph of this Item 12, we will not operate or grant any franchises for the operation of other SHEAR MADNESS Salons within your Protected Territory. An exhibit to your Franchise Agreement specifies your Protected Territory. Once we have defined the territory for your Franchise location we grant you the exclusive rights to the designated area and will not grant another franchise within that area.

The designation of your Franchised Location, Protected Territory or, if applicable, Development Area, described below, does not grant you the exclusive right to any particular market or customers. You may advertise your SHEAR MADNESS Salon services and merchandise anywhere and you may serve all persons who enter your Salon. Other SHEAR MADNESS Salon franchisees have the same rights to conduct advertising anywhere and provide services and sell merchandise to all persons who enter their Salons. You may only make sales of approved merchandise and provide approved services at the Franchised Location. You may not accept orders or sell approved services or merchandise through alternative channels of distribution, such as the Internet, catalog sales, telemarketing or other direct marketing, within or outside of your Protected Territory. See Item 16.

You have no option, right of first refusal or similar contractual right to acquire additional SHEAR MADNESS Salon franchises within or adjacent to your Protected Territory, but we may grant you the right to acquire additional franchises by execution of the Development Agreement.

Under the terms of the Development Agreement, we grant to you the right to establish, according to a schedule, a minimum number of SHEAR MADNESS Salons within a larger geographic territory (the “Development Area”). A Development Area is usually defined by political boundaries such as a city, county or state limits or by other reasonable boundaries. The number of Salons to be developed may be adjusted depending on demographics and other characteristics of a Development Area, including population density, other demographics and other characteristics of the surrounding area, natural boundaries, extent of competition and whether the proposed Development Area is urban, suburban or rural in nature. Subject to our retention of the rights within the Development Area described in the last paragraph of this Item 12, we may not operate or grant any other person or entity the right to establish SHEAR MADNESS Salons within the Development Area for so long as the Development Agreement is in effect. The continuation of your right to your Development Area during the term of the Development Agreement is dependent on meeting the Development Schedule set forth in the Development Agreement. Under the terms of our Area Development Agreement (ADA) we grant you the exclusive rights to develop your agreed upon area as defined by our ADA between you and us.

Under the Franchise Agreement and, if applicable, the Development Agreement, we and our affiliates, successors and assigns, retain the rights, among others, without compensation to you: (1) to use and to license others to use, the Marks and Licensed Methods in connection with the operation of a SHEAR MADNESS Salon, at any location, other than in your Protected Territory or Development Area, as applicable; (2) to use the Marks to identify promotional and marketing efforts or related items and to identify products and services distributed or made available through alternative channels of distribution, other than SHEAR MADNESS Salons, at any location, including, but not limited to, the Internet, other electronic communications methods, catalog sales, telemarketing and other direct marketing sales, mail order, retail store display and wholesale; (3) to use and license the use of other proprietary marks in connection with the sale of products and services similar to or the same as those which you sell, whether in alternative channels of distribution, such as the Internet, other electronic communications methods, catalog sales, telemarketing and other direct marketing sales, mail order, retail store display and wholesale, or in connection with the operation of other businesses, which businesses are the same as, or similar to, or different from SHEAR MADNESS Salons, at any location, and on any terms and conditions as we determine; and (4) to engage in any other activities not expressly prohibited by the Franchise Agreement and Development Agreement, if applicable. We have no present plans to establish other related franchises or company-owned businesses selling similar products or services under a different name or trademark, although we reserve the right to do so in the future.

ITEM 13 **TRADEMARKS**

We license to you the right to use the Marks, including the trademark “**SHEAR MADNESS**” and other trademarks, service marks and commercial symbols that we may authorize.

We purchased from SMI the following trademarks registered on the Principal Register of the United States Patent and Trademark Office (“USPTO”):

Mark	Register	Registration Date	Registration No./Serial No.	Class
SHEAR MADNESS and Design	Principal	June 15, 2004	2,853,121	44
SHEAR MADNESS HAIRCUTS FOR KIDS	Principal	September 13, 2011	4024801/ 85040400	44
Where Every Child Matters!	Principal	March 26, 2019	87786767	44



We or our affiliate have filed all required affidavits and renewals.

You must use the service mark “SHEAR MADNESS” as the principal identification of your Salon. You must also, however, identify yourself as the independent owner of the Salon, in the manner as we may require. You may not use any of the Marks as part of any corporate or trade name, nor may you use any of the Marks to identify unauthorized services or products or in any other manner not expressly authorized in writing by us. Without our prior consent, you may not use or register any of the Marks as part of an electronic mail address or domain name or use any of the Marks on any sites on the Internet or World Wide Web, or with any prefix, suffix, or other modifying words, terms, designs or symbols (other than logos licensed to you), or in any modified form. We will establish and maintain the standards and specifications for your use of the Marks on the Internet, including social media sites.

There are no presently effective determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court, any pending infringement, opposition or cancellation proceedings or material litigation involving the Marks.

No agreements limit our right to use or license the use of the Marks.

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

The Franchise Agreement does not obligate us to protect you against claims of infringement or unfair competition with respect to your use of the Marks, but it is our policy to do so when, in the opinion of our counsel, your rights require protection. We pay all costs, including attorneys’ fees and court costs, associated with any litigation we commence or defend on your behalf to protect the marks and your right to use them. You must cooperate with us in any litigation. Any apparent infringement of or challenge to your use of any Mark should be brought to our attention immediately and you may not communicate with any person other than us or our counsel regarding any such matter. You may not settle any claim without our written consent. We have sole discretion to take any appropriate action. We have the right to control exclusively any litigation, USPTO proceeding or any other administrative proceeding arising out of any infringement, challenge or claim relating to any Mark.

ITEM 14
PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We do not own any patent or copyright registrations which are material to the franchise.

We consider our Operations Manual and related materials, training materials, our Licensed Methods as our proprietary and confidential property. They may be used by you only as described in the Franchise Agreement. We require that you maintain the confidentiality of our information and adopt reasonable procedures to prevent unauthorized disclosure of these secrets and information. Although we have not obtained a copyright registration, other than for a single advertisement, we own the copyright in our Operations Manual, other advertising and marketing materials and other works.

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

You are not required to participate personally in the direct operation of your Salon. If you (or your managing partner or shareholder) do not participate in the day-to-day operation of the Salon, you will need to designate a manager (“**Principal Manager**”) to be responsible for the direct on-premises supervision of the SHEAR MADNESS Salon at all times during its hours of operation. If you are a corporation, limited liability company or partnership, we do not require that your Principal Manager own an equity interest in the entity. You or, if applicable, the Principal Manager and Lead Stylist, as to designated portions of the training, must successfully complete our mandatory initial training program for a SHEAR MADNESS Salon. If you are a corporation, limited liability company or partnership, your Principal Manager, Lead Stylist and each of your officers, directors, shareholders or members (and, if you are an individual, immediate family members) must execute our standard Nondisclosure and Noncompetition Agreement, a copy of which is attached to the Franchise Agreement as Exhibit I.

Other than the above, we make no recommendations and have no requirements regarding employment or other written agreements between you and your employees.

Each of your shareholders, partners, members or other owners may be required to sign an agreement (Exhibit II to Franchise Agreement) personally guaranteeing and agreeing to perform all obligations of the franchisee under the Franchise Agreement.

ITEM 16
RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You may sell only those services and merchandise approved by us and may not use the Salon or the Franchised Location for any purposes other than the operation of a SHEAR MADNESS Salon. You may not fill wholesale orders or sell merchandise or services off-premises or on the Internet or by other electronic communications methods, by mail order or through catalogs or transship or reship merchandise. With our prior written consent, you may attend local promotional and training seminars which may include the demonstration of certain SHEAR MADNESS Salon services. See Item 12.

You must sell all of the services and merchandise approved by us, unless we designate that the service or merchandise is optional. You must comply with our standards and specifications for merchandise mix and inventory levels. We have the right to change or supplement the types of authorized merchandise and services, and there are no limits on our right to do so. Other than the above, there are no restrictions on goods or services offered by you or on the customers to whom you may sell.

ITEM 17
RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

This table lists certain important provisions of the Franchise Agreement. You should read these provisions in the Franchise Agreement attached to this Disclosure Document.

Provision	Section in Franchise Agreement	Summary
a) Length of the franchise	Section 18.1	10 years.
b) Renewal or extension of the term	Article 18	Term in the then current Franchise Agreement.
c) Requirements for franchisee to renew or extend	Sections 18.3, 18.4 and 18.5	Remodel, pay fee, be in substantial compliance, sign new agreement and release. You may be asked to sign a contract with materially different terms and conditions than your original contract if you choose to renew.
d) Termination by franchisee	Not Applicable	The franchisee may terminate the agreement upon any grounds available by law.
e) Termination by franchisor without cause	Not Applicable	Not Applicable.
f) Termination by franchisor with cause	Sections 19.1 and 19.2	We can terminate only if you commit any one of several listed violations.
g) "Cause" defined curable defaults	Sections 19.1 and 19.2	30 days for operational defaults, 10 days for monetary defaults and failure to obtain and maintain a letter of credit.
h) "Cause" defined non-curable defaults	Section 19.1	Unauthorized disclosure, conviction of a crime, abandonment, unapproved transfers, bankruptcy*, assignment for benefit of creditors, unsatisfied judgments, levy, foreclosure, repeated violations, misuse of Marks.
i) Franchisee's obligations on termination/nonrenewal	Section 19.4	Pay outstanding amounts, de-identification of Salon, return of confidential information, cease use of Marks, client lists and information to us, covenant not to compete, transfer telephone number, remove Internet sites

Provision	Section in Franchise Agreement	Summary
		(see also r).
j) Assignment of contract by franchisor	Section 17.6	No restriction on our right to assign.
k) "Transfer" by franchisee – defined	Section 17.1	Includes transfer of Franchise Agreement or Salon or any change in ownership of franchisee entity.
l) Franchisor approval of transfer by franchisee	Section 17.3	We have the right to approve all transfers, we may not unreasonably withhold our consent.
m) Conditions for franchisor approval of transfer	Section 17.2	Transferee qualifies, all amounts due are paid in full, transferee completes training, transfer fee paid, then current contract signed, franchisee signs general release and noncompetition covenant.
n) Franchisor's right of first refusal to acquire franchisee's business	Section 17.4	We may match any offer.
o) Franchisor's option to purchase franchisee's business	Section 19.3	We may buy your Salon or a portion of the assets of the Salon upon termination or non-renewal.
p) Death or disability of franchisee	Section 17.7	Franchise must be assigned to approved buyer within 180 days.
q) Non-competition covenants during the term of the franchise	Section 21.1	No involvement in competing business and no diversion.
r) Non-competition covenants after the franchise is terminated or expires	Section 21.2	No competing business for 2 years within 15 miles of your Franchised Location or any other Salon or Franchised Location, as applicable.
s) Modification of the agreement	Section 25.1	No modifications generally but Operations Manual subject to change.
t) Integration/merger clause	Section 25.2	Only terms of franchise agreement are binding (subject to state law); Any representations or promises outside the disclosure document and franchise agreement may not be enforceable
u) Dispute resolution by arbitration or mediation	Section 23.1	All disputes except those based on enforcement of the Marks, enforcement of the covenants not to compete or any lease of real estate will be arbitrated.
v) Choice of forum	Sections 23.1 and 23.3	Arbitration in Overland Park, Kansas and, for certain claims, litigation in Kansas City, Kansas (subject to state law).
w) Choice of law	Sections 23.1 and 23.3	Kansas law applies (subject to state law).

Provision	Section in Franchise Agreement	Summary
x) Security Interest	Article 24	We have a security interest in the Salon assets, on which we may foreclose if you fail to pay for items purchased through us or otherwise breach the Franchise Agreement.

* This provision may not be enforceable under federal bankruptcy law.

(1) Prospective Franchisees in the state of California are encouraged to consult private legal counsel to determine applicability of California and Federal laws (such as Business and Professional Code section 20040.5, Code of civil Procedure Section 1281, and the Federal Arbitration Act) to any provision of a franchise agreement restricting venue to a forum outside the State of California.

This table lists certain important provisions of the Development Agreement. You should read these provisions in the Development Agreement attached to this Disclosure Document.

Provision	Section in Development Agreement	Summary¹
a) Length of franchise	Section 4.1	Coincides with the Development Schedule, expiring with the opening of the last Salon.
b) Renewal or extension of the term	Not applicable	No right to renew.
c) Requirements for franchisee to renew or extend	Not applicable	Not applicable.
d) Termination by franchisee	Section 4.2	You may terminate for any reason on 60 days' notice.
e) Termination by franchisor without cause	Not applicable	See h. of Franchise Agreement.
f) Termination by franchisor with cause	Section 4.3	We can terminate if you default on the Development Agreement or any of your Franchise Agreements.
g) "Cause" defined curable defaults	Section 4.3	30 days' notice of breach of Development Agreement or Franchise Agreement.
h) "Cause" defined non-curable defaults	Section 4.3	See (h) of Franchise Agreement chart above.
i) Franchisee's obligations on termination/nonrenewal	Section 4.4	You remain bound to all Franchise Agreements (see also r).
j) Assignment of contract by franchisor	Section 5.1	No restriction on our right to assign.
k) "Transfer" by franchisee – defined	Section 5.2	Includes transfer of interest in Development Agreement or in franchisee entity.
l) Franchisor approval of transfer by franchisee	Section 5.2	We or our designee have the right to approve all transfers.

Provision	Section in Development Agreement	Summary¹
m) Conditions for franchisor approval of transfer	Sections 5.2 and 5.3	Notice, transferee qualifies, payment of fees, see m. of Franchise Agreement chart above.
n) Franchisor's right of first refusal to acquire franchisee's business	Section 5.4	We can match any offer.
o) Franchisor's option to purchase franchisee's business	Not applicable	Not applicable.
p) Death or disability of franchisee	Section 5.2	Must assign to an approved buyer within 180 days.
q) Non-competition covenants during the term of the franchise	Section 6.1	You are bound to the same restrictive covenants in the Franchise Agreements.
r) Non-competition covenants after the franchise is terminated or expires	Section 6.1	You are bound to the same restrictive covenants in the Franchise Agreements.
s) Modification of the agreement	Section 8.6	No modification except on signing of a written agreement.
t) Integration/merger clause	Section 8.7	Only terms of Development Agreement and to the extent not inconsistent terms of the Franchise Agreement are binding (subject to state law). No disclaimer of representations in this Disclosure Document.
u) Dispute resolution by arbitration or mediation	Section 8.1	All disputes except those based on the Marks, enforcement of the covenants not to compete or any lease of real estate will be arbitrated.
v) Choice of forum	Section 8.1	Arbitration in Overland Park, Kansas or, as applicable, litigation in Kansas City, Kansas (subject to state law).
w) Choice of law	Section 8.1	Kansas law applies (subject to state law).

(1) The Franchise Agreements executed by you under the Development Agreement are incorporated by reference into the Development Agreement. See corresponding sections in the Franchise Agreement as listed in the previous chart

(2) California Business and Professional Code Sections 2000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

ITEM 18
PUBLIC FIGURES

There is no compensation or other benefit given or promised to any public figure arising from either the use of the public figure in the name or symbol of the Franchise or the endorsement or recommendation of the Franchise by the public figure in advertisements. There are no public figures involved in our management.

The Franchise Agreement does not prohibit you from using the name of a public figure or celebrity in your promotional efforts or advertising; however, all advertising requires our approval.

ITEM 19 **FINANCIAL PERFORMANCE REPRESENTATIONS**

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in this Disclosure Document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

HISTORIC PERFORMANCE OF 8 SALONS

Shear Madness Franchising, LLC ("SMF") has been franchising since 2013. At the end of 2021 SMF had 11 franchise locations in operation, franchise systems with limited locations are typically riskier than franchise systems with 50 locations or greater. Store 101 in the chart below is an affiliated corporate location with a long operating history and was the store which was the model for the franchise locations.

The results listed below do not include all of the expenses that you may incur as a franchise like Royalty payments, marketing fund payments, tech fees and other expenses that are associated with running a Shear Madness salon. Please read all of the footnotes carefully. **Your individual results may differ. There is no assurance you will sell as much.**

As of December 31st, 2021, 8 of our salons had been open more than 2 full year's. The gross revenue from those 8 salons is listed on the chart below. Your individual results may differ. There is no assurance you'll sell as much. Our salons saw a dramatic impact from the Covid -19 pandemic in 2020. Please read the footnotes below the first table carefully.

STATEMENT OF GROSS SALES OF 8 LOCATIONS OPEN MORE THAN 2 FULL YEARS IN 2021

The Figures in the chart below were reported to us from our Spa Salon Software and directly from our franchise locations. Table 1 is Affiliate owned Corporate and Corporate Franchise Locations. Table 2 Shows Franchise locations open more than 2 years.

Table 1: Affiliated Salons Open for More Than 2 Years

STORE NUMBER	GROSS SALES 2019	% YOY GROWTH vs 2018	Gross Sales 2020	% YOY Growth vs. 2019	Gross Sales 2021	% YOY Loss vs. 2020
101	\$603,177	+ 12.30%	\$373,604	-38%	\$489,514	+31%
451	\$375,866	-2%	\$270,326	-28%	\$375,766	+39%
452	\$315,196	+27.52%	\$315,196	+27.52	\$359,450	+43%
Avg. Revenue	\$431,413	+10.08%	\$319,708	-26%	\$408,243	+27%

Table 2: Franchise Locations Open More Than 2 Years

STORE NUMBER	GROSS SALES 2019	% YOY GROWTH vs 2018	Gross Sales 2020	% YOY Growth vs. 2019	Gross Sales 2021	% YOY Loss vs. 2020
551	\$376,707	+1.01	\$259,830	-31%	\$403,942	+55%
351	\$310,304	-6.62%	\$175,218	-43%	\$256,936	+47%
552	\$248,821	+0.00%	\$185,180	-25%	\$283,413	+53%
651	\$359,346	+17%	\$260,664	-27%	\$394,784	-51%
652	\$257,165	+27%	\$195,853	-24%	\$294,503	+50%
Average Revenue	\$310,468	+8.65%	\$215,349	-31%	\$326,715	+52%

- (1) Our business was dramatically affected by the Covid – 19 Pandemic. All of our locations were forced to close down in March of 2020. Locations were permitted to reopen in May or June with limited capacities of 50 to 25% capacities depending on their state. All stores listed were allowed to open in May with the exception of our New York locations, stores 651 and 652 and Albuquerque NM location 351 which reopened on June 2nd, 2020. Additionally New York Stores 651 and 652 were forced to close for two weeks in December. Gross sales are the grand total of all sales transactions in the period.
- (2) Additional Language: Store 451 and 452 are affiliate owned franchise location owned by Jim and Janon Otto. Janon Otto is CEO of Shear Madness Franchising and Jim Otto is Director of Franchise Development, store 451 was opened in Lees Summit Missouri in May of 2013. Store 452 was opened in Liberty, MO in August of 2017.
- (3) The financial performance representations listed above do not reflect the cost of sales, operating expenses, or other costs or expenses that must be deducted from gross revenue or gross sales figures to obtain a gross income or profit. You should conduct an independent investigation of the costs and expenses you will incur in an operating a Shear Madness salon. Franchisees or former franchisees listed in the disclosure document are one source of this information.
- (4) Store 101 is an affiliated store and has been in continuous operation since 1997. Store 101 does not pay royalties. This store is located in Olathe Kansas and has

moved three times since 1997. Because of its long operating history by the Founder of Shear Madness Haircuts for Kids, Paula Thurman, you should not assume that you can do the same amount of sales. Store 101 was sold in early 2015 and is currently operated by Take Luck, Inc. (“TL”) a Kansas Corporation and is an affiliated store.

- (5) Franchise systems with under 50 units typically carry a higher degree of risk than more established franchise systems. Therefore, we encourage you to do substantial due diligence before deciding to buy a Shear Madness Haircuts for Kids Salon.
- (6) Percent year over year growth is taken directly from our spa salon software and is gross revenue figures for 2021 vs 2020, and 2020 vs 2019
- (7) The Financial information listed in this chart has not been reviewed or audited by an independent certified public accountant, but were taken from our POS system.
- (8) A new franchisee’s individual gross revenue is likely to differ greatly from the results of stores that have been open more than two years as listed in this chart above. You will most likely sell substantially less than stores that have been open more than two years in your first several years of operating a Shear Madness Haircuts for Kids salon.
- (9) The gross sales figures reported in this table reflect the aggregate sales of all services and products for Fiscal year December 31st for each location listed.

The gross sales revenue listed in this Item will vary from Salon to Salon and will be directly affected by many factors, including the Salon’s size and number of chairs in operation, product and service mix, competition, location, demographic characteristics, the quality of management and service at the Salon, contractual relationships with landlords, the extent to which you finance the construction and operation of the Salon, discretionary expenditures including advertising and labor costs, the number of stylists you employ and other factors.

You must factor in the length of time these Salons have been operating, the market recognition of the SHEAR MADNESS brand in its existing market and the substantial experience of Paula Thurman, the principal manager of Salon 101 and the founder of the SHEAR MADNESS concept, when reviewing these results. You must factor in the specific market conditions which apply to your location when reviewing these results. Market factors may differ throughout the United States.

The gross revenue described in this Item are actual results of historical data. These results should not be considered as potential sales, costs, and income levels that may be realized by you. There is no assurance you will do as well. A new franchisee’s financial results are likely to differ from the results presented in this Item. Salon 101, an affiliate-owned Salon did not pay initial franchise fees or royalties.

The financial information does not include any income or costs related to federal income tax that would be payable or the state or local income tax or sales taxes that may be applicable to the particular jurisdiction in which the Salon is located. You are strongly urged to consult with your tax and other advisors regarding the impact that federal, state and local taxes will have on the amounts shown.

Written substantiation for this financial performance representation is available for inspection at our headquarters and will be made available to you upon reasonable request.

The financial information has not been reviewed or audited by an independent certified public accountant.

Other than the preceding financial performance representation, SMF does not make any financial performance representations. 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 Janon Otto at 13425 W. 128th Street, Overland Park, Kansas 66213, telephone: (888) 984-6636, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION
SYSTEMWIDE OUTLET SUMMARY
FOR YEARS 2018 -2019-2020

Table 1:

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Total Outlets Opened	2019	13	13	+0
	2020	12	13	+1
	2021	13	12	-1
Totals		11	12	+1

- (1) All numbers are as of December 31st of each year.
- (2) We, as franchisor, do not operate any outlets. Our affiliates, SMI,JI and VGP however, do operate salons of the type being offered in this franchise. Therefore, the three outlets disclosed in this Item 20 are affiliate- owned outlets, but not franchisor-owned outlets. Three of the franchise outlets signed in 2013 and 2017 are wholly owned by officers of this company.

TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS
(OTHER THAN FRANCHISOR)
FOR YEARS
2017-2019

Table 2:

State	Number of Transfers for Years:		
	2019	2020	2021
Kansas	0	0	0
	0	0	0

(1)

	0	0	0
New Mexico	0	0	0
	0	0	0
	0	0	0
Totals	0	0	0

STATUS OF FRANCHISED OUTLETS
FOR YEARS 2019 -2020-2021

Table 3:		For Years:		
State	Category	2019	2020	2021
California	Outlets at Start of Year	1	0	0
	Outlets Opened	0	0	0
	Terminations	0	1	0
	Non-Renewals	0	0	0
	Reacquired by Franchisor	0	0	0
	Ceased Operations - Other Reasons	0	1	0
	Outlets at End of Year	0	0	0
Iowa	Outlets at Start of Year	2	2	2
	Outlets Opened	0	0	0
	Terminations	0	0	0
	Non-Renewals	0	0	0
	Reacquired by Franchisor	0	0	0
	Ceased Operations - Other Reasons	0	0	0
	Outlets at End of Year	2	2	2
Missouri	Outlets at Start of Year	2	2	2
	Outlets Opened	0	0	0
	Terminations	0	0	0
	Non-Renewals	0	0	0
	Reacquired by Franchisor	0	0	0
	Ceased Operations - Other Reasons	0	0	0
	Outlets at End of Year	2	2	2
New Mexico	Outlets at Start of Year	1	1	1
	Outlets Opened	0	0	0
	Terminations	0	0	0
	Non-Renewals	0	0	0
	Reacquired by Franchisor	0	0	0
	Ceased Operations - Other Reasons	0	0	0
	Outlets at End of Year	1	1	1
New York	Outlets at Start of Year	2	2	2
	Outlets Opened	0	0	0
	Terminations	0	0	0
	Non-Renewals	0	0	0
	Reacquired by Franchisor	0	0	0
	Ceased Operations - Other Reasons	0	0	0
	Outlets at End of Year	2	2	3
Texas	Outlets at Start of Year	3	3	2
	Outlets Opened	1	1	0
	Terminations	0	0	0
	Non-Renewals	0	0	0
	Reacquired by Franchisor	0	0	0
	Ceased Operations - Other Reasons	0	0	2
	Outlets at End of Year	3	2	3
Totals		13	11	12

All numbers presented above are as of December 31st of each year.

Table 4:

**STATUS OF COMPANY/AFFILIATE-OWNED OUTLETS ⁽¹⁾
For Years 2019-2020-2021**

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
Kansas	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Missouri ⁽²⁾	2018	2	0	0	0	0	2
	2019	2	0	0	0	0	2
	2020	2	0	0	0	0	2
Totals		3	0	0	0	0	3

⁽¹⁾ All numbers presented above are as of December 31st of each year.

⁽²⁾ The three outlets disclosed in this table are affiliate-owned outlets, but not franchisor-owned outlets. In 2013 one of the affiliated – non-franchise outlet closed in Leawood, KS. The 2 Missouri outlet are Franchise Outlet’s, fully owned by Members, Jim and Janon Otto

Table 5:

PROJECTED OPENINGS AS OF DECEMBER 31, 2021

STATE	FRANCHISE AGREEMENTS SIGNED BUT OUTLET NOT OPENED	PROJECTED NEW FRANCHISED OUTLETS IN THE NEXT FISCAL YEAR	PROJECTED NEW COMPANY OWNED OUTLETS IN THE NEXT FISCAL YEAR
None	1	5	1
TOTALS	1	5	1

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A list of the names of all franchisees and the addresses and telephone numbers of their Salons are listed as Exhibit E to this Disclosure Document. A list of the name, current business address and telephone number (or, if unknown, the last known home telephone number) of every franchisee who has had a store terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during fiscal year 2017 or who has not communicated with us within 10 weeks of the date of this Disclosure Document is listed on Exhibit F to this Disclosure Document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

During the last three fiscal years, we have not signed confidentiality clauses with current or former franchisees restricting their ability to speak openly about their experience with us or the SHEAR MADNESS franchise program.

In some instances, in the future, current and former franchisees may sign provisions restricting their ability to speak openly about their experience with us or the SHEAR MADNESS franchise program. You may wish to speak with current and former franchisees but be aware that not all such franchisees may be able to communicate with you.

No independent franchisee organizations have asked to be included in this Disclosure Document. As of the date of this Disclosure Document there are no trademark-specific franchisee organizations associated with the franchise system that have been created, sponsored or endorsed by us.

ITEM 21 **FINANCIAL STATEMENTS**

Attached to this Disclosure Document as Exhibit G in the Franchise Agreement is are our audited financial statements for the year ending December 31, 2017, December 31, 2016, December 31, 2015.

ITEM 22 **CONTRACTS**

Attached to this Disclosure Document are the following franchise-related contracts:

- Exhibit A List of State Agencies
- Exhibit B Franchise Agreement:
 - Exhibit I Addendum to Franchise Agreement
 - Exhibit II Guaranty and Assumption of Franchisee's Obligations
 - Exhibit III Statement of Ownership
 - Exhibit IV Permit, License and Construction Certificate
 - Exhibit V Authorization Agreement for Prearranged Payments
 - Exhibit VI Credit Card Authorization
- Exhibit C Development Agreement
- Exhibit D Collateral Assignment of Lease

Exhibit E	List of Franchisees
Exhibit F	Franchisees Who Have Left the System
Exhibit G	Financial Statements
Exhibit H	Operations Manual Table of Contents
Exhibit I	Non-Disclosure Non-Competition Agreement
Exhibit J	Closing Acknowledgement
Exhibit K	State Addenda and Riders to the Franchise Disclosure Document, New York – California
Exhibit L	Release
Exhibit M	Receipt of Disclosure Document

ITEM 23
RECEIPTS

The last page of the Disclosure Document (following the exhibits and attachments) is a document acknowledging receipt of the Disclosure Document by you (one copy for you and one copy to be signed and returned to us).

EXHIBIT A
LIST OF STATE AGENCIES

California

Department of Business Oversight
320 West 4th Street, Suite 750
Los Angeles, CA 90013-2344
(213) 576-7500
(866) 275-2677

Department of Business Oversight
1515 K Street, Suite 200
Sacramento, CA 95814-4052
(916) 445-7205
(866) 275-2677

Department of Business Oversight
1350 Front Street
San Diego, CA 92101
(619) 525-4044
(866) 275-2677

Department of Business Oversight
71 Stevenson Street, Suite 2100
San Francisco, CA 94105
(415) 972-8559
(866) 275-2677

Florida

Department of Agriculture and
Consumer Services
Division of Consumer Services
Terry Lee Rhodes Building
2005 Apalachee Parkway
Tallahassee, FL 32399-6500
(850) 488-2221

Hawaii

Department of Commerce and Consumer Affairs
Business Registration Division
Securities Compliance Branch
335 Merchant Street, Room 203
Honolulu, HI 96813
(808) 586-2722

Illinois

Office of Attorney General
Franchise Division

500 South Second Street
Springfield, IL 62706
(217) 782-4465

Indiana

Indiana Secretary of State
Securities Division
302 West Washington Street
Room E-111
Indianapolis, IN 46204
(317) 232-6681

Maryland

Office of Attorney General
Maryland Division of Securities
200 St. Paul Place
Baltimore, MD 21202-2020
(410) 576-6360

Michigan

Michigan Department of Attorney General
Consumer Protection Division
Antitrust and Franchise Unit
670 Law Building
Lansing, MI 48913
(517) 373-7117

Minnesota

Minnesota Department of Commerce
Registration and Licensing Division
85 7th Place East, Suite 500
St. Paul, MN 55101
(612) 296-6328

Nebraska

Department of Banking and Finance
1200 N Street, Suite 311
P.O. Box 95006
Lincoln, NE 68509
(402) 471-3445

New York

New York State Department of Law
Bureau of Investor Protection and Securities
120 Broadway, 23rd
Floor New York, NY 10271
(212) 416-8211

North Dakota

North Dakota Securities Department
600 East Boulevard Avenue
State Capitol, 5th Floor, Dept. 414
Bismarck, ND 58505-0510
(701) 328-4712

Oregon

Department of Insurance and Finance
Corporate Securities
Section Labor and Industries Building
Salem, OR 97310
(503) 378-4387

Rhode Island

Department of Business Regulation
Division of Securities
1511 Pontiac Avenue
John O. Pastore Complex – Building 69-1
Cranston, Rhode Island 02920
(401) 462-9527

South Dakota

South Dakota Department of Revenue and Regulation Division of Securities
445 E. Capitol
Pierre, SD 57501
(605) 773-4013

Texas

Secretary of State
Statutory Document Section
P.O. Box 13563
Austin, TX 78711
(512) 475-1769

Virginia

State Corporation
Commission Division of Securities and Retail Franchising
1300 E. Main Street, 9th Floor
Richmond, VA 23219
(804) 371-9051

Washington

Securities Administrator
Department of Financial Institutions
Securities Division
P.O. Box 9033
Olympia, WA 98507-9033
(360) 902-8760

Wisconsin

Department of Financial Institutions Division of Securities
345 W. Washington Avenue, 4th Floor
Madison, WI 53703
(608) 261-9555

LIST OF AGENTS FOR SERVICE OF PROCESS

California

Department of Business Oversight
320 West 4th Street, Suite 750
Los Angeles, CA 90013-2344
(213) 576-7505
(866) 275-2677

Hawaii

Commissioner of Securities Department of Commerce and Consumer Affairs
Business Registration Division
Securities Compliance Branch
335 Merchant Street, Room 203
Honolulu, Hawaii 96813
(808) 586-2722

Illinois

Illinois Attorney General
500 South Second Street
Springfield, IL 62706
(217) 782-1090

Indiana

Indiana Secretary of State
201 State House
200 West Washington Street
Indianapolis, IN 46204
(317) 232-6531

Maryland

Maryland Securities Commissioner
200 St. Paul Place
Baltimore, MD 21202-2020
(410) 576-6360

Michigan

Michigan Department of Commerce,
Corporations and Securities Bureau
6546 Mercantile Way
Lansing, MI 48910
(517) 334-6212

Minnesota

Minnesota Commissioner of Commerce
Department of Commerce
85 7th Place, East, Suite 500
St. Paul, Minnesota 55101
(612) 296-4026

New York

Secretary of State of the State of New York
41 State Street
Albany, NY 12231
(518) 473-2492

North Dakota

North Dakota Securities Commissioner
600 E. Boulevard Avenue
State Capitol, 5th Floor
Bismarck, ND 58505-0510
(701) 328-2910

Oregon

Director of Oregon Department of Insurance and Finance
700 Summer Street, N.E., Suite 120
Salem, OR 97310
(503) 378-4387

Rhode Island

Director of Rhode Island
Department of Business Regulation
1511 Pontiac Avenue, John O. Pastore Complex – Building 69-1
Cranston, RI 02920
(401) 462-9527

South Dakota

Director of South Dakota Division of Securities
445 East Capitol Avenue
Pierre, SD 57501
(605) 773-4823

Virginia

Clerk of the State Corporation Commission
1300 East Main Street, 1st Floor
Richmond, VA 23219
(804) 371-9733

Washington

Securities Administrator
Washington State Department of Financial Institutions
P.O. Box 9033
Olympia, WA 98507-9033
(360) 902-8760

Wisconsin

Wisconsin Commissioner of Securities
345 W. Washington Ave., 4th Floor
Box 1768
Madison, WI 53703
(608) 261-9555

EXHIBIT B

SHEAR MADNESS FRANCHISING, LLC
FRANCHISE AGREEMENT

Franchisee: _____

Date: _____

Salon Location: _____

TABLE OF CONTENTS

SHEAR MADNESS FRANCHISING, LLC FRANCHISE AGREEMENT

1. PURPOSE
2. GRANT OF FRANCHISE
 - 2.1 Grant of Franchise
 - 2.2 Scope of Franchise Operations
3. FRANCHISED LOCATION AND TERRITORIAL RIGHTS
 - 3.1. Franchised Location
 - 3.2. Protected Territory
 - 3.3. Limitation on Franchise Rights
 - 3.4. Franchisor's Reservation of Right
4. INITIAL FRANCHISE FEE
 - 4.1 Initial Franchise Fee
 - 4.2 Computer and Technology System
5. DEVELOPMENT OF FRANCHISED LOCATION
 - 5.1. Approval of Franchised Location; Site Selection Fee
 - 5.2. Approval of Lease
 - 5.3. Conversion and Design
 - 5.4. Signs
 - 5.5. Equipment and Merchandise
 - 5.6. Technology Systems and Point-of-Sale System
 - 5.7. Permits and Licenses
 - 5.8. Commencement of Operations
6. TRAINING
 - 6.1 Initial Training Program
 - 6.2 Length and Cost of Training Programs
 - 6.3 Additional Training
7. DEVELOPMENT ASSISTANCE
 - 7.1 Franchisor's Development Assistance
8. OPERATIONS MANUAL
 - 8.1 Operations Manual
 - 8.2 Confidentiality of Operations Manual Contents
 - 8.3 Changes to Operations Manual
9. OPERATING ASSISTANCE
 - 9.1 Franchisor's Services
 - 9.2 Additional Franchisor Services
10. FRANCHISEE'S OPERATIONAL COVENANTS
 - 10.1 Business Operations
11. PURCHASES OF PRODUCTS
 - 11.1 Inventory
 - 11.2 Limitations on Supply Obligations

- 11.3 No Warranties
- 11.4 Changes in Inventory; Terms of Sale
- 11.5 Credit Card
- 12. ROYALTIES AND FEES
 - 12.1 Monthly Royalty
 - 12.2 Gross Sales
 - 12.3 Royalty Payments
 - 12.4 Insufficient or Delinquent Payments
 - 12.5 Application of Payments
 - 12.6 Electronic Funds Transfer
- 13. ADVERTISING
 - 13.1 Approval of Advertising
 - 13.2 Advertising Contribution
 - 13.3 Local Advertising
 - 13.4 Regional Advertising Programs
 - 13.5 Electronic Advertising; Marketing Technology Fee
 - 13.6 Initial Promotional and Marketing Campaign
- 14. QUALITY CONTROL
 - 14.1 Compliance with Operations Manual
 - 14.2 Standards and Specifications
 - 14.3 Inspections
 - 14.4 Restrictions on Services and Merchandise
 - 14.5 Approved Suppliers
 - 14.6 Request to Approve Supplier
 - 14.7 Shopping Service
- 15. MARKS, TRADE NAMES AND PROPRIETARY INTERESTS
 - 15.1 Marks
 - 15.2 No Use of Other Marks
 - 15.3 Licensed Methods
 - 15.4 Mark Infringement
 - 15.5 Franchisee's Business Name
 - 15.6 Change of Marks and Licensed Methods
 - 15.7 Creative Ownership
 - 15.8 Alterations for Protection of Marks and Licensed Methods
- 16. REPORTS, RECORDS AND FINANCIAL STATEMENTS
 - 16.1 Franchisee Reports
 - 16.2 Verification
 - 16.3 Books and Records
 - 16.4 Audit of Books and Records
 - 16.5 Failure to Comply with Reporting Requirements
- 17. TRANSFER
 - 17.1 Transfer by Franchisee
 - 17.2 Pre-Conditions to Franchisee's Transfer
 - 17.3 Franchisor's Approval of Transfer
 - 17.4 Right of First Refusal
 - 17.5 Specific Types of Transfers
 - 17.6 Assignment by the Franchisor
 - 17.7 Franchisee's Death or Disability

- 18. TERM AND EXPIRATION
 - 18.1 Term
 - 18.2 Continuation
 - 18.3 Rights Upon Expiration
 - 18.4 Exercise of Option for Successor Franchise
 - 18.5 Conditions of Refusal
- 19. DEFAULT AND TERMINATION
 - 19.1 Termination by Franchisor - Effective Upon Notice
 - 19.2 Termination by Franchisor - Thirty Days' Notice
 - 19.3 Right to Purchase
 - 19.4 Obligations of Franchisee Upon Termination or Expiration
 - 19.5 Acknowledgement
 - 19.6 State and Federal Law
- 20. BUSINESS RELATIONSHIP
 - 20.1 Independent Businesspersons
 - 20.2 Payment of Third Party Obligations
 - 20.3 Indemnification
 - 20.4 Licensed Methods
- 21. RESTRICTIVE COVENANTS
 - 21.1 Non-Competition During Term
 - 21.2 Post-Termination Covenant Not to Compete
 - 21.3 Confidentiality of Proprietary Information
 - 21.4 Confidentiality Agreement
 - 21.5 Interpretation
- 22. INSURANCE
 - 22.1 Insurance Coverage
 - 22.2 Proof of Insurance Coverage
- 23. ARBITRATION
 - 23.1 Arbitration
 - 23.2 Scope of Arbitration
 - 23.3 Governing Law/Consent to Venue and Jurisdiction; Jury Trial Waiver
 - 23.4 Injunctive Relief
- 24. SECURITY INTEREST
 - 24.1 Security Interest
 - 24.2 Obligations
 - 24.3 Authorization to File Financing Statements
 - 24.4 Possession of Collateral
 - 24.5 Remedies
- 25. MISCELLANEOUS PROVISIONS
 - 25.1 Modification
 - 25.2 Entire Agreement
 - 25.3 Delegation by the Franchisor
 - 25.4 Effective Date
 - 25.5 Review of Agreement
 - 25.6 Payment of Taxes
 - 25.7 Attorneys' Fees
 - 25.8 No Waiver

- 25.9 No Right to Set Off
- 25.10 Invalidity
- 25.11 Notices
- 25.12 Cumulative Rights
- 25.13 Survival of Provisions
- 25.14 No Third Party Beneficiaries
- 25.15 Acknowledgement

EXHIBITS TO THE FRANCHISE AGREEMENT

- EXHIBIT I Addendum To Shear Madness Franchising, LLC Franchise Agreement
- EXHIBIT I-1 Rider To Addendum - Location Approval
- EXHIBIT II Guaranty And Assumption Of Franchisee's Obligations
- EXHIBIT III Statement Of Ownership
- EXHIBIT I-IV Permit, License And Construction Certificate
- EXHIBIT V Authorization Agreement For Prearranged Payments (Direct Debits)
- EXHIBIT VI Credit Card Payment Authorization
- EXHIBIT C Development Agreement

1. GRANT OF DEVELOPMENT RIGHTS
2. INITIAL FRANCHISE FEES
3. DEVELOPMENT OBLIGATIONS
4. TERM AND TERMINATION
5. ASSIGNMENT
6. RESTRICTIVE COVENANTS
7. BUSINESS RELATIONSHIPS
8. MISCELLANEOUS

ADDITIONAL EXHIBITS

- EXHIBIT C-1 To Development Agreement
- EXHIBIT C-2 To Development Agreement
- EXHIBIT C-3 To Development Agreement
- EXHIBIT D Collateral Assignment Of Lease
- EXHIBIT E List Of Franchisees
- EXHIBIT F Franchisees Who Have Left The System

**SHEAR MADNESS FRANCHISING, LLC
FRANCHISE AGREEMENT**

THIS AGREEMENT (the “Agreement”) is made this _____ day of _____, 20_____, by and between SHEAR MADNESS FRANCHISING, LLC, a Kansas limited liability company, located at 13425 W. 128th Street, Overland Park, Kansas 66213 (the “Franchisor”) and _____, located at _____ (the “Franchisee”), who, on the basis of the following understandings and agreements, agree as follows:

1. PURPOSE

The Franchisor has developed methods for establishing, operating and promoting businesses that provide haircuts to children, host parties for children, sell at retail hair care products, accessories and toys, and perform manicures and pedicures (“**SHEAR MADNESS Salons**” or “**Salons**”). The Salons are established and operated under the trade name and service mark “SHEAR MADNESS” and other logos, trademarks, service marks and commercial symbols (collectively, the “Marks”) and use the Franchisor’s distinctive business format, systems, methods, procedures, designs, layouts, advertising, promotional and marketing methods, operational standards and specifications, and various other proprietary methods of doing business (“**Licensed Methods**”).

The Franchisor grants the right to others to develop and operate SHEAR MADNESS Salons, under the Marks and pursuant to the Licensed Methods.

The Franchisee desires to establish a SHEAR MADNESS Salon at a location identified herein or to be later identified, and the Franchisor desires to grant the Franchisee the right to operate a SHEAR MADNESS Salon at such location under the terms and conditions which are contained in this Agreement.

2. GRANT OF FRANCHISE

2.1 **Grant of Franchise.** The Franchisor grants to the Franchisee, and the Franchisee accepts from the Franchisor, the non-exclusive right to use the Marks and Licensed Methods in connection with the establishment and operation of a SHEAR MADNESS Salon, at the location described in Section 3.1 of this Agreement. The Franchisee agrees to use the Marks and Licensed Methods, as they may be changed, improved, and further developed by the Franchisor from time to time, only in accordance with the terms and conditions of this Agreement.

2.2 **Scope of Franchise Operations.** The Franchisee agrees at all times to faithfully, honestly and diligently perform the Franchisee’s obligations hereunder, and to continuously use best efforts to promote the SHEAR MADNESS Salon. The Franchisee agrees to utilize the Marks and Licensed Methods to operate all aspects of the business franchised hereunder in accordance with the methods and systems developed and prescribed from time to time by the Franchisor, all of which are a part of the Licensed Methods. The Franchisee’s SHEAR MADNESS Salon shall offer all services and merchandise as the Franchisor shall designate and shall be restricted from offering or selling services and merchandise not previously approved the Franchisor in writing.

3. FRANCHISED LOCATION AND TERRITORIAL RIGHTS

3.1. Franchised Location. The Franchisee is granted the right and franchise to own and operate one SHEAR MADNESS Salon at the address and location which shall be set forth in Exhibit I, attached hereto (“**Franchised Location**”). If, at the time of execution of this Agreement, the Franchised Location cannot be designated as a specific address because a location has not been selected and approved, then the Franchisee shall promptly take steps to choose and acquire a location for its SHEAR MADNESS Salon within the “Designated Area,” set forth in Exhibit I. In such circumstances, the Franchisee shall select and propose to the Franchisor for the Franchisor’s prior approval a specific location for the Franchised Location which, once approved by the Franchisor, shall then be set forth in the rider to Exhibit I. Once the Franchisor has approved the Franchised Location, the Franchisor will be deemed to have complied with its obligation under this Agreement to assist the Franchisee by providing criteria for the Franchised Location.

3.2. Protected Territory. So long as the Franchisee is in compliance with this Agreement and any other agreements with the Franchisor and its affiliated companies, and subject to the Franchisor’s reservation of rights described in Section 3.4 below, the Franchisor shall not operate, or grant franchises or licenses to others for the operation of, SHEAR MADNESS Salons in the geographic area (“**Protected Territory**”) described in Exhibit I, attached to this Agreement. The designation of the Protected Territory shall not provide the Franchisee with any exclusive right to market to or provide services and merchandise to any particular customers.

3.3. Limitation on Franchise Rights. The rights that are granted to the Franchisee are for the specific Franchised Location and Protected Territory and cannot be transferred to an alternative Franchised Location or Protected Territory, or any other location, without the prior written approval of the Franchisor, which approval shall not be unreasonably withheld. Without the prior written consent of the Franchisor, the Franchisee shall not operate another Salon, offer services or merchandise which are part of the Licensed Methods at any site other than the Franchised Location, operate satellite locations, sell services or merchandise through alternative channels of distribution including, but not limited to, fill wholesale orders, the Internet, catalog sales, mail order, telemarketing or other direct marketing, transship, repackage or reship merchandise or offer any other type of off-site service or sale of merchandise. The designation by the Franchisor of the Franchised Location and Territory does not grant the Franchisee the exclusive right to any particular market or customers. The Franchisee may advertise the SHEAR MADNESS Salon and solicit customers in any geographic area and the Franchisee may serve all customers that enter the Salon. Other SHEAR MADNESS Salon franchisees and company and affiliate-owned locations have the same right to conduct advertising and solicit customers anywhere and provide services and products to all persons who enter their Salon.

3.4. Franchisor’s Reservation of Rights. The Franchisee acknowledges that its franchise rights as granted under this Agreement are non-exclusive and that the Franchisor and its affiliates and successors retain the rights, among others, without compensation to the Franchisee:

a. to use and to license others to use, the Marks and Licensed Methods in connection with the operation of a SHEAR MADNESS Salon, at any location, other than in the Protected Territory described in Section 3.2 above;

b. to use the Marks to identify promotional and marketing efforts or related items and to identify products and services distributed or made available through alternative channels of distribution, other than SHEAR MADNESS Salons, at any

location, including, but not limited to, the Internet, other electronic communications methods, catalog sales, telemarketing and other direct marketing sales, mail order, retail store display and wholesale;

c. to use and license the use of other proprietary marks in connection with the sale of products and services similar to or the same as those which you sell, whether in alternative channels of distribution, such as the Internet, other electronic communications methods, catalog sales, telemarketing and other direct marketing sales, mail order, retail store display and wholesale, or in connection with the operation of other businesses, which businesses are the same as, similar to, or different from SHEAR MADNESS Salons (for example, if we acquire or are acquired by another business that provides products and services similar to a Salon), at any location within or outside the Protected Territory, and on any terms and conditions as we determine; and

d. to engage in any other activities not expressly prohibited by this Agreement.

4. INITIAL FRANCHISE FEE

4.1 Initial Franchise Fee. In consideration for the right to develop and operate one SHEAR MADNESS Salon, the Franchisee agrees to pay to the Franchisor, concurrently with the execution of this Agreement, an initial franchise fee in an amount set forth in Exhibit I, attached to this Agreement. The Franchisee acknowledges and agrees that the initial franchise fee represents payment for the initial grant of the rights to use the Marks and Licensed Methods, that the Franchisor has earned the initial franchise fee upon receipt thereof and that the fee is under no circumstances refundable to the Franchisee after it is paid, unless otherwise specifically set forth in this Agreement.

4.2 Computer and Technology System. The Franchisee shall pay to the Franchisor, when the Franchisee attends the initial training program described in Section 6.1 below, the non-refundable fee in the amount of \$9,000 for: (1) your front desk Point of Sale computer system, computer software, computer printer, credit card processor terminal, receipt printer, cash drawer, inclusion of your SHEAR MADNESS Salon on our website and initial set-up of and access to our Intranet site and merchandise ordering system (“**Computer and Technology System**”); (2) our assistance in the installation of the Computer and Technology System; and (3) the configuration of the Computer and Technology System.

5. DEVELOPMENT OF FRANCHISED LOCATION

5.1. Approval of Franchised Location; Site Selection Fee. The Franchisee agrees to pay to the Franchisor, concurrently with the execution of this Agreement, a non-refundable site selection fee in the amount of \$2,000. The Franchisee shall follow the Franchisor’s site selection procedures in locating a Franchised Location for the SHEAR MADNESS Salon. The Franchisee shall seek the Franchisor’s approval of any site proposed as a Franchised Location, by submitting a complete site submittal package, including demographics and other materials requested by the Franchisor, containing all information reasonably required by the Franchisor to assess a proposed Franchised Location. The Franchisor will not unreasonably withhold approval of a proposed site that meets all of the Franchisor’s site selection criteria. The Franchisee shall obtain the Franchisor’s approval of a Franchised Location within 90 days of the date of execution of this Agreement. If the Franchisor disapproves of a site proposed by the Franchisee, the Franchisor will grant the Franchisee an additional, reasonable period of time to obtain approval of a

different proposed Franchised Location, as may be determined in the Franchisor's reasonable business judgment.

5.2. Approval of Lease. The Franchisee shall obtain the Franchisor's prior written approval before executing any lease or purchase agreement for the Franchised Location. The lease for the Franchised Location shall contain provisions:

- a. expressing the landlord's consent to the Franchisee's use of the Marks and signage which the Franchisor initially prescribes for the Salon;
- b. giving the Franchisor the right to enter the premises to make any modification necessary to protect the Marks and the Licensed Methods;
- c. requiring the landlord to provide the Franchisor with a notice of default and an opportunity to cure any default;
- d. restricting the use of the premises in a manner approved by the Franchisor;
- e. providing that the initial term of the lease, or the initial term together with any renewal terms must be for at least 10 years; and
- f. giving the Franchisor or its designee, without the landlord's consent, the option to assume the Franchisee's occupancy rights under the existing lease terms and the right to assign the lease or sublet the premises, for all or part of the lease term, if the Franchisee is in default under the lease or the Franchise Agreement or if the lease or Franchise Agreement is terminated.

The Franchisee shall obtain the landlord's consent to the terms described above.

The lease shall be collaterally assigned to the Franchisor as security for the Franchisee's timely performance of all obligations under this Agreement and the Franchisee shall obtain the lessor's consent to such collateral assignment.

The Franchisee shall deliver a copy of the signed lease for the Franchised Location to the Franchisor within 15 days of its execution. The Franchisee acknowledges that the Franchisor's review and approval of a lease for the Franchised Location is for the Franchisor's benefit only and does not constitute a recommendation, endorsement or guarantee by the Franchisor of the suitability or profitability of the location or the lease and the Franchisee should take all steps necessary to ascertain whether such location and lease are acceptable to the Franchisee.

5.3. Conversion and Design. The Franchisee acknowledges that the layout, fixtures, design, decoration, color scheme and furnishing of SHEAR MADNESS Salons are an integral part of the Franchisor's proprietary Licensed Methods and accordingly, the Franchisee shall construct, convert, design, decorate and furnish the Franchised Location and the Salon in accordance with the Franchisor's plans and specifications and with the assistance of contractors and suppliers designated by or otherwise approved by the Franchisor. The Franchisee shall obtain the Franchisor's written consent to any conversion, design or decoration of the premises before construction, remodeling, decorating or furnishing begins, recognizing that any related costs are the Franchisee's sole responsibility. It shall be the Franchisee's responsibility to have prepared all required construction plans and specifications to suit the shape and dimensions of the Franchised Location and to ensure compliance with any lease and applicable laws, including, without limitation, the Americans with Disabilities Act. The Franchisee shall be responsible for

the cost of obtaining any architectural designs and drawings. Following the completion of the initial improvements to the Franchised Location, the Franchisee must obtain the Franchisor's written consent before making any improvements or alterations to the Franchised Location which are not in accordance with plans and specifications previously approved in writing by the Franchisor or its designee.

5.4. Signs. The Franchisee shall purchase or otherwise obtain for use at the Franchised Location and in connection with the SHEAR MADNESS Salon signs which comply with the standards and specifications of the Franchisor as set forth in the Operations Manual, as that term is defined in Section 8.1. It is the Franchisee's sole responsibility to ensure that all signs comply with applicable local ordinances, building codes and zoning regulations. Any modifications to the Franchisor's standards and specifications for signs which must be made due to local ordinances, codes or regulations shall be submitted to the Franchisor for prior written approval. The Franchisee acknowledges the Marks, or any other name, symbol or identifying marks on any signs shall only be used in accordance with the Franchisor's standards and specifications and only with the prior written approval of the Franchisor.

5.5. Equipment and Merchandise. The Franchisee shall purchase, or otherwise obtain for use or sale at the Franchised Location, and in connection with the SHEAR MADNESS Salon, equipment and merchandise of a type, and in an amount, which complies with the standards and specifications of the Franchisor. The Franchisee acknowledges that the type, quality, configuration, capability and/or performance of the equipment, merchandise and other products and services used or offered through the SHEAR MADNESS Salon are all standards and specifications which are a part of the Licensed Methods and therefore such equipment, merchandise and other products and services must be purchased, leased or otherwise obtained in accordance with the Franchisor's standards and specifications and only from the Franchisor, its affiliates or designated suppliers or other sources approved by the Franchisor.

5.6. Technology Systems and Point-of-Sale System. The Franchisee shall equip the Salon with the Computer and Technology System for a non-refundable fee of \$9,000. The Computer and Technology System must be purchased directly from the Franchisor at the initial training program provided by the Franchisor. The Computer System shall be installed and configured in accordance with the standards and specifications of the Franchisor. The installation and configuration services will be purchased from the Franchisor as part of the Computer and Technology System. The Franchisee shall be responsible for all maintenance costs associated with the Computer and Technology System. The Franchisee, at the Franchisee's sole cost, shall join a high-speed electronic network connection service to facilitate communication between the Franchisor and the Franchisee. The Franchisee shall give the Franchisor access to all information and data from the Computer and Technology System through a high-speed internet connection or by other means designated by the Franchisor. The Franchisor, in its sole discretion, may require the Franchisee, upon 30 days prior written notice, at the sole cost and expense of the Franchisee, to upgrade and update the Computer and Technology System during the term of this Agreement. The cost to upgrade the operating software for the point-of-sale system shall not exceed \$5,000 in any 36 month period. The Franchisor shall designate the applicable 36 month periods. The Franchisor and third parties reserve the right to: (i) charge the Franchisee a fee for access to electronic and other communication and technology services the Franchisor provides or makes available to the Franchisee; (ii) develop proprietary software or other technology for use in SHEAR MADNESS Salons and charge the Franchisee a licensing fee for such software or other technology; (iii) derive revenues from Computer System or other technology maintenance and upgrade fees in the event proprietary software or other technology systems are developed for use in SHEAR

MADNESS Salons; and (iv) require that the Franchisee participate in all credit card, gift card, electronic data capture or other similar programs that the Franchisor deems mandatory.

5.7. Permits and Licenses. The Franchisee agrees to obtain all such permits and certifications as may be required for the lawful construction and operation of the SHEAR MADNESS Salon together with all certifications from government authorities having jurisdiction over the site, that all requirements for construction and operation have been met, including without limitation, zoning, access, sign, health, safety requirements, building and other required construction permits, licenses to do business and fictitious name registrations, sales tax permits, health and sanitation permits and ratings and fire clearances. The Franchisee agrees to obtain all customary contractors' sworn statements and partial and final lien waivers for construction, remodeling, decorating and installation of equipment at the Franchised Location. Prior to opening the Franchised Location, the Franchisee shall submit a signed copy of the Permit, License and Construction Certificate ("**PLC Certificate**"), attached as Exhibit IV to this Agreement. The Franchisee shall immediately notify the Franchisor if any representations contained in the PLC Certificate cease to be accurate.

5.8. Commencement of Operations. Unless otherwise agreed to in writing by the Franchisor and the Franchisee, the Franchisee shall have 10 months from the date of this Agreement within which to: (1) secure all necessary financing for the Salon; (2) complete the initial training program described in Section 6.1 of this Agreement; (3) select, lease and develop the Franchised Location; (4) purchase an opening inventory of merchandise and supplies; (5) obtain and provide evidence of insurance as described in Section 22.1 below; (6) hire licensed and qualified employees; and (7) commence operation of the SHEAR MADNESS Salon. The Franchisor will extend the time in which the Franchisee has to commence operations for a reasonable period of time in the event factors beyond the Franchisee's reasonable control prevent the Franchisee from meeting this development schedule, so long as the Franchisee has made reasonable and continuing efforts to comply with such development obligations and the Franchisee requests, in writing, an extension of time in which to have its SHEAR MADNESS Salon established before such development period lapses. The Franchisee shall obtain the Franchisor's approval prior to opening the Salon for business.

6. TRAINING

6.1 Initial Training Program. The Franchisee or, if the Franchisee is not an individual, at least one of the individuals designated by the Franchisee to assume primary responsibility for the management of the SHEAR MADNESS Salon ("**Principal Manager**"), is required to attend and successfully complete the Franchisor's initial franchise training program, which will be held both at a location in Overland Park Kansas, your Franchised Location, or other location designated by the Franchisor. In addition, one individual, who may not also be the Principal Manager, shall be designated by the Franchisee to assume primary responsibility for haircutting styles and other services provided at the Salon ("Stylist")"Lead. The Lead Stylist shall also successfully complete those portions of the on-site training program described in Section 6.3 below that are designated by the Franchisor. Two individuals are eligible to participate in the initial training program without charge of a tuition or fee. The Franchisee shall be responsible for any and all traveling and living expenses incurred by the Franchisee's personnel in connection with attendance at the initial training program. At least one individual who is either the Principal Manager or the Franchisee must successfully complete the initial training program prior to the Franchisee's commencement of operation of its Salon. The Franchisor will make the initial training program available to replacement or additional Principal Managers in accordance with Section 9.1.d below.

6.2 Length and Cost of Training Programs. The initial training program shall consist of up to 10 days of instruction and training at a location designated by the Franchisor. The Franchisor reserves the right to waive a portion of the initial training program, or alter the training schedule, if, in the Franchisor's sole discretion, the Franchisee or a Principal Manager or Lead Stylist have sufficient prior experience or training. Up to two individuals total are trained by the Franchisor without charge, but Franchisee shall pay the non-refundable fee of \$9,000 for the Computer and Technology System at the beginning of the training program. The Franchisee shall be responsible for any and all travel and living expenses incurred in connection with attendance at the initial training program.

6.3 Additional Training. If the Franchisee is opening its first Salon, the Franchisor shall provide additional opening training and assistance on-site at the Franchisee's Salon, as described in Section 7.1.f below. From time to time, the Franchisor may also present seminars, conventions or continuing development programs or conduct meetings for the benefit of the Franchisee. The Franchisee, the Principal Manager, the Lead Stylist, and designated employees shall be required to attend any ongoing mandatory technical training, seminars, conventions, programs or meetings as may be offered by the Franchisor. The Franchisor shall give the Franchisee at least 30 days prior written notice of any ongoing seminar, convention or program which is deemed mandatory. The Franchisor shall not require that the Franchisee, its Principal Manager, Lead Stylist and its other employees attend any national convention more often than once a year and any local or regional seminar or meeting more than twice a year. The Franchisor may charge a tuition or fee for additional training. The Franchisee will be responsible for all travel and living expenses which are associated with attendance at any additional training.

7. DEVELOPMENT ASSISTANCE

7.1 Franchisor's Development Assistance. The Franchisor shall provide the Franchisee with assistance in the initial establishment of the SHEAR MADNESS Salon as follows:

a. Provision of the initial training program to be conducted in Overland Park, Kansas, or at another location designated by the Franchisor, as described in Article 6 above.

b. Provision of specifications for a Franchised Location which shall include, without limitation, specifications for space requirements, build out and the demographics and character of the surrounding market area. The Franchisee acknowledges that the Franchisor shall have no other obligation to provide assistance in the selection and approval of a Franchised Location other than the provision of such written specifications and approval or disapproval of a proposed Franchised Location. The Franchisor shall be entitled to rely on information submitted to the Franchisor in a form sufficient to assess the proposed location as may be reasonably required by the Franchisor.

c. Directives regarding the required conversion, design and decoration of the SHEAR MADNESS Salon premises, plus standards and specifications concerning interior and exterior signs, decor, color, products, inventory, equipment, uniforms and Salon layout.

d. Provision of information and advice about designated and approved suppliers of the fixtures, supplies, equipment, materials and services used in and merchandise sold through the Salon.

e. Loan the Franchisee one copy of the Operations Manual in accordance with the terms and conditions of Section 8 below.

f. If the Franchisee is opening its first Salon, the Franchisor will make available to the Franchisee at or around the commencement of operations of the Franchisee's Salon, one or more representatives to be present for up to 5 days to assist the Franchisee in the opening and initial operation of the Salon and to provide some training to the Lead Stylist. The representative will assist the Franchisee's employees in the opening and initial operation of the Salon at a time scheduled by the Franchisor, unless in the Franchisor's determination, the Franchisee or a Principal Manager or a Lead Stylist have had sufficient prior training or experience.

8. OPERATIONS MANUAL

8.1 Operations Manual. The Franchisor shall provide to the Franchisee, either electronically or in such other manner as the Franchisor shall determine, one or more manuals, technical bulletins, or other written materials (collectively referred to as "Operations Manual"), covering certain standards, specifications and operating and marketing procedures that the Franchisor requires the Franchisee to utilize in operating its Salon. The Franchisee shall comply with the Operations Manual as an essential aspect of its obligations under this Agreement and failure by the Franchisee to substantially comply with the Operations Manual may be considered by the Franchisor to be a breach of this Agreement.

8.2 Confidentiality of Operations Manual Contents. The Franchisee shall use the Marks and Licensed Methods only as specified in the Operations Manual. The Operations Manual is the sole property of the Franchisor and shall be used by the Franchisee only during the term of this Agreement and in strict accordance with the terms and conditions hereof. The Franchisee shall not print or duplicate the Operations Manual nor disclose its contents to persons other than its employees or officers who have signed a nondisclosure and noncompetition agreement in a form approved by the Franchisor. The Franchisee shall return the Operations Manual, with any written updates, to the Franchisor upon the expiration, termination or assignment of this Agreement.

8.3 Changes to Operations Manual. The Franchisor reserves the right to revise the Operations Manual from time to time as it deems necessary to update or change operating and marketing techniques or standards and specifications. The Franchisee, upon receipt of any updated information, shall update its copy of the Operations Manual as instructed by the Franchisor and shall conform its operations with the updated provisions within 30 days of receipt of each update. The Franchisee acknowledges that a master copy of the Operations Manual maintained by the Franchisor at its principal office shall be controlling in the event of a dispute relative to the content of any Operations Manual.

9. OPERATING ASSISTANCE

9.1 Franchisor's Services. The Franchisor agrees that, during the Franchisee's operation of the SHEAR MADNESS Salon, the Franchisor shall make available to the Franchisee the following services:

a. Upon the reasonable request of the Franchisee, consultation by telephone or electronic mail, regarding the continued operation and management of a SHEAR

MADNESS Salon and advice regarding customer services, merchandising, customer relations, customer marketing, and accounting.

b. Access to advertising and promotional materials and designs, whether produced through proceeds from the Advertising Fund or otherwise, although the costs of reproduction, reprinting and placement shall be, at the option of the Franchisor, the Franchisee's responsibility, and assistance via telephone or electronic mail, in determining the media, timing and placement for the Franchisee's ongoing marketing program.

c. On-going updates of information and programs regarding marketing and promotional programs, the competition, the industry, the SHEAR MADNESS concept and the Licensed Methods, at a frequency to be determined by the Franchisor, including information concerning special or new products and services which the Franchisor develops and makes available to its franchisees.

d. The Franchisor shall make the initial training program available to replacement or additional Principal Managers and Lead Stylists for the charge of a tuition or fee commensurate with the Franchisor's current published prices for training, payable in advance. The Franchisee shall be responsible for all travel and living expenses incurred by its personnel during the training programs. The availability of the training programs shall be subject to space and timing considerations and prior commitments to new SHEAR MADNESS franchisees.

e. The provision of mandatory or voluntary, at the Franchisor's option, continuing education courses that the Franchisor may develop regarding the operation of the SHEAR MADNESS Salon and the merchandise and services offered through the Salon.

9.2 Additional Franchisor Services. Although not obligated to do so, the Franchisor may make its employees or designated agents available to the Franchisee for on-site advice and assistance in connection with the on-going operation of the SHEAR MADNESS Salon governed by this Agreement. In the event that the Franchisee requests such additional assistance and the Franchisor agrees to provide the same, the Franchisor reserves the right to charge the Franchisee for all travel, lodging, living expenses, telephone charges and other identifiable expenses associated with such assistance, plus a fee based on the time spent by each employee on behalf of the Franchisee, which fee will be charged in accordance with the then current daily or hourly rates being charged by the Franchisor for assistance.

10. FRANCHISEE'S OPERATIONAL COVENANTS

10.1 Business Operations. The Franchisee acknowledges that it is solely responsible for the successful operation of its SHEAR MADNESS Salon and that the continued successful operation thereof is, in part, dependent upon the Franchisee's compliance with this Agreement and the Operations Manual. In addition to all other obligations contained in this Agreement and in the Operations Manual, the Franchisee shall comply with the following operational obligations:

a. Quality of Operations. The Franchisee shall maintain clean, efficient and high quality SHEAR MADNESS Salon operations and shall operate the business in accordance with the Operations Manual and in such a manner as not to detract from or

adversely reflect upon the name and reputation of the Franchisor and the goodwill associated with the SHEAR MADNESS name and Marks.

b. Compliance with Laws and Good Business Practices. The Franchisee will conduct itself and operate its SHEAR MADNESS Salon in compliance with all applicable laws and regulations including, without limitation, barbering and cosmetology regulations, health department regulations, and barbering and cosmetology licensing laws and regulations, in such a manner so as to promote a good public image in the business community. In connection therewith, the Franchisee will be solely and fully responsible for obtaining any and all licenses to carry on business at the SHEAR MADNESS Salon. Each of the Franchisee's employees shall provide only those services to customers that they are licensed to provide. The Franchisee shall promptly forward to the Franchisor copies of all barbering and cosmetology board, health department, fire department, building department and other similar reports of inspections as and when they become available. The Franchisee shall also immediately forward to the Franchisor barbering and cosmetology board, building department or similar violations upon receipt thereof or any other inspection reports, warnings, certificates or ratings issued by any governmental entity during the term of this Agreement in connection with the conduct of the SHEAR MADNESS Salon which indicates the Franchisee's failure to meet or maintain the highest governmental standards, or less than full compliance by the Franchisee with any applicable law, rule or regulation. The Franchisee shall be solely responsible for any penalties or fines assessed for failure to abide by such laws, regulations and ordinances.

c. Management. The Franchisee acknowledges that proper management of the SHEAR MADNESS Salon is important and shall ensure that the Franchisee or a designated Principal Manager and Lead Stylist who has completed the Franchisor's initial training program be responsible for the management of the SHEAR MADNESS Salon. All Principal Managers and Lead Stylists shall execute a Nondisclosure and Noncompetition Agreement with the Franchisor.

d. Merchandise. The Franchisee acknowledges that the availability of certain quality merchandise is a material aspect of the Licensed Methods. Therefore, the Franchisee agrees to purchase from approved sources and continuously maintain minimum levels of hair care products and accessories, toys and other items of a brand designated by the Franchisor and certain promotional merchandise.

e. Approved Services and Merchandise; Scope of Franchise Operation. The Franchisee shall offer only services and merchandise through its Salon which meet or exceed the minimum standards and specifications established by the Franchisor more fully described in the Operations Manual. The Franchisee shall offer all types of services and merchandise as from time to time may be prescribed by the Franchisor and shall refrain from offering any other types of services or merchandise or operating or engaging in any other type of business or profession, from or through the Franchisee entity, if applicable. The Franchisee shall refrain from offering and selling any other types of services or merchandise or operating or engaging in any other type of business or profession, from or through the SHEAR MADNESS Salon, including, without limitation, offering for sale or selling merchandise or services except at the Franchised Location, offering for sale or selling services or merchandise of any sort on the Internet or by other electronic communications methods, by mail order, through catalogs or other means unless written approval from the franchisor is obtained. The Franchisee shall not

wholesale or otherwise sell merchandise from or through the SHEAR MADNESS Salon to any person or business for resale without written approval from the franchisor.

f. **Payment of Obligations; Insolvency.** The Franchisee shall pay on a timely basis all amounts due and owing to the Franchisor or its affiliates for: (i) technology and internet services provided by the Franchisor, its affiliates and third parties, (ii) all amounts due and owing for the purchase of any inventory, merchandise, equipment and services, and (iii) all amounts due and owing pursuant to any separate agreements, including any premises sublease, between the Franchisee and the Franchisor and its affiliates. The Franchisee shall also pay on a timely basis all amounts due and owing by the Franchisee to all third parties, including landlords, suppliers, vendors and taxing authorities, with whom the Franchisee does business at or through the Salon. In connection with any amounts due and owing by the Franchisee to third parties, the Franchisee expressly acknowledges that a default by the Franchisee with respect to such indebtedness may be considered a default hereunder and the Franchisor may avail itself of all remedies provided for herein in the event of default. The Franchisee shall immediately notify the Franchisor if any action is taken by the Franchisee or the owners of the Franchisee, or by others against the Franchisee or owners of the Franchisee under any insolvency, bankruptcy or reorganization act, or if the Franchisee makes an assignment for the benefits of creditors, or a receiver is appointed by the Franchisee.

g. **Other Agreements.** The Franchisee shall comply with all agreements with third parties related to the SHEAR MADNESS Salon including, in particular, all provisions of any premises lease, any product or supply contracts and other agreements.

h. **Employees.** The Franchisee shall be exclusively responsible for the conduct and control of its employees and employment practices, including hiring, firing, training and compensation of its employees. The Franchisee and all employees of the Franchisee shall present a professional appearance, as may be described in the Operations Manual, and shall render competent and courteous service to customers of the SHEAR MADNESS Salon while working at the Franchised Location. All Principal Managers, Lead Stylists, employees of the Franchisee, the Franchisee and its owners, shall wear the specified apparel at all times while working at the Franchised Location. The Franchisor has the right, in its sole and absolute discretion, to change or modify such dress code guidelines. Nothing in this Agreement shall be deemed to make the Franchisee's employees, representatives or agents (i) subject to the control of the Franchisor or (ii) employees of the Franchisor.

i. **Remodeling and Upgrading.** The Franchisee shall renovate, refurbish, remodel or replace, at its own expense, the décor, personal property, equipment, furnishings and Computer System used in the operation of the SHEAR MADNESS Salon, when reasonably required by the Franchisor in order to comply with the image, standards of operation and performance capability established by the Franchisor from time to time. If the Franchisor changes its image or standards of operation, it shall give the Franchisee a reasonable period of time within which to comply with such changes.

j. **Training of Employees.** The Franchisee shall be fully responsible for all Salon employees' compliance with the operational standards which are part of the Licensed Methods and for compliance with all laws and regulations affecting employees and Salon operations including, without limitation, laws and regulations requiring certification and licensing of employees. The Franchisee must conduct its employee

training in the manner and according to the standards as prescribed in the Operations Manual. Any employee who does not satisfactorily complete the training or timely obtain any required certifications or licenses shall not work in any capacity in the Franchisee's SHEAR MADNESS Salon.

k. **Ownership of Salon.** The Franchisee shall at all times during the term of this Agreement own and control the SHEAR MADNESS Salon authorized hereunder. Upon request of the Franchisor, the Franchisee shall promptly provide satisfactory proof of such ownership to the Franchisor. The Franchisee represents that the Statement of Ownership, attached hereto as Exhibit III and by this reference incorporated herein, is true, complete, accurate and not misleading, and, in accordance with the information contained in the Statement of Ownership, the controlling ownership of the SHEAR MADNESS Salon is held by the Franchisee. The Franchisee shall promptly provide the Franchisor with a written notification if the information contained in the Statement of Ownership changes at any time during the term of this Agreement and shall comply with the applicable transfer provisions contained in Article 17 herein. In addition, if the Franchisee is an entity, all of the owners of the Franchisee shall sign the Personal Guaranty attached hereto as Exhibit II and such owners of the Franchisee as the Franchisor shall designate shall sign a Confidentiality and Noncompetition Agreement.

l. **Hours of Operation.** The Franchisee shall at all times during the term of this Agreement keep its SHEAR MADNESS Salon open during the business hours as may be designated by the Franchisor from time to time in the Operations Manual and shall maintain sufficient inventory and employ adequate personnel at all times so as to operate the Salon at its maximum capacity and efficiency.

11. PURCHASES OF PRODUCTS

11.1 **Inventory.** Prior to commencement of operation of the SHEAR MADNESS Salon and throughout the term of this Agreement, the Franchisee shall purchase and stock the Salon with inventory of a type and in such mix and quantities as the Franchisor may determine and prescribe. The Franchisee shall, during the term of this Agreement, maintain product inventory levels and product inventory mix sufficient to meet customer demands and in compliance with the Franchisor's standards and specifications as may be described in the Operations Manual from time to time.

11.2 **Limitations on Supply Obligations.** With respect to purchases of products and other items from or through the Franchisor, its affiliated companies or designees, such purchases are subject to and conditioned upon availability. Nothing in this Agreement shall be construed by the Franchisee to be a promise or guarantee as to the continued existence of a particular product or other item, nor shall any provision herein imply or establish an obligation on the part of the Franchisor and its affiliates to sell products or other items to the Franchisee if the Franchisee is in arrears on any payment to the Franchisor, its affiliates or a third party supplier or otherwise in default under this Agreement. The Franchisor may require payments to be made at time of order or in cash on delivery ("COD"). If the Franchisee is in arrears on any payment to the Franchisor, its affiliates or a third party supplier, is in default under this Agreement or is otherwise not in compliance with the terms and conditions imposed by the Franchisor, its affiliates or any third party supplier for the purchase of any products or items, the Franchisor or its affiliates may discontinue selling or permitting the purchase from or through the Franchisor or its affiliates of any products or other items to the Franchisee and may place the account of the Franchisee on hold and cease directly or through third party suppliers the delivery of already ordered and not

yet paid for products and other items. In addition, penalties and interest for late payments for products and other items purchased from or through the Franchisor and its affiliates will apply on the same terms as for Royalties, described in Section 12.4 below. The Franchisor and its affiliates shall also be entitled to recover their reasonable attorneys' fees from the Franchisee in connection with any legal action, arbitration or other proceeding brought by them to collect amounts owed by the Franchisee for purchases of products and other items from or through the Franchisor or its affiliates.

11.3 No Warranties. THE PRODUCTS AND MERCHANDISE PURCHASED BY THE FRANCHISEE FROM THE FRANCHISOR OR ITS AFFILIATES SHALL BE SUBJECT ONLY TO MANUFACTURERS' WARRANTIES. THE FRANCHISOR AND ITS AFFILIATES MAKE NO WARRANTIES, EXPRESS OR IMPLIED, REGARDING MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF ANY OF THE PRODUCTS OR OTHER ITEMS PURCHASED BY THE FRANCHISEE.

11.4 Changes in Inventory; Terms of Sale. It is understood that the Franchisor and its affiliates shall have the right, at any time and without notice, to add items to, or withdraw items from, the list of products required to be offered for sale at the Salon; to add to or delete from the list of approved suppliers of products and other items; and to change the prices, discounts, or terms of sale of any products or other items. No such changes will give the Franchisee the right to recover damages against, or be reimbursed, by the Franchisor or its affiliates for any losses suffered by the Franchisee, nor will the Franchisee be entitled to require the Franchisor and its affiliates to accept return of any of the products rendered obsolete by such changes. In the event of such changes, however, the sale by the Franchisee of its existing stock of products which are no longer approved, or products in its existing stock from a supplier no longer approved, shall not be considered a violation hereof. The Franchisee shall comply with the then current terms and conditions of sale of the Franchisor or its affiliates for the purchase of inventory, equipment and other items through the Franchisor or its affiliates.

11.5 Credit Card. The Franchisor reserves the right, upon 30 days prior written notice to the Franchisee, to require the Franchisee to execute and deliver to the Franchisor a credit card payment authorization, a copy of which is attached hereto as Exhibit VI, authorizing the Franchisor to charge the credit card of the Franchisee for amounts owed to the Franchisor or its affiliates under this Agreement or related agreements including, without limitation, amounts owed for the purchase of merchandise, products or equipment from or through the Franchisor or its affiliates, Royalties, Advertising Contributions, interest and late charges and other fees and charges. The Franchisee shall at all times during the term of this Agreement maintain a minimum available credit limit in a dollar amount that the Franchisor shall designate from time to time based upon the dollar volume of purchases of inventory, outstanding balance and payment history and other factors determined by the Franchisor. The failure by the Franchisee to maintain a valid credit card with a credit limit designated by the Franchisor shall constitute a default under this Agreement. If a credit card payment authorization form is required by the Franchisor, within five days of receipt of a written request from the Franchisor, the Franchisee shall execute and return to the Franchisor an additional credit card payment authorization form with new credit card information or otherwise to ensure the credit card authorization form is current and valid.

12. ROYALTIES AND FEES

12.1 Monthly Royalty. The Franchisee agrees to pay to the Franchisor a monthly royalty ("**Royalty**") equal to 5% of the total amount of its "Gross Sales" (defined in Section 12.2 below),

generated from or through its SHEAR MADNESS Salon. The Franchisor shall determine the date that the Salon commences operation. The Franchisor reserves right to develop a different royalty schedule for new development not in place at the time this agreement is signed.

12.2 Gross Sales. “Gross Sales” shall mean and include the aggregate amount of all sales of products, services or merchandise of every kind or nature sold from, at or in connection with the operation of the Salon or arising out of the operation or conduct of business by the Salon, including sales made at or away from the Salon, whether for cash or credit, less returns for which refunds are made, provided that the refund shall not exceed the sales price but excluding all: (i) federal, state or municipal sales or service taxes collected from customers and paid to the appropriate taxing authority; (ii) discounts; and (iii) other exclusions as may be authorized in writing by the Franchisor. “Gross Sales” shall also include the fair market value of any products or services received by the Franchisee in barter or exchange for its services and products.

12.3 Royalty Payments. Royalty payments shall be made monthly and shall be sent to the Franchisor by electronic funds transfer or otherwise transmitted as the Franchisor may require no later than the 10th day of each month (“**Due Date**”). No later than 30 days prior to the opening of the Salon, the Franchisee shall execute an authorization agreement, a copy of which is attached hereto as Exhibit V, for preauthorized payment of Royalty payments and other payments owed by the Franchisee to the Franchisor or its affiliates by electronic transfer of funds from the Franchisee’s bank account to the Franchisor’s bank account. The Franchisor shall have the right to verify such Royalty payments from time to time as it deems necessary, in any reasonable manner.

12.4 Insufficient or Delinquent Payments. In the event that the Franchisee has insufficient funds in the account or otherwise fails to pay any Royalties as of the Due Date, the Franchisee shall, in addition to such Royalties, owe interest after the due date at the highest applicable legal rate for open account business credit, not to exceed 1.5% per month, plus a \$50 late payment charge shall be automatically assessed or debited along with the late debit or payment of Royalties. The Franchisee acknowledges that this Section 12.4 shall not constitute the Franchisor’s or its affiliates’ agreement to accept such payments after they are due or a commitment to extend credit to or otherwise finance operation of the Salon. The Franchisor also reserves the right to automatically assess and debit a \$50 late charge for any report and/or financial statement required under Article 16 below which is not timely filed by the Franchisee. Such late charge shall continue to accrue each month that said report(s) and financial statement(s) remain unfiled and shall be due and payable in full upon demand by the Franchisor or shall be debited from the account of the Franchisee. In the event such late charge(s) is/are not paid upon demand, the Franchisor may elect to pursue its remedies as further set forth in this Agreement. In no event shall the Franchisee be required to pay a late payment and/or interest at a rate greater than the maximum interest rate permitted by applicable law.

12.5 Application of Payments. Notwithstanding any designation by the Franchisee, the Franchisor shall have sole discretion to apply any payments by the Franchisee, and any credits received by the Franchisor on the Franchisee’s behalf from third party vendors, to any of Franchisee’s past due indebtedness to Franchisor for Royalties, Advertising Contributions, purchases from the Franchisor or its affiliates, interest or any other indebtedness. The Franchisee acknowledges that the Franchisor has the right to set-off any amounts the Franchisee may owe to the Franchisor against any amounts the Franchisor might owe to the Franchisee.

12.6 Electronic Funds Transfer. The Franchisee authorizes the Franchisor and its affiliates to initiate debit entries and credit correction entries to the Franchisee’s checking, savings or other

account for the payment of Royalties, Advertising Contributions, and any other amounts due from the Franchisee under this Agreement or otherwise. The Franchisor may require the Franchisee to pay Royalties, Advertising Contributions, and other amounts due under this Agreement or otherwise by means in addition to or other than electronic funds transfer including, without limitation, by pre-authorized credit card pursuant to Section 11.5 of this Agreement, and the Franchisee agrees to comply with the Franchisor's payment instructions.

13. ADVERTISING

13.1 Approval of Advertising. The Franchisee shall obtain the Franchisor's prior written approval of all written advertising or other marketing or promotional programs regarding the SHEAR MADNESS Salon, including, without limitation, "Yellow Pages" advertising, give-away promotions, newspaper ads, flyers, brochures, coupons, direct mail pieces, specialty and novelty items and radio and television advertising. The Franchisee shall also obtain the Franchisor's prior written approval before using any promotional materials as may be provided by vendors. The proposed written advertising or a description of the marketing or promotional program shall be submitted to the Franchisor at least 30 days prior to publication, broadcast or use. The Franchisee acknowledges that advertising and promoting the SHEAR MADNESS Salon in accordance with the Franchisor's standards and specifications is an essential aspect of the Licensed Methods, and the Franchisee agrees to comply with all advertising standards and specifications. The Franchisee shall display all required promotional materials, signs, point of purchase displays and other marketing materials in its SHEAR MADNESS Salon and in the manner prescribed by the Franchisor. The Franchisee shall participate in all promotional programs established by the Franchisor from time to time for all SHEAR MADNESS Salons and the Franchisor shall set the rules for and dates during which any such promotional program shall be implemented.

13.2 Advertising Contribution. The Franchisee shall contribute to an advertising fund established by the Franchisor ("**Advertising Fund**") 1% of the total amount of the Franchisee's monthly Gross Sales for the first, second and third years after commencement of operations of the Salon and 2% of the total amount of the Franchisee's monthly Gross Sales thereafter ("**Advertising Contribution**"). The Franchisor reserves the right, upon 30 days prior written notice to the Franchisee, to change the amount of the Advertising Contribution up to the maximum of 1% during the first three years and up to 2% thereafter, as applicable, of the Franchisee's monthly Gross Sales. The Advertising Contribution shall be paid to the Franchisor in addition to Royalties and in addition to and not in lieu of the local advertising expenditure; provided, however, the Franchisor reserves the right to off-set the amount of the Advertising Contribution against amounts paid to a Regional Advertising Group, described below. The following terms and conditions shall apply to the Advertising Contribution payment:

a. The Advertising Contribution shall be payable concurrently with and in the same manner as the payment of the Royalties, payable monthly no later than the 10th day of each month during the term. The Franchisee shall execute an authorization agreement for preauthorized payment of the Advertising Contribution payments by electronic transfer of funds.

b. The Advertising Contributions will be subject to the same interest and late charges as the Royalties, in an amount and manner set forth in Section 12.4 above.

c. Upon the request of the Franchisee, the Franchisor will make available to the Franchisee, no later than 120 days after the end of each fiscal year, an unaudited

financial statement which indicates how the Advertising Fund has been spent during the previous year.

d. The Franchisor shall direct all advertising and marketing programs financed by the Advertising Fund, with sole discretion over the creative concepts, materials and endorsements used therein, geographic, market and media placement and allocation, and the administration thereof. The Franchisee agrees that the Advertising Fund may be used to pay the costs of preparing and producing video and audio and written advertising materials, including direct mail; sponsoring radio programs and other media advertising; administering multi-regional advertising programs; employing advertising agencies and in-house staff to assist therewith; gift card and other customer loyalty programs; website, social media marketing, and other Electronic Advertising; and supporting public relations, market research and other advertising and marketing activities.

e. The Advertising Fund shall be accounted for separately from the Franchisor's other funds and shall not be used to defray any of the Franchisor's or its affiliate's general operating expenses, except for such reasonable administrative costs, salaries and overhead as the Franchisor or its affiliates may incur in activities related to the administration of the Advertising Fund and its marketing programs, including, without limitation, conducting market research, preparing material, incurring related accounting and legal expenses, collecting and accounting for Advertising Fund contributions. The Franchisor may spend in any fiscal year an amount greater or less than the aggregate contribution of all SHEAR MADNESS Salons to the Advertising Fund in that year and the Advertising Fund may borrow from the Franchisor or other lenders to cover deficits or cause the Advertising Fund to invest any surplus for future use. All interest earned on monies contributed to the Advertising Fund will be first used to pay costs. Any amounts remaining in the Advertising Fund at the end of each year accrue and will be applied toward the following year's expenses. The Advertising Fund may be incorporated or operated through an entity separate from the Franchisor at such time as the Franchisor deems appropriate, and such successor entity shall have all rights and duties of the Franchisor pursuant to this Section 13.2.

f. The Franchisee understands and acknowledges that the Advertising Fund is intended to maximize recognition of the Marks and patronage of SHEAR MADNESS Salons. Although the Franchisor will endeavor to utilize the Advertising Fund to develop advertising and marketing materials and programs and to place advertising that will benefit all SHEAR MADNESS Salons, the Franchisor undertakes no obligation to ensure that expenditures by the Advertising Fund in or affecting any geographic area are proportionate or equivalent to the contributions by SHEAR MADNESS Salons operating in that geographic area or that any SHEAR MADNESS Salon will benefit directly or in proportion to its contribution from the development of advertising and marketing materials or the placement of advertising. The Advertising Fund is not a trust fund, and the Franchisor does not owe the Franchisee a fiduciary duty with respect to the maintenance, direction, or administration of the Advertising Fund. Except as expressly provided in this Section 13.2, the Franchisor assumes no direct or indirect liability or obligation to the Franchisee with respect to the maintenance, direction or administration of the Advertising Fund.

g. The Franchisor reserves the right to terminate the Advertising Fund, upon 30 days' written notice to the Franchisee. All unspent monies on the date of termination

shall be distributed to the Franchisor's franchisees in proportion to their respective contributions to the Advertising Fund during the preceding 12-month period. The Franchisor shall have the right to reinstate the Advertising Fund upon the same terms and conditions set forth herein upon 30 days' prior written notice to the Franchisee.

13.3 Local Advertising. The Franchisee shall spend the greater of \$750 or 3% of monthly Gross Sales for the first, second and third years after the commencement of operations of the Salon on local advertising to create public awareness of the Franchisee's SHEAR MADNESS Salon. The local advertising amount will become 2% of monthly Gross Sales on the earlier of the fourth year or the month after the Franchisee's third Salon opens for business, provided that at least two other SHEAR MADNESS Salons are then operating in the same market, in the Franchisor's determination. The Franchisee will submit to the Franchisor a quarterly accounting of the amounts spent on local advertising within 15 days following the end of each calendar quarter. If the Franchisee's lease requires it to advertise locally, the Franchisor may, in its sole discretion, count such expenditures toward the Franchisee's local advertising expenditure required by this Section 13.3. The Franchisee shall obtain the Franchisor's prior written approval of all written advertising and promotional materials before publication.

13.4 Regional Advertising Programs. The Franchisor reserves the right, upon 30 days prior written notice to the Franchisee, to create a regional advertising association ("**Co-op**") for the benefit of SHEAR MADNESS franchisees located within a particular geographic area. If a Co-op is established for the area where the Franchisee is located, the Franchisee will be required to participate in the Co-op for the purpose of selecting and participating in regional marketing and promotion programs for SHEAR MADNESS Salons. The Franchisor shall have the right to require, in its sole discretion, that the Franchisee allocate all or a portion of the local advertising expenditure required by Section 13.3 above to the Co-op. The Franchisor may, in its sole discretion, allocate all or a portion of the Advertising Contribution to the Co-op. The Franchisee will be required to remain a member of and be bound by the decisions of the majority of the members of the Co-op regarding expenditures, assessments and dues of the Co-op, to the extent that they are approved by the Franchisor. The failure of the Franchisee to participate in the Co-op or pay any dues required by the Co-op, may, at the option of the Franchisor, be deemed to be a breach of this Agreement. The Franchisor has the right, in its sole discretion, to determine the composition of all geographic territories and market areas for the implementation of any regional advertising and promotion campaigns and to require that the Franchisee participate in such regional advertising programs as and when they may be established by the Franchisor. If a Co-op is implemented on behalf of a particular region by the Franchisor, the Franchisor, to the extent reasonably calculable, shall require that only contributions from SHEAR MADNESS franchisees within such region be redirected to the Co-op or for the particular regional advertising program. The Franchisor reserves the right to seek reimbursement from the Co-op for reasonable administrative costs, salaries and overhead as the Franchisor may incur in activities related to the implementation and administration of the Co-op and marketing programs. The Franchisor also reserves the right to establish an advertising cooperative for a particular region to enable the cooperative to self-administer the regional advertising program; provided that the Franchisor shall have the right to review and approve the governing documents of such a self-administering cooperative.

13.5 Electronic Advertising; Marketing Technology Fee. The Franchisee shall not develop, create, contribute to, distribute, disseminate or use any electronic or Internet communication, including website, social media or networking accounts, blogs, instant message services or any multimedia, telecommunications, mass electronic mail, facsimile or audio/visual advertising, promotional or marketing materials or other electronic communications methods ("**Electronic**

Advertising”), directly or indirectly related to or associated with the SHEAR MADNESS Salons, the Marks, the Licensed Methods, other franchisees, and the Franchisor, its employees and affiliates, without the Franchisor’s prior written consent, which consent may be withheld in the Franchisor’s sole discretion. The Franchisor shall retain the exclusive right to develop and control the content of all Electronic Advertising for the SHEAR MADNESS Salons. The Franchisee acknowledges that the Franchisor shall own all Electronic Advertising related to or associated with the Marks and Licensed Methods including, without limitation, databases of customer email addresses and other customer information. The Franchisor reserves the right, upon 30 days’ prior written notice, to require the Franchisee, to create, customize, change, delete or provide access to any websites, social media or networking accounts, telecommunications or audio/visual advertising, promotional or marketing material as part of the Electronic Advertising. If the Franchisor permits or requires the Franchisee to develop any Electronic Advertising, the Franchisee shall do so in compliance with the Franchisor’s policies and rules regarding the creation, maintenance, publication, use and content of such Electronic Advertising as set forth in this Agreement, the Operations Manual or Electronic Advertising code of conduct that the Franchisor may develop, disseminate and modify from time to time. Any amounts that the Franchisee spends to participate in Electronic Advertising shall be credited toward the Franchisee’s local advertising obligations. The Franchisee shall pay to the Franchisor a technology fee, in an amount that the Franchisor shall designate, for access to marketing and other marketing technology systems as the Franchisor may determine and provide from time to time. The Franchisor shall have the right to change the amount of the marketing technology fee and the services provided for such fee. The marketing technology fee shall be payable concurrently with and in the same manner as the payment of the Royalties, payable monthly no later than the 10th day of each month during the term.

13.6 Initial Promotional and Marketing Campaign. The Franchisee shall conduct an initial promotional and marketing campaign approved by the Franchisor or its designee for the SHEAR MADNESS Salon during the first two months after the Salon commences operation and shall spend a minimum dollar amount as set forth in Exhibit I for the initial promotion and marketing campaign. The Franchisee shall provide the Franchisor with a summary of the initial promotional and marketing campaign expenditures within 30 days of completion of the initial promotional and marketing campaign.

14. QUALITY CONTROL

14.1 Compliance with Operations Manual. The Franchisee shall maintain and operate the SHEAR MADNESS Salon in compliance with this Agreement and the standards and specifications contained in the Operations Manual, as the same may be modified from time to time by the Franchisor.

14.2 Standards and Specifications. The Franchisor will make available to the Franchisee standards and specifications for services and merchandise offered at or through the SHEAR MADNESS Salon and for the Franchised Location, displays, equipment, furniture, fixtures, inventory policies, employee attire, advertising and marketing materials, forms, items, supplies, services and other items used in connection with the Salon. The Franchisor reserves the right to change standards and specifications for services and merchandise offered at or through the SHEAR MADNESS Salon and for the Franchised Location, displays, equipment, furniture, fixtures, inventory policies, employee attire, advertising and marketing materials, forms, items, supplies, services and other items used in connection with the Salon, upon 30 days prior written notice to the Franchisee. The Franchisee shall, throughout the term of this Agreement, remain in

compliance and strictly adhere to all of the Franchisor's current standards and specifications for the SHEAR MADNESS Salon as prescribed from time to time.

14.3 Inspections. The Franchisor shall have the right to examine the Salon, including the services offered and the manner in which those services are provided, and the merchandise, equipment, furniture, fixtures, materials, supplies and services used or sold there to ensure compliance with all standards and specifications set by the Franchisor. The Franchisor shall conduct such inspections during regular business hours and the Franchisee may be present at such inspections. The Franchisor, however, reserves the right to conduct the inspections without prior notice to the Franchisee. During the inspections conducted by the Franchisor, the Franchisor shall have the right to: (i) videotape or take pictures of the Franchised Location; (ii) interview employees and customers of the Salon; (iii) take samples of products and items used or sold at the Salon for testing and analysis; (iv) make copies of books and records; and (v) require the Franchisee to immediately remove any unauthorized products or items from the Franchised Location. The Franchisor shall have the right to use such photographs and videotaped material in such a manner as it reasonably deems appropriate.

14.4 Restrictions on Services and Merchandise. The Franchisee is prohibited from offering or selling any type of services or merchandise not authorized by Franchisor as being a part of the Licensed Methods. If the Franchisee proposes to offer, conduct or utilize any services, merchandise, materials, forms, items or supplies for use in connection with or sale through the Salon that are not previously approved by the Franchisor as meeting its specifications, the Franchisee shall first notify the Franchisor in writing requesting approval. The Franchisor may, in its sole discretion, for any reason whatsoever, elect to withhold such approval; however, in order to make such determination, the Franchisor may require submission of specifications, information, or samples of such services, merchandise, materials, forms, items or supplies. The Franchisee shall pay and/or reimburse the Franchisor for the reasonable costs of investigation in determining whether such services, merchandise, materials, forms, items or supplies meet the Franchisor's specifications. The Franchisor will advise the Franchisee within a reasonable time whether such instructional methods, services, merchandise, materials, forms, items or supplies meet the Franchisor's specifications.

14.5 Approved Suppliers. The Franchisee shall purchase all services, merchandise, supplies, equipment, and materials required for the operation of the SHEAR MADNESS Salon from the Franchisor, from the Franchisor's affiliates, from suppliers designated or approved by the Franchisor or, if there is no designated or approved supplier for a particular service, item of merchandise, supply, piece of equipment, or material, from such other suppliers who meet all of the Franchisor's specifications and standards as to quality, composition, finish, appearance and service, and who shall adequately demonstrate their capacity and facilities to supply the Franchisee's needs in the quantities, at the times, and with the reliability requisite to an efficient operation of the SHEAR MADNESS Salon. The Franchisor reserves the right to designate from time to time, a single supplier for any products, equipment, materials, supplies or services and to require the Franchisee to use such designated supplier exclusively, which exclusive designated supplier may be the Franchisor or its affiliates. The Franchisor and its affiliates may receive payments from suppliers on account of such suppliers' dealings with the Franchisee and other franchisees and may use all such amounts without restriction and for any purpose the Franchisor and its affiliates deem appropriate (unless the Franchisor and its affiliates agree otherwise with the supplier).

14.6 Request to Approve Supplier. In the event the Franchisee desires to purchase or use merchandise, services, supplies or materials from suppliers other than those previously

approved by the Franchisor, the Franchisee shall, prior to purchasing from or otherwise utilizing any supplier give the Franchisor a written request to approve the supplier. In the event the Franchisor rejects the Franchisee's requested new supplier, the Franchisor must, within 30 days of the receipt of the Franchisee's request to approve the supplier notify the Franchisee in writing of its rejection. The Franchisor may continue from time to time to inspect any suppliers' facilities and products to assure compliance with the Franchisor's standards and specifications. Permission for such inspection shall be a condition of the continued approval of such supplier. The Franchisor may at its sole discretion, for any reason whatsoever, elect to withhold approval of the supplier; however, in order to make such determination, the Franchisor may require that samples from a proposed new supplier be delivered to the Franchisor for testing prior to approval and use. A charge not to exceed the reasonable cost of investigation may be made by the Franchisor and shall be paid by the Franchisee.

14.7 Shopping Service. The Franchisor reserves the right to use third party shopping services from time to time to evaluate the operation and quality of the Franchisee's SHEAR MADNESS Salon, including such things as customer relations, merchandise availability, customer service, quality of services rendered, cleanliness, and proper use of the Computer System. The Franchisor may use such shopping services to inspect the Franchisee's SHEAR MADNESS Salon at any time at the Franchisor's expense, without prior notification to the Franchisee. The Franchisor may but need not make the results of any such service evaluation available to the Franchisee, in the Franchisor's sole discretion.

15. MARKS, TRADE NAMES AND PROPRIETARY INTERESTS

15.1 Marks. The Franchisee acknowledges that the Franchisor has the right to license and control the Franchisee's use of the "SHEAR MADNESS" service mark and other of the Marks, and that such Marks shall remain under the ownership and control of the Franchisor. The Franchisee shall display the Marks prominently in the Salon premises and on furnishings and packaging materials and in connection with forms, advertising and marketing, all in a manner as the Franchisor shall reasonably prescribe. The Franchisee acknowledges that it has not acquired any right, title or interest in such Marks except for the right to use such marks in the operation of its SHEAR MADNESS Salon as it is governed by this Agreement. Except as permitted in the Operations Manual, the Franchisee shall not use any of the Marks as part of an electronic mail address, or on any sites on the Internet and the Franchisee shall not use or register any of the Marks as part of a domain name on the Internet.

15.2 No Use of Other Marks. The Franchisee agrees that no service mark other than "SHEAR MADNESS" or such other Marks as may be specified by the Franchisor shall be used in the identification, marketing, promotion or operation of the SHEAR MADNESS Salon.

15.3 Licensed Methods. The Franchisee acknowledges that the Franchisor owns and controls the distinctive plan for the establishment, operation and promotion of the SHEAR MADNESS Salon and all related licensed methods of doing business, previously defined as the "Licensed Methods", which include, but are not limited to, standards and specifications for the services and merchandise offered at or through the SHEAR MADNESS Salon; franchised site; premises; leasehold improvements; interior finish and décor; product formulas; inventory type and control; service delivery methods; technology systems; equipment specifications and capabilities; customer relations; marketing techniques; written promotional materials; advertising; and customized software, all of which constitute confidential trade secrets of the Franchisor, and the Franchisee acknowledges that the Franchisor has valuable rights in and to such trade secrets. The Franchisee acknowledges and agrees that it will promptly notify the Franchisor about any and all modifications or additions to the Licensed Methods developed by the Franchisee and that all such modifications or additions shall inure solely to the benefit of the Franchisor and may be adopted by the Franchisor and incorporated into the Licensed Methods without the Franchisor owing any compensation to the Franchisee. The Franchisee further acknowledges that it has not acquired any right, title or interest in the Licensed Methods except for the right to use the Licensed Methods in the operation of the SHEAR MADNESS Salon as it is governed by this Agreement and that it is obligated to maintain the confidentiality of the Licensed Methods in accordance with Section 21.3 below.

15.4 Mark Infringement. The Franchisee shall notify the Franchisor in writing of any possible infringement or illegal use by others of a trademark the same as or confusingly similar to the Marks which may come to its attention. The Franchisee acknowledges that the Franchisor shall have the right to determine, in its sole discretion, whether any action will be taken on account of any possible infringement or illegal use. The Franchisor may commence or prosecute such action in the Franchisor's own name and may join the Franchisee as a party to the action if the Franchisor determines it to be reasonably necessary for the continued protection and quality control of the Marks and Licensed Methods. The Franchisor shall bear the reasonable cost of any such action, including attorneys' fees. The Franchisee shall fully cooperate with the Franchisor in any such litigation.

15.5 Franchisee's Business Name. The Franchisee acknowledges that the Franchisor has a prior and superior claim to the "SHEAR MADNESS" trade name. The Franchisee shall not use

the word “SHEAR MADNESS” in the legal name of its corporation, partnership, limited liability company, or any other business entity used in conducting the business provided for in this Agreement. The Franchisee also agrees not to register or attempt to register a trade name or domain name using the word “SHEAR MADNESS” in the Franchisee’s name or that of any other person or business entity, without prior written consent of the Franchisor. The Franchisee shall not identify itself as being “SHEAR MADNESS FRANCHISING, LLC,” “SHEAR MADNESS” or as being associated with the Franchisor in any manner other than as a franchisee or licensee. The Franchisee further agrees that in all advertising and promotion and promotional materials it will display its business name only in obvious conjunction with the phrase “SHEAR MADNESS Franchisee” or with such other words and in such other phrases to identify itself as an independent owner of the SHEAR MADNESS Salon, as may from time to time be prescribed in the Operations Manual.

15.6 Change of Marks and Licensed Methods. The Franchisor may in its sole discretion, discontinue, change, modify or alter the Marks and the Licensed Methods by among other things, adopting or developing new trademarks, trade names, service marks, copyrighted materials, new services or products, new furnishings, equipment, new signage or new operational techniques (“**Alterations**”). If the Franchisor shall make any Alterations to the Marks or Licensed Methods, the Franchisee shall, within a reasonable time after receipt of written notice of such Alteration from the Franchisor, take such action, at the Franchisee’s sole expense, as may be necessary to comply with such required Alteration. The Franchisee shall not unilaterally change, alter or modify the Marks or Licensed Methods in any way without the Franchisor’s prior written consent which may be withheld in the Franchisor’s sole discretion. The Franchisee’s approved changes or improvements to the Licensed Methods or the Marks shall inure to the exclusive benefit of the Franchisor.

15.7 Creative Ownership. All copyrightable works created by the Franchisee or any of its owners, officers or employees in connection with the Salon shall be the sole property of the Franchisor. The Franchisee assigns all proprietary rights, including copyrights, in these works to the Franchisor without additional consideration. The Franchisee hereby assigns and will execute such additional assignments or documentation to effectuate the assignment of all intellectual property, inventions, copyrights, trademarks and trade secrets developed in part or in whole in relation to the Salon, during the term of this Agreement, as the Franchisor may deem necessary in order to enable it, at its expense, to apply for, prosecute and obtain copyrights, trademarks, patents or other proprietary rights in the United States and in foreign countries or in order to transfer to the Franchisor all right, title, and interest in said property. The Franchisee shall promptly disclose to the Franchisor all inventions, discoveries, improvements, creations, patents, copyrights, trademarks and confidential information relating to the Salon which it or any of its owners, officers or employees has made or may make solely, jointly or commonly with others and shall promptly create a written record of the same. In addition to the foregoing, the Franchisee acknowledges and agrees that any improvements or modifications, whether or not copyrightable, directly or indirectly related to the Salon, shall be deemed to be a part of the Licensed Methods and shall inure to the benefit of the Franchisor.

15.8 Alterations for Protection of Marks and Licensed Methods. The Franchisor may, in its sole discretion but with reasonable notice to the Franchisee, enter into the Franchised Location to make any Alterations required for the protection of the Marks and Licensed Methods.

16. REPORTS, RECORDS AND FINANCIAL STATEMENTS

16.1 Franchisee Reports. The Franchisee shall establish and maintain, at its own expense, bookkeeping, accounting and data processing systems which conform to the specifications which the Franchisor may prescribe from time to time. Each transaction of the Salon shall be processed in the manner prescribed by the Franchisor. The Franchisor shall have the right of access to all data with respect to the Salon. The Franchisee shall provide access to the data to the Franchisor by joining and paying for a high-speed electronic network connection service which meets the Franchisor's standards and specifications. The Franchisee shall supply to the Franchisor such types of reports in a manner and form as the Franchisor may from time to time reasonably require, including:

a. Monthly summary reports in a form prescribed by the Franchisor, delivered electronically no later than the 10th day of each month or otherwise transmitted as the Franchisor may designate and containing information relative to the previous month's sales, operations and advertising and marketing;

b. Financial statements, prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP"), and consisting of a quarterly profit and loss statement and balance sheet for the SHEAR MADNESS Salon, mailed to the Franchisor postmarked no later than the 10th day of the month or electronically transmitted no later than the 10th day of each month after the end of each of the Franchisee's fiscal quarters, based on operating results of the quarter, which will be submitted in a form approved by the Franchisor;

c. The Franchisee will, within 120 days after the end of its fiscal year, provide to the Franchisor annual unaudited financial statements, compiled or reviewed by an independent certified public accountant in good standing and prepared in accordance with GAAP. The Franchisee shall, within 10 days after they are filed, provide copies of state and federal income tax returns, sales tax returns and other tax returns; and

d. The Franchisee shall also provide copies of all other reports, financial statements and records reasonably requested by the Franchisor.

The Franchisor reserves the right to disclose data derived from such reports, without identifying the Franchisee, except to the extent identification of the Franchisee is required by law. The Franchisee consents to the Franchisor obtaining financial and account information regarding the Salon and its operations from third parties with whom the Franchisee does business, as and when deemed necessary by the Franchisor.

16.2 Verification. Each report and financial statement to be submitted to the Franchisor pursuant to this Agreement shall be signed manually or electronically, as the case may be, and verified by the Franchisee.

16.3 Books and Records. The Franchisee shall maintain all books and records for its SHEAR MADNESS Salon in accordance with GAAP, consistently applied, and in a manner as reasonably prescribed by the Franchisor and shall preserve these records for at least five years after the fiscal year to which they relate.

16.4 Audit of Books and Records. The Franchisee shall permit the Franchisor to inspect and audit the books and records of the SHEAR MADNESS Salon at any reasonable time, at the Franchisor's expense. If any audit discloses a deficiency in amounts for payments owed to the Franchisor pursuant to this Agreement, then such amounts shall become immediately payable to

the Franchisor by the Franchisee, with interest from the date such payments were due at the lesser of 1.5% per month or the maximum rate allowed by law. In the event such inspection or audit is made necessary by the Franchisee's failure to furnish required reports, supporting records or other information, or to furnish such information on a timely basis for two or more consecutive reporting periods, or if the Franchisee has received advance notice from the Franchisor and fails to have the books and records available for such audit or otherwise fails to cooperate therewith, or it is discovered during the audit that the Franchisee has underpaid Royalties, Advertising Contributions or other fees by more than 2%, the Franchisee shall reimburse the Franchisor for the cost of such audit or inspection, including, without limitation, the charges of attorneys and any independent accountants and the travel expenses, room and board and compensation of the Franchisor's employees.

16.5 Failure to Comply with Reporting Requirements. If the Franchisee fails to prepare and submit any statement or report as required under this Article 16, then the Franchisor shall have the right to treat the Franchisee's failure as good cause for termination of this Agreement.

17. TRANSFER

17.1 Transfer by Franchisee. The franchise granted herein is personal to the Franchisee and, except as stated below, the Franchisor shall not allow or permit any transfer, assignment, sub franchise or conveyance of this Agreement or any interest hereunder. The Franchisee acknowledges that prior to approving any transfer, the Franchisor may impose reasonable conditions on the Franchisee and its purported transferee including, but not limited to, those conditions listed in Section 17.2. As used in this Agreement, the term "transfer" shall mean and include the voluntary, involuntary, direct or indirect assignment, sale, gift or other disposition by the Franchisee (or any of its owners) of any interest in: (1) this Agreement; (2) the ownership of the Franchisee; or (3) the Salon or any assets of the Salon. A "transfer" shall also include a transfer resulting from a divorce, insolvency, corporate, limited liability company, or partnership dissolution proceeding, merger or otherwise by operation of law or, in the event of the death of the Franchisee, or an owner of the Franchisee by will, declaration of or transfer in trust or under the laws of intestate succession.

17.2 Pre-Conditions to Franchisee's Transfer. The Franchisee shall not engage in a transfer, as defined above, unless the Franchisee obtains the Franchisor's written consent and complies with the following requirements:

a. Payment of all amounts due and owing pursuant to this Agreement by the Franchisee to the Franchisor or its affiliates or to third parties holding a security interest in any asset of the franchised business;

b. Agreement by the proposed transferee to satisfactorily complete the initial training program described in this Agreement, which training may be completed by the transferee either prior to or immediately after the closing of the transfer as determined by the Franchisor;

c. Execution by transferee of a Franchise Agreement in a form then currently offered by the Franchisor, which shall supersede this Agreement in all respects. If a new Franchise Agreement is signed, the terms thereof may differ from the terms of this Agreement; provided, however, the transferee will not be required to pay any additional initial franchise fee;

d. Provision by the Franchisee of written notice to the Franchisor 30 days' prior to the proposed effective date of the transfer, such notice to contain information reasonably detailed to enable the Franchisor to evaluate the terms and conditions of the proposed transfer;

e. The proposed transferee shall have provided information to the Franchisor sufficient for the Franchisor to assess the proposed transferee's business experience, aptitude and financial qualification, and the Franchisor shall have ascertained that the proposed transferee meets such qualifications;

f. Execution by Franchisee of a general release, in a form satisfactory to the Franchisor, of any and all claims against the Franchisor, its affiliates and their respective officers, directors, employees and agents;

g. Payment by the Franchisee or the proposed transferee equal to the greater of \$5,000 or 20% of Franchisor's then current initial franchise fee for the establishment of a first SHEAR MADNESS Salon franchise plus \$5,000 for the transfer of each development right under a Development Agreement; and

h. Agreement by the Franchisee to abide by the post-termination covenant not to compete set forth in Section 21.2 below.

17.3 Franchisor's Approval of Transfer. The Franchisor has 30 days from the date of the written notice of the proposed transfer to approve or disapprove in writing, of the Franchisee's proposed transfer. The Franchisee acknowledges that the proposed transferee shall be evaluated for approval by the Franchisor based on the same criteria as is currently being used to assess new franchisees of the Franchisor and that such proposed transferee shall be provided, if appropriate, with such disclosures as may be required by state or federal law. The Franchisor shall have the right to approve the material terms and conditions of the transfer, including, without limitation, the right to confirm that the price and terms of payment are not so burdensome as to affect adversely the transferee's operation of the Salon. If the Franchisee (and/or the transferring owners) finance any part of the sale price of the transferred interest, if any, unless waived in writing by the Franchisor, the Franchisee and/or its owners must agree that all obligations of the transferee under or pursuant to any promissory notes, agreements or security interests reserved by the Franchisee or its owners in the assets of the Salon or the Franchised Location shall be subordinate to the transferee's obligations to pay Royalty fees, Advertising Contributions and other amounts due to the Franchisor and its affiliates and to otherwise comply with this Agreement. Additionally, the Franchisor shall have the right to interview the proposed transferee as part of the Franchisor's approval process and the Franchisee agrees that the Franchisor shall have the right to discuss matters related to the performance of the Franchised Location with such proposed transferee. If the Franchisee and the proposed transferee comply with all conditions for transfer set forth herein and the Franchisor has not given the Franchisee notice of its approval or disapproval within the 30 day period, approval is deemed granted. The Franchisor's approval of any transfer shall not constitute approval for any subsequent transfer or a waiver of any of the Franchisor's rights under this Article 17.

17.4 Right of First Refusal. In the event the Franchisee wishes to engage in a transfer, the Franchisee agrees to grant to the Franchisor a 30-day right of first refusal to purchase such rights, interest or assets on the same terms and conditions as are contained in the written offer to purchase submitted to the Franchisee by the proposed purchaser; provided, however, the following additional terms and conditions shall apply:

- a. The Franchisee shall notify the Franchisor of such offer by sending a written notice to the Franchisor (which notice may be the same notice as required by Section 17.2.d above), enclosing a copy of the written offer from the proposed transferee;
- b. The 30-day right of first refusal period will commence concurrently with the period in which the Franchisor has to approve or disapprove the proposed transferee;
- c. Such right of first refusal is effective for each proposed transfer and any material change in the terms or conditions of the proposed transfer shall be deemed a separate offer on which a new 30-day right of first refusal shall be given to the Franchisor;
- d. If the consideration or manner of payment offered by a third party is such that the Franchisor may not reasonably be required to furnish the same, then the Franchisor may purchase the interest which is proposed to be sold for the reasonable cash equivalent. If the parties cannot agree within a reasonable time on the cash consideration, each of the Franchisor and the Franchisee shall designate an independent appraiser who, in turn, shall designate a third independent appraiser. The third appraiser's determination will be binding upon the parties. All expenses of the third appraiser shall be paid for equally between the Franchisor and the Franchisee;
- e. If the Franchisor chooses not to exercise its right of first refusal, the Franchisee shall be free to complete the transfer, subject to compliance with Sections 17.2 and 17.3 above. Absence of a reply to the Franchisee's notice of a proposed transfer within the 30-day period is deemed a waiver of such right of first refusal; and
- f. The Franchisor shall have the right to assign its right of first refusal to another party including, but not
- g. limited to, any affiliate or other franchisee of the Franchisor.

17.5 Specific Types of Transfers. The Franchisee acknowledges that the Franchisor's right to approve or disapprove of a proposed transfer, and all other requirements and rights related to such proposed transfer, as provided for above, shall apply (1) if the Franchisee is a partnership or other business association, to the addition or deletion of a partner or members of the association or the transfer of any partnership or membership interest among existing partners or members; (2) if the Franchisee is a corporation or limited liability company, to any proposed transfer of 25% or more of the ownership interests of the Franchisee, whether such transfer occurs in a single transaction or several transactions; and (3) if the Franchisee is an individual, to the transfer from such individual or individuals to a corporation or limited liability company owned by them, in which case the Franchisor's approval will be conditioned upon: (i) the continuing personal guarantee of the individual (or individuals) for the performance of obligations under this Agreement; (ii) the issuance and/or transfer of ownership interests which would affect a change in ownership of 25% or more of the ownership interest in the company being conditioned on the Franchisor's prior written approval; (iii) a limitation on the company's business activity to that of operating the SHEAR MADNESS Salon and related activities; and (iv) other reasonable conditions. With respect to a proposed transfer as described in subsection (3) of this Section, the Franchisor's right of first refusal to purchase, as set forth above, shall not apply and the Franchisor will waive any transfer fee chargeable to the Franchisee for a transfer under these circumstances.

17.6 Assignment by the Franchisor. This Agreement is fully assignable by the Franchisor and shall inure to the benefit of any assignee or other legal successor in interest, and the Franchisor shall in such event be fully released from the same.

17.7 Franchisee's Death or Disability. Upon the death or permanent disability of the Franchisee (or the individual controlling the Franchisee entity), the executor, administrator, conservator, guardian or other personal representative of such person shall transfer the Franchisee's interest in this Agreement or such interest in the Franchisee entity to an approved third party. Such disposition of this Agreement or such interest (including, without limitation, transfer by bequest or inheritance) shall be completed within a reasonable time, not to exceed 180 days from the date of death or permanent disability and shall be subject to all terms and conditions applicable to transfers contained in this Article 17. Provided, however, that for purposes of this Section 17.7, there shall be no transfer fee charged by the Franchisor. Failure to transfer the interest in this Agreement or such interest in the Franchisee entity within said period of time shall constitute a breach of this Agreement. For the purposes hereof, the term "permanent disability" shall mean a mental or physical disability, impairment or condition that is reasonably expected to prevent or actually does prevent the Franchisee or the owner of a controlling interest in the Franchisee entity from supervising the management and operation of the SHEAR MADNESS Salon for a period of 120 days from the onset of such disability, impairment or condition.

18. TERM AND EXPIRATION

18.1 Term. The term of this Agreement is for a period of 10 years from the date of this Agreement, unless sooner terminated as provided herein.

18.2 Continuation. If, for any reason, the Franchisee continues to operate the Salon beyond the term of this Agreement or any subsequent renewal period, it shall be deemed to be on a month-to-month basis under the terms of this Agreement and subject to termination upon 30 days' notice or as required by law. If said holdover period exceeds 90 days, this Agreement is subject to immediate termination unless applicable law requires a longer period. Upon termination after any holdover period, the Franchisee and those in active concert with the Franchisee, including family members, officers, directors, partners and managing agents, are subject to the terms of Articles 19 and 21 and Section 20.3 of this Agreement and all other applicable post-termination obligations contained in this Agreement.

18.3 Rights Upon Expiration. At the end of the initial term hereof the Franchisee shall have the option to renew its franchise rights for an additional term, by acquiring successor franchise rights, if the Franchisor does not exercise its right not to offer a successor franchise in accordance with Section 18.5 below and if the Franchisee:

a. At least 30 days prior to expiration of the term, executes the form of Franchise Agreement then in use by the Franchisor;

b. Has been in "substantial compliance" with all provisions of this Agreement during the current term of the Agreement, including the payment on a timely basis of all Royalties and other fees due hereunder and is then in compliance with the Agreement at the time of renewal. "Substantial compliance" during the term shall mean, at a minimum, that the Franchisee has not received any written notification from the Franchisor of breach hereunder more than three times during the term hereof;

c. Upgrades and/or remodels the SHEAR MADNESS Salon and its operations at the Franchisee's sole expense (the necessity of which shall be in the sole discretion of the Franchisor) to conform with the then current Operations Manual;

d. Executes a general release, in a form satisfactory to the Franchisor, of any and all claims against the Franchisor and its affiliates, and their respective officers, directors, employees and agents arising out of or relating to this Agreement; and

e. Pays a successor franchise fee of the greater of \$5,000 or 20% of the then current initial franchise fee for a single (first) franchise.

18.4 Exercise of Option for Successor Franchise. The Franchisee may exercise its option for a successor franchise by giving written notice of such exercise to the Franchisor not later than 180 days prior to the scheduled expiration of this Agreement. The Franchisee's successor franchise rights shall become effective by signing the Franchise Agreement then currently being offered to new franchisees of the Franchisor. The terms of the then current franchise agreement shall govern the renewal terms except that the Franchisee will not have to pay another initial franchise fee.

18.5 Conditions of Refusal. The Franchisor shall not be obligated to offer the Franchisee a successor franchise upon the expiration of this Agreement if the Franchisee fails to comply with any of the above conditions of renewal. In such event the Franchisor shall give the Franchisee notice of expiration at least 180 days prior to the expiration of the term (unless such refusal is due to the Franchisee's failure to comply with Section 18.3, subsections a, c, d, or e; thereof, later than that time), and such notice shall set forth the reasons for such refusal to offer successor franchise rights. Upon the expiration of this Agreement, the Franchisee shall comply with the provisions of Section 19.4 below.

19. DEFAULT AND TERMINATION

19.1 Termination by Franchisor - Effective Upon Notice. The Franchisor shall have the right, at its option, to terminate this Agreement and all rights granted the Franchisee hereunder, without affording the Franchisee any opportunity to cure any default (subject to any state laws to the contrary, where state law shall prevail), effective upon receipt of notice by the Franchisee, addressed as provided in Section 25.11, upon the occurrence of any of the following events:

a. Abandonment. If the Franchisee ceases to operate the SHEAR MADNESS Salon or otherwise abandons the SHEAR MADNESS Salon for a period of five consecutive days, or any shorter period that indicates an intent by the Franchisee to discontinue operation of the SHEAR MADNESS Salon, unless and only to the extent that full operation of the SHEAR MADNESS Salon is suspended or terminated due to fire, flood, earthquake or other similar causes beyond the Franchisee's control and not related to the availability of funds to the Franchisee;

b. Insolvency; Assignments. If the Franchisee becomes insolvent or is adjudicated a bankrupt; or any action is taken by the Franchisee, or by others against the Franchisee under any insolvency, bankruptcy or reorganization act, (this provision may not be enforceable under federal bankruptcy law, 11 U.S.C. §§ 101 et seq.), or if the Franchisee makes an assignment for the benefit of creditors, or a receiver is appointed by the Franchisee;

c. **Unsatisfied Judgments; Levy; Foreclosure.** If any material judgment (or several judgments which in the aggregate are material) is obtained against the Franchisee and remains unsatisfied or of record for 30 days or longer (unless a supersedeas or other appeal bond has been filed); or if execution is levied against the Franchisee's business or any of the property used in the operation of the SHEAR MADNESS Salon and is not discharged within five days; or if the real or personal property of the Franchisee's business shall be sold after levy thereupon by any sheriff, marshal or constable;

d. **Criminal Conviction.** If the Franchisee is convicted of a felony, a crime involving moral turpitude, or any crime or offense that is reasonably likely, in the sole opinion of the Franchisor, to materially and unfavorably affect the Licensed Methods, Marks, goodwill or reputation thereof;

e. **Failure to Make Payments.** If the Franchisee fails to pay any amounts due the Franchisor or affiliates, including any amounts which may be due as a result of any merchandise purchases by the Franchisee from or through the Franchisor or its affiliates, within 10 days after notice that such fees or amounts are overdue;

f. **Misuse of Marks.** If the Franchisee misuses or fails to follow the Franchisor's directions and guidelines concerning use of the Franchisor's Marks and fails to correct the misuse or failure within 10 days after notification from the Franchisor;

g. **Unauthorized Disclosure.** If the Franchisee intentionally or negligently discloses to any unauthorized person the contents of, or any part of, the Franchisor's Operations Manual or any other trade secrets or confidential information of the Franchisor;

h. **Repeated Noncompliance.** If the Franchisee has received two previous notices of default from the Franchisor and is again in default of this Agreement within a 12-month period, regardless of whether the previous defaults were cured by the Franchisee; or

i. **Unauthorized Transfer.** If the Franchisee transfers the franchise, an interest in the Franchise or the Franchisee entity, this Agreement, the SHEAR MADNESS Salon or a substantial portion of the assets of the SHEAR MADNESS Salon owned by the Franchisee without complying with the provisions of Article 17 above.

19.2 **Termination by Franchisor - Thirty Days' Notice.** The Franchisor shall have the right to terminate this Agreement (subject to any state laws to the contrary, where state law shall prevail), effective upon 30 days' written notice to the Franchisee, if the Franchisee breaches any other provision of this Agreement and fails to cure the default during such 30-day period. In that event, this Agreement will terminate without further notice to the Franchisee, effective upon expiration of the 30-day period. Defaults shall include, but not be limited to, the following:

a. **Failure to Maintain Standards.** The Franchisee fails to maintain the then current operating procedures and adhere to the specifications and standards established by the Franchisor as set forth herein or in the Operations Manual or otherwise communicated to the Franchisee;

b. **Deceptive Practices.** The Franchisee engages in any unauthorized business or practice or sells any unauthorized products or services under the Franchisor's Marks or under a name or mark which is confusingly similar to the Franchisor's Marks;

c. Failure to Obtain Consent. The Franchisee fails, refuses or neglects to obtain the Franchisor's prior written approval or consent as required by this Agreement;

d. Failure to Comply with Manual. The Franchisee fails or refuses to comply with the then-current requirements of the Operations Manual; or

e. Breach of Related Agreement. The Franchisee defaults under any term of the lease, any sublease or lease assignment for the Franchised Location, any product supply agreement, or any other agreement material to the SHEAR MADNESS Salon or any other Franchise Agreement, Development Agreement or other agreement of any kind between the Franchisor or its affiliates and the Franchisee and such default is not cured within the time specified in such lease, sublease, product supply agreement, other agreement, contract or other Franchise Agreement.

Notwithstanding the foregoing, if the breach is curable, but is of a nature which cannot be reasonably cured within such 30-day period and the Franchisee has commenced and is continuing to make good faith efforts to cure the breach during such 30-day period, the Franchisee shall be given an additional reasonable period of time, but not more than 90 days to cure the same, and this Agreement shall not automatically terminate without written notice from the Franchisor.

19.3 Right to Purchase. Upon termination or expiration of this Agreement for any reason, the Franchisor shall have the option to purchase the SHEAR MADNESS Salon or a portion of the assets of the Salon, which may include, at the Franchisor's option, all of the Franchisee's interest, if any, in and to the real estate upon which the SHEAR MADNESS Salon is located, and all buildings and other improvements thereon, including leasehold interests, at fair market value, less any amount apportioned to the goodwill of the SHEAR MADNESS Salon which is attributable to the Franchisor's Marks and Licensed Methods, and less any amounts owed to the Franchisor by the Franchisee. The following additional terms shall apply to the Franchisor's exercise of this option:

a. The Franchisor's option hereunder shall be exercisable by providing the Franchisee with written notice of its intention to exercise the option given to the Franchisee no later than the effective date of termination, in the case of termination, or at least 90 days prior to the expiration of the term of the franchise, in the case of non renewal.

b. The Franchisor shall set the closing for the purchase of the SHEAR MADNESS Salon to take place no later than 60 days after the termination or nonrenewal date. The Franchisor will pay the purchase price in full at the closing, or, at its option, in 12 equal consecutive monthly installments with interest at a rate of 7% per annum. The Franchisee must sign all documents of assignment and transfer as are reasonably necessary for purchase of the SHEAR MADNESS Salon or its assets by the Franchisor.

c. During the time after the Franchisor notifies the Franchisee of the exercise of the option but before the closing, the Franchisor has the right to obtain an independent appraisal of the fair market value of the assets being purchased and, if the Franchisor chooses to obtain an appraisal, each of the Franchisor and the Franchisee shall designate an independent appraiser who, in turn, shall designate a third independent appraiser. The third appraiser's determination will be binding on both parties. All expenses of the third appraiser shall be paid for by the Franchisor.

In the event that the Franchisor does not exercise the Franchisor's right to purchase the Franchisee's SHEAR MADNESS Salon as set forth above, the Franchisee will be free to keep or to sell, after such termination or expiration, to any third party, all of the physical assets of its SHEAR MADNESS Salon; provided, however, that all appearances of the Marks are first removed in a manner approved in writing by the Franchisor.

19.4 Obligations of Franchisee Upon Termination or Expiration. The Franchisee is obligated upon termination or expiration of this Agreement to immediately:

a. Pay to the Franchisor all Royalties, Advertising Contributions, other fees, and any and all amounts or accounts payable then owed the Franchisor or its affiliates pursuant to this Agreement, or pursuant to any other agreement, whether written or oral, including leases, between the parties;

b. Cease to identify itself as a SHEAR MADNESS franchisee or publicly identify itself as a former franchisee or use any of the Franchisor's trade secrets, signs, symbols, devices, trade names, trademarks, or other materials;

c. Immediately cease to identify the Franchised Location as being, or having been, associated with the Franchisor and, if deemed necessary by the Franchisor, paint or otherwise change the interior and exterior of the Salon to distinguish it from a SHEAR MADNESS Salon and immediately cease using any proprietary mark of the Franchisor or any mark in any way associated with the SHEAR MADNESS Marks and Licensed Methods;

d. Deliver to the Franchisor all signs, sign-faces, advertising materials, forms and other materials bearing any of the Marks or otherwise identified with the Franchisor and obtained by and in connection with this Agreement;

e. Immediately deliver to the Franchisor the Operations Manual and all other information, software, documents and copies thereof which are proprietary to the Franchisor;

f. Submit to the Franchisor all copies of the Salon customer list and all related customer information;

g. Promptly take such action as may be required to cancel all fictitious or assumed names or equivalent registrations relating to its use of any Marks which are under the exclusive control of the Franchisor or, at the option of the Franchisor, assign the same to the Franchisor;

h. Notify the telephone company and all telephone directory publishers of the termination or expiration of the Franchisee's right to use any telephone number and any regular, classified or other telephone directory listings associated with any Mark and to authorize transfer thereof to the Franchisor or its designee. The Franchisee acknowledges that, as between the Franchisee and the Franchisor, the Franchisor has the sole rights to and interest in all telephone, teletype or facsimile machine numbers and directory listings associated with any Mark. The Franchisee authorizes the Franchisor, and hereby appoints the Franchisor and any of its officers as the Franchisee's attorney-in-fact, to direct the telephone company and all telephone directory publishers to transfer any telephone, teletype or facsimile machine numbers and directory listings relating to the SHEAR MADNESS Salon to the Franchisor or its designee, should the Franchisee fail or

refuse to do so, and the telephone company and all telephone directory publishers may accept such direction or this Agreement as conclusive evidence of the Franchisor's exclusive rights in such telephone numbers and directory listings and the Franchisor's authority to direct their transfer;

i. If applicable, take such action as may be required to remove from the Internet all sites referring to the Franchisee's former Salon or any of the Marks and to cancel or assign to the Franchisor, in the Franchisor's sole discretion, all rights to any domain names for any sites on the Internet that refer to the Franchisee's former SHEAR MADNESS Salon or any of the Marks; and

j. Abide by all restrictive covenants set forth in Article 21 of this Agreement.

19.5 Acknowledgement. In the event this Agreement is terminated by the Franchisor prior to its expiration as set forth in Sections 19.1 and 19.2 above, the Franchisee acknowledges and agrees that, in addition to all other available remedies, the Franchisor shall have the right to recover lost future Royalties during any period in which the Franchisee fails to pay such Royalties through and including the remainder of the then current term of this Agreement.

19.6 State and Federal Law. **THE PARTIES ACKNOWLEDGE THAT IN THE EVENT THAT THE TERMS OF THIS AGREEMENT REGARDING TERMINATION OR EXPIRATION ARE INCONSISTENT WITH APPLICABLE STATE OR FEDERAL LAW, SUCH LAW SHALL GOVERN THE FRANCHISEE'S RIGHTS REGARDING TERMINATION OR EXPIRATION OF THIS AGREEMENT.**

20. BUSINESS RELATIONSHIP

20.1 Independent Businesspersons. The parties agree that they each are independent businesspersons; their only relationship is by virtue of this Agreement and that no fiduciary relationship is created hereunder. Neither party is liable or responsible for the other's debts or obligations, nor shall either party be obligated for any damages to any person or property directly or indirectly arising out of the operation of the other party's business authorized by or conducted pursuant to this Agreement. The Franchisor and the Franchisee agree that neither of them will hold themselves out to be the agent, employer or partner of the other and that neither of them has the authority to bind nor incur liability on behalf of the other.

20.2 Payment of Third Party Obligations. The Franchisor shall have no liability for the Franchisee's obligations to pay any third parties, including without limitation, banks, other lenders, government agencies, any product vendors, or any sales, use, service, occupation, excise, gross receipts, income, property or other tax levied upon the Franchisee, the Franchisee's property, the SHEAR MADNESS Salon or upon the Franchisor in connection with the sales made or business conducted by the Franchisee (except any taxes the Franchisor is required by law to collect from the Franchisee with respect to purchases from the Franchisor).

20.3 Indemnification. The Franchisee shall indemnify, defend and hold harmless the Franchisor, its subsidiaries, parents and affiliates, and their respective shareholders, directors, officers, members, managers, employees, agents, successors and assigns, (the "Indemnified Parties") against, and to reimburse them for all claims, obligations and damages described in this Section 20.3, any and all third party obligations described in Section 20.2 and any and all claims

and liabilities directly or indirectly arising out of the operation of the SHEAR MADNESS Salon or provision of customer instruction or arising out of the use of the Marks and

20.4 Licensed Methods in any manner not in accordance with this Agreement. For purposes of this indemnification, “claims” shall mean and include all obligations, actual and consequential damages and costs reasonably incurred in the defense of any claim against the Indemnified Parties, including, without limitation, reasonable accountants’, attorneys’ and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses. The Franchisor shall have the right to defend any such claim against it. This indemnity shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

21. RESTRICTIVE COVENANTS

21.1 Non-Competition During Term. The Franchisee acknowledges that, in addition to the license of the Marks hereunder, the Franchisor has also licensed commercially valuable information which comprises and is a part of the Licensed Methods, including without limitation, supply, operations, marketing, advertising and related information and materials and that the value of this information derives not only from the time, effort and money which went into its compilation, but from the usage of the same by all the franchisees of the Franchisor using the Marks and Licensed Methods. The Franchisee therefore agrees that, other than the SHEAR MADNESS Salon licensed herein or authorized by separate agreement with the Franchisor, neither the Franchisee nor any of the Franchisee’s officers, directors, members, managers, shareholders or partners, nor any member of his or their immediate families, shall during the term of this Agreement:

- a. have any direct or indirect controlling interest as a disclosed or beneficial owner in a “Competitive Business” as defined below;
- b. perform services as a director, officer, member, manager, employee, consultant, representative, agent or otherwise for a Competitive Business; or
- c. divert or attempt to divert any business related to, or any customer or account of the SHEAR MADNESS Salon, the Franchisor’s business or any other SHEAR MADNESS franchisee’s business, by direct inducement or otherwise, or divert or attempt to divert the employment of any employee of the Franchisor, its affiliate SHEAR MADNESS, Inc., any other affiliates, or another franchisee licensed by the Franchisor to use the Marks and Licensed Methods, to any Competitive Business by any direct inducement or otherwise.

The term “Competitive Business” as used in this Agreement shall mean any business operating, or any business granting franchises or licenses to others to operate, (1) a salon or other business that provides haircuts, manicures and/or pedicures or (2) a business that derives more than 10% of its gross sales from the sale of hair care products and accessories and/or toys. Notwithstanding the foregoing, the Franchisee shall not be prohibited from owning securities in a Competitive Business if such securities are listed on a stock exchange or traded on the over-the-counter market and represent 5% or less of that class of securities issued and outstanding.

21.2 Post-Termination Covenant Not to Compete. Upon termination or expiration of this Agreement for any reason, the Franchisee and its officers, directors, members, managers, shareholders, and/or partners agree that, for a period of two years commencing on the effective

date of termination or expiration, or the date on which the Franchisee ceases to conduct business, whichever is later, neither Franchisee nor its officers, directors, shareholders, and/or partners shall have any direct or indirect interest (through a member of any immediate family of the Franchisee or its Owners or otherwise) as a disclosed or beneficial owner, investor, partner, member, manager, director, officer, employee, consultant, representative or agent or in any other capacity in any Competitive Business, defined in Section 21.1 above, located or operating within a 15 mile radius of the Franchised Location, within a 15 mile radius of the Franchised Location of any other franchised SHEAR MADNESS Salon or, within a 15 mile radius of the Salon premises of any SHEAR MADNESS Salon owned by the Franchisor or affiliate of the Franchisor. The restrictions of this Section shall not be applicable to the ownership of shares of a class of securities listed on a stock exchange or traded on the over-the-counter market that represent 5% or less of the number of shares of that class of securities issued and outstanding. The Franchisee and its officers, directors, members, managers, shareholders, and/or partners expressly acknowledge that they possess skills and abilities of a general nature and have other opportunities for exploiting such skills. Consequently, enforcement of the covenants made in this Section will not deprive them of their personal goodwill or ability to earn a living.

21.3 Confidentiality of Proprietary Information. The Franchisee and the Franchisor acknowledge that the distinctive business format, plans, methods, data, processes, marketing systems, manuals, product formulas, techniques, designs, layouts, operating procedures, proprietary marks and information and know-how of the Franchisor which are developed and utilized in connection with the Licensed Methods are proprietary and confidential (“**Confidential Information**”). Such Confidential Information is unique, exclusive property and a trade secret of the Franchisor and has valuable goodwill associated with it. The Franchisee acknowledges that any unauthorized disclosure or use of the Confidential Information would be wrongful and would cause irreparable injury and harm to the Franchisor. It is understood that Confidential Information is deemed to include, without limitation, customers lists, vendor lists, product formulas, any and all information contained in the Operations Manual, and any information of whatever nature which gives the Franchisor and its affiliates an opportunity to obtain an advantage over its competitors who do not have access to, know or use such lists, written materials, formulas or information. The Franchisee further acknowledges that the Franchisor has expended a great amount of effort and money in obtaining and developing the Confidential Information, that the Franchisor has taken numerous precautions to guard the secrecy of the Confidential Information, that it would be very costly for competitors to acquire or duplicate the Confidential Information and that any unauthorized disclosure of such Confidential Information shall cause irreparable harm to the Franchisor. Consequently, the Franchisee shall not at any time, publish, disclose, divulge or in any manner communicate to any person, firm, corporation, association, partnership or any other entity whatsoever or use, directly or indirectly, for its own benefit or for the benefit of any person, firm, corporation or other entity other than for the use of the Franchisor or the Franchisee’s Salon, any of the Confidential Information of the Franchisor or its affiliates. The Franchisor and the Franchisee agree that the Confidential Information does not include information that is generally available to the public.

21.4 Confidentiality Agreement. The Franchisor reserves the right to require that the Franchisee cause each of its officers, directors, partners, shareholders, members, managers, employees, Principal Manager and Lead Stylist and, if the Franchisee is an individual, immediate family members, to execute a Nondisclosure and Noncompetition Agreement containing the above restrictions, in a form approved by the Franchisor.

21.5 Interpretation. All parties to this Agreement acknowledge that this Article has been fully negotiated and has been entered into freely. If any provision of this Article 21 shall be held to be

invalid by any tribunal, the terms of said invalid provision shall be modified to the least possible extent so as to make the provision valid. This Article shall not be interpreted against either party as drafter.

22. INSURANCE

22.1 Insurance Coverage. The Franchisee shall procure from suppliers that may be designated by the Franchisor, maintain and provide evidence of (i) commercial general liability insurance for the Franchised Location and its operations, including products liability, with a limit of not less than \$1,000,000 per incident and \$2,000,000 aggregate or such greater limit as may be required as part of any lease agreement for the Franchised Location; (ii) unemployment and worker's compensation insurance with a broad form all-states endorsement coverage sufficient to meet the requirements of the law; and (iii) all-risk personal property insurance in an amount equal to at least 100% of the replacement costs of the contents and tenant improvements located at the SHEAR MADNESS Salon; (iv) stylist professional liability with limits of not less than \$1,000,000 per occurrence; and (v) an Umbrella policy above all forms of liability insurance with a limit of not less than \$1,000,000. The Franchisor reserves the right to require that the Franchisee obtain and maintain, in addition to all other policies of insurance, employment practices insurance in such amounts as may be reasonable for a SHEAR MADNESS Salon. All of the required policies of insurance shall name the Franchisor as an additional insured and shall provide for a 30-day advance written notice to the Franchisor of termination, amendment or cancellation. The Franchisor shall have the right upon 60 days prior written notice to the Franchisee to revise the coverage limits and type of insurance described in this Section 22.1.

22.2 Proof of Insurance Coverage. The Franchisee will provide proof of insurance to the Franchisor prior to commencement of operations at its SHEAR MADNESS Salon and as the Franchisor may periodically require. This proof will show that the insurer has been authorized to inform the Franchisor in the event any policies are amended, lapse or are cancelled. Noncompliance with the insurance provisions set forth herein shall be deemed a material breach of this Agreement; in the event of any lapse in insurance coverage, in addition to all other remedies, the Franchisor shall have the right to demand that the Franchisee cease operations of the SHEAR MADNESS Salons until coverage is reinstated, or, in the alternative, pay any delinquencies in premium payments and charge the same back to the Franchisee.

23. ARBITRATION

23.1 Arbitration. Except for controversies, disputes or claims related to or based on enforcement of the rights of the Franchisor or its affiliates in the Marks, the enforcement of covenants not to compete or any lease of real estate, all controversies, disputes or claims between the Franchisor, its subsidiaries and affiliated companies and their officers, directors, shareholders, managers, members, agents, employees, sales people and attorneys (in their representative capacity) and the Franchisee (and its owners and guarantors, if applicable) arising out of or related to: (1) this Agreement or any other agreement between the parties or any provision of such agreements; (2) the relationship of the parties hereto; (3) the validity of this Agreement or any other agreement between the parties or any provision of such agreements; or (4) any Licensed Method, shall be submitted for arbitration to the American Arbitration Association (“AAA”) on demand of either party. Such arbitration proceedings shall be conducted in Overland Park, Kansas, and shall be heard by one arbitrator in accordance with the then current Commercial Arbitration Rules of the AAA, except as otherwise provided in this Agreement.

23.2 Scope of Arbitration. The arbitrator shall have the right to award or include in the award any relief which he deems proper in the circumstances, including, without limitation, money damages (with interest on unpaid amounts from the date due), specific performance, and attorneys’ fees and costs, in accordance with Section 25.7 of this Agreement, provided that the arbitrator shall not award exemplary or punitive damages. The award and decision of the arbitrator shall be conclusive and binding upon all parties hereto and judgment upon the award may be entered in any court of competent jurisdiction. Each party waives any right to contest the validity or enforceability of such award. The Franchisor and the Franchisee agree to be bound by the provisions of any applicable limitation on the period of time by which claims must be brought under applicable law or this Agreement, whichever is less. The parties further agree that, in connection with any such arbitration proceeding, each shall file any compulsory counterclaim (as defined by Rule 13 of the Federal Rules of Civil Procedure) within 30 days after the date of the filing of the claim to which it relates. This provision shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement. The Franchisor and the Franchisee agree that arbitration shall be conducted on an individual, not a class-wide, basis, that the Franchisee and the Franchisee Affiliates shall not initiate a proceeding together with other franchisees or their officers, directors, members, managers, partners or owners, and that an arbitration proceeding between the Franchisor and the Franchisee shall not be consolidated with any other arbitration proceeding involving the Franchisor and any other party.

23.3 Governing Law/Consent to Venue and Jurisdiction; Jury Trial Waiver. Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.), the Federal Arbitration Act, or other federal law, this Agreement shall be interpreted under the laws of the state of Kansas, and any dispute between the parties shall be governed by and determined in accordance with the substantive laws of the state of Kansas, which laws shall prevail in the event of any conflict of law. The Franchisee and the Franchisor have negotiated regarding a forum in which to resolve any disputes which may arise between them and have agreed to select a forum in order to promote stability in their relationship. Therefore, if a claim is asserted in any legal proceeding involving the Franchisee, its officers, directors, managers or partners (collectively, “Franchisee Affiliates”) and the Franchisor, its subsidiaries and affiliated companies and their managers, officers, directors, agents, employees or sales employees (collectively, “Franchisor Affiliates”) the parties agree that the exclusive venue for disputes between them shall be in the state and federal courts of Kansas City, Kansas

and each party waives any objection they may have to the personal jurisdiction of or venue in the state and federal courts of Johnson County, Kansas or arbitration in Overland Park, Kansas. **THE FRANCHISOR, THE FRANCHISOR AFFILIATES, THE FRANCHISEE AND THE FRANCHISEE AFFILIATES EACH WAIVE THEIR RIGHTS TO A TRIAL BY JURY.**

23.4 Injunctive Relief. Notwithstanding the above provision for arbitration, the Franchisor and the Franchisee will each have the right in a proper case to obtain injunctive relief and any damages incidental thereto from a court of competent jurisdiction. The Franchisee agrees that the Franchisor may obtain such injunctive relief, without posting a bond or bonds in excess of a total of \$1,000, but upon due notice, and the Franchisee's sole remedy in the event of the entry of such injunctive relief will be the dissolution of such injunctive relief, if warranted, upon hearing duly had; provided, however, that all claims for damages by reason of the wrongful issuance of any such injunction are hereby expressly waived by the Franchisee. Any such action will be brought as provided in Section 23.3 above and the prevailing party shall be entitled to its costs and attorneys' fees.

24. SECURITY INTEREST

24.1 Security Interest. To secure payment and performance of the Obligations, the Franchisee grants to the Franchisor a continuing security interest in the following "Collateral" which shall consist of all of the following properties, assets and rights of the Franchisee: all goods (including inventory, equipment, furniture and signs), accounts, fixtures, and contract rights (including interests under all real and personal property leases) of or relating to the Salon, wherever located, now owned or hereafter acquired, and in all improvements, attachments, additions, accessions, replacements and substitutions thereto and proceeds and products therefrom.

24.2 Obligations. "Obligations" shall mean:

a. All obligations, including payments for inventory, equipment and supplies, obligations and payments under this Agreement and other agreements between the Franchisor, its affiliates and the Franchisee and other amounts and obligations owed to the Franchisor or its affiliates.

b. All expenditures of any kind or nature made by the Franchisor to preserve the Collateral, including, but not limited to, all amounts paid to discharge taxes, liens, security interests and any other encumbrances against the Collateral, and to repair any damage to the Collateral or otherwise preserve or maintain the Collateral and all insurance thereon.

c. All expenditures made or incurred by the Franchisor pursuant to the provisions of any credit agreements, any promissory notes and this Agreement.

d. All other indebtedness, obligations and liabilities of the Franchisee to the Franchisor or its affiliates, direct or indirect, absolute or contingent, due or to become due, whether now existing or hereafter arising.

24.3 Authorization to File Financing Statements. The Franchisee hereby irrevocably authorizes the Franchisor at any time and from time to time to file in any filing office in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto and to furnish any information relating to such filings to the Franchisor promptly upon the Franchisor's request. The Franchisee further agrees, at the request and option of the Franchisor,

to take any and all other actions the Franchisor may determine to be necessary or useful for the attachment, perfection and first priority of, and the ability of the Franchisor to enforce, the Franchisor's security interest in any and all of the Collateral.

24.4 Possession of Collateral. Upon default and termination of the Franchisee's rights under this Agreement, the Franchisor shall have the immediate right to possession and use of the Collateral.

24.5 Remedies. Upon the occurrence of any event of default set forth above or upon the occurrence of any other default in payment or performance of any Obligations for which this security interest is granted, the Franchisor shall have, in addition to all other rights and remedies, the remedies of a secured party under the Uniform Commercial Code as then in effect in the state in which the Salon is located ("UCC"), regardless of whether the UCC applies to the security transactions covered by this Agreement, including without limitation the right to accelerate the maturity of the obligations, without notice or demand, and to take possession of the Collateral and any proceeds thereof wherever located. The Franchisee shall assemble the Collateral and make the Collateral and all records relating thereto available to the Franchisor at a place to be designated by the Franchisor that is reasonably convenient for both parties. If notice is required, the Franchisor shall give to the Franchisee at least five business days prior written notice of the time and place of any public sale of the Collateral or of the time after which any private sale or any other intended disposition is to be made. The Franchisee hereby acknowledges that five business days prior written notice of such sale or sales shall be reasonable notice. During the time that the Franchisor is in possession of the Collateral, and to the extent permitted by law, the Franchisor shall have the right to hold, use, operate, manage and control all or any part of the Collateral; to make all such repairs, replacements, alterations, additions and improvements to the Collateral as it may deem proper; and to demand, collect and retain all earnings, proceeds from such use and all other costs, expenses, charges, damage or loss by reason of such use.

25. MISCELLANEOUS PROVISIONS

25.1 Modification. The Franchisor and/or the Franchisee may modify this Agreement only upon execution of a written agreement between the two parties. The Franchisee acknowledges that the Franchisor may modify its standards and specifications, and operating and marketing techniques, set forth in the Operations Manual unilaterally under any conditions and to the extent in which the Franchisor, in its sole discretion, deems necessary to protect, promote, or improve the Marks and the quality of the Licensed Methods, but under no circumstances will such modifications be made arbitrarily without such determination.

25.2 Entire Agreement. This Agreement, including all exhibits and addenda, contains the entire agreement between the parties and supersedes any and all prior agreements concerning the subject matter hereof. The Franchisee agrees and understands that the Franchisor shall not be liable or obligated for any oral representations or commitments made prior to the execution hereof or for claims of negligent or fraudulent misrepresentation and that no modifications of this Agreement shall be effective except those in writing and signed by both parties. The Franchisor does not authorize and will not be bound by any representation of any nature other than those expressed in this Agreement and in the most recent franchise disclosure document provided by the Franchisor or its representatives in connection with this Agreement. The Franchisee further acknowledges and agrees that no representations have been made to it by the Franchisor regarding projected sales volumes, market potential, revenues, profits of the Franchisee's SHEAR MADNESS Salon, or operational assistance other than as stated in this Agreement or in

the most recent franchise disclosure document provided by the Franchisor or its representatives in connection herewith.

25.3 Delegation by the Franchisor. From time to time, the Franchisor shall have the right to delegate the performance of any portion or all of its obligations and duties hereunder to third parties, whether the same are agents of the Franchisor or independent contractors which the Franchisor has contracted with to provide such services. The Franchisee agrees in advance to any such delegation by the Franchisor of any portion or all of its obligations and duties hereunder.

25.4 Effective Date. This Agreement shall not be effective until accepted by the Franchisor as evidenced by dating and signing by an officer of the Franchisor.

25.5 Review of Agreement. The Franchisee acknowledges that it had a copy of this Agreement in its possession for a period of time not less than 14 days or 10 business days, whichever is applicable, during which time the Franchisee has had the opportunity to submit same for professional review and advice of the Franchisee's choosing prior to freely executing this Agreement.

25.6 Payment of Taxes. The Franchisee shall reimburse the Franchisor, or its affiliates and designees, promptly and when due, the amount of all sales taxes, use taxes, personal property taxes and similar taxes imposed upon, required to be collected or paid by the Franchisor, or its affiliates or designees, on account of services or goods furnished by the Franchisor, its affiliates or designees, to the Franchisee through sale, lease or otherwise (except for any taxes the Franchisor or its affiliates are required by law to collect from the Franchisee with respect to products purchased from the Franchisor and its affiliates), or on account of collection by the Franchisor, its affiliates or designees, of the initial franchise fee, Royalties, Advertising Contributions, payment for inventory or any other payments made by the Franchisee to the Franchisor required under the terms of this Agreement.

25.7 Attorneys' Fees. In the event of any dispute between the parties to this Agreement, in addition to all other remedies, the non-prevailing party will pay the prevailing party all amounts due and all damages, costs and expenses, including reasonable attorneys' fees, incurred by the prevailing party in any legal action, arbitration or other proceeding as a result of such dispute.

25.8 No Waiver. No waiver of any condition or covenant contained in this Agreement or failure to exercise a right or remedy by the Franchisor or the Franchisee shall be considered to imply or constitute a further waiver by the Franchisor or the Franchisee of the same or any other condition, covenant, right, or remedy.

25.9 No Right to Set Off. The Franchisee shall not be allowed to set off amounts owed to the Franchisor for Royalties, fees or other amounts due hereunder, against any monies owed to Franchisee, nor shall the Franchisee in any event withhold such amounts due to any alleged nonperformance by the Franchisor hereunder, which right of set off is hereby expressly waived by the Franchisee.

25.10 Invalidity. If any provision of this Agreement is held invalid by any tribunal in a final decision from which no appeal is or can be taken, such provision shall be deemed modified to eliminate the invalid element and, as so modified, such provision shall be deemed a part of this Agreement as though originally included. The remaining provisions of this Agreement shall not be affected by such modification.

25.11 Notices. All notices required to be given under this Agreement shall be given in writing, by certified mail, return receipt requested, or by an overnight delivery service providing documentation of receipt, at the address set forth in the first Section of this Agreement or at such other addresses as the Franchisor or the Franchisee may designate from time to time, and shall be effectively given when deposited in the United States mails, postage prepaid, or when received via overnight delivery, as may be applicable.

25.12 Cumulative Rights. The rights and remedies of the Franchisor and the Franchisee hereunder are cumulative and no exercise or enforcement by the Franchisor or the Franchisee of any right or remedy hereunder shall preclude the exercise or enforcement by the Franchisor or the Franchisee of any other right or remedy hereunder which the Franchisor or the Franchisee is entitled by law to enforce.

25.13 Survival of Provisions. Any provisions that by their terms extend beyond termination or expiration of this Agreement shall continue in full force and effect subsequent to and notwithstanding the termination or expiration of this Agreement.

25.14 No Third Party Beneficiaries. The Franchisee acknowledges and agrees that neither the Franchisee nor any of its officers, directors, members, managers, employees, affiliates, successors or assigns shall be deemed a third-party beneficiary of any agreement between the Franchisor and another franchisee or any other party, unless specifically agreed to by the Franchisor in writing.

25.15 Acknowledgement. **BEFORE SIGNING THIS AGREEMENT, THE FRANCHISEE SHOULD READ IT CAREFULLY WITH THE ASSISTANCE OF LEGAL COUNSEL. THE FRANCHISEE ACKNOWLEDGES THAT:**

a. THE SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED HEREIN INVOLVES SUBSTANTIAL RISKS AND DEPENDS UPON THE FRANCHISEE'S ABILITY AS AN INDEPENDENT BUSINESS PERSON AND ITS ACTIVE PARTICIPATION IN THE DAILY AFFAIRS OF THE BUSINESS, AND

b. NO ASSURANCE OR WARRANTY, EXPRESS OR IMPLIED, HAS BEEN GIVEN AS TO THE POTENTIAL SUCCESS OF SUCH BUSINESS VENTURE OR THE EARNINGS LIKELY TO BE ACHIEVED, AND

c. NO STATEMENT, REPRESENTATION OR OTHER ACT, EVENT OR COMMUNICATION, EXCEPT AS SET FORTH IN THIS DOCUMENT, AND IN ANY DISCLOSURE DOCUMENT SUPPLIED TO THE FRANCHISEE IS BINDING ON THE FRANCHISOR IN CONNECTION WITH THE SUBJECT MATTER OF THIS AGREEMENT.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above set forth.

SHEAR MADNESS FRANCHISING, LLC

By: _____
Name: _____
Title: _____

FRANCHISEE

(Print Name)

Individually

Address: _____
City: _____
State: _____ Zip: _____

OR:

(if a corporation, LLC or partnership)

Company Name

By: _____
Name: _____
Title: _____
Address: _____
City: _____
State: _____ Zip: _____

EXHIBIT I
TO THE FRANCHISE AGREEMENT

ADDENDUM TO SHEAR MADNESS FRANCHISING, LLC
FRANCHISE AGREEMENT

1. **Franchised Location.** The Franchised Location, described in Section 3.1 of the Agreement, shall be: _____ and the Protected Territory described in Section 3.2 or the Agreement shall be:
_____.

OR

Designated Area. The Franchisor and the Franchisee acknowledge that the Franchised Location cannot be designated in Section 1 above as a specific address because the location has not been selected and approved; therefore, within 90 days following the date of the Agreement, the Franchisee shall take steps to choose and acquire a location for its SHEAR MADNESS Salon within the following geographic area ("**Designated Area**"):

_____.

2. **Initial Franchise Fee.** The Franchisee shall pay to the Franchisor an initial franchise fee, referenced in Section 4.1 of the Agreement, of \$, payable when the Franchisee signs the Agreement.

3. **Initial Promotional and Marketing Campaign.** The minimum dollar amount for the initial promotional and marketing campaign pursuant to Section 13.6 of the Agreement shall be \$.

4. **Acknowledgement.** By executing this Exhibit and/or the Rider hereto, the Franchisee acknowledges that (i) the Franchisor's approval of the Franchised Location does not constitute a representation or warranty of any kind, express or implied, as to the suitability of the Franchise Location for a SHEAR MADNESS Salon or for any other purpose and that the Franchisee's acceptance of a franchise for the operation of a SHEAR MADNESS Salon at the Franchised Location is based on its own independent investigation of the suitability of the site and (ii) the Franchisor has complied with its obligations under the Agreement to assist the Franchisee by provision of criteria for the Franchised Location and determination of fulfillment of the requisite criteria for the Franchised Location.

Fully executed this ____ day of _____, 20 ____.

SHEAR MADNESS FRANCHISING, LLC

By: _____
Title: _____

FRANCHISEE

By: _____
Title: _____

EXHIBIT I-1
TO THE FRANCHISE AGREEMENT

RIDER TO ADDENDUM - LOCATION APPROVAL

1. **Franchised Location.** The Franchised Location, set forth in Section 3.1 of the Agreement, shall be:

_____.

2. **Legal Address.** The business address for any notices mailed pursuant to Section 25.11 of the Agreement shall be changed to read as follows:

_____.

3. **Protected Territory.** The Protected Territory described in Section 3.2 of the Agreement, shall be: _____.

Fully executed this ____ day of _____, 20____.

SHEAR MADNESS FRANCHISING, LLC

By: _____
Title: _____

FRANCHISEE

By: _____
Title: _____

EXHIBIT II
TO THE FRANCHISE AGREEMENT

GUARANTY AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS

In consideration of, and as an inducement to, the execution of the above Franchise Agreement (the "Agreement") by SHEAR MADNESS FRANCHISING, LLC (the "Franchisor"), each of the undersigned hereby personally and unconditionally:

Guarantees to the Franchisor and its successors and assigns, for the term of this Agreement, including renewals thereof, that the franchisee as that term is defined in the Agreement ("**Franchisee**") shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; and

Agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement.

Each of the undersigned waives the following:

1. Acceptance and notice of acceptance by the Franchisor of the foregoing undertaking;
2. Notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed;
3. Protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed;
4. Any right he or she may have to require that any action be brought against Franchisee or any other person as a condition of liability; and
5. Any and all other notices and legal or equitable defenses to which he or she may be entitled.

Each of the undersigned consents and agrees that:

1. His or her direct and immediate liability under this guaranty shall be joint and several;
2. He or she shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so;
3. Such liability shall not be contingent or conditioned upon pursuit by the Franchisor of any remedies against Franchisee or any other person;
4. Such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which the Franchisor may from time to time grant to Franchisee or to any other person, including without limitation the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall in any way modify or amend this guaranty, which shall be continuing and irrevocable during the term of the Agreement, including renewals thereof;

5. He or she shall be bound by the restrictive covenants and confidentiality provisions contained in Article 21 of the Agreement and the indemnification provision contained in Section 20.3 of the Agreement; and

6. The arbitration, injunctive relief, governing law and jurisdiction provisions contained in Article 23 and the attorneys' fee provision contained in Section 25.7 of the Agreement shall govern this Guaranty and such provisions are incorporated into this Guaranty by this reference.

7. HE OR SHE WAIVES HIS OR HER RIGHT TO A TRIAL BY JURY.

IN WITNESS WHEREOF, each of the undersigned has affixed his or her signature effective on the same day and year as the Agreement was executed.

WITNESS

GUARANTOR(S)

EXHIBIT III
TO THE FRANCHISE AGREEMENT

STATEMENT OF OWNERSHIP

Franchisee: _____

Trade Name (if different from above): _____

Form of Ownership
(Check One)

Individual Partnership Corporation Limited Liability
Company

If a Partnership, provide name and address of each partner showing percentage owned, whether active in management, and indicate the state in which the partnership was formed.

If a Limited Liability Company, provide name and address of each member and each manager showing percentage owned and indicate the state in which the Limited Liability Company was formed.

If a Corporation, give the state and date of incorporation, the names and addresses of each officer and director, and list the names and addresses of every shareholder showing what percentage of stock is owned by each.

Franchisee acknowledges that this Statement of Ownership applies to the SHEAR MADNESS Salon authorized under the Franchise Agreement.

Use additional sheets if necessary. Any and all changes to the above information must be reported to the Franchisor in writing.

Date

Name

EXHIBIT I-IV
TO THE FRANCHISE AGREEMENT

PERMIT, LICENSE AND CONSTRUCTION CERTIFICATE

The Franchisor and the Franchisee are parties to a Franchise Agreement dated _____, 20__ for the development and operation of a SHEAR MADNESS Salon _____ located _____ at _____

(the "Salon"). In accordance with Section 5.7 of the Franchise Agreement, Franchisee certifies to the Franchisor that the Salon complies with all applicable federal, state and local laws, statutes, codes, rules, regulations and standards including, but not limited to, the federal Americans with Disabilities Act and any similar state or local laws. The Franchisee has obtained all such permits and certifications as may be required for the lawful construction and operation of the SHEAR MADNESS Salon, together with all certifications from government authorities having jurisdiction over the site that all requirements for construction and operation have been met, including without limitation, zoning, access, sign, health, safety requirements, building and other required construction permits, licenses to do business and fictitious name registrations, sales tax permits, health and sanitation permits and ratings and fire clearances. The Franchisee has obtained all customary contractors' sworn statements and partial and final lien waivers for construction, remodeling, decorating and installation of equipment at the Franchised Location. The Franchisee acknowledges that it is an independent contractor and that the requirement of this certificate does not constitute ownership, control, leasing or operation of the Salon but rather provides notice to the Franchisor that the Franchisee has complied with all applicable laws. The Franchisee asserts that the Franchisor may justifiably rely on the information contained in this certificate.

FRANCHISEE

By: _____
Title: _____

EXHIBIT V
TO THE FRANCHISE AGREEMENT

AUTHORIZATION AGREEMENT FOR PREARRANGED PAYMENTS (DIRECT DEBITS)

The undersigned depositor (“**Depositor**”) hereby (1) authorizes Shear Madness Franchising, LLC (“**Company**”) to initiate debit entries and/or credit correction entries to the undersigned’s checking and/or savings account indicated below and (2) authorizes the depository designated below (“**Depository**”) to debit such account pursuant to Company’s instructions.

Depository

Branch

City

State

Zip Code

Bank Transit/ABA Number

Account Number

This authority is to remain in full force and effect until Depository has received joint written notification from Company and Depositor of the Depositor’s termination of such authority in such time and in such manner as to afford Depository a reasonable opportunity to act on it. Notwithstanding the foregoing, Depository shall provide Company and Depositor with 30 days’ prior written notice of the termination of this authority. If an erroneous debit entry is initiated to Depositor’s account, Depositor shall have the right to have the amount of such entry credited to such account by Depository, if (a) within 15 calendar days following the date on which Depository sent to Depositor a statement of account or a written notice pertaining to such entry or (b) 45 days after posting, whichever occurs first, Depositor shall have sent to Depository a written notice identifying such entry, stating that such entry was in error and requesting Depository to credit the amount thereof to such account. These rights are in addition to any rights Depositor may have under federal and state banking laws.

DEPOSITOR (Print Name)

By: _____

Its: _____

Date: _____

EXHIBIT VI
TO THE FRANCHISE AGREEMENT

CREDIT CARD PAYMENT AUTHORIZATION

I (We) _____
(Name of Franchisee)

authorize Shear Madness Franchising, LLC (“**Company**”) to charge the credit/debit card indicated below and authorize the credit card issuer to pay such account pursuant to Company’s instructions.

This credit card payment authorization form is intended for use on a recurring basis. This authority is to remain in full force and effect until Company has received written notification from Franchisee of its termination in such time and manner as to afford Company a reasonable opportunity to act on it.

Credit Card Type: VISA MC AMEX Other/Include Type _____

Credit Card No.: _____ Expiration Date: _____

Name of Franchisee: _____

By: _____

Its: _____

Date: _____

Franchisee Address: _____

Phone: _____

Facsimile: _____

EXHIBIT C
DEVELOPMENT AGREEMENT

THIS DEVELOPMENT AGREEMENT (“**Agreement**”) is made this _____ day of _____, 20____ by _____ (“**Franchisee**”), and SHEAR MADNESS FRANCHISING, LLC, a Kansas limited liability company, located at 13425 W. 128th Street, Overland Park, Kansas 66213 (the “**Franchisor**”).

RECITALS

A. THE FRANCHISOR HAS DEVELOPED METHODS FOR ESTABLISHING, OPERATING AND PROMOTING BUSINESSES THAT PROVIDE HAIRCUTS TO CHILDREN, HOST PARTIES FOR CHILDREN, SELL RETAIL HAIR CARE PRODUCTS, ACCESSORIES AND TOYS, AND PERFORM MANICURES AND PEDICURES (“**SHEAR MADNESS SALONS**” OR “**SALONS**”). SHEAR MADNESS SALONS OPERATE USING OUR DISTINCTIVE BUSINESS FORMAT, SYSTEMS, METHODS, PROCEDURES, DESIGNS, LAYOUTS AND SPECIFICATIONS (“**LICENSED METHODS**”) AND UNDER OUR SERVICE MARK “SHEAR MADNESS” AND RELATED LOGOS, TRADEMARKS, SERVICE MARKS AND COMMERCIAL SYMBOLS (“**MARKS**”).

B. THE FRANCHISEE WOULD LIKE TO USE THE FRANCHISOR’S MARKS AND LICENSED METHODS IN CONNECTION WITH THE DEVELOPMENT OF A CERTAIN NUMBER OF SALONS IN THE GEOGRAPHIC AREA DESCRIBED BELOW. THE FRANCHISOR DESIRES TO GRANT THE FRANCHISEE THE RIGHT TO ESTABLISH AND OPERATE SUCH SALONS UNDER THE TERMS AND CONDITIONS WHICH ARE CONTAINED IN THIS AGREEMENT.

The parties therefore agree as follows:

1. GRANT OF DEVELOPMENT RIGHTS

1.1 The Franchisor grants to the Franchisee the right to develop and establish Salons using the Franchisor’s Marks and Licensed Methods in the geographic area described in Exhibit A attached hereto (the “**Development Area**”).

1.2 Except as set forth in Section 1.3 below, the Franchisor shall not establish, nor shall it license any other party to establish, Salons using the Marks and Licensed Methods anywhere within the Development Area for so long as this Agreement is in effect.

1.3 The Franchisee acknowledges that the rights granted in this Agreement are non-exclusive and that the Franchisor retains the rights, among others: (1) to use and to license others to use, the Marks and Licensed Methods in connection with the operation of a SHEAR MADNESS Salon at any location other than in the Development Area; (2) to use the Marks to identify promotional and marketing efforts or related items, and to identify products and services distributed or otherwise made available through alternative channels of distribution, other than SHEAR MADNESS Salons, at any location, including, but not limited to, sales through such channels of distribution as the Internet, other electronic communications methods, catalog sales, telemarketing and other direct marketing sales, mail order, retail store display and wholesale; (3) to use and license the use of other proprietary marks in connection with the sale of products and services similar to or the same as those which the Franchisee sells, whether in alternative

channels of distribution including, without limitation, the Internet, other electronic communications methods, catalog sales, telemarketing and other direct marketing sales, mail order, retail store display and wholesale, or in connection with the operation of businesses, which businesses are the same as, similar to, or different from SHEAR MADNESS Salons, at any location within or outside of the Development Area, on any terms and conditions as the Franchisor deems advisable; and (4) to engage in any other activities not expressly prohibited in this Agreement.

1.4 The parties acknowledge that the SHEAR MADNESS Franchise Agreement, attached hereto as Exhibit B and by this reference incorporated herein, governing the operation of the Franchisee’s first Salon to be opened hereunder, is being executed concurrently with this Agreement. The Franchisee agrees to comply with the terms and conditions of the Franchise Agreement as a part of its obligations hereunder and acknowledges that failure to execute and comply with such Franchise Agreement is a breach of this Agreement.

1.5 The Franchisee agrees that if the Franchisee is an entity, all of the owners of the Franchisee shall sign the Guaranty and Assumption of Franchisee’s Obligations (“**Guaranty**”) attached hereto as Exhibit C and incorporated herein by this reference. Further, if Franchisee forms additional entities for the development of additional Salons, each owner will sign the Guaranty attached hereto.

INITIAL FRANCHISE FEES

2.1 Concurrently with the execution of this Agreement, the Franchisor acknowledges that in consideration of the development rights granted herein, the Franchisee has paid the sum of \$25,000, representing payment in full of the initial franchise fee for the first Salon to be developed hereunder, plus the full amount of the initial franchise fees for the second of \$22,500 and third salon of \$20,000 and subsequent Salons (\$20,000) to be developed. A portion of the fees hereunder are refundable under certain circumstances in the Franchisor’s sole discretion. Furthermore, Franchisee shall pay to Franchisor \$7,000 for each Salon for the Computer and Technology System (as defined in the Franchise Agreement).

DEVELOPMENT OBLIGATIONS

3.1 The Franchisee agrees to develop the following number of Salons in the Development Area, in accordance with the following schedule (“**Development Schedule**”), including the Salon to be developed under the Franchise Agreement executed concurrently with this Agreement:

Development Deadline	Minimum Total Number of Salons Opened for Business in the Development Area

The Franchisee agrees that time is of the essence with respect to compliance with the Development Schedule, and any and all other obligations to be performed by the Franchisee hereunder.

3.2 The parties agree that a separate Franchise Agreement shall be executed by the parties to this Agreement for each Salon to be developed under this Agreement. The Franchise Agreement for the second and each subsequent Salon will be executed within 10 days after the Franchisor's approval of the particular Salon location, but not later than the Development Deadline for each Salon set forth in the Development Schedule. The Franchisee's failure to execute any additional Franchise Agreements or its default in any term of such Franchise Agreements may, at the option of the Franchisor, be deemed a default under this Agreement and shall entitle the Franchisor to terminate this Agreement as further provided in Article 4 below.

3.3 The Franchisee shall not, without the prior written approval of the Franchisor and without signing a Franchise Agreement, enter into any contract for the purchase or lease of any premises for use as a Salon. The Franchisor will assist the Franchisee in the selection and approval of locations for its Salons in accordance with the terms and conditions of the Franchise Agreements. The Franchisee acknowledges that the Franchisor has no obligation to select or acquire a location on behalf of the Franchisee.

3.4 Each Franchise Agreement to be executed by the Franchisee for each Salon to be developed hereunder shall be in the form of Franchise Agreement then generally being offered to franchisees by the Franchisor. The Franchisee acknowledges that the Franchisor has the right to charge then current published rates for royalties, advertising contributions and other fees as well as products and services offered to the Franchisee.

3.5 The Franchisee acknowledges that the Franchisor shall have the right, at the Franchisor's sole discretion, to waive the initial training program, which is the same as or similar to the training provided under Section 6.1 of the Franchise Agreement executed concurrently herewith, for the second and each subsequent Salon developed under the terms of this Agreement. The Franchisee may request assistance from the Franchisor in addition to the assistance provided to the Franchisee as described in the Franchise Agreement, in connection with site selection, site feasibility studies, lease negotiations and other issues related to development of its Development Area. If the Franchisor agrees to provide such assistance, in the Franchisor's sole discretion, the Franchisor reserves the right to charge the Franchisee for all travel, lodging, living expenses, telephone charges and other identifiable expenses incurred in connection with such assistance, plus a fee based on hourly time spent by any of the Franchisor's employees in connection with such assistance, which fee will be charged in accordance with the then current daily or hourly rates being charged by the Franchisor for assistance.

TERM AND TERMINATION

4.1 This Agreement shall commence as of the date of execution hereof and shall end on the last day of the last Development Deadline set forth in Section 3.1 above. After expiration of the term, or earlier termination of this Agreement as provided below, the Franchisor shall have the right to establish, or license any other party to establish Salons anywhere within the Development Area; provided, however, that the Franchisee's Protected Territory as defined in the Franchise Agreement(s) executed hereunder will remain in effect for the term of the Franchise Agreement(s), unless sooner terminated.

4.2 This Agreement may be terminated by the Franchisee for any reason upon 60 days prior written notice to all parties, provided that the Franchisee will not be entitled to a refund of any fees paid hereunder under any circumstances.

4.3 This Agreement may be terminated by the Franchisor on 30 days prior written notice, such notice containing a right to cure such default, if applicable, in the event of any of the following:

(a) If the Franchisee defaults on any term or condition of this Agreement; including without limitation, failure to develop in accordance with the Development Schedule set forth in Section 3.1 above; or

(b) In the event of any occurrence which would entitle the Franchisor to terminate any Franchise Agreement executed in furtherance of this Agreement.

This Agreement shall automatically terminate at the end of such 30-day notice period, unless the Franchisee cures the default set forth in such notice within said 30-day period.

4.4 In the event of termination of this Agreement for any reason, the Franchisee shall remain subject to the provisions of Article 6 of this Agreement regarding nondisclosure and covenants not to compete, in addition to the terms and conditions of any and all Franchise Agreements executed in furtherance of this Agreement which have not also been terminated.

ASSIGNMENT

5.1. The Franchisor may transfer or assign its rights under this Agreement at any time upon notice to the Franchisee.

5.2. Because the rights granted herein are personal to the Franchisee, the Franchisee shall not transfer, assign or convey this Agreement or any interest hereunder without Franchisor's consent which consent shall not be unreasonably withheld. The Franchisee is prohibited from granting a sub-franchise hereunder. As used in this Agreement, the term "transfer" shall mean and include the voluntary, involuntary, direct or indirect assignment, sale, gift or other disposition by the Franchisee (or any of its owners) of any interest in: (1) this Agreement; (2) the ownership of the Franchisee; or (3) all or any part of the franchise development rights, or assets directly or indirectly related to the franchise development rights, described herein. An assignment, sale, gift or other disposition shall include a transfer resulting from a divorce, insolvency, corporate, limited liability company or partnership dissolution proceeding or otherwise by operation of law or, in the event of the death of the Franchisee, or an owner of the Franchisee by will, declaration of or transfer in trust or under the laws of intestate succession. Any transfer approved by the Franchisor shall be effective only upon express written assumption by the transferee of the interest, rights and obligations being transferred. In addition to any conditions contained in this Agreement and except as may be modified by this Agreement, the conditions for the Franchisor's approval of any transfer shall be the same as the conditions contained in the Franchise Agreement most recently executed by the Franchisor and the Franchisee, which provisions shall be deemed to be incorporated herein by reference.

5.3. In the event of any proposed sale, transfer or assignment by the Franchisee as described herein, the Franchisee and/or the proposed transferee shall pay to the Franchisor the standard transfer fee for each Franchise Agreement to be transferred, as governed by such Franchise Agreement executed pursuant to this Agreement, plus \$5,000 for every undeveloped franchise right for which no Franchise Agreement has been executed. This sum shall be payable in lump sum to the Franchisor as one of the preconditions to obtaining the Franchisor's written consent to any proposed transfer. In the event of transfer, the transferee shall pay the remaining fees owed to the Franchisor, when each Franchise Agreement is signed. Transfer fees paid to the

Franchisor will not be applied to the fees due, but the transferee will receive credit for the Franchisee's earlier payment of the initial franchise fees.

5.4. In the event of any proposed sale, transfer or assignment of its rights under this Agreement or any interest in it or all or any part of the franchise development rights, or assets directly or indirectly related to the franchise development rights, the Franchisee agrees to grant the Franchisor a 30-day right of first refusal to purchase such rights or assets on the same terms and conditions as are contained in the Franchise Agreement executed concurrently with this Agreement.

RESTRICTIVE COVENANTS

6.1. During the term and after the termination of this Agreement or any Franchise Agreement signed in furtherance of this Agreement, the Franchisee and its officers, partners, managers, directors, agents or employees who have completed the Franchisor's training programs or had access to the Operations Manual, as described in the Franchise Agreement, and/or the beneficial owners of a five percent or greater interest in the Franchisee and their respective immediate families, shall be subject to all restrictive covenants as set forth in the Franchise Agreement executed concurrently herewith, and in any Nondisclosure and Noncompetition Agreements executed as exhibits to such Franchise Agreement, which covenants by this reference are incorporated herein.

BUSINESS RELATIONSHIPS

7.1 During the term of this Agreement, the Franchisee shall be an independent contractor and shall in no way be considered as an agent, partner or employee of the Franchisor. It is understood and agreed that no agency or partnership is created by this Agreement. As such, the Franchisee has no authority of any nature whatsoever to bind the Franchisor or incur any liability for or on behalf of the Franchisor or to represent itself as anything other than an independent contractor.

7.2. The Franchisee shall indemnify and hold harmless the Franchisor and its affiliates and their respective officers, directors, managers, members, agents and representatives ("**Indemnified Parties**") from all fines, suits, proceedings, claims, demands or actions of any kind or nature, including reasonable attorneys' fees, from anyone whomsoever, arising or growing out of, or otherwise connected with the Franchisee's operation of Salon(s) developed under this Agreement. For purposes of this indemnification, claims shall mean and include all obligations, actual and consequential damages and costs reasonably incurred in the defense of any claim against the Indemnified Parties, including, without limitation, reasonable accountants', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses. The Franchisor shall have the right to defend any such claim against it. This indemnity shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

MISCELLANEOUS

8.1 The parties agree that any dispute between the parties arising out of the terms of this Agreement shall be governed by Article 23 of the Franchise Agreement executed concurrently herewith, which terms and conditions are by this reference incorporated herein.

8.2 This Agreement shall be binding upon and inure to the benefit of each of the parties' respective heirs, successors, assigns and personal representatives.

8.3 This Agreement shall be governed by and construed in accordance with the laws of the State of Kansas.

8.4 The Franchisee acknowledges that it had a copy of this Agreement in its possession for a period of time not fewer than 14 days or 10 business days, whichever is applicable, during which time the Franchisee has had the opportunity to submit the same for professional review and advice of the Franchisee's choosing prior to freely executing this Agreement.

8.5 No waiver of any condition or covenant contained in this Agreement or failure to exercise a right or remedy by any party hereto shall be considered to imply or constitute a further waiver of the same or any other condition, covenant, right or remedy.

8.6 This Agreement may be modified only upon execution of a written agreement between the parties.

8.7 This Agreement contains the entire agreement between the parties and supersedes any and all prior agreements, both oral and written, concerning the subject matter hereof, provided that any Franchise Agreement executed by the parties hereto shall remain binding, except to the extent that this Agreement specifically supersedes any term thereof. The Franchisor does not authorize and will not be bound by any representation of any nature other than those expressed in this Agreement, the Franchise Agreement and in the most recent franchise disclosure document provided by the Franchisor or its representatives. Nothing in this Agreement is intended to disclaim the representations made in the Franchise Agreement, this Agreement or in the most recent franchise disclosure document provided by the Franchisor or its representatives.

8.8 If any provision of this Agreement is held invalid by any court of competent jurisdiction in a final decision from which no appeal is or can be taken, such provision shall be deemed modified to eliminate the invalid element and, as so modified, such provision shall be deemed a part of this Agreement as though originally included. The remaining provisions of this Agreement shall not be affected by such modification.

8.9 All notices required to be given under this Agreement shall be given in writing, by certified mail, return receipt requested, or by an overnight delivery service providing documentation of receipt, at the addresses first set forth above, or at such other address as either party may designate from time to time by written notice as set forth herein. Notice shall be deemed effective when deposited in the United States mail postage prepaid or when received by overnight delivery, as may be applicable.

8.10 In the event of any conflict between the terms of this Agreement and the terms of the Franchise Agreement, the terms of this Agreement shall control.

8.11 In the event of any default on the part of either party to this Agreement, in addition to all other remedies, the party in default will pay the aggrieved party all amounts due and all damages, costs and expenses, including reasonable attorneys' fees, incurred by the aggrieved party in any legal action, arbitration or other proceeding as a result of such default, plus interest at the highest rate allowable by law, accruing from the date of such default.

8.12 Nothing herein shall prevent the Franchisor or the Franchisee from seeking injunctive relief to prevent irreparable harm, in addition to all other remedies.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed effective as of the date first above written.

SHEAR MADNESS FRANCHISING, LLC

Date: _____

By: _____

Its: _____

FRANCHISEE:

Date: _____

Individually

Print Name

Date: _____

Individually

Print Name

OR (if corporation, limited liability company or partnership)

Date: _____

By: _____

Its: _____

EXHIBIT C-1

TO DEVELOPMENT AGREEMENT BETWEEN
SHEAR MADNESS FRANCHISING, LLC AND

The Development Area, as referred to in Section 1.1 of the Development Agreement, is described below by geographic boundaries or by zip codes and on the attached map and shall consist of the following area or areas:

EXHIBIT C-2

TO DEVELOPMENT AGREEMENT BETWEEN
SHEAR MADNESS FRANCHISING, LLC AND

Executed Franchise Agreement

EXHIBIT C-3

**TO DEVELOPMENT AGREEMENT BETWEEN SHEAR MADNESS FRANCHISING,
LLC AND**

GUARANTY AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS

In consideration of, and as an inducement to, the execution of the above Development Agreement (the "Agreement") by SHEAR MADNESS FRANCHISING, LLC (the "Franchisor"), each of the undersigned hereby personally and unconditionally:

Guarantees to the Franchisor and its successors and assigns, for the term of the Agreement, including renewals thereof, that the franchisee as that term is defined in the Agreement ("**Franchisee**") shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; and

Agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement.

Each of the undersigned waives the following:

1. Acceptance and notice of acceptance by the Franchisor of the foregoing undertaking;
2. Notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed;
3. Protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed;
4. Any right he or she may have to require that any action be brought against Franchisee or any other person as a condition of liability; and
5. Any and all other notices and legal or equitable defenses to which he or she may be entitled.

Each of the undersigned consents and agrees that:

6. His or her direct and immediate liability under this guaranty shall be joint and several;
7. He or she shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so;
8. Such liability shall not be contingent or conditioned upon pursuit by the Franchisor of any remedies against Franchisee or any other person; and
9. Such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which the Franchisor may from time to time grant to Franchisee or to any other person, including without limitation the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall in any

way modify or amend this guaranty, which shall be continuing and irrevocable during the term of the Agreement, including renewals thereof.

10. Agrees to be bound by the restrictive covenants and confidentiality provisions contained in Section 6.1 of the Agreement and the indemnification provision contained in Section 7.2 of the Agreement.

11. Agrees that the governing law, consent to jurisdiction, arbitration, injunctive relief and related provisions and the costs and attorneys' fees provisions contained in Sections 8.1, 8.3 and 8.11 of the Agreement shall govern this Guaranty and such provisions are incorporated into this Guaranty by this reference.

12. **EACH OF THE UNDERSIGNED WAIVE THEIR RIGHT TO TRIAL BY JURY.**

IN WITNESS WHEREOF, each of the undersigned has affixed his or her signature effective on the same day and year as the Agreement was executed.

WITNESS

GUARANTOR(S)

EXHIBIT D

COLLATERAL ASSIGNMENT OF LEASE

THIS COLLATERAL ASSIGNMENT OF LEASE (“**Agreement**”) is made as of this _____ day of _____, 20____ by _____ and between _____, (“**Assignor**”), SHEAR MADNESS FRANCHISING, LLC (“**SMF**”), a Kansas limited liability company (SMF shall also be referred to as “**Assignee**”) and _____ (“**Landlord**”).

WHEREAS, Assignor is a tenant (“**Tenant**”) of certain property generally known as _____, located in the City of _____, State of _____ (“**Property**”), pursuant to a lease by and between Landlord and Assignor, dated _____ (the “**Lease**”).

WHEREAS, Assignor desires to construct, or have constructed by Landlord (whichever is applicable), and thereafter operate a SHEAR MADNESS Salon under a certain franchise agreement between Assignor and Assignee (the “**Franchise Agreement**”); and

WHEREAS, as a condition to the grant of rights under the Franchise Agreement to Assignor, Assignee requires that Assignor enter into this Agreement.

NOW, THEREFORE, for and in consideration of the sum of Five Dollars and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. ASSIGNOR HEREBY ASSIGNS ALL OF ITS RIGHT, TITLE AND INTEREST IN AND TO THE LEASE AND THE SHEAR MADNESS SALON TO ASSIGNEE. ALTHOUGH IT IS THE INTENTION OF THE PARTIES THAT THIS AGREEMENT IS A PRESENT ASSIGNMENT, IT IS EXPRESSLY UNDERSTOOD AND AGREED THAT UNTIL AN EVENT DESCRIBED IN SECTION 2 BELOW HAS OCCURRED AND SMF HAS EXERCISED ITS REMEDIES HEREUNDER, LANDLORD SHALL LOOK TO ASSIGNOR FOR FULL PERFORMANCE OF ASSIGNOR’S OBLIGATIONS UNDER THE LEASE.

2. WITH THE EXCEPTION OF SECTIONS 3, 4, 8, 9, 10, 11 AND 12 BELOW WHICH ARE EFFECTIVE AS OF THE DATE THIS AGREEMENT IS FULLY EXECUTED BY THE PARTIES, THE ASSIGNMENT OF LEASE CONTEMPLATED HEREUNDER IS CONDITIONAL AND SHALL NOT BE EFFECTIVE UNTIL THE “EFFECTIVE DATE,” AS DEFINED IN SECTION 5 OF THIS AGREEMENT. ASSIGNEE SHALL HAVE NO RIGHT TO PURSUE ANY REMEDY HEREUNDER UNLESS AND UNTIL:

(a) Default by Assignor under the terms of the Lease, which default (i) is not cured by Assignor within the time limits provided therein or (ii) results in a demand for performance by Assignee under any guaranty of the Lease;

(b) Default by Assignor under the terms of the Franchise Agreement or under any document or instrument securing the Franchise Agreement, which default is not cured by Assignor within the time limits provided therein;

(c) Voluntary institution of any insolvency or bankruptcy proceedings as a debtor or insolvent on the part of Assignor or involuntary insolvency or bankruptcy proceedings brought against Assignor which are not dismissed within 60 days of the filing thereof;

(d) Discontinuation by the Assignor of operation of a SHEAR MADNESS Salon on the Property, whether voluntarily or involuntarily;

(e) Nonrenewal by Assignor of the Franchise Agreement; or

(f) Nonrenewal by Landlord or Assignor of the Lease.

3. DURING THE TERM OF THE LEASE, LANDLORD AGREES TO GIVE ASSIGNEE WRITTEN NOTICE OF ALL DEFAULTS OF ASSIGNOR CONCURRENTLY WITH THE GIVING OF SUCH NOTICE TO ASSIGNOR. LANDLORD FURTHER AGREES TO GIVE ASSIGNEE A 30-DAY PERIOD TO CURE SUCH DEFAULT, OR THE PERIOD PROVIDED TO THE ASSIGNOR IN THE LEASE, WHICHEVER PERIOD SHALL BE LONGER.

4. IN THE EVENT ASSIGNEE EXPENDS SUMS TO CURE A DEFAULT, ASSIGNOR SHALL PROMPTLY REIMBURSE ASSIGNEE FOR THE COST INCURRED BY ASSIGNEE IN CONNECTION WITH SUCH PERFORMANCE, TOGETHER WITH INTEREST THEREON AT THE RATE OF TWO PERCENT PER MONTH, OR THE HIGHEST RATE ALLOWED BY LAW. NOTHING IN THIS AGREEMENT SHALL OBLIGATE ASSIGNEE TO CURE ANY SUCH DEFAULT, UNLESS ASSIGNEE ELECTS TO ASSUME THE LEASE PURSUANT TO SECTION 5 BELOW.

5. THE DATE UPON WHICH THE ASSIGNMENT SHALL BE EFFECTIVE (THE "EFFECTIVE DATE"), IS THE DATE UPON WHICH LANDLORD AND ASSIGNOR RECEIVE WRITTEN NOTICE FROM ASSIGNEE THAT:

(a) Assignee will cure all prior defaults of Assignor in the Lease in which Landlord has given notice to Assignee pursuant to the provisions of Section 3 above, and that Assignee will assume the Lease; or

(b) The events described in either subsections 2(b), 2(c), 2(d) or 2(f) above have occurred and that Assignee will assume the Lease.

6. AS OF THE EFFECTIVE DATE, ASSIGNEE WILL ASSUME ALL RIGHTS, DUTIES, RESPONSIBILITIES AND OBLIGATIONS OF ASSIGNOR ARISING ON OR AFTER THE EFFECTIVE DATE PURSUANT TO THE TERMS AND PROVISIONS OF THE LEASE.

7. LANDLORD HEREBY CONSENTS TO THE TERMS AND PROVISIONS OF THIS AGREEMENT, AND TO THE ASSIGNMENT OF THE LEASE TO ASSIGNEE. LANDLORD AGREES THAT AFTER THE EFFECTIVE DATE, ASSIGNEE MAY (I) ENTER INTO A SUBLEASE WITH ANY OTHER FRANCHISEE OF SMF WITHOUT LANDLORD'S FURTHER CONSENT, OR (II) FURTHER ASSIGN THE LEASE TO A PERSON, FIRM OR CORPORATION WHO SHALL AGREE TO ASSUME THE TENANT'S OBLIGATIONS UNDER THE LEASE AND WHO IS REASONABLY ACCEPTABLE TO LANDLORD. LANDLORD FURTHER AGREES

THAT UPON THE OCCURRENCE OF ANY SUCH ASSIGNMENT, ASSIGNEE SHALL HAVE NO FURTHER LIABILITY OR OBLIGATION UNDER THE LEASE AS ASSIGNEE, TENANT OR OTHERWISE, AND THAT CONCURRENT WITH SUCH ASSIGNMENT, LANDLORD WILL ENTER INTO A REPLACEMENT COLLATERAL ASSIGNMENT OF LEASE AGREEMENT BY AND BETWEEN ASSIGNEE AND THE NEW TENANT.

8. ASSIGNOR AGREES TO INDEMNIFY AND HOLD HARMLESS ASSIGNEE FROM ANY LOSS, LIABILITY, COST OR EXPENSE INCURRED OR SUFFERED BY ASSIGNEE UNDER THIS AGREEMENT.

9. ASSIGNOR AND LANDLORD AGREE NOT TO ALLOW ANY SURRENDER, AMENDMENT, MODIFICATION OR TERMINATION OR OTHER ASSIGNMENT OF THE LEASE WITHOUT THE PRIOR WRITTEN CONSENT OF ASSIGNEE. THROUGHOUT THE TERM OF THE LEASE, ASSIGNOR AGREES THAT IT SHALL ELECT AND EXERCISE ALL OPTIONS TO EXTEND THE TERM OF OR RENEW THE LEASE NOT LESS THAN 30 DAYS PRIOR TO THE LAST DAY SAID OPTION MUST BE EXERCISED, UNLESS ASSIGNEE OTHERWISE AGREES IN WRITING. UPON ASSIGNEE'S FAILURE OTHERWISE TO AGREE IN WRITING, AND UPON THE FAILURE OF ASSIGNOR TO ELECT TO EXTEND OR RENEW THE LEASE, ASSIGNOR HEREBY APPOINTS ASSIGNEE AS ITS TRUE AND LAWFUL ATTORNEY-IN-FACT TO EXERCISE SUCH EXTENSION OR RENEWAL OPTION IN THE NAME, PLACE AND STEAD OF ASSIGNOR FOR THE SOLE PURPOSE OF EFFECTING SUCH EXTENSION OR RENEWAL.

10. ASSIGNOR REPRESENTS AND WARRANTS TO ASSIGNEE THAT IT HAS THE FULL POWER AND AUTHORITY TO ASSIGN THE LEASE AND ITS INTERESTS THEREIN AND THAT ASSIGNOR HAS NOT PREVIOUSLY ASSIGNED, TRANSFERRED OR PLEDGED, AND IS NOT OTHERWISE OBLIGATED TO ASSIGN, TRANSFER OR PLEDGE, ANY OF ITS INTERESTS IN THE LEASE OR THE LEASEHOLD ESTATE CREATED THEREBY.

11. ALL NOTICES OR DEMANDS REQUIRED HEREUNDER SHALL BE MADE IN WRITING AND SHALL BE DEEMED TO BE FULLY GIVEN WHEN DEPOSITED IN THE U.S. CERTIFIED MAIL, POSTAGE PREPAID, RETURN RECEIPT REQUESTED OR WHEN SENT FEDERAL EXPRESS OR SIMILAR OVERNIGHT COURIER TO:

Assignee:

Shear Madness Franchising, LLC
13425 W. 128th Street
Overland Park, Kansas 66213

Assignor:

Landlord:

12. SHOULD ANY ONE OR MORE OF THE PROVISIONS OF THIS AGREEMENT BE DETERMINED TO BE ILLEGAL OR UNENFORCEABLE, ALL OTHER PROVISIONS OF THIS AGREEMENT SHALL BE GIVEN EFFECT SEPARATELY THEREFROM AND SHALL NOT BE AFFECTED THEREBY.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

WITNESS/ATTEST:

ASSIGNOR:

By: _____

Title: _____

Date: _____

WITNESS/ATTEST:

ASSIGNOR:

**SHEAR MADNESS FRANCHISING,
LLC**

By: _____

Title: _____

Date: _____

WITNESS/ATTEST:

LANDLORD:

By: _____

Title: _____

Date: _____

EXHIBIT E

LIST OF FRANCHISEES

(As of December 31, 2020)

IOWA

SMAIA, LLC

1701 SE Delaware Street
Ankeny, IO 50021
Erin Nanke 515-505-4750

EPN LLC

Erin Nanke
165 S. Jordan Creek Pkwy Ste. 130
Des Moines, IA 50266
515-505-4750

MISSOURI

Vanguard Partners, LLC

8261 N. Booth Ave.
Kansas City, MO 64158
Jim and Janon Otto – 913-706-3753

Jotto Investments LLC

Jim and Janon Otto
950 NW Blue Pkwy Ste B
Lees Summit, MO 64086
913-706-3753

NEW MEXICO

Kimberly Abeyta

8001 Wyoming Ave. Albuquerque, NM 87122
505-264-2198

NEW YORK

SM Amherst, LLC

3316 Sheridan Drive
Amherst, NY 14226
Todd Danni (716) 465-1282

SM Orchard Park, LLC

3455 Amelia Drive
Orchard Park, NY 14127
Todd Danni (716) 465 -1282

TEXAS

MPM Enterprises

Matt and Shelley Palubicki
2772 Stonebrooke Pkwy, Suite 400
Frisco, TX. 75034
469-983-9600

Blssd, Corp.

Jacquiline Perkins
18321 West Lake Houston Parkway
Humble TX 77346
(281) 612-4400

BTW International Group LLC

Eduardo and Brenda Morales
22502 US Highway 281, N, Ste. 109
San Antonio, TX 78258
210-481-9300

EXHIBIT F

FRANCHISEES WHO HAVE LEFT THE SYSTEM

Jorge and Elsy Garcia – (210) 659-2121 – Monterrey, Mexico

Dr. Andrew Elmasri – (949) 212- 1543

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EXHIBIT G
FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

SHEAR MADNESS FRANCHISING, LLC

For the Year Ended December 31, 2020

AUDITED FINANCIAL STATEMENTS

SHEAR MADNESS FRANCHISING, LLC
For the Year Ended December 31, 2020

SHEAR MADNESS FRANCHISING, LLC

Table of Contents

Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Operations and Changes in Members' Equity	3
Statement of Cash Flows	4
Notes to Financial Statements	5-8

INDEPENDENT AUDITOR'S REPORT

To the Members
Shear Madness Franchising, LLC

We have audited the accompanying financial statements of Shear Madness Franchising, LLC, which comprise the statement of financial position as of December 31, 2020, and the related statements of operations and members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

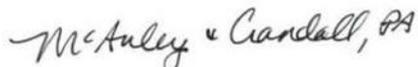
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 also 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Shear Madness Franchising, LLC as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



McAULEY & CRANDALL, PA
Overland Park, Kansas
May 18, 2021

SHEAR MADNESS FRANCHISING, LLC
STATEMENT OF FINANCIAL POSITION
December 31, 2020

ASSETS	2020
Current Assets	
Cash and Cash Equivalents	\$ 41,073
Accounts Receivable	15,620
Inventory for Resale	25,182
<i>Total Current Assets</i>	81,875
Property, Plant and Equipment	
Machinery and Equipment	15,104
Vehicle	500
Website	12,620
Less: Accumulated Depreciation	(24,004)
<i>Net Property, Plant and Equipment</i>	4,220
Other Assets	
Due from Member	386
Intangible Assets	275,000
<i>Total Other Assets</i>	275,386
Total Assets	\$ 361,481
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 933
Credit Cards Payable	9,538
Due to Members	869
Sales Taxes Payable	180
Payroll Liabilities	4,386
<i>Total Current Liabilities</i>	15,906
Long-Term Liabilities	
Wages Payable	18,000
<i>Total Long-Term Liabilities</i>	18,000
<i>Total Liabilities</i>	33,906
Equity	
Members' Equity	327,575
<i>Total Members' Equity</i>	327,575
Total Liabilities and Members' Equity	\$ 361,481

See accompanying notes.
Page 2

SHEAR MADNESS FRANCHISING, LLC
STATEMENT OF OPERATIONS AND MEMBERS' EQUITY
For the Year Ending December 31, 2020

Income	
Franchise Fees	\$ 5,000
Royalties	93,227
Equipment and Product Sales	42,843
Less: Cost of Goods Sold	<u>(37,263)</u>
Gross Profit on Equipment and Product Sales	5,580
Marketing Fund Revenue	19,570
Technology Fees	44,840
Management and Design Income	7,790
Referral Fee	587
Total Income	<u>176,594</u>
Expense	
Advertising	8,130
Bad Debts	273
Bank Fees	600
Depreciation	1,548
Discovery Day Expenses	676
Dues and Subscriptions	348
Insurance	133
Interest	5
Legal and Professional Fees	9,424
Marketing	12,818
Meals and Entertainment	68
Office	7,080
Payroll and Fringe Benefits	99,052
Payroll Taxes	7,574
Rent	18,000
Repairs and Maintenance	1,095
Shipping Expense	739
Site Selection Expenses	426
Taxes and Licenses	53
Technology	18,135
Training Costs - Teaching	9,122
Utilities	1,500
Web and SEO Maintenance	5,054
Total Expense	<u>201,853</u>
Net Operating Income(Loss)	<u>(25,259)</u>
Other Income	
PPP Loan Forgiveness	22,200
Total Other Income	<u>22,200</u>
Other Expense	
Miscellaneous Expense	50
Total Other Expense	<u>50</u>
Net Other Income	<u>22,150</u>
Net Income(Loss)	<u>\$ (3,109)</u>
Members' Equity, Beginning of Year	
	330,684
Members' Equity, End of Period	<u>\$ 327,575</u>

See accompanying notes.
Page 3

SHEAR MADNESS FRANCHISING, LLC
STATEMENT OF CASH FLOWS
For the Year Ending December 31, 2020

Cash Flows from Operating Activities:	<u>2020</u>
Cash received revenues	\$ 190,605
Cash disbursed for expenses	(208,628)
<i>Net Cash Provided by Operating Activities</i>	<u>(18,023)</u>
Cash Flows from Investing Activities:	
Purchase of fixed assets	<u>(5,000)</u>
<i>Net Cash Used by Investing Activities</i>	<u>(5,000)</u>
Cash Flows from Financing Activities	
Cash received from PPP Loan Forgiveness	<u>22,200</u>
<i>Net Cash Used by Financing Activities</i>	<u>22,200</u>
Net Increase in Cash and Cash Equivalents	(823)
Cash and Cash Equivalents, beginning of year	<u>41,896</u>
Cash and Cash Equivalents, end of year	<u>\$ 41,073</u>
Reconciliation of Net Income to Net Cash Used by Operating Activities	
Net Income	\$ (25,309)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,548
(Increase)/Decrease in Accounts Receivable	14,011
(Increase)/Decrease in Inventory	(1,842)
(Increase)/Decrease in Employee Receivable	(386)
Increase/(Decrease) in Accounts Payable	(4,875)
Increase/(Decrease) in Credit Cards Payable	1,828
Increase/(Decrease) in Sales Tax Liabilities	180
Increase/(Decrease) in Payroll Tax Liabilities	(2,158)
Increase/(Decrease) in Due to Members	<u>(1,020)</u>
Total Adjustments	<u>7,285</u>
Net Cash Used by Provided Activities	<u>\$ (18,023)</u>

See accompanying notes.
Page 4

SHEAR MADNESS FRANCHISING, LLC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

Note 1: Summary of Accounting Policies

(a) Nature of Activities

Shear Madness Franchising, LLC was formed on February 18, 2010 as a limited liability company in the State of Kansas. The Company was formed to provide franchising opportunities for boutique hair salons. The company completed their initial franchisor documents in August, 2010.

(b) Basis of Accounting

The Company maintains an accrual basis accounting system in which revenues are recognized when earned and expenses are recognized when incurred in accordance with accounting standards generally accepted in the United States (GAAP).

(c) Use of Estimates

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

(d) Fixed Assets & Intangible Assets

Equipment, furniture and improvements are recorded at cost and depreciated over the estimated useful life of the assets using straight-line depreciation method. It is the Company's policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Future intangible assets will be recorded at cost and will be amortized over their estimated useful lives. Since there is no expiration of the Master Franchise Agreement, no amortization has been recorded.

One of the members contributed certain trade names, slogans, trademarks, service marks and all associated copyrights and works of authorship and goodwill associated with the name Shear Madness. Also contributed were methods, manuals, designs, plans, advertising, marketing materials, trade secrets and other similar assets associated with the brand. For the purchase of a 50% share, a fair market value of \$200,000 has been assigned to the contributed intangible assets.

(e) Accounts Receivable

Accounts receivable are uncollateralized franchisee obligations due under normal trade terms requiring payment within 30 days from the invoice date. The Company does not reduce the carrying amount of accounts receivable by an allowance for bad debt, as management believes as of December 31, 2020 all receivables were collectible.

(f) Income Taxes

The Company is a limited liability company that has elected to be taxed as a partnership. Any income or losses will flow through to the members to be taxed on their personal tax returns; therefore no provision has been made for federal and state income taxes in the accompanying financial statements. Tax years 2017-2020 are currently open for examination by taxing authorities. No authorities have commenced tax examinations as of December 31, 2020.

SHEAR MADNESS FRANCHISING, LLC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

(g) Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks with maturities of three months or less. Cash and cash equivalents that are not covered by insurance provided by the FDIC are \$0 as of December 31, 2020.

(h) Intangible Assets

Intangible assets contributed upon formation are recorded according to GAAP by their fair market value. The intangible assets consist of trademarks that are renewable indefinitely, copyrights and intellectual property. All intangible assets as of December 31, 2020 have indefinite lives and are not amortized. The Company's future cash flows would be materially impacted by its ability to extend or renew agreements related to its intangible assets. The values for these assets are determined internally and tested annually, and are as follows:

Copyrights	\$ 10,000
Intellectual Property	140,000
Master Franchise Agreement	75,000
Trademarks/Brands	50,000

(i) Inventory

Inventories are carried at cost, principally first-in, first-out, but not in excess of market. Inventory is primarily finished goods samples for franchisee store openings and marketing.

(j) Advertising and Marketing

The Company expenses advertising costs as they are incurred. Advertising expenses for the year ended December 31, 2020 were \$8,130. Marketing for the stores were \$12,818.

Note 2: Compensated Absences

The company does not at this time provide paid sick and vacation to employees. Therefore, no compensated absence liability was recorded.

Note 3: Fringe Benefits

Participating employees may opt for funding a salary redirection agreement under Internal Revenue Code Section 401(k). The Company may, in its sole discretion, contribute and allocate to each eligible Participant's Account, a percentage of the Participant's Elective Deferrals. Employees are eligible to participate after three months of continuous employment and are vested in incremental rates of 20% per year, and at six years, they are fully vested in match funds. There was a \$500 contribution to the 401(k) plan during the year ended December 31, 2020.

SHEAR MADNESS FRANCHISING, LLC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

Note 4: Franchise Revenues

From time to time, the Company has franchised stores in markets in which it considers expansion to be of benefit. Franchisees bear all direct costs involved in the development, construction, and operation of their salons. The Company provides franchisees support for site selection, architectural plans, interior and exterior design and layout, training, marketing and sales techniques, and opening assistance. The current standard franchise agreement provides for payment to the Company of a nonrefundable franchise fee of \$25,000 per salon, and royalties as 5% for the first year and 6% afterward as a percentage of sales once the stores open. The original franchise fee is realized when the contract is signed.

Note 5: Related Parties

There are unsecured related party loans from members with balances at December 31 as follows:

	<u>2020</u>
Due to Members	\$869

The members loan balance decreased by \$1,020 during 2020 for personal expenses. The members own three franchises as of December 31, 2020. However, according to the operating agreement between partners, they are exempt from initial franchise fees. The following were fees paid by the related parties' franchisees to the Company:

Marketing Funds	\$ 9,158
Royalties	26,172
Technology Fees	11,220
Phone	760
Inventory Purchases	14,008
Rent	18,000

Note 6: Accounting Standards Issued Not Yet Adopted

The FASB issued a new accounting standard regarding revenue recognition, which will first be effective for the Company in its 2021 fiscal year. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes nearly all existing revenue recognition guidance under U.S. accounting principles. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. The core principle of the new standard is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. The new accounting standard defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. accounting principles.

The FASB issued a new accounting standard, Leases, which will eliminate the concept of operating leases, among other things. This new standard will include substantial changes for accounting by lessees; existing operating leases and all new leases, unless immaterial, will require balance sheet recognition (right to use asset and lease liability). The standard is first effective for the Company with its 2022 fiscal year.

SHEAR MADNESS FRANCHISING, LLC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

Note 7: Subsequent Events

As a result of the spread of the COVID-19 Coronavirus and the resulting stay-at-home orders issued by the states of Kansas, Missouri, California, Iowa, New Mexico, New York and Texas, the states in which the Company operates, the Company currently believes that any negative financial impact by these restrictions cannot be reasonably estimated at this time. The Company is not considered an essential service. Due to uncertainties, no valuation allowance has been provided as any amount of loss cannot be reasonably estimated at this time. On April 16, 2020, the Company received loan proceeds in the amount of \$22,200 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The Company applied for a loan value that represented 2.5 times the average monthly payroll expenses. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period. As of December 2020, the Company applied for and has been notified that \$22,200 in eligible expenditures for payroll and other expenses described in the CARES Act has been forgiven. Loan forgiveness is reflected in other income in the accompanying statement of operations and changes in members' equity.

Note 8: Management's Review

The Company has evaluated subsequent events for potential recognition or disclosure through May 18, 2021, the date the financial statements were issued. The audit report date is the date the financial statements were available to be issued.

AUDITED FINANCIAL STATEMENTS

SHEAR MADNESS FRANCHISING, LLC

For the Year Ended December 31, 2019

SHEAR MADNESS FRANCHISING, LLC

Table of Contents

Independent Auditors' Report	1
Financial Statements:	
Balance Sheet	2
Statement of Income and Changes in Members' Equity	3
Statement of Cash Flows	4
Notes to Financial Statements	5-7

INDEPENDENT AUDITOR'S REPORT

To the Members
Shear Madness Franchising, LLC

We have audited the accompanying financial statements of Shear Madness Franchising, LLC, which comprise the balance sheet as of December 31, 2019, and the related statements of income and members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 also 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Shear Madness Franchising, LLC as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McAuley & Crandall, PA

McAuley & Crandall, PA
Overland Park, KS
June 16, 2020

SHEAR MADNESS FRANCHISING, LLC
BALANCE SHEET
December 31, 2019

ASSETS	<u>2019</u>
Current Assets	
Cash and Cash Equivalents	\$ 41,896
Accounts Receivable	29,630
Inventory for Resale	<u>23,340</u>
<i>Total Current Assets</i>	94,867
Property, Plant and Equipment	
Machinery and Equipment	10,104
Vehicle	500
Website	12,620
Less: Accumulated Depreciation	<u>(22,456)</u>
<i>Net Property, Plant and Equipment</i>	768
Other Assets	
Intangible Assets	<u>275,000</u>
<i>Total Other Assets</i>	<u>275,000</u>
Total Assets	<u><u>\$ 370,634</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 5,808
Credit Cards Payable	7,709
Due to Members	1,889
Payroll Liabilities	<u>6,544</u>
<i>Total Current Liabilities</i>	21,951
Wages Payable	<u>18,000</u>
<i>Total Liabilities</i>	39,951
Equity	
Members' Equity	<u>330,684</u>
<i>Total Members' Equity</i>	<u>330,684</u>
Total Liabilities and Members' Equity	<u><u>\$ 370,634</u></u>

See accompanying notes.

Page 2

SHEAR MADNESS FRANCHISING, LLC
STATEMENT OF INCOME AND MEMBERS' EQUITY
For the Year Ending December 31, 2019

Income		
Franchise Fees	\$	24,500
Royalties		135,306
Equipment and Product Sales	25,270	
Less: Cost of Goods Sold	<u>(20,256)</u>	
Gross Profit on Equipment and Product Sales		5,015
Education Board Revenue		0
Marketing Fund Revenue		29,244
Site Selection Fee		2,000
Technology Fees		47,270
Management & Design Income		8,042
Referral Fee		762
Total Income		<u>252,138</u>
Expense		
Advertising		10,456
Bad Debts		2,250
Bank Fees		626
Depreciation		621
Discovery Day Expenses		728
Dues & Subscriptions		856
Insurance		266
Interest		171
Legal and Professional Fees		8,956
Marketing		30,447
Meals and Entertainment		471
Office		9,310
Payroll & Fringe Benefits		102,556
Payroll Taxes		9,308
Rent		18,000
Repairs & Maintenance		1,363
Shipping Expense		158
Site Selection Expenses		3,299
Taxes & Licenses		50
Technology		21,094
Training Costs - teaching		750
Utilities		840
Web and SEO Maintenance		5,396
Total Expense		<u>227,972</u>
Net Operating Income(Loss)		24,167
Other Expense		
Interest Income		585
Miscellaneous Expense		0
Net Other Income		<u>585</u>
Net Income(Loss)	\$	24,751
Members' Equity, Beginning of Year		305,933
Members' Equity, End of Period		<u><u>\$ 330,684</u></u>

See accompanying notes.

SHEAR MADNESS FRANCHISING, LLC
STATEMENT OF CASH FLOWS
For the Year Ending December 31, 2019

	2019
Cash Flows from Operating Activities:	
Cash received Revenues	\$ 246,846
Cash received from Interest Income	585
Cash disbursed for expenses	(228,376)
<i>Net Cash Provided by Operating Activities</i>	19,055
Cash Flows from Investing Activities:	
Purchase of fixed assets	0
<i>Net Cash Used by Investing Activities</i>	0
Cash Flows from Financing Activities	
Member Distributions	0
<i>Net Cash Used by Financing Activities</i>	0
Net Increase in Cash and Cash Equivalents	19,055
Cash and Cash Equivalents, beginning of year	22,841
Cash and Cash Equivalents, end of year	\$ 41,896
Reconciliation of Net Income to Net Cash Used by Operating Activities	
Net Income	\$ 24,751
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	621
(Increase)/Decrease in Accounts Receivable	(5,292)
(Increase)/Decrease in Inventory	(7,184)
Increase/(Decrease) in Accounts Payable	2,714
Increase/(Decrease) in Credit Cards Payable	1,195
Increase/(Decrease) in Payroll Tax Liabilities	3,737
Increase/(Decrease) in Due to Members	(1,486)
Total Adjustments	(5,696)
Net Cash Used by Provided Activities	\$ 19,055

See accompanying notes.

SHEAR MADNESS FRANCHISING, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 1: Summary of Accounting Policies

(a) Nature of Activities

Shear Madness Franchising, LLC was formed on February 18, 2010 as a limited liability company in the State of Kansas. The Company was formed to provide franchising opportunities for boutique hair salons. The company completed their initial franchisor documents in August, 2010.

(b) Basis of Accounting

The Company maintains an accrual basis accounting system in which revenues are recognized when earned and expenses are recognized when incurred.

(c) Use of Estimates

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

(d) Fixed Assets & Intangible Assets

Equipment, furniture and improvements are recorded at cost and depreciated over the estimated useful life of the assets using straight-line depreciation method. It is the Company's policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Future intangible assets will be recorded at cost and will be amortized over their estimated useful lives. Since there is no expiration of the Master Franchise Agreement, no amortization has been recorded.

One of the members contributed certain trade names, slogans, trademarks, service marks and all associated copyrights and works of authorship and goodwill associated with the name Shear Madness. Also contributed were methods, manuals, designs, plans, advertising, marketing materials, trade secrets and other similar assets associated with the brand. For the purchase of a 50% share, a fair market value of \$200,000 has been assigned to the contributed intangible assets.

(e) Accounts Receivable

Accounts receivable are uncollateralized franchisee obligations due under normal trade terms requiring payment within 30 days from the invoice date.

The Company does not reduce the carrying amount of accounts receivable by an allowance for bad debt, as management believes as of December 31, 2019 all receivables were collectible.

SHEAR MADNESS FRANCHISING, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

(f) Income Taxes

The Company is a limited liability company that has elected to be taxed as a partnership. Any income or losses will flow through to the members to be taxed on their personal tax returns; therefore no provision has been made for federal and state income taxes in the accompanying financial statements. Tax years 2016-2019 are currently open for examination by taxing authorities.

(g) Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks with maturities of three months or less.

(h) Intangible Assets

Intangible assets contributed upon formation are recorded according to GAAP by their fair market value. The intangible assets consist of trademarks that are renewable indefinitely, copyrights and intellectual property. All intangible assets as of December 31, 2019 have indefinite lives and are not amortized. The Company's future cash flows would be materially impacted by its ability to extend or renew agreements related to its intangible assets. The values for these assets are determined internally and tested annually, and are as follows:

Copyrights	\$ 10,000
Intellectual Property	140,000
Master Franchise Agreement	75,000
Trademarks/Brands	50,000

(i) Inventory

Inventories are carried at cost, principally first-in, first-out, but not in excess of market. Inventory is primarily finished goods samples for franchisee store openings and marketing.

(j) Advertising and Marketing

The Company expenses advertising costs as they are incurred. Advertising expenses for the year ended December 31, 2019 were \$10,456. Marketing for the stores were \$30,447.

Note 2: Compensated Absences

The company does not at this time provide paid sick and vacation to employees. Therefore, no compensated absence liability was recorded.

Note 3: Fringe Benefits

Participating employees may opt for funding a salary redirection agreement under Internal Revenue Code Section 401(k). The Company may, in its sole discretion, contribute and allocate to each eligible Participant's Account, a percentage of the Participant's Elective Deferrals.

SHEAR MADNESS FRANCHISING, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Employees are eligible to participate after three months of continuous employment and are vested in incremental rates of 20% per year, and at six years, they are fully vested in match funds. There was a \$900 contribution to the 401(k) plan during the year ended December 31, 2019.

Note 3: Franchise Revenues

From time to time, the Company has franchised stores in markets in which it considers expansion to be of benefit. Franchisees bear all direct costs involved in the development, construction, and operation of their salons. The Company provides franchisees support for site selection, architectural plans, interior and exterior design and layout, training, marketing and sales techniques, and opening assistance. The current standard franchise agreement provides for payment to the Company of a nonrefundable franchise fee of \$25,000 per salon, and royalties as 5% for the first year and 6% afterward as a percentage of sales once the stores open. The original franchise fee is realized when the contract is signed.

Note 4: Management Review

Subsequent events were evaluated through June 16, 2020. As a result of the spread of the COVID-19 Coronavirus and the resulting stay-at-home orders issued by the state of Kansas, the state in which the Organization operates, the Organization is uncertain to the impact on several franchisors. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the length of stay-at-home orders, all of which are highly uncertain and cannot be predicted at this time. The audit report date is the date the financial statements were available to be issued.

Note 5: Related Parties

There are unsecured related party loans from members with balances at December 31 as follows:

	<u>2019</u>
Due to Members	\$1,889

The members loan balance decreased by \$1,486 during 2019 for personal expenses. The members own three franchises as of December 31, 2019. However, according to the operating agreement between partners, they are exempt from initial franchise fees. The following were fees paid by the related parties' franchisees to the Company:

Marketing Funds	\$13,040
Royalties	34,763
Technology Fees	11,160
Phone	804
Inventory Purchases	17,656
Rent	18,000

AUDITED FINANCIAL STATEMENTS

SHEAR MADNESS FRANCHISING, LLC

For the Year Ended December 31, 2018

SHEAR MADNESS FRANCHISING, LLC

Table of Contents

Independent Auditors' Report	1
Financial Statements:	
Balance Sheet	2
Statement of Income and Changes in Members' Equity	3
Statement of Cash Flows	4
Notes to Financial Statements	5-7

INDEPENDENT AUDITORS' REPORT

To the Members
Shear Madness Franchising, LLC

We have audited the accompanying financial statements of Shear Madness Franchising, LLC, which comprise the balance sheet as of December 31, 2018, and the related statements of income and members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 also 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Shear Madness Franchising, LLC as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McAuley & Crandall, PA

McAULEY & CRANDALL, PA

Overland Park, Kansas

April 22, 2019

SHEAR MADNESS FRANCHISING, LLC
BALANCE SHEET
December 31, 2018

ASSETS	2018
Current Assets	
Cash and Cash Equivalents	\$ 22,841
Accounts Receivable	24,338
Inventory for Resale	16,156
<i>Total Current Assets</i>	63,335
Property, Plant and Equipment	
Machinery and Equipment	10,104
Vehicle	500
Website	12,620
Less: Accumulated Depreciation	(21,835)
<i>Net Property, Plant and Equipment</i>	1,389
Other Assets	
Intangible Assets	275,000
<i>Total Other Assets</i>	275,000
Total Assets	\$ 339,724
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 3,094
Credit Cards Payable	6,514
Due to Members	3,376
Payroll Liabilities	2,807
<i>Total Current Liabilities</i>	15,791
Wages Payable	18,000
<i>Total Liabilities</i>	33,791
Equity	
Members' Equity	305,933
<i>Total Members' Equity</i>	305,933
Total Liabilities and Members' Equity	\$ 339,724

See accompanying notes.

SHEAR MADNESS FRANCHISING, LLC
STATEMENT OF INCOME AND MEMBERS' EQUITY
For the Year Ending December 31, 2018

Income	
Franchise Fees	\$ 500
Royalties	126,987
Equipment and Product Sales	39,479
Less: Cost of Goods Sold	<u>(36,804)</u>
Gross Profit on Equipment and Product Sales	2,675
Marketing Fund Revenue	27,083
Technology Fees	45,000
Management & Design Income	7,800
Referral Fee	399
Total Income	<u>210,444</u>
Expense	
Advertising	5,269
Bad Debts	3,086
Bank Fees	600
Contract Labor	200
Convention Expenses	293
Depreciation	621
Discovery Day Expenses	681
Dues & Subscriptions	2,523
Insurance	266
Interest	283
Legal and Professional Fees	10,596
Marketing	21,703
Office	8,001
Payroll	106,036
Payroll Taxes	8,691
Rent	18,000
Repairs & Maintenance	1,933
Shipping Expense	450
Taxes & Licenses	50
Technology	16,419
Utilities	840
Web and SEO Maintenance	3,957
Total Expense	<u>210,498</u>
Net Operating Income(Loss)	(54)
Other Expense	
Interest Income	800
Miscellaneous Expense	300
Net Other Income	<u>1,100</u>
Net Income(Loss)	\$ 1,046
Members' Equity, Beginning of Year	
	304,887
Members' Equity, End of Period	<u><u>\$ 305,933</u></u>

See accompanying notes.

Page 3

SHEAR MADNESS FRANCHISING, LLC
STATEMENT OF CASH FLOWS
For the Year Ending December 31, 2018

	2018
Cash Flows from Operating Activities:	
Cash received Revenues	\$ 218,227
Cash received from Interest Income	800
Cash disbursed for expenses	(220,343)
<i>Net Cash Provided by Operating Activities</i>	(1,316)
Cash Flows from Investing Activities:	
Purchase of fixed assets	0
<i>Net Cash Used by Investing Activities</i>	0
Cash Flows from Financing Activities	
Member Distributions	0
<i>Net Cash Used by Financing Activities</i>	0
Net Increase in Cash and Cash Equivalents	(1,316)
Cash and Cash Equivalents, beginning of year	24,158
Cash and Cash Equivalents, end of year	\$ 22,841
Reconciliation of Net Income to Net Cash Used by	
Operating Activities	
Net Income	\$ 1,046
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	621
(Increase)/Decrease in Accounts Receivable	7,483
(Increase)/Decrease in Inventory	(2,096)
Increase/(Decrease) in Accounts Payable	600
Increase/(Decrease) in Credit Cards Payable	(5,596)
Increase/(Decrease) in Payroll Tax Liabilities	(3,123)
Increase/(Decrease) in Due to Members	(250)
Total Adjustments	(2,362)
Net Cash Used by Provided Activities	\$ (1,316)

See accompanying notes.

SHEAR MADNESS FRANCHISING, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 1: Summary of Accounting Policies

(a) Nature of Activities

Shear Madness Franchising, LLC was formed on February 18, 2010 as a limited liability company in the State of Kansas. The Company was formed to provide franchising opportunities for boutique hair salons. The company completed their initial franchisor documents in August, 2010.

(b) Basis of Accounting

The Company maintains an accrual basis accounting system in which revenues are recognized when earned and expenses are recognized when incurred.

(c) Use of Estimates

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

(d) Fixed Assets & Intangible Assets

Equipment, furniture and improvements are recorded at cost and depreciated over the estimated useful life of the assets using straight-line depreciation method. It is the Company's policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Future intangible assets will be recorded at cost and will be amortized over their estimated useful lives. Since there is no expiration of the Master Franchise Agreement, no amortization has been recorded.

One of the members contributed certain trade names, slogans, trademarks, service marks and all associated copyrights and works of authorship and goodwill associated with the name Shear Madness. Also contributed were methods, manuals, designs, plans, advertising, marketing materials, trade secrets and other similar assets associated with the brand. For the purchase of a 50% share, a fair market value of \$200,000 has been assigned to the contributed intangible assets.

(e) Accounts Receivable

Accounts receivable are uncollateralized franchisee obligations due under normal trade terms requiring payment within 30 days from the invoice date.

The Company does not reduce the carrying amount of accounts receivable by an allowance for bad debt, as management believes as of December 31, 2018 all receivables were collectible.

SHEAR MADNESS FRANCHISING. LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

(f) Income Taxes

The Company is a limited liability company that has elected to be taxed as a partnership. Any income or losses will flow through to the members to be taxed on their personal tax returns; therefore no provision has been made for federal and state income taxes in the accompanying financial statements. Tax years 2015-2018 are currently open for examination by taxing authorities.

(g) Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks with maturities of three months or less.

(h) Intangible Assets

Intangible assets contributed upon formation are recorded according to GAAP by their fair market value. The intangible assets consist of trademarks that are renewable indefinitely, copyrights and intellectual property. All intangible assets as of December 31, 2018 have indefinite lives and are not amortized. The Company's future cash flows would be materially impacted by its ability to extend or renew agreements related to its intangible assets. The values for these assets are determined internally and tested annually, and are as follows:

Copyrights	\$ 10,000
Intellectual Property	140,000
Master Franchise Agreement	75,000
Trademarks/Brands	50,000

(i) Inventory

Inventories are carried at cost, principally first-in, first-out, but not in excess of market. Inventory is primarily finished goods samples for franchisee store openings and marketing.

(j) Advertising and Marketing

The Company expenses advertising costs as they are incurred. Advertising expenses for the year ended December 31, 2018 were \$5,269. Marketing for the stores were \$21,703.

Note 2: Compensated Absences

The company does not at this time provide paid sick and vacation to employees. Therefore, no compensated absence liability was recorded.

SHEAR MADNESS FRANCHISING. LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 3: Franchise Revenues

From time to time, the Company has franchised stores in markets in which it considers expansion to be of benefit. Franchisees bear all direct costs involved in the development, construction, and operation of their salons. The Company provides franchisees support for site selection, architectural plans, interior and exterior design and layout, training, marketing and sales techniques, and opening assistance. The current standard franchise agreement provides for payment to the Company of a nonrefundable franchise fee of \$25,000 per salon, and royalties as 5% for the first year and 6% afterward as a percentage of sales once the stores open. The original franchise fee is realized when the contract is signed.

Note 4: Management Review

Subsequent events were evaluated through April 22, 2019. The audit report date is the date the financial statements were available to be issued.

Note 5: Related Parties

There are unsecured related party loans from members with balances at December 31 as follows:

	<u>2018</u>
Due to Members	\$3,376

The members loans decreased during 2018 by \$250 in payments for personal expenses. The members own three franchises as of December 31, 2018. However, according to the operating agreement between partners, they are exempt from initial franchise fees. The following were fees paid by the related parties' franchisees to the Company:

Marketing Funds	\$11,365
Royalties	30,467
Technology Fees	6,660
Phone	720
Inventory Purchases	13,024
Rent	18,000

EXHIBIT H
OPERATIONS MANUAL TABLE OF CONTENTS

PRE-OPENING MANUAL

Section 1:	Introduction	2
Section 2:	Business Structure and Registrations	6
Section 3:	Location, Location, Location	12
Section 4:	Build-Out	5
Section 5:	Outfitting Your Salon	13
Section 6:	Getting Ready for Opening	<u>18</u>
	Sub- Total	56

OPERATIONS MANUAL

Summary of Manual

Section 1:	Introduction	6
Section 2:	Services and Products	23
Section 3:	Staffing	17
Section 4:	Getting a Hold of the Madness	10
Section 5:	Marketing Your Business	17
Section 6:	Standards and Policies	<u>11</u>

Detailed Instruction Manual

Admin	26
Front Desk	27
Manager	44
Stylist	56
Pink Starlets	24
Money Making	<u>13</u>
Sub-Total	250
TOTAL	306

EXHIBIT I
NONDISCLOSURE AND NONCOMPETITION AGREEMENT

This Nondisclosure and Noncompetition Agreement (the “Agreement”) is made and entered into effective the _____ day of _____, 20____ by and between SHEAR MADNESS FRANCHISING, LLC, a Kansas limited liability company (the “Company”), located at 13425 W. 128th Street, Overland Park, Kansas 66213 and _____ (the “Associate”), who resides at _____.

RECITALS

A. THE FRANCHISOR OFFERS FRANCHISES FOR THE ESTABLISHMENT AND OPERATION OF BUSINESSES THAT PROVIDE HAIRCUTS TO CHILDREN, HOST PARTIES FOR CHILDREN, SELL RETAIL HAIR CARE PRODUCTS, ACCESSORIES AND TOYS, AND PERFORM MANICURES AND PEDICURES (“SHEAR MADNESS SALONS” OR “SALONS”). SHEAR MADNESS SALONS OPERATE USING OUR DISTINCTIVE BUSINESS FORMAT, SYSTEMS, METHODS, PROCEDURES, DESIGNS, LAYOUTS AND SPECIFICATIONS (“LICENSED METHODS”) AND UNDER OUR SERVICE MARK “SHEAR MADNESS” AND RELATED LOGOS, TRADEMARKS, SERVICE MARKS AND COMMERCIAL SYMBOLS (“MARKS”).

B. THE COMPANY HAS DEVELOPED METHODS FOR ESTABLISHING, OPERATING AND PROMOTING SALONS PURSUANT TO THE COMPANY’S DISTINCTIVE BUSINESS FORMAT, PLANS, METHODS, DATA, PROCESSES, MARKETING SYSTEMS, FORMULAS, TECHNIQUES, DESIGNS, LAYOUTS, OPERATING PROCEDURES, SOFTWARE AND INFORMATION, INVENTORY TYPE AND MIX, PROPRIETARY INFORMATION AND KNOW-HOW OF THE COMPANY (“CONFIDENTIAL INFORMATION”) AND SUCH CONFIDENTIAL INFORMATION AS MAY BE FURTHER DEVELOPED FROM TIME TO TIME BY THE COMPANY;

C. THE COMPANY HAS EXECUTED OR INTENDS TO EXECUTE A FRANCHISE AGREEMENT (“FRANCHISE AGREEMENT”) WITH _____ (“FRANCHISEE”) UNDER WHICH THE COMPANY HAS GRANTED OR WILL GRANT TO FRANCHISEE CERTAIN RIGHTS WITH REGARD TO DEVELOPING AND OPERATING A SHEAR MADNESS SALON (“FRANCHISED BUSINESS”).

D. THE COMPANY AND ITS AFFILIATES HAVE ESTABLISHED SUBSTANTIAL GOODWILL AND AN EXCELLENT REPUTATION WITH RESPECT TO THE QUALITY OF SERVICES AND PRODUCTS AVAILABLE, WHICH GOODWILL AND REPUTATION HAVE BEEN AND WILL CONTINUE TO BE OF MAJOR BENEFIT TO THE COMPANY;

E. THE ASSOCIATE IS OR WILL BECOME INVOLVED WITH THE FRANCHISEE IN THE CAPACITY OF AN OFFICER, PARTNER, DIRECTOR,

AGENT, GENERAL MANAGER, MEMBER, PRINCIPAL MANAGER OR LEAD STYLIST (AS DEFINED IN THE FRANCHISE AGREEMENT) OR AS A BENEFICIAL OWNER OF THE FRANCHISED BUSINESS, OR AS AN IMMEDIATE FAMILY MEMBER OF THE FRANCHISEE OR A PRINCIPAL OF THE FRANCHISEE AND WILL BECOME PRIVILEGED AS TO CERTAIN CONFIDENTIAL INFORMATION;

F. THE COMPANY AND FRANCHISEE REQUIRE THAT THE ASSOCIATE ENTER INTO THIS AGREEMENT BEFORE THE ASSOCIATE SHALL BE ALLOWED TO HAVE ACCESS TO THE CONFIDENTIAL INFORMATION (I) AS A MATERIAL TERM OF THE FRANCHISE AGREEMENT; (II) IN ORDER TO PROTECT THE COMPANY'S CONFIDENTIAL KNOW-HOW AND DISTINCTIVE SYSTEMS, DESIGNS, DECOR, TRADE DRESS, SPECIFICATIONS, STANDARDS, PROCEDURES AND OTHER TRADE SECRETS AUTHORIZED OR REQUIRED BY THE COMPANY FOR USE IN THE OPERATION OF FRANCHISEE'S SHEAR MADNESS SALON; (III) IN ORDER TO PROTECT THE COMPANY'S PROPRIETARY RIGHTS IN, AND FRANCHISEE'S RIGHT TO USE, THE CONFIDENTIAL INFORMATION; AND (IV) IN CONSIDERATION OF THE FRANCHISEE'S ASSOCIATION WITH THE ASSOCIATE; AND

G. THE ASSOCIATE AND THE COMPANY HAVE REACHED AN UNDERSTANDING WITH REGARD TO NONDISCLOSURE BY THE ASSOCIATE OF CONFIDENTIAL INFORMATION AND WITH RESPECT TO NONCOMPETITION BY THE ASSOCIATE WITH THE COMPANY.

NOW THEREFORE, in consideration of the foregoing, the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Associate and the Company, intending legally to be bound, agree as follows:

1. **Confidential Information.** The Associate and the Company acknowledge that the distinctive business format, plans, methods, data, processes, marketing systems, formulas, techniques, designs, layouts, operating procedures, software, inventory type and mix, proprietary information and know-how of the Company, its affiliates and owners which are developed and utilized in connection with the operation of the Franchised Business are the Company's "**Confidential Information.**" Such Confidential Information is unique, exclusive property and a trade secret of the Company. The Associate acknowledges that any unauthorized disclosure or use of the Confidential Information would be wrongful and would cause irreparable injury and harm to the Company. The Associate further acknowledges that the Company has expended a great amount of effort and money in obtaining and developing the Confidential Information, that the Company has taken numerous precautions to guard the secrecy of the Confidential Information and that it would be very costly for competitors to acquire or duplicate the Confidential Information.

2. **Operations Manuals as Trade Secrets.** It is understood that the Confidential Information, constituting "trade secrets," as used in this Agreement is deemed to include, without limitation, the Confidential Information and any and all information contained in the Company's Operations Manual (described in the Franchise Agreement) that may be provided as one or more separate manuals, or written instructional guides, as the same are changed or supplemented from time to time, and any information of whatever nature which gives the Company and its affiliates an opportunity to obtain an advantage over its competitors who do not have access to, knowledge of or use of such written materials, or information.

3. **Nondisclosure of Confidential Information.** The Associate shall not at any time, publish, disclose, divulge or in any manner communicate to any person, firm, corporation, association, partnership or any other entity whatsoever or use, directly or indirectly, for its own benefit or for the benefit of any person, firm, corporation or other entity other than for the use of the Company or the Franchisee, any of the Confidential Information of the Company or its affiliates.

4. **Noncompetition Covenant.** Except as authorized by the Company in order to operate the Franchised Business, the Associate hereby covenants and agrees that, during the term of the Franchise Agreement or the Associate's association with the Franchisee whichever is shorter, neither the Associate nor any member of the Associate's immediate family, shall:

a. have any direct or indirect controlling interest as a disclosed or beneficial owner in a Competitive Business;

b. perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for a Competitive Business; or

c. divert or attempt to divert any business related to, or any customer or account of the Franchised Business, the Company's business, its affiliates' businesses or any other franchisee's business, by direct inducement or otherwise, or divert or attempt to divert the employment of any employee of the Company, its affiliates or another franchisee licensed by the Company, to any Competitive Business by any direct inducement or otherwise.

The term "**Competitive Business**" as used in this Agreement shall mean any business operating, or any business granting franchises or licenses to others to operate, a salon or other business (1) that provides haircuts, manicures and/or pedicures or (2) that derives more than 10% of its gross sales from the sale of hair care products and accessories and/or toys. Notwithstanding the foregoing, the Franchisee shall not be prohibited from owning securities in a Competitive Business if such securities are listed on a stock exchange or traded on the over-the-counter market and represent 5% or less of that class of securities issued and outstanding. As used in this Agreement, "immediate family" shall mean any parent, non-minor child, spouse or sibling of the Associate.

5. **Post-Termination Covenant Not to Compete.** The Associate covenants and agrees that, for a period of two years after the effective date of termination, transfer or expiration of the Franchise Agreement for the Franchised Business, or for a period of two years after termination or cessation of the Associate's relationship with the Franchisee or the Franchised Business, whichever first occurs, neither the Associate, nor any member of the Associate's immediate family, shall have any direct or indirect interest as a disclosed or a beneficial owner, investor, partner, director, officer, manager, employee, consultant, representative or agent or in any other capacity in any Competitive Business located or operating within a 15 mile radius of any franchised, company or affiliate-owned SHEAR MADNESS Salon. The restrictions of this paragraph shall not be applicable to the ownership of shares of a class of securities listed on a stock exchange or traded on the over-the-counter market that represent 5% or less of the number of shares of that class of securities issued and outstanding. The Associate and its immediate family members, officers, directors, shareholders, managers, equity owners, and/or partners expressly acknowledge that they possess skills and abilities of a general nature and have other opportunities for exploiting such skills. Consequently, enforcement of this covenant will not deprive them of their personal goodwill or ability to earn a living.

6. Injunction. The Associate hereby acknowledges and agrees that in the event of any breach or threatened breach of this Agreement, the Company shall be authorized and entitled to seek, from any court of competent jurisdiction, preliminary and permanent injunctive relief in addition to any other rights or remedies to which the Company may be entitled. The Associate agrees that the Company may obtain such injunctive relief, without posting a bond or bonds totaling more than \$1,000, but upon due notice, and the Associate's sole remedy in the event of the entry of such injunctive relief shall be dissolution of such injunctive relief, if warranted, upon hearing duly had; provided, however, that all claims for damages by reason of the wrongful issuance of any such injunction are hereby expressly waived by the Associate.

7. Effect of Waiver. The waiver by the Associate or the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach thereof.

8. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Associate and the Company and their respective heirs, executors, representatives, successors and assigns. This Agreement shall be binding on the Associate and enforceable by the Company regardless of whether or not it is signed by the Company.

9. Third Party Beneficiary. Associate acknowledges that Franchisee is contractually obligated to Company under the Franchise Agreement to ensure Associate's compliance with this Agreement and the Company considers Franchisee an express third party beneficiary of this Agreement. Franchisor may assign its rights hereunder to Franchisee without notice to Associate, including without limitation, the right to seek injunctive relief as described in Section 6 above.

10. Entire Agreement. This instrument contains the entire agreement of the Associate and the Company relating to the matters set forth herein. It may not be changed orally, but only by an agreement in writing, signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought. The Recitals set forth at the beginning of this Agreement are binding on the parties and are specifically incorporated herein by this reference.

11. Governing Law. This instrument shall be governed by and construed under the laws of the state of Kansas.

12. Jurisdiction and Venue. In the event of a breach or threatened breach by the Associate of this Agreement, the Associate hereby irrevocably submits to the jurisdiction of the state and federal courts of Kansas, and irrevocably agrees that venue for any action or proceeding shall be in the state and federal courts of Kansas. Both parties waive any objection to the jurisdiction of these courts or to venue in the state and federal courts of Kansas. Notwithstanding the foregoing, in the event that the laws of the state where the Associate resides prohibit the aforesaid designation of jurisdiction and venue, then such other state's laws shall control.

13. Severability. If any provision of this Agreement shall be held, declared or pronounced void, voidable, invalid, unenforceable or inoperative for any reason, by any court of competent jurisdiction, government authority or otherwise, such holding, declaration or pronouncement shall not affect adversely any other provisions of this Agreement which shall otherwise remain in full force and effect. If the restrictions concerning the time duration, geography, affected individuals or entities, or breadth of activity contained in Sections 4 and 5

are held to be unenforceable under any applicable law, the arbiter of any dispute regarding this Agreement is hereby authorized to and shall make only such limited changes as are necessary to make the restrictions enforceable.

14. Attorneys' Fees. In any action at law or in equity to enforce any of the provisions or rights under this Agreement, the unsuccessful party in such litigation, as determined by the court in a final judgment or decree, shall pay the successful party or parties all costs, expenses and reasonable attorneys' fees incurred therein by such party or parties (including without limitation such costs, expenses and fees on any appeals), and if such successful party shall recover judgment in any such action or proceeding, such costs, expenses and attorneys' fees shall be included as part of such judgment.

IN WITNESS WHEREOF, the parties have signed this Agreement on the date first above written.

COMPANY:

SHEAR MADNESS FRANCHISING, LLC

By: _____
Title: _____

ASSOCIATE:

By: _____
Print Name: _____

CAPACITY WITH FRANCHISED BUSINESS

EXHIBIT J
SHEAR MADNESS FRANCHISING LLC

Closing Acknowledgement

A. THE FOLLOWING ARE TRUE AND CORRECT:

Yes ____ No ____

I had a face-to-face meeting with a franchise marketing representative.

If yes, the date of said meeting was: _____

_____, 20____ The date which I received the Franchise Disclosure Document (“**Disclosure Document**”) about the franchise.

_____, 20____ The date I received a fully completed copy (other than signatures) of the Franchise Agreement I later signed.

_____, 20____ The earliest date on which I signed the Franchise Agreement or any other binding document (not including the Receipt of Prospectus).

_____, 20____ The earliest date on which I delivered cash, check or consideration to the franchise marketing representative or any other person.

B. IN ORDER TO ENSURE THAT YOUR DECISION TO PURCHASE A SHEAR MADNESS FRANCHISE FROM SHEAR MADNESS FRANCHISING, LLC (THE “FRANCHISOR”) IS BASED UPON YOUR OWN INDEPENDENT INVESTIGATION AND JUDGMENT, PLEASE COMPLETE AND SIGN THIS CLOSING ACKNOWLEDGEMENT.

1. I had an opportunity to review the Franchisor’s Disclosure Document, Franchise Agreement, Development Agreement and other agreements attached to the Disclosure Document and understand the terms, conditions and obligations of these agreements.

2. I have made my own independent determination that I have adequate working capital to develop, open and operate my Salon.

3. I acknowledge that the Franchisor will give me written guidelines to assist me in locating a site for my Salon, but I also understand that I am responsible for the final decision regarding the selection of a suitable site.

4. I am not relying on any promises of the Franchisor which are not contained in the SHEAR MADNESS franchise agreement or most recent Disclosure Document given to me by the Franchisor.

5. I understand that my investment in a SHEAR MADNESS Salon contains substantial business risks and that there is no guarantee that it will be profitable.

6. I have been advised by the Franchisor and its representatives to seek professional legal and financial advice in all matters concerning the purchase of my SHEAR MADNESS Salon.

7. I acknowledge that the success of my SHEAR MADNESS Salon depends in large part upon my ability as an independent business person and my active participation in the day to day operation of the Salon.

8. No promises, agreements, contracts, commitments, representations, understandings, "side deals" or otherwise have been made to or with me with respect to any matter, including but not limited to any representations or promises regarding advertising, marketing, site location, operational assistance or other services, nor have I relied in any way on any such promises, agreements, contracts, commitments, representations, understanding, or "side deals" except as explicitly set forth in the Franchise Agreement, Development Agreement or a written Addendum thereto signed by me and the President (or other Shear Madness Franchising, LLC Officer) of the Franchisor or as set forth in the most recent Disclosure Document provided by the Franchisor.

9. No oral, written or visual claim or representation, promise, agreement, contract, commitment, representation, understanding or otherwise which contradicted or was inconsistent with the Disclosure Document, the Franchise Agreement or the Development Agreement, was made to me.

10. No oral, written, visual, or other claim or representation, which stated or suggested any sales, income, profits, cash flow, tax effects or otherwise was made to me by any person or entity representing the Franchisor.

11. The name(s) of the person(s) with whom I dealt in the purchase of my SHEAR MADNESS Salon is/are _____.

I acknowledge that the Franchisor may list this/these person(s) on the receipt page of the Disclosure Document if such person(s) is/are not listed thereon.

The Franchisor does not make or endorse any Franchisee or other individual to make or endorse any representations, warranties, projections or disclosures of any type of any financial information, data or results with respect to this or any other franchise, whether with respect to sales, income, profits, cash flow, tax effects or otherwise, whether made on behalf of or for the Franchisor, any franchisee or other individual and expressly disclaims any such financial information, data, or results. If any such representations have been made to you by any person, immediately inform the President of the Franchisor.

Dated: _____, 20____.

PROSPECTIVE FRANCHISEE

(Print Name)

By _____

Title: _____

EXHIBIT K

STATE ADDENDA AND RIDERS TO THE DISCLOSURE DOCUMENT, FRANCHISE AGREEMENT, DEVELOPMENT AGREEMENT AND OTHER AGREEMENTS

State of New York Addendum – ITEM 3, LITIGATION

The Franchisor, its predecessor, any person identified in Item 2 of the Franchise Disclosure Document, or any affiliate as listed under the franchisor's principal trademark other than what is listed in Item 3 of the Franchise Disclosure Document:

- A. Have no 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. In addition, there are no pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchises and the size, nature of financial condition of the franchise system or its business operations;
- B. Has not been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten year period immediately preceding the application of registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or had been the subject of a civil action alleging: violation of a franchise, anti-fraud or securities law, fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices or comparable allegations;
- C. Are not subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under A 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 are not subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Act of 1934, suspending or expelling such person from membership in such association or exchange, or is subject to a currently effective injunction 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.

ITEM 4 BANKRUPTCY

In addition the franchisor, its affiliates, its predecessor, officers, or general partner during a 10 year period immediately before the date of this offering have not: (a) filed a debtor or had filed against a petition to start an action under the US bankruptcy code: (b) obtained a discharge of its debts under the bankruptcy code: or (c) were a principal officer of a 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 US Bankruptcy code or that obtained a discharge of its debts under the US Bankruptcy code during or within a one year after the officer or general partner of the franchisor held this position in the company.

State of California addendum: DISCLOSURES

- a. The California Franchise Investment Law requires a copy of all proposed agreements relating to the sale of the franchise be delivered together with the offering circular.
- b. California Business and Professions Code 2000 through 20043 provides rights to the franchise concerning termination or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control
- c. 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.*)
- d. The franchise agreement contains a covenant not to compete which extends beyond the termination of the franchise. The provision may not be enforceable under California law.
- e. The Franchise agreement contains a liquidated damages clause. Under California Civil Code 1671 , certain liquidated damages clauses are unenforceable.
- f. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and Federal laws (such as Business and professional Code Section 20040.5, Code of Civil Procedure Section 1281, and the federal Arbitration act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.
- g. The Franchise agreement requires the application of the laws of the state of Kansas. This provision may not be enforceable under California Law.
- h. Section 31125 of the California Corporations code requires us to give you a disclosure document, in a form contains the information that the commissioner may by rule or order require, before a solicitation of a proposed modification of an existing franchise.
- i. California Business and Professions Code sections 20000 through 20043 provide rights to the franchise concerning termination, transfer or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law the law will control.
- j. The franchisee must comply with any with any licensing requirements under the California Board of Barbering and Cosmetology.

OUR WEBSITE 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.

EXHIBIT L
RELEASE

THIS RELEASE (“**Release**”) is made effective as of the day of _____, 20__ by _____ (“**Franchisee**”) in favor of SHEAR MADNESS Franchising, LLC, a Kansas limited liability company (“**Franchisor**”) (collectively referred to as “**Parties**”).

A. THE PARTIES HAVE ENTERED INTO THAT CERTAIN FRANCHISE AGREEMENT DATED (“FRANCHISE AGREEMENT”) (TO THE EXTENT NOT OTHERWISE DEFINED HEREIN, ALL INITIAL-CAPITALIZED REFERENCES SHALL HAVE THE SAME MEANING AS SET FORTH IN THE FRANCHISE AGREEMENT);

B. THE FRANCHISEE HAS REQUESTED THAT THE FRANCHISOR CONSENT AND AGREE TO EITHER: (I) THE TRANSFER OF THE FRANCHISE AGREEMENT, THE OWNERSHIP OF THE FRANCHISEE, OR THE SHEAR MADNESS SALON OR ANY ASSETS OF THE SALON, OR (II) THE RENEWAL OF THE FRANCHISE AGREEMENT; AND

C. THE FRANCHISOR DESIRES TO CONSENT TO THE FRANCHISEE’S REQUEST SUBJECT TO THE FRANCHISEE’S COMPLIANCE WITH THE TERMS AND CONDITIONS SET FORTH IN THE FRANCHISE AGREEMENT INCLUDING, WITHOUT LIMITATION, THE EXECUTION AND DELIVERY BY THE FRANCHISEE TO THE FRANCHISOR OF THIS RELEASE.

NOW, THEREFORE, in consideration of the foregoing, the mutual promises contained herein and other goods and valuable consideration, the receipt and sufficiency of which are acknowledged, the Parties hereby agree as follows:

Release. The Franchisee, for itself and its affiliates, and their respective current and former successors, assigns, officers, shareholders, directors, members, managers, agents, heirs and personal representatives (“**Franchisee Affiliates**”), hereby fully and forever unconditionally release and discharge the Franchisor and its affiliates, and their respective successors, assigns, agents, representatives, employees, officers, shareholders, directors, members, managers and insurers (collectively referred to as “**Franchisor Affiliates**”) from any and all claims, demands, obligations, actions, liabilities and damages of every kind and nature whatsoever (“**Released Claims**”), in law or in equity, whether known or unknown, which the Franchisee or the Franchisee Affiliates may now have against the Franchisor or Franchisor Affiliates or which may hereafter be discovered. Without limiting the foregoing, Released Claims includes, but is not limited to, all claims, demands, obligations, actions, liabilities and damages, known or unknown, in any way arising from or relating to: (i) any relationship or transaction with the Franchisor or Franchisor Affiliates, (ii) the Franchise Agreement or any related agreements, and (iii) the franchise relationship, from the beginning of time until the date of this Agreement. In addition, to the extent California or South Dakota law applies to the release, the Franchisee, on behalf of itself and Franchisee Affiliates, agrees as follows:

Release of Unknown Claims and Waiver of California Law. The Franchisee and the Franchisee Affiliates acknowledge that they are aware and informed that the laws of California may purport to limit or reduce the effect of a general release with respect to

claims not known or suspected by them at the time of execution of the release, such as Section 1542 of the Civil Code of the State of California, which provides as follows:

“A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release which, if known by him, must have materially affected his or her settlement with the debtor.”

The Franchisee and the Franchisee Affiliates waive and relinquish every right or benefit which they have, or may have, under Section 1542 of the Civil Code of the State of California, and under any similar provisions of any other law (as may be applicable to this Release), to the fullest extent that the Franchisee and the Franchisee Affiliates may lawfully waive such right or benefit pertaining to the subject matter of this Release. In connection with such waiver and relinquishment, with respect to the Released Claims, the Franchisee and the Franchisee Affiliates acknowledge that they are aware and informed that they may hereafter discover facts in addition to or different from those that they now know or believe to be true with respect to the subject matter of this Release, but that it is the Franchisee’s and the Franchisee Affiliates’ intention to settle and release fully, and finally and forever, all Released Claims, disputes and differences, known or unknown, suspected or unsuspected, which now exist, may exist or heretofore existed, and in furtherance of such intention, the release given herein shall be and remain in effect as a full and complete release, notwithstanding the discovery or existence of any such additional or different facts that would have affected the release of all Released Claims. The Franchisee and the Franchisee Affiliates agree to defend, indemnify and hold harmless the Franchisor and the Franchisor Affiliates from any and all Released Claims arising out of, directly or indirectly, the assertion by the Franchisee and the Franchisee Affiliates (or any person or entity by, though, or on their behalf) of any Released Claims, positions, defenses, or arguments contrary to this Section 1(a) of this Release.

Release of Unknown Claims and Waiver of South Dakota Law. The Franchisee and the Franchisee Affiliates acknowledge that they are aware and informed that the laws of South Dakota may purport to limit or reduce the effect of a general release with respect to claims not known or suspected by them at the time of execution of the release, such as South Dakota Codified Laws § 20-7-11, which provides as follows:

“A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.”

The Franchisee and the Franchisee Affiliates waive and relinquish every right or benefit which they have, or may have, under § 20-7-11 of the South Dakota Codified Laws, and under any similar provisions of any other law (as may be applicable to this Release), to the fullest extent that they may lawfully waive such right or benefit pertaining to the subject matter of this Release. In connection with such waiver and relinquishment, with respect to the Released Claims, the Franchisee and the Franchisee Affiliates acknowledge that they are aware and informed that they may hereafter discover facts in addition to or different from those that the Franchisee and the Franchisee Affiliates now know or believe to be true with respect to the subject matter of this Release, but that it is their intention to settle and release fully, and finally and forever, all Released Claims, disputes and differences, known or unknown, suspected or unsuspected, which now exist, may exist or heretofore existed, and in furtherance of such intention, the release given herein

shall be and remain in effect as a full and complete release, notwithstanding the discovery or existence of any such additional or different facts that would have affected the release of all Released Claims. The Franchisee and the Franchisee Affiliates agree to defend, indemnify and hold harmless the Franchisor and the Franchisor Affiliates from any and all Released Claims arising out of, directly or indirectly, the assertion by the Franchisee and the Franchisee Affiliates (or any person or entity by, through, or on behalf, of Releasor) of any Released Claims, positions, defenses, or arguments contrary to this Section 1.(b) of this Release.

General. This Release shall be construed and enforced in accordance with, and governed by, the laws of the State of Kansas. This Release embodies the entire agreement and understanding between the Parties and supersedes all prior agreements and understandings relating to the subject matter hereof, and this Release may not be modified or amended, or any term hereof, waived or discharged except in writing signed by the party against whom such amendment, modification, waiver or discharge is sought to be enforced. Nothing in this Release is intended to disclaim any representations made by the Franchisor in the most recent franchise disclosure document provided by the Franchisor or its representatives to the Franchisee in connection with any renewal. The headings are for convenience in reference only and shall not limit or otherwise affect the meaning hereof. This Release may be executed in any number of counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. If any provision of this Release shall be held by a court of competent jurisdiction to be invalid or unenforceable, such provision shall be deemed modified to eliminate the invalid or unenforceable element and, as so modified, such provision shall be deemed a part of this Release as though originally included. The remaining provisions of this Release shall not be affected by such modification. All provisions of this Release are binding and shall inure to the benefit of the Parties and their respective delegates, successors and assigns.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be made effective on the day and year first above written.

FRANCHISEE:

Date: _____

Individually

Date: _____

Individually

AND:
(if a corporation, limited liability company
or partnership)

Company Name

Date: _____

By: _____
Title: _____

STATE OF)
) ss.
COUNTY OF)

I certify that I know or have satisfactory evidence that the above-named individual(s) signed this instrument and acknowledged it to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated this _____ day of _____, 20____.

Notary Public
Print Name _____
My commission expires _____

EXHIBIT M
RECEIPTS OF DISCLOSURE DOCUMENT

ITEM 23

RECEIPT

(Keep this copy for your records)

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 Shear Madness Franchising, LLC offers you a franchise, it must provide this Disclosure Document to you 14 calendar days, unless state law requires a longer period, before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

Maryland, New York and Rhode Island require that we give you this Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

Michigan and Washington require that we give you this Disclosure Document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Shear Madness Franchising, 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 state agency listed on Exhibit A.

The franchisor is Shear Madness Franchising, LLC, a Kansas limited liability company, located at 13425 W. 128th Street, Overland Park, Kansas 66213, Telephone (888) 984-6636.

The franchise seller(s) for this offering are Janon Otto, Jim Otto and Paula Thurman, located at 13425 W. 128th Street, Overland Park, Kansas 66213, Telephone (888) 984-6636 and/or Shear Madness Franchising, LLC authorizes the respective state agencies identified on Exhibit A to receive service of process for it in the particular state.

I received a Disclosure Document dated Aug 26, 2015, and effective in the franchise registration states on the dates noted on the page following the State Cover Page, that included the following Exhibits:

- | | |
|-----------|--|
| Exhibit A | List of State Agencies/Agents for Service of Process |
| Exhibit B | Franchise Agreement |
| Exhibit C | Development Agreement |
| Exhibit D | Collateral Assignment of Lease |

Exhibit E	List of Franchisees
Exhibit F	Franchisees Who Have Left the System
Exhibit G	Financial Statements
Exhibit H	Operations Manual Table of Contents
Exhibit I	Non – Compete – Non - Disclosure
Exhibit J	Closing Acknowledgement
Exhibit K	State Addenda’s – California – New York
Exhibit L	Release
Exhibit M	Receipt of FDD, Franchise Agreement, Area Development Agreement

Date (Do not leave blank)

Date (Do not leave blank)

Prospective Franchisee

Prospective Franchisee

Print Name

Print Name

RECEIPT
(Return this copy to us)

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 Shear Madness Franchising, LLC offers you a franchise, it must provide this Disclosure Document to you 14 calendar days, unless state law requires a longer period, before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

Maryland, New York and Rhode Island require that we give you this Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

Michigan and Washington require that we give you this Disclosure Document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Shear Madness Franchising, 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 state agency listed on Exhibit A.

The franchisor is Shear Madness Franchising, LLC, located at 13425 W. 128th Street, Overland Park, Kansas 66213, Telephone (888) 984-6636.

Issuance date: July 17, 2018

The franchise seller(s) for this offering are Janon Otto, Jim Otto and Paula Thurman, located at 13425 W. 128th Street, Overland Park, Kansas 66213, Telephone (888) 984-6636 and/or Shear Madness Franchising, LLC authorizes the respective state agencies identified on Exhibit A to receive service of process for it in the particular state.

I received a Disclosure Document dated July 17, 2018, and effective in the franchise registration states on the dates noted on the page following the State Cover Page, that included the following Exhibits:

Exhibit A	List of State Agencies/Agents for Service of Process
Exhibit B	Franchise Agreement
Exhibit C	Development Agreement
Exhibit D	Collateral Assignment of Lease
Exhibit E	List of Franchisees
Exhibit F	Franchisees Who Have Left the System
Exhibit G	Financial Statements
Exhibit H	Operations Manual Table of Contents
Exhibit I	Non – Disclosure , Non - Compete

Exhibit J	Closing Acknowledgement
Exhibit K	State Addenda's – New York, California
Exhibit L	Release
Exhibit M	Receipt of FDD, Franchise Agreement, Area Development Agreement

Date (Do not leave blank)

Date (Do not leave blank)

Prospective Franchisee

Prospective Franchisee

Print Name

Print Name