

# Franchise Agreement Template

# CompanyABC

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## Chapter 1 - Franchise Agreement

Franchise Agreement No.: \_\_\_\_\_

DATED: \_\_\_\_\_ ("Effective Date")

BETWEEN: **Company ABC** ("Franchisor")

AND: \_\_\_\_\_ ("Franchisee")

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

TERRITORY:

### RECITALS

WHEREAS Franchisor has developed a unique system for identifying, operating and marketing businesses offering and selling residential and commercial **window cleaning and other property maintenance related services** operating under the Marks and using the System (hereinafter the "System");

WHEREAS Franchisor owns the trade name "**Company ABC**" and related logos and marks and trade dress as more fully described in this Agreement (hereinafter the "Marks");

WHEREAS, as between Franchisor and Franchisee, Franchisor is the sole and exclusive owner of all goodwill associated with and to become associated with the Marks, the value of which Franchisee acknowledges;

WHEREAS Franchisee recognizes the advantages and value of the System and Marks and desires to obtain a license for a "**Company ABC**" business (hereinafter the "Licensed Business");

WHEREAS Franchisee recognizes the necessity and value of maintaining high standards and uniformity of appearance, image, products, services and customer relations in conformity with the System as Franchisor may reasonably modify it from time to time;

WHEREAS Franchisee is aware of the risks, business and otherwise, associated with owning an **Company ABC** Licensed Business and has independently evaluated those risks without relying upon any representations from Franchisor or Franchisor's agents regarding revenues, profits or probability of success, excepting only those representations and accompanying cautions contained in Franchisor's Franchise Disclosure Document—revenues, profits or probability of success being affected primarily by factors beyond Franchisor's control, including Franchisee's skill, personality, diligence and dedication and general regional or local economic or demographic conditions; and

WHEREAS, Franchisor, in reliance upon Franchisee's representations, is willing to provide certain training and other services and to grant a license, but only on the terms of this Agreement, which terms Franchisee understands and accepts and both parties acknowledge to be reasonable and material;

NOW THEREFORE, for and in consideration of the mutual covenants herein set forth, and other good and valuable consideration, the receipt and sufficiency of which each party hereby acknowledges, and each party fully intending to be legally bound hereby, Franchisor and Franchisee mutually agree as follows:

## Article 1 - License And System

### 1.01 Grant Of License.

1.01.01 Subject to the terms and conditions of this Agreement, Franchisor grants to Franchisee a non-exclusive license to operate one (1) office using the System and Marks for a period of five (5) years from and after the Effective Date of this Agreement, said office to be located only at the location specified in Exhibit A hereto, or at such other location within the Territory as Franchisor may approve in writing. Franchisee, based upon Franchisee's own research and knowledge, shall select a location within 180 days after signing this Agreement and that location shall be accurately stated in Exhibit A. Notwithstanding anything herein to the contrary, if the Licensed Business is to be located upon real property subject to a master lease under which Franchisor or a related company is the primary lessee, this Agreement shall terminate without further notice upon the earlier termination or expiration of the current term of any applicable master lease for the Premises. Franchisor is under no obligation to extend or exercise any option to extend any master lease. If a master lease is involved, a copy of the master lease is attached as Exhibit H to this Agreement. If there is no master lease, this Agreement shall terminate upon expiration or termination of Franchisee's lease (a) upon Franchisee's written election; or (b) upon Franchisor's election if Franchisee does not obtain an acceptable lease at an approved location at least (90) days before expiration of Franchisee's lease. Franchisee shall not move Franchisee's Premises without Franchisor's prior written approval. Subject to Franchisee complying with applicable laws and ordinances, Franchisee may operate the Licensed Business, in whole or in part, from Franchisee's residence, provided Franchisee's residence is within Franchisee's Territory.

### 1.02 Location And Territory.

1.02.01 Except as specifically permitted by this Agreement, Franchisee's **Company ABC** office shall be the only **Company ABC** office to operate within the geographical territory described in Exhibit B hereto (the "Territory"). Franchisor will not locate or open a competitive **Company ABC** office in the Territory, either company-owned or franchised, during the term of this Agreement, so long as Franchisee is not in breach of this Agreement. However, there shall be no geographic restrictions upon where customers may come from for any **Company ABC** office, company-owned or franchised. Franchisee shall not distribute or publish advertising or otherwise market outside Franchisee's territory except in compliance with this Agreement and the Manual.

1.02.02 Exclusions from Territory. The following, and any substantially similar locations, shall be excluded from Franchisee's **Company ABC** Territory: Home shows, trade fairs, exhibitions and online product sales of related industry equipment. As to such excluded locations, Franchisor shall have the right, directly or indirectly, to sell and distribute goods and services, including those normally offered by Franchisee and using the Marks, without compensation to Franchisee or any other franchisee(s). Franchisor may, directly, indirectly, or through a franchisee or licensee offer products and services under the same or a different trade name or trademark, including within Franchisee's Territory through alternative distribution methods, including through catalogs, mail order, independent retail outlets, and through electronic media, including television, radio, the "Internet" and through other new or emerging commercial technological media. Franchisor shall have no obligation to share any revenues from alternative distribution activities with Franchisee. Without limiting the foregoing, Franchisee shall not, without Franchisor's prior written approval, which approval may be withheld for any reason whatsoever, use the Marks or any part of the Marks or anything similar to the Marks as part of a domain name or in any other manner in connection with any commerce on the Internet or similar media. Franchisee shall not use the Marks in or market through alternative distribution methods without Franchisor's prior written approval, which approval may be withheld for any reason whatsoever.

1.02.03 Modifications of Territory. The parties agree that the estimated population of the Territory contained in Exhibit B is a reasonable estimate of the population of the Territory based upon available governmental data. In the event the population of the Territory increases by fifty percent (50%) or more from the estimated population contained in Exhibit B, based upon reliable governmental data (United States Bureau of the Census or successor if in the United States), Franchisor shall have the option of dividing Franchisee's Territory and creating a new Territory, which may include portion(s) of the territories of other franchisees. If, at the time Franchisor exercises the option to modify Franchisee's Territory, Franchisee is in full compliance with all of the terms of this Agreement and has had no notices of default within the prior twelve calendar months, then Franchisee shall have a sixty (60) day first right of refusal to license and operate another **Company ABC** office in the newly created territory. If

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Franchisor's modification of Territory boundaries reduces the size of more than one franchisee's Territory, the franchisees shall receive rights of refusal in the order of the percent(s) of population severed from their respective territories as determined by Franchisor. If the territories of two or more franchisees are reduced by substantially equal percentages of population, the franchisees will receive rights of refusal in the order in which they executed their original franchise agreements for the affected territories.

1.02.04 Expansion Territory. Subject to Franchisor's prior written approval, if Franchisee is in full compliance with this Agreement and the Manual, Franchisee may be permitted to acquire additional adjacent territory that has not been assigned to another franchisee. The price of such expansion territory shall be \$0.10 per person residing in the expanded territory based upon currently available governmental demographic data. The purchase price for expansion territory is payable, in full, upon the signing of an addendum granting the expansion territory to Franchisee. Franchisor, in its sole discretion shall determine the minimum and maximum size and configuration of an expansion territory and may impose reasonable conditions, including, but not limited to the opening of a satellite office in the expansion territory.

### 1.03 Licensed Business.

1.03.01 The term "Licensed Business" means a business in which the Franchisee engages in the business of **cleaning windows and other services that are associated with a property maintenance business.** Franchisee will provide these services to both residential and commercial buildings, operating under the Marks and using the System (hereinafter the "System"). Franchisor shall have the right to add or delete or change product and service offerings at any time and Franchisee agrees to comply with such changes.

### 1.04 System And Marks.

1.04.01 Franchisee agrees to operate the Licensed Business only according to the System and only under the Marks pursuant to the Manual. Franchisee acknowledges that Franchisor owns all rights to the System and the Marks and Franchisee has only such rights as this Agreement grants. For purposes of this Agreement, the "System" includes the rights and obligations set forth in this Agreement, the Operating Manual furnished to the Franchisee as amended from time to time, Franchisor's name, training, formulas, methods of operation, reputation, advertising, system and similar benefits pursuant to which the Franchisee operates the Licensed Business. Franchisor's unique trade dress is part of the Marks.

1.04.02 Unless otherwise first approved by Franchisor in writing or unless otherwise required by applicable law, Franchisee agrees to do business only under the name "**Company ABC**". Franchisee shall not use the Marks in any manner not specifically approved by Franchisor, including, without limitation, as part of any domain name or other address on any portion of the Internet or any new medium, including as part of any meta tag(s) or similar use.

1.04.03 Franchisee shall immediately notify Franchisor, in writing, if Franchisee learns of any attempt by any person to infringe the Marks or to wrongfully appropriate the System or any part of it. Franchisor may, in its sole discretion, take whatever action it deems appropriate to protect or defend the Marks or System but is not obligated to take any action whatsoever. Franchisee agrees to fully cooperate with Franchisor in any action anticipated by or taken by or on behalf of Franchisor. Franchisee understands that it may become necessary, in Franchisor's sole discretion, to change, totally or in part, the Marks, as a result of litigation or otherwise. In that event, Franchisee agrees to immediately adopt the new or revised Marks, and Franchisor's maximum liability, including for any purported goodwill, shall be to reimburse Franchisee the actual out-of-pocket costs of changing the principal signs identifying the Premises.

1.04.04 Franchisor may change the System or any part of the System at any time, and as changed it shall remain the System pursuant to this Agreement. Franchisor shall own any improvements or changes in the System whether developed by Franchisor, by Franchisee or by other franchisee(s) and shall have the right to adopt and perfect such improvements or changes without compensation to Franchisee or other franchisees. If Franchisor modifies the System, Franchisee shall, at Franchisee's own expense except to the extent specifically provided in this Agreement, adopt and use such modification(s) as if it were part of the System at the time of execution of this Agreement.

1.04.05 Franchisee agrees to operate no other business whatsoever, including coin-operated devices, in or about the Premises of the Licensed Business or otherwise in connection with the System or Marks without first obtaining Franchisor's written approval; provided that, Franchisee may provide any service(s) or product(s) permitted according to the Manual. Franchisee acknowledges that Franchisor owns, in connection with the Marks, all goodwill associated with or to become associated with the telephone numbers and telephone listings and agrees to execute an Assignment of Telephone Numbers in the form of Exhibit F, attached.

## 1.05 Manual.

Franchisor agrees to loan to Franchisee during the term of this Agreement one or more operations manuals (the "Manual"), together with such updates and modifications as Franchisor may from time to time provide to Franchisee. Franchisor may make any changes or modifications in the Manual as in Franchisor's sole judgment are desirable. Franchisee agrees that if there should, at any time, be a discrepancy between the terms of Franchisee's copy of the Manual and the master copy maintained in Franchisor's offices, the terms of the master copy shall prevail. Franchisee agrees, at all times, to conform to the Manual in all respects including to obtain any equipment, fixtures, personnel or technology necessary to do so. The Manual is and shall at all times remain the property of Franchisor and shall be returned to Franchisor upon expiration, termination or nonrenewal of this Agreement for any reason. Franchisee agrees not to make it available to or permit another to make any copies of the Manual or any portion thereof without Franchisor's prior written consent. Franchisee acknowledges and agrees that the fair value of the Manual is at least Five Thousand Dollars (\$5,000.00).

## Article 2 - Franchise Fees And Advertising

### 2.01 Initial Fee.

The Initial Fee for the **Company ABC** Franchise is **Twenty-Five Thousand Dollars (\$25,000.00)**. The Initial Fee shall be paid as stated in the Licensee's Application Agreement attached hereto as Exhibit B-1 or Exhibit B-2, as applicable. The Initial Fee is not refundable for any reason except if through no fault of Franchisee, Franchisor determines that Franchisee has not successfully completed the initial training, in which case Franchisor will refund one half of the Initial Fee. If Franchisee acquires an existing **Company ABC** business from Franchisor in connection with this franchise, Franchisee will pay the fair market going concern value of the assets purchased pursuant to a separate asset purchase and sale agreement to be negotiated, in addition to the Initial Fee. If the parties are unable to reach an agreement on the purchase and sale of assets within ninety days following the date of this Agreement, either party may terminate this Agreement by giving not less than ten business days notice to the other. Termination shall be pursuant to the terms of Articles 17 and 18.

### 2.02 Royalties.

Franchisee shall pay to Franchisor a weekly royalty in an amount equal to the greater of ten percent (10%) of Gross Revenues or \$125.00 payable without setoff. The royalties are payable weekly by Electronic Funds Transfer. Funds must be in Franchisee's designated bank account in time so that Franchisor can obtain them on or before close of business on Tuesday of the week following the week on which the Royalties are based. Franchisor may, upon thirty (30) days prior written notice require Franchisee to pay Royalties by check, pre-authorized check, electronic funds transfer or other mechanism or to pay on a different periodic basis. If Franchisee owns more than one **Company ABC** franchise, Franchisee shall report and pay royalties for each franchise independently, unless otherwise directed by Franchisor.

### 2.03 National Marketing Fee.

2.03.01 Franchisee shall pay to Franchisor a weekly National Marketing Fee in the amount equal to the greater of two percent (2%) of Gross Revenues or \$25.00, payable without setoff. Franchisor may reduce or discontinue the National Marketing Fee at any time and may, thereafter, reinstate it upon a new thirty day Notice. Franchisee shall pay the National Marketing Fee at the same time and in the same manner as Royalties. If Franchisee owns more than one **Company ABC** franchise, Franchisee shall report and pay the National Marketing Fee for each franchise independently, unless otherwise directed by Franchisor.

2.03.02 Franchisor may, in Franchisor's sole discretion, upon at least sixty days prior written notice, increase the National Marketing Fee up to a maximum of four percent (4%) of Gross Revenues.

2.03.03 Franchisor shall maintain all National Marketing Fees collected, net of any taxes Franchisor is required to pay on account of having collected the National Marketing Fees, in one or more bank accounts separate from Franchisor's regular account(s). Franchisee authorizes Franchisor to commingle Franchisee's National Marketing Fees with those paid by other Franchisees. Franchisor will provide an unaudited annual accounting to all Franchisees as to the aggregate amount of National Marketing Fees collected and their use and application by general category, which accounting will be prepared within ninety days following the end of Franchisor's fiscal year. Franchisee acknowledges and agrees that each such accounting is a Trade Secret and shall be treated as such according to this Agreement. Except as herein specifically provided, Franchisee waives all compliance with the Uniform Trust Accounting Act and related or similar laws to the broadest extent permitted by law.

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2.03.04 Franchisor shall use National Marketing Fees collected, net of taxes and governmental fees, for advertising, marketing and promotion for the benefit of Franchisor's System. Selection of marketing, advertising and promotion location, scope, content, copy, timing and approach shall be by Franchisor and in Franchisor's sole discretion. Franchisor may use some of the funds, in its discretion, for market research, production and administration of the advertising program. Franchisor will attempt to benefit all of Franchisor's franchisees through the marketing program over all; however, not every element of the marketing and promotion program will necessarily directly benefit any specific franchisee. In making its marketing decisions, Franchisor will consider but not be bound by advice from any advisory committee(s) of franchisees recognized by Franchisor.

2.03.05 Franchisor shall have no duty to conduct any marketing program and if Franchisor does conduct a program, Franchisor makes no representations or warranties regarding the nature of the marketing to be conducted or about how it will affect Franchisee's revenue.

#### 2.04 Management Assistance.

In the event Franchisee requests Franchisor to provide extraordinary management or support services at Franchisee's location or in Franchisee's Territory Franchisee shall pay Franchisor's usual fee for such extraordinary services, which shall be due and payable no later than the second date for payment of royalties following the date of the services. All such extraordinary services shall be arranged as provided in the Manual.

#### 2.05 Gross Revenues.

The term "Gross Revenues" shall mean the full the price of all goods and services sold by Franchisee from or relating to the Licensed Business, whether or not Franchisee has received cash or other consideration. The only thing not included in Gross Revenues is taxes or fees Franchisee is required to collect on behalf of the government and which Franchisee actually remits. Gross Revenues are calculated at the time Franchisee sells the goods or services, without regard to when the Franchisee receives or expects to receive cash or other consideration therefore.

#### 2.06 Local and Cooperative Marketing.

Franchisee shall spend, on a monthly basis, not less than the greater of: (a) eight percent (8%) of Gross Revenues or (b) Two Thousand Five Hundred Dollars (\$2,500.00) on local and cooperative marketing. Local and cooperative marketing expenditures shall be in addition to the National Marketing Fees paid pursuant to paragraph 2.03. Franchisor may direct Franchisee to deposit some or all of its Local Marketing expenditures into a Local Marketing Cooperative.

2.06.01 Local Marketing. In addition to complying with any specific marketing requirements of Franchisor, Franchisee shall place and pay for such other marketing as Franchisee deems necessary and appropriate. Franchisee shall be responsible to assure that all marketing so placed complies with the Manual and serves to enhance and not detract from or harm the Marks and the goodwill attached and to become attached thereto. Franchisee shall promptly send to Franchisor copies of all marketing copy and media used. In the event Franchisor deems any advertisement or marketing technique to be not in compliance with this paragraph, Franchisee shall, immediately upon receipt of a written notice from Franchisor, cease using the subject advertisement or marketing technique and shall thereafter fully comply with this paragraph. If Franchisee violates this paragraph more than two times in any twelve month period, Franchisor may, in addition to all other remedies available pursuant to this Agreement, require Franchisee to obtain prior written approval of copy and marketing technique for all or certain categories of marketing.

2.06.02 Regional Marketing Cooperative. If there are two or more **Company ABC** franchisees in a marketing area, as determined by Franchisor, the franchisees shall form a Regional Marketing Cooperative and Franchisee shall participate in said cooperative and shall contribute such sums thereto as may be assessed by a majority vote of the cooperative. No Regional Marketing Cooperative shall make assessments, of more than 5% of Gross Revenues (5 of the 8%). Funds contributed to any local marketing cooperative shall be in addition to the National Marketing Fee paid pursuant to paragraph 2.03. Each Regional Marketing Cooperative shall be organized and operate as specified in the Manual.

#### 2.07 Grand Opening.

Franchisee shall, within six months after the date that Franchisee is open for business, publicize and conduct a grand opening consistent with Franchisor's guidelines. The grand opening shall be appropriate for Franchisee's territory, location, community, competitive environment and similar factors.

## 2.08 Rebates, Discounts and Allowances.

Franchisee authorizes Franchisor to collect all available rebates, discounts and allowances (RDA) from vendors or others with whom Franchisee does business, provided that, in Franchisor's reasonable business judgment, it is appropriate to collect them. Franchisor shall place all collected RDAs in either the National Marketing fund or in a separate account and shall apply all such funds for purposes of subsidizing the cost of franchisee conventions, meetings and incentive programs. Franchisee authorizes Franchisor to commingle Franchisee's RDA funds with those received on account of business conducted by other franchisees. Franchisor is authorized to pay from the collected RDA funds any taxes and assessments payable on account of having received the funds and a reasonable portion of the administrative and marketing costs of securing, managing and disbursing such funds. Franchisor will provide an un-audited annual accounting as to the aggregate amount of RDA funds collected and their use and application by general category, which accounting will be prepared within ninety days following the end of Franchisor's fiscal year and will be provided to Franchisee upon written request. Franchisee acknowledges and agrees that each such accounting is a Trade Secret and shall be treated as such according to this Agreement. Except as herein specifically provided, Franchisee waives all compliance with the Uniform Trust Accounting Act and related or similar laws to the broadest extent permitted by law.

## Article 3 - Reports And Audits

### 3.01 Records And Reports.

Franchisee shall at all times maintain true and accurate business records in the manner specified by Franchisor. Franchisee shall, on a weekly basis or at such other intervals as specified by Franchisor, provide Franchisor with such report(s), in the form(s) specified by Franchisor, as Franchisor may require, and at such times as Franchisor may require, including, but not limited to, reports of Gross Revenues, reports of business expenses and overhead, customer information, copies of detailed purchase invoices, number and type of transactions, identity of vendors, the amount of marketing expenditures, detailed records of marketing expenditures, copies of inspection reports, and weekly or monthly sales summary. By submitting any reports to Franchisor, Franchisee is certifying that they are true and correct. Within ninety (90) days following the end of each calendar year, Franchisee shall provide Franchisor with a copy of Franchisee's balance sheet and an income and expense statement for the year. At the time they are filed, Franchisee shall provide Franchisor with copies of Franchisee's federal income tax return(s) and state and local excise tax returns, if applicable, together with all exhibits and schedules thereto and all amendments thereafter. Franchisor is authorized to rely upon such reports and financial documents and to disclose them to governmental authorities as and if properly requested. Franchisor may use data from the reports and financial documents in composite or statistical form for any purpose in Franchisor's sole discretion. Franchisor is authorized to obtain or verify the information and reports described herein by electronic means from Franchisee's computer(s), at any time, without prior notice, at Franchisor's sole election. Franchisee shall retain all business records for at least five (5) years or such longer period of time as may be required by applicable law

### 3.02 Failure to Report.

If Franchisee fails, for any reason, to timely deliver to Franchisor any required report with all required information, Franchisor is authorized, without further notice, to assess Royalties and National Marketing Fees for each relevant week and effect an electronic funds or other transfer of such funds calculated as the greater of (a) Franchisee's average weekly Royalties and National Marketing Fees over the prior twelve months or (b) the average weekly Royalties and National Marketing Fees of all similar franchisees within Franchisee's region as defined by Franchisor. Franchisee hereby authorizes Franchisee's bank to make such transfers upon Franchisor's request. No action taken under this sub-paragraph shall constitute a cure of any breach by Franchisee, an election of remedies by Franchisor or act, in any way, to limit Franchisee's liability to pay fees under this Agreement.

### 3.03 Audits And Inspections.

Franchisor shall have the right, at any time, to enter the Premises (either physically or electronically) for purposes of auditing the accuracy of reports submitted and to otherwise verify compliance with the terms and conditions of this Agreement. Should any audit or inspection reveal that Franchisee has underreported the amount of Gross Revenues, Franchisee shall immediately pay to Franchisor the additional amount of royalties and other fees payable on account of the underreporting, plus interest thereon at the rate of one and one-half percent per month, but not more than the maximum interest allowed by applicable law. If an audit or inspection reveals that Franchisee has underreported Gross Revenues by three (3) percent or more for any week, then Franchisee shall also pay, immediately, the cost of the audit or inspection. In all other cases, Franchisor shall bear the entire cost of the audit or inspection, including incidental costs. Should Franchisee at any time cause an audit to be made of

Franchisee's Licensed Business, Franchisee shall cause a copy of the report of said audit to be delivered to Franchisor without any cost or expense to Franchisor.

### 3.04 Contact With Others.

Franchisor shall have the right, in Franchisor's sole discretion and without further notice to Franchisee or to any other person or entity, to contact any of Franchisee's customers, landlord, accountant, vendors, or other persons within Franchisee's Territory or otherwise for the purpose of verifying the accuracy of any information submitted by Franchisee, for quality assurance or for any other purpose not inconsistent with this Agreement.

## Article 4 - Training

### 4.01 Initial Training.

4.01.01 As a condition subsequent to this Agreement, Franchisee and Franchisee's designated manager, if applicable, shall successfully complete Franchisor's initial training program. The initial training program will be approximately 40 to 80 hours in length and shall be conducted at such location(s) as Franchisor specifies. The initial training may be conducted, in whole or in part, in an existing **Company ABC** Licensed Business owned by Franchisor, an affiliate of Franchisor or another franchisee. Franchisee and Franchisee's manager, if applicable, will be required to execute a consent, waiver and release in the form of Exhibit K before beginning training, relieving Franchisor or other franchisees who might be involved in the training of liability for wages, benefits, and for injury, damages or harm that might occur while training in the facilities of Franchisor or another franchisee. Franchisee shall be responsible for all salaries, compensation, benefits, and living and travel expenses of trainees. After the initial training, Franchisor will be available for such reasonable consultation as Franchisor deems appropriate. Franchisor reserves to itself the exclusive right to determine whether Franchisee and other trainees have satisfactorily completed the training program. If Franchisee and Franchisee's designated manager, if applicable, do not satisfactorily complete the initial training program, Franchisor may terminate this Agreement. Franchisee acknowledges that such failure to satisfactorily complete the initial training program is grounds for termination of this Agreement.

### 4.02 Manager Training.

At all times, Franchisee or Franchisee's manager in charge of operating the Licensed Business shall be an individual who has successfully completed Franchisor's manager training program and who otherwise meets Franchisor's manager criteria. Any new manager shall successfully complete Franchisor's manager training program within 60 days after assuming the role of manager. Unless otherwise agreed in writing by Franchisor, Franchisee or Franchisee's manager(s) shall bear the reasonable cost of training additional managers after the first manager trained. In all cases, Franchisee shall be solely responsible for any salaries, compensation, benefits and living and travel expenses of trainees.

### 4.03 Employee Training.

At all times, Franchisee shall employ only persons who have successfully completed Franchisor's training program. Franchisee shall pay Franchisor's or a third party's usual fee(s) for such mandatory training. Franchisee shall, in any event, be solely responsible for all salaries, compensation, benefits, and living and travel expenses of trainees.

### 4.04 Subsequent Training.

Franchisor may require Franchisee and Franchisee's manager and employees to complete additional training at a location determined in Franchisor's sole discretion. Franchisee shall pay Franchisor's usual fee(s) for such mandatory training. Franchisee shall, in any event, be solely responsible for all salaries, compensation, benefits, and living and travel expenses of trainees.

### 4.05 Training Materials.

Franchisor may, from time to time, provide or make available to Franchisee training materials and equipment for providing training for Franchisee's manager(s) and employees. Franchisor may charge a reasonable fee for such materials and equipment. Franchisee agrees that all such materials are Trade Secrets pursuant to this Agreement. Franchisee agrees to require all of its managers and employees, as applicable, to successfully complete any such training program(s) if Franchisor designates them as mandatory.

#### 4.05 No Warranty of Success.

Franchisor's determination that Franchisee or Franchisee's employee(s) have successfully completed any training shall not be a warranty or representation that the person can or will successfully operate the Licensed Business or any aspect thereof.

### Article 5 - Trade Secrets And Confidentiality

Franchisee will have access during the course of this Agreement to trade secrets that are the property of Franchisor. Trade Secrets include, but are not limited to, the System, the Manual, formulas, methods, customer lists and related information, vendor and pricing lists and policies, the Training, and other programs, techniques and policies as they may be developed by Franchisor from time to time. Franchisee acknowledges that the Trade Secrets derive independent economic value from not being generally known to, and not readily ascertainable by proper means by, other persons who could obtain economic value from their disclosure or use. Franchisee agrees to not disclose or in any way make available to any unauthorized person(s) any Trade Secret(s) or any information regarding any Trade Secret(s) or any proprietary information made available to Franchisee by Franchisor. Franchisee shall hold all such information in complete confidence. Franchisee will not disclose any Trade Secrets whatsoever to any person(s) not employed by or under contract with Franchisee. Franchisee will disclose Trade Secrets only to those employees and agents of Franchisee with a legitimate need to know, each of whom Franchisee warrants will be subject to this article. Franchisee shall cause every manager and every employee who has access to Trade Secrets to sign a Confidentiality and Nondisclosure Agreement in the form prescribed by Franchisor, the current form of which is Exhibit I hereto. Franchisee agrees that Franchisor shall have sole discretion in determining what items or information are Trade Secrets and that any items or information designated Trade Secrets by Franchisor in the Manual or otherwise in writing shall be treated as Trade Secrets under this Agreement whether or not such items or information would be trade secrets under any other applicable legal or other definition(s), including any applicable statutes. In addition to all other remedies available to Franchisor, upon proof of violation of this Article by Franchisee, Franchisee agrees that Franchisor shall be entitled to liquidated damages in an amount equal to the greater of: (a) the sum of the average weekly Royalty Fees and the average weekly National Marketing Fees paid or payable by Franchisee during the preceding twelve months, multiplied by the number of weeks, or portion thereof, during which Franchisee was in violation of this Article or (b) one hundred percent of the gross revenues received or receivable by Franchisee or any transferee of any Trade Secrets during every day, or portion thereof, during which Franchisee was in violation of this Article. Franchisee acknowledges and agrees that, in the event of Franchisee's violation of this Article, proof of actual damages would be difficult and that the formula for calculating liquidated damages contained herein is a reasonable estimate of what actual damages would be. The foregoing formula does not result in a penalty.

### Article 6 - Pre-Opening Obligations

#### 6.01 Premises And Lease.

6.01.01 Franchisee shall be solely responsible for selecting the location for the Licensed Business that complies with the Manual (hereinafter "the Premises"). Franchisee, within 180 days after signing this Agreement, shall select a location, subject to Franchisor's approval. Franchisor will attempt to provide to Franchisee any information in its possession regarding the Premises, proposed Premises and any known alternative Premises within Franchisee's Territory. Such information is provided by Franchisor without warranty as to its accuracy or completeness or otherwise. Franchisor has no special expertise in such matters. Franchisee shall not sign a lease, sub-lease or other obligation until after Franchisee has received Franchisor's approval of the Premises and lease or sub-lease in writing, which approval shall be deemed to have been given if Franchisor has not notified Franchisee within ten (10) business days following Franchisor's receipt from Franchisee of a copy of the proposed lease or sub-lease and such other information about the proposed Premises as Franchisor may require. Approval of the Premises or the lease or sub-lease by Franchisor does not constitute a representation or warranty by Franchisor that the Premises will be good and does not constitute a legal or other opinion as to any term of the lease or sub-lease. Franchisor may, in Franchisor's discretion, condition approval upon execution of the Lease Conditional Assignment Agreement by Franchisee and Franchisee's landlord in the form of Exhibit E, attached. If Franchisee fails to select an approved location within 180 days, Franchisor shall have the option of terminating this Agreement. Franchisee acknowledges and agrees that failure to select an approved location within 180 days is cause for Termination of this Agreement. Notwithstanding Franchisor's right to terminate for failure to select an approved location within 180 days, Franchisor will reasonably extend the selection period if Franchisee has made best efforts to select a location and for valid reasons has been unsuccessful.

6.01.02 If Franchisee requests Franchisor to send a person to Franchisee's Territory to assist in identifying, selecting or negotiating the terms of a lease or purchase of or otherwise in connection with Franchisee's selection of Premises, upon Franchisor's request, Franchisee shall arrange for appropriate transportation, hotels and meals and reasonable expenses not to exceed the current per diem rate for federal employees all at Franchisee's expense. Except for the per diem allowance, Franchisee shall pay such expenses directly to the transportation and other providers.

6.01.03 In some instances, Franchisor may have already entered into a master lease for the Premises. In such event, Franchisee shall execute a sublease or assignment agreement, as appropriate, subject to the same terms and conditions as the master lease. The sublease or assignment may provide that Franchisee shall pay rent and other obligations directly to the master landlord.

## 6.02 Specifications.

Franchisee's Licensed Business shall operate only from Premises meeting Franchisor's specifications, including appropriate office and warehouse space. Franchisee understands and agrees that, although all **Company ABC** offices will follow a consistent theme, the details of their design will differ in many cases, based upon location requirements, landlord requests, and unique features of the community. Franchisor will consider Franchisee's requests for features for Franchisee's office, but is not obligated to follow those requests. Franchisee shall be obligated to update the design of Franchisee's office at Franchisee's expense not more than once every three years. Franchisee may change or update the design of Franchisee's office, subject to Franchisor's prior written approval, at any time, at Franchisee's expense. If Franchisor approves any changes in the plans or designs at Franchisee's request (or to comply with governmental codes, rules or ordinances), Franchisor shall own all rights to such plans as modified without further compensation to Franchisee or any other person. Franchisee shall sign and obtain signatures of necessary third parties on any documents requested by Franchisor to transfer any and all copyrights or other proprietary interests of any person in and to such modified plans or designs.

## 6.03 Appearance Of Premises.

Franchisee acknowledges that not every **Company ABC** office will be required to have identical decor, color schemes and layout. Franchisee agrees to accept Franchisor's subjective evaluation as to what would keep the Premises in compliance with Franchisor's standards. Franchisee agrees, at Franchisee's sole cost and expense, to maintain the Premises, including, but not limited to equipment, displays, fixtures, and interior and exterior decor in accordance Franchisor's standards throughout the term of this Agreement

## 6.04 Required Equipment

Franchisee shall acquire install and use, at Franchisee's sole expense the Required Equipment. The current list of Required Equipment is contained in [Exhibit C](#). Franchisee understands that the specific list of Required Equipment may be different for Franchisee's Licensed Business than for other franchisees or company-owned offices on account of differences in the Premises, lease terms, demographics or otherwise and that Franchisor shall have the right to modify the list of Required Equipment in the Manual or otherwise in writing. All Required Equipment shall meet or exceed Franchisor's specifications. Franchisee shall purchase the Required Equipment only from vendors approved by Franchisor.

# Article 7 - Operation Of Licensed Business

## 7.01 Independent Contractor.

Each party to this Agreement is and shall remain an independent contractor and shall control the manner and means of operation of its respective business and shall exercise complete control over and responsibility for all labor relations and the conduct of its agents and employees. Neither party shall be considered or held out to be agent(s), joint venturers, partners or employee(s) of the other, except as specifically authorized by this Agreement. Neither party shall negotiate or enter into any agreement or incur any liability in the name of or on behalf of the other unless, and to the extent, specifically authorized by this Agreement. Franchisee shall prominently display signs at all times in the manner specified by Franchisor, indicating the name of the Franchisee and stating that the Licensed Business is independently owned and operated. Franchisee's business forms that bear the Marks shall contain Franchisee's name and a statement that the Licensed Business is independently owned and operated in such form as Franchisor may specify.

## 7.02 Personal Participation.

Throughout the term of this Agreement, Franchisee shall either devote Franchisee's full time and effort to actively managing the Licensed Business or delegate its management to a responsible person. Notwithstanding any delegation of authority hereunder, Franchisee shall reserve and exercise ultimate authority and responsibility with respect to the operation and management of the Licensed Business. If Franchisee employs a manager to run the day to day operations, the manager shall be required to attend and successfully complete Franchisor's training program prior to taking over full day-to-day responsibilities, at Franchisee's sole cost and expense (except for Franchisee's first manager whom Franchisor will train at no additional charge to Franchisee for the training—but Franchisee shall be solely responsible for all travel and living costs of trainees). Franchisee shall devote such time and effort to the Licensed Business as Franchisee determines, but shall reserve and exercise ultimate authority and responsibility with respect to the operation and management of the Licensed Business.

## 7.03 Retail Prices.

Franchisor may recommend prices and pricing strategies for products and services. Franchisee is obligated to follow such price recommendations to the extent such obligation is consistent with applicable law and is otherwise solely responsible for establishing franchisee's own retail prices at such levels as franchisee deems appropriate.

## 7.04 Compliance With Laws.

Franchisee shall be solely responsible, at Franchisee's sole cost and expense, for obtaining and maintaining all necessary or required permits and licenses in order to operate the Licensed Business. Franchisee is solely responsible for strictly complying with each and every law, ordinance and regulation applicable to the Licensed Business, including, but not limited to, licensing, health, safety, environmental, consumer and labor regulations. Franchisee shall timely pay all applicable taxes as they come due, but may challenge the amount or applicability thereof; provided, that Franchisee hereby agrees to indemnify, hold harmless and defend Franchisor from any and all liabilities for taxes based upon Franchisee's operations.

## 7.05 Franchisee Business Operation.

Franchisee understands and acknowledges that every detail of the System and of the operation of the Licensed Business is important to Franchisee, Franchisor and other **Company ABC** franchisees in order to maintain and further develop high and uniform operating standards, to increase the demand for goods and services sold by Franchisor and all franchisees, to enhance the image of Franchisor and the Marks, and to protect Franchisor's reputation and goodwill. Therefore, Franchisee agrees that:

7.05.01 Compliance with Manual. Franchisee shall operate the Licensed Business in conformity with such uniform methods, standards and specifications as Franchisor may prescribe, in the Manual or otherwise, to insure that the highest degree of quality and service is uniformly maintained. Franchisee shall acquire and maintain, at all times, all equipment and software required by Franchisor for operation of the Licensed Business. Franchisee shall offer all of the goods and services designated by Franchisor and no others without the written consent of Franchisor, which consent Franchisor may withhold for any reason. Franchisee shall assure that all telephone calls are answered live in compliance with the Manual.

7.05.02 Image. Franchisee shall, at all times, work to protect and enhance Franchisor's image and, specifically, shall maintain employees or workers in the Licensed Business whose appearance, attire, attitude, reputation and demeanor are consistent with Franchisor's image. Franchisee acknowledges and agrees that Franchisor shall have sole discretion in determining what constitutes Franchisor's image, and further acknowledges that said image is constantly evolving as markets change and evolve.

7.05.03 Business Dealings. Franchisee shall not, at any time, engage in any business dealings in relation with the Licensed Business or the Franchise which are unethical, dishonest or otherwise could cause harm to the Marks, Franchisor, the goodwill associated with the Marks, or to any customer or vendor of Franchisee.

7.05.04 Maintenance. Franchisee shall, at Franchisee's sole cost and expense, maintain the Premises, inside and out, in the highest degree of sanitation, repair and condition, and in connection therewith shall make such additions, alterations, repairs and replacements thereto (but no others without Franchisor's prior written consent) as may be required for that purpose, including without limitation, such periodic cleaning, repainting, repairs to impaired equipment and replacement of obsolete signs and equipment as Franchisor may reasonably direct. Franchisee shall maintain all landscaping and other outside areas of the premises in an attractive and clean condition.

7.05.05 Refurbishing. At Franchisor's request, which shall not be more often than once every three (3) years, Franchisee shall replace or update the Premises at Franchisee's sole expense, to conform to the design, trade dress, color schemes and presentation of the Marks consistent with Franchisor's then-current image, including, without limitation, such internal changes and redecoration and such modifications to existing equipment as may be necessary in Franchisor's sole judgment.

7.05.06 Advisory Committees. Franchisee shall participate, at Franchisee's sole expense, in local, regional and national franchisee advisory committees or councils if established or sanctioned by Franchisor.

## 7.06 Restrictions On Sources Of Products And Services.

7.06.01 Specifications. As to all equipment, fixtures, supplies and inventory ("Items") necessary to operate the Licensed Business, except as otherwise specified herein, Franchisee may purchase them from the vendor of Franchisee's choice, but the Item(s) must meet Franchisor's specifications, if any. The current list of Items subject to specifications is included as Exhibit D. Franchisor reserves the right to change the list of Items that Franchisee must purchase in accordance with specifications. Franchisor reserves the right to require Franchisee to purchase only from suppliers that Franchisor has approved.

7.06.02 Items Bearing Marks and Proprietary Items. Franchisee shall purchase only from Franchisor or a supplier approved by Franchisor all Items used to start or operate the Licensed Business that contain or bear the Marks or that are proprietary to Franchisor. In addition, Franchisee shall purchase from a supplier approved by Franchisor, all signs used to identify the Licensed Business.

7.06.03 Other Suppliers. Franchisor will approve other suppliers of non-proprietary items if Franchisee or the supplier request the approval in writing and if the supplier demonstrates to the satisfaction of Franchisor that it is financially capable and can provide Item(s) or service(s) that meet Franchisor's standards and that it is willing and able to protect Franchisor's proprietary information. Franchisor may charge a reasonable fee to cover its costs in evaluating a proposed supplier. Franchisor will normally make its decision within thirty days after it receives all of the requested information and any requested samples. Franchisor reserves the right to withdraw approval of any supplier whose performance falls below Franchisor's standards.

7.06.04 Unspecified Products. Franchisee may obtain any Item used in the Licensed Business that Franchisee is not required to purchase in accordance with specifications or from an approved supplier from any source, so long as the Item is consistent with Franchisor's image. Should Franchisor later publish specifications or require use of an approved supplier, Franchisee shall comply with that requirement.

7.06.05 Inventory. Franchisee shall, at all times, maintain a sufficient inventory of Items so that the Licensed Business can operate at maximum capacity.

7.06.06 Training and Other Services. Certain services may be available to Franchisee only through Franchisor or an affiliate, including mandatory training. Franchisee will be required to pay the usual price for any of these services, unless otherwise provided in this Agreement.

7.06.07 Proprietary Items. Proprietary Items are Items that contain one or more unique characteristics or ingredients which are either not known to the general public or which are subject to protection as intellectual property or Trade Secrets, and can include packaging, trademarks or containers. Patented or patentable Items are Proprietary Items. Franchisor or its Affiliate(s) may develop Proprietary Items. Franchisor or an Affiliate will (i) manufacture, supply and sell Proprietary Items to franchisees of Franchisor, and/or (ii) disclose the formulae for and methods of preparation of the Proprietary Items to one or more supplier(s) who will be authorized by Franchisor to manufacture Proprietary Items to Franchisor's precise specifications and sell Proprietary Items to franchisees of Franchisor and/or (iii) license Franchisee to use them pursuant to this Agreement. If required, Franchisee shall purchase and use Proprietary Items from Franchisor or from supplier(s) so authorized by Franchisor. Franchisor or its Affiliate(s) will derive revenue and profits from Franchisee's purchases of any Proprietary Items. Franchisor or its Affiliate(s) may distribute Proprietary Items through alternative channels of distribution, including near Franchisee's location.

7.06.08 Proprietary Software. Franchisor will license you to use proprietary software. The Software, and any additions or modifications or further developments are and will be Trade Secrets of Franchisor. Franchisee shall comply with Franchisor's requirements and specifications regarding the Software. Franchisor will license the Software to Franchisee at its current rates. Franchisor may require Franchisee to sign a separate license agreement for some software. Franchisor or its Affiliate(s) may distribute Proprietary Software through alternative channels of distribution, including near Franchisee's location and to competitors of Franchisee.