

FRANCHISE DISCLOSURE DOCUMENT



Zounds Hearing Franchising, LLC
an Arizona limited liability company
4405 E. Baseline Road, Suite 114
Phoenix, AZ 85042
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Zounds Hearing Centers are business to consumer franchises that provide hearing screening, fitting, and sale of hearing aids. We offer three types of franchises: (1) individual franchises for the right to develop and operate a single Zounds Hearing Center (“Individual Center”) offering all of our franchised services and products in a designated area; (2) an individual franchise sale to a group of approximately 10 general practice physicians (“Physician Investment Group”).

The total investment necessary to begin operation of an Individual or Physician Investment Group Center ranges from \$125,000 to \$196,950. This includes an initial franchise fee of \$40,000 that must be paid to the franchisor or affiliate.

This Franchise 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 Jamile Dean Essa at 4405 E. Baseline Road, Suite 114, Phoenix, AZ 85042 and (480) 258-6005.

The terms of your contract will govern your franchise relationship. Do not rely on the Franchise 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 “*A Consumer’s Guide to Buying a Franchise*,” which can help you understand how to use this Disclosure Document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTCHELP 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.

Issued on: March 25, 2012

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 OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

Call the state franchise administrator listed in Exhibit K 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 ONLY IN ARIZONA. OUT OF STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US IN ARIZONA, THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT REQUIRES THAT ARIZONA 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. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.
4. YOUR SPOUSE AND THE SPOUSES OF FRANCHISE OWNERS, PARTNERS, MEMBERS, OFFICERS, AGENTS, DIRECTORS, TRUSTEES, AND BENEFICIARIES, MUST SIGN A PERSONAL GUARANTY MAKING THEM JOINTLY AND SEVERALLY LIABLE FOR ALL DEBTS AND OBLIGATIONS OF THE FRANCHISE WHETHER OR NOT THEY ARE INVOLVED IN THE OPERATION OF THE FRANCHISE BUSINESS. THIS REQUIREMENT PLACES ALL THE PERSONAL ASSETS OF YOU, YOUR SPOUSE AND YOUR OWNERS AT RISK.
5. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

We 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 represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should make sure to do your own investigation of the franchise.

Effective Date: See the next page for state effective dates.

STATE EFFECTIVE DATES

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:

California

Florida January 5, 2012

Illinois

Indiana February 2, 2012

Kentucky February 7, 2012

Maryland

Michigan January 6, 2012

Minnesota

Nebraska January 5, 2012

New York January 10, 2012

North Dakota March 1, 2012

South Dakota

Texas January 25, 2012

Utah January 4, 2012

Virginia

Washington

Wisconsin January 2, 2012

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
1. The Franchisor and Any Parents, Predecessors, and Affiliates	5
2. Business Experience	7
3. Litigation.....	8
4. Bankruptcy.....	8
5. Initial Fees.....	8
6. Other Fees	9
7. Estimated Initial Investment	11
8. Restrictions on Sources of Products and Services	14
9. Franchisee's Obligations.....	16
10. Financing.....	17
11. Franchisor's Assistance, Advertising, Computer Systems, and Training.....	17
12. Designated Territory	23
13. Trademarks	25
14. Patents, Copyrights, and Proprietary Information	26
15. Obligation to Participate in the Actual Operation of the Franchise Business.....	27
16. Restrictions on What the Franchisee May Sell	28
17. Renewal, Termination, Transfer, and Dispute Resolution.....	28
18. Public Figures	31
19. Financial Performance Representations.....	31
20. Outlets and Franchisee Information.....	33
21. Financial Statements	35
22. Contracts	35
23. Receipts.....	35

Exhibits:

- A. Franchise Agreement
- B. Physician Investment Group Form
- C. Agreement to Enter into an LLC
- D. Financial Statements
- E. Acknowledgement Regarding Ownership
- F. Guaranty of Franchisee's Obligations
- G. Electronic Funds Transfer Form
- H. Operations Manual Table of Contents
- I. Consent and Agreement of Landlord
- J. Confidentiality and Non-Competition Agreement
- K. State Specific Addendums
- L. List of State Administrators and Agents for Service of Process
- M. Acknowledgement of Receipt (2 copies)

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

To simplify the language in this Franchise Disclosure Document, “Zounds Franchise,” “we” or “us” means Zounds Hearing Franchising, LLC the “Franchisor.” “You” means the person, corporation, partnership or other business entity that buys the franchise, the “Franchisee.” If you are a business entity, “you” includes your owners.

The Franchisor

Zounds Hearing Franchising, LLC is an Arizona limited liability company that was formed on July 21, 2011. Our current principal business address is 4405 E. Baseline Road, Suite 114, Phoenix, AZ 85042 and our telephone number is 480-258-6005. We are not engaged in any other type of business activity. Our agent for service of process is Jamile Dean Essa, and our registered office is our principal place of business. Our agent for service of process in other states in which we may sell franchises is disclosed in **Exhibit L**.

We grant franchises for the operation of a hearing aid business using the name “Zounds Hearing Center” (the “Center”.) We have been offering franchises these franchises in the United States since the date of this disclosure document. We do not sell franchises in any other line of business.

Our Parents, Predecessors, and Affiliates

We do not have a parent or predecessor company.

Our affiliate through common ownership includes Zounds Hearing, Inc., which was incorporated in the state of Delaware on October 26, 2009 for the sale and servicing of hearing aids, located at 4405 E Baseline Road, Suite 114, Phoenix, AZ 85042. Zounds Hearing, Inc. does not assume any of the legal, operational, or other obligations of Zounds Hearing Franchising, LLC, nor do we assume any of the obligations of Zounds Hearing, Inc. Zounds Hearing, Inc. has not offered franchises in any line of business.

Zounds, Inc., was a Delaware corporation, formed in September, 2005, whose principal place of business was 1840 S. Stapley Drive, Suite 201, Mesa, Arizona 85204, formed for the manufacture and retail sales and services of hearing aids.

Zounds Acquisition, LLC, a Delaware limited liability company was formed on July 9, 2009, for the manufacture and retail sales and services of hearing aids. Its principal business address was 615 S. DuPont Highway, Dover Delaware, 19901. It was also registered in the state of Arizona as a Foreign LLC. Zounds Acquisition, LLC, acquired the assets of Zounds, Inc., after Zounds, Inc. filed a motion to authorize the sale of all assets under Chapter 11 bankruptcy. Zounds Acquisition, LLC completed the purchase of the assets on September 9, 2009. Zounds Acquisition LLC was converted to Zounds Hearing Inc on October 26, 2009.

The Franchises Offered

A franchised Center enjoys the right to use our name, procedures, and methods, collectively the system (“System”) to own and operate a Center, all of which may be improved, further developed, or otherwise modified. Our Centers provide hearing screenings, fittings and hearing aid product sales out of an office building, retail center, or a free standing location. You will need approximately 600 to 1,000 square feet of

leased or owned space to operate a Center.

We currently offer two different types of franchises:

Individual Center

We offer franchising agreements (each a “Franchise Agreement”) with qualified individuals and entities that wish to establish and operate an Individual Center at an agreed-upon specified location (“the Premises”). A copy of the Franchise Agreement is attached to this disclosure document as **Exhibit A**.

If you are a corporation, partnership, limited liability company, or other business entity, all owners must sign the Acknowledgement Regarding Ownership and Guaranty of Franchisee’s Obligations, attached to the Franchise Agreement. All of the terms of the Franchise Agreement will apply to all of the owners. You will manage a Center under the System, at a location identified in the Franchise Agreement as the “Premises”. The Premises will be in an area identified in the Franchise Agreement as the “Designated Territory.” The Franchise Agreement will be for a term beginning on the Effective Date of the Franchise Agreement, and expire five (5) years from the Effective Date the “Initial Term.” You must operate the Center in your Designated Territory.

Physician Investment Group

We offer to qualified physicians the right to purchase a franchise and own an Individual Center and be part of a physician Group (“Physician Group”) that will operate the Individual Center at an agreed-upon specified location (“the Premises”) as initiated by our physician investment group form (“Physician Investment Group Form”), attached to this disclosure document as **Exhibit B**. Typically, the Premises will be in a medical complex near a hospital or other medical treatment center, or it may be in a retail location.

The Physician Group may form a limited liability company, or other entity. We suggest that each physician have an ownership position in the entity. As a courtesy, information relating to an Agreement to Enter into an LLC is attached to this disclosure document as **Exhibit C**.

The Physician Investment Group may select one member to manage and oversee the Center, may contract a person to manage and oversee the center, or we may, at our option, offer a management contract to operate the Center on their behalf.

Competition, Business Conditions

The hearing aid market is established, and growing, because the size of the senior market is increasing with more retirees. There are numerous independent audiologists/retailers and several chain operations selling hearing aids. You will face competition from both of these groups. Miracle Ear is a company which offers franchises. Beltone, another competitor, offers dealerships. Chain operators include Sonus, Hear USA, AHAA, and Avada. It is estimated that the size of the worldwide retail hearing aid market is approximately \$15 billion dollars annually of which the United States is approximately \$4.5 billion dollars annually. No single manufacturer controls more than 23% of the market. *Source: Management estimate based on hearing aid company annual reports and practice surveys.*

Licensing and Regulations

Individual Center and Physician Investment Group

You must secure and maintain in force all required licenses, permits and certificates relating to the operation of the Center and any employees, and specifically to the dispensing of hearing aid devices. You must not employ any person in a position that requires a license unless that person is currently licensed by all applicable authorities and a copy of the license or permit is in your business files.

The requirements for audiologists and hearing instrument specialists you hire vary from state to state. If such a license is required, that a properly licensed individual must work in your Center at all times, during the term of the Franchise Agreement or you will be in default of the Franchise Agreement. You will be required to provide us with a copy of all necessary licenses related to the sale and fitting of hearing aid products, and maintain a current copy of such licenses on file at our offices.

In addition your Center will be subject to the requirements of city occupancy permits, ordinances, building codes, zoning, licensing, certifications, and other federal, state, and local laws and ordinances. You will also be subject to the laws and regulations of the American Disabilities Act, federal wage and hour requirements, the Occupational Health and Safety Act, and local, city, and state governmental authority health requirements and regulations, among others. It is your responsibility to investigate and comply with all of the regulations that apply to the business and the operation of the business in your area. You should consult with your own legal counsel regarding compliance with the laws applicable to your state.

ITEM 2 BUSINESS EXPERIENCE

Jamile Dean Essa, Manager of Zounds Hearing Franchising LLC. Jamile has been employed as a manager at Zounds Hearing Inc. since January 2011, located at 4405 E. Baseline Road, Suite 114, Phoenix, AZ 85042. He was Manager at Keller Williams Lifestyle Realty, located at 3540 E. Baseline Road, Suite 120, in Phoenix, AZ, from January 2010 to January 2011. Mr. Essa also served as Manager for RE/MAX located at 1745 S. Alma School Road, Suite 146, Mesa, AZ 85210, from January 2005 to January 2010.

Samuel L. Thomasson, Business Development Advisor of Zounds Hearing Franchising LLC is the Founder, President and CEO of Zounds Hearing, Inc., located at 4405 E. Baseline Road, Suite 114, Phoenix, AZ 85042, where he has been the CEO since the company's formation on October 26, 2009. Previously he was the CEO of Zounds, Inc., in Mesa, Arizona, from September 2005 to September 2007, and the Vice Chairman from September 2007 through February, 2009, after which he was the CEO until September, 2009.

Raj Kapur, Business Development Advisor of Zounds Hearing Franchising, has been the Chief Financial Officer of Zounds Hearing, Inc., located at 4405 E. Baseline Road, Suite 114, Phoenix, AZ 85042, since September 2009. He worked for Zounds Inc., as a Controller, previously located at 1840 S. Stapley Drive, Suite 201, Mesa, Arizona 85204 from April 2007 to October 2008. Mr. Kapur was a Controller for Gould Inc. located at 2929 W. Chandler Blvd., Chandler, AZ 85224 from April 2004 to March 2007.

**ITEM 3
LITIGATION**

No litigation is required to be disclosed in this Item.

**ITEM 4
BANKRUPTCY**

Zounds Acquisition, LLC, a Delaware limited liability company was formed to acquire the assets of Zounds, Inc., which filed a Chapter 11 bankruptcy on March 30, 2009. Zounds, Inc. subsequently filed a motion for (A) an order under Section 363 of the Federal bankruptcy code authorizing the sale of substantially all of its assets, and (B) an order approving the procedures for this sale in the United States Bankruptcy Court, District of Arizona on August 5, 2009 as case, No. 2:09-bk-06053-GBN. On September 9, 2009, the Bankruptcy Court approved and entered an order approving the sale of the assets of Zounds, Inc. to Zounds Acquisition, LLC. On October 26, 2009, Zounds Acquisition, LLC was converted into the Delaware Corporation Zounds Hearing, Inc.

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

**ITEM 5
INITIAL FEES**

Individual Center

You must pay us an initial franchise fee (“Initial Franchise Fee”) of \$40,000 when the Franchise Agreement is signed for the right to operate the business within a designated territory (“Designated Territory”), subject to the terms and conditions contained in the Franchise Agreement. You must pay the Initial Franchise Fee in a lump sum payment.

The Initial Franchise Fee is uniform to all new franchisees and is deemed fully earned by us upon receipt as consideration for our services to that time, including without limitation, screening of and processing your application, counseling, and consultation and is not refundable in whole or in part. We reserve the right to discount the franchise fee for multiple franchise purchases.

Physician Investment Group

Each physician will have an ownership interest in the entity formed by the physician group that is a party to the Franchise Agreement as a franchise fee and to cover the cost of opening an Individual Center. The formation of the physician group entity is separate from the franchise transaction. Each physician investment group will be required to designate a manager. The manager is not required to be a physician.

In addition to the fees described above, you must also purchase certain initial inventory and operating supplies from us or our affiliates. These include, among other things, hearing test instruments, hearing aids, and marketing materials. Your purchases of these items are likely to total approximately \$10,000 to \$30,000. Please reference Item 7, for further details.

**ITEM 6
OTHER FEES**

Individual Center and Physician Investment Group

Type of Fee	Amount	Due Date	Remarks
Royalty Fee	5% of the daily gross sales generated by your Business	Electronically transferred at end of each business day.	We require this fee to be paid by an electronic transfer See Notes 1 and 2
Advertising Fee	20% of the daily gross sales generated by your Business or a monthly minimum of \$5,700, whichever is greater As the business develops, the 20% requirement may be reduced if we determine, in our sole discretion, that the advertising is optimized	Electronically transferred at end of each business day.	We require this fee to be paid by an electronic transfer See Notes 1, 2, 3 and Item 11
Computer Support Fee	\$149 per month	By the 5 th of the month	We require this fee to be paid by an electronic transfer See Note 2 and 4
Renewal Fee	\$5,000	90 days prior to renewal	For an additional 5 year period See Note 5
Refresher Training Fee	\$2,000 (1 person, 2 weeks)	30 days before the expiration of the term of the Franchise Agreement	Required when you renew the Franchise at the end of the agreed term
Transfer Fee/Training Fee	\$5,000 transfer fee plus \$4,000 training fee (2 persons, 2 weeks)	Payable on transfer of your rights under the Franchise Agreement	These are fees that you and the transferee are responsible to pay
Audit Fees	Difficult to ascertain, due to a variety of factors, but likely to be in range of \$2,000 to \$5,000	30 days after billing	Payable only if audit shows an under-statement of at least 2% of Gross Revenue for any month
Relocation Fee	\$2,000	Upon approval of your new location	Payable to us for evaluation, review, assistance, and approval
Insurance	Varies according to carrier	As incurred	If you fail to obtain required insurance, we may obtain such insurance at your expense, even though we are not obligated to do so
Costs and Attorneys' Fees	Varies according to circumstance	Upon settlement or conclusion of claim or action	Payable as incurred by us in obtaining any relief for the enforcement of any item of the Franchise Agreement

Type of Fee	Amount	Due Date	Remarks
Indemnification	Varies according to circumstance	As incurred	You must indemnify us, and reimburse us for any costs (including our attorneys' fees) if we are held liable for any claims arising from your Center
Operating and Special Assistance	Varies according to circumstances \$100 to \$1,000	At completion of assistance	Expenses paid by you See Note 6
Late Reporting Fees	\$10 per day, starting the 11 th day after a report is due to us	As incurred	Payable in addition to other payments to us
Interest on Overdue Amounts	1.5% per month or the highest commercial interest rate that the law allows on amounts owed to us	As incurred	Interest begins from the date of non-payment or underpayment
Return or Dishonored Payment Fee	\$100 per dishonored or returned check or failed electronic transfer	As incurred	You must pay us for any fees that we incur due to the returned or dishonored check, draft, transfer or debit.
Collection Charges	Varies according to circumstance	As incurred	You must pay all collection charges associated with our efforts in collecting any amounts owed to you or us under the Franchise Agreement

Notes:

All fees are payable to us in U.S. dollars, uniformly applied to new system franchisees, and are non-refundable; however, in some instances in which it was appropriate to do so, we may have waived some or all of these fees for a particular franchisee. You agree not to reduce the amount of any payment due to us by any claim you may have against us, for any amount owed to governmental entities, or for any other reasons in which you may believe you are entitled to a set off. You agree to pay all taxes, when due, to the appropriate governmental entities.

1. Gross sales includes all revenues and receipts from the sale of all services and products from your Center, whether for cash or credit, and income of every kind related to the Center, but does not include sales taxes or other taxes collected from customers by you for transmittal to the appropriate taxing authority.
2. You must sign and return to us the Electronic Funds Transfer forms (**Exhibit G**) that authorizes us to receive the royalty fees, advertising fund fees, and product restocking costs from your bank accounts. You agree that you will maintain 3 bank accounts. The first account will have all deposits placed in it. Each night the money will be swept into a second account by the appropriate estimated proportion to pay all of the royalty fees, advertising fees and product restocking costs. We will debit the second account as necessary. Each day the remainder will be swept into a third account for the operation of the franchisee business. These accounts will be reconciled monthly and the difference between the estimated amount and the actual amount will be debited or credited to the third account. You agree to hold enough funds in reserve in the third account to accomplish this monthly reconciliation.
3. If the Physician Investment Group is able to obtain one customer per week per physician at their Center, then they

may not be required to pay the advertising percentage shown above.

4. The support covers up to 4.5 hours per quarter. If the franchisee requires more hours it will be billed at Zounds cost for the additional hours (currently estimated to be \$80 per hour).
5. We will not unreasonably withhold the approval of your request for the renewal of your Franchise Agreement, provided that all renewal terms as outlined in your Franchise Agreement, Section 3, Item B, are met as required.
6. At your request, we will provide additional assistance beyond our standard support, at a cost to you based on our then current fee for the respective personnel performing such assistance plus other reasonable expenses, including all transportation, lodging, and other expenses.

**ITEM 7
ESTIMATED INITIAL INVESTMENT**

YOUR ESTIMATED INITIAL INVESTMENT

Individual Center and Physician Investment Group

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fee (1)	\$40,000	Lump sum	Upon execution of the Franchise Agreement	Us
Travel and Living Expenses During Training (2)	\$0 - \$4,000	As incurred	As incurred	Airlines, hotels, and restaurants
Lease, Utility and Security Deposits (3)	\$1,200 - \$3,200	As agreed	When you sign your lease or start an account with a utility company	Landlord, utility company
Insurance Premium, 3 months (4)	\$450 - \$750	As agreed	Prior to opening	Insurance agent or carrier
Business License and Permits (5)	\$200 - \$500	As incurred	As incurred	Government agencies
Rent, 3 months (6)	\$3,000 - \$9,000	As agreed	As agreed	Landlord
Blueprints, Plans, Permits, Architectural Fees	\$500 - \$2,500	As agreed	As agreed	Architect, planner, city, county, or state
Leasehold Improvements (7)	\$2,000 - \$18,000	As agreed	As agreed	Third parties
Signage and Graphics (8)	\$3,000 - \$5,000	As incurred	As agreed	Vendor
Marketing Materials	\$500 - \$1,000	As incurred	As incurred	Us

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Furniture, Fixtures and Equipment (9)	\$2,500 - \$6,000	As incurred	As agreed	Vendor
Hearing Test Instruments	\$10,000 - \$20,000	As agreed	As agreed	Vendor
Computer and Software Setup	\$5,000	As incurred	As incurred	Third parties
Internet	\$50 - \$200	As agreed	As agreed	Third parties
Initial Inventory and Operating Supplies (10)	\$20,000 - \$30,000	As incurred	As agreed	Us/Vendor
Initial Advertising and Grand Opening 3 months(11)	\$21,400	As incurred	As agreed	Us
Hearing Instrument Certification	\$200 - \$400	As incurred	As agreed	Third parties
Additional Funds, 3 Months (12)	\$15,000 - \$30,000	As agreed	As incurred	Employees, utilities, suppliers, etc.
Total Estimated Initial Investment (13)	\$125,000 - \$196,950			

Notes:

1. The details of the Initial Franchise Fee are described in Item 5.
2. This estimates the travel and living expenses, including airfare, which you will incur when you and your employees attend the initial training program. The cost you incur will vary depending upon factors such as distance traveled, mode of transportation, travel preferences (such as air travel or ground transportation), nature of accommodations, per diem expenses actually incurred, and the number of persons who attend training. It does not include any wages or salary for you or your trainees during training.
3. These are estimated amounts of lease costs and utility deposits. These amounts will vary in each market and may be refundable.
4. This is an estimate of insurance premiums for the initial 3 months of business operation. Your costs will vary depending on your market, the amount of coverage you select, your insurance carrier, and other factors. See Item 9 for more details regarding insurance.
5. You are required to obtain a business license or permit before you start business. Local, municipal, county, and state regulations vary on what licenses and permits are required by you to operate. You, or your employee, will be required to have a hearing aid dispenser license valid in the state of your franchise.
6. You will need to rent or acquire retail space for your franchise business. Rent varies considerably from market to market, and from location to location in each market. Generally you will need a minimum of 600 to 1,000 square feet of space. This figure is an estimate of the rent for 3 months.

7. You may need to construct improvements, or “build out,” the Premises at which you will operate your Center. You may be able to negotiate various terms with your Landlord, including paying for some of the build out costs for your space. Also, you may seek to finance some or all of your build out costs through your Landlord or other financing sources. A variety of factors may affect the availability of Landlord and other financing, the monthly overall costs of the financing, and other terms relevant to your decision whether to pay or finance the build out costs.
8. The cost of signage and graphics will vary from location to location depending on lease requirements, local ordinances and restrictions, store frontage, and related factors. We can provide assistance to you if needed. The final design must be submitted to us for review and approval.
9. You will need to purchase furniture and fixtures for the Premises that meet our specifications and are from approved or designated vendors (where there are approved or designated vendors). You may decide to lease the furniture and/or equipment needed rather than purchasing it with a lump sum payment. A variety of factors (such as the condition of the national and regional economy, availability of credit, number of suppliers leasing products in your area, the interest rates offered by suppliers, duration of leases offered, security requirements, and your credit history) may affect the availability of leased products, the monthly and overall costs of the leases, and other terms relevant to your decision whether to purchase or lease the furniture and/or equipment. The amounts listed are an estimate and may vary per your location and market.
10. This estimate covers various supplies you will need in your initial phase of operation. You are required to obtain these items from us or from our designated sources.
11. You are required to provide funding for grand opening advertising and a promotional program which will be approved and administered by us. This is due to us 60 days from the time of signing or 30 days prior to the date of opening, whichever comes first. Additional details can be found in Item 11 under the Subheading “Advertising.” A Center operated by a Physician’s Investment Group may not be required to pay the full amount of advertising shown if there are sufficient referrals from the member physicians that make a purchase.
12. You will need additional capital to support on-going expenses during the initial three months after you open for business. The estimate includes items such as payroll, royalty, advertising fees, additional advertising, repairs and maintenance, bank charges, miscellaneous supplies and equipment, state tax, and other miscellaneous items, that may not be covered by sales revenues.

The actual expenses you incur during the start-up period will depend on factors such as how much you follow our methods and procedures, your management skills, your experience and business acumen, location of your franchise, local economic conditions and market for your product, prevailing wage rate, competition, and sales level reached during this initial period.

13. The figures in this table are only estimates. In compiling these estimates, we have relied on the experience and data collected from our affiliate that operates a similar business. We do not guarantee that you will not have greater start-up expenses other than these estimates or that you will not need more operating funds other than these estimates. We do not imply or guarantee that you will “break even” by any particular time. We do not offer direct or indirect financing to you for any items. The availability of financing through third-party lenders, if any, will depend on factors such as the lending policies of such financial institutions, the collateral you may have, your creditworthiness, and the general availability of financing.

Unless otherwise noted above, expenditures are non- refundable.

ITEM 8 RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

General

To ensure that the highest degree of quality and service is maintained, you must adhere to the uniformity requirements and quality standards associated with our system.

At all times during the term of the Franchise Agreement, you must:

- Offer and sell approved services and products only in the manner we have prescribed; and
- Not deviate from our standards and specifications, unless you have received our prior written consent; and
- Cease to offer and sell any disapproved product or service that we at any time decide (in our sole determination) to disapprove in writing; and
- Not offer for sale or sell at or from the Center, or any other location any services or products we have not approved.

Approved Products and Vendors

We have established specifications for types, models and brands of certain inventory, fixtures, furnishings, equipment, computers, software, signage, supplies and other products. We will furnish these standards to you in the Operations Manual or otherwise in writing. You must purchase only products meeting those specifications, and if we require it, only from those vendors we have approved, including ourselves, or our affiliates. We reserve the right to amend these specifications from time to time.

We may designate a single source or vendor for any product, service, equipment, supply or material and may approve a supplier or distributor only as to certain products. The designated vendor may be us or an affiliate of ours. Currently, our affiliate, Zounds Hearing, Inc. is the only supplier for hearing aids. The estimated gross profit margin on products sold to franchisees by us or our affiliates will not exceed 75%.

We estimate that your purchases or leases from us or approved vendors in accordance with our specifications will represent approximately 90% of your total purchases in the establishing of your Center, and 75% of your total purchase in your continuing operation of your Center (not including amortization, depreciation, or replacement of worn or obsolete improvements, equipment or fixtures).

If you would like to buy any product(s) or item(s) from an unapproved vendor, you may submit your request on our "Vendor Approval Criteria and Request Form." If the vendor you submit has not previously been used by us, we will evaluate and consider the vendor after receipt of their samples and your payment of a \$100 fee for processing and evaluation. Based on the information and samples you supply to us, we will test the items supplied and review the proposed vendor's financial records, business reputation, delivery performance, credit rating, and other information. Our review typically is completed in 30 days. You may not purchase from any proposed vendor until you receive our written approval.

We may establish strategic alliances or preferred vendor programs with companies that are willing to supply some products or services to some or all of our franchised Centers. In doing so, we seek to promote the overall interests of our System and our interests as the Franchisor. If we establish these types of alliances or

programs, we may limit the number of approved suppliers with whom you may deal, we may designate sources that you must use for some or all products and services, and we may refuse to approve proposals from you to add new suppliers, if we believe that refusal to approve is in the best interest of the System. As of the date of this disclosure document, Sam Thomasson, CEO of Zounds Hearing Inc., a designated supplier, owns Zounds Hearing, Inc. common stock and stock options.

We reserve the right to collect and retain any manufacturing allowances, marketing allowances, rebates, credits, monies, payments and benefits offered to us or our affiliates based upon your purchases or products and other goods and services. These incentives will be retained or distributed by us, at our sole determination. As of the date of this Disclosure Document, we have not received any payments of this nature.

Computer System

You must obtain and use the computer hardware and/or operating software and/or communication capabilities we specify. We may modify specifications for and the components of the computer system ("Computer System"). The Computer System is described in more details in Item 11.

Advertising

We will design prescribed marketing materials for your use in your Center and will require you to purchase certain quantities of these materials, at actual design and production costs, to properly promote and expose your Center.

Insurance

You must obtain, before beginning any operations under the Franchise Agreement, and must maintain in full force and effect at all times during the term of the Franchise Agreement, at your sole expense, an insurance policy or policies protecting you, us, and our affiliates. You must purchase insurance only from carriers rated "A-" or better by the most recent *Key Rating Guide* published by the A.M. Best Company (or a similar publication that we approve). The policies must provide protection against any demand or claim relating to personal injury, death, negligence, or property damage, or any loss, liability or expense arising from the operation of your Center. All policies must name us and any affiliates we designate as additional insureds and must provide that each policy cannot be cancelled or modified unless we are given 30 days' prior written notice. We may periodically increase the amounts of coverage required under these insurance policies and/or require different or additional insurance coverage to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards, changing economic conditions, or other relevant changes in circumstances. You must deliver to us (and in the future maintain on file with us) valid and current certificates of insurance showing that all required insurance is in full force and effect. All insurance policies you purchase. If you fail to obtain or maintain the insurance we specify, we may (but need not) obtain the insurance for you on your behalf (see Item 6, of this document). The cost of your premiums will depend on the insurance carrier's charges, terms of payment, and your insurance history.

Credit Cards

You must accept credit cards to facilitate sales. Credit cards accepted shall include Visa, MasterCard, Discover and American Express. You are required to use our designated credit card processor. Additionally, you must offer a financing program which has been pre-approved by us.

Except as stated above, you are not obligated to purchase or lease any other goods, services, products, or materials in accordance with specifications from us or from designated sources. We do not provide any material benefits (i.e. renewal or additional franchises) to you based on your use of designated or approved vendors, except as explained in this Item 8.

ITEM 9 FRANCHISEE’S OBLIGATIONS

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

Obligation		Section(s) in Agreement	Disclosure Document Item(s)
a.	Site selection and acquisition/lease	6, 7	11
b.	Pre-opening purchases/leases	6	7, 8, 11
c.	Site development and other pre-opening requirements	6	6, 7, 8, 11
d.	Initial and ongoing training	6, 7	11
e.	Opening	6, 10	11
f.	Fees	4, 5, 10	5, 6, 7, 11
g.	Compliance with standards and policies/ Operations Manual	5, 6, 7, 8, 9, 16, 17	6, 8, 11, 12, 13, 15, 16
h.	Trademarks and proprietary information	8, 16	13, 14
i.	Restrictions on products/services offered	7	8, 11, 16
j.	Warranty and customer service requirements	7	11
k.	Territorial development and sales quotas	3, 6, 7, 15	12
l.	Ongoing product/service purchases	6, 7	8
m.	Maintenance, appearance, and remodeling requirements	6, 7	8, 11
n.	Insurance	12	6, 7, 8
o.	Advertising	6, 10	6, 7, 8, 11
p.	Indemnification	12	6
q.	Owner’s participation/management/staffing	7	15
r.	Records and reports	7, 9, 11	11
s.	Inspections and audits	7, 11, 20	6, 11
t.	Transfer	14	17
u.	Renewal	4	17
v.	Post-termination obligations	17	17

Obligation		Section(s) in Agreement	Disclosure Document Item(s)
w.	Non-competition covenants	15, 17	17
x.	Dispute resolution	22	17

ITEM 10 FINANCING

Neither we nor any agent or affiliate offers direct or indirect financing to you, guarantees your notes, leases, or obligations, or receive payments or other consideration for the placement of financing. We do not intend to sell, assign, or discount to a third party all or part of any of your financing arrangements.

ITEM 11 FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING

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

Individual Center

Pre-Opening Obligations:

Before you open your Individual Center, we will:

1. If the Premises for your Center is not specified when the Franchise Agreement is signed, assist you with selecting a location by providing site selection guidelines and criteria, and sources to obtain demographic information. Please refer to the “Site Selection” subheading in this item 11 below, for more details. (Franchise Agreement, Section 6);
2. Assign your Designated Territory (Franchise Agreement, Section 4);
3. Review and approve -- or disapprove -- the lease or purchase of your business Premises. (Franchise Agreement, Section 6);
4. Provide you with mandatory and suggested specifications and layouts for your Premises, including recommended office size and design and required or recommended fixtures, furniture, equipment, signs and supplies. (Franchise Agreement, Section 6);
5. Loan you a copy of the Operations Manual by electronic access or in writing. (Franchise Agreement Section 6); and
6. Provide instruction and training with respect to our methods and techniques. For more details on training, please refer to the “Training” subheading below. (Franchise Agreement, Section 6).

Continuing Obligations:

During the operation of your Individual Center, we will:

1. Advise you from time to time regarding your Center's operation based on your reports to us and/or direct or indirect observations, and we will provide guidance to you concerning: (1) standards, specifications and operating procedures and methods the we are using; (2) advertising and marketing materials and programs; (3) offer you and your employees (if applicable) required and optional training courses, seminars, and other programs we may develop; and (4) administrative, bookkeeping, and accounting procedures (Franchise Agreement, Section 6);
2. Provide you with national advertising as further described below (Franchise Agreement, Section, 10);
3. List your location on the Zounds Hearing web site and provide a means for you to be contacted through said web site (Franchise Agreement, Section 6);
4. Review any request you make to approve products, services, or vendors (Franchise Agreement, Section 7);
5. Review all advertising and promotional plans or materials you use within 30 days of our receipt of your advertisement proposal (Franchise Agreement, Section 10);
6. If established, administer the Advertising Fund (Franchise Agreement, Section 10); and
7. Provide updates to the Operations Manual from time to time (Franchise Agreement, Section 9).

Site Selection

You must operate the Center from an approved location. The factors we will evaluate in considering approval include: the general location and neighborhood, visibility, ease of access to the proposed site; pedestrian and traffic patterns, parking, terms of the proposed lease, utilities and zoning issues. We can indicate some things to look for and negotiate in this process. If we are unable to come to an agreement on a particular site, a different site will need to be found. We do not plan to own any of the sites where our franchised Center's will be located and do not lease retail space to franchisees. Our approval of a location does not mean we have made any direct or implied promise or guarantee of your success at the location.

We will use reasonable efforts to approve or disapprove the proposed site and within 30 days after your request for our approval; however, you are responsible for securing (either by leasing or purchasing the location) an approved site within 90 days of signing the Franchise Agreement. Upon our approval of a site, and after you secure the site, we will insert its address into the Franchise Agreement, and it will be the Premises.

The lease, if applicable, must be approved by us. We will not be signers on your lease; however we do require you to furnish us with a signed copy of the Consent and Agreement of Landlord attached as **Exhibit I**.

If you operate your Center from a leased location, whether initially, or at any time during the term of this Franchise Agreement, the real estate and improvements must meet our specifications. The location site, layout, equipment, inventory assortment and quantity, signage, and lease must be approved by us.

Once we approve a location to be the Premises, we will determine the portion of the geographic area that will constitute the territory that will be granted as your “Designated Territory” under the Franchise Agreement for the Center. Please see Item 12 for additional information regarding the Designated Territory.

Schedule for Opening

We estimate that the time period between the signing of the Franchise Agreement and the start of operations will be approximately six weeks to four months. Factors that may affect this time period include the satisfactory completion of initial training, the amount of personal time put forth by you, the amount of time necessary to hire contractors and for them to complete leasehold improvements, the time to obtain building permits and occupancy approvals from local authorities, weather, material availability, delays in the installation of equipment, signs, and fixtures, and other such matters. The amount of time needed to locate a facility and negotiate a lease is in addition to the estimated time shown here.

You must complete all preparations and open the Center within six months of securing the Premises. If you fail to open the Center within the stated period and, if applicable, within an extension of time approved in writing by us, the Franchise Agreement may be terminated upon written notice from us to you, and we may retain your Initial Franchisee Fee and any other sums that have been paid to us.

Training

Before your Center opens, you, (or, if an owner of a beneficial interest in you approved by us), and your manager (or assistant manager if an owner will be the manager) must attend and successfully complete to our satisfaction an initial training program. We will provide instruction and materials without charge for up to two people over a two week period. You must pay for all other expenses incurred in attending training, such as costs of transportation, lodging, meals, wages and workers’ compensation insurance.

We encourage you to begin training before incurring any costs or expenses related to the planned opening of the Center. We will not be liable to return any franchise fee or pay any costs or expenses you incur if we terminate your Franchise Agreement because you did not pass the training program

The majority of our training will be presented by our Manager, Jamile Dean Essa who has been with us since January 2011. We may change or substitute training personnel; as necessary, and we may delegate our duties and share our responsibilities with regard to training. Our instructional materials are based upon information in the Operations Manual, and may include training videos, class exercises and handouts.

We will use a schedule substantially similar to the following;

TRAINING PROGRAM

Subject	Classroom Hours	On-the-Job Hours	Location*
Introductions, History/Philosophy of Zounds Hearing	1	0	Phoenix, Arizona
Services Provided to Zounds Hearing Franchisees	2	0	“
Pre-Opening Procedures	8	16	“

Subject	Classroom Hours	On-the-Job Hours	Location*
Layout and Set up	4	8	“
Hiring, Training, and Overseeing Employees	4	0	“
Marketing	8	4	“
Operating Procedures	8	8	“
Administrative Procedures	4	4	“
Graduation, Summary, and Completion	1	0	“
Total	40	40	

*Training may be provided at the Zounds Hearing Franchise, LLC Corporate Office in Phoenix, Arizona, your place of business, or another location selected by us, at our option.

If you request, and we are able to provide, additional or special guidance or training, you must pay us our then-current Operating and Special Assistance charges, including our personnel’s per diem charges and travel and living expenses.

We may conduct mandatory meetings, monthly phone conferences, conventions, and/or training sessions for franchisees for the purpose of ongoing training. We may schedule an annual convention, not to exceed five days. You must stay at the hotel or resort where the convention is hosted, unless it is local for you. You must pay for your own travel and living expenses, but no attendance fee will be payable to us for such meetings. To the extent we decide to offer, or require that you attend, any additional training courses or attend conventions or meetings in the future, we will develop and determine the cost, location, content, duration, and frequency of those programs at a later time.

Advertising

We have designed prescribed marketing materials that you are required to purchase and use. Our markup on these items will not exceed 10%. Reorders for these marketing materials may be placed through us, or approved suppliers, at our option. You must only use approved marketing materials, and must maintain those materials required by us, and in the quantities specified.

We require you to pay us at least \$10,000 for the Grand Opening Advertising. This is due to us 60 days from the time of signing or 30 days prior to the date of opening, whichever comes first. We will work with you to tailor your Grand Opening Advertising campaign to your market. All materials used in the Grand Opening will be subject to our prior written approval and to the standards and specifications we prescribe.

Each month thereafter, you are required to spend a minimum amount of 20% of your daily Gross sales or \$5,700 per month, whichever is greater, which is sent to us for advertising and promotion of your franchise in your Designated Territory, or at your option, you may apply this amount to a local advertising promotion that has been pre-approved by us. Salaries for your marketing personnel are separate expenses and are not to be included in your local advertising expenditure. You must send us, in a manner we approve, an accounting of your local advertising expenditure at such times, and for such reporting periods, as we may specify. We reserve the right to collect the required minimum amount if you fail to comply, and implement an advertising program

for you or add the required minimum to the Advertising Fund. If there are multiple Zounds hearing centers in your local market we may require you to participate in joint advertising to reduce costs.

In the future, we may establish an advertising fund (“Advertising Fund”) for the enhancement and protection of the Zounds Hearing brand and Marks, and for the advertising, marketing, and public relations programs and materials as we deem appropriate. We will account separately for all sums paid to the Advertising Fund. The Advertising Fund and any earnings on it will not otherwise benefit us. As of the date of this disclosure document, we have not yet implemented an Advertising Fund and currently do not require you to contribute to it.

We or our designee will direct all advertising programs, and determine the concepts, materials, media used in the programs and their placement. The Advertising Fund is intended to maximize general public recognition, acceptance and use of the System; and we are not obligated, in administering the Advertising Fund, to make expenditures for you that are equivalent or proportionate to your contributions, or to ensure that any particular franchisee benefits directly or pro rata from expenditures by the Advertising Fund. We may use the Advertising Fund for national, regional and local marketing programs and we are not obligated to spend any amount on advertising in the area where you are located.

We will use the Advertising Fund, all contributions to it, and any earnings on it, exclusively for preparing, directing, conducting, placing and administering advertising, marketing, public relations, and/or promotional programs and materials, and any other activities, which we believe would enhance the image of the System, Proprietary Marks, and products or services. This includes, among other things, the costs of preparing and conducting media advertising campaigns; direct mail advertising; marketing surveys and other public relations activities; developing and maintaining our website, employing advertising and public relations agencies, purchasing promotional items, and other marketing materials and services to the Centers operating under the System. We may charge all costs of the formulation, development and placement of advertising and promotional materials to the Advertising Fund. These costs may include the proportionate share of our employees who devote time and render services for advertising and promotion or the administration of the Advertising Fund, including administrative costs, salaries, overhead expenses related to administering the Advertising Fund and its programs.

We may disseminate advertising in a variety of media, including print, internet, radio, television, or other media. We expect to spend Advertising Fund contributions in the year that they are received. Advertising Fund surpluses, if any, will carry forward to the following year. There is no requirement that the Advertising Fund be audited, however, each year we will prepare and make available to you an unaudited statement of Advertising Fund expenditures.

We will not use Advertising Fund contributions to create or place any advertisement that is principally a solicitation for new franchises, but we may include in all advertising prepared from Advertising Fund contributions, not to exceed 10%, (including internet advertising) information concerning franchise opportunities, and a portion of these contributions may be used to create and maintain one or more interior pages on our website devoted to advertising franchise opportunities and identifying and screening requirements and applications submitted by franchise candidates.

Currently, we have not established an advertising council to administer the Advertising Fund, but may do so in the future. At our determination, it may consist of one or several of our management representatives, employees, or franchisees.

You must conduct advertising in any medium in a dignified manner and must conform to the standards and requirements as we may specify periodically in writing. You must send us for our prior approval all advertising and promotional plans or materials that you desire to use or in which you desire to participate, including any materials in digital, electronic, computerized, or other form, and including materials that you plan to make available through computer or telecommunications networks such as the internet. We will list your location on the Zounds Hearing website and provide a means for you to be contacted through said website. You may not use any advertising or promotional plans or materials or engage in any programs that we have not approved. Within 30 days of our receipt of your advertisement proposal, we will approve or disapprove your advertisement for use.

Computer System

The Computer System is needed to operate the point-of-sale (POS), customer relations, and hearing test and hearing aid configuration software applications. The Computer System consists of a private router connection back to Corporate and one server with 2 or more terminals – one for the sale and the other for the hearing aid test and fitting.

You must purchase the Computer System that meets our specifications, including hardware, software, communications equipment, telephone lines, high-speed internet access, and other equipment that we specify in the Operations Manual, or otherwise in writing, for the efficient management and operation of your Center and the transmission of data between us and you. We may modify specifications for and components of the Computer System. We may require you to purchase the Computer System (or components of the Computer System) from us, or our affiliates or designated vendors. We may require that a maintenance contract be entered into with them so that there is uniformity in all locations. You are required to upgrade your software as necessary to ensure proper functioning of your system. You must incur the costs of obtaining the computer hardware, software, and/or communications capabilities comprising the Computer system (or additions and modifications) and required service or support. We estimate the cost to purchase the computer system to be approximately \$5,000 for a single computer with the specified software and peripherals for the Computer System, and may be more if additional computers or components are purchased. Unless working out of a home office, you may not install any computer software, other than that which we have approved and for which you have a legal right to use, on the computers at the Center.

We will provide you with technical support and installation of your POS system and the hearing aid fitting software. You are required to pay a monthly computer support fee, (“Computer Support Fee”) of \$149.00, as listed in Item 6 above, for this support.

You are solely responsible for protecting yourself from viruses, computer hackers, and other communications and computer-related problems, and you may not hold us liable for any harm caused by such communications and computer-related problems.

The Computer System will be used for sales, financial performance, client contact information and billing, generating proposals and correspondence, historical data and other general business purposes. You must disclose to us any passwords or codes associated with the Computer system and permit us to access (on site or electronically) the Computer System to obtain information related to your Center.

We or our affiliates may condition any license of proprietary software to you, or your use of technology that we or our affiliates develop or maintain, on your signing a software license agreement or similar document

that we or affiliates prescribe to regulate your use of, and our and your respective rights and responsibilities concerning , the software or technology.

You are responsible for meeting all patient confidentiality requirements under HIPPA.

Pricing

We recommend published manufactured suggested retail pricing (MSRP) as a pricing guideline, but as an independent contractor you may determine pricing for your Center products and services per your location and market with our written approval.

Accounting

At your request, we can provide information for your Center accounting needs

Warranty

You must extend to your customers a manufacturers' warranty on the products you sell, which can range from 90 days to two years depending upon the product type, and provide the required warranty services and exchanges as necessary.

Operations Manual

Please see the Table of Contents for the Zounds Hearing Operations Manual attached as **Exhibit H**. These manuals contain proprietary information and must be treated as confidential. You cannot make copies or disclose their contents to unauthorized persons. If you leave our System, you must return all of these manuals to us.

Required Reporting

You must provide us with several different monthly and periodic reports that will be due throughout the term of your Franchise Agreement. The reports include monthly sales reports, financial statements, sales tax reports, legal structure reports, and structure report updates, as outlined in the Franchise Agreement, Operations Manual, and in other written communication. Each report must be complete, accurate, and signed by your authorized representative or agent.

ITEM 12 DESIGNATED TERRITORY

If you purchase an Individual or Physician Investment Group Center, you will receive an assigned area, herein referred to as a Designated Territory, to sell the services and products you are authorized to sell per the Franchise Agreement. Your Designated Territory will be no smaller than five square miles, or will consist of a territory with no fewer than 30,000 people aged 65 years and older, and you will be permitted to operate a single Center at said location.

The Designated Territory may be a combination of zip codes, defined streets, avenues, or other geographic delineations, counties and cities in your assigned area, in a specific city and state. The exact

territory will vary and will be determined on the factors specific to the location, and will be specified in the Franchise Agreement as described above. In determining the Designated Territory, we will consider, among other factors, the population of persons over 65 years of age and the number of Centers that the Designated Territory can likely support. The sources we will use to determine your exact territory will be measured according to publicly available population information (such as that produced by the U.S. Census Bureau or other governmental agencies and commercial sources).

During the term of the Franchise Agreement, we will not establish or license others to establish a like Center within your Designated Territory (franchisor permits one retail franchise and one medical center franchise in each territory as outlined below), or add additional trademarks not associated with a Center, so long as you are in compliance with the Franchise Agreement, except as defined below; however, our affiliate, Zounds Hearing Inc. may market themselves as a manufacturing supplier in your Designated Territory. Multiple physician investment group center franchises may be permitted within a given territory only after all other franchisees within the territory and we have agreed in writing to accept the additional physician investment group center franchise. The other franchisees within the territory and we are under no obligation to accept an additional franchise within a territory.

Our franchise model can be operated in two different types of locations: (1) a Center located in a retail building, normally on a major thoroughfare ("Retail Center"), primarily receiving customers from advertising and walk-in traffic, and (2) a Center located in or near a medical office complex, or near other medical offices ("Medical Center"), and primarily receiving customers from physicians' referrals. Because the two types of locations have different sources of customers, one of each may be located, with our approval, within the same Designated Territory, without specific distances between them.

Both types of locations may advertise in the same Designated Area, although the Medical Center will primarily receive referrals from the physicians/owners of the Center. Centers of the two types, within the same Designated Territory, if they both advertise, will be required to coordinate local advertising efforts as a condition of our approval of location promotions and advertising. Medical Center type Centers may advertise outside the Designated Territory to their current and past patients.

Your rights are limited to the location listed in the Franchise Agreement. Your territory cannot be modified except by mutual written agreement by both parties. Each Center is operated according to a separate Franchise Agreement.

The continuation of the exclusivity of your Designated Territory is dependent upon sales volume. You must sell a minimum of 360 hearing aids in your Designated Territory, in your 2nd full year of business, and each year thereafter, in order to be in compliance with this Franchise Agreement.

There are no territorial restrictions on accepting business from customers who reside or work outside your Designated Territory, nor are there any such restrictions on us or on other franchisees; however, you will not be approved to conduct any independent advertising or marketing campaign outside your Designated Territory.

You may not offer or sell services or products authorized under the Franchise Agreement through any other means, including without limitation, through mail order, internet, or other electronic media, telemarketing, wholesale, or doctors' offices and assisted living centers within your territory, without our prior written

approval. You may not provide services or sell products in the territory of any other Zounds Hearing company or franchisee-owned business. All other franchisees and company facilities will abide by the same restrictions.

You may not relocate the Premises without prior written approval from us and payment of a relocation fee of \$ 2,000 to us. In considering a request for relocation, we shall take into account the business desirability of the proposed new location, its distance from other and future-planned franchised locations, the traffic patterns, security, cost, demographics of the area, and other such factors. Relocation approval shall not be unreasonably withheld.

ITEM 13 TRADEMARKS

Currently, the trademark below is owned and registered with the U.S. Patent and Trademark Office (the “USPTO”) on its Principal Register by our affiliate, Zounds Hearing, Inc., which has given us a license to use the Mark for the franchise company.

MARK	REGISTRATION NUMBER	REGISTRATION DATE
ZOUNDS	3715973	November 24, 2009

Zounds Hearing, Inc has timely filed, or intends to timely file, with the USPTO all required affidavits of use and make renewal filings when they come due for this registration.

Your right to use the Marks is derived only from the Franchise Agreement and limited to your operating the Center according to the Franchise Agreement and all System standards we prescribe during its term.

We will indemnify and defend you against all claims or actions arising out of your use of the marks as authorized by us, including reasonable attorneys’ fees and expenses, if you have properly used the marks. We reserve the right to control any trademark litigation and will be the sole judge whether suit will be brought or settled in any instance when any person or entity infringes the marks. You must notify us within three calendar days of any infringement or unauthorized use of the marks of which you become aware and to cooperate with any action that we undertake.

If we decide that it is advisable at any time for you to modify or discontinue the use of any of the marks, or to use one or more additional or substitute trade or service marks, you must comply with our directions to modify or discontinue the use of the mark or use one or more additional or substitute trade or service marks within a reasonable time after notice. We will not reimburse you for any expenses you incur to implement such modifications or substitutions. We are not obligated to reimburse you for any loss of goodwill or revenue associated with any modified or discontinued mark, nor are we responsible for any other damages or costs.

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

ITEM 14
PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

Patents

As of the date of this Disclosure Document, no patents are material to the franchised Center or your operation of the Center. The products supplied by Zounds Hearing Inc. have extensive patent coverage. Zounds Hearing Inc. currently has 57 patents either issued or pending.

Copyrights

We claim copyright protection covering various materials used in our business and the development, management and operation of Zounds Hearing, including advertising and promotional materials, the Operations Manual, and similar materials. We have not registered these materials with the United States Registrar of Copyrights, and we are not required to do so. We may register any of the items or copyrightable materials in the future.

There are currently no effective determinations of the United States Copyright Office or any court, nor any pending litigation or other proceedings, regarding any copyrighted materials. We do not know of any superior prior rights or infringing uses that could materially affect your use of the copyrighted materials. No agreement requires us to protect or defend our copyrights or to indemnify you for any expenses or damages you incur in any judicial or administrative proceedings involving the copyrighted materials. You are required to notify us of claims by others of rights to, or infringements of, the copyrighted materials. If we require, you must immediately modify or discontinue using the copyrighted materials. Neither we nor our affiliates will have any obligation to reimburse you for any expenditure you make because of any discontinuance or modification.

Any and all copyright in and to advertising and promotional materials developed by you or on your behalf will be our sole property, and you must execute those documents (and, if necessary, require your independent contractors to execute those documents) that may be deemed reasonably necessary by us to give effect to this requirement.

Confidential Information

You will not acquire any interest in Confidential Information, other than the right to use it as we specify in operating the Center during the Franchise Agreement's term, and that Confidential Information is proprietary and is disclosed to you only on the condition that you: (1) will not use Confidential Information in any other business or capacity; (2) will keep each item deemed to be part of Confidential Information absolutely confidential, both during the Franchise Agreement's term and after the term for as long as the item is not generally known in the hearing aid industry ("the Industry"); (3) will not make unauthorized copies of any Confidential information disclosed via electronic medium or in written or other tangible form; and (4) will adopt and implement reasonable procedures to prevent unauthorized use of or disclosure of Confidential Information, including restricting its disclosure to Center personnel and others, and using non-disclosure and non-competition agreements with those individuals having access to Confidential Information.

Confidential Information does not include information, knowledge, or know-how which you can demonstrate lawfully came to your attention before we provided it to you directly or indirectly; which, at time

we disclosed it to you, already had lawfully become generally known in the Industry through publication or communication by others (without violating an obligation to us); or which, after we disclose it to you, lawfully becomes generally known in the Industry through publication or communication by others (without violating an obligation to us). If we include any matter in Confidential Information, anyone who claims that it is not Confidential Information must prove that at least one of the exclusions provided in this paragraph is fulfilled.

Operations Manual

In order to protect our reputation and goodwill and to maintain high standards of operation under our Proprietary Marks, you must conduct your business in accordance with the Operations Manual. We will lend you one copy of the Operations Manual for the term of the Franchise Agreement.

You must keep your copy of the Operations Manual current and in a secure location at the Center. The Operations Manual contents are confidential and you may only divulge this information to employees who need to know its content. You may not at any time, copy duplicate, record, or otherwise reproduce any part of the Operations Manual, or let any unauthorized person have access to these materials.

We may periodically revise the contents of the Operations Manual, and you must make corresponding revisions to your copy and comply with each new or modified standard. If there is ever a dispute as to its contents, our master copy of the Operations Manual will be controlling.

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

Although we recommend that you personally participate in the direct operation of your Center, you may, with our approval, hire a manager to oversee the Center. The manager you hire must have the ability to manage the Business and must be able to handle the specific day-to-day involvement requirements. You and your manager, whether or not you work in the franchise location, must successfully complete our training program.

You may neither hire nor contract independent contractors to provide services to customers, nor may you subcontract any part of the services you provide.

All of your managers and employees must sign the Confidentiality and Non-Competition Agreement attached as **Exhibit J** as part of the terms and conditions of his or her employment. You must send us a duplicate original of each signed Confidentiality and Non-Competition Agreement.

As part of the Confidentiality and Non-Competition Agreement, the non-disclosure restriction prohibits disclosure of proprietary and confidential information by officers, agents, directors, shareholders, trustees, beneficiaries, partners, members, and employees during and for a period of five years after termination of such employment or involvement with you. You also agree to provide us with all such required Confidentiality and Non-Competition Agreements.

Additionally, all officers, agents, directors, shareholders, trustees, beneficiaries, partners, members, and spouses of each must sign the personal guarantee attached as **Exhibit F**.

**ITEM 16
RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

The use of your Premises is limited to the operation of the Center, according to the standards, policies, methods and techniques of our System. You may only offer and provide the products and services that conform to our standards and specifications described in this Disclosure Document, Agreement and/or Operations Manual. You may not, without our prior written approval, offer any product or service that we have not authorized.

You are specifically prohibited from installing, displaying, or maintaining any vending machines, gaming machines, automatic teller machines, internet kiosks, public telephones (or payphones), or any other electrical or mechanical device in your Premises without our written consent.

We have the right, without limit, to change the types of authorized products and services. You must comply with any changes or revocations upon receipt of written notice.

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

THE FRANCHISE RELATIONSHIP

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

Provision		Section in Franchise or Other Agreement	Summary
a.	Length of the franchise term	3	The initial term is for 5 years commencing on the date we sign the Franchise Agreement
b.	Renewal or extension of the term	3	You have the right to be considered for one individual renewal term of 5 years
c.	Requirements for you to renew or extend	3	Renewal obligations include: <ul style="list-style-type: none"> • having complied with all your obligations during the term • not being in default • at our request, having renovated or modernized your location to comply with our then-current standards for new locations • having no past material and repeated defaults • being in good financial standing, having continued right of possession to the approved location • paying a refresher training fee and signing a general release

Provision		Section in Franchise or Other Agreement	Summary
d.	Termination by you	16	If we breach any material provision of the Franchise Agreement, and then only if you have given us written notice of the breach and afforded us a reasonable opportunity to cure it.
e.	Termination by us without cause	16	Not applicable
f.	Termination by us with cause	16	Except for the above example and except for termination upon expiration or termination of our Franchise Agreement, you can be terminated only if you default
g.	“Cause” defined – curable defaults	16	10 days to cure non-payment of sums due to us; 30 days to cure other defaults except as noted in h. below
h.	“Cause” defined – defaults which cannot be cured	16	Abandonment, bankruptcy and insolvency, misconduct, unauthorized assignment, knowingly underreporting, repeated defaults of the Franchise Agreement, misrepresentation, and violation of law
i.	Your obligations on termination/non renewal	17	Upon termination or early expiration of the Franchise Agreement, your obligations include: <ul style="list-style-type: none"> • immediately discontinuing the use of the Marks • cease doing business in a form or manner that may give the general public the impression that you are operating a business as one of our franchisees • returning the Operations Manual • assignment of telephone numbers and all telephone directory listings to us
j.	Assignment of contract by us	14	No restrictions on our right to assign
k.	“Transfer” by you – defined	14	Includes transfer of Franchise Agreement, assets, or ownership change
l.	Our approval of transfer by you	14	We must approve all transfers, but may not unreasonably withhold approval

Provision		Section in Franchise or Other Agreement	Summary
m.	Conditions for our approval of transfer	14	We have the right to impose the following conditions on any transfer by you: <ul style="list-style-type: none"> • all of your obligations under the Franchise Agreement have been satisfied • the new franchisee must meet our qualifications • must assume all of your obligations under the Franchise Agreement • must complete our training program • you or the new franchisee must pay us a transfer fee and a training fee
n.	Our right of first refusal to acquire your business	14	30 days to negotiate, match any offer on same terms and conditions
o.	Our option to purchase your business	17	We have the right upon termination or expiration to purchase all of your assets from the Center at a purchase price equal to their fair market value
p.	Your death or disability	14	Franchise must be assigned to an approved buyer within 6 months after death or onset of disability All transfer provisions of Section 14 apply
q.	Non-competition covenants during the term of the franchise	15	No involvement in the same or similar business anywhere without our consent
r.	Non-competition covenants after the franchise is terminated or expires	15	No involvement in a competing business for one year within your Designated Territory, and within 40 miles of the border of the Designated Territory
s.	Modification of the Agreement	19	No modifications unless mutually agreed to in writing by us and you
t.	Integration/merger clause	23	The Franchise Disclosure Document and executed Franchise Agreement (with all applicable exhibits) are binding.
u.	Dispute resolution by arbitration or mediation	22	Except for certain claims, all disputes must be arbitrated or mediated in Arizona
v.	Choice of forum	22	We must litigate in the state and judicial district where we maintain our principal place of business. Currently, Phoenix, Arizona
w.	Choice of law	22	Arizona law applies generally Local law and/or Arizona law may apply to certain provisions of the Franchise Agreement, such as covenants not to compete

**ITEM 18
PUBLIC FIGURES**

We do not use any public figures to promote our franchise; however, we reserve the right to use public figures of our choice in the future.

**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 the 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).

We are unable to reliably predict the results that you might achieve. Any volume, profit, and possible success are primarily dependent on your ability and efforts as an independent business operator, market conditions, competition, your business abilities, and the degree to which you follow our System, as well as other factors and conditions that are beyond our control. There are many variables in business and no one, including us, can reliably make an estimate of the results that you may achieve. We cannot guarantee your success, and we do not authorize any sales, income, or profit estimates or projections of any kind.

This information is based on historical results and is our only Financial Performance Representation. This information was prepared from company records of affiliated companies that operate a business similar to the business being franchised and has not been audited. There is no assurance that you will do as well. A new franchisee’s results are likely to differ from the results shown below. This information must not be considered as the actual or probable results that you will or can achieve.

We do not furnish, or authorize our employees or representatives or salespersons to furnish, any oral or written information concerning the actual or potential sales, income, or profits from the operation of a Zounds Hearing Center. However, we are providing the following historical information from company records. Revenues and earnings will vary from location to location, and we cannot estimate the results of any particular franchised location. Your financial results are likely to differ from the results stated in the earnings claim below. Substantiation of the data used to prepare the figures below will be made available to you upon reasonable request.

This information is based on the operation of 23 centers, which is all of the centers operated in various states by an affiliated company. Gross Sales and Cost of Goods from January 1, 2011, to December 31, 2011, were as follows. (These numbers are unaudited):

23 Affiliate Operated Locations		Average per Center	
Gross Sales	\$7,341,341	Gross Sales	\$333,697
Cost of Goods Sold	2,422,642	Cost of Goods Sold	110,120
Gross Profit	\$4,918,698	Gross Profit	\$223,577
Gross Percentage of Sales	67%	Gross Percentage of Sales	67%

The earnings claim figures do not reflect operating expenses, or other costs or expenses that must be deducted from the gross revenues or gross sales figures to obtain your net income or profit. Additionally, there may be other costs and expenses not identified and the costs and expenses of company-owned locations may differ from franchise locations, such as royalty and advertising fees. You should conduct an independent investigation of the costs and expenses you will incur in operating your Center.

Physician Investment Groups may be created with varying structures. One possible structure is for the manager to receive a 5% management fee and 40% of the profit participation. The physicians will then receive 60% of the profit participation. Physicians may be awarded points for sales as well as points for recruitment (representing 10% of the points that each recruited physician earns). Primary care physicians typically see approximately 125 patients per week. If 10 physicians are within the group and each physician refers 1 patient per week that purchases, the gross revenue will be approximately \$1,778,000 per year (assumes \$1,800 average hearing aid ASP) and the profit will be approximately \$778,000 per year netting approximately \$400,000 for the manager (includes management fee). The table below shows the estimated revenue, profit, and manager return if the 10 physicians were to refer from 1 to 3 patients per week that purchase within the physician investment group hearing center.

Patients who purchase per week per physician	Estimated Annual Revenue	Estimated Annual Profit	Manager 40% Profit Participation	5% Management Fee	Total Estimated Profit for Manager
1	\$1,778,400	\$778,577	\$311,431	\$88,920	\$400,351
2	\$3,556,800	\$1,611,580	\$644,632	\$177,840	\$822,472
3	\$5,335,200	\$2,444,582	\$977,833	\$266,760	\$1,244,593

Priority to become a manager for a physician investment group will be given to franchisees that first purchase the retail hearing center franchise within a given territory. The estimated fee for each physician to join the physician investment group is \$15,000. The group will pay the franchise fee and other expenses from the proceeds from the physicians. These estimates may vary based on physician's referral consistency, customer closing rate, pricing, as well as other factors. The company believes that 1-3 patients per week that purchase out of the physicians normal patient workload is conservative because approximately 16% of the total population have some form of hearing loss and this number increases to approximately 40% of the population of those people who are over 65 years of age. Therefore it will be easier for a physician with a higher mix of seniors to achieve the higher number and it will be very difficult for a pediatrician to reach the numbers. It is also critical for the manager to meet at least monthly with the physicians and teach them how to talk to their patients about hearing loss. Because this is a new concept, the company does not yet have the first Physician Investment Group in operation and the results may be higher or lower than the estimate shown in the table above.

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

We began offering franchises as of the date shown on the cover page of this Franchise Disclosure Document. As this is a new offering, we have no franchise history to report.

Table One: System-wide Outlet Summary for Years 2009 to 2011

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2009	0	0	0
	2010	0	0	0
	2011	0	1	1
Company-Owned ⁽¹⁾	2009	20	26	6
	2010	26	23	-3
	2011	23	21	-2
Total	2009	20	26	6
	2010	26	23	-3
	2011	23	21	-2

Table Two: Transfers of Outlets from Franchisees to New Owners (other than the Franchisor) for Years 2009 to 2011

State	Year	Number of Transfers
All	2009	0
	2010	0
	2011	0
Total	2009	0
	2010	0
	2011	0

Table Three: Status of Franchise Outlets for Years 2009 to 2011

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewable	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of Year
All	2009	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
Total	2009	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
	2011	0	1	0	0	0	0	1

Table Four: Status of Company-Owned⁽¹⁾ Outlets for Years 2009 to 2011

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of Year
AZ	2009	4	1	0	0	0	5
	2010	5	5	0	0	0	10
	2011	10	0	0	0	1	9
FL	2009	6	2	0	0	0	8
	2010	8	0	0	4	0	4
	2011	4	0	0	1	0	3
MA	2009	1	1	0	0	0	2
	2010	2	0	0	0	0	2
	2011	2	0	0	0	0	2
MO	2009	2	0	0	0	0	2
	2010	2	0	0	0	0	2
	2011	2	0	0	0	0	2
NJ	2009	2	0	0	0	0	2
	2010	1	0	0	1	0	1
	2011	1	0	0	0	0	1
PA	2009	2	2	0	0	0	4
	2010	4	0	0	0	0	4
	2011	4	0	0	0	0	4
Total	2009	20	6	0	0	0	26
	2010	26	5	0	8	0	23
	2011	23	0	0	1	1	21

Note:

(1) As described in Item 1, our affiliate, Zounds Hearing, Inc. owns and operates these outlets, which for informational purposes we are showing in the Company Owned Outlets table. Zounds Hearing Franchising, LLC, does not own or operate any outlets.

PROJECTED OPENINGS

We estimate that during the 12 month period from our last fiscal year end, we will sell the following number of franchises and open the number of Franchisor (or Franchisor-affiliated) facilities, in the states shown below:

Table Five: Projected Openings as of December 31, 2011

State	Franchise Agreements Signed, but Not Yet Open	Projected New Franchisees in the Next 12 Month Period	Projected Franchisor (or Affiliate) Openings in the Next 12 Month Period
Arizona	0	5	0
California	0	2	0
Florida	0	5	0

State	Franchise Agreements Signed, but Not Yet Open	Projected New Franchisees in the Next 12 Month Period	Projected Franchisor (or Affiliate) Openings in the Next 12 Month Period
Massachusetts	0	5	0
Missouri	0	2	0
Pennsylvania	0	5	0
Utah	0	3	0
TOTAL	0	27	0

We have never offered franchises before the date of this Disclosure Document and, therefore we do not have any information to report related to current or former franchisees or current or former franchisees that have signed provisions restricting their ability to speak openly about their experience with the System.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave our System.

As of the date of this Franchise Disclosure Document, there are no Zounds Hearing franchisee associations in existence regardless of whether they use our trademark or not.

ITEM 21 FINANCIAL STATEMENTS

Our audited balance sheet dated March 29, 2012, is attached to this Disclosure Document as **Exhibit D**.

ITEM 22 CONTRACTS

The following contracts are attached as Exhibits to this Disclosure Document:

Franchise Agreement	Exhibit A
Physician Investment Group Form	Exhibit B
Agreement to Enter into an LLC	Exhibit C
Guaranty of Franchisee's Obligations	Exhibit F
Electronic Funds Transfer Form	Exhibit G
Consent and Agreement of Landlord	Exhibit I
Confidentiality and Non-Competition Agreement	Exhibit J
Acknowledgement of Receipt	Exhibit M

ITEM 23 RECEIPTS

Two copies of an acknowledgement of your receipt of this Franchise Disclosure Document are attached hereto as **Exhibit M**. Please sign both, return one copy to us, and retain the other for your records.

EXHIBIT A

ZOUNDS HEARING FRANCHISING, LLC DBA ZOUNDS HEARING

FRANCHISE AGREEMENT

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
Recitations.....	38
1. Acknowledgement of Business Risk and Absence of Guarantee.	39
2. Grant of Franchise.....	40
3. Term and Renewal	41
4. Designated Territory	43
5. Fees and Payments	45
6. Duties of Franchisor.....	47
7. Duties of Franchisee	49
8. Proprietary Marks	54
9. Operations Manual.....	57
10. Advertising.....	59
11. Accounting and Records	61
12. Insurance and Indemnification.....	64
13. Independent Contractor.....	65
14. Transfer and Assignment	65
15. Covenants.....	69
16. Default and Termination	70
17. Post Term Obligations	73
18. Taxes, Permits, and Indebtedness	74
19. Written Approvals, Waivers, Forms of Agreement, and Amendment.....	75
20. Enforcement.....	75
21. Notices	76
22. Governing Law and Dispute Resolution.....	76
23. Severability and Construction.....	77
24. Acknowledgments.....	78

**ZOUNDS HEARING FRANCHISING, LLC
FRANCHISE AGREEMENT**

THIS FRANCHISE AGREEMENT is made and entered into on this _____ day of _____, 20__ (“Effective Date,”) by and between Zounds Hearing Franchising, LLC, an Arizona limited liability company, with its principal place of business at 4405 E. Baseline Road, Suite 114, Arizona 85042(hereinafter referred to as "Zounds Hearing" or “Franchisor”); and _____, a (resident of) (corporation organized in) (limited liability company organized in) _____ whose principal business address is _____ (hereinafter referred to as “Franchisee”).

RECITATIONS

WHEREAS, Franchisor, as a result of the expenditure of time, skill, effort, and money, has developed and owns a unique system related to the establishment, development, opening, and operation of a business that provides hearing screening, fitting, and sale of hearing aids under the name “Zounds Hearing .” The distinguishing characteristics of the system which includes without limitation, operating procedures, advertising, marketing, specially-designed facilities, interior and exterior layout and identification, standards and specifications for fixtures and equipment, inventory stocking assortment and levels, methods for keeping books and records, and inventory purchasing sources (collectively the “System”), all of which may be changed, improved, and further developed by Franchisor from time to time. Franchisee hereby acknowledges and agrees that, although the System and Franchisor’s related materials contain information that in isolated form could be construed as being in the public domain, they also contain significant proprietary and confidential information which makes the System unique in its final form and as a whole, and that the combined methods, information, procedures, and theories that make up the total System or are contained in the relevant manuals are proprietary and confidential; and

WHEREAS, Franchisor owns or has acquired a license to use and sublicense to others certain trade names, trademarks, and service marks, including the mark Zounds Hearing and such other trade names, trademarks, and service marks (hereinafter “Proprietary Marks”) as may be designated by Franchisor for use in connection with the System; and

WHEREAS, Franchisor has established substantial goodwill and business value in its Proprietary Marks, expertise, and System; and

WHEREAS, Franchisor is in the business of selling exclusive franchise rights to individual franchisees, authorizing such franchisees to use the System and Proprietary Marks in establishing and operating a Zounds Hearing Center; and

WHEREAS, Franchisee recognizes the benefits to be derived from being identified with Franchisor and appreciates and acknowledges the distinctive and valuable significance to the public of the System and the Marks, desires to acquire a non-exclusive franchise for a limited territory, application, and term to use the Proprietary Marks and receive the other benefits, including training and assistance, of the System in connection with operation of a Zounds Hearing Center, and Franchisor is willing to grant such a franchise to Franchisee on the terms and conditions set forth herein; and

WHEREAS, Franchisee understands and acknowledges the importance of Franchisor's high and uniform standards of quality, appearance, and service to the value of the System.

NOW THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby mutually acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

1. ACKNOWLEDGEMENT OF BUSINESS RISK AND ABSENCE OF GUARANTEE

- A. Franchisee acknowledges and represents that Franchisor, itself or through any officer, director, employee, or agent, has not made, and Franchisee has not received or relied upon, any oral, written, visual, express, or implied information, representations, warranties, guarantees, or promises regarding the amount of sales levels or income Franchisee might expect to earn from the franchise granted hereby, except as set forth in the Franchise Disclosure Document.
- B. The business venture contemplated by the Franchise Agreement involves business risks.
- C. Franchisee's success will be largely dependent upon Franchisee's ability as an independent businessperson.
- D. The Franchisee has received, read, and does understand this Franchise Agreement and any attachments.
- E. Franchisee understands and agrees that the hearing aid industry is highly competitive with constantly changing market conditions.
- F. Franchisee acknowledges and agrees that Franchisor has fully and adequately explained each provision of this Franchise Agreement to Franchisee's satisfaction.
- G. Franchisee has been advised to consult with Franchisee's own advisors with respect to the legal, financial, and other aspects of this Franchise Agreement, the business franchised hereby, and the prospects for such business. Franchisee either has consulted with such advisors or has deliberately declined to do so.
- H. Any written inquiries made to Franchisor by Franchisee pertaining to the nature of this franchise have been answered in writing to the satisfaction of Franchisee.
- I. Franchisee has had the opportunity and adequate time to independently investigate, analyze, and construe both the business opportunity being offered hereunder and the terms and provisions of this Franchise Agreement utilizing the services of legal counsel, accountants, and other advisors (if Franchisee so elects).
- J. Any and all applications, financial statements, and representations submitted to Franchisor by Franchisee, whether oral or in writing, were complete and accurate when submitted and are complete and accurate as of the date of execution of this Franchise Agreement unless the same have been otherwise amended in writing. Franchisee states that he/she is not presently involved

in any business activity that could be considered competitive in nature, unless heretofore disclosed to Franchisor in writing.

- K. Franchisee agrees not to contest, directly or indirectly, Franchisor's ownership, title, right, or interest in its names or Proprietary Marks, trade secrets, methods, procedures, know-how, and advertising techniques which are part of Franchisor's business or contest Franchisor's sole right to register, use, or license others to use such names and Proprietary Marks, trade secrets, methods, procedures, and techniques.
- L. Franchisee's signature to this Franchise Agreement has not been induced by any representation inconsistent with the terms of this Franchise Agreement or inconsistent with the Franchise Disclosure Document given to Franchisee by Franchisor.
- M. Franchisee represents and warrants that Franchisee is not a party to or subject to any order or decree of any court or government agency which would limit or interfere in any way with the performance by Franchisee of the obligations under this Franchise Agreement and that Franchisee is not a party, and has not within the last ten (10) years been a party, to any litigation, bankruptcy, or legal proceedings other than those heretofore disclosed to Franchisor in writing.

2. GRANT OF FRANCHISE

- A. Franchisor shall grant to Franchisee, subject to the terms, conditions, and obligations herein contained, a non-exclusive right and license to use the Proprietary Marks and receive the other benefits of the System, subject to the terms of this Franchise Agreement, in connection with the operation of a single Zounds Hearing Center at a mutually-agreeable location under the trade name and style of Zounds Hearing (hereinafter referred to as the "Premises").
- B. The parties expressly agree that the license granted herein relates solely to the Premises and affords to Franchisee no rights regarding such other franchise or locations, if any, as Franchisor, in its sole discretion, may elect to make available to Franchisee or to other franchisees or for Franchisor's own use at present and in the future. Franchisee shall not have the right to sub-franchise or sub-license any of its rights under this Franchise Agreement.
- C. Franchisee expressly acknowledges and agrees that this license is non-exclusive and that Franchisor retains, among other and all rights not specifically granted herein to Franchisee, the right, in its sole discretion:
 - 1. To grant other franchises and/or licenses for its Proprietary Marks in addition to those franchises and/or licenses already granted to existing franchisees;
 - 2. To develop and establish other franchises or licensed Systems for the same or similar products or services utilizing the same or similar Proprietary Marks, or any other Proprietary Marks not now or hereafter designated as part of the System licensed by this Agreement, and to grant franchises and/or license thereto without providing Franchisee any right therein;

3. To enter into Franchise Agreements with other franchisees that may contain provisions, conditions, and obligations that differ from those contained in this Franchise Agreement, including without limitation, franchise agreements for the operation of a Zounds Hearing Center. The existence of different forms of agreement and the fact that Franchisor and other franchisees may have different rights and obligations does not affect the parties' duty to comply with the terms of this Franchise Agreement.

- D. The Franchisee recognizes that variations and additions to the System may be required from time to time in order to preserve and/or enhance the System. Therefore, the Franchisor expressly reserves the right to add to , subtract from, revise, modify or change from time to time the System or any part thereof, and the Franchisee agrees to promptly accept and comply with any such addition, subtraction, revision, modification or change to make such reasonable expenditures as may be necessary to comply pursuant to Section 7.

3. TERM AND RENEWAL

- A. Unless previously terminated pursuant to this Franchise Agreement, the term of this Franchise Agreement shall be for a period of five (5) years ("Initial Term") commencing as of the Effective Date.

- B. If Franchisee wishes the Franchise Agreement to be renewed by Franchisor for an additional term of five (5) years, Franchisee shall provide the Franchisor written notice of a request for renewal not less than six (6) months and not more than twelve (12) months prior to the end of the term of this Franchise Agreement. Failure to give notice of Franchisee's intention to extend its rights to operate the Premises shall be considered an election not to extend Franchisee's rights to operate the Premises.

Franchisor shall not unreasonably withhold its approval of such requests for renewal, provided however, that in order to be considered for renewal, Franchisee complies with the following conditions:

1. When the request for renewal is made or at the end of the initial term hereof, Franchisee is not in default of any provision of this Franchise Agreement, any amendment thereof or successor hereto, or any other agreement between Franchisee and Franchisor or the property lender, and, as determined by Franchisor in its sole discretion, Franchisee has complied with the terms and conditions of all such agreements during the term of the Franchise Agreement.

2. All obligations owed by Franchisee to Franchisor and to the property lender have been satisfied prior to renewal and have been timely performed throughout the term of this Franchise Agreement.

3. Franchisee executes a renewal of this Franchise Agreement in its entirety. In Franchisor's sole determination, the Franchisee may be deemed to have irrevocably declined to extend Franchisee's rights to operate the Franchise (and its option shall thereupon terminate) if it fails to execute and return to the Franchisor the renewed

Franchise Agreement and any other documents required by Franchisor within Thirty (30) days after their delivery to the Franchisee, or fails to comply in any other way with the provisions of this section.

4. Franchisee pays the sum of Five Thousand and 00/100 Dollars (\$5,000.00) as a renewal fee at least ninety (90) days prior to the renewal date. Franchisee shall not be required to pay an additional Initial Franchisee Fee at renewal.
5. Franchisee and/or the designated manager attends a prescribed training refresher course at least thirty (30) days before the expiration of the term of the Franchise Agreement and pays Two Thousand and 00/100 Dollars (\$2,000.00), which shall pay for one (1) person to be trained over two (2) weeks, or for whatever training schedule Franchisor is requiring for Franchisees at the time of renewal.
6. Franchisee executes a general release under seal, in a form satisfactory to Franchisor, of any and all claims it may have against Franchisor and its officers, directors, shareholders, and employees in their corporate and individual capacities, including without limitation, all claims arising under any federal, state, or local law, rule, or ordinance. If this franchise is situated in a state whose law, at the time of renewal, prohibits the giving of a general release as a condition for the renewal of a franchise, this sub-paragraph 6 shall not, in such event, be a condition to renewal of this franchise. However, if a release of some, but not all, claims is permitted under state law at the time of renewal, the Franchisee shall give a release to the extent permitted.
7. Franchisee has participated in and supported the training procedures, purchasing, marketing, inventory sourcing, advertising, promotional, and other operational, training, and marketing programs recommended or provided by Franchisor, to the satisfaction of Franchisor.
8. Franchisee agrees, at its sole cost and expense, to re-image, renovate, refurbish, and modernize the Franchisee's Premises within the time frame required by Franchisor, including the design, equipment, signs, interior and exterior décor items, displays, inventory assortment and depth, fixtures, furnishings, trade dress, color scheme, presentation of trademarks and service marks, supplies, and other products and materials to meet Franchisor's then-current standards, specifications, and design criteria for a Zounds Hearing location, as contained in the then-current Franchise Agreement and Operations Manual, or otherwise in writing, including without limitation, such structural changes, remodeling and redecoration, and such modifications to existing improvement as may be necessary to do so.
9. If Franchisee does not renew for an additional term prior to the expiration of this Agreement and continues to accept the benefits of this Agreement after the expiration of this Agreement, then at the option of the Franchisor, this Agreement may be treated as (1) expired as of the date of expiration with Franchisee then operating without a Franchise to do so and in violation of Franchisor's rights; or (2) continued on a month-to-month basis ("Interim Period") until one party provides the other with written notice of such party's intent to terminate the Interim Period, in which case the Interim Period will terminate

thirty (30) days after receipt of the notice to terminate the Interim Period. In the latter case, all obligations of Franchisee shall remain in full force and effect during the Interim Period as if this Agreement had not expired, and all obligations and restrictions imposed on Franchisee upon expiration of the Agreement shall be deemed to take effect upon termination of the Interim Period.

4. DESIGNATED TERRITORY

Franchisee will be granted a Designated Territory no smaller than five (5) square miles, or a minimum population of 30,000 people aged sixty five (65) years and older within a specified area. This may be a combination of specific zip codes, counties, and cities, defined streets, avenues or other geographic delineations and Franchisee will be licensed to operate a single Zounds Hearing at said approved location and within Franchisee's Designated Territory. The source Franchisor will use to determine Franchisee's exact territory will be based on the U.S. Census Bureau's most recent statistics (www.census.gov).

Franchisor shall not open a company-owned facility or grant to another party any other like franchise (franchisor permits one retail franchise and one medical center franchise in each territory as outlined below), which has as its primary business operating as a Zounds Hearing Business within Franchisee's Designated Territory for the term of this Franchise Agreement, provided Franchisee is not in material default of this Franchise Agreement, except as defined below.

Multiple physician investment group center franchises may be permitted within a given territory only after all other franchisees within the territory and Zounds Hearing Franchising LLC have agreed in writing to accept the additional physician investment group center franchise. The other franchisees within the territory and Zounds Hearing Franchising LLC are under no obligation to accept an additional franchise within a territory.

Our affiliate company Zounds Hearing, Inc., may market themselves as a manufacturing supplier in your Designated Territory. Additionally, our franchise model can be operated in two (2) different types of locations: (1) a Premise located in a retail building, normally on a major thoroughfare (Retail Center), primarily receiving customers from advertising and walk-in traffic, and (2) a Premise located in or near a medical office complex, or near other medical offices (Medical Center), and primarily receiving customers from physicians' referrals. Because the two types of locations have different sources of customers, one of each franchise type may be located, with Franchisor approval, within the same Designated Territory, without specific distances between them.

It is Franchisee's responsibility to identify a Premise for the Franchised Business and submit information about said Premises to Franchisor for approval.

The Premises of the Franchised Business will be located at:

Address _____
City _____ State _____ Zip _____

The Designated Territory shall be:

Franchisee must attain gross annual sales of Three Hundred Sixty (360) hearing aids per hearing center or more in its second full year of operation and thereafter, in order to be in compliance with this Franchise Agreement.

Franchisee's rights under this Franchise Agreement are limited to the location so listed. Franchisee shall not relocate the Premises without prior written approval from Franchisor and payment of a relocation fee to Franchisor. Franchisor, in considering a request for relocation, shall take into account the business desirability of the proposed new location, its distance from other and future-planned franchised locations, traffic patterns, security, cost, demographics of the area, and other such factors. Relocation approval shall not be unreasonably withheld.

If the Franchisee decides to relocate within the Designated Territory, the Franchisee shall make a written request to the Franchisor for consideration and approval. If the relocation is approved by the Franchisor, the Franchisee shall pay the amount of Two Thousand and 00/100 Dollars (\$2,000.00) to reimburse the Franchisor for the cost of review, approval, oversight, and assistance in the preparation of the new location. This amount shall be paid by the Franchisee upon notification from the Franchisor that the relocation has been approved. All lease approval requirements and conditions contained in Section 6 of this Agreement shall be applicable to the new location.

If the location for the Premises is not known at the time of signing this Franchise Agreement, a general location or area shall be entered here and the exact location added to this Franchise Agreement at a later date when it is known.

General area for the franchised location:

Description _____

City _____ State _____ Zip _____

There are no territorial restrictions on accepting business from customers who reside or work outside Franchisee's Designated Territory, nor are there any such restrictions on Franchisor or other franchisees. Because of the two types of locations (retail and medical center), both types of locations may advertise in the same Designated Territory, although the Medical Center will primarily receive referrals from the physicians/owners of the Premise. Premises of the two types, within the same Designated Territory, if they both advertise, will be required to coordinate local advertising efforts as a condition of Franchisor approval of location promotions and advertising. Medical Center type Premises may advertise outside the Designated Territory to their current and past patients.

Franchisor will not add additional products or trademarks not associated with the franchised Zounds Hearing business and sell them within the Designated Territory during the term of this Franchise Agreement.

5. FEES AND PAYMENTS

- A. In consideration of the rights and license granted herein, Franchisee shall pay to Franchisor the following fees:
1. Prior to the contemporaneous execution of this Franchise Agreement, the Franchisee shall pay to the Franchisor an Initial Franchise Fee of Forty Thousand and 00/100 Dollars (\$40,000.00), which fee shall be deemed fully earned upon execution of this Franchise Agreement by Franchisor as consideration for Franchisor's services up to that time, including without limitation, screening of Franchisee candidate, counseling, training, consultation, and other efforts necessary to help Franchisee start the Franchised Business.
 2. Franchisor does not finance the Initial Franchise Fee in whole or in part.
 3. Commencing from the Effective Date of this Franchise Agreement and continuing for the duration of the term of this Franchise Agreement, Franchisee shall pay to Franchisor a continuing royalty of five percent (5%) of Franchisee's Gross Sales (as hereinafter defined) of all goods and services.
 4. Franchisee shall pay a continuing advertising fee contribution ("Advertising Fee") during the term of this Franchise Agreement of Five Thousand Seven Hundred and 00/100 Dollars (\$5,700.00) per month or twenty percent (20%) of Franchisee's Gross Daily Sales (as herein defined) of all goods and services, whichever is greater.
 5. Franchisee shall pay to Franchisor the sum of One Hundred Forty Nine and 00/100 Dollars (\$149.00) per month as a Computer Support Fee, for technical support of Franchisee's POS system and hearing aid fitting software. This amount shall be paid by electronic means by the fifth (5th) of each month. This fee is non-refundable.
- B. All Royalty and Advertising Fee contributions required by this Section 5 shall be due and payable on a daily basis. Franchisee must sign and return to Franchisor the Electronic Funds Transfer form that authorizes us to receive the royalty fees, advertising fund fees, and product restocking costs from your bank accounts. You agree that you will maintain 3 bank accounts. The first account will have all deposits placed in it. Each night the money will be swept into a second account by the appropriate estimated proportion to pay all of the royalty fees, advertising costs and product restocking costs. Zounds Franchising LLC will debit the second account as necessary. Each day the remainder will be swept into a third account for the operation of the franchisee business. These accounts will be reconciled monthly and the difference between the estimated amount and the actual amount will be debited or credited to the third account. You agree to hold enough funds in reserve in the third account to accomplish this monthly reconciliation. Franchisee agrees to ensure that adequate funds will be available for deduction on said date each week. If funds are not available at the designated time, an insufficient funds fee of One Hundred and 00/100 Dollars (\$100.00) will be charged to Franchisee due to Franchisor upon each occurrence.

- C. Gross Sales of goods shall mean the dollar aggregate of the sales price on all goods, products, memberships, parts, merchandise, and services sold by Franchisee, either on a prepaid or as-provided basis, whether sold for cash, for payment by check, on credit, or otherwise, without reserve or deduction for the inability or failure to collect for the same from Franchisee's customer, and shall specifically include all other things of value received by Franchisee as payment in the course of such operations.

Gross Sales shall not include:

1. Authorized cash or credit refunds made upon transactions that were previously included with Gross Sales and accepted by Franchisee, not exceeding the selling price of the original transaction, which may be deducted from Gross Sales in the month made; or
 2. The amount of any separately collected and stated city, county, state, or federal sales, luxury, or excise tax on such sales, which Franchisee actually pays to the taxing authorities; provided however, that no franchise, capital-stock, or any similar tax based income or profits on Gross Sales shall be deducted from Gross Sales as defined herein.
- D. All payments due to Franchisor for merchandise, inventory, displays, special programs, facility equipment, training, or other such purchases shall be paid according to the terms established by Franchisor in writing. If any such payment is not received by Franchisor by the scheduled date due, Franchisee shall be in default under this Franchise Agreement. If any payment is overdue, Franchisee shall pay interest to the Franchisor, in addition to the overdue amount, at a rate of one and one-half percent (1.5%) per month, beginning from the date of non-payment or underpayment, until paid. Entitlement to collect such interest shall be in addition to any and all other remedies Franchisor may have. Franchisee agrees to pay One Hundred and 00/100 Dollars (\$100.00) for each check given or electronic transfer made to Franchisor that is dishonored, fails to process, or is returned.
- E. No payments to be made to Franchisor by Franchisee, whether for royalties, advertising, merchandise, special programs, or otherwise, may be reduced on account of the imposition by any federal, state, or local authority of any tax, charge, or assessment, or by any claim Franchisee may have against Franchisor. All taxes, charges, or assessments shall be paid by Franchisee to the taxing authorities when due, in addition to the amounts due to Franchisor.
- F. In the event Franchisee fails to provide to Franchisor any sales, financial statement, or other report which Franchisee is obligated by the Franchise Agreement to provide to Franchisor when such report is due and this failure continues for a period of ten (10) days after the date when due, regardless of the date when mailed, Franchisee shall pay to Franchisor a late fee with respect to each such report in the amount of Ten and 00/100 Dollars (\$10.00) per day beginning with the eleventh (11th) day after the date when the report was due. The imposition of late reporting fees shall be in addition to, and not in lieu of, any other remedy available to Franchisor for failure to report.
- G. Franchisor, at all times and without notice to Franchisee, shall have the right to have access to and view Franchisee's registers or computers via the internet, or by visiting the Premises, in order to obtain sales data and other available information about the Franchised Business.

- H. Franchisee hereby grants to Franchisor a security interest in all of Franchisee's interests in the real estate where the franchise is located, and all improvement to that real estate if franchise is in a non-residential location.
- I. Franchisee hereby grants to Franchisor a security interest in all furniture, furnishings, equipment, fixtures, inventory, and supplies located at or used in connection with the franchise, whether now or hereafter leased or acquired, together with all attachments, accessions, accessories, additions, substitutions, and replacements therefore, as well as all cash and non-cash proceeds derived from insurance, the disposition of any such collateral to secure payment and performance of all debts, liabilities, and obligations of any kind of Franchisee to Franchisor under this Franchise Agreement, whenever and however incurred, any promissory note given by Franchisee to Franchisor, or any other agreement between them, whether in a residential or non-residential location.
- J. Franchisee hereby authorizes Franchisor to file and record all financing statements, financing statement amendments, continuation financing statements, fixture filings, and other documents necessary or desirable to evidence, perfect, and continue the priority of the security interests granted herein. Franchisee also agrees to execute and deliver any such documents to Franchisor upon request.
- K. Franchisee hereby authorizes Franchisor to process Electronic Funds Transfers (debit entries) against Franchisee's bank account(s) for daily franchise, advertising, and other fees that are due to Franchisor on the date that payments are due. Franchisee agrees to complete, sign, and provide Franchisor a specific authorization form within ten (10) business days of the written request by Franchisor that provides bank account information. This authorization shall remain in effect during the term of the Franchise Agreement. Franchisee agrees to promptly notify Franchisor of any changes in account information at least five (5) days prior to any such change. Franchisee agrees and acknowledges that failure to maintain sufficient funds in the account(s) so listed to cover fee amounts that are due, on every due date, shall place Franchisee in violation of this Franchise Agreement.
- L. If Franchisee is unable to operate due to damage or loss to Franchisee's Premises caused or created by a casualty, act of God, condemnation, or other condition over which Franchisee has no control, the Franchisor, in its sole determination, may elect to waive the Royalty Fee for a period no greater than one hundred twenty (120) days commencing with the month in which the Franchisee gives Franchisor notice of the damage or loss.

6. DUTIES OF FRANCHISOR

- A. Franchisor shall offer and make available an initial training program for two (2) persons designated by Franchisee, who will be the owners and/or principal operators or managers of the Zounds Hearing, to be conducted at a location designated by Franchisor, lasting two (2) weeks. The training shall be held prior to commencing business unless Franchisor has specifically permitted, in writing, the same to be held at another time. The cost of the instruction and required materials shall be borne by Franchisor. All other expenses during the initial training period, including without limitation, accommodations, travel, and wages of the persons to be trained, shall be borne by Franchisee. Franchisor may make available to Franchisee or to

Franchisee's employees, if any, from time to time such additional training programs as Franchisor, in its sole discretion, may choose to conduct. Attendance at said training programs may be made mandatory by Franchisor.

- B. Franchisor shall loan one (1) copy of the Operations Manual to the Franchisee, as more fully described in Section 9 hereof. Within the Operations Manual, Franchisor will provide a list of necessary equipment, supplies, and vendors that Franchisee will be required to use, along with an approved layout of Franchisee's location
- C. Franchisor shall provide general guidance in selecting a location for Franchisee's business and provide prototypical information including recommended size and design and required or recommended fixtures, furniture, equipment, signs and supplies.
- D. If Franchisee operates from a leased location, Franchisor shall review and approve or disapprove the lease for the facility. The review by Franchisor of Franchisee's location will be completed within thirty (30) days of Franchisee's submittal.
- E. Franchisor shall assist Franchisee in developing and conducting the Grand Opening Advertising Program (as described in Section 10 below), which program shall be conducted at Franchisee's expense.
- F. Franchisor may, at its option, in its sole discretion, and upon such terms as it deems advisable, provide opening assistance and continuing advisory assistance in the operation of the licensed business. Determination of Franchisor not to provide any particular service, either initial or continuing, shall not excuse Franchisee from any of its obligations under this Agreement.
- G. Franchisor shall review and shall have the right to approve or disapprove all advertising and promotional materials that Franchisee proposes to use, pursuant to Section 10 below.
- H. Franchisor shall list Franchisee's location on Franchisor's web site and provide a means for Franchisee to be contacted through the web site
- I. Franchisor may directly, or indirectly through Franchisor affiliates or designated vendors, provide merchandise using the Proprietary Marks. Franchisee must pay Franchisor or its affiliates or designated vendors for this merchandise.
- J. Franchisor shall continue in its efforts to maintain high standards of quality, cleanliness, appearance, and service at all franchised and company facilities, and to that end shall:
 - 1. Conduct periodic inspection of the Premises licensed herein and periodic evaluation of the services provided, along with the products sold and used by Franchisee; and
 - 2. When deemed advisable by Franchisor, provide to Franchisee copies of particular standards and specifications.
- K. Franchisor shall administer an Advertising Fund, if such fund exists, or are created, in the manner set forth in Section 10 below.

- L. Franchisor shall not, by virtue of any approvals or advice provided to the Franchisee, including without limitation, site selection, or approval as provided under Section 6 hereof, assume responsibility or liability to Franchisee or to any third party to which it would not otherwise be responsible or liable.
- M. Franchisee acknowledges and agrees that any designee, employee, or agent of Franchisor may perform any duty or obligation imposed on Franchisor by the Agreement, as Franchisor may direct.
- N. If Franchisee believes Franchisor has failed to provide adequate pre-opening services as provided in this Agreement, Franchisee shall notify Franchisor in writing within thirty (30) days following the opening of the Zounds Hearing. Absent this notice to Franchisor, Franchisee shall grant that all pre-opening and opening services required to be provided by Franchisor were sufficient and satisfactory in Franchisee's judgment.

7. DUTIES OF FRANCHISEE

- A. Franchisee shall find a location for the Franchised Business that is first approved by Franchisor in writing. If the business requires Franchisee to lease space, the lease between Franchisee and the property lender shall not be entered into without being first approved by Franchisor. The location, site, and lease must be approved by Franchisor. If Franchisor and Franchisee are unable to come to an agreement on a particular site, a different site will be found. Franchisee shall enter into a lease for the Premises. Franchisor shall not be a signer on the lease entered into by Franchisee.
- B. If the location is leased, it shall be Franchisee's responsibility to see that the premises lease contains the following covenants by the property lender, and it shall be a condition to Franchisor's approval of a premises lease that the property lender shall agree as follows:
 - 1. The leased premises will only be used as a Zounds Hearing Center offering hearing aid products, accessories, and services and operate under the name "Zounds Hearing".
 - 2. Franchisor has the right to enter the premises to make any modifications necessary to protect Franchisor's Proprietary Marks.
 - 3. Upon Franchisor's written request, the property lender shall supply Franchisor with a current copy of the lease.
 - 4. The property lender will notify Franchisor in writing of and upon the failure of Franchisee to cure any default by Franchisee under the lease.
 - 5. Franchisor will have the option, but not the obligation, to assume or renew the lease and the occupancy of the business premises, including the right to sublease to another Franchisee, for all or any part of the remaining term of the lease upon Franchisee's default or termination hereunder or upon Franchisee's default, termination, or expiration of the Franchise Agreement. In connection with said assumption, Franchisor will not be obligated to pay to the landlord past due rent, common area maintenance, and/or other

charges attributable to more than one (1) month. The landlord shall give Franchisor thirty (30) days upon termination of Franchisee's rights under the lease to exercise this option.

6. The lease may not be amended, assigned, or sublet without Franchisor's prior written approval.
 7. For the period of this agreement and two (2) years after termination or expiration of Franchisee's Franchise Agreement, the property lender, will not enter into a lease with the Franchisee at the businesses premises for the sale of services related to the hearing aid industry, in any capacity, and/or the sale of related items, within the building in which the Premises is located.
- C. Upon the surrender of the Premises, Franchisee shall conduct a physical inventory so that there is an accurate accounting of inventory and equipment on hand, goods and sellable merchandise, fixtures, equipment, and supplies and shall provide a signed copy of the physical inventory to Franchisor as of the date of surrender of the premises. Franchisor shall have the right to enter the Premises at its convenience and conduct said physical inventory on its own. In the event the landlord shall elect to terminate the lease for reasons of default by Franchisee, such lease termination shall constitute a breach of this Franchise Agreement by Franchisee. In the event Franchisor assumes control of the Premises and the operation of the business conducted there, the future operation of that business by Franchisor shall not be as an agent of Franchisee, and Franchisor shall not be required to account to Franchisee as a result thereof
- D. The Premises, whether leased or owned, will only be used for the operation of the business licensed under the Franchise Agreement. Franchisee shall complete or arrange for the completion of the construction of the franchised business at the Premises in accordance with the approved site and building plan and open the Franchised Business to the public not later than six (6) months after signing the Franchise Agreement. Franchisee shall reserve to Franchisor and its agents the right to inspect the construction at any reasonable time.
- E. Should Franchisee fail to open the Franchised Business for operation within the stated period or, if applicable, within an extension of time approved in writing by Franchisor, this Franchise Agreement shall be deemed terminated upon written notice from Franchisor to Franchisee, without the necessity of further action or documentation by either party.
- F. Franchisee shall offer and sell only approved services and, only in the manner Franchisor has prescribed in the Operations Manual and otherwise in writing. Franchisee agrees not to deviate from these standards and specifications, unless Franchisor has provided written consent and Franchisee agrees to cease to offer any product or service Franchisor disapproves in writing. Franchisor has the right, without limit, to add additional, or modify approved products or services from time to time in the Operations Manual and otherwise in writing.
- G. Franchisee is specifically prohibited from installing, displaying, or maintaining any vending machines, gaming machines, automatic teller machines, internet kiosks, public telephones (or payphones), or any other electrical or mechanical device in the Center without Franchisor's written consent.

- H. Franchisee shall maintain at all times during the term of this Franchise Agreement and any renewals hereof, at Franchisee's expense, the Premises and all fixtures, furnishings, signs, and inventory therein in conformity and compliance with Franchisor's standards and specifications as prescribed in the Operations Manual or otherwise in writing and, in connection therewith, shall make such addition, alterations, repairs, and replacements thereto (but no others without the Franchisor's prior written consent) as may be required for that purpose.
- I. Franchisee shall at all times conduct and operate the franchised business in accordance with all federal, state, and local laws, ordinances, and regulations applicable thereto and, in addition, shall observe and operate in compliance with all leasehold covenants and regulations of the building in which such facility is located. Franchisee shall offer for sale only such types of products and services which have been expressly approved for sale in writing by Franchisor, obtained from approved vendors, and using approved methods and procedures and shall maintain at all times a sufficient supply of approved products and equipment, as prescribed in the Operations Manual and as provided and revised in writing from time to time by Franchisor. In the event of a dispute between Franchisee and Franchisor concerning Franchisee's right to carry any particular product or product line or to offer any specific service, Franchisee will immediately remove the disputed products from inventory, remove the disputed service from those services offered at the Premises, or, if the same are not already in inventory or such services not yet being offered, will defer offering for sale such products and services pending resolution of the dispute.
- J. Franchisee shall purchase all products, supplies, inventory, fixtures, computer systems, parts, and materials required for the operation of the Franchised Business from Franchisor, or vendors who demonstrate, to the satisfaction of Franchisor, the ability to meet all of Franchisor's standards and specifications for such items, who possess adequate capacity and facilities to supply Franchisee's needs in the quantities, at the times, and with the reliability requisite to an efficient operation, and who have been approved by Franchisor. A list of approved products and vendors from whom products may be purchased is published in the Operations Manual and/or in policy notifications from Franchisor or provided through other communication. This list may be amended by Franchisor from time to time. If Franchisee wishes to submit additional vendors for consideration, the request may be submitted on the "Vendor Approval Criteria and Request Form." If the vendor submitted has previously been used by Franchisor and if their service was satisfactory, Franchisor will either approve the vendor on a single-use basis or add the vendor to Franchisor's permanent list. If the vendor has not been used by Franchisor previously, Franchisor will evaluate and consider the vendor after receipt of vendor samples and Franchisee's payment of a One Hundred and 00/100 Dollar (\$100.00) fee for processing and evaluation. Based on the information and samples provided to Franchisor, Franchisor will test the items supplied and review the proposed vendor's financial records, business reputation, delivery performance, credit rating, and other information. This review typically is completed in thirty (30) days.
- K. Franchisee acknowledges and agrees that Franchisee is solely responsible for protecting itself from computer viruses, bugs, power disruptions, communication line disruptions, internet access failures, internet content failures, date-related problems, and attacks by hackers and other unauthorized intruders.

- L. Franchisee will maintain a stated minimum inventory of products approved by or manufactured for Franchisor to support daily sales and to support the Cooperative Advertising programs of Franchisor, as provided under the Franchisor's inventory control system, facility design, and approved layout, or otherwise in writing. The Franchisee will honor the product and service consumer warranties as determined by Franchisor. Franchisee will openly and prominently display franchise promotional materials provided by Franchisor. Franchisee will offer all marketing, sales specials, advertised specials, and other programs as required by Franchisor.
- M. Franchisee and its manager(s) shall attend and pass to the Franchisor's satisfaction such training programs as required by Franchisor, prior to the opening of Franchisee's Business. If Franchisor determines, in its sole discretion, that Franchisee does not pass said training program, Franchisor may terminate this Franchise Agreement, effective upon immediate delivery of written notice to Franchisee. Franchisor will not be liable to return any franchise fee or pay any costs or expenses Franchisee incurs if Franchisor terminates this agreement due to failure of said training program. Franchisor may require, during the term of this Franchise Agreement, that Franchisee attend Franchisor's monthly and annual national meetings and conventions. Franchisee shall stay at the hotel or resort where the convention is hosted, unless it is in Franchisee's local area. Franchisee must pay for travel, lodging and living expenses.
- N. Franchisee will also be responsible to pay the travel, lodging, and meal expenses for the trainers required to travel to Franchisee's location, if training at the location is required.
- O. Franchisee shall conduct training classes for the Franchisee's employees on training, sales, and maintenance techniques as may be prescribed in the Operations Manual and from time to time by Franchisor through other written and verbal communication.
- P. Franchisee shall keep the business open and in normal operation for such minimum hours and days as Franchisor may prescribe in the Operations Manual or otherwise in writing, and Franchisee shall refrain from using or suffering the use of the Premises for any purpose or activity other than for the operation of the licensed business at any time without first obtaining the written consent of Franchisor.
- Q. Franchisee shall operate the licensed business in conformity with the methods, standards, and specifications of the Franchisor as they are prescribed in the Operations Manual or otherwise in writing. Franchisee shall maintain the Premises in a clean and orderly manner and shall see that all inventory remains in good, clean condition and is properly priced and displayed. Franchisee shall at all times maintain a customer list and a copy of all customers' contracts in the Premises and make such available for inspection by Franchisor upon request.
- R. Franchisee shall follow Franchisor's general pricing guidelines but, as an independent contractor, may exercise flexibility in meeting competition, offering store specials, and adapting to local market conditions. Franchisor may request information from Franchisee that has been used to substantiate any reduction in pricing to meet market conditions. Franchisee shall honor all advertised and unadvertised special pricing and marketing programs developed and offered by Franchisor, at pricing determined by Franchisor. Franchisee shall not undercut the pricing of any company-owned or franchised Zounds Hearing business.

- S. Franchisee shall manage and operate the Franchised Business in an ethical and honorable manner, providing courteous and professional services to customers and always keeping its customers' interests in mind while protecting the good name of Zounds Hearing and the Franchised Business. Franchisee shall handle all customer complaints and requests for returns and adjustments in a manner that will not detract from the name and goodwill enjoyed by Franchisor and shall consider and act promptly upon the recommendations of Franchisor with respect to the handling of customer complaints.
- T. To determine whether Franchisee is complying with this Agreement, the Operations Manual and the System, Franchisor and its designated agents or representatives may at all times and without prior written notice to Franchisee: 1) inspect the Premises; 2) observe and monitor the operation of the Premise for consecutive or intermittent periods as Franchisor deems necessary; 3) interview personnel and customers of the Zounds Hearing Business; and 4) inspect and copy any books, records, and agreements relating to the operation. Franchisee agrees to cooperate with Franchisor fully. If Franchisor exercises any of these rights, Franchisor will not interfere unreasonably with the operation of the Franchised Business.
- U. It is strongly advised that Franchisee personally participate in the direct operation of the Franchised Business on a full-time basis; however, Franchisee may hire an employee to operate the location upon written approval from Franchisor. Franchisee is responsible for all aspects of the operation of the Zounds Hearing Center and must be certain that all the information, terms, conditions, and requirements as contained in this Franchise Agreement and in the Operations Manual are met and kept. Franchisee and its manager, if applicable, must attend and successfully complete Franchisor's prescribed initial training.
- V. Franchisee agrees to accept credit cards at the Premises to facilitate sales. Credit cards accepted shall include Visa, MasterCard, American Express, and Discover. Additionally, Franchisee shall offer a financing program that has been pre-approved by Franchisor.
- W. Franchisee agrees to offer the same warranty that is provided by the manufacturer or supplier of the products that Franchisee sells.
- X. Franchisee agrees to promptly pay Franchisor all payment and contributions that are due to Franchisor or its affiliates.
- Y. Franchisee agrees to be solely responsible for all employment decisions and to comply with all state, federal, and local hiring laws and functions of the Franchised Business, including without limitation, those related to hiring, firing, training, wage and hour requirements, compensation, promotion, record-keeping, supervision, and discipline of employees, paid or unpaid, full or part-time. Franchisee's employees must be competent, conscientious, and properly trained. Franchisee shall have all employees of Zounds Hearing sign a confidentiality agreement as set forth in Section 9 below. Franchisee or their employee must meet all licensing requirements for the dispensing of hearing aids within their state. All hearing aids will be dispensed by a licensed hearing aid dispenser and all state requirements will be met for each customer.

8. PROPRIETARY MARKS

- A. Franchisee acknowledges the exclusive ownership and/or right to use of the Proprietary Marks by Franchisor, and Franchisee agrees that during the term of this Franchise Agreement and after its expiration or termination Franchisee will not directly or indirectly contest or aid in contesting the validity of the Proprietary Marks or the ownership or rights of the Proprietary Marks by Franchisor. Furthermore, Franchisee intends and hereby concedes that any commercial use Franchisee may make of the Marks shall contribute and inure to the commercial use and benefit of Franchisor, which Franchisor may claim to strengthen and further secure ownership of the Proprietary Marks.
- B. It is understood and agreed that the use by Franchisee of Franchisor's Proprietary Marks applies only in connection with the operation of the franchised Zounds Hearing Center at the Premises, includes only such Proprietary Marks as are now designated, or which may hereafter be designated in the Operations Manual or otherwise in writing as part of the System (which might or might not be all of the Proprietary Marks pertaining to the System owned by the Franchisor), and does not include any other mark, name, or indicia of origin of Franchisor now existing or which may hereafter be adopted or acquired by Franchisor.
- C. To develop and maintain high, uniform standards of quality and service and thereby protect Franchisor's reputation, goodwill, and that of the System, Franchisee agrees to:
1. Operate and advertise the Franchise only under the Proprietary Marks authorized by Franchisor as specified in the Franchise Agreement or Operations Manual; and
 2. Maintain and display signs reflecting the current commercial image of the System and, upon notice from Franchisor, to immediately discard and cease use of imagery that has become obsolete and no longer authorized by Franchisor.
- D. Franchisee acknowledges that the Proprietary Marks, System, Operations Manual, and all other information and items delivered to Franchisee by Franchisor pursuant to this Agreement or in furtherance of the System, including without limitation, video and audio tapes or disks, information communicated by electronic means, and intellectual property, are the sole and exclusive property of Franchisor, and Franchisee's rights to use same are contingent upon Franchisee's continued full and timely performance under this Franchise Agreement. Franchisee acknowledges it acquires no rights, interests, or claims to any of said property, except for Franchisee's rights to use the same under this Franchise Agreement for the term hereof and strictly in the manner prescribed. Franchisee agrees that at no time during the term of this Franchise Agreement or at any time after the termination or expiration and non-renewal of this Franchise Agreement shall Franchisee contest the sole and exclusive rights of Franchisor to the Proprietary Marks, System, Operations Manual, and other information, intellectual property, and items delivered or provided or to which Franchisee obtains access under this Franchise Agreement, nor shall Franchisee claim any proprietary interest in such property. Franchisee agrees that neither during the term of this Franchise Agreement nor at any time after its termination or expiration and non-renewal shall Franchisee adopt or employ any names, marks, insignias, or symbols in any business that are or may be confusingly similar to the Proprietary Marks licensed under this Franchise Agreement. Furthermore, Franchisee agrees to cooperate

with and assist Franchisor in connection with any legal action brought by or against either of them regarding the protection and preservation of the Proprietary Marks, System, or Operations Manual and other information and intellectual property delivered to Franchisee or used by Franchisee under this Franchise Agreement.

- E. Franchisee agrees that all documents, papers, notes, and other materials, as well as work products containing or derived from the proprietary information or from the knowledge of, or in connection with, the operation of the franchise, shall be Proprietary Information (as hereinafter defined). Franchisee agrees that it will have no proprietary interest in any work product developed or used by it and arising out of the operation of the Franchise. Franchisee will, from time to time as may be requested by Franchisor, do all things that may be necessary to establish or document Franchisor's ownership of any such work product, including without limitation, the execution of assignments.
- F. Franchisee agrees to disclose promptly to Franchisor any and all inventions, discoveries, and improvements, whether or not patentable or copyrightable, that are conceived or made by Franchisee or its employees or agents and are related to the operation of the Franchise, all of which shall be automatically owned by Franchisor without compensation to Franchisee. Whenever requested to do so by Franchisor, Franchisee will execute any and all applications, assignments, or other instruments that Franchisor may deem necessary to apply for and obtain intellectual property protection or to otherwise protect Franchisor's interest therein. These obligations shall continue beyond the termination or expiration of this Franchise Agreement.
- G. No representation or warranty, express or implied, is made by Franchisor to the effect that the use of the System does not constitute an infringement upon the patent, copyright, or other proprietary rights of other persons. Franchisee hereby agrees that Franchisor shall have no liability to Franchisee in the event the System is held not to be secret or confidential or in the event that any infringement of others' proprietary rights occurs because of Franchisee's use of the System.
- H. If in Franchisor's reasonable determination, the use of Marks in connection with the services or products of Zounds Hearing will infringe or potentially infringe upon the rights of any third party, weakens or impairs Franchisor's rights in the Marks, or it otherwise becomes advisable at any time in Franchisor's sole discretion for Franchisor to modify, discontinue, or to use one (1) or more additional or substitute trade or service Marks then upon notice from Franchisor, Franchisee will terminate or modify, within a reasonable time, such use in the manner prescribed by Franchisor. If Franchisor changes the Marks, Franchisor will not reimburse Franchisee for any out-of-pocket expenses Franchisee incurs to implement such modifications or substitutions. Franchisor is not obligated to reimburse Franchisee for any loss of goodwill or revenue associated with any modified or discontinued Mark, nor is Franchisor responsible for reimbursing Franchisee for any other costs or damages
- I. Franchisee agrees not to make any changes or amendments whatsoever in or to the use of the Proprietary Marks unless directed by Franchisor in writing.

- J. Upon termination or expiration and non-renewal of this Franchise Agreement, Franchisee agrees to immediately cease use, in any manner whatsoever, of any of the Proprietary Marks or any other Marks or trade names that may be confusingly similar to the Proprietary Marks.
- K. Franchisee acknowledges that there will be substantial confusion among the public if, after the termination or expiration and non-renewal of this Franchise Agreement, Franchisee continues to use advertisements and/or the telephone number listed in the telephone directory under the name Zounds Hearing or any name similar to it. Thus, effective upon the termination or expiration and non-renewal of this Franchise Agreement, Franchisee agrees to direct the telephone company servicing Franchisee, per Franchisor's request, to disconnect the telephone number listed under Franchisee's Zounds Hearing Business-related name in the then-existing telephone directory or transfer such number to Franchisor or to any person or location of Franchisor's choosing. If Franchisee fails to take these steps, Franchisee shall be deemed to have hereby irrevocably appointed Franchisor as Franchisee's attorney-in-fact for purposes of directing and accomplishing such transfer. Franchisee understands and agrees that, notwithstanding any billing arrangements with any telephone company or yellow pages directory company, Franchisor will be deemed for purposes hereof to be the subscriber of such telephone numbers, with full authority to instruct the applicable telephone or yellow pages directory company as to the use and disposition of telephone listings and numbers. Franchisee hereby agrees to release, indemnify, and hold such companies harmless from any damages or loss as a result of following Franchisor's instructions.
- L. Franchisee understands and agrees that its right to use the Proprietary Marks is non-exclusive, that Franchisor in its sole discretion has the right to grant licenses to others to use the Proprietary Marks and obtain the benefits of the System in addition to the licenses and rights granted to Franchisee under this Franchise Agreement, and that Franchisor may develop and license other trademarks or service marks in conjunction with systems other than the System on any terms and conditions as Franchisor may deem advisable where Franchisee will have no right or interest in any such other trademarks, licenses, or systems.
- M. With respect to Franchisee's use of the Proprietary Marks pursuant to this Franchise Agreement, Franchisee acknowledges and agrees that:
1. Franchisee shall not use the Proprietary Marks as part of Franchisee's corporate or any other business name;
 2. Franchisee shall not hold out or otherwise use the Proprietary Marks to perform any activity or incur any obligation or indebtedness in such a manner as might in any way make Franchisor liable therefor without Franchisor's prior written consent; and
 3. Franchisee shall execute any documents and provide such other assistance deemed necessary by Franchisor or its counsel to obtain protection for Proprietary Marks or to maintain the continued validity of such Proprietary Marks.
- N. Franchisee acknowledges that the use of the Proprietary Marks outside the scope of this license without Franchisor's prior written consent is an infringement of Franchisor's exclusive right to use the Proprietary Marks and, during the term of this Franchise Agreement and after the

expiration or termination hereof, Franchisee covenants not to directly or indirectly commit an act of infringement, contest or aid in contesting the validity or ownership of Franchisor's Proprietary Marks, or take any other action in derogation thereof.

- O. Franchisee shall notify Franchisor within three (3) calendar days of any suspected infringement of, or challenge to, the validity of the ownership of, or Franchisor's right to use, the Proprietary Marks licensed hereunder. Franchisee will not communicate with any persons other than Franchisor or Franchisor's legal counsel in connection with any such infringement, challenge, or claim. Franchisee acknowledges that Franchisor has the right to control any administrative proceeding or litigation involving the Proprietary Marks. In the event Franchisor undertakes the defense or prosecution of any litigation relating to the Proprietary Marks, Franchisee agrees to execute any and all documents and to do such acts and things as may be necessary in the opinion of counsel for Franchisor to carry out such defense or prosecution.
- P. Except to the extent that such litigation is the result of Franchisee's use of the Proprietary Marks in a manner inconsistent with the terms of this Franchise Agreement, Franchisor agrees to indemnify and defend Franchisee against all claims or actions arising out of Franchisee's use of the Marks as authorized by Franchisor and to reimburse the Franchisee for its out-of-pocket costs in doing such acts and things, except that Franchisee shall bear the salary costs of its employees.
- Q. In addition to all other obligations of Franchisee with respect to the Proprietary Marks licensed herein, Franchisee agrees:
 - 1. To feature and use the Proprietary Marks solely in the manner prescribed by Franchisor and not use the Proprietary Marks on the internet except as approved in writing by Franchisor; and
 - 2. To observe all such requirements with respect to service mark, trademark and copyright notices, fictitious name registrations, and the display of the legal name or other identification of Franchisee as Franchisor may direct in writing from time to time.

9. OPERATIONS MANUAL

- A. In order to protect the reputation and goodwill of Franchisor and the System, and to maintain uniform standards of operation under Franchisor's Proprietary Marks, Franchisee shall conduct the Franchised Business in strict accordance with Franchisor's Operations Manual.
- B. Franchisee acknowledges the operations manual provided by Franchisor to Franchisee is intended to protect Franchisor's standards, systems, names, and marks and is not intended to control day-to-day operation of Franchisee's business. Franchisee further acknowledges and agrees that Franchisee's Business will be under the control of the Franchisee at all times. Franchisee will be responsible for the day-to-day operation of the business.
- C. In connection with the operation of the Franchised Business, Franchisee will from time to time become acquainted with, work with, and even generate certain information, procedures, techniques, data, and materials that are and, by this Franchise Agreement, will become proprietary to Franchisor. Franchisee and all persons signing this Franchise Agreement agree to

keep confidential any of Franchisor's trade secrets or proprietary information as defined below and will not use such for its or their own purpose or supply or divulge same to any person, firm, association, or corporation except as reasonably necessary to operate the Franchised Business.

- D. The confidentiality requirements set forth in the preceding paragraph will remain in full force and effect during the term of this Franchise Agreement and in perpetuity after its termination or expiration and non-renewal. Franchisor's trade secrets and proprietary information include the following:
1. The Operations Manual.
 2. Information that relates in any manner to Franchisor's business or the System, including without limitation, information relating to Franchisor's marketing materials and methods whether oral or reduced to writing, that is not generally known to, or readily ascertainable by, other persons who might derive economic benefit from its disclosure or use.
 3. Any other information that may be imparted to Franchisee from time to time and designated by Franchisor as confidential.
- E. Franchisee acknowledges and agrees that the Proprietary Information and any business goodwill of the Franchise are Franchisor's sole and exclusive property and that Franchisee will preserve the confidentiality thereof. Upon the termination or expiration and non-renewal of this Franchise Agreement, all items, records, documentation, and recordings incorporating any Proprietary Information will be immediately turned over by Franchisee, at Franchisee's sole expense, to Franchisor or to Franchisor's authorized representative.
- F. Excepted from Proprietary Information for purposes of non-disclosure to any third parties by Franchisee and/or its Restricted Persons (as hereinafter defined) is information which:
1. Becomes publicly known through no wrongful act of Franchisee or Restricted Persons; or
 2. Is known by Franchisee or Restricted Persons without any confidential restriction at the time of the receipt of such information from Franchisor or becomes rightfully known to them without confidential restriction from a source other than Franchisor.
- G. Franchisee shall at all times treat the Proprietary Information as confidential and shall use all reasonable efforts to keep such information secret and confidential. The Operations Manual must remain at the Premises and be kept in a secure location, under lock and key, except when it is being studied by Franchisee or Franchisee's employees. Franchisee shall not, at any time without Franchisor's prior written consent, copy, scan, duplicate, record, distribute, disseminate, or otherwise make the Operations Manual available to any unauthorized person or entity, in whole or in part.
- H. Franchisee shall adopt and implement all reasonable procedures as Franchisor may prescribe from time to time to prevent the unauthorized use or disclosure of any of the Proprietary Information. Franchisee shall require that all of its officers, agents, directors, shareholders,

trustees, beneficiaries, partners, employees, spouses of employees, and independent contractors who may obtain or who are likely to obtain knowledge concerning the Proprietary Information (“Restricted Persons”) execute an agreement in the form marked Exhibit K (“Confidentiality and Non-Competition Agreement”) binding such persons to preserve the confidentiality of the Proprietary Information as part of the terms and conditions of such person’s employment or association with Franchisee. Franchisee must obtain a Confidentiality and Non-Competition Agreement signed by any such person prior to or at the same time of its employment or association with that person. Franchisee’s spouse or significant other shall also be bound by the same requirement and shall sign the same Confidentiality and Non-Competition Agreement. Franchisee shall send to Franchisor a duplicate original of each signed Confidentiality and Non-Competition Agreement.

- I. Franchisor will loan one (1) copy of the Operations Manual to Franchisee. The Operations Manual shall at all times remain the sole property of Franchisor and must be returned to Franchisor upon termination or expiration and non-renewal of this Franchise Agreement.
- J. In order for Franchisee to benefit from new knowledge, information, methods, and technology adopted and used by Franchisor in the operation of the System, Franchisor may from time to time revise the Operations Manual, and Franchisee agrees to adhere to and abide by all such revisions.
- K. Franchisee agrees at all times to keep its copy of the Operations Manual current and up-to-date and, in the event of any dispute as to the contents of Franchisee’s Manual, the terms of the master copy of the Operations Manual maintained by Franchisor at Franchisor’s home office shall be controlling. Out-of-date pages shall be returned to Franchisor immediately upon replacement, as instructed in the Operations Manual.
- L. The Operations Manual is intended to further the purposes of this Franchise Agreement and is specifically incorporated by reference into this Franchise Agreement. Except as set forth in this Franchise Agreement, in the event of a conflict between the terms of this Franchise Agreement and the terms of the Operations Manual, the terms of this Franchise Agreement shall control.

10. ADVERTISING

- A. Franchisor has design prescribed marketing materials for Franchisee’s use. Franchisor requires Franchisee to purchase certain quantities of it, at actual design and production costs, to properly promote and expose Franchisee’s Business.
- B. Franchisee will spend a minimum of Ten Thousand and 00/100 Dollars (\$10,000.00) for promotional advertising, during the period ending ninety (90) days following the opening of the Franchised Business (“Grand Opening Advertising”). Franchisee shall pay this sum to Franchisor sixty (60) days from the signing of the Franchise Agreement or thirty (30) days before the projected date of opening, whichever comes first. The Grand Opening Advertising Fee is not refundable in whole or in part under any circumstances.
- C. Immediately after the Grand Opening Advertising expires, and during the remaining Initial Term and any Interim Period, the Franchisee shall spend a minimum of Five Thousand Seven Hundred

and 00/100 Dollars (\$5,700.00) per month, or twenty percent (20%) of the daily gross sales, whichever is greater, for the preceding month for advertising and promotion ("Advertising Fee.") Salaries for marketing support personnel are separate expenses that must not be included in the Advertising Fee.

- D. At Franchisee's option, Franchisee may apply the Advertising Fee to Franchisee's local advertising campaign that has been pre-approved by Franchisor. At Franchisor's request Franchisee will submit to Franchisor an accounting of Franchisee's previous month's expenditures for advertising and promotion on a form approved by Franchisor, and Franchisor reserves the right to require Franchisee to provide actual receipts documenting such expenditures. If more than one Zounds Hearing Center is located within a local market the Franchisee may be required to participate in shared marketing in order to reduce cost.
- E. Franchisor in the future, and in its sole determination may establish an Advertising Fund for the System and require Franchisee to contribute to the Advertising Fund. All payments by Franchisee to the Advertising Fund are non-refundable and shall be in addition to, and not in lieu of, required local, grand opening advertising expenditures by Franchisee. Franchisor will account separately for all sums paid to the Advertising Fund. The Advertising Fund shall be maintained and administered by Franchisor or Franchisor's designee as follows:
1. Franchisor will use Advertising Fund and all contributions to it and any earnings on it, exclusively for preparing, directing, conducting, placing, and administering advertising, marketing, public relations, and/or promotional programs and materials, and any other activities, which Franchisor believes would enhance the image of the System, Proprietary Marks, and products or services.
 2. Franchisor is not obligated to spend monies from the Advertising Fund in any particular Franchisee's market in proportion to the payments to the fund made by the Franchisee in that market. Franchisor does not represent that it will spend any particular amount of advertising funds locally, regionally, or nationally.
 3. The Advertising Fund may be used to meet any and all costs of maintaining, administering, directing, and preparing advertising. This includes, among other things, direct mail advertising, marketing surveys and other public relations activities, developing and maintaining the Zounds Hearing website, employing advertising and public relations agencies, purchasing promotional items, and other marketing materials and services to the Zounds Hearing Businesses operating under the System. These costs may include the proportionate share of Franchisor's employees who devote time and render services for advertising and promotion or the administration of the Advertising Fund, including administrative costs, salaries, overhead expenses related to administering the Advertising Fund and its programs.
 4. Franchisor will not use Advertising Fund contributions to create or place any advertisement that is principally a solicitation for new franchisees, however, may include in all advertising prepared from Advertising Fund contributions not to exceed ten percent (10%), (including Internet advertising) information concerning franchise opportunities, and a portion of these contributions may be used to create and maintain one (1) or more

interior pages on Franchisor's website devoted to advertising franchise opportunities and identifying and screening requirements and applications submitted by franchise candidates

5. No part of the Advertising Fund shall be used by Franchisor to defray any of its general operating expenses, other than those reasonably allocable to such Advertising or other activities reasonably related to the administration or direction of the Advertising Fund. Franchisor may, in its sole discretion from time to time, advance monies to the Advertising Fund and charge the Advertising Program interest on such advances at an annual rate of one percent (1%) above the prime rate then designated by The Bank of America (or if no such rate is then so being designated, at such annual rate as reasonably determined by Franchisor is an equivalent rate) and may authorize repayment of such advances from the Advertising Fund, all in accordance with such terms as the Franchisor deems necessary or appropriate.
6. Franchisor shall administratively segregate all contributions to the Advertising Fund on its books and records. All such payments to the Advertising Fund may be deposited in Franchisor's general operating account, may be commingled with Franchisor's general operating funds, and may be deemed an asset of Franchisor, subject however to the Franchisor's obligation to expend the monies in the Advertising Fund in accordance with the terms hereof. Franchisor may, in its sole discretion, elect to accumulate monies in the Advertising Fund for such periods of time, as it deems necessary or appropriate, with no obligation to expend all monies received in any fiscal year during such fiscal year. In the event Franchisor's expenditures for Advertising Fund in any one (1) fiscal year shall exceed the total amount contributed to the Advertising Fund during such fiscal year, Franchisor shall have the right to be reimbursed to the extent of such excess contributions from any amounts subsequently contributed to the Advertising Fund or to use such excess as a credit against its future contributions. The parties do not intend that the Advertising Fund be deemed a trust.
7. Franchisor shall, on an annual basis, account for the operation of the Advertising Fund and prepare a financial statement evidencing such accounting. The annually-prepared financial accounting for the operation of the Advertising Fund shall be provided upon request in writing to Franchisee.
8. Franchisor in the future and in its sole determination, may establish an Advertising Council, to administer the Advertising Fund, consisting of franchisees, management representatives, or employees selected by Franchisor. If an Advertising Council is established by Franchisor, the membership of such Council, along with the policies and procedures by which it operates, shall be determined by Franchisor.

11. ACCOUNTING AND RECORDS

- A. Franchisee shall, in a manner satisfactory to Franchisor and in accordance with generally accepted accounting principles, maintain original, full, and complete register tapes, computer files, back-up files, other records, accounts, books, data, licenses, contracts, and product vendor invoices which shall accurately reflect all particulars relating to Franchisee's business, as well as

such statistical and other information or records as Franchisor may require. All of this information shall be kept for not less than three (3) years, even if this Franchise Agreement is no longer in effect. Upon Franchisor's request, Franchisee shall furnish the Franchisor with copies of any or all product or equipment supply invoices reflecting purchases by or on behalf of the Franchised Business. In addition, Franchisee shall compile and provide to Franchisor any statistical or financial information regarding the operation of the Franchised Business, the products and services sold by it, or data of a similar nature, including without limitation, any financial data that Franchisor believes that it needs to compile or disclose in connection with the sale of franchises or that Franchisor may elect to disclose in connection with the sale of franchises. All data provided to the Franchisor under this Section 11 shall belong to Franchisor and may be used and published by Franchisor in connection with the System. Franchisor and its designated agents shall have the right to examine and audit such records, accounts, books, computer files, and data at all reasonable times to ensure that Franchisee is complying with the terms of this Franchise Agreement. If such inspection discloses that the Gross Sales of Business during any scheduled reporting period equals or exceeds two percent (2%) or more of the correct amount reported by Franchisee as its Gross Sales, or Gross Volume of Business, Franchisee shall bear the cost of such inspection and audit and shall pay any deficiency of such overdue amount within 30 days.

- B. Franchisee shall record all sales on a point-of-sale terminal, computer, or other register device as approved by Franchisor, containing a device that will record accumulated sales and which cannot be turned back, reset, or erased. Franchisee's record of sales shall show register readings and a summary of totals at the beginning and ending of each day. Franchisor shall, at all times and without notice to Franchisee, have the right to access and view Franchisee's registers or computers via the internet or by visiting the Premises in order to obtain sales data and other available information about the Franchised Business. Franchisee shall be required to synchronize their point of sale system with the Franchisor's system at the end of each business day.
- C. Franchisee shall, at its own expense, use such computer equipment and software, internet management and operating systems, bookkeeping and recording forms, stationary, business cards, sales slips, invoices, purchase order forms, reprints, and other miscellaneous operating forms as Franchisor may specify in the Operations Manual or otherwise in writing.
- D. Franchisee will not install or load any computer software on the hard disks of the computers located at the Premises or used by the Franchised Business, except when such software has previously been approved by Franchisor. The passwords to access all computers located at the Premises or used by the Franchised Business, and the passwords to all files located on said computers, shall exclusively be and remain the property of Franchisor. All computer and file passwords shall be supplied as a list to Franchisor by Franchisee, which list shall be updated the same day that any passwords are changed or modified by Franchisee or by any other person.
- E. No later than the fifth (5th) day of each month, Franchisor shall have received from Franchisee, via electronic methods as prescribed by Franchisor, showing the fees due to Franchisor during the preceding month, itemized by revenue-producing activity as specified from time to time by Franchisor, the Gross Sales at the Premises for the prior month and such other information as Franchisor may require, all signed and certified as true and correct by an authorized agent of

Franchisee. Together with such statements, Franchisee shall pay Franchisor all amounts due hereunder with respect to the period covered by each such statement.

- F. At any time and upon request of Franchisor, Franchisee shall provide Franchisor with a copy or summary listing, at Franchisor's discretion, of all current contracts, listings, agreements, and projects that Franchisee is involved in or working with.
- G. Upon Franchisor's request, Franchisee shall furnish the Franchisor with a copy of each of its reports, returns of sales, use and gross receipt taxes, and complete copies of any state or federal income tax returns covering the operation of the Franchised Business, all of which Franchisee shall certify as true and correct.
- H. Franchisee shall prepare and deliver to Franchisor on a monthly basis, no later than the twentieth (20th) day of each month, an unaudited profit and loss statement, in a form satisfactory to Franchisor, acting in its sole and subjective discretion, covering Franchisee's business for the prior month and such additional reports as Franchisor may require, all of which shall be certified by Franchisee as true and correct. Franchisee shall also submit to Franchisor by March 1 and September 1 of each year during the term of this Franchise Agreement an unaudited balance sheet reflecting the financial position of the Franchised Business as of the preceding December 31 and June 30. In addition, Franchisee, as well as any guarantor(s) of this Agreement, shall deliver to Franchisor a financial statement, certified as correct and current, in a form which is satisfactory to Franchisor and which fairly represents the total assets and liabilities of Franchisee and any such guarantor(s), within sixty (60) days after request from Franchisor.
- I. Within ninety (90) days after the close of each fiscal year of Franchisee, Franchisee shall furnish to Franchisor financial statements which shall include a statement of income and retained earnings, a statement of changes in financial position, and a balance sheet of the Franchised Business, all as of the end of such fiscal year, which shall be certified by Franchisee as being true and correct.
- J. Upon the request of Franchisor, in addition to the foregoing unaudited statements, within one Hundred twenty (120) days after the close of each fiscal year of Franchisee, Franchisee shall furnish to Franchisor, at the Franchisee's expense, an audited statement of income and retained earnings of Franchisee for such fiscal year and an audited balance sheet of Franchisee as of the end of such fiscal year, all prepared in accordance with generally accepted accounting principles and certified to by a certified public accountant.
- K. In addition to the foregoing statements, promptly upon request by Franchisor and within sixty (60) days after the close of each fiscal year of Franchisee, Franchisee shall furnish to Franchisor a list of all holders of legal and beneficial interests in Franchisee, certified as complete by Franchisee. If any of Franchisee's general partners, officers, or directors cease to serve as such, or if any individual is elected as a general partner, officer, or director after execution of this Franchise Agreement, or if Franchisee changes the legal structure under which Franchisee entered into this Franchise Agreement, Franchisee will notify Franchisor within ten (10) days after such change. Promptly upon request by Franchisor, Franchisee shall furnish a list of all holders of legal and beneficial interests in Franchisee, together with a description and percentage amounts, names, addresses, and telephone numbers.

12. INSURANCE AND INDEMNIFICATION

- A. Franchisee shall, at its own expense and no later than the earliest of (a) the date on which Franchisee uses any of the Proprietary Marks, (b) the date of commencement of initial merchandising and layout of the Premises, or (c) the arrival of any of the initial inventory, whether the location is open or not, procure and maintain in full force and effect throughout the term of this Franchise Agreement the types of insurance enumerated in the Operations Manual or otherwise in writing. This insurance shall be in such amounts as may from time to time be required by Franchisor, shall designate Franchisor as an additional named insured, and shall include:
1. Employer's liability and workers' compensation as prescribed by law;
 2. Comprehensive general liability covering the operation of the Franchised Business;
 3. Comprehensive fire legal liability;
 4. Comprehensive and liability coverage for any owned and non-owned (leased) motor vehicles; and
 5. Any other coverage that Franchisor periodically requires to satisfy insurance-related obligations.

Franchisee must buy insurance only from carriers rated A-VIII or better by A.M. Best and Company, Inc. (or similar criteria as Franchisor periodically specifies). Franchisor may periodically increase the amounts of coverage required under these insurance policies and/or require different or additional insurance coverage to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards, changing economic conditions, or other relevant changes in circumstances. All insurance policies Franchisee purchases must name Franchisor and any affiliate Franchisor designate as additional insureds and provide for thirty (30) days' prior written notice to Franchisor of a policy's material modification or cancellation. If Franchisee fails to obtain or maintain the insurance Franchisor specifies, Franchisor may (but need not) obtain the insurance for Franchisee on Franchisee's behalf (see Item 6). The cost of Franchisee's premiums will depend on the insurance carrier's charges, terms of payment, and Franchisee's insurance and payment histories. Franchisee shall make timely delivery of certificates of all required insurance to Franchisor, each of which shall contain a statement by the insurer that the policy will not be cancelled or materially altered without at least thirty (30) days' prior written notice to Franchisor. The procurement and maintenance of such insurance shall not relieve Franchisee of any liability to Franchisor under any indemnity requirement of this Franchise Agreement.

- B. Should Franchisee for any reason fail to procure and maintain such insurance coverage, Franchisor shall have the right and authority, without having any obligation to do so, to immediately procure such insurance coverage and to charge the same to Franchisee who shall pay Franchisor such charges upon demand, plus a reasonable fee for the expenses incurred by Franchisor in connection with procuring such insurance.

- C. Franchisee, as a material part of the consideration to be rendered to Franchisor, shall hold Franchisor harmless from and indemnify and defend Franchisor and Franchisor's directors, officers, principals, managers, shareholders, subsidiaries, employees, servants, agents, and assignees from and against any and all loss, losses, damage, claims, demands, damages, liabilities (including injuries to Franchisor), and causes of actions of every kind or character and nature, as well as costs and expenses incident thereto, including reasonable attorneys' fees ("Claims") which in any manner arises out of or is connected to Franchisee's ownership, management, or operation of the franchise hereunder. Notwithstanding the foregoing, Franchisor will have the right, at Franchisor's option, to defend any such Claim and may require immediate reimbursement from the Franchisee of all expenses and fees incurred in connection with such defense.

13. INDEPENDENT CONTRACTOR

- A. In all dealings with third parties, including without limitation, employees, suppliers, and customers, Franchisee shall disclose in an appropriate manner acceptable to Franchisor that it is an independent entity licensed by Franchisor. Nothing in this Franchise Agreement is intended by the parties hereto either to create a fiduciary relationship between them or to constitute the Franchisee an agent, legal representative, subsidiary, joint venture, partner, employee, or servant of Franchisor for any purpose whatsoever.
- B. It is understood and agreed that Franchisee is an independent contractor and is in no way authorized to make any contract, agreement, warranty, or representation or to create any obligation on behalf of Franchisor.

14. TRANSFER AND ASSIGNMENT

- A. This Franchise Agreement and all rights and duties hereunder may be freely assigned or transferred by Franchisor, in whole or in part in its sole discretion without Franchisee's consent, to any person or legal entity that agrees to assume Franchisor's obligations hereunder, including a competitor of Franchisor, and shall be binding upon and inure to the benefit of Franchisor's successors and assigns, including without limitation, any entity which acquires all or a portion of the capital stock of Franchisor or any entity resulting from or participating in a merger, consolidation, or reorganization in which Franchisor is involved and to which Franchisor's rights and duties hereunder (in whole or in part) are assigned or transferred.
- B. Franchisee understands and acknowledges that the rights and duties created by this Franchise Agreement are personal to Franchisee (and Franchisee's owners, if Franchisee is a legal entity) and that Franchisor has granted this Franchise in reliance on many factors, including without limitation, the individual or collective character, skill, aptitude, and business and financial capacity of Franchisee and any persons owning an interest in Franchisee. Accordingly, neither Franchisee nor any person owning any direct or indirect equity interest therein shall directly or indirectly pledge, mortgage, or otherwise encumber any interest in: 1) this Agreement or any portion or aspect thereof, 2) the Franchised Business, 3) the premises, 4) the inventory, or 5) any equity or voting interest in Franchisee, nor permit the Franchised Business to be operated, managed, directed, or controlled, directly or indirectly, by any person other than Franchisee (any such act or event being referred to as a "Transfer") without the prior written approval of

Franchisor. Any such purported Transfer occurring by operation of law or otherwise without Franchisor's prior written consent, including any Transfer by a trustee in bankruptcy, shall be a material default of this Franchise Agreement, but the transferor shall remain obligated under this Franchise Agreement until released by Franchisor or until this Franchise Agreement is terminated and all post-term obligations pursuant to Section 17 are fulfilled.

- C. A change in the initial equity and voting owners may constitute a Transfer as defined in this Section, and if so shall meet all of the requirements contained in this Section 14. If the proposed Transfer, whether alone or together with all other previous, simultaneous, and/or proposed Transfers, directly or indirectly would have the effect of reducing to less than a majority (1) in the event Franchisee is a partnership or privately-held corporation, the percentage of equity and voting interest (as reasonably determined by Franchisor) in this Franchisee by the initial owners identified in the document marked as Exhibit F (“Acknowledgement Regarding Ownership”) or (2) in the event Franchisee is a natural person, Franchisee’s equity or voting interest (as reasonably determined by Franchisor) in this Franchise or, if any proposed transfer directly or indirectly would mean a change of the unrestricted power to direct the management and/or policies of Franchisee, including those related to payment of financial obligations or transfer of control with respect to a general partnership interest, whether through ownership of interests, by contract, or otherwise, such shall constitute a Transfer and be governed by the Transfer requirements defined in this section. In computing the percentages of equity and voting interest owned in Franchisee for purposes of this Section 14, general partnership interests shall not be distinguished from limited partnership interests.
- D. Franchisee understands and acknowledges the vital importance of the performance of the Franchised Business to the market position and overall image of Franchisor. Franchisee also recognizes that there are many subjective factors that comprise the process by which Franchisor selects a suitable franchise owner. The consent of Franchisor to a Transfer by Franchisee shall not be unreasonably withheld but shall remain a subjective determination and shall include, but not be limited to, the following conditions:
1. The proposed transferee confirmed to be a person or entity that meets Franchisor's standards of qualification then applicable with respect to all new applicants for similar Zounds Hearing Franchise owners.
 2. Prior to any proposed Transfer, the amount of Five Thousand and 00/100 Dollars (\$5,000.00) shall have been paid to Franchisor as a Transfer fee together with the application for consent to the transfer, and the amount of Four Thousand and 00/100 Dollars (\$4,000.00) for training of two (2) persons for two (2) weeks shall also have been paid to the Franchisor.
 3. As of the effective date of the proposed Transfer, all obligations of Franchisee hereunder and under any other agreements between Franchisee and Franchisor are fully satisfied.
 4. As of the effective date of the proposed Transfer, all obligations of the proposed transferee to Franchisor under all other agreements of any kind between the proposed transferee and Franchisor are fully satisfied.

5. As of the effective date of the proposed Transfer, Franchisor shall have forwarded to Franchisee its approval of the proposed Transfer to the proposed transferee in accordance with the provisions of this Section 14. Franchisor shall not unreasonably withhold its consent to transfer.
 6. Prior to any proposed Transfer of any equity or voting interest in Franchisee, and at any other time upon request, Franchisee shall submit to Franchisor a list of all holders of direct or indirect equity and voting interests in Franchisee reflecting their respective present and/or proposed direct or indirect interests in Franchisee, in such form as Franchisor may require.
 7. Prior to any proposed Transfer, Franchisee must have requested that Franchisor provide the prospective transferee with Franchisor's current form of Franchise Disclosure Document required by the Federal Trade Commission's Trade Regulation Rule on Franchising and/or other applicable state franchise registration/disclosure laws, and a receipt for such document shall have been delivered to Franchisor; provided, however, Franchisor shall not be liable for any representations other than those contained in such Franchise Disclosure Document.
 8. The proposed transferee must have agreed to execute a new Franchise Agreement, namely Franchisor's then-current form of unit Franchise Agreement, which may contain terms and conditions substantially different from those in this Franchise Agreement, for an initial term equal to the time remaining in the term of this Franchise Agreement as of the date of such transfer.
 9. If permitted by applicable law, the transferor and the transferee shall have executed a general release, under seal where required, in a form satisfactory to Franchisor, of any and all claims against Franchisor, its parent, subsidiaries, affiliates, and their officers, directors, attorneys, shareholders, and employees, in their corporate and individual capacities, including without limitation, claims arising under federal, state, and local laws, rules, and ordinances arising out of, or connected with, the performance of this Franchise Agreement or any other agreement.
 10. The transferee shall have demonstrated to Franchisor's sole satisfaction that it meets all of Franchisor's requirements for becoming a franchise owner, including without limitation, that it meets Franchisor's managerial and business standards then in effect for similarly-situated franchise owners, possesses a good moral character, business reputation, and satisfactory credit rating, is not a competitor of Franchisor, will comply with all instruction and training requirements of Franchisor; and has the aptitude and ability to operate the Franchised Business (as may be evidenced by prior related business experience or otherwise).
 11. The transferee and/or its designated managerial personnel (as applicable) shall have completed the training then required by Franchisor to Franchisor's satisfaction.
- E. Upon the death or mental or physical incompetency (as reasonably determined by an independent third party such as a licensed doctor) of any person with any direct or indirect

interest in Franchisee and who has managerial responsibility for the operation of the Franchised Business, the executor, administrator, or personal representative of such person shall transfer the interest of such person to a third party approved by Franchisor within six (6) months after the death or finding of incompetency. Such transfers shall be subject to the same conditions as any lifetime Transfer. If the heirs or beneficiaries of any such person are unable to meet the conditions in Section 14 hereof, Franchisor may terminate this Franchise Agreement.

- F. If Franchisee or any person or entity holding any direct or indirect interest in Franchisee, this Franchise Agreement, or the Premises desires to make a Transfer for value, Franchisee shall first notify Franchisor in writing of such intention and offer to sell or transfer such interest to Franchisor upon the terms and conditions set forth in such notice, which shall be at least as favorable as those offered by a bona fide third party, if any (and such notice shall include a copy of any such third party offer), net of any applicable real estate and/or business brokerage commissions, at Franchisor's option. If Franchisor and Franchisee cannot agree within thirty (30) days of such notice on the terms and conditions of such Transfer or if Franchisor notifies the Franchisee that it does not want to acquire such interest, Franchisee may sell or transfer such interest to a bona fide third party, provided that:
1. Such transfer is made within one hundred twenty (120) days after the expiration of any offer to Franchisor;
 2. Such transfer is made at a net price and on terms and conditions no more favorable than those provided to Franchisor or offered in writing by such third party and provided in the notice to Franchisor;
 3. Such transfer meets all applicable requirements of Paragraph D hereof; and
 4. The Premises shall continue to be operated pursuant to the System.

Failure of Franchisor to exercise the option afforded by this Section and Paragraph shall not constitute a waiver of any other provision of this Franchise Agreement, including all requirements of this Paragraph, with respect to a proposed Transfer.

- G. In the event the consideration, terms, and/or conditions offered by a third party are such that Franchisor may not reasonably be able or required to furnish the same consideration, terms, and/or conditions, then Franchisor may purchase the interest proposed to be sold for the reasonable equivalent in cash. If the parties cannot agree within a reasonable time on the reasonable equivalent in cash of the consideration, terms, and/or conditions offered by the third party, three (3) independent appraisers shall be designated in the following manner: Franchisee shall select and pay the costs of one (1), Franchisor shall select and pay the costs of one (1), and the two (2) appraisers so chosen shall select a third appraiser. The decision of the majority of the appraisers so chosen shall be conclusive and binding. The parties shall share the cost of the third appraiser equally.
- H. Notwithstanding the foregoing, it is understood that Franchisee (if an individual) may assign this Franchise Agreement, the Franchised Business, and/or Franchisee's rights and obligations hereunder on a single occasion to a legal entity organized by Franchisee for that purpose only,

provided that at least a majority of all the issued and outstanding shares of voting stock and/or equity interest of which shall be owned and voted continuously by Franchisee, and further provided that Franchisor shall have approved in advance all other shareholders of such corporation or others holding equity or voting interests, which consent shall not be unreasonably withheld. Franchisor shall be given written notice of such assignments and delegation, and, thereupon, such corporation shall have all such rights and obligations, and the term "Franchisee" as used herein shall refer to such legal entity, provided however, that such assignment shall in no way affect the obligations hereunder of the individual above-designated "Franchisee," who shall remain fully bound by and responsible for the performance of all of such obligations, jointly and severally, with such legal entity. Such legal entity shall at no time engage in any business or activities other than the exercise of the rights herein granted to Franchisee and the performance of its obligations as Franchisee hereunder.

- I. Franchisor's consent to a Transfer of any interest in the Franchisee granted herein shall not constitute a waiver of any claims it may have against the transferring party, nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms of this Franchise Agreement by the transferee.
- J. Franchisor will not require approval of the assignment of all or any part of the assets of the Franchised Business or the stock or other interests in a Franchisee, excluding this Franchise Agreement or the Franchise, to a bank or other lending institution as collateral security for loans made directly to or for the benefit of the Franchised Business. Such approval will be required for any proposed assignment or hypothecation of this Agreement or the Franchise, which approval will not permit further transfers or assignments of this Agreement or the Franchise without compliance by the transferee or assignee with the provisions of Section 14 hereof.

15. COVENANTS

- A. During the Term of this Franchise Agreement Franchisee and each guarantor hereof covenants individually:
 - 1. To use reasonable best efforts in operating the Franchised Business and in recommending, promoting, and encouraging patronage of all Systems; and
 - 2. Not to directly or indirectly engage, as an owner, operator, employee, consultant, or in any managerial capacity in any hearing aid business similar to those services offered by Zounds Hearing, other than as a franchise owner of the System, provided however, that Franchisee shall not be prohibited hereby from owning equity securities of any hearing aid business whose shares are traded on a stock exchange or on the over-the-counter market, so long as Franchisee's ownership interest shall represent two percent (2%) or less of the total number of outstanding shares of such business.
- B. In the event this Franchise Agreement is terminated, expires and not renewed, or if Franchisee or any guarantor assigns or transfers its interest herein to any person or business organization except pursuant to Section 14, Paragraph D hereof, then in such event Franchisee and any such guarantor covenants for a period of one (1) year after such termination, expiration and non-renewal, transfer, or assignment not to directly or indirectly engage, as an owner, operator, or in

any managerial capacity in any business that provides hearing screening, fitting, and sale of hearing aids, or in any business selling similar or the same types of products and services as Zounds Hearing , in any way, within a forty (40) mile radius of the border of the former Designated Territory, other than as an authorized franchise owner of another Zounds Hearing System. It is understood and agreed that the purpose of this covenant is not to deprive Franchisee of a means of livelihood and will not do so, but is rather to protect the goodwill and interest of Franchisor and the System.

- C. During the Term of this Franchise Agreement and thereafter, Franchisee and each guarantor covenants not to directly or indirectly communicate, divulge, or use for its benefit or the benefit of any other person or legal entity, any trade secrets which are proprietary to Franchisor or any information, knowledge, or know-how deemed confidential under Section 9 hereof, except as permitted by Franchisor. In the event of any termination or expiration and non-renewal of this Franchise Agreement, Franchisee agrees that it will never use Franchisor's confidential information, trade secrets, methods of operation, or any proprietary components of the System in the design, development, or operation of a business that provides hearing screening, fitting, and sale of hearing aids, or in any business selling similar or the same types of products and services as Zounds Hearing. Franchisee agrees that if it engages as an owner, operator, or in any managerial capacity in any such business, it will assume the burden of proving that it has not used Franchisor's confidential information, trade secrets, methods of operation, or any proprietary components of the System. The protection granted hereunder shall be in addition to and not in lieu of all other protections for such trade secrets and confidential information as may otherwise be afforded in law or in equity.
- D. As part of the Confidentiality and Non-Competition Agreement mentioned in Section 9, Paragraph G, the non-disclosure restriction shall prohibit disclosure of proprietary and confidential information by officers, agents, directors, shareholders, trustees, beneficiaries, partners, and employees during and for a period of five (5) years after termination of such employment or involvement with Franchisee. Franchisee agrees to provide Franchisor with all such required Confidentiality and Non-Competition Agreements.
- E. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Franchise Agreement. Should any part of one or more of these restrictions be found to be unenforceable by virtue of its scope in terms of area, business activity prohibited, or length of time by any state, court of law, or by legal requirement, and should such part be capable of being made enforceable by reduction of any or all such restrictions, Franchisee and Franchisor agree that the same shall be enforced to the fullest extent permissible under the law. In addition, Franchisor may unilaterally and at any time in its sole discretion, revise any of the covenants in this Section 15 so as to reduce the obligations of Franchisee hereunder. Franchisee further expressly agrees that the existence of any claim it may have against Franchisor, whether or not arising from this Franchise Agreement, shall not constitute a defense to the enforcement by the Franchisor of the covenants in this Section 15.

16. DEFAULT AND TERMINATION

- A. Franchisor may not terminate this Franchise Agreement prior to the expiration of its term except for "good cause," which shall mean the occurrence of any event of default described herein and

below. Upon the occurrence of any event of default, Franchisor may, at its option and without waiving its rights hereunder or any other rights available at law or in equity, including its rights to damages, terminate this Franchise Agreement and all of Franchisee's rights hereunder effective immediately upon the date Franchisor gives written notice of termination, upon such other date as may be set forth in such notice of termination, or in those instances enumerated below in subparagraph 1, automatically upon the occurrence of, or the lapse of the specified period following, an event of default. The occurrence of any one (1) or more of the following events shall constitute an event of default and grounds for termination of this Franchise Agreement by Franchisor:

1. Automatically without notice or action required by Franchisor if:
 - a) The Franchisee becomes insolvent or makes a general assignment for the benefit of creditors, unless otherwise prohibited by law; or
 - b) A petition in bankruptcy is filed by Franchisee or such a petition is filed against and consented to by Franchisee or not dismissed within thirty (30) days; or
 - c) A bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is filed and consented to by Franchisee; or
 - d) A receiver or other custodian (permanent or temporary) of Franchisee's assets or property, or any part thereof, is appointed; or
 - e) A final judgment in excess of Ten Thousand and 00/100 Dollars (\$10,000.00) remains unsatisfied or of record for sixty (60) days or longer (unless a bond is filed or other steps are taken to effectively stay enforcement of such judgment in the relevant jurisdiction); or
 - f) The franchisee dispenses a hearing aid without the appropriate state hearing aid dispenser's license;
2. If Franchisee fails to pay any financial obligation pursuant to this Franchise Agreement within ten (10) days of the date on which the Franchisor gives notice of such delinquency, immediately upon written notice if such payment has not been made within thirty (30) days after the date on which it is required to be paid, or immediately upon written notice if Franchisee is determined to have under-reported its Gross Sales during any month by five percent (5%) or more of the actual Gross Sales during such month on two (2) or more occasions during the term of this Franchise Agreement, whether or not Franchisee subsequently rectifies such deficiency;.
3. If Franchisee fails to commence operation of the Franchised Business as required by Section 6.B hereof;
4. If Franchisee makes, or has made, any materially false statement or report to Franchisor in connection with this Franchise Agreement or application therefor;

5. If there is any violation of any transfer and assignment provision contained in Section 14 of this Agreement.
6. If Franchisee receives from Franchisor three (3) or more notices to cure the same or similar defaults or violations of this Agreement during any twelve (12) month period.
7. If Franchisee or its designated manager fails to complete to Franchisor's reasonable satisfaction any of the training required pursuant to Section 6 of this Agreement.
8. If Franchisee fails, for a period of fifteen (15) days after notification of non-compliance by appropriate authority, to comply with any law or regulation applicable to the operation of the Franchised Business.
9. If Franchisee violates any covenant of confidentiality or non-disclosure contained in Section 15 of this Agreement or otherwise discloses, uses, permits the use of, copies, duplicates, records, transmits, or otherwise reproduces any manuals, materials, goods, or information created or used by the Franchisor and designated for confidential use within the System without Franchisor's prior approval.
10. If Franchisee, any person controlling, controlled by, or under common control with the Franchisee, any principal officer or employee of Franchisee, or any person owning an interest in Franchise is convicted of a felony or any other crime or offense (even if not a crime) that is reasonably likely in the sole opinion of Franchisor to adversely affect the System, any System unit, the Proprietary Marks, or the goodwill associated therewith.
11. If Franchisee fails to perform or breaches any covenant, obligation, term, condition, warranty, or certification herein, fails to operate the Franchised Business as specified by Franchisor in the Operations Manual, or fails to pay promptly any undisputed bills from vendors and fails to cure such non-compliance or deficiency within thirty (30) days (or such longer term as granted by the Franchisor) after Franchisor's written notice thereof;
12. If Franchisee abandons or ceases to operate all or any part of the Franchised Business conducted under this Franchise Agreement for twenty-four (24) hours or longer or defaults under any mortgage, deed of trust, or lease with Franchisor or any third party covering the Franchised Business or the Premises, whereupon Franchisor or such third party treats such act or omission as a default, and Franchisee fails to cure such default to the satisfaction of Franchisor or such third party within any applicable cure period granted Franchisee by Franchisor or such third party.
13. If Franchisee or any guarantor(s) hereof default on any other agreement with Franchisor or any affiliate or parent corporation of Franchisor and such default is not cured in accordance with the terms of such other agreement.
14. If Franchisee's interest in any lease relating to the operation of the Franchised Business at the Premises is terminated or expires, or if Franchisee's right of possession of the Premises shall be terminated at any time for any cause whatsoever;

15. If Franchisee commits repeated, material violations of any health, zoning, sanitation, or other regulatory law, standard, or practice; operates the business in a manner that presents a health or safety hazard to its employees or customers; or if Franchisee loses its approval from any city, state, or other regulatory agency to operate a business that provides hearing screening, fitting, and sale of hearing aids; and/or
 16. If Franchisee fails to maintain sufficient funds in the account(s) listed and used for electronic funds transfer to pay for franchise, advertising, and other fee amounts that are due, on every due date.
- B. Franchisee may not terminate this Franchise Agreement prior to the expiration of its term except through legal process resulting from Franchisor's material breach of this Franchise Agreement or otherwise with Franchisor's consent. In the event that Franchisee shall claim that Franchisor has failed to meet any obligation under this Agreement, Franchisee shall provide Franchisor with written notice of such claim within ninety (90) days of its occurrence, specifically enumerating all alleged deficiencies and providing Franchisor with an opportunity to cure, which shall in no event be less than thirty (30) days from the date of receipt of such notice by Franchisor from Franchisee. Failure to give such notice shall constitute a waiver of any such alleged default.

17. POST TERM OBLIGATIONS

Upon the expiration or termination of this Franchise Agreement, Franchisee shall immediately:

- A. Cease to be a franchise owner of Franchised Business under this Franchise Agreement and cease to operate the former Franchised Business under the System. Franchisee shall not thereafter directly or indirectly represent to the public that the former Franchised Business is or was operated or in any way connected with the System or hold itself out as a present or former franchise owner of Franchise at or with respect to the Premises;
- B. Pay all sums owing to Franchisor, including those invoiced to Franchisee after this Franchise Agreement expires or is terminated. Upon termination pursuant to any default by Franchisee, such sums shall include, but not be limited to, actual and consequential damages, plus costs, and expenses (including reasonable attorneys' fees) incurred by Franchisor as a result of the termination. Such damages shall also include, in the case of termination resulting from Franchisee's breach of this Franchise Agreement (as stipulated damages and not as a penalty), the greater of 1) Ten Thousand and 00/100 Dollars (\$10,000.00); 2) an amount equal to the last six (6) months' continuing fees due and payable pursuant to Section 5 hereof; and 3) an amount equal to one-half (½) of the last twelve (12) months' continuing fees due and payable pursuant to Section 5 hereof multiplied by the number of years (prorated for partial years) left in the term of this Franchise Agreement;
- C. Return to Franchisor the Operations Manual and all trade secret and other confidential materials, equipment, and property owned by Franchisor and all copies thereof. Franchisee shall retain no copy or record of any of the foregoing; provided, however, that Franchisee may retain its copy of this Franchise Agreement, any correspondence between the parties, and any other document which Franchisee reasonably needs for compliance with any applicable provision of law;

- D. Take such action as may be required by Franchisor to provide the then-current and up-to-date customer list and contracts to Franchisor and also to transfer, disconnect, forward, or assign all telephone numbers, white and yellow page telephone references and advertisements, and all trade and similar name registrations and business licenses to Franchisor or its designee and cancel any interest which Franchisee may have in the same;
- E. Cease to use in advertising or in any manner whatsoever any methods, procedures, or techniques associated with the System in which Franchisor has a proprietary right, title, or interest; cease to use the Proprietary Marks and any other marks and indicia of operation associated with the System; and remove all trade dress, physical characteristics, color combinations, and other indications of operation under the System from the Premises. Without limiting the generality of the foregoing, Franchisee agrees that, in the event of any termination or expiration and non-renewal of this Franchise Agreement, it will remove all signage bearing the Proprietary Marks, deliver the fascia for such signs to Franchisor upon Franchisor's request, and remove any items that are characteristic of the System "trade dress" from the Premises. Franchisee agrees that Franchisor or a designated agent may enter upon the Premises at any time to make such changes at Franchisee's sole risk and expense and without liability for trespass; and
- F. Provide Franchisor with written evidence that they have complied with the post-term obligations, within thirty (30) days notice of termination or scheduled expiration of the franchise.
- G. Franchisor shall have the option, but not the obligation, within thirty (30) days after the date of termination, expiration, and non-renewal of this Agreement to purchase any and all of Franchisee's assets from the Franchised Business at a purchase price equal to fair market. If Franchisor elects this option, Franchisor will deliver written notice to Franchisee. Franchisor will have the right to inspect equipment at any time during this thirty (30) day period. If Franchisor elects to purchase equipment, Franchisor will be entitled to, and Franchisee must provide, all customary warranties and representations as to the maintenance, function, and condition of the equipment and Franchisee's good title to the equipment (including, but not limited to, that Franchisee owns the equipment free and clear of any liens and encumbrances.

18. TAXES, PERMITS, AND INDEBTEDNESS

- A. Franchisee shall promptly pay when due any and all federal, state, and local taxes, including without limitation, unemployment, workers' compensation, and sales taxes which are levied or assessed with respect to any services or products furnished, used, or licensed pursuant to this Franchise Agreement and all accounts or other indebtedness of every kind incurred by Franchisee in the operation of the Franchised Business.
- B. Franchisee shall comply with all federal, state, and local laws, rules, and regulations and timely obtain any and all permits, certificates, and licenses for the full and proper conduct of the Franchised Business.
- C. Franchisee hereby expressly covenants and agrees to accept full and sole responsibility for any and all debts and obligations incurred in the operation of the Franchised Business.

19. WRITTEN APPROVALS, WAIVERS, FORMS OF AGREEMENT, AND AMENDMENT

- A. Whenever this Franchise Agreement requires or Franchisee desires to obtain Franchisor's approval, Franchisee shall make a timely written request. Unless a different period is specified in this Franchise Agreement, Franchisor shall respond with its approval or disapproval within fifteen (15) days of receipt of such request. If Franchisor has not specifically approved a request within such fifteen (15) day period, such failure to respond shall be deemed as a disapproval of any such request.
- B. No failure of Franchisor to exercise any power reserved to it by this Franchise Agreement and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Franchisor's right to demand exact compliance with any of the terms herein. No waiver or approval by Franchisor of any particular breach or default by Franchisee; no delay, forbearance, or omission by Franchisor to act or give notice of default or to exercise any power or right arising by reason of such default hereunder; and no acceptance by Franchisor of any payments due hereunder shall be considered a waiver or approval by Franchisor of any preceding or subsequent breach or default by Franchisee of any term, covenant, or condition of this Franchise Agreement.
- C. No warranty or representation is made by the Franchisor that all Zounds Hearing System franchise agreements heretofore or hereafter issued by Franchisor do or will contain terms substantially similar to those contained in this Franchise Agreement. Further, Franchisee recognizes and agrees that Franchisor may, in its Reasonable Business Judgment due to local business conditions or otherwise, waive or modify comparable provisions of other franchise agreements heretofore or hereafter granted to other Zounds Hearing System franchise owners in a non-uniform manner, unless otherwise required by this Franchise Agreement or by law.
- D. Except as otherwise provided in Section 23 hereof, no amendment, change, or variance from this Franchise Agreement shall be binding upon either Franchisor or Franchisee except by mutual written agreement.

20. ENFORCEMENT

- A. In order to ensure compliance with this Franchise Agreement and enable Franchisor to carry out its obligation under this Franchise Agreement, Franchisee agrees that Franchisor and its designated agents shall be permitted, with or without notice, full and complete access during business hours to inspect the Premises and all records thereof, including but not limited to, records relating to Franchisee's customers, suppliers, employees, and agents. Franchisee shall cooperate fully with the Franchisor and its designated agents requesting such access.
- B. The Franchisor or its designee shall be entitled to obtain without bond, declarations, temporary and permanent injunctions, and orders of specific performance in order to enforce the provisions of this Franchise Agreement relating to Franchisee's use of the Proprietary Marks, the obligations of Franchisee upon termination or expiration of this Franchise Agreement, and assignment of the franchise and ownership interests in Franchisee or in order to prohibit any act or omission by Franchisee or its employees which constitutes a violation of any applicable law or regulation, which is dishonest or misleading to prospective or current customers of businesses operated

under the System, which constitutes a danger to other franchise owners, employees, customers, or the public or which may impair the goodwill associated with the Proprietary Marks.

- C. If Franchisor secures any declaration, injunction, or order of specific performance pursuant to Section 20.B hereof, if any provision of this Franchise Agreement is enforced at any time by Franchisor, or if any amounts due from Franchisee to Franchisor are at any time collected by or through an attorney at law or collection agency, Franchisee shall be liable to Franchisor for all costs and expenses of enforcement and collection, including but not limited to, court costs and reasonable attorneys' fees.
- D. Franchisee agrees that it will not withhold payments or amounts of any kind due to Franchisor on the premise of alleged nonperformance by Franchisor of any of its obligations hereunder.

21. NOTICES

Any notice required to be given hereunder shall be in writing and shall be either mailed by certified mail, return receipt requested, or delivered by a recognized courier service, receipt acknowledged. Notices to Franchisor shall be addressed to it at the Agent for Service listed here:

Jamile Dean Essa
4405 E. Baseline Road, Suite 114
Phoenix, AZ 85042

Notices to the Franchisee shall be addressed to the Premises. Any notice complying with the provisions hereof shall be deemed to be given three (3) days after mailing or on the date of receipt or delivery, whichever is earlier. Each party shall have the right to designate any other address for such notices by giving notice thereof in the foregoing manner, and in such event, all notices to be mailed after receipt of such notice shall be sent to such other address.

22. GOVERNING LAW AND DISPUTE RESOLUTION

- A. This Agreement is accepted by Franchisor in the State of Arizona (the "State") and shall be governed by and construed in accordance with the laws thereof, which laws shall prevail in the event of any conflict; provided, however, that the restrictive covenants contained in Section 15 hereof shall be construed in accordance with the laws of the state(s) where such restriction(s) is(are) to apply, and the laws of such state(s) shall determine the enforceability of such covenants to be performed in such state(s).
- B. The parties hereto agree that it is in their best interest to resolve disputes between them in an orderly fashion and in a consistent manner. Therefore, in the event that a dispute cannot be resolved by negotiation, mediation, internal appeal procedures, or otherwise (which Franchisor will make a diligent effort to do), Franchisee consents and agrees to follow a process of arbitration as follows:
 - 1. All claims, disputes, and controversies arising out of or relating in any way to the purchase or operation of the Franchised Business will be resolved to the fullest extent

permitted by Federal law by binding arbitration administered by the American Arbitration Association ("AAA") under its Commercial Arbitration Rules.

2. Arbitration may be initiated by either Franchisor or Franchisee by sending written notice of its intention to arbitrate ("Notice") to the other at its registered agent's address and to the AAA office as set forth above. The Notice will contain a description of the claim, dispute, or controversy and the remedy requested. In no event can any demand for arbitration be made after the date when the institution of a legal or equitable proceeding based on the claim, dispute, or controversy in question would be barred by the applicable statute of limitations or laches. For any claim requesting relief or an award of less than Twenty Thousand and 00/100 Dollars (\$20,000.00), the arbitration will be conducted before a single independent and impartial arbitrator selected pursuant to the Commercial Arbitration Rules of the AAA. For any claim requesting relief or an award of greater than Twenty Thousand and 00/100 Dollars (\$20,000.00), the arbitration will be conducted before a panel of three (3) independent and impartial arbitrators selected pursuant to the Commercial Arbitration Rules of the AAA. Unless otherwise mutually agreed, all arbitrators shall be lawyers licensed by the State of Arizona with five (5) or more years' experience in the practice of Commercial Law and approved to be on an AAA Panel.
3. The arbitrator(s) will deliver the decision or award in writing with a summary of the reasons for the decision or award, and the decision or award shall be final and binding on each party, their successors, and assigns. In an appropriate case, the arbitrator may grant a motion to dismiss the claim or a motion for summary deposition of the claim. Judgment on the decision or award may be entered by any court having jurisdiction. Fees and costs of the arbitration will conform to the AAA fee schedule in effect at the time of the arbitration and will be shared equally by the parties.
4. This Agreement is an election to resolve claims, disputes, and controversies by arbitration rather than the judicial process. It is understood that this will require the Franchisor and Franchisee to waive any right to a jury trial or a trial in court. The parties understand that the rules applicable to arbitrations and the rights of parties in arbitrations differ from the rules and rights applicable in court. The arbitration will be conducted at an appropriate time and place set by the arbitrator or panel.
5. The parties agree that any arbitration arising out of a dispute is only a matter between Franchisor and Franchisee and no other franchisees. Franchisee agrees not to join or attempt to join other franchisees.

23. SEVERABILITY AND CONSTRUCTION

- A. Should any provision of this Agreement for any reason be held invalid, illegal, or unenforceable by a court of competent jurisdiction, such provision shall be deemed restricted in application to the extent required to render it valid, and the remainder of this Agreement shall in no way be affected and shall remain valid and enforceable for all purposes, both parties hereto declaring that they would have executed this Agreement without inclusion of such provision. In the event such total or partial invalidity or unenforceability of any provision of this Agreement exists only

with respect to the laws of a particular jurisdiction, this paragraph shall operate upon such provision only to the extent that the laws of such jurisdiction are applicable to such provision. Each party agrees to execute and deliver to the other any further documents which may be reasonably required to make fully the provisions hereof. Franchisee understands and acknowledges that Franchisor shall have the right in its sole discretion on a temporary or permanent basis, to reduce the scope of any covenant or provision of this Agreement binding upon Franchisee without Franchisee's consent, effective immediately upon receipt by Franchisee of written notice thereof, and Franchisee agrees that it will comply forthwith with any covenant as so modified, which shall be fully enforceable.

- B. This Agreement may be executed in any number of counterparts; each of which when so executed and delivered shall be deemed an original, but such counterparts together shall constitute the same instrument.
- C. The table of contents, headings, and captions contained herein are for the purposes of convenience and reference only and are not to be construed as a part of this Agreement. All terms and words used herein shall be construed to include the number and gender as the context of this Agreement may require. The parties agree that each section of this Agreement shall be construed independently of any other section or provision of this Agreement.

24. ACKNOWLEDGMENTS

Franchisee acknowledges that it received a complete copy of this Agreement for a period not less than fourteen (14) calendar days, during which time conducted an independent investigation of the business licensed hereunder to the extent of Franchisee's desire to do so. Franchisee recognizes and acknowledges that the business venture contemplated by this Franchise Agreement involves business risks, and that its success will be largely dependent upon the ability of the Franchisee as an independent businessperson. The Franchisor expressly disclaims the making of, and Franchisee acknowledges that it has not received, any warranty or guarantee, express or implied, that Franchisee will be successful in this venture or that the business will attain any level of sales volume, profits, or success.

Franchisee acknowledges that this Agreement, the franchise disclosure document ("FDD"), and the attachments hereto constitutes the entire Agreement of the parties. This Agreement terminates and supersedes any prior agreement between the parties concerning the same subject matter.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement under seal on the date first written above.

FRANCHISOR:

FRANCHISEE:

ZOUNDS HEARING FRANCHISING, LLC

By: _____

IF AN INDIVIDUAL:

Print Name: _____

By: _____

Title: _____

Print Name: _____

Date: _____

Date: _____

**IF A PARTNERSHIP, CORPORATION, OR
OTHER ENTITY:**

By: _____

Print Name: _____

Title: _____

Date: _____

EXHIBIT B

ZOUNDS HEARING FRANCHISING, LLC

PHYSICIAN INVESTMENT GROUP FORM

Name of Lead Physician or Person Organizing the Physician Investment Group

Address _____ City _____ State _____ Zip _____
Cell phone _____ email address _____

To: Zounds Hearing Franchising, LLC

Dear Sirs:

I wish to organize a Physician Investment Group to own and operate one or more franchised Zounds Hearing centers.

I _____ am a physician _____ (practice or specialty)
I _____ am not a physician, but I want to organize a Physician Investment Group

I will begin contacting physicians (must be general or family practitioners) to make presentations and obtain commitments to participate in the Zounds Physician Investment Group franchise program.

The territory that I am interested in is (define as specifically as possible): _____

I understand that Zounds Hearing Franchising, LLC ("Zounds"), will allow me _____ calendar days to determine if I can organize the group, at which time I must sign the Zounds Franchise Agreement and pay the initial Franchise Fee of Forty thousand and 00/100 Dollars (\$40,000.00), for consideration to be awarded a single franchised Zounds Hearing Center.

Zounds will not be prevented from accepting a valid offer from other individuals and groups for the above territory during the allotted time, but will, as a courtesy to me, notify me if they receive inquiries. I understand that I do not have a reservation on the defined territory, that this is not a Franchise Agreement, that no franchise has been offered or sold, and that there is no obligation on the part of either myself or Zounds. I state that I have made no payment to Zounds Hearing Franchising, LLC, and that this form is solely an expression of intent.

Individual Name: _____

Zounds Hearing Franchising, LLC

Signature _____

Name _____

Date _____

Title _____

Date _____

EXHIBIT C

ZOUNDS HEARING FRANCHISING, LLC

AGREEMENT TO ENTER INTO AN LLC

Note to Physician Investment Group organizer: This information is provided as a courtesy to you, showing some of the considerations that might be included in a Physician Investment Group Agreement. You should seek legal assistance for the preparation of the actual Agreement, and for the formation of a Physician Investment Group. You are solely responsible for the content and preparation of the Agreement, and for meeting and complying with all state and federal investment guidelines, rules, and requirements. The final Agreement must be approved by Franchisor prior to use.

Name of Physician Investment Group Organizer: _____

Name of Physician Investment Group _____

Purpose:

We, acting as individuals or entities, as indicated, agree to pay the amounts shown, to form a Physician Investment Group, for the purpose of acquiring a single franchised Zounds Hearing Center.

Organization:

The Physician Investment Group Organizer will form an LLC, in the state of _____

Call for Payment:

The Physician Group Organizer, once he/she has obtained sufficient commitments, will call for payment. Any participant not making payment to the Physician Investment Group, within fifteen (15) days of the call, shall forfeit their position in the Physician Investment Group and will have no further right of participation.

Commitment Deadline:

We understand that if commitments for the required amount of \$_____ are not obtained by _____, 20____, that we will be released from our obligation to make payment.

Name _____ Amount of Commitment \$ _____
As _____ Individual, w/Spouse (name) _____ or Entity _____
Address _____ City _____ State _____ Zip _____
Telephone W _____ C _____ H _____
Profession _____ Percentage of Ownership _____

Name _____ Amount of Commitment \$ _____
As _____ Individual, w/Spouse (name) _____ or Entity _____
Address _____ City _____ State _____ Zip _____
Telephone W _____ C _____ H _____
Profession _____ Percentage of Ownership _____

Once the Physician Investment Group has been formed and funded, the organizer, or other designated participant, approved by Franchisor, will sign the Franchise Agreement. The other participants will be listed as additional owners in Exhibit E, Acknowledgement Regarding Ownership.

EXHIBIT D
ZOUNDS HEARING FRANCHISING, LLC
FINANCIAL STATEMENTS

ZOUNDS HEARING FRANCHISING, LLC
FINANCIAL STATEMENTS
PERIOD FROM INCEPTION (NOVEMBER 30, 2011)
THROUGH DECEMBER 31, 2011

**ZOUNDS HEARING FRANCHISING, LLC
TABLE OF CONTENTS
PERIOD FROM INCEPTION (NOVEMBER 30, 2011)
THROUGH DECEMBER 31, 2011**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEET	2
STATEMENT OF OPERATIONS AND MEMBER'S EQUITY (DEFICIT)	3
STATEMENT OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5

INDEPENDENT AUDITORS' REPORT

Member
Zounds Hearing Franchising, LLC
Phoenix, Arizona

We have audited the accompanying balance sheet of Zounds Hearing Franchising, LLC as of December 31, 2011 and the related statements of operations and member's equity (deficit), and cash flows for the period from inception (November 30, 2011) through December 31, 2011. These financial statements are the responsibility of the Company's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zounds Hearing Franchising, LLC as of December 31, 2011 and the results of its operations and its cash flows for the period from inception (November 30, 2011) through December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP

Mesa, Arizona
March 29, 2011

(1)

**ZOUNDS HEARING FRANCHISING, LLC
BALANCE SHEET
DECEMBER 31, 2011**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 31,886
Total Current Assets	<u>\$ 31,886</u>

LIABILITIES AND MEMBER'S EQUITY (DEFICIT)

CURRENT LIABILITIES

Due to Related Party	9,208
Deferred Revenue	<u>30,000</u>
Total Current Liabilities	<u>39,208</u>

MEMBER'S EQUITY (DEFICIT)

	<u>(7,322)</u>
Total Liabilities and Member's Equity (Deficit)	<u>\$ 31,886</u>

See accompanying Notes to Financial Statements.

(2)

**ZOUNDS HEARING FRANCHISING, LLC
 STATEMENT OF OPERATIONS AND MEMBER'S EQUITY (DEFICIT)
 PERIOD FROM INCEPTION (NOVEMBER 30, 2011)
 THROUGH DECEMBER 31, 2011**

REVENUE	
Franchise Fees	\$ 30,000
Franchise Royalties	886
Total Revenue	30,886
 EXPENSE	
Operating Expense	39,208
NET LOSS	(8,322)
Member's Equity - Beginning	\$ -
Contributions	1,000
MEMBER'S DEFICIT - ENDING	\$ (7,322)

See accompanying Notes to Financial Statements.

(3)

**ZOUNDS HEARING FRANCHISING, LLC
STATEMENT OF CASH FLOWS
PERIOD FROM INCEPTION (NOVEMBER 30, 2011)
THROUGH DECEMBER 31, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES	
Net Loss	\$ (8,322)
Reconciliation of Net Loss to Net Cash and Cash Equivalents Provided by Operating Activities:	
Deferred Revenue	30,000
Net Cash Provided by Operating Activities	<u>21,678</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions	1,000
Due to Related Party	9,208
Net Cash Provided by Financing Activities	<u>10,208</u>
INCREASE IN CASH AND CASH EQUIVALENTS	31,886
Cash and Cash Equivalents - Beginning	<u>-</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 31,886</u></u>

See accompanying Notes to Financial Statements.

(4)

**ZOUNDS HEARING FRANCHISING, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Zounds Hearing Franchising, LLC (the Company) is engaged in the franchising of hearing centers that provide hearing screening, fitting, and the sale of hearing aids.

Basis of Presentation

The Company's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with original maturities of 90 days or less to be cash equivalents.

Capitalized Franchise Costs

Capitalized franchise costs are costs associated with franchisees that have signed franchise agreements but have not yet opened their location. These costs include commissions paid to sales representatives and consulting services provided by the Company. As of December 31, 2011, the Company had no capitalized franchise costs.

Deferred Revenue

Franchise fees received in advance as the result of the sale of the franchise, but prior to the beginning of the franchisee operations have been classified as deferred revenue.

Revenue Recognition

Franchisee fee revenue is recognized when all material services or conditions relating to the sale of the franchise have been substantially performed or satisfied. The Company has substantially satisfied all of these conditions at the beginning of franchisee operations. Continuing franchise royalties and advertising fees are based on a defined percentage of franchise revenues and are recognized when earned. Product sale revenue is recognized when products have been delivered to buyers.

Income Tax

As a single member LLC, the Company is considered to be a disregarded entity for tax reporting purposes and as such, does not file a separate income tax return. Accordingly, the member is taxed on the Company's income. Therefore, no provision or liability for income tax is included in the financial statements.

The Company follows the income tax standard for uncertain tax positions. Under this standard, the company has not recognized a liability for uncertain tax positions for the period ended December 31, 2011.

The Company's 2011 tax year is open for examination by the IRS.

(5)

**ZOUNDS HEARING FRANCHISING, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 29, 2011, the date the financial statements were available to be issued.

NOTE 2 RELATED PARTY TRANSACTIONS

During the period ended December 31, 2011, the Company's sole member, Zounds Hearing, Inc. paid expenses on behalf of the Company totaling \$39,208. As of December 31, 2011, the Company owed the sole member \$9,208 related to these expenses.

EXHIBIT E

ZOUNDS HEARING FRANCHISING, LLC

ACKNOWLEDGMENT REGARDING OWNERSHIP

Effective Date: This Exhibit E is current and complete as of _____, 20_____.

Franchisee hereby acknowledges that the Franchisee is a(n): *(check one)*

_____ **Individual Proprietorship** Franchisee name: _____

_____ **Corporation** _____ **Limited Liability Company** _____ **Partnership**

_____ *(name)* was incorporated or formed on _____, _____, under the laws of the State of _____. Franchisee has not conducted business under any name other than this stated corporation, limited liability company, or partnership name except _____ *(if applicable)*.

The following is a list of directors and officers as of the effective date shown above:

<u>Name of Each Director/Officer</u>	<u>Position(s) Held</u>
_____	_____
_____	_____
_____	_____
_____	_____

The following list includes the full name of each person who is considered an owner (as defined in the Franchise Agreement) and fully describes the nature of each owner's interest *(attach additional page if necessary)*:

<u>Name of Each Owner</u>	<u>Percentage/Description of Interest</u>
_____	_____
_____	_____
_____	_____
_____	_____

Franchisee's Operating Principal as of the Effective Date is _____, _____.
(Franchisee may not change the Operating Principal without prior written approval from Franchisor and until the new Operating Principal has completed required training by Franchisor.)

FRANCHISEE:

(Complete this portion if you will be operating the Franchise Individually and not as a Legal Entity):

Signature: _____

Name: _____

Signature: _____

Name: _____

(Complete this portion if you will be operating the Franchise as a Corporation, Limited Liability Company, or Partnership):

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT F

ZOUNDS HEARING FRANCHISING, LLC

GUARANTY OF FRANCHISEE'S OBLIGATIONS

In consideration of, and as an inducement to, the execution of the foregoing Franchise Agreement dated as of _____, 20___, by Zounds Hearing Franchising, LLC, ("Franchisor"), each of the undersigned hereby guarantees unto Franchisor that the Franchisee named herein will perform during the term of this Franchise Agreement each and every covenant, payment, agreement, and undertaking on the part of the Franchisee contained and set forth in such Franchisee Agreement, and that Franchisee's representations and warranties in the Franchise Agreement and applications are true and correct.

Franchisor, its successors, and assigns may from time to time without notice to the undersigned, (a) resort to the undersigned for payment of any of the liabilities of Franchisee to Franchisor ("Liabilities"), whether or not it or its successors have resorted to any property securing any of the Liabilities or proceeded against any other of the undersigned or any party primarily or secondarily liable on any of the Liabilities; (b) release or compromise any liability of any of the undersigned hereunder or any liability of any party or parties primarily or secondarily liable on any of the Liabilities; and (c) extend, renew, or credit any of the Liabilities for any period (whether or not longer than the original period) or alter, amend, or exchange any of the Liabilities or give any other form of indulgence, whether under the Agreement or not.

Each of the undersigned agrees to comply with and abide by the restrictive covenants and nondisclosure provisions contained in Section 15 of the Franchise Agreement, as well as the provisions in the Franchise Agreement in Section 8 and as may be stated elsewhere in the Franchise Agreement relating to the Proprietary Marks and Transfers to the same extent, and for the same period of time, as Franchisee is required to comply with and abide by such covenants and provisions, except to the extent otherwise required by the Franchise Agreement. These obligations of the undersigned shall survive any expiration or termination of the Franchise Agreement or this Guaranty.

The undersigned further waives presentment, demand, notice of dishonor, protest, nonpayment, and all other notices whatsoever, including without limitation, notice of acceptance hereof, notice of all contracts and commitments, notice of the existence or creation of any liabilities under the foregoing Franchise Agreement and of the amount and terms thereof, and notice of all defaults, disputes, or controversies between Franchisee and Franchisor resulting from such Franchise Agreement or otherwise, and the settlement, compromise, or adjustment thereof.

The undersigned agrees to pay all expenses paid or incurred by Franchisor in enforcing the foregoing Franchise Agreement and this Guaranty against Franchisee and against the undersigned, as well as in collecting or attempting to collect any amounts due thereunder and hereunder, including reasonable attorney's fees if such enforcement or collection is by or through an attorney-at-law. Any waiver, extension of time, or other indulgence granted from time to time by Franchisor, its agents, its successors, or assigns with respect to the foregoing Franchise Agreement shall in no way modify or amend this Guaranty, which shall be continuing, absolute, unconditional, and irrevocable.

If more than one person has executed the Guaranty, the term “the undersigned” as used herein shall refer to each such person, and the liability of each of the undersigned hereunder shall be joint and several and primary.

IN WITNESS WHEREOF, each of the undersigned has executed this Guaranty effective as of the date of the foregoing Agreement.

WITNESS

GUARANTOR(S)

Signature _____

Print Name _____

Signature _____

Print Name _____

Signature _____

Print Name _____

EXHIBIT G

ZOUNDS HEARING FRANCHISING, LLC

ELECTRONIC FUNDS TRANSFER FORM

AUTHORIZATION AGREEMENT FOR PREARRANGED PAYMENTS (DIRECT DEBITS)

_____ (Name of Person or Legal Entity)
_____ (ID Number)

The undersigned depositor (“Depositor”) (“Franchisee”) hereby authorizes Zounds Hearing Franchising, LLC (“Franchisor”) to initiate debit entries and/or credit correction entries to the undersigned’s checking and/or savings account(s) indicated below and the depository designated below (“Depository”) (“Bank”) to debit or credit such accounts(s) pursuant to Franchisor’s instructions.

_____	_____	
Depository	Branch	
_____	_____	_____
City	State	Zip Code
_____	_____	
Bank Transit/ABA Number	Account Number	

This authority is to remain in full and force and effect until sixty (60) days after Franchisor has received written notification from Franchisee of its termination.

_____	_____
Depositor:	Depository:
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

EXHIBIT H

ZOUNDS HEARING FRANCHISING, LLC

OPERATIONS MANUAL TABLE OF CONTENTS

Section One:

1.1 The Zounds Way	1
1.2 Our Vision, Commitment and Values	1
1.3 Brand Strategy Overview	2
1.4 Communications	3
1.5 Our Training	4
1.6 Franchisee Orientation & Training Checklist	5
1.6 (a) Franchisee Orientation & Training	6
1.6 (b) Training Registration and Procedures	7-9
1.8 (c) Receptionist Training	9-11

Section Two: Standards of Operations

2.1 Purpose	12
2.2 Quality Services Review	13-15
2.3 Facility Review	15-17
2.3(a) Facility Review Standards	18
2.3 (b) Facility Review Completion	19
2.5 Holidays and Hours	20
2.6 Pricing Structure and Authorized Services	21-23
2.6(a) Authorized Services, Descriptions, and Price Structure Example	24-26
2.7 Authorized Retail Products	27-30
2.7 (a) Retail Product Lines	30-33
2.8 Signage	34
2.8 (a) Exterior Signage and Banners	35
2.8(b) Approved Window Signage	36
2.9 Computer Records and Customer Database	37-40
2.9 (a) The Customer Database	41
2.10 Uniform Policy	42

Section Three: Licenses and Regulations

3.1 Purpose	43
3.2 Business Requirements	44-47
3.3(a) Corporate Entity	48
3.3(b) Assumed Name	49
3.3(c) Tax LD. Number	50
3.3(d) Sales Tax Licenses and Permits	51
3.3(e) Insurance	52-53
3.3(f) Workers' Compensation	54
3.4 Labor Law Posters	55
3.4(a) GovDocs	56-57
3.4(b) g.Neil Companies	58

3.5 Federal and State Employment Laws	59-60
---------------------------------------	-------

Section Four: Management Guidelines

4.1 Purpose	61
4.2 Daily Operations	62-70
4.3 Opening Procedures	71
4.4 Reports and Forms	72-75
4.5 (a) Computer-Generated Reports	76
4.5 (b) Daily Reports	77
4.5 (c) Weekly Reports	78
4.6 Recordkeeping	79-80
4.6 (a) Electronic Recordkeeping	81
4.7 Refund Procedures	82
4.8 Staff Phone Numbers	83
4.9 Business and Insurance Contacts	84
4.10 Maintenance	85

Section Five: Testing, Fitting, Equipment

5.1 Purpose	86
5.2 Protocol	87-90
5.2 (a) ZCRM	91-92
5.2 (b) ZIPI	93-94
5.3 Tympanometry	95-96
5.4 Speech Mapping	96-97
5.5 COSI	98
5.6 Forms	99-100
5.6 (a) Customer Information	101
5.6 (b) FDA Questions	102
5.6 (c) FDA Waiver	103
5.6 (d) Notice of Privacy Practices	104-105
5.6 (e) HIPPA	106
5.7 Equipment	107
5.7 (a) Laptop, POS, MedRx, Video Otoscope	107
5.8 Calibration of Equipment	107

Section Six: Safety & General

6.1 Purpose	108
6.2 Basic First Aid	109
6.3 Customer Safety	110
6.3(a) General	111
6.3(b) Fire Prevention	112
6.4(c) Housekeeping	113
6.5(d) Glass, Windows, Doors, Exits, and Signs	114
6.6(e) Investigating Customer Accidents and Injuries	115

Section Seven:

7.1 Purpose	116
-------------	-----

7.2 Inventory	117-120
7.3(a) End-of-Month Inventory	121
7.3(b) Ordering Products	122
7.4(c) Receiving Products	123
7.4(d) Returned Products	124-125

Section Eight: Additional Resources

8.1 Purpose	126
8.2 Recruiting	127
8.3 Computer Support	127-128
8.4 Marketing	129-135

Total Number of Pages in Operations Manual: 135

EXHIBIT I

ZOUNDS HEARING FRANCHISING, LLC

CONSENT AND AGREEMENT OF LANDLORD

The undersigned Landlord hereby:

- A. Agrees that the leased Premises will only be used as a retail center offering hearing screening, fitting, and sale of hearing aids, and operate under the name Zounds Hearing ;
- B. Agrees that Franchisor has the right to enter the Premises to make any modifications necessary to protect Franchisor's Proprietary Marks;
- C. Agrees to allow Franchisee, upon written request from Franchisor, to provide Franchisor with a current copy of the lease;
- D. Agrees to notify Franchisor in writing of and upon the failure of Lessee to cure any default by Lessee under the Lease;
- E. Agrees that Franchisor will have the option, but not the obligation, to assume or renew the lease and the occupancy of the business Premises, including the right to sublease to another Franchisee, for all or any part of the remaining term of the lease, upon Franchisee's default or termination hereunder or upon Franchisee's default or termination or expiration of the Franchise Agreement, and in connection with said assumption Franchisor will not be obligated to pay to the landlord past due rent, common area maintenance, and other charges attributable to more than one (1) month. The landlord shall give Franchisor thirty (30) days, upon termination of Franchisee's rights under the lease, to exercise this option;
- F. Agrees that the lease may not be amended, assigned, or sublet without Franchisor's prior written approval;
- G. Agrees that for a period of two (2) years after termination or expiration of Franchisee's Franchise Agreement, the landlord will not enter into a lease with the Franchisee at the businesses premises that offers hearing screening, fitting, and sale of hearing aids, in any capacity, and/or the sale of related items, within the retail center in which the Premises is located.

Dated: _____

LANDLORD
CORPORATE SIGNATURE:

ATTEST:

a/an _____ corporation

By: _____

By: _____

Its: _____

Its: _____

SIGNED and SEALED this ____ day of _____, 20__

_____ Notary Public

EXHIBIT J

ZOUNDS HEARING FRANCHISING, LLC

CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

(Exhibit only, to be completed by Franchisee's employees, not signed here.)

THIS AGREEMENT IS MADE this the _____ day of _____, 20___, by and between _____ dba Zounds Hearing ("Company") and _____ ("Employee"); and

WHEREAS, Employee desires to be employed by Company in a capacity in which he/she may receive, contribute, or develop Confidential and Proprietary Information; and

WHEREAS, access, contribution, and/or development of such information is necessary in order for Employee to perform his/her duties in a professional manner; and

WHEREAS, such information is important to the future of the Company and the Company expects the Employee to keep secret such proprietary and confidential information and not to compete with the Company during his employment and for a reasonable period after employment;

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. Definitions. As used in this Agreement:
 - a. "Company" shall mean _____ dba Zounds Hearing, as Franchisee of Zounds Hearing Franchising, LLC, its successors and assigns, and any of their present or future subsidiaries or organizations controlled by, controlling, or under common control with them.
 - b. "Affiliate" shall mean any person, corporation, partnership, or other entity with which joint enterprises are carried on with the Company or in which the Company has any interest.
 - c. "Confidential and Proprietary Information" shall mean any and all information disclosed or made available to the Employee or known by the Employee as a direct or indirect consequence of or through his/her employment by the Company and not generally known in the industry in which the Company is or may become engaged, including but not limited to, customers and brokers, marketing plans, product development, plans, publications, equipment, and financial information. "Confidential and Proprietary Information" shall further mean any and all information related to the Company's and its Affiliate's products, devices, structures, processes, procedures, methods, formulae, techniques, services, or finances, including but not limited to, information relating to research, development, inventions, manufacture, purchasing, accounting, engineering, marketing, merchandising, or selling.

2. Non-Disclosure/Non-Use of Confidential Information. Except as required in the performance of his/her duties to the Company, during the term of his/her employment and for a period of five (5) years after termination of such employment, Employee shall treat as confidential and shall not directly or indirectly use, disseminate, disclose, publish, or otherwise make available to any person, firm, corporation, unincorporated association, or other entity any Confidential and Proprietary Information or any portion thereof. Upon termination of his/her employment with the Company, all papers, documents, records, lists, notebooks, files, and similar items containing Confidential and Proprietary Information then in the Employee's possession, including copies thereof, whether prepared by Employee or others, shall be promptly returned to the Company. If at any time after the termination of employment the Employee determines that he/she has any Confidential and Proprietary Information in his/her possession or control, he/she shall immediately return to the Company all such Confidential and Proprietary Information, including all copies and portions thereof.

3. Non-Competition.
 - a. During the term of Employee's employment with the Company and for a period of one (1) year thereafter, Employee agrees that he/she will not directly or indirectly own, operate, manage, consult with, control, participate in the management or control of, be employed by, or maintain or continue any interest whatsoever in any enterprise located within the same county as any other Zounds Hearing location, which provides hearing screening, fitting, and sale of hearing aids without the prior written consent of the Owner or President of the Company.

 - b. During the term of Employee's employment with the Company and for a period of two (2) years thereafter, Employee agrees that he/she will not solicit or contact any of the customers, or employees with whom Employee had contact during the term of his/her employment with the Company.

4. Breach of Contract and Damages. Employee acknowledges that his/her adherence to the terms of the covenants set forth in Sections 1, 2, and 3 are necessary to protect the value of Company's business, that a breach of any such covenant will result in irreparable and continuing damage to the Company, that money damages would not adequately compensate Company for any such breach, and therefore, that Company would not have an adequate remedy at law. In the event any action or proceeding shall be instituted by Company to enforce any provision of Sections 1, 2, or 3, Employee hereby waives the claim or defenses in such action that: a) money damages are adequate to compensate the Company for such breach, and b) there is an adequate remedy at law available to Company, and Employee shall not urge in any such action or proceeding the claim or defense that such remedy at law exists. Company shall have, in addition to any and all remedies at law, without posting of bond or other security, the right to, both temporary and permanent injunction(s), specific performance, and/or other equitable relief to prevent the violation of any obligation under Sections 2, 3, or 4. The parties agree that the remedies of Company for breach of Sections 2, 3, or 4 shall be cumulative and seeking or obtaining injunctive or other equitable relief shall not preclude the making of a claim for damages or other relief. The parties to this Agreement also agree that Company shall be entitled to such damages as Company can show it has sustained by reason of such breach. In any action brought to enforce the covenants set forth in Section 2, 3, or 4 or to recover damages for breach thereof, the

Company shall be entitled to recover reasonable attorney's fees and other expenses of litigation, together with such other and further relief as may be proper.

5. Succession. This Agreement shall be binding upon the parties hereto and upon their respective executors, administrators, legal representatives, successors, and assigns.
6. Right to Employment. Nothing contained in this Agreement shall be construed or confer any obligation or right to employment or to continue in the employment of the Company.
7. Enforceability. This Agreement shall be governed by the laws of the State of (State), notwithstanding the fact that one or more of the parties to this Agreement is now or may become a resident or citizen of a different state. It is the intent of the parties that the Agreement be enforced to the fullest extent permissible under applicable laws and public policies. The invalidity, illegality, or unenforceability of any particular provision of this Agreement shall not affect the other provisions, and this Agreement shall be construed in all respects as if such invalid, illegal, or unenforceable provision had been omitted. If any part of this Agreement is for any reason held to be excessively broad as to time, duration, geographical scope, activity, or subject, it will be construed by limiting or reducing it so as to be enforceable to the extent reasonably necessary for the protection of the Company.
8. Captions and Headings. Sections of this Agreement are named solely for the convenience of the parties, are not a part of this Agreement, and shall not be used for the interpretation or determination of the validity of this Agreement or any provision hereof.
9. Amendments. This Agreement shall not be amended or modified, and none of the provisions hereof shall be waived except in writing signed on behalf of the parties hereto or, in the case of a waiver, on behalf of the party making the waiver.
10. Execution. This Agreement may be executed in any number of copies, each of which shall be deemed an original, and no other copy need be produced. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular, or plural as the identity of the person or persons may require.

COMPANY:

EMPLOYEE:

By: _____
Owner or Officer

Signature

Title: _____

EXHIBIT K

ZOUNDS HEARING FRANCHISING, LLC

STATE SPECIFIC ADDENDUMS

For Residents of the State of California

In recognition of the requirements of the California Franchise Investment Law, Cal. Corp. Code § 31000-31516, and the California Franchise Relations Act, Cal. Bus. & Prof. Code §§ 20000-20043, the Disclosure Document for Zounds Hearing Franchising, LLC in connection with the offer and sale of franchises for use in the State of California shall be amended to include the following:

Our website has not been reviewed or approved by the California Department of Corporations. Any complaints concerning the content of this website may be directed to the California Department of Corporations at www.corp.ca.gov.

The California Franchise Investment Law requires that a copy of all proposed agreements relating to the sale of the Franchise be delivered together with the disclosure document.

Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

You must sign a general release of claims if you renew or transfer your franchise. California Corporations Code § 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections §§ 31000 through 31516). Business and Professions Code § 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§ 20000 through 20043).

Item 1, "Licensing and Regulations" paragraph 2 is modified by the following:

You are required to have a properly licensed Hearing Instrument Specialist work in your Center at all times, during the term of the Franchise Agreement or you will be in default of the Franchise Agreement. You will be required to provide us with a copy of all necessary licenses related to the sale and fitting of hearing aid products, and maintain a current copy of such licenses on file at our offices.

Item 3, "Litigation," shall be amended by the addition of the following paragraphs:

Pursuant to California law, this Item does not include any information regarding the arrest of any person(s) that did not result in a conviction or pleas of nolo contendere.

Neither we, nor any person identified in Item 2 above, is subject to any currently effective order of any national securities associations or national securities exchange (as defined in the Securities and Exchange Act of 1934, 15 U.S.C. § 78a, et seq.) suspending or expelling such person from membership in such association or exchange.

Items 5 and 7 of this Disclosure Document and Item 5 of the Franchise Agreement are amended to include the following: Payment of the initial franchise fee is postponed until after franchisor's initial obligations are complete and franchise is open for business.

Item 17, "Renewal, Termination, Transfer and Dispute Resolution," shall be amended by the addition of the following paragraphs at the conclusion of the term:

California Business and Professions Code §§ 20000 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.

The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C. § 101, et. seq.).

The Franchise Agreement contains a covenant not to compete, which extends beyond the termination of the franchise. This provision may not be enforceable under California law.

The Franchise Agreement requires binding arbitration. The arbitration will occur in Maricopa County, Arizona with the costs shared equally by Franchisor and Franchisee.

Prospective Franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions 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 of the State of California.

The Franchise Agreement requires application of the laws of Arizona. This provision may not be enforceable under California law.

For Residents of the State of Illinois

In recognition of the requirements of the Illinois Franchise Disclosure Act, III. Comp. Stat. §§ 705/1 to 705/44, the Disclosure Document for Zounds Hearing Franchising, LLC in connection with the offer and sale of franchises for use in the State of Illinois shall be amended to include the following:

Item 5 of this Disclosure Document and Franchise Agreement is modified to add the following paragraph:

As required by the State of Illinois Attorney General’s office, based upon the financial condition of the Franchisor, the payment of the initial franchise fee is deferred until such time as all initial obligations owed to the Franchisee under the Franchise Agreement or other agreements have been fulfilled by the Franchisor and the Franchisee has commenced doing business pursuant to the Franchise Agreement.

Item 17, “Renewal, Termination, Transfer and Dispute Resolution,” shall be amended by the addition of the following paragraphs:

The terms and conditions under which your franchise can be terminated and your rights upon non-renewal may be affected by Illinois law, 815 ILCS 705/19 - 705/20

The provisions of the Illinois Franchise Disclosure Act of 1987 (the “Act”) shall supersede any provisions of the Franchise Agreement or Arizona law which are in conflict with the Act.

The provisions of Section 22 of the Franchise Agreement which designate jurisdiction or venue in a forum outside of the State of Illinois shall not be effective for Franchise Agreements entered into in Illinois.

IN WITNESS WHEREOF, the parties hereto have respectively duly executed this Agreement under seal on the ____ day of _____, 20__.

FRANCHISOR:

ZOUNDS HEARING FRANCHISING, LLC

By: _____

Print Name: _____

Title: _____

FRANCHISEE:

IF AN INDIVIDUAL:

By: _____

Print Name: _____

IF A PARTNERSHIP, CORPORATION, OR OTHER ENTITY:

By: _____

Print Name: _____

Title: _____

For Residents of the State of Indiana

In recognition of the requirements of the Indiana Franchise Registration and Disclosure Law, the Disclosure Document for Zounds Hearing Franchising, LLC in connection with the offer and sale of franchises for use in the State of Indiana shall be amended to include the following:

The laws of the State of Indiana supersede any provisions of the Franchise Agreement, the other agreements or Arizona law if such provisions are in conflict with Indiana law.

Any provision in the Franchise Agreement which designates jurisdiction or venue, or requires the Franchisee to agree to jurisdiction or venue, in a forum outside of Indiana, is deleted from any Franchise Agreement issued in the State of Indiana.

For Residents of the State of Maryland

In recognition of the requirements of the Maryland Franchise Registration and Disclosure Law, the Disclosure Document for Zounds Hearing Franchising, LLC in connection with the offer and sale of franchises for use in the State of Maryland shall be amended to include the following:

Item 5 of this Disclosure Document and Franchise Agreement is modified to add the following paragraph:

The Maryland Attorney General's Securities Division requires us to defer payment of the Initial Franchise Fee and other initial payments owed by you to us until we have completed our pre-opening obligations under the Franchise Agreement.

The general release language contained in the Franchise Agreement shall not relieve the Franchisor or any other person, directly or indirectly, from liability imposed by the laws concerning franchising of the State of Maryland.

The Franchise Agreement provides that it may be terminated immediately upon, among other things, the franchisee commencing any cause, proceeding or other action seeking reorganization, etc. under any law relating to bankruptcy, etc. This provision may not be enforceable under federal law relating to bankruptcy.

For Residents of the State of Michigan

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

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver or estoppel which deprives the franchisee of rights and protections provided in this Act. This shall not preclude a franchisee, after entering into a license agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the license of the franchisee's inventory, supplies, equipment, fixtures and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applied only if (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the license or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising of other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
 - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
 - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
 - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the license agreement existing at the time of the proposed transfer.

(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the license agreement and has failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provisions has been made for providing the required contractual service.

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE ATTORNEY GENERAL.

ANY QUESTIONS REGARDING THIS NOTICE SHOULD BE DIRECTED TO THE OFFICE OF THE ATTORNEY GENERAL, CONSUMER PROTECTION DIVISION, ATTN: FRANCHISE DEPARTMENT, 525 W. OTTAWA STREET, 670 G. MENNAN WILLIAMS BLDG., LANSING, MICHIGAN 48933 (517) 272-7117.

For Residents of the State of Minnesota

In recognition of the requirements of the Minnesota Franchises Law, Minn. Stat. §§ 80C.01 through 80C.22 and of the Rules and Regulations promulgated there under by the Minnesota Commissioner of Commerce, Minn. Rules §§ 2860.0100 through 28620.9930, the Disclosure Document for Zounds Hearing Franchising, LLC in connection with the offer and sale of franchises for use in the State of Minnesota shall be amended to include the following:

Items 5 and 7 of this Disclosure Document and Item 5 of the Franchise Agreement are amended to include the following:

All initial franchise fees paid to us will be deferred until all of our obligations are complete.

The following language is added to Item 13 of the Disclosure Document and Section 8 of the Franchise Agreement:

“The Minnesota Department of Commerce requires the Franchisor to indemnify Minnesota franchisees against liability to third parties resulting from claims by third parties that the Franchisee’s use of the tradename infringes trademark rights of the third party. Franchisor indemnifies Franchisee against the consequences of Franchisee’s use of the tradename in accordance with the requirements of the license, and, as a condition to indemnification, Franchisee must provide notice to Franchisor of any such claims within ten (10) days and tender the defense of the claim to Franchisor. If Franchisor accepts the tender of defense, Franchisor has the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.”

Item 17 of the Disclosure Document and Section 22 of the Franchise Agreement are amended as follows:

“With respect to franchises governed by Minnesota law, Franchisor will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4, and 5 which require, except in certain specified cases, that a Franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the Franchise Agreement.”

“Pursuant to Minnesota Statutes, Section 80C.21 and Minn. Rule Part 2860-4400J, this Section shall not in any way abrogate or reduce any rights of the Franchisee as provided for in the Minnesota Statutes Chapter 80C.”

“Nothing contained herein shall limited Franchisee’s right to submit matters to the jurisdiction of the courts of Minnesota to the full extent required by Minn. Rule 2860.4407J.”

No release language set forth in the Franchise Agreement shall relieve Franchisor or any other person, directly or indirectly, from liability imposed by the laws concerning franchising of the State of Minnesota.

For Residents of the State of New York

Additional Risk Factors:

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT "M" OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS OFFERING CIRCULAR. IF YOU LEARN THAT ANYTHING IN THIS OFFERING CIRCULAR IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW BUREAU OF INVESTOR PROTECTION AND SECURITIES, 120 BROADWAY, 23RD FLOOR, NEW YORK, N.Y. 10271.

THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE PROSPECTUS. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS PROSPECTUS.

THE CONTINUATION OF THE EXCLUSIVITY OF YOUR DESIGNATED TERRITORY IS DEPENDENT UPON YOUR SALES VOLUME.

In recognition of the requirements of the New York General Business Law, Article 33, Sections 680 through 695, of the regulations promulgated thereunder (N.Y. Comp. Code R. & Regs. Tit. 13, §§ 200.1 through 201.16), the Disclosure Document for Zounds Hearing Franchising, LLC in connection with the offer and sale of franchises for use in the State of New York shall be amended as follows:

Items 5 and 7 of the Disclosure Document and Item 5 of the Franchise Agreement are amended by adding the following paragraph:

Payment of the Initial Franchise Fee is postponed until after Franchisor's initial obligations are complete and Franchisee is open for business. This deferred franchise fee requirement has been imposed by the New York Attorney General's Office based on our financial statements.

Item 17 of the Disclosure Document is amended by adding the following statement to the summary column indicating the choice of law:

"The foregoing choice of law should not be considered a waiver of any right conferred upon either the Franchisor or upon the Franchisee by the General Business Law of the State of New York."

For Residents of the State of North Dakota

Notwithstanding anything to the contrary set forth in the Disclosure Document, the following provisions shall supersede and apply to all franchises offered and sold in the State of North Dakota:

Item 5 of the Disclosure Document and Section 5 of the Franchise Agreement are amended by adding the following paragraph:

Payment of the Initial Franchise Fee is postponed until such time as all initial obligations owed to Franchisee under the Franchise Agreement or other documents have been fulfilled by the Franchisor and the Franchisee has commenced doing business pursuant to the Franchise Agreement.

Item 17(c) of the Disclosure Document and Area Developer Agreement tables are modified as shown below:

Renewal obligations include:

- having complied with all your obligations during the term
- not being in default
- at our request, having renovated or modernized your location to comply with our then-current standards for new locations
- having no past material and repeated defaults
- being in good financial standing, having continued right of possession to the approved location
- signing the then-current Area Developer Agreement, which may have materially different terms and conditions

Section 3.6 of the Franchise Agreement shall be modified by the addition of the following paragraph:

North Dakota prohibits the giving of a general release as a condition for the renewal of a franchise, as such; this shall not apply as a condition of renewal of this franchise.

Section 14.9 of the Franchise Agreement shall be modified by the addition of the following paragraph:

North Dakota prohibits the execution of a general release as a condition for the transfer of a franchise, as such; this shall not apply as a condition of transfer of this franchise.

Section 4.4 of the Area Developer Agreement shall be deleted in its entirety and have no force or effect.

Section 10.7 of the Area Developer Agreement shall be deleted in its entirety and have no force or effect.

Section 17 B. of the Franchise Agreement shall be deleted in its entirety and replaced with the following paragraph:

Pay all sums owing to Franchisor, including those invoiced to Franchisee after this Franchise Agreement expires or is terminated.

Item 17 (r) of the Disclosure Document and Section 17 of the Franchise Agreement are amended by adding the following paragraph:

Covenants not to compete such as those mentioned above are generally considered unenforceable in the State of North Dakota.

Item 17 (u) of the Disclosure Document, Section 22 of the Franchise Agreement and Section 14 of the Area Developer Agreement designates that arbitration or mediation of disputes to be held in Arizona.

In any arbitration or mediation involving a franchise purchased in North Dakota, the site shall be in North Dakota, or at a venue agreed upon by all parties.

Item 17 (v) of the Disclosure Document, Section 22 of the Franchise Agreement and Section 14 of the Area Developer Agreement designates that litigation be held in Arizona.

Any litigation involving a franchise purchased in North Dakota, shall be in North Dakota, or at a venue agreed upon by all parties.

Item 17 (w) of the Disclosure Document shall be deleted in its entirety and replaced with the following paragraph:

North Dakota law applies generally.

Section 22.A. shall be deleted in its entirety and replaced with the following paragraph:

This Agreement is accepted by Franchisor in the State of North Dakota (the “State”) and shall be governed by and construed in accordance with the laws thereof, which laws shall prevail in the event of any conflict; provided, however, that the restrictive covenants contained in Section 15 hereof shall be construed in accordance with the laws of the state(s) where such restriction(s) is(are) to apply, and the laws of such state(s) shall determine the enforceability of such covenants to be performed in such state(s).

The last sentence of Section 22.B.2. of the Franchise Agreement shall be modified as shown below:

Unless otherwise mutually agreed, all arbitrators shall be lawyers licensed by the State of North Dakota with five (5) or more years’ experience in the practice of Commercial Law and approved to be on an AAA Panel.

Section 14. F. of the Area Developer Agreement shall be deleted in its entirety and replaced with the following paragraph:

This Agreement and any and all disputes arising out of and/or in any way related to it shall be governed by the laws of the State of North Dakota without regard to its choice of law provisions. Subject to Section 12 (O), the parties hereby agree that the exclusive jurisdiction for all actions hereunder or relating hereto shall be the state and federal courts of North Dakota or a mutually agreed upon venue by all parties. The parties hereby irrevocably submit themselves to the jurisdiction of such courts for such purposes and waive any objections to such jurisdiction on the basis of *forum non convenius* or otherwise

Section 14. O. of the Area Developer Agreement shall be deleted in its entirety and replaced with the following paragraph:

Except as provided herein, any controversy or claim arising out of or relating to this Agreement or its breach or the franchise relationship created by this Agreement including, without limitation, any claim that this Agreement or any part thereof is invalid, illegal or otherwise voidable or void, as well as all civil claims based on public policy and federal, state and local statutes, regulations and ordinances (including claims based on federal, state or local laws pertaining to granting or establishing franchises and deceptive and unfair trade practices), will be submitted to arbitration for determination by one arbitrator chosen from a list of impartial arbitrators supplied by the American Arbitration Association and in accordance with the commercial arbitration rules of the American Arbitration Association (“AAA”). Arbitration will be conducted within the State of North Dakota under North Dakota law and only on an individual, and not a class-wide, basis. Excepted from this arbitration provision will be any claim related to Developer’s use of the Marks and/or violation of the non-compete covenants in section 11, and requests by either party for temporary restraining orders, preliminary or permanent injunctions or other procedures in a court of competent jurisdiction to obtain interim or permanent relief when deemed necessary by the court to preserve the *status quo* or prevent irreparable injury. Judgment upon an arbitration award may be entered in any court having competent jurisdiction and will be binding, final and non-appealable.

Nothing contained in this Disclosure Document, Franchise Agreement or Area Developer Agreement shall require franchisee to waive trial by jury or consent to a waiver of exemplary and punitive damages per Section 51-19-09 of the North Dakota Franchise Investment Law.

For Residents of the State of Washington

In recognition of the requirements of the Washington Franchise Investment Protection Act, Wash. Rev. Code §§ 19.100.180, the Disclosure Document for Zounds Hearing Franchising, LLC in connection with the offer and sale of franchises for use in the State of Washington shall be amended to include the following:

Items 5 and 7 of the Disclosure Document and Item 5 of the Franchise Agreement are amended by adding the following paragraph:

Payment of the Initial Franchise Fee is postponed until after our initial obligations are complete and your franchise is open for business. This deferred franchise fee has been required by the administrator of the Washington Department of Financial Institutions based on our financial statements.

Item 17, “Renewal, Termination, Transfer and Dispute Resolution,” shall be amended by the addition of the following paragraph at the conclusion of the Item:

The State of Washington has a Statute, RCW 19.100.180, which may supersede the franchise agreement in your relationship with the franchisor including areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration involving a franchisor purchased in Washington, the arbitration site shall either be in the state of Washington, or in a place mutually agreed upon at the time of the arbitration, or as determined by arbitrator.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection act, Chapter 19.100 RCW shall prevail.

A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as right to a jury trial may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor’s reasonable estimated or actual costs in effecting a transfer.

For Residents of the State of Virginia

In recognition of the requirements of the Virginia Retail Franchising Act § 13.1-564, the Disclosure Document for Zounds Hearing Franchising, LLC in connection with the offer and sale of franchises for use in the State of Virginia shall be amended to include the following:

Items 5 and 7 of the Disclosure Document and Item 5 of the Franchise Agreement are amended by adding the following paragraph:

The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the Initial Franchise Fee and other initial payments owed by Franchisees to the Franchisor until the Franchisor has completed its pre-opening obligations under the Franchise Agreement.

Item 17 h. of the Disclosure Document and Section 16 A.13. of the Franchise Agreement shall be amended by the addition of the following paragraph at the conclusion of the Item and Section:

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise agreement without reasonable cause. If any grounds for default or termination stated in the Franchise agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

EXHIBIT L**ZOUNDS HEARING FRANCHISING, LLC****LIST OF STATE ADMINISTRATORS AND AGENTS FOR SERVICE OF PROCESS**

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
CALIFORNIA	Department of Corporations One Sansome Street, Suite 600 San Francisco, CA 94104-2980 (415) 972-8559	Commissioner of Corporations 320 West 4th Street, Suite 750 Los Angeles, CA 90013-2344 (866) 275-2677
HAWAII	Business Registration Division Securities Compliance Branch Dept. of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, HI 96813 (808) 586-2722	Commissioner of Securities of the State of Hawaii Same Address
ILLINOIS	Office of the Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465	Illinois Attorney General Same Address
INDIANA	Securities Commissioner Indiana Securities Division 302 West Washington Street, Room E-111 Indianapolis, IN 46204 (317) 232-6681	Indiana Secretary of State 201 State House 200 West Washington Street Indianapolis, IN 46204
MARYLAND	Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360	Maryland Securities Commissioner Same Address
MICHIGAN	Consumer Protection Division Antitrust and Franchise Unit 670 G. Mennen Williams Building Lansing, MI 48913 (517) 373-7117	Department of Commerce Corporations and Securities Bureau Same Address
MINNESOTA	Department of Commerce 85 7 th Place East, Suite 500 St. Paul, MN 55101 (651) 296-4973	Commissioner of Commerce Same Address
NEW YORK	Bureau of Investor Protection and Securities New York State Department of Law 120 Broadway, 23 rd Floor New York, NY 10271 (212) 416-8211	Secretary of State of New York 41 State Street Albany, NY 12231 (212) 416-8211

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
NORTH DAKOTA	North Dakota Securities Department 600 Boulevard Avenue, State Capital 5 th Floor, Dept. 414 Bismarck, ND 58505-0510 (701) 328-4712	North Dakota Securities Commissioner Same Address
RHODE ISLAND	Securities Division Department of Business Regulation 1511 Pontiac Avenue Bldg. 69, 1 st Floor Cranston, RI 02920 (401) 462-9585	Director of Department of Business Regulation Rhode Island Attorney General Same Address
SOUTH DAKOTA	Department of Commerce and Regulation Division of Securities 445 E. Capital Avenue Pierre, SD 57501-2017 (605) 773-4013	Director of South Dakota Division of Securities Same Address
VIRGINIA	State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9 th Floor Richmond, VA 23219 (804) 371-9051	Clerk of the State Corporation Commission 1300 East Main Street, 1 st Floor Richmond, VA 23219
WASHINGTON	Department of Financial Institutions Securities Division – 3 rd Floor 150 Israel Road, S.W. Tumwater, WA 98501 (360) 902-8760	Director of Department of Financial Institutions Same Address
WISCONSIN	Department of Financial Institutions Division of Securities 345 West Washington Avenue, 4 th floor Madison, Wisconsin 53703 (608) 261-9555	Commissioner of Securities Same Address

EXHIBIT M

ZOUNDS HEARING FRANCHISING, LLC

ACKNOWLEDGMENT OF RECEIPT BY PROSPECTIVE FRANCHISEE

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

If Zounds Hearing Franchising, LLC offers you a franchise, it must provide this disclosure document to you fourteen (14) calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

If Zounds Hearing 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 law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580, and the appropriate state agency listed in Exhibit M.

Issuance Date: March 25, 2012. The effective date in certain states is listed on page 3, under State Effective Dates.

The franchise seller is Jamile Dean Essa at 4405 E Baseline Road, Suite 114, Phoenix, AZ 85042, and 480-258-6005.

Any additional individual franchise sellers involved in offering this franchise are:

I have received the Disclosure Document dated March 25, 2012, which included the following Exhibits:

- | | |
|---|--|
| A. Franchise Agreement | H. Operations Manual Table of Contents |
| B. Physician Investment Group Form | I. Consent and Agreement of Landlord |
| C. Agreement to Enter into an LLC | J. Confidentiality and Non-Competition Agreement |
| D. Financial Statements | K. State Specific Addendums |
| E. Acknowledgement Regarding Ownership | L. List of State Administrators/Agents for Process |
| F. Guaranty of Franchisee’s Obligations | M. Acknowledgement of Receipt (2 copies) |
| G. Electronic Funds Transfer Form | |

Prospective Franchisee Signature

Printed Name

Date Received: _____

Instructions for returning the receipt:

If the disclosure document is not delivered in person, the prospective franchisee must sign both copies, retaining one (1) for the prospective franchisee’s records. The other copy must be sent within five (5) business days via certified mail to the franchisor: Zounds Hearing Franchising, LLC 4405 E. Baseline Road, Suite 114, Phoenix, AZ 85042.

EXHIBIT M

ZOUNDS HEARING FRANCHISING, LLC

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