



## **FRANCHISE DISCLOSURE DOCUMENT**

**Christian Brothers Automotive Corporation, a Texas Corporation  
15995 N. Barkers Landing, Suite 145, Houston, Texas 77079  
(281) 870-8900 Phone; (281) 870-1200 Fax  
www.cbac.com; jwall@cbac.com**

Christian Brothers Automotive Corporation offers two franchise programs: a single automotive repair facility franchise and multiple automotive repair facility franchises. The franchised business is repairing and servicing automotive vehicles. The total investment necessary to begin operation of a Christian Automotive Brothers Corporation franchise is \$373,100 – 449,600. This includes \$125,000 that must be paid to the franchisor. If you operate more than one Christian Brothers Automotive Corporation franchise, you will pay the same fees for each franchise you operate.

This Disclosure Document summarizes certain provisions of your franchise agreement and other information in plain English. Read this Disclosure Document and all accompanying agreements carefully. You must receive this Disclosure Document at least 14 calendar days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

You may wish to receive your Disclosure Document in another format that is more convenient for you. To discuss the availability of disclosure in different formats, contact Josh Wall at 15995 N. Barkers Landing, Suite 145, Houston, Texas 77079 or (832) 594-0419.

The terms of your contract will govern your franchise relationship. Do not rely on the Disclosure Document alone to understand your contract. Read all of your contracts carefully. Show your contracts and this Disclosure Document to an advisor, like a lawyer and/or an accountant.

Buying a franchise is a complex investment, and as with any investment, there is the possibility of losing your investment. The information in this Disclosure Document can help you make an informed business decision. More information on franchising, such as “*A Consumer’s Guide to Buying a Franchise*”, which may help you understand how to use this Disclosure Document, is available from the Federal Trade Commission (“FTC”). You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW. Washington, D.C. 20580. You can also visit the FTC’s home page at [www.ftc.gov](http://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.

**Issuance date:** April 30, 2014.

## **STATE COVER PAGE**

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

Call the state administrators listed in Exhibit E for information about the franchisor, about other franchisors, 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 BINDING ARBITRATION ONLY IN TEXAS. IN THE EVENT THAT A DISPUTE IS NOT SUBJECT TO ARBITRATION, THE DISPUTE MUST BE FILED IN A FEDERAL OR STATE COURT LOCATED IN HOUSTON, HARRIS COUNTY, TEXAS. OUT-OF-STATE ARBITRATION OR LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE OR LITIGATE WITH US IN TEXAS THAN IN YOUR HOME STATE. IF YOU ARE LOCATED IN TEXAS BUT OUTSIDE OF HARRIS COUNTY, IT MAY ALSO COST YOU MORE TO ARBITRATE OR LITIGATE WITH US IN HOUSTON, HARRIS COUNTY, TEXAS.
2. THE FRANCHISE AGREEMENT STATES THAT TEXAS LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE LAWS.
3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

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

State registration effective dates appear on the following page.

**STATE EFFECTIVE DATES**

The effective dates of this Disclosure Document in the states listed below are:

<b>STATE</b>	<b>EFFECTIVE DATE</b>
California	
Hawaii	
Illinois	
Indiana	November 7, 2013
Maryland	
Michigan	December 29, 2010
Minnesota	July 1, 2013
New York	
North Dakota	
Rhode Island	
South Dakota	November 6, 2013
Virginia	August 30, 2013
Washington	
Wisconsin	October 10, 2013

## TABLE OF CONTENTS

<b>1. THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES.....</b>	<b>6</b>
<b>2. BUSINESS EXPERIENCE.....</b>	<b>8</b>
<b>3. LITIGATION.....</b>	<b>9</b>
<b>4. BANKRUPTCY.....</b>	<b>10</b>
<b>5. INITIAL FEES.....</b>	<b>10</b>
<b>6. OTHER FEES.....</b>	<b>11</b>
<b>7. ESTIMATED INITIAL INVESTMENT.....</b>	<b>15</b>
<b>8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES.....</b>	<b>20</b>
<b>9. FRANCHISEE’S OBLIGATIONS.....</b>	<b>23</b>
<b>10. FINANCING.....</b>	<b>24</b>
<b>11. FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING.....</b>	<b>25</b>
<b>12. TERRITORY.....</b>	<b>35</b>
<b>13. TRADEMARKS.....</b>	<b>35</b>
<b>14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION .....</b>	<b>37</b>
<b>15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS.....</b>	<b>37</b>
<b>16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL.....</b>	<b>38</b>
<b>17. THE FRANCHISE RELATIONSHIP.....</b>	<b>39</b>
<b>18. PUBLIC FIGURES.....</b>	<b>41</b>
<b>19. FINANCIAL PERFORMANCE REPRESENTATIONS.....</b>	<b>42</b>
<b>20. OUTLETS AND FRANCHISEE INFORMATION.....</b>	<b>49</b>
<b>21. FINANCIAL STATEMENTS.....</b>	<b>53</b>
<b>22. CONTRACTS.....</b>	<b>53</b>
<b>23. RECEIPTS.....</b>	<b>54</b>

## EXHIBITS

<b>Exhibit A</b>	Audited Financial Statements
<b>Exhibit B</b>	Franchise Agreement
<b>Exhibit A to FA</b>	Description of Territory
<b>Exhibit B to FA</b>	Description of Marks
<b>Exhibit C to FA</b>	Equipment Required for Franchisee to Purchase
<b>Exhibit D to FA</b>	Commercial Sublease Agreement
<b>Exhibit C</b>	Table of Contents of Confidential Operations Manual
<b>Exhibit D</b>	Current Franchisees Contact Information
<b>Exhibit E</b>	State Administrators/Agents for Service of Process
<b>Exhibit F</b>	Nonuse and Nondisclosure Agreement
<b>Exhibit G</b>	Former Franchisee Contact Information
<b>Exhibit H</b>	Assignment and Assumption Agreement
<b>Exhibit I</b>	State Specific Addendum
<b>Exhibit J</b>	Inventory List
<b>Exhibit K</b>	Receipt and Acknowledgement Agreement
<b>Exhibit L-1</b>	Franchisee's Copy of Detachable Receipt
<b>Exhibit L-2</b>	CBAC's Copy of Detachable Receipt

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

To simplify the language in this Disclosure Document the words “Franchisor,” “CBAC,” “we,” “our” and “us” refer to Christian Brothers Automotive Corporation, the franchisor. “You”, “Your”, “Principal Operator” and “Franchisee” refer to the person or entity who is licensed to operate the franchise. To fully understand all of your and our rights and obligations to each other, you must still carefully review the actual agreements that you will sign. These agreements will control if there is any dispute between us.

**The Franchisor, and any Parents, Predecessors, and Affiliates**

CBAC was incorporated in the state of Texas on March 25, 1982, under the name Christian Brothers Automotive Corporation. Our principal place of business and business address is 15995 N. Barkers Landing, Suite 145, Houston, Texas 77079. We do business under our corporate name and under the name CBAC.

CBAC does not have any predecessors or affiliates that are currently offering, or that have offered, automotive repair and service franchises. CBAC does not have any predecessors that have been engaged in the business in which CBAC is engaged. CBAC does not have any parent entity.

**The Business**

We have established, and continue to develop and operate, a system of “Christian Brothers Automotive” (“CBA”) franchises which offer automotive repair and maintenance services to its customers. CBA is used to refer to the franchise system. CBAC refers to the franchisor. We currently offer the following two separate franchise programs:

1. A franchisee may acquire a license to operate a single CBA franchise.
2. A franchisee may acquire a license to operate more than one CBA franchise. CBAC has a separate Franchise Disclosure Document for its multi-facility program.

CBAC examines each franchisee applicant on a case by case basis, and CBAC reserves the right to determine in its sole discretion whether or not to approve or disapprove an applicant for both a single CBA franchise or the CBA multi-facility program.

**The Competition**

The market for automotive repair and maintenance services is well developed and intensely competitive. Your CBAC automotive repair and service facility will compete with other similar automotive repair and service facilities. The types and numbers of competitors vary from location to location and from time to time.

## **The Market**

The market for your services will be the general public. The need for automotive repair and service varies from time to time due to a large number of factors which include things such as the condition of the local, regional or national economy, seasonal changes, the cost of regulatory compliance, the cost of fuel and the cost of new automotive vehicles. Other factors that may have a significant impact on the market in the future include technological advances that impact the construction of automotive vehicles, powering of motor vehicles, and the basic methods of travel used in the United States. Significant changes in the laws, rules and regulations that govern the automotive industry may have a dramatic impact on the market for your services. CBAC's experience is that the demand for automotive repair and service work generally increases between April and October with the peak periods usually being June, July and August.

## **Our Prior Business Experience**

CBAC began providing automotive repair and maintenance services to its customers in August 1982, and CBAC continued to conduct its business at the same location, until December 31, 1998. At that time CBAC sold its original location to a franchisee. On January 1, 2012 CBAC reacquired the original location and then refranchised it in 2013. CBAC has offered franchises in the automotive repair and service business since January of 1996. We have not offered franchises in any other line of business.

## **CBAC's Corporate Stores**

CBAC is currently operating 2 franchise locations. These franchises are located at 1455 W Grand Parkway S., Katy, Texas 77494 and 8496 Mexico Road, Saint Peters, Missouri 63376. The Grand Parkway location was originally operated by a franchisee, but CBAC has been operating it since 2009. The Saint Peters franchise has been operated by CBAC since it first opened for business in April of 2010.

## **Special Industry Regulation**

Texas and other states and local jurisdictions have enacted laws, rules, regulations and ordinances which may apply to the operation of your automotive repair and service facility, including those which (a) establish general standards, specifications and requirements for the construction, design and maintenance of the premises; (b) set standards pertaining to employee health and safety; (c) set standards and requirements for fire safety and general emergency preparedness; and (d) regulate the proper use, storage and disposal of waste, petroleum products, batteries, fluids and other hazardous materials. You should investigate whether there are regulations and requirements that may apply in the geographic area in which you are interested in locating your franchise, determine the impact any such regulations and requirements could have on a franchise in that location and should consider both their effect and cost of compliance in determining whether you want to pursue having a franchise in that location.

## **Agent for Service of Process**

Our agent for service of process is Mark A. Carr. His principal business address is 15995 N. Barkers Landing, Suite 145, Houston, Texas 77079. If we have an agent in your state for service of process, we disclose that agent in Exhibit A.

## **ITEM 2.** **BUSINESS EXPERIENCE**

### **Directors**

#### **Mark A. Carr**

From August of 1982 until December 31, 1998, Mr. Carr owned and operated a CBA automotive repair and maintenance business. During 1996, 1997 and 1998, he also licensed and serviced CBA franchises that conduct automotive repair and maintenance businesses. Since January 1, 1999, Mark Carr's principal occupation has been licensing and servicing CBA franchises that conduct automotive repair and maintenance businesses. CBAC has been Mark Carr's employer since August of 1982.

#### **John Freeman**

Dr. Freeman joined the board in March 2003. Dr. Freeman is a licensed orthodontist in the state of Texas. In 1981 Dr. Freeman established his private practice in Houston, Texas, which has grown into and continues to be a thriving business.

#### **Donald B. Evans**

Mr. Evans joined the board in 1999. Mr. Evans is the president and owner of Ark Ventures, Inc., a regional automotive parts wholesale business (Ark Ventures is neither an affiliate nor a vendor of CBAC). Since acquiring Ark Ventures, Inc. in 1992, Mr. Evans has successfully expanded the business to seven warehouse locations in three states and increased revenues by over 600%. Prior to Ark Ventures, Mr. Evans had extensive profit and loss management experience in both marketing and product management. Previous positions include Vice President of Marketing for Progressive Corporation (NYSE:PGR) and Assistant Vice President of Product Management for Anderson Clayton Company, a Fortune 500 diversified food, manufacturing and services conglomerate. Mr. Evans holds an MBA from Harvard Business School.

### **Officers**

**President and Corporate Secretary: Mark A. Carr**

See biographical information above under the heading "Directors."

**Chief Operating Officer: Lew Ten Have**



Mr. Ten Have has been with CBAC since 2000 as the Chief Operating Officer. His primary responsibility is the oversight of the franchise locations and managing the relationship between the franchisees and CBAC. Prior to his tenure with CBAC, Mr. Ten Have served in various management positions with Marathon Oil in domestic and international exploration activities.

Chief Financial Officer: Jim Harris

Mr. Harris began with CBAC in July 2007 as the Chief Financial Officer and is responsible for the overall financial management of the company and all of its franchises. Prior to his tenure with CBAC, Mr. Harris served as the CFO of Pharm-Olam International, Ltd, from April 2004 to June 2007. The Houston based company was a professional service organization that managed international clinical drug trials with offices in 22 different countries. From 1998 to March 2004 Mr. Harris was CFO of Willis Group, LLC a Houston based private equity firm.

Senior Vice President: Rod Marcotte

Since 2006, Mr. Marcotte has served CBAC as the Sr. Vice President responsible for assisting franchisees in store operations, in obtaining the appropriate equipment and where requested, in securing the appropriate financing for the operation of the franchises. Prior to 2006, Mr. Marcotte served CBAC as the Vice President of Store Operations since 1998. Before then, Mr. Marcotte was employed by CBA-Mission Bend since 1983.

Vice President of Franchise Development: Josh Wall

Mr. Wall started with CBAC in July 2003 and is responsible for CBAC's franchise recruitment licensing process and overall brand management. From May 2000 to June 2003 Mr. Wall was responsible for Program Management for The Tyson Organization, a voter contact firm based in Fort Worth, TX.

General Counsel and Vice President: Jacques Craig

Jacques Craig became CBAC's in house counsel in July 2010 and became a vice president of CBAC in 2012. Mr. Craig began practicing law at the law firm of Vinson & Elkins' Houston, Texas office in 1980. He became a partner at the law firm of O'Connor, Wisner & Craig, PC in Houston, Texas (now known as O'Connor, Craig, Gould, Evans & Rohr) in August of 1983.

**ITEM 3.  
LITIGATION**

There is no litigation, arbitration or other dispute that must be disclosed in this Disclosure Document.

#### **ITEM 4.** **BANKRUPTCY**

No person or company previously identified in Items 1 or 2, of this Disclosure Document has been involved as a debtor in proceedings under the U.S. Bankruptcy Code or the laws of foreign nations relating to bankruptcy required to be disclosed in this Item.

#### **ITEM 5.** **INITIAL FEES**

##### **Franchise Agreement**

You must pay CBAC an initial franchise fee of \$125,000.00. This initial franchise fee is paid in two installments. The first installment is in the amount of \$75,000.00 and is due at the earlier of your signing the Franchise Agreement or your signing the Receipt and Acknowledgement Agreement, a copy of which is attached as Exhibit K. The second installment is in the amount of \$50,000.00 and is due on or before three business days after CBAC informs you in writing that the building permits have been obtained, the land has been purchased, or the land has been leased for the building where your franchise will operate. You may be able to include the second installment in your small business financing.

CBAC is a proud participant of the International Franchise Association' Veteran's Franchise Transition Initiative and has established the following "IFA VetFran Program". If you are a current or former member of the United States Armed Forces and have been or will be honorably discharged then CBAC offers you a discount of 10% of the initial franchise fee. Upon receipt of your DD Form 214 "Certificate of Release or Discharge from Active Duty", CBAC will apply the discount to the second installment of the initial franchise fee. You will pay \$75,000 at the earlier of your signing the Franchise Agreement or your signing the Receipt and Acknowledgement Agreement. Your second installment will be in the amount of \$37,500.00 and will be due on or before three business days after CBAC informs you in writing that building permits have been obtained, the land has been purchased, or the land has been leased for the building where your franchise will operate.

CBAC may not be able to purchase the Land that you have approved and CBAC has agreed to attempt to acquire. CBAC agrees to notify you in writing if it determines, for any reason, that it will not purchase the Land. CBAC will then give you the option of either (a) choosing another location where CBAC is willing to attempt to acquire the Land where your franchise will operate, or (b) having your Down Payment returned.

In the event a Termination Event occurs prior to CBAC executing a Contract for the acquisition of the Land, then CBAC will deduct the reasonable costs that it has incurred in processing your application, selecting the site for the and, and preparing to enter into the franchise relationship with you, and return any remainder to you, provided that such deduction will not exceed \$25,000. "Termination Event" means any of the following (i) you do not qualify for the necessary financing to open and operate your Franchise, (ii) you choose not to proceed with the decision to open a franchise on the Land, and/or (iii) you are unable to complete any of

your other obligations that are conditions to your owning and operating a CBAC franchise. “Contract” means a contract for either (a) the acquisition of land in the general area of the Location, or (b) a contract for the acquisition of an existing business. “Land” means the land that will be purchased or leased for the construction of a building and other improvements that will be used for the operation of your franchise.

In the event a Termination Event occurs after CBAC has executed a Contract but prior to CBAC (a) submitting site plans to the appropriate authority for approval in connection with the purchase of the Land, or (b) performing due diligence in connection with the acquisition of the Land, then CBAC will deduct \$25,000 from your initial \$75,000 deposit and return \$50,000 to you.

In the event a Termination Event occurs after CBAC has executed a Contract and either (a) has submitted site plans to the appropriate authority for approval in connection with the purchase of the Land, or (b) has performed due diligence in connection with the acquisition of the Land, then CBAC will retain all of your initial \$75,000 deposit.

You will be required to pay the remaining amount of your franchise fee as provided in the Franchise Agreement to be entered into between you (or an entity formed and owned by you for the sole purpose of owning and operating the Franchise) and CBAC.

The amount of the initial franchise fees paid previously have been uniform for all parties who became franchisees during the same time period (except for those parties who qualify for the IFA VetFran Program). The initial franchisee fee paid during our fiscal year ended on December 31, 2013 and for the period up to April 30, 2014 was \$125,000.00.

**ITEM 6.  
OTHER FEES**

<u>Type of Fee</u>	<u>Amount</u>	<u>Due Date</u>	<u>Remarks</u>
(Note 1)			
Continuing Royalty Fees (Note 2)	50% of monthly “Split Profits” during the initial franchise term and during all extensions and renewals.	Estimated monthly amount due on the last day of each succeeding month.	The Royalty Fee is based on the “Split Profits” for the previous month. “Split Profits” are defined below in Note 2.
Additional Training and Support Fees (Note 3)	Established by CBAC. Fees will be uniform for all franchisees.	Upon Provision of Services.	Additional training may be offered off-site, and you will be responsible for all expenses related to attendance.
Administrative Fees	Established by CBAC.	Monthly service	CBAC provides certain

(Note 4)	See Note 4.	is provided.	administrative services. See Note 4.
National Marketing Fees (Note 5)	Established by CBAC. CBAC can require you to contribute up to \$10,000 per year to the National Marketing Fund. CBAC currently collects \$3,500 per year.	1st day of each month.	CBAC approves advertising & manages program.
Transfer Fees \$30,000 (Note 6)	a) \$2,500 Application Fee b) \$27,500 Transfer Fee	a) At the time of application for transfer b) If transfer is approved, on the approval date	Transfer fees are imposed by and payable to CBAC and are non-refundable.
Lease Payments (Note 7)	Approximately \$12,000 to \$16,500 base rent per month, plus triple net costs. This will vary as described in Note 7.	Base rent due on the 1st day of each month. Triple net costs are due as costs arise,	You will lease or sublease the premises (land and building) from CBAC or one of its affiliates. See Note 7 for the lease term.
Additional IT support fees (if requested by you)	\$90-\$150 per hour for services requested.	Due upon receipt of invoice.	If any IT work is requested from CBAC after the initial setup of the store operations, CBAC will bill you for the extra work requested at the agreed price then in effect.
Software and related annual maintenance/ license fees	You will initially purchase software from CBAC that will be used to operate the franchise that includes point-of-sale and accounting software that	Initial purchase is due at startup and then maintenance/ license fees are billed each calendar year in	Paid to CBAC because CBAC negotiates and purchases in bulk under more favorable terms in order to lower the cost to you. Currently all software is purchased from

	<p>costs approximately \$8,400 at start-up. Annual maintenance or license fees will apply for those programs and for additional required software programs. Annual maintenance or license fees for these programs are approximately \$1,150 and will vary depending on the underlying vendors' current prices.</p>	<p>January and due in 10 days.</p>	<p>outside vendors.</p>
--	--	------------------------------------	-------------------------

**Notes:**

1. All fees are imposed by and payable to CBAC. Except as specifically described in this Item 6, all fees are non-refundable.

2. You will pay a Royalty Fee of 50% of monthly “Split Profits” to CBAC each month during the initial term of your franchise and during the remainder of all terms of your franchise, including all extension and renewal periods. This payment is due on the last day of each succeeding month, and is based on the “Split Profits” estimated for the preceding month. Estimated payments will be due monthly and a final reconciliation will be calculated at each year end for a “True Up” on the annual “Split Profits”. “Split Profits” mean gross revenues minus expenditures previously approved by Franchisor. Expenditures can include approved expenses, debt service and/or other capital expenditures, which are approved in advance. You and your spouse are allowed an approved salary or wage expense of \$60,000 combined, before the profits are calculated for split. Any salary or wage to you, as an employee of the franchise, is contingent upon the business making enough profit to pay such salary or wage and is not a guarantee of payment by CBAC.

3. Other training sessions offered by CBAC will be mandatory or optional at CBAC’s sole discretion, and the fees will be established by CBAC at the time it offers the training. These fees will be uniform for all franchisees. You will be required to pay all travel and living expenses incurred by you and any of your employees who attend any additional training sessions. As of April 30, 2014, CBAC has not yet charged any fees for this type of additional training. The franchisees have been required to pay travel and living expenses incurred by them and/or their employees in connection with attending additional training sessions.

4. For accounting and administrative services you may select any vendor you would like so long as the vendor provides CBAC a written agreement stating the specific services provided and acknowledges that the timeliness of the service will match requirements outlined in the Confidential Operations Manual. A Preferred Provider Vendor list for accounting services is set out in the Confidential Operations Manual to assist you with your decision to hire outside

services. To give you a lower cost alternative, CBAC can provide each store with accounting and administrative services which will include preparation of monthly financial reports, a reconciliation of all bank statements, all payroll processing, posting of sales activity to the general ledger, posting of payroll activity to the general ledger, hosting the financial management software, obtaining and filing of bank statements, calculation and posting of depreciation, booking monthly accruals, reconciliation of credit card payments and allocations, reconciliation of all debt balances, analysis of all general ledger accounts for proper category postings, weekly sales reports of all franchises, quarterly profit and loss statements and Gross Profit Margin reports for all franchises, year-end adjustments to inventory, analysis of gross profit margin between the point of sale software and the financial software, and general tax information and filings. The fee for these services is approximately \$500.00 per month (which is the same as it has been since January 1, 2011). CBAC offers additional tax filing services for monthly sales and use tax filings and annual personal property tax renditions; and the fees for these services are \$25.00 per month and \$75.00 per year respectively. The fees for all of these services may be increased in the future if the costs of providing these services increase.

5. Each franchise location will do all of its own local advertising, and the cost of advertising is an operating expense to the franchisee. All marketing must be done according to the CBA Marketing Guide (a copy of which will be delivered to you when you receive your copy of the Confidential Operations Manual) and in conjunction with and approved by the CBAC Marketing Department. CBAC has established a national marketing program and may from time to time establish a regional marketing program (if a media market contains at least 3 or more stores). Each franchisee in that region or in the nation will be required to pay its prorated share of the advertising program. CBAC will deposit those payments into a marketing fund for that particular program. At this time, CBAC collects \$3,500 per year for the National Marketing Fund to be used to benefit its franchisees.

6. If you sell your operating company, the purchaser must be approved by CBAC prior to any transfer of the franchise license being allowed. You must complete and submit an application to transfer your franchise license. At the time you submit the application, you must pay CBAC a \$2,500 application fee. This fee covers the administrative costs incurred by CBAC in reviewing the application. This fee is nonrefundable. If CBAC decides to approve the transferee, you will be required to pay an additional \$27,500 transfer fee to CBAC to cover the costs associated with determining whether or not to approve the transferee, interviewing the appropriate parties, administering and overseeing the transfer process and providing appropriate training.

7. You will be required to make lease payments to CBAC or an affiliate in an amount set out in a Commercial Lease Agreement or a Commercial Sub-Lease Agreement negotiated between you and CBAC or an affiliate. The initial term of the lease will be 15 years, and the initial monthly lease payment will be approximately \$12,000 to \$16,500 for base rent, plus all triple net costs (insurance, maintenance and property tax; sales tax and common area maintenance if applicable); this amount will vary depending on items such as the cost of the construction of improvements. You will not be required to give a security deposit to CBAC or an affiliate, but you will be required to pay all insurance premiums, property taxes, repairs & maintenance, and utilities owed in connection with your use and operation of the leased premises, plus all other costs, if any,

specified in the Commercial Lease Agreement or the Commercial Sub-Lease Agreement. Each year the base rent will increase by 1.5%.

**ITEM 7.  
INITIAL INVESTMENT**

**YOUR ESTIMATED INITIAL INVESTMENT**

<b><u>Type Of Expenditure</u></b>	<b><u>Amount</u></b> (Note 12)	<b><u>Method Of Payment</u></b> (Note 13 And 14)	<b><u>When Due</u></b>	<b><u>To Whom Payment Is To Be Made</u></b>
INITIAL FRANCHISE FEE	\$125,000.00 (Note 1)  \$112,500.00 with IFA VetFran Program Discount (Note 1)	a) \$75,000 b) \$50,000  With Discount: a) \$75,000 b) \$37,500 (Note 1)	a) See Note 1 b) See Note 1	CBAC (Note 1)
REAL ESTATE AND IMPROVEMENTS	\$0.00 at startup, but monthly thereafter (Note 2)			
EQUIPMENT	\$190,000 to 203,000 (Note 3)	Cash As Purchased	Prior to opening Franchised Business	Equipment Vendors and/or CBAC (Note 3)
INVENTORY	\$11,000 (Note 5)	Cash As Purchased	Prior to opening and then as needed	Suppliers
SECURITY DEPOSITS	\$5,000 (Note 6)	Lump Sum	Prior to opening Franchised Business	Local utility companies
SIGNS	\$0 (Note 4)			Provided through Franchisor and Real Estate Lease
INSURANCE & BUSINESS	\$5,000 to \$35,000	Per Agreement with Insurance	Can be prior to opening Franchised	Insurance Companies

LICENSE	(Note 7)	Companies	Business but is usually financed with a monthly payment	
MARKETING/ ADVERTISING	\$17,600 to 23,600 incurred during your first year in business (Note 8)	When required by Advertising Suppliers	Start-up, monthly, or otherwise, per agreement with advertisers	Advertisers and Suppliers
ADDITIONAL FUNDS DURING INITIAL 3 MONTHS	\$30,000 to \$40,000 (Note 9)	General operational expenses such as office supplies, employees, vendors and utilities	First three months of operations	Vendors, suppliers, employees and utility companies
OTHER PAYMENTS	\$2,000 to \$7,000 (Note 10)	Cash at purchase and/or included in business loan	Prior to applying for commercial financing	Bank of your choosing, Federal Govt and other 3 <sup>rd</sup> party vendors
TOTAL	\$373,100 to \$449,600 (Note 11)			

**Notes:**

1. You must pay CBAC an initial franchise fee of \$125,000.00. This initial franchise fee is paid in two installments. The first installment is in the amount of \$75,000.00 and is due at the earlier of your signing the Franchise Agreement or your signing the Receipt and Acknowledgement Agreement. The second installment is in the amount of \$50,000.00 and is due on or before three business days after CBAC informs you in writing that building permits have been obtained, the land has been purchased, or the land has been leased for the building where your franchise will operate.

In the event a Termination Event occurs prior to CBAC executing a Contract for the Land, then CBAC will deduct the reasonable costs that it has incurred in processing your application, selecting the site for the Land, and preparing to enter into the franchise relationship with you, and return any remainder to you, provided that such deduction will not exceed \$25,000. "Termination Event" means any of the following (i) you do not qualify for the necessary financing to open and operate your Franchise, (ii) you notify CBAC in writing that you choose not to proceed with the decision to open the selected store, , and/or (iii) you are



unable to complete any of your other obligations that are conditions to your owning and operating a CBAC franchise. "Contract" means a contract for either (a) the acquisition of land in the general area of the Location, or (b) a contract for the acquisition of an existing business.

In the event a Termination Event occurs after CBAC has executed a Contract but prior to CBAC (a) submitting site plans to the appropriate authority for approval in connection with the purchase of the Land, or (b) performing due diligence in connection with the acquisition of the Land, then CBAC will deduct \$25,000 from your initial \$75,000 deposit and return \$50,000 to you.

In the event a Termination Event occurs after CBAC has executed a Contract and either (a) has submitted site plans to the appropriate authority for approval in connection with the purchase of the Land, or (b) has performed due diligence in connection with the acquisition of the Land, then CBAC will retain all of your initial \$75,000 deposit. If at any time prior to the opening date of your franchise, CBAC terminates its relationship with you, CBAC will return the amount of the initial franchise fee that you have paid. Except as provided in the previous sentences, the initial franchise fee is not refundable under any circumstances. CBAC does not finance any fee.

CBAC is a proud participant of the International Franchise Association's Veteran's Franchise Transition Initiative and has established the following "IFA VetFran Program". If you are a current or former member of the United States Armed Forces and have been or will be honorably discharged then CBAC offers you a discount of 10% of the initial franchise fee. Upon receipt of your DD Form 214 "Certificate of Release or Discharge from Active Duty", CBAC will apply the discount to the second installment of the initial franchise fee. You will pay \$75,000 at the earlier of your signing the Franchise Agreement or your signing the Receipt and Acknowledgement Agreement. Your second installment will be in the amount of \$37,500.00 and will be due on or before three business days after CBAC informs you in writing that building permits have been obtained, the land has been purchased, or the land has been leased for the building where your franchise will operate.

If you have been referred to CBAC by a current franchisee, CBAC will pay \$2,500 to the referring franchisee if you enter into a franchise agreement with CBAC. This is part of CBAC's franchisee referral program. CBAC will be glad to discuss the details of this franchisee referral program with you upon request. Existing franchisees who provide references to prospective franchisees are not acting as our agent and do not speak for us, despite the receipt of a referral fee. We do not control what these existing franchisees may say, and cannot guarantee the accuracy of any statement made by them to you.

2. Either CBAC or an entity affiliated with CBAC or contracted by CBAC, will purchase real property and construct the building the franchise will operate from, or CBAC will lease the land and building for the franchise from an unaffiliated party. You will lease or sublease the building and property from CBAC or an affiliate for a period of fifteen (15) years for rent of approximately \$12,000 to \$16,500 per month for base rents. This amount will vary due to the cost of constructing the improvements and the underlying financing costs. On a case by case basis CBAC may, in its sole discretion, decide to sell a site and building to a franchisee or to an unrelated third party. Any such sale to a franchisee will be contingent upon and result in an amendment to the

franchise agreement revising the terms that CBAC deems appropriate; provided that such amendment shall not change the percentage of the Split Profits that you will receive or the term of your franchise agreement. Any such sale to a third party will result in CBAC leasing the site and building from such third party and continuing to sub-lease it to you. CBAC may also, in its sole discretion and on a case by case basis, decide to contract for an unaffiliated party to acquire land and construct the building for a franchise which CBAC then leases from that unaffiliated party. We do not currently anticipate requiring a security deposit at startup and generally attempt to provide up to a six month rent free period. Consequently, we do not expect your initial funds to include rent. This is subject to change and will vary depending on the financial terms negotiated on each construction project. When the monthly lease payments do begin, they will be between \$12,000 and \$16,500 for base rent amounts, depending on a variety of factors. In addition to the base rent, you will be required to pay other fees and expenses related to the real property such as property taxes, assessments, common area maintenance fees, and property owners' associations' fees.

CBAC will charge project development, construction management, and legal fees of up to 5% of project costs for each project. These fees will be included in the cost of construction of the improvements.

3. The franchisee will be required to purchase equipment. This equipment will include those items listed on Exhibit C to the Franchise Agreement. Other items of equipment may be identified after the site has been selected. See Item 8 for more information about the equipment that will be needed to operate the franchise. This equipment will include a shuttle car that will be used to transport customers of the franchise. Some of the equipment may be purchased by CBAC in order to obtain a better price than individual purchasers could obtain. In these cases, CBAC will pay the equipment vendors, and the franchisee will pay CBAC the amount CBAC paid such vendors for equipment for the franchisee's location.

4. You will be required to keep and maintain a sign for your franchise. CBAC will select the sign, the location for the sign and the company to build and install the sign. The cost of this sign is included in your project cost or a construction loan. All costs and expenses related to maintaining, repairing and/or replacing the sign will be your obligation on an ongoing basis throughout the term of your lease.

5. You will be required to purchase inventory to begin your business. The types of inventory you will be required to purchase are described on Exhibit J to this Disclosure Document.

6. You will be required to pay security deposits to the local utility companies. You must call them to determine the amounts and methods of payment.

7. CBAC estimates that you will spend between \$5,000 and \$35,000 per year on insurance premiums and licenses. Normally, these premiums can be financed on a monthly payment plan that will reduce the initial cash outlay to approximately \$5,000, depending on your providers and your credit worthiness. You will need to carry any and all forms of insurance that may be required by law, required in the Franchise Agreement, required in your commercial lease or sublease agreement, specified by CBAC from time to time, and/or as are reasonably necessary to carry on a business of this type. The types of insurance will include: Key Man Life, workers

compensation, property/casualty, and renter's coverage(s) and errors and omissions/liability/malpractice coverage(s). You are required to maintain at all times errors and omission/malpractice business coverage limits of not less than \$2,000,000. The coverage premiums for these policies will vary between insurance companies, and will also vary depending on factors such as projected volume, fees, loss history, and experience rate. If you finance any aspect of your franchise business, your lender may require additional insurance. Group health insurance coverage for employees is an optional expense. Disability, dental, vision, or supplemental insurance for you or your employees is generally an unapproved expense.

8. CBAC requires that if you market/advertise in any local medium that it be done according to the CBAC Marketing Guide and in conjunction with and approved by the CBAC Marketing Department. You should budget between \$17,600-\$23,600 per year for marketing/advertising in your first year of business.

9. CBAC estimates that you will spend between \$30,000.00 to \$40,000.00 over the first three months of the operation of the franchise on items such as general office supplies, employees, vendors and utilities. These expenditures are often categorized as expenditures made from working capital. These amounts are estimates. They will, to a considerable degree, represent discretionary expenses that you may or may not choose to incur. You can choose to spend more than this, but it will increase your total up-front investment and may require you to increase your down payment if you are financing.

10. You will need to make estimated payments of \$2,000-\$7,000 at or near startup for miscellaneous expenses which include items such as: financing or application fees, legal or professional fees, extra office supplies and extra inventory or supplies that are unique to your location which may consist of some of the items described in Note 5 above.

11. CBAC estimates that your total initial start-up expenses will be between \$373,100 and \$449,600. These figures are estimates only, and CBAC does not warrant, represent or guarantee that you will not incur additional expenses as you start your business. Some of these additional expenses may be optional to you, but others may be necessitated by circumstances that are particular to the location or other aspects of your business. Your costs will depend on factors such as: how vigorously CBAC's methods, policies and procedures are followed; your management skills, experience, and business acumen; local economic conditions; the prevailing wage rate; the time of year you open and the quantity and quality of the competition.

12. CBAC relied on the experience of its management to compile these estimates. You must review these figures carefully with a business advisor before making any decision to apply to become a CBAC franchisee.

13. Except as set out in this Item 7, no fee or payment to CBAC or to equipment vendors is refundable.

14. CBAC does not offer direct or indirect financing to you for any items in connection with your initial investment.

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

**Lease Relationship**

You are required to lease or sublease the land and building for the franchise from CBAC. CBAC will either own the land and building or lease the land and building from an affiliate or from a third party. The terms of the lease are contained in the Commercial Lease or Sublease Agreement that is attached as Exhibit D to the Franchise Agreement which is attached as Exhibit B to this Disclosure Document.

**Approval of Suppliers**

You must purchase all of the inventory, furniture, equipment and fixtures for the franchise from approved suppliers. We specify certain fixtures, equipment, supplies and other items that you must have before opening and must maintain for as long as you own your franchise. All fixtures, equipment, supplies and other materials required to operate your automotive repair facility must be procured from us, or from suppliers that we designate or approve. We will provide you with our Confidential Operations Manual and various bulletins and notices that will contain the specifications, standards and restrictions for your purchase of products, materials and services. As we determine consumer preferences and trends in the marketplace, or develop new marketing techniques, technologies, products and services, we anticipate that we will formulate new policies and modify our existing standards and specifications. We will notify you of these changes through amendments to the Confidential Operations Manual, articles, newsletters or other bulletins.

We or our affiliates may sell or lease certain fixtures, equipment, supplies, inventory, and other materials to you and our other franchisees. Except for software, there are presently no products or services for which we or our affiliates are the sole approved source.

We may negotiate volume purchase agreements with some vendors for the purchase of goods, equipment, fixtures and inventory needed to operate your automotive repair facility. We have negotiated purchase agreements with certain vendors to supply equipment, parts, insurance, software and start-up supplies, if geographically feasible, to our franchisees at competitive prices. For the start-up of the franchise, you are required to purchase these supplies from these approved vendors, unless you purchase these supplies from some other provider that has been approved by CBAC. We and/or our affiliates may receive payments, such as rebates, or other compensation from suppliers on account of the suppliers' dealings with us, you, or other franchisees. If we do receive such payments from suppliers, we may use the amounts that we receive for any purpose that we deem appropriate. At the present time, except for purchases of the equipment used to start-up a franchise and for what optional ongoing purchases of inventory, we do not receive material rebates or any material benefits from our approved vendors or from any other outside supplier for the purchase of goods or services from you or other franchisees. For the years ended December 31, 2013 and 2012 respectively, CBAC's total revenue was \$27,144,207 and \$24,834,354, of which \$73,387 and \$87,845 or 0.27% and 0.35% was received from franchisees as a result of required purchases and leases from CBAC designated sources. CBAC received rebates from optional vendors in the amounts of \$487,379 and \$316,675 respectfully. These rebates were used to fund

the costs of the annual conventions for franchisees, service managers and the costs to administer the purchasing program. We do not currently have any affiliates selling or leasing required products or services to franchisees.

If you wish to procure any items from a supplier other than us or a supplier we designate, you must obtain our approval in the manner set forth in Section 9.07 of the Franchise Agreement which basically requires that you identify the proposed supplier, its name and address, and the items you desire to purchase from that supplier. If product specifications for the item are not in the Confidential Operations Manual, we will furnish the specifications to you at your request. We may condition our approval on the supplier agreeing in writing: (a) not to disclose any confidential information regarding us or our operations, (b) to comply faithfully with our specifications for the items it sells, (c) to sell any materials bearing our marks only to our franchisees, (d) on the supplier demonstrating to our reasonable satisfaction that it is able to supply equipment, fixtures and/or inventory meeting our specifications on a continuing basis, and (f) that the supplier is, and will continue to be, of good standing in the business community with respect to its financial soundness and the reliability of its product and service. Within 60 days after our receipt of a written request to approve a supplier and our receipt of all other information which we request in order to evaluate that supplier, we will attempt to notify you in writing whether or not such supplier is deemed approved by CBAC. No supplier will be approved unless and until CBAC has notified you in writing that such supplier is approved. We have the right to disapprove or withdrawal our approval of any supplier at any time by providing you with written notice of our disapproval or withdrawal of approval. We do not charge any fees to secure our approval of suppliers. We do not negotiate purchaser arrangements with suppliers for the benefit of franchisees. However, from time to time we negotiate with suppliers for the franchisees with the option but not the obligation to enter into these agreements.

We estimate that approximately 95% of your expenditures for leases and purchases of equipment and supplies in establishing your automotive repair facility and approximately 2% of your expenditures for leases and purchases of supplies on an ongoing basis will be for goods and services which are subject to sourcing restrictions (that is, for which suppliers must be approved by us, or which must meet our standards or specifications).

Rod Marcotte, Sr. Vice President of CBAC, is married to Mrs. Edwina Marcotte. Mrs. Marcotte is an approved supplier for printing collateral.

No other officer or director of CBAC owns an interest in an approved supplier of equipment, fixtures and/or inventory.

### **Advertising**

You may not use any advertising material for local advertising unless we have expressly approved it in writing before publication or use, and it complies with our requirements concerning format, content and media.

### **Records**

All of your bookkeeping and accounting records, financial statements, and all reports you submit to us must conform to our requirements.

### **Computer Equipment**

We presently require you to purchase or lease the computer hardware or software that is described in Item 11. The Franchise Agreement allows CBAC, from time to time in its discretion, to establish such sales or financial data reporting systems as CBAC considers appropriate for the accurate and expeditious reporting of financial data. You must fully cooperate with us in implementing any such system at each automotive repair facility. You must equip the automotive repair facility (or facilities) with such sales or financial recording devices as we may require. These requirements may include sales recording cash registers or devices that will telecommunicate gross sales or financial data directly to us on a daily or other frequent basis.

### **Payments from Franchisees for Goods and Services**

During our fiscal year, ending December 31, 2013 and 2012 respectively, our total revenue from all sources was \$27,144,207 and \$24,834,354 of which \$791,554 and \$668,115 or 2.91% and 1.67% was received from purchases of products and services by franchisees (including accounting services, software and annual maintenance fees) where franchisees have the option of using other products and/or service providers that meet CBAC's requirements. We do not provide or withhold material benefits to you (such as: renewal rights or the right to open additional automotive repair facilities) based on whether or not you purchase through the sources we designate or approve. However, purchases of unapproved products or from unapproved vendors in violation of the Franchise Agreement will entitle us, among other things, to terminate your Franchise Agreement.

**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 DOCUMENT.**

<b><u>Obligation</u></b>	<b><u>Section in Agreement</u></b>	<b><u>Disclosure Document Item</u></b>
a. Site selection and acquisition or lease	Sections 2.01 to 2.04 of the Franchise Agreement	Item 7
b. Pre-opening purchases and leases	Section 10.02 of the Franchise Agreement	Items 6 and 7
c. Site development and other pre-opening requirements	Sections 9.05 and 9.06 of the Franchise Agreement	Items 6, 7 and 11
d. Initial and ongoing training	Sections 9.03 and 9.06 of the Franchise Agreement	Items 6, 7 and 11
e. Opening	Sections 9.05 and 9.06 of the Franchise Agreement	Item 11
f. Fees	Article 4 of the Franchise Agreement	Items 5, 6 and 7
g. Compliance with standards, policies and operating manual	Sections 10.03, 10.16 and 15.07 of the Franchise Agreement	Items 6, 7, 8, 11, 12, 13, 15, 16, and 17
h. Trademarks and proprietary information	Articles 5, 6, and 7 of the Franchise Agreement	Items 13 and 14
i. Restrictions on products and services offered	Section 10.12 of the Franchise Agreement	Item 16
j. Warranty and customer service requirements	Section 10.07 of the Franchise Agreement; Confidential Operations Manual	Items 11 and 15
k. Territorial development and sales quotas	Sections 2.01 - 2.04 of the Franchise Agreement	Item 12
l. Ongoing product and service purchases	Section 10.12 of the Franchise Agreement	Item 8

m. Maintenance, appearance and remodeling requirements	Section 10.07 of the Franchise Agreement	Item 11
n. Insurance	Section 10.15 of the Franchise Agreement	Item 7
o. Advertising	Article 8 and Section 10.08 of the Franchise Agreement	Items 6 and 7
p. Indemnification	Section 10.06 of the Franchise Agreement	Item 17
q. Owner's participation, management and staffing	Sections 10.04 and 10.05 of the Franchise Agreement	Items 11 and 15
r. Records and reports	Sections 10.14 and 11.02 of the Franchise Agreement	Item 6
s. Inspections and audits	Sections 10.13 and 11.03 of the Franchise Agreement	Items 6 and 11
t. Transfer	Sections 13.01 - 13.05 of the Franchise Agreement	Items 6 and 17
u. Renewal	Sections 3.02 - 3.10 of the Franchise Agreement	Item 17
v. Post-termination obligations	Article 15 of the Franchise Agreement	Items 8 and 17
w. Non-competition covenants	Article 16 of the Franchise Agreement	Item 17
x. Dispute resolution	Article 24 of the Franchise Agreement	Item 17

**ITEM 10.**  
**FINANCING**

CBAC does not offer any direct or indirect financing to you with regard to the franchise fee, equipment costs, inventory costs, or the monthly recurring expenses. CBAC or an entity affiliated with CBAC will purchase the site and construct the building to be leased to your franchise. If an affiliate of CBAC purchases the site and constructs the building that will be used for your franchise, CBAC will lease the site and building from that affiliate and will sublease the site and building to you. If CBAC purchases the site and constructs the building, CBAC will lease the building and land to you, but you will not have a right of first refusal, an option to purchase or any other right to acquire the land and building. You will have options to extend the lease for three five-year periods subject to the conditions referred to in Item 17 and contained in the Franchise Agreement. CBAC may lease the premises from an owner who has built the facility and then sublease the premises to



you. If you finance any acquisition or operational aspect of your franchise business you will incur application fees, loan fees, closing costs and other related financing costs.

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

**Except as listed below, CBAC is not required to provide you with any assistance.**

The references to "Items" are to Items in this Disclosure Document. The references to "Articles and Sections" are to Articles and Sections in the Franchise Agreement attached as Exhibit B to this Disclosure Document.

**Pre-Opening Obligations**

We have the following obligations to you before you open your automotive repair facility for business:

1. CBAC will select the site for your franchise business. In selecting the site, CBAC considers such factors as demographics, access, traffic, competition, natural and man-made boundaries and customer base. CBAC or an affiliate will purchase the property and construct the building for your franchise business and lease the premises to you. CBAC may alternately lease the facility from an unaffiliated third party instead of purchasing directly, as mentioned in Note 2 to Item 7. (Section 9.05)

2. CBAC will construct the premises and direct you in selecting the decorations for the premises. (Item 7, Note 2 and Section 9.05)

3. Signage will be provided as part of the project cost. You are required to purchase all other fixtures, equipment and office furniture. CBAC will furnish you with specifications for those fixtures, equipment and office furniture. (Item 7, Notes 3 and 4 and Section 9.05)

4. CBAC will assist and consult with you as you recruit, hire and train a Service Manager and two technicians. CBAC will provide direct training for your Service Manager. The Service Manager must be approved by CBAC. You will be responsible for hiring all of your employees. (Section 9.03).

5. If CBAC does not select a site that is approved by you on or before 150 days from the date you pay CBAC the initial franchise fee, you will not be obligated to purchase a franchise from CBAC nor enter into any other business relationship with CBAC. Unless you have otherwise agreed in writing, any fees that you have previously paid to CBAC in connection with the purchase of the franchise will be returned to you, minus any out of pocket expenses that have been incurred by CBAC. (Item 5 and Section 4.01)

6. We will conduct an initial training program as described in this Item under the heading "Training." (Section 9.03)

7. We will loan to you one copy of our Confidential Operations Manual to use during the term of the Franchise Agreement. The Confidential Operations Manual contains our standard operational procedures, policies, rules and regulations with which you must comply. (Section 6)

### **Time Before Opening**

The time between the first payment of consideration by a franchisee and the opening of the franchise business has ranged from 12 to 36 months. The factors that affect this time include negotiating acceptable purchase terms, resolving site specific title issues, financing delays, building permits, zoning and local ordinances, weather conditions, material shortages, construction delays and delays in the installation of fixtures, equipment and signs.

### **Post-Opening Obligations**

We have the following obligations to you during the operation of your business:

1. We will assist you (i) in establishing systems to price services and parts you will offer to customers; (ii) in establishing systems to order parts; and (iii) in establishing and maintaining relationships with suppliers of the parts and services you will need for your customers. (Sections 9.07 and 9.08)

2. We will provide you with on-site training during the early weeks your franchise business is open and provide initial training at CBAC's offices. If you need to hire a replacement Service Manager, CBAC will assist and consult with you as you recruit, hire and train the Service Manager. During the initial year of operating your franchised business, CBAC performs these services at no additional cost to you. After the initial year of operations, CBAC may perform these services, but it will be at your cost and expense. CBAC must approve your initial Service Manager and all replacements. All replacements must also be trained as required by CBAC. (Section 9.03)

3. We will continue to attempt to improve CBAC's procedures and systems for operating the automotive repair and maintenance business. As it develops new procedures and systems, CBAC will provide you with information and when appropriate, training concerning these new systems and procedures. (Section 10.18)

4. We will assist you in negotiating the purchase of parts and materials and in establishing prices to charge your customers for the products and services you furnish them. We will not establish maximum, minimum or other pricing requirements (pricing requirements) with respect to this Franchisee unless the pricing requirements have been established in a franchise agreement that has been reviewed and approved by the SBA and listed on the Franchise Registry. (Sections 9.07 and 9.08)

5. We will assist you in establishing systems and procedures for administrative, bookkeeping, accounting, payroll and inventory control matters. (Section 9.04)

6. We will have personnel available to assist you in operating problems that arise after you begin to operate the franchise business. (Section 9.06)

7. We will provide regular coaching with a designated Performance Consultant during your first year in business.

### **National Marketing Fund**

CBAC has an established National Marketing Fund (“NMF”), formerly known as National Advertising Fund. You must comply with CBAC’s requirements concerning the NMF. The dual purpose of the NMF is to drive customer traffic into CBA Automotive Repair Facilities and to promote and enhance the brand, image, identity and/or patronage of “CBA” Automotive Repair Facilities owned/operated by franchisees and by us. The sums you and other franchisees contribute to the NMF will be deposited in a separate operating bank account and will be segregated on our books. These deposits will not be commingled with our general operating revenues, except for the temporary period between the date a franchisee makes a payment that includes its NMF contribution and the date CBAC transfers that amount to the NMF bank account. We have the authority to require up to \$10,000 per calendar year for each franchisee as the contribution to the NMF. The current annual contribution is \$3,500 for years 2012, 2013 and 2014. If we spend less than the total of all contributions to the NMF during any fiscal year, we may accumulate such sums for use in later years. We will furnish to you within 120 days after the end of each of our fiscal years, during which we have established and funded the Marketing Fund, an un-audited report certified as correct by a CBAC officer showing the NMF balance at the beginning of the year, the total amount contributed by franchisees, including CBAC owned franchises, and the amount actually expended for the year and remaining balance or deficit in the NAF at the end of the fiscal year end.

During 2013 the NMF was spent approximately in the following manner: 49% on online marketing/search; 1% on agency support; 32% on printing/promotional items; 17% on brand development projects; and 1% on administrative/support.

We will work to spend an amount equal to the NMF revenue received or allocated by us for: national, regional or local advertising, public relations and promotional campaigns (typically in media such as digital marketing, direct mail advertising, newspapers, radio, and cable and local television). This sum may also be spent for other items including: conducting marketing studies, the production and purchase of advertising art, commercials, musical jingles, print advertisements, point of sale materials, media advertising, outdoor advertising art and direct mail pamphlets and literature. Some of the NMF may also be allocated to reimburse us or our affiliates for internal expenses of operating a marketing department and administration of our advertising program, but we may not allocate more than 10% of all NMF contributions to the internal expenses incurred by us and our affiliates (actual direct costs incurred for the production of advertising is not subject to the 10% limitation). We determine, in our sole discretion, all matters relating to such advertising, public relations and promotional campaigns. We are not required to allocate or expend NMF Contributions for the benefit of any particular franchisee or group of franchisees on a pro rata or proportional basis. Upon request, we will make available to you an annual accounting of NMF receipts and disbursements. We do not audit the NMF.

## **Local Advertising**

As of the date of this Disclosure Document, CBAC utilizes 1.6% of gross revenue as a suggested metric for determining the amount you can spend on local advertising. If it establishes a minimum in the future, you must spend that required minimum on local advertising. However, you must receive written approval from us before you may use any advertising material or conduct any advertising activities. CBAC will furnish you with written suggestions for local advertising, and CBAC's management will be glad to discuss any comments or advertising ideas you have. (Section 8.5)

## **Regional Marketing Groups**

As of the date of this Disclosure Document, CBAC has or will be establishing regional marketing groups ("RMG"). You must participate in any co-operative marketing program for the region in which your Automotive Repair Facility is located. CBAC may change, dissolve or merge RMGs in its sole discretion. If CBAC establishes a RMG in your region, you will be required to participate. CBAC has the authority to establish a RMG fund ("RMGF") and to require each franchisee in a particular RMG to contribute up to \$10,000 per calendar year to the RMGF. There is not an advertising council at the present time.

## **Promotional Campaigns**

We may periodically conduct promotional campaigns on a national or regional basis to promote products or marketing themes. You must participate in all promotional campaigns that we may establish for the region in which your Automotive Repair Facility is located. (Section 8.4)

## **Website**

CBAC has established and currently maintains a website for the benefit of the CBA organization. It's primary and secondary purposes is to promote the Christian Brothers brand name digitally and to drive customer traffic into our locations.

## **Training**

Prior to opening your franchise business, the Principal Operator and Service Manager of the franchise must have attended and successfully completed our management training courses to our satisfaction. This training will be conducted both through an online training portal and at our offices in Houston, Texas or at some other location we may designate. Training programs are offered periodically as needed to meet the demands of new and existing franchisees. Your Principal Operator and Service Manager must be approved by us in writing before participating in our management training courses.

We may periodically offer additional training programs to you and your Service Manager, covering such subjects as new products or procedures, operating techniques, new methods, marketing, bookkeeping, accounting and general operating procedures and the establishment, use, development and improvement of computer systems and overall skill development. Attendance by

you and/or your Service Manager may be mandatory or optional, at our discretion. There is no charge for mandatory training courses, however we may charge for optional training courses. All expenses (such as travel, room and board) that you and your personnel incur while attending or obtaining all training will be borne entirely by you.

Our training staff consists of 12-15 persons, who have accumulated over 140 years of experience with CBAC in various operational capacities, and over 225 years of related automotive experience or education. Currently, our training is run by David J. Domine. Mr. Domine has over 10 years of experience in the automotive repair and maintenance industry. We may use additional instructors on our training staff to conduct our training programs. Our additional instructors generally have a minimum of 5 years of operations experience, with strong abilities in training and development.

Our training staff also includes existing, established and successful Christian Brothers Automotive franchisees as part of our Certified Franchise Trainer (CFT) program. The CFT program supplements the current training program in two ways:

1. The new Principle Operator will train under a CFT at the retail location operated by the CFT for one week after completing both the online courses and the one week training at our offices in Houston, Texas. The new Principle Operator will gain on-the-job experience by working in an operating CBA facility and performing the duties of a successful CBA franchisee.
2. The CFT will accompany the new Principle Operator during the first week of business operations at the new repair facility. The CFT will help the new Principle Operator implement the Christian Brothers proven systems and evaluate staffing.

The Certified Franchise Trainer will complete 24 hours of online courses, a day (12 hour) training program at our offices in Houston, Texas, and a 3 day (24 hour) site visit compliance check at the CFT's retail location(s).

Instruction materials include our Confidential Operations Manual, Training Binder and related materials. New Principal Operators must complete 120 hours of online training, a two day (14 hours) training program and a separate a one week (40 hours) training program at our offices in Houston, Texas or at some other location we may designate, and a one week (60 hours) training under the supervision of and at a franchise location operated by a CFT before being allowed to serve as a Principal Operator of a franchisee. The Service Manager must complete both 48 hours of online training and a one week (50 hours) training program at our office in Houston, Texas. Both the Principal Operator and Service Manager will complete a one and a half week (75 hours) training program on location at the place of business. The Principal Operator will complete a 3-day (18 hours) course at our office in Houston, Texas between the 8<sup>th</sup> month and 13<sup>th</sup> month of business operation. (Approximate hours that a Principal Operator spends in classroom training and on-the job training are depicted below.

## TRAINING PROGRAM

### **Principal Operator: Self Paced Pre-Training (Online)**

<b><u>Subject</u></b>	<b><u>Hours of Training</u></b>	<b><u>Location</u></b>
Leadership & Business Management	16.0 hour(s)	Franchisee's home or other place of choice.
Organization & Computer Software	16.0 hour(s)	Franchisee's home or other place of choice.
Customer Satisfaction & Service	32.0 hour(s)	Franchisee's home or other place of choice.
Sales	16.0 hour(s)	Franchisee's home or other place of choice.
Automotive Systems	16.0 hour(s)	Franchisee's home or other place of choice.
Recordkeeping & Human Resources	16.0 hour(s)	Franchisee's home or other place of choice.
Marketing	8.0 hour(s)	Franchisee's home or other place of choice.

### **Principal Operator: In-Office Pre-Training**

**[See Note 1]**

<b><u>Subject</u></b>	<b><u>Hours of Training</u></b>	<b><u>Location</u></b>
Leadership & Business Management	8.0 hour(s)	CBAC Headquarters in Houston
Human Resources & Recruiting	6.0 hour(s)	CBAC Headquarters in Houston

### **Principal Operator: In-Office Training**

**[See Note 1]**

<b><u>Subject</u></b>	<b><u>Hours of Training</u></b>	<b><u>Location</u></b>
Leadership & Business Management	8.0 hour(s)	CBAC Headquarters in Houston
Organization & Computer Software	6.0 hour(s)	CBAC Headquarters in Houston
Customer Satisfaction & Service	10.0 hour(s)	CBAC Headquarters in Houston
Sales	4.0 hour(s)	CBAC Headquarters in Houston
Automotive Systems	4.0 hour(s)	CBAC Headquarters in Houston

Recordkeeping & Human Resources	4.0 hour(s)	CBAC Headquarters in Houston
Marketing	4.0 hour(s)	CBAC Headquarters in Houston

**Service Manager: Self Paced Pre-Training (Online)**

<b><u>Subject</u></b>	<b><u>Hours of Training</u></b>	<b><u>Location</u></b>
Leadership & Business Management	3.0 hour(s)	Employee's home or other place of choice.
Organization & Computer Software	16.0 hour(s)	Employee's home or other place of choice.
Customer Satisfaction & Service	8.0 hour(s)	Employee's home or other place of choice.
Sales	8.0 hour(s)	Employee's home or other place of choice.
Automotive Systems	8.0 hour(s)	Employee's home or other place of choice.
Recordkeeping & Human Resources	2.0 hour(s)	Employee's home or other place of choice.
Marketing	3.0 hour(s)	Employee's home or other place of choice.

**Service Manager: In-Office Training**

**[See Note 1]**

<b><u>Subject</u></b>	<b><u>Hours of Training</u></b>	<b><u>Location</u></b>
Leadership & Business Management	6.0 hour(s)	CBAC Headquarters in Houston
Organization & Computer Software	2.5 hour(s)	CBAC Headquarters in Houston
Customer Satisfaction & Service	10.0 hour(s)	CBAC Headquarters in Houston
Sales	23.5 hour(s)	CBAC Headquarters in Houston
Automotive Systems	2.0 hour(s)	CBAC Headquarters in Houston
Recordkeeping & Human Resources	2.0 hour(s)	CBAC Headquarters in Houston
Marketing	4.0 hour(s)	CBAC Headquarters in Houston

**Principle Operator: Hands-On Training****[See Note 2]**

<u>Subject</u>	<u>Hours of Training</u>	<u>Location</u>
Leadership & Business Management	4.0 hour(s)	Certified Franchise Trainer's franchise location(s)
Organization & Computer Software	5.0 hour(s)	Certified Franchise Trainer's franchise location(s)
Customer Satisfaction & Service	15.0 hour(s)	Certified Franchise Trainer's franchise location(s)
Sales	15.0 hour(s)	Certified Franchise Trainer's franchise location(s)
Automotive Systems	15.0 hour(s)	Certified Franchise Trainer's franchise location(s)
Recordkeeping & Human Resources	1.0 hour(s)	Certified Franchise Trainer's franchise location(s)
Marketing	5.0 hour(s)	Certified Franchise Trainer's franchise location(s)

**Principal Operator & Service Manager On-Site Training****[See Note 3]**

<u>Subject</u>	<u>Hours of Training</u>	<u>Location</u>
Leadership & Business Management	2.0 hour(s)	Designated franchise location.
Organization & Computer Software	6.0 hour(s)	Designated franchise location.
Customer Satisfaction & Service	8.0 hour(s)	Designated franchise location.
Sales	24.0 hour(s)	Designated franchise location.
Automotive Systems	2.0 hour(s)	Designated franchise location.
Recordkeeping & Human Resources	16.0 hour(s)	Designated franchise location.
Marketing	2.0 hour(s)	Designated franchise location.



Pre-Opening Setup & Operations	15.0 hour(s)	Designated franchise location.
--------------------------------	--------------	--------------------------------

**Principal Operator: In-Office Re-Training**

**[See Note 4]**

<u>Subject</u>	<u>Hours of Training</u>	<u>Location</u>
Leadership & Business Management	4.0 hour(s)	CBAC Headquarters in Houston
Organization & Computer Software	2.0 hour(s)	CBAC Headquarters in Houston
Customer Satisfaction & Service	2.0 hour(s)	CBAC Headquarters in Houston
Sales	4.0 hour(s)	CBAC Headquarters in Houston
Automotive Systems	0.0 hour(s)	CBAC Headquarters in Houston
Recordkeeping & Human Resources	2.0 hour(s)	CBAC Headquarters in Houston
Marketing	4.0 hour(s)	CBAC Headquarters in Houston

**Notes:**

1. Fifty four (54) hours of the training described above will be provided at CBAC's corporate offices prior to you opening your franchise business. You will be required to pay all travel and living expenses for you and for any of your employees who attend any of the initial training.

2. Sixty (6) hours of the training described above will be provided at the Certified Franchise Trainer's Christian Brothers Automotive franchise store prior to you opening your franchise business. You will be required to pay all travel and living expenses for you and for any of your employees who attend with you.

3. Seventy five (75) hours of the training described above will be provided at the location of the franchise business. The number of hours of each category that will be provided at the different locations will vary depending on the needs of the specific individuals receiving the training. CBAC will make this determination on a case by case basis. You will be required to pay

all travel and living expenses for you and for any of your employees who attend any of the initial training.

4. Eighteen (18) hours of the training described above will be provided at CBAC's corporate office after your franchise business has operated between 8 and 11 months. You will be required to pay all travel and living expenses to attend this training.

### **Additional Support Services Provided By CBAC (Article 9)**

CBAC will also: provide you with telephone helpline support; make sales/service support materials available to you; provide you with product/service updates as developed; process orders for your business cards and supplies; provide you with overall guidance and advice; actively participate in trouble shooting problems; and provide you with timely reports regarding your progress.

### **Computer Equipment**

You must purchase and maintain an electronic point of sale cash register system to record gross sales and transaction data. CBAC requires that you purchase the following computer equipment: R.O. Writer software (or any similar software selected by CBAC), accounting software (designated by CBAC) and seven (7) personal computers, two printers and a fax machine (Item 7, Note 3). There are no contractual limitations on the frequency or cost of required upgrades. We will have the right to access all information and financial data recorded by the system for audit and sales verification purposes. The approximate initial cost to you for this equipment is \$18,000 which is included in the initial equipment cost estimate.

### **Confidential Operations Manual**

Attached as Exhibit D is a copy of the table of contents of our Confidential Operations Manual as of April 30, 2013, which indicates the number of pages devoted to each topic and the total number of pages in the Confidential Operations Manual.

CBAC will grant you online access to our Confidential Operations Manual which contains mandatory and suggested specifications, standards and procedures. This manual is confidential and remains our property. You will be obligated to keep this information confidential (Section 7.01). CBAC will modify the manual from time to time and furnish you with the modifications. You will be required to comply with the modified manual and with the provisions of the Franchise Agreement (Article 6). CBAC will permit you to review the Confidential Operations Manual after signing a franchise agreement.

**ITEM 12.**  
**TERRITORY**

**Franchise Agreement**


In conjunction with the establishment of your franchise you will be granted an exclusive geographic area, consisting of an identifiable geographic territory, which will be designated as your "Territory." You will operate from one location and must receive CBAC's permission before relocating. You will not have the right to operate your franchise outside of your Territory. CBAC will not operate or grant franchises for a similar or competitive business within your area. Except when advertising cooperatively with appropriate franchisees, neither you, nor CBAC can advertise or solicit customers within another franchisee's territory. You do not receive the right to acquire additional franchises within your area. There is no minimum sales quota that you must meet to retain the rights to your Territory, but if your franchise agreement is terminated, you will lose all rights to your Territory. You maintain the rights to your area even though the population increases. The approximate size of a territory will be similar to the area that is in a circle with an approximate 3 mile radius around the location. Your exact territory size will be set in Exhibit A to the Franchise Agreement you enter into with CBAC. The square footage within your franchise territory may vary significantly in size and shape depending on a number of different variables.


**CBAC reserves the right to decide on a case by case basis in its sole discretion whether to grant a franchisee the right to acquire, own and operate more than one franchise.**

CBAC reserves the right to establish company-owned CBA locations using the CBA trademark and business system at any location outside of your territory, in its sole discretion. CBAC has not established other franchises offering similar products or services under a different trade name, nor does it have any intent to do so at this time. However, CBAC does reserve the right to do so at its sole discretion.

**ITEM 13.**  
**TRADEMARKS**

CBAC grants you the right to operate a site under the name Christian Brothers Automotive - [location name to be inserted] and to use the trade names, trademarks, service marks, logos, trade dress, slogans, product names, and similar items developed by CBAC. By trademark, CBAC means trade names, trademarks, service marks, and logos used to identify your site, and the systems, programs, services and products offered by CBAC. CBAC has registered the following trademark (and filed all required affidavits) on the Principal Register of the United States Patent and Trademark Office:

<b>Proprietary Mark</b>	<b>Registration Number</b>	<b>Registration Date</b>
 CHRISTIAN BROTHERS AUTOMOTIVE	2995310	September 13, 2005

Proprietary Mark	Registration Number	Registration Date
	4,267,726	January 1, 2013
CHRISTIAN BROTHERS AUTOMOTIVE	4,281,956	January 29, 2013
Nice Difference. ®	4,271,293	January 8, 2013

CBAC has also registered its trademark with the State of Texas.

You must follow our rules when you use this mark and name, as well as other marks, names, trade dress and similar items developed by CBAC. You cannot use a name or mark as part of your corporate or business name, or with modifying words, designs or symbols, except those which CBAC licenses or permits you to use. You may not use CBAC's registered name in connection with the sale of any service or product except as is specifically authorized by CBAC in writing, nor can you use these in a manner not authorized in writing by CBAC. No agreements limit CBAC's right to use or license the use of CBAC's trademarks.

You must notify CBAC immediately when you learn about any actual or possible infringement of or challenge to your use of our trademark. CBAC will take the action we think is appropriate. Although CBAC is not required to defend you against a claim from your use of our mark, we may reasonably defend you against a claim against your authorized use of our trademark, or we may reimburse you for your liability and reasonable costs in connection with defending CBAC's trademark. To receive reimbursement you must have notified CBAC immediately when you learned of the infringement or challenge. In the event CBAC takes action to defend its trademark and/or to prosecute infringers, you will be obligated to cooperate fully (including participating in any legal proceeding) pursuant to the Franchise Agreement (see Section 5.07).

You must modify or discontinue use of a trademark if CBAC modifies or discontinues it. If this happens, the tangible costs of compliance will be an Approved Expense Item (as defined in Section 4.05 (c) of the Franchise Agreement), but such Approved Expense Item will be limited to the costs of changing signs. You must not directly or indirectly contest our right to: our trademarks, trade secrets or business techniques that are part of our business.

You must explicitly use and follow CBAC's Brand Manual.

CBAC is not aware of any unauthorized uses of its trademarks or trade name that could materially affect your use of CBAC's trademark.

You must immediately give up all rights to use CBAC's trademarks and trade names if your franchise is assigned, terminated, or not renewed for any reason.

**ITEM 14.**  
**PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

CBAC does not presently possess any patents or copyrights. However, CBAC anticipates copyrighting certain of its publications and materials in the future, including its Confidential Operations Manual and some of its internal forms.

You do not receive the right to use an item covered by a patent or copyright, but you can use the proprietary information contained in CBAC's Confidential Operations Manual. The Confidential Operations Manual is described in Item 11.

Although CBAC has not filed an application for a copyright registration for its Confidential Operations Manual, it claims a copyright with regard to the information contained therein, and the information is proprietary. Items 7, 8 and 11 of this Franchise Disclosure Document describe limitations on the use of the Confidential Operations Manual and other materials by you and your employees. You must also promptly tell us when you learn about any actual or threatened unauthorized use of the proprietary information. CBAC is not obligated to take any action, but CBAC will respond to this information as it deems appropriate. You are not allowed to disclose, to unauthorized third parties, any information or materials deemed or understood to be proprietary, including promotional materials, software, client lists, product or service information, financial performance information, or advertising expense information.

You may not divulge or use any confidential information concerning our methods or procedures during or after the term of the Franchise Agreement. Information made available to you may not be divulged to any person other than your employees or financial advisors who reasonably need access to such information for fulfilling their employment or contractual responsibilities. All employees or financial advisors to whom the information, or any part of it, is made available must be informed of this obligation of confidence.

Upon our request, you, your Service Manager and any other authorized party of yours who has access to any confidential information must sign a written agreement (on the standard form found in CBAC's Confidential Operations Manual) imposing an obligation of confidence regarding the Confidential Operations Manual or other confidential information (Section 7.01 of the Franchise Agreement). If the franchisee is a corporation, limited liability company or limited partnership, we may require your shareholders, members and limited partners to sign a similar written agreement.

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

CBAC requires that the "Principal Operator" or "You" personally supervise the franchised business. In addition, the business must also be supervised by your Service Manager. Your Service

Manager cannot have an interest in or business relationship with any of CBAC's competitors. The Service Manager may be required to sign a written agreement to maintain the confidentiality of the trade secrets and proprietary information of your franchise and of CBAC, and the covenant not to compete described in Item 17 and Section 16.

Your Service Manager will be responsible for assisting you in the day to day operation of your CBAC franchise, but you are obligated to personally supervise the ongoing conduct of the business, including the Service Manager, to the degree reasonably necessary: (i) to insure the fulfillment of your obligations as the franchisee; (ii) to be aware of, and supervise, the ongoing activities of your Service Manager and employees; and (iii) to immediately address, and satisfactorily resolve, any inquiries or complaints of the franchise's customers regarding franchise services or products. You cannot appoint a third party to fulfill your obligations as a franchisee unless you first obtain CBAC's prior written consent. CBAC has complete discretion as to whether or not it will approve such an appointment. If CBAC does approve your appointment, it will not relieve you of any of your obligations to CBAC. CBAC requires that you commit your full time during each business day to personally supervise the operation and management of the franchise. This will require your presence at the franchise location for a minimum of forty hours per week between the hours of 7:00 AM and 6:00 PM Monday through Friday of each week. In addition, upon opening, new franchisees will be required to supervise the franchise operation from 8:00 AM to 2:00 PM on Saturdays, for at least 6 months and until the franchise has satisfied requirements to be closed on Saturdays

In the event CBAC grants a franchisee a license to operate an additional franchise location, these provisions will be revised pursuant to the terms of the Multi Facility Agreement which may contain such additional terms as CBAC determines appropriate on a case by case basis.

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

CBAC requires you to offer and sell only those products and services that CBAC has approved.

You must offer all products and services that CBAC designates as required for all of CBAC's franchisees. These required goods and services are currently all goods and services necessary to perform repair and maintenance work on motor vehicles. Parts, supplies and equipment used in your CBAC business must be approved by CBAC (See Item 8).

CBAC has the right to add, delete and change the automotive services that you may or must offer, in our unrestricted discretion, and this may require you to purchase additional equipment. There are no limits on CBAC's right to do so except that the investment required of you (for such additional equipment, supplies, inventory) will not exceed \$40,000 per year.

**ITEM 17.**  
**THE FRANCHISE RELATIONSHIP**

**This table lists important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this Disclosure Document.**

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
a. Length of the franchise term	Section 3.01	The initial term is 15 years, subject to your compliance with all material obligations in the Franchise Agreement.
b. Renewal or extension of the term	Sections 3.02 to 3.10	Subject to the terms in these Sections, you have three 5-year renewal options.
c. Requirements for franchisee to renew or extend	Sections 3.02 to 3.10	These Sections explain qualifications for renewal and the renewal procedures. If you renew your franchise, you will be required to sign a franchise agreement that may have materially different terms than your original franchise agreement.
d. Termination by franchisee (See Note 1)	Section 14.01(e)	You may terminate the Franchise Agreement by giving CBAC six months prior written notice. You must pay all amounts and perform all obligations, including post-termination obligations, provided in the Franchise Agreement.
e. Termination by franchisor without cause	None	None.
f. Termination by franchisor with cause	Section 14.02	CBAC can terminate the Franchise Agreement if you breach your material obligations.
g. "Cause" defined – curable defaults	Section 14.01(a)	All non-monetary defaults must be cured within 15 days of receiving notice from CBAC.
	Section 14.02(h)	All past due monetary defaults must be cured within 5 days of receiving written notice from CBAC.
h. "Cause" defined – non-	Sections 14.01 and	Certain defaults such as bankruptcy, the

curable defaults	14.02	conducting of illegal activities or other violations of the law are significant breaches of your agreements that damage CBAC and result in immediate termination, and CBAC is not required to give you notice or an opportunity to cure.
i. Franchisee's obligations on termination/non-renewal of your franchise	Article 15	Assign all telephone numbers, email addresses, website URL's, etc. related to the franchise to CBAC; pay all amounts owed; complete de-identification; return CBAC's Confidential Operations Manual and other materials; comply with restrictive covenants; and cease use of all CBAC supplies, processes, facilities and procedures.
j. Assignment of contract by franchisor	Section 13.01	There is no restriction on CBAC's right to assign.
k. "Transfer" by franchisee - defined	Section 13.02	Includes transfer of contract or assets or change of ownership interest.
l. Franchisor approval of transfer by franchisee	Section 13.02	CBAC must approve all transfers but it will not unreasonably withhold its approval.
m. Conditions for franchisor approval of transfer	Section 13.02	New franchisee qualifies for franchise; application costs are paid; transfer fees are paid; training is completed by new franchisee; release signed by you; new franchisee signs all agreements required by CBAC.
n. Franchisor's right of first refusal to acquire franchisee's business	Sections 13.02 and 15.08	Section 15.08 sets out the terms of the right of first refusal.
o. Franchisor's option to purchase franchisee's business	Sections 13.02 and 15.08	CBAC reserves this option.
p. Death or disability of franchisee	Sections 13.02, 13.05 and 15.08	Your estate or representative will have to obtain CBAC's approval of a transfer or provide CBAC with the opportunity to purchase your franchise.
q. Non-competition covenants during the term of the franchise	Section 16.01	During the term of the franchise neither you nor any of your partners, principals, employees or contractors are allowed to be involved in other similar businesses.
r. Non-competition covenants after the franchise is	Sections 16.01	There is a covenant that you will not compete with CBAC for a period of three years from



terminated or expires		the termination date.
s. Modification of the agreement	Sections 6.02 and 18.02	CBAC cannot modify the Franchise Agreement without your consent, but CBAC can unilaterally change the Confidential Operations Manual.
t. Integration/merger clause	Article 18	All prior understandings and agreements between you and CBAC are merged and integrated into the Franchise Agreement.
u. Dispute resolution by arbitration or mediation	Article 24	All disputes must be arbitrated in Houston, Texas, under the rules of the American Arbitration Association. Mediation is not required but the franchisor and franchisee can agree to engage in the mediation process. Pursuant to the Dispute Resolution Program in Section 24 of the Franchise Agreement, either party may in certain specified circumstances seek injunctive relief from a court of competent jurisdiction.
v. Choice of forum	Section 24(c)	All arbitration and any litigation must be in Houston, Texas.
w. Choice of law	Section 20.01	Texas law applies.

**Notes:**

1. CBAC is not obligated by the Franchise Agreement to do so, but if the franchise is terminated, CBAC's current policy is to repurchase inventory that is in good condition at the lower of cost or fair market value. This policy is subject to change at any time.
2. See Exhibit I, the State Specific Addendum, for special state disclosures.

**ITEM 18.**  
**PUBLIC FIGURES**

CBAC and its regional advertising co-operative groups currently use Dave Ramsey, a Christian, personal financial coach to endorse and promote its service in most markets. Dave Ramsey does not own any interest in CBAC, and he is not an officer, director or employee of CBAC. He received less than \$15,000.00 in direct total talent compensation during 2013. His compensation consists of direct payments from regional marketing groups and any compensation he receives from radio stations that air the commercials.

**ITEM 19.**  
**FINANCIAL PERFORMANCE REPRESENTATIONS**

The Federal Trade Commission's (FTC) 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.

Prospective franchisees may choose to inquire about the financial performance of existing franchise outlets by contacting existing franchisees. Upon request by a prospective franchisee, CBAC will provide an empty spreadsheet for prospective franchisees to use to organize the information gathered from such inquiries, provided, we cannot assist you in any way with the completion of this spreadsheet. If you choose to use the spreadsheet, CBAC cautions you to seek professional assistance from an adviser such as an attorney and/or accountant to evaluate any financial information you gather. CBAC does not represent, warrant or guaranty that any actual or potential earnings are likely to be achieved by a prospective franchisee.

We do not furnish or authorize our salespersons to furnish to prospective franchisees in connection with the offer of franchises any oral or written information from which a specific level or range of actual or potential sales, costs, income or profits of a CBA store or franchise, may be ascertained, except as set forth in this Item 19.

We have compiled the following information from our audited financial statements, and from sales reports and financial statements provided by our franchisees. The figures related to our franchisees' results were not obtained from financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP), but are believed to be reliable, however the statements have not been verified beyond receipt of such statements. Written substantiation of the data used in preparing the below figures will be made available to you upon reasonable request. The CBA stores reported below offer substantially the same products and services to the public as you will as a franchisee operating a franchised unit.

The units included in the below averages have sold the reported amounts. Your individual results may differ. There is no assurance you will sell as much. You should conduct an independent investigation of the costs and expenses you will incur in operating your CBA store. Franchisees or former franchisees, if any, listed in this Disclosure Document, may be one source of this information.

The below tables and figures relate to the 111 CBA stores that were open and operating for the entire 2013 year ('included CBA stores'). This includes two CBA stores operated by us, and 109 CBA stores operated by franchisees. We have excluded 12 CBA stores that were opened after January 1, 2013, as the operating history of these units is limited.

**WARNING:**

**A. YOU ARE LIKELY TO ACHIEVE RESULTS THAT ARE DIFFERENT, POSSIBLY SIGNIFICANTLY AND ADVERSELY, FROM THE RESULTS SHOWN BELOW. MANY FACTORS, INCLUDING LOCATION, MANAGEMENT CAPABILITIES, LOCAL MARKET CONDITIONS, AND OTHER FACTORS, ARE UNIQUE TO EACH FRANCHISE AND MAY SIGNIFICANTLY IMPACT THE FINANCIAL PERFORMANCE OF YOUR FRANCHISE.**

**WE DO NOT MAKE ANY PROMISES OR REPRESENTATIONS OF ANY KIND THAT YOU WILL ACHIEVE ANY PARTICULAR RESULTS OR LEVEL OF SALES OR PROFITABILITY OR EVEN ACHIEVE BREAK-EVEN RESULTS IN ANY PARTICULAR YEAR OF OPERATION.**

**B. THE EXPENSES IDENTIFIED IN THIS STATEMENT MAY NOT BE THE ONLY EXPENSES THAT YOU WILL INCUR IN CONNECTION WITH THE OPERATION OF YOUR FRANCHISE. WE ENCOURAGE YOU TO CONSULT WITH YOUR OWN ACCOUNTING, BUSINESS, AND LEGAL ADVISORS TO ASSIST YOU TO IDENTIFY THE EXPENSES YOU LIKELY WILL INCUR IN CONNECTION WITH YOUR FRANCHISE, TO PREPARE YOUR BUDGETS, AND TO ASSESS THE LIKELY OR POTENTIAL FINANCIAL PERFORMANCE OF YOUR FRANCHISE. WE ALSO ENCOURAGE YOU TO CONTACT EXISTING FRANCHISE OPERATORS TO DISCUSS THE BUSINESS.**

**C. IN DEVELOPING YOUR BUDGET FOR YOUR FRANCHISE, YOU ARE CAUTIONED TO MAKE NECESSARY ALLOWANCE FOR CHANGES IN FINANCIAL RESULTS TO INCOME, EXPENSES, OR BOTH, THAT MAY RESULT FROM OPERATION OF YOUR FRANCHISE DURING PERIODS OF, OR IN GEOGRAPHIC AREAS SUFFERING FROM, ECONOMIC DOWNTURNS, INFLATION, UNEMPLOYMENT, OR OTHER NEGATIVE ECONOMIC INFLUENCES.**

**D. HISTORICAL COSTS DO NOT NECESSARILY CORRESPOND TO FUTURE COSTS BECAUSE OF FACTORS SUCH AS INFLATION, CHANGES IN MINIMUM WAGE LAWS, LOCATION, FINANCING, CONSTRUCTION COSTS, LEASE-RELATED COSTS, AND OTHER VARIABLES. FOR EXAMPLE, COSTS SUCH AS RENT, CAM CHARGES, TAXES, INTEREST, INSURANCE AND UTILITIES VARY FROM FRANCHISE TO FRANCHISE. ALL INFORMATION SHOULD BE EVALUATED IN LIGHT OF CURRENT MARKET CONDITIONS INCLUDING SUCH COST AND PRICE INFORMATION AS MAY THEN BE AVAILABLE.**

**E. THE FRANCHISE PERFORMANCE RESULTS INCLUDED IN THIS STATEMENT RELATE TO 2013 PERFORMANCE RESULTS FOR THE SPECIFIC FRANCHISES INCLUDED IN THIS STATEMENT AND SHOULD NOT BE CONSIDERED AS THE ACTUAL OR PROBABLE PERFORMANCE RESULTS THAT YOU SHOULD EXPECT TO ACHIEVE THROUGH THE OPERATION OF YOUR FRANCHISE. YOU MUST BEAR IN MIND THAT A NEWLY OPENED BUSINESS SHOULD NOT BE EXPECTED TO ACHIEVE SALES VOLUMES OR MAINTAIN EXPENSES SIMILAR TO THOSE OF AN ESTABLISHED BUSINESS. ACTUAL RESULTS VARY FROM STORE TO STORE. CBAC CANNOT ESTIMATE THE RESULTS OF ANY PARTICULAR FRANCHISE, NOR DOES CBAC REPRESENT THAT ANY FRANCHISEE CAN OR IS LIKELY TO ACHIEVE THE FINANCIAL RESULTS REFLECTED IN ANY INFORMATION SET FORTH OR DESCRIBED IN THIS ITEM 19.**

**Schedule 19.1**

Set forth in this Schedule 19.1 are the average Gross Sales (as defined below in Note 1) for the included CBA stores, based upon the below indicated sales ranges, for the year ending December 31, 2013. When reading the below table, the symbol “>=” means greater than or equal to and the symbol “<” means less than.

<b>Sales Ranges</b>	<b>Number of Stores Included</b>	<b>Average Gross Sales</b>	<b>Number of Stores Meeting or Exceeding Average Gross Sales</b>	<b>Percentage of Stores Meeting or Exceeding Average Gross Sales</b>
>=\$2.25M and <\$2.5M	2	\$2,314,110	1	50.0%
>=\$2M and <\$2.25M	1	\$2,048,696	1	100.0%
>=\$1.75M and <\$2M	3	\$1,855,708	1	33.3%
>=\$1.5M and <\$1.75M	9	\$1,603,675	3	33.3%
>=\$1.25M and <\$1.5M	24	\$1,350,303	13	54.2%
>=\$1M and <\$1.25M	36	\$1,110,380	15	41.7%
<\$1M	36	\$870,028	21	58.3%
<b>Total</b>	<b>111</b>	<b>\$1,174,586</b>	<b>55</b>	<b>49.5%</b>

### Schedule 19.2

Set forth in this Schedule 19.2 are the average Gross Sales (as defined below in Note 1) for the included CBA stores, based upon the below indicated regions, for the year ending December 31, 2013.

Region	Number of Included Stores	Average Gross Sales	Number of Stores Meeting or Exceeding Average Gross Sales	Percentage of Stores Meeting or Exceeding Average Gross Sales
AL/GA/FL	14	\$1,006,184	7	50%
Colorado	2	\$1,044,110	1	50%
Kansas/Missouri	8	\$955,975	4	50%
Michigan	1	\$1,519,158	1	100%
Oklahoma	6	\$1,047,824	2	33%
TN/MS/AR	13	\$1,099,812	7	54%
Texas	67	\$1,260,490	29	43%
<b>Total</b>	<b>111</b>	<b>\$1,174,586</b>	<b>55</b>	<b>49.5%</b>

### Schedule 19.3

Set forth in this Schedule 19.3 is a comparison table of 1 year old, 2 year old, 3 year old, 4 year old and 5+ year old included CBA stores (as defined below in Note 1) for the year ending December 31, 2013. The categories of figures are also defined below in Note 1.

	Low	High	Average	Number of Stores Greater than or equal to Average	Percentage of Stores Greater than or equal to Average
<b>Gross Sales</b>					
1 <sup>st</sup> year (16 stores)	\$490,712	\$1,518,454	\$970,090	7	44%
2 <sup>nd</sup> year (16 stores)	\$784,029	\$2,048,696	\$1,133,122	5	31%
3 <sup>rd</sup> year (13 stores)	\$842,335	\$1,653,637	\$1,114,604	7	54%
4 <sup>th</sup> year (13 stores)	\$781,959	\$1,956,457	\$1,082,456	6	46%
5 <sup>th</sup> year + (53 stores)	\$785,918	\$2,323,408	\$1,286,149	22	42%
<b>Cost of Goods Sold (COGS)</b>					
1 <sup>st</sup> year (16 stores)	\$234,715	\$659,500	\$426,856	7	44%
2 <sup>nd</sup> year (16 stores)	\$367,429	\$839,869	\$505,064	7	44%
3 <sup>rd</sup> year (13 stores)	\$405,243	\$753,479	\$512,922	6	46%
4 <sup>th</sup> year (13 stores)	\$354,966	\$910,782	\$493,209	6	46%
5 <sup>th</sup> year + (53 stores)	\$353,277	\$983,583	\$586,405	23	43%
<b>Gross Profit (GP)</b>					

1 <sup>st</sup> year (16 stores)	\$255,997	\$858,954	\$543,234	8	50%
2 <sup>nd</sup> year (16 stores)	\$384,336	\$1,208,827	\$628,058	5	31%
3 <sup>rd</sup> year (13 stores)	\$391,983	\$900,158	\$601,683	6	46%
4 <sup>th</sup> year (13 stores)	\$426,993	\$1,045,674	\$589,247	5	38%
5 <sup>th</sup> year + (53 stores)	\$432,641	\$1,370,434	\$699,744	21	40%
<b>General and Administrative Expenses (G&amp;A)</b>					
1 <sup>st</sup> year (16 stores)	\$310,263	\$535,253	\$451,080	10	31%
2 <sup>nd</sup> year (16 stores)	\$408,912	\$708,583	\$521,544	8	50%
3 <sup>rd</sup> year (13 stores)	\$449,884	\$639,146	\$514,594	16	36%
4 <sup>th</sup> year (13 stores)	\$434,446	\$586,947	\$491,441	6	46%
5 <sup>th</sup> year + (53 stores)	\$347,761	\$698,715	\$515,694	22	42%
<b>Net Operating Income (NOI)*</b>					
1 <sup>st</sup> year (16 stores)	-\$54,266	\$345,754	\$92,154	6	38%
2 <sup>nd</sup> year (16 stores)	-\$44,278	\$500,245	\$106,514	5	31%
3 <sup>rd</sup> year (13 stores)	-\$75,503	\$293,789	\$87,089	5	38%
4 <sup>th</sup> year (13 stores)	-\$82,951	\$458,728	\$97,806	5	38%
5 <sup>th</sup> year + (53 stores)	-\$27,305	\$698,088	\$184,050	22	42%

#### Schedule 19.4

Set forth in Schedule 19.4 is the CBAC Chart of Accounts (COA) which makes up the G&A expenses shown above in Schedule 19.3. This schedule displays a range of store level expense data from the 111 stores that were open before January 1, 2013 and includes a “low”, “high” and “average” expense amount of each account for the year ending December 31, 2013.

Account Description	Account Number	Low Expense Amount	High Expense Amount	Average Expense Amount	Number of Stores Equal to or Above Average	Percentage of Stores Equal to or Above Average
Small Tools and Equip	5080	\$0	\$7,078	\$1,415	43	39%
Advertising	6000	\$4,105	\$79,341	\$22,005	48	43%
Auto Lease	6010	\$0	\$105	\$1	2	2%
Auto & Truck Expense – Other	6020	\$0	\$15,295	\$1,059	28	25%
Shuttle - Car Wash	6021	\$0	\$724	\$151	45	41%
Shuttle – Fuel	6022	\$0	\$8,015	\$3,318	50	45%
Shuttle – Insurance	6023	\$0	\$6,383	\$1,035	47	42%
Shuttle- Int./Lease	6024	-\$766	\$3,556	\$457	48	43%
Shuttle - Maint/Rep.	6025	-\$137	\$1,950	\$283	44	40%
Shuttle- Other	6026	-\$1,217	\$2,442	\$262	39	35%
Bad Debt Expense	6030	-\$118	\$11,636	\$2,707	41	37%

Bank Fees	6040	-\$39	\$2,723	\$351	35	32%
Bank RI/RIF	6045	-\$1,400	\$4,406	\$237	32	29%
Donations	6060	-\$327	\$51,787	\$732	6	5%
Delivery Expense	6070	-\$56	\$991	\$91	31	28%
Dues & Subscriptions	6080	\$4,818	\$13,141	\$8,462	54	49%
Entertainment	6090	-\$136	\$5,316	\$739	42	38%
Gifts	6095	\$0	\$3,031	\$142	26	23%
Insurance - Workers Comp	6100	\$320	\$17,238	\$5,956	45	41%
Insurance – Health	6110	\$0	\$49,621	\$21,293	49	44%
Insurance - Garage Liab.	6120	\$3,319	\$13,182	\$6,583	47	42%
Insurance - Officers Life	6130	\$0	\$19,511	\$2,979	40	36%
Insurance - Empl. Other	6140	-\$393	\$6,571	\$439	30	27%
Interest Expense	6200	\$0	\$27,550	\$10,426	60	54%
Janitorial Expense	6210	\$0	\$4,526	\$937	43	39%
Laundry/Uniform	6220	\$1,045	\$8,188	\$4,241	48	43%
Lawn Expense	6230	-\$223	\$7,113	\$2,705	47	42%
Legal and Accounting	6240	\$5,300	\$24,000	\$7,176	29	26%
Licenses & Permits	6250	\$0	\$2,111	\$280	34	31%
Miscellaneous	6260	-\$140	\$6,866	\$146	17	15%
Meals In	6270	\$111	\$8,877	\$2,153	53	48%
Office Supplies	6280	\$1,235	\$14,487	\$3,968	46	41%
Computer Expense	6300	\$0	\$3,334	\$557	41	37%
Penalties	6320	-\$10	\$2,108	\$143	28	25%
Printing & Postage	6340	\$79	\$4,295	\$1,063	43	39%
Rent Expense	6360	\$0	\$203,220	\$143,404	69	62%
Rental/Lease	6370	\$0	\$14,965	\$539	20	18%
Repairs & Maintenance	6380	\$148	\$12,649	\$3,963	46	41%
Retirement Expense	6390	\$0	\$13,847	\$691	11	10%
Salary – Owner	6410	\$13,110	\$87,216	\$59,831	103	93%
Salary – Office	6420	\$43,435	\$202,327	\$95,871	49	44%
Salary - Office Sick Pay	6425	-\$730	\$7,767	\$1,165	37	33%
Salary - Office Vac Pay	6426	\$0	\$968	\$16	3	3%
Salary – Bonus	6430	-\$200	\$85,400	\$11,571	37	33%
Security Expense	6500	\$0	\$3,948	\$469	23	21%

Service-Consult/Contract	6510	-\$1,365	\$16,984	\$238	13	12%
Taxes – FICA	6610	\$18,655	\$54,731	\$31,218	50	45%
Taxes - FUTA/SUTA	6620	-\$1,020	\$34	-\$9	110	99%
Taxes - Franchise Tax	6640	-\$5,201	\$9,244	\$1,389	40	36%
Taxes - Property Tax	6650	\$2,711	\$66,656	\$19,846	49	44%
Taxes - Other Tax	6660	-\$62	\$13,556	\$440	10	9%
Telephone Expense – Cellphone	6700	\$2,222	\$9,811	\$4,751	49	44%
Telephone Expense – Shop	6710	\$0	\$3,900	\$1,563	30	27%
Travel Expense	6760	\$0	\$8,388	\$2,429	51	46%
Training Expense	6770	-\$155	\$3,281	\$487	41	37%
Trash Expense	6780	\$0	\$2,696	\$1,244	43	39%
Utilities	6790	\$4,963	\$15,792	\$8,844	47	42%
<b>Totals</b>				\$504,452		

**Note:**

1. Schedule 19.2 provides average results for the included CBA stores by age of the business in 5 distinct categories: Gross Sales, Cost of Goods Sold (COGS), Gross Profit (GP), General & Administrative Expenses (G&A) and Net Operating Income (NOI) for the year ending December 31, 2013. Gross Sales is defined as all gross revenue derived from labor, parts and sub-contracted labor/parts and supplies. Cost of Goods Sold (COGS) is defined as all technician labor, parts costs and all sub-contracted labor/parts associated with Gross Sales. Gross Profit (GP) is defined as profit after COGS are paid, but before G&A Expenses are paid. General and Administrative Expenses (G&A) is defined as general overhead expenses for the business including, but not limited to: rent, utilities, office salaries, taxes, etc. NOI is defined as income (earnings) before depreciation, amortization, interest, royalty expenses and expenses for franchisee bonuses (profit splits). 1<sup>st</sup> Year Stores are defined as opened between January 1, 2012 and December 31, 2012. 2<sup>nd</sup> Year Stores are defined as opened between January 1, 2011 and December 31, 2011. 3<sup>rd</sup> Year Stores are defined as opened between January 1, 2010 and December 31, 2010 and 4<sup>th</sup> Year Stores are defined as opened between January 1, 2009 and December 31, 2009. 5<sup>th</sup> Year + Stores are defined as opened between August 1, 1982 and December 31, 2008. 9 of the 111 stores had a negative NOI in 2013 including 1 in 1<sup>st</sup> Year Stores, 2 in 2<sup>nd</sup> Year Stores, 2 in 3<sup>rd</sup> Year Stores, 2 in 4<sup>th</sup> Year Stores and 2 in 5 Year + Stores.



**ITEM 20.**

**OUTLETS AND FRANCHISEE INFORMATION**

**Table 20.1  
System-wide Outlet Summary  
For Calendar Years 2011 to 2013**

<b>Column 1 Outlet Type</b>	<b>Column 2 Year</b>	<b>Column 3 Outlets at the Start of the Year</b>	<b>Column 4 Outlets at the End of the Period</b>	<b>Column 5 Net Change</b>
Franchised				
	2011	72	90	18
	2012	90	108	18
	2013	<b>108</b>	<b>121</b>	<b>13</b>
Company- Owned				
	2011	6	4	-2
	2012	4	3	-1
	2013	<b>3</b>	<b>2</b>	<b>-1</b>
Total Outlets				
	2011	78	94	16
	2012	94	111	17
	2013	<b>111</b>	<b>123</b>	<b>12</b>

**Table 20.2  
Transfers of Outlets from Franchisee to New Owners (other than the Franchisor) For  
Calendar Years 2011 to 2013**

<b>Column 1 State</b>	<b>Column 2 Year</b>	<b>Column 3 Number of Transfers</b>
Kansas	2011	0
Kansas	2012	0
Kansas	2013	1
Texas	2011	0
Texas	2012	2
Texas	2013	4
Total	2011	0
	2012	2
	2013	5

**Table 20.3**  
**Status of Franchised Outlets**  
**For Calendar Years 2011 to 2013**

<b>Column (Col.) 1 State</b>	<b>Col. 2 Year</b>	<b>Col. 3 Outlets at Start of Year</b>	<b>Col. 4 Outlets Opened</b>	<b>Col. 5 Terminations</b>	<b>Col. 6 Non-Renewals</b>	<b>Col. 7 Re-acquired by Franchisor</b>	<b>Col. 8 Ceased Operations: Other Reasons</b>	<b>Col. 9 Outlets at End of the Year</b>
AL	2011	1	1	0	0	0	0	2
AL	2012	2	1	0	0	0	0	3
AL	2013	3	0	0	0	0	0	3
AR	2011	3	0	0	0	0	0	3
AR	2012	3	0	0	0	0	0	3
AR	2013	3	0	0	0	0	0	3
CO	2011	0	1	0	0	0	0	1
CO	2012	1	1	0	0	0	0	2
CO	2013	2	1	0	0	0	0	3
FL	2012	0	3	0	0	0	0	3
FL	2013	3	1	0	0	0	0	4
GA	2011	4	3 <sup>1</sup>	0	0	0	0	7
GA	2012	7	1	0	0	0	0	8
GA	2013	8	1	0	0	0	0	9
KS	2011	2	0	0	0	0	0	2
KS	2012	2	0	0	0	0	0	2
KS	2013	2	0	0	0	0	0	2
IN	2013	0	2	0	0	0	0	2
MI	2011	0	1	0	0	0	0	1
MI	2012	1	0	0	0	0	0	1
MI	2013	1	0	0	0	0	0	1
MN	2013	0	1	0	0	0	0	1
MO	2011	3	2	0	0	0	0	5
MO	2012	5	0	0	0	0	0	5
MO	2013	5	0	0	0	0	0	5
MS	2011	1	0	0	0	0	0	1
MS	2012	1	0	0	0	0	0	1
MS	2013	1	0	0	0	0	0	1
NE	2013	0	1	0	0	0	0	1
NC	2013	0	1	0	0	0	0	1

<sup>1</sup> One outlet was reacquired by Franchisor in 2009 and sold to a franchisee in 2011.

OK	2011	4	0	0	0	0	0	4
OK	2012	4	2	0	0	0	0	6
OK	2013	6	0	0	0	0	0	6
TN	2011	8	1	0	0	0	0	9
TN	2012	9	0	0	0	0	0	9
TN	2013	9	0	0	0	0	0	9
TX	2011	46	9 <sup>2</sup>	0	0	0	0	55
TX	2012	55	11 <sup>3</sup>	0	0	1	0	65
TX	2013	65	5 <sup>4</sup>	0	0	0	0	70
Totals	2011	72	16	0	0	0	0	90
	2012	90	19	0	0	1	0	108
	2013	108	12	0	0	0	0	121

**Table 20.4  
Status of Company-Owned Outlets  
For Calendar Years 2011 to 2013**

<b>Column 1 State</b>	<b>Column 2 Year</b>	<b>Column 3 Outlets at Start of Year</b>	<b>Column 4 Outlets Opened</b>	<b>Column 5 Outlets Reacquired From Franchisee</b>	<b>Column 6 Outlets Closed</b>	<b>Column 7 Outlets Sold to Franchisee</b>	<b>Column 8 Outlets at End of the Year</b>
GA	2011	1	0	0	0	1	0
GA	2012	0	0	0	0	0	0
GA	2013	0	0	0	0	0	0
MO	2011	1	0	0	0	0	1
MO	2012	1	0	0	0	0	1
MO	2013	1	0	0	0	0	1
TX	2011	4	0	0	0	1	3
TX	2012	3	0	1	0	2	2
TX	2013	2	0	0	0	1	1
Totals	2011	6	0	0	0	2	4
	2012	4	0	1	0	2	3
	2013	3	0	0	0	1	2

<sup>2</sup> One outlet was reacquired by Franchisor in 2008 and sold to a franchisee in 2011.

<sup>3</sup> Two outlets were reacquired by Franchisor in 2008 and sold to a franchisee in 2012.

<sup>4</sup> One outlet was reacquired by Franchisor in 2012 and sold to a franchisee in 2013.

**Table 20.5**  
**Projected Openings As of December 31, 2013**

<b>Column 1 State</b>	<b>Column 2 Franchise Committed But Outlet Not Opened</b>	<b>Column 3 Projected New Franchised Outlet in the Next Fiscal Year</b>	<b>Column 4 Projected New Company- Owned Outlet in the Next Fiscal Year</b>
AZ	2	0	0
AR	0	0	0
CO	4	2	0
FL	2	1	0
GA	1	0	0
IN	0	0	0
KS	1	0	0
KY	1	0	0
MI	1	1	0
MN	0	0	0
MO	0	0	0
MT	1	0	0
NC	6	3	0
NE	0	0	0
OK	2	1	0
OH	1	0	0
TN	1	1	0
TX	3	1	0
<b>Total</b>	<b>26</b>	<b>10</b>	<b>0</b>

Exhibit D lists the name of all current franchisees and the addresses and telephone numbers of their outlets as of December 31, 2013.

Exhibit G lists the last known contact information of every franchisee who had an outlet terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during 2013 or who has not communicated with us within ten weeks of the date of this Disclosure Document. If you are granted a franchise license, your contact information may be disclosed to other potential franchisees when you leave the franchise system.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with CBAC. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

Currently, there are no trademark-specific franchisee organizations associated with us.

As of December 31, 2013, CBAC had 123 franchises that have opened for business. All of these franchises are located in the states of Alabama, Arkansas, Colorado, Florida, Georgia, Kansas, Indiana, Michigan, Minnesota, Mississippi, Missouri, Oklahoma, Tennessee and Texas. The rights to approximately twenty-eight franchises were granted and four of those twenty-eight have become operational in 2014. If you desire to contact any of the franchises that have been granted but are not yet operational, please call CBAC and we will either have the franchisees call you or obtain their permission to provide you with their telephone number. A list of operational franchises, the names of the franchisee and the address and telephone number of each franchise is attached hereto as Exhibit D.

CBAC estimates that during the one year period after the close of CBAC's most recent fiscal year, fifteen (15) to eighteen (18) new franchises will be granted. This is only an estimate of the number of CBAC franchises that will be granted during that period, and it is not to be construed as a guarantee nor an affirmative representation that any specific number of CBAC franchises will, in fact, be sold during that period of time.

#### **ITEM 21.**

#### **FINANCIAL STATEMENTS**

Attached to this Disclosure Document as Exhibit A are the audited financial statements for (i) the period from January 1, 2011 through December 31, 2011, (ii) the period from January 1, 2012 through December 31, 2012 and (iii) the period from January 1, 2013 through December 31, 2013, including tabular comparisons of the previous years. Our fiscal year end is December 31<sup>st</sup>.

#### **ITEM 22.**

#### **CONTRACTS**

Attached as Exhibit B is our current form of Franchise Agreement.

Attached as Exhibit D to the Franchise Agreement is our current form of Commercial Sub-Lease Agreement.

Attached as Exhibit F is our current form of Nonuse and Nondisclosure Agreement.

Attached as Exhibit H is our current form of Assignment and Assumption Agreement.

Attached as Exhibit K is our current form of Receipt and Acknowledgement Agreement.

#### **ITEM 23.**

#### **RECEIPTS**

You will find copies of a detachable receipt in Exhibits K-1 and K-2 at the very end of this Disclosure Document.

**EXHIBIT A**  
**FINANCIAL STATEMENTS OF CBAC**

Attached as Exhibit A are the audited Financial Statements of CBAC as of December 31, 2013, 2012, and 2011. (from page A - 1 to A - 69). Also attached as Exhibit A are the unaudited Financial Statements of CBAC from January 1, 2014 through April 30, 2014.

**Christian Brothers Automotive Corporation**  
Consolidated Financial Statements and Supplementary Information  
For the Years Ended December 31, 2013 and 2012

## CONTENTS

	Page
Independent Auditors' Report.....	1
Consolidated Balance Sheets .....	3
Consolidated Statements of Income.....	4
Consolidated Statements of Changes in Shareholders' Equity .....	5
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements.....	8





## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Christian Brothers Automotive Corporation  
Houston, Texas

We have audited the accompanying consolidated financial statements of Christian Brothers Automotive Corporation (a Texas subchapter S Corporation), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors of  
Christian Brothers Automotive Corporation  
Re: Independent Auditors' Report

### **Opinion**

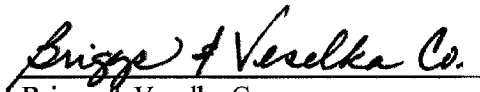
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Christian Brothers Automotive Corporation as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in *Note 3* to the financial statements, the Company had gross gains realized on sale-leaseback transactions of \$5,981,580 and \$11,122,851 for 2013 and 2012, respectively, that are offset with expenses paid to noncontrolling interests of \$5,076,779 and \$9,299,901 at December 31, 2013 and 2012, respectively.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information in Schedule I and Schedule II, as of and for the year ended December 31, 2013, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

  
Briggs & Veselka Co.  
Houston, Texas

April 15, 2014

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,277,816	\$ 1,792,013
Accounts receivable	865,932	1,308,686
Prepaid expenses and other assets	482,095	423,575
Current portion of notes receivable	<u>1,397,867</u>	<u>696,800</u>
Total current assets	6,023,710	4,221,074
Leased properties, net	42,618,482	33,997,595
Property and equipment, net	326,089	698,780
Franchise fees, net	6,036	13,970
Loan fees, net	164,330	173,839
Goodwill	906,019	1,037,447
Notes receivable, net of current portion	178,574	250,603
Deferred rent receivable	7,487,870	6,421,490
Deposits and other assets	<u>22,108</u>	<u>22,203</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 57,733,218</u></b>	<b><u>\$ 46,837,001</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 1,367,512	\$ 1,002,320
Accrued expenses	315,176	391,103
State taxes payable	219,043	157,783
Distributions payable	-	92,319
Unearned revenues	2,462,071	2,260,190
Current portion of lines of credit	828,773	75,201
Current portion of long-term debt	2,741,781	1,588,663
Other current liabilities	<u>152,515</u>	<u>323,105</u>
Total current liabilities	8,086,871	5,890,684
Deferred gain on real estate	2,089,776	807,323
Deferred rent payable	7,694,436	6,827,252
Deferred federal income tax	231,727	231,727
Lines of credit, net of current portion	3,332,815	1,551,987
Long-term debt, net of current portion	<u>32,137,281</u>	<u>28,027,928</u>
Total liabilities	53,572,906	43,336,901
Shareholders' equity		
Common stock; \$1 par value; 1,000,000 shares authorized; 12,000 shares issued; 11,695 and 11,550 shares outstanding in 2013 and 2012, respectively	12,000	12,000
Additional paid-in capital	764,580	764,580
Treasury stock; 305 and 450 shares at cost for 2013 and 2012, respectively	(385,505)	(570,527)
Retained earnings	4,144,497	3,571,772
Noncontrolling interests	<u>(375,260)</u>	<u>(277,725)</u>
Total shareholders' equity	<u>4,160,312</u>	<u>3,500,100</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 57,733,218</u></b>	<b><u>\$ 46,837,001</u></b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Revenues	\$ 27,144,207	\$ 24,834,354
Cost of revenues	<u>13,573,846</u>	<u>12,440,598</u>
Gross profit	13,570,361	12,393,756
Selling, general and administrative expenses	<u>10,770,037</u>	<u>10,453,206</u>
Net income from operations	2,800,324	1,940,550
Other income (expense)		
Gains on sale of leased properties ( <i>see Note 3</i> )	5,981,580	11,122,851
Expenses paid to noncontrolling interests ( <i>see Note 3</i> )	(5,076,779)	(9,299,901)
Interest income	17,117	65,348
Interest expense	(1,739,806)	(2,067,360)
Net loss on sale of subsidiaries	(55,764)	(132,603)
Net miscellaneous expense	<u>(57,733)</u>	<u>(59,809)</u>
Total other expense, net	<u>(931,385)</u>	<u>(371,474)</u>
Net income before state income taxes	1,868,939	1,569,076
Provision for state income taxes	<u>326,223</u>	<u>181,557</u>
Net income	1,542,716	1,387,519
Net (income) loss attributable to noncontrolling interests	<u>97,535</u>	<u>(180,134)</u>
NET INCOME ATTRIBUTABLE TO CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION	<u>\$ 1,640,251</u>	<u>\$ 1,207,385</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE, DECEMBER 31, 2011	12,000	\$ 12,000	\$ 764,580	(1,129)	\$ (1,432,000)	\$ 3,525,860	\$ (471,805)	\$ 2,398,635
Net income	-	-	-	-	-	1,207,385	180,134	1,387,519
Stock grant compensation	-	-	-	679	861,473	(661,473)	-	200,000
Capital contributions	-	-	-	-	-	-	13,946	13,946
Distributions	-	-	-	-	-	(500,000)	-	(500,000)
BALANCE, DECEMBER 31, 2012	12,000	12,000	764,580	(450)	(570,527)	3,571,772	(277,725)	3,500,100
Net income (loss)	-	-	-	-	-	1,640,251	(97,535)	1,542,716
Stock grant compensation	-	-	-	145	185,022	(126,027)	-	58,995
Distributions	-	-	-	-	-	(941,499)	-	(941,499)
BALANCE, DECEMBER 31, 2013	12,000	\$ 12,000	\$ 764,580	(305)	\$ (385,505)	\$ 4,144,497	\$ (375,260)	\$ 4,160,312

The accompanying notes are an integral part of these consolidated financial statements.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Net income	\$ 1,542,716	\$ 1,387,519
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	746,617	737,782
Bad debt expense	425,658	656,899
Net (gains) losses on sale of leased properties	528,239	(1,924,716)
Net loss on sale of property and equipment	63,982	-
Net loss on sales of subsidiaries	55,764	132,603
Amortization of loan fees	67,696	109,485
Amortization of franchise fees	7,934	7,957
Stock grant compensation	58,995	200,000
Changes in operating assets and liabilities:		
Accounts receivable	9,790	(661,817)
Prepaid expenses and other assets	(66,688)	79,716
Deferred rent receivable	(1,066,380)	(1,844,881)
Accounts payable	586,303	27,999
Accrued expenses	(65,993)	124,310
State taxes payable	68,885	56,783
Distributions payable	(92,319)	(135,188)
Unearned revenues	201,881	(161,162)
Due to shareholder	-	(472,702)
Other current liabilities	(137,827)	(63,874)
Deferred rent payable	867,184	2,200,711
Net cash from operating activities	<u>3,802,437</u>	<u>457,424</u>
Cash flows from investing activities		
Proceeds from notes receivable	941,922	866,289
Issuance of notes receivable	(1,635,960)	(571,185)
Purchase of property and equipment	(159,242)	(282,822)
Proceeds from sale of leased properties	17,421,256	31,185,955
Purchase of leased properties	(25,693,479)	(18,120,318)
Net cash reassigned on sale of CB Lazar, LLC (Mission Bend)	(58,316)	-
Net cash reassigned on sale of LLTGC, LLC (Copperfield)	-	(16,718)
Net cash reassigned on sale of EC Richardson Enterprises, LLC (Friendswood)	-	(54,878)
Net cash reassigned in acquisition of CB Lazar, LLC (Mission Bend)	-	9,400
Net cash from investing activities	<u>(9,183,819)</u>	<u>13,015,723</u>
Cash flows from financing activities		
Borrowings on long-term debt, net of loan fees	24,518,641	13,966,669
Payments on long-term debt	(17,174,874)	(28,685,855)
Proceeds from lines of credit	3,565,800	1,080,334
Payments on lines of credit	(3,100,883)	(254,260)
Payments of distributions	(941,499)	(500,000)
Capital contributions	-	13,946
Net cash from financing activities	<u>6,867,185</u>	<u>(14,379,166)</u>
Net change in cash and cash equivalents	1,485,803	(906,019)
Cash and cash equivalents, beginning of year	<u>1,792,013</u>	<u>2,698,032</u>
Cash and cash equivalents, end of year	<u>\$ 3,277,816</u>	<u>\$ 1,792,013</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 1,832,224</u>	<u>\$ 2,128,701</u>
Noncash investing and financing activities:		
Sale of CB Lazar, LLC (Mission Bend)		
Accounts receivable	\$ (7,306)	\$ -
Prepays and other assets	(8,263)	-
Note receivable	(65,000)	-
Property and equipment, net	73,024	-
Franchise fees, net	-	-
Goodwill	(131,428)	-
Accounts payable	21,203	-
Accrued expenses	17,559	-
Long-term debt	70,000	-
Other Liabilities	32,763	-
Loss on sale of subsidiary	<u>55,764</u>	<u>-</u>
Net cash reassigned	<u>\$ 58,316</u>	<u>\$ -</u>
Sale of LLTGC, LLC (Copperfield):		
Accounts receivable	\$ -	\$ (7,485)
Prepays and other assets	-	(7,798)
Property and equipment, net	-	(32,700)
Franchise fees, net	-	(47,718)
Goodwill	-	(141,718)
Accounts payable	-	62,036
Accrued expenses	-	12,368
Long-term debt	-	24,906
Loss on sale of subsidiary	<u>-</u>	<u>154,827</u>
Net cash reassigned	<u>\$ -</u>	<u>\$ 16,718</u>
Sale of EC Richardson Enterprises, LLC (Friendswood):		
Accounts receivable	\$ -	\$ (6,629)
Prepays and other assets	-	(6,215)
Property and equipment, net	-	(49,623)
Franchise fees, net	-	(79,717)
Goodwill	-	(49,309)
Accounts payable	-	38,468
Accrued expenses	-	39,629
Long-term debt	-	190,498
Gain on sale of subsidiary	<u>-</u>	<u>(22,224)</u>
Net cash reassigned	<u>\$ -</u>	<u>\$ 54,878</u>
Acquisition of CB Lazar, LLC (Mission Bend)		
Property and equipment, net	\$ -	\$ 120,245
Goodwill	-	131,428
Accounts payable	-	(927)
Short-term debt	-	(126,000)
Long-term debt	<u>-</u>	<u>(134,146)</u>
Net cash reassigned	<u>\$ -</u>	<u>\$ (9,400)</u>
Treasury stock released in stock grant compensation	<u>\$ 58,995</u>	<u>\$ 200,000</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

---

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

Christian Brothers Automotive Corporation (CBAC), a Texas S-corporation, is a national franchisor of automobile repair establishments located throughout Texas and the central and southeastern regions of the United States. The Company was formed in August 1982 and had 121 and 108 independent franchises in operation at December 31, 2013 and 2012, respectively. In addition to franchising operations, the Company engages in the business of investing in, owning, and selling the real estate and facilities from which its franchise locations operate. These real estate sales are typically made to third-parties, some of which are under sale-leaseback agreements. Service revenue is generated from the Company's subsidiaries and consists of revenue on parts and labor.

**Basis of Consolidation** – In accordance with accounting principles generally accepted in the United States of America (GAAP), CBAC consolidates all wholly-owned subsidiaries and variable interest entities (VIEs), for which CBAC has determined to be the primary beneficiary (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated upon consolidation.

The accounts of the following wholly-owned subsidiaries are consolidated in the accompanying consolidated financial statements: CBACF, Inc. (Grand Parkway) and CBA O'Fallon, LLC (O'Fallon). Effective March 31, 2013, the Company sold CB Lazar, LLC (Mission Bend) to a third-party. The subsidiaries were originally formed as independent franchises of CBAC, but were eventually acquired by the Company. Management's intent is to locate qualified buyers to operate the subsidiaries for trial periods and eventually sell the subsidiaries to them.

In June 2009, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting and disclosure requirements for VIEs. This amendment changed how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether the reporting entity is required to consolidate another entity is based on, among other things, the purpose and design of the other entity and the reporting Company's ability to direct the activities of the other entity that most significantly impact its economic performance.

In accordance with GAAP, the accounts of the following VIEs are consolidated in the accompanying consolidated financial statements: CBH Properties Investments, LLC; Christian Brothers Southaven, LP (Southaven); CBH Properties Arnold, LLC (Arnold); CBH Properties Westhmr, LP (Westheimer); CBH Properties W&P, LLC (Woodman); CBH Properties Acworth, LLC (Acworth); CBH Properties Tulsa Time, LLC (Meadowbrook); CBH Properties Spring I, LLC (Spring I); CBH Properties Westgreen, LLC (Westgreen); CBH Properties Owasso, LLC (Owasso); CBH Properties Fairfield, LLC (Fairfield); CBH Properties Tampa II, LLC (Tampa II); CBH Properties Allen, LLC (Allen); CBH Properties Concord, LLC (Concord); CBH Properties Lakeway, LLC (Lakeway); CBH Properties Andover, LLC (Andover); CBH Properties Fishers, LLC (Fishers); CBH Properties Corpus Christi, LLC (Corpus Christi); CBH Properties Castle Rock, LLC (Castle Rock); CBH Properties Highlands Ranch, LLC (Highlands); BCH Properties Mooresville, LLC (Mooresville); CBH Properties Norman, LLC (Norman); CBH Properties Omaha I, LLC (Omaha); CBH Properties Sandy Springs, LLC (Sandy Springs); CBH Properties Springfield, LLC (Springfield); CBH Properties Carmel, LLC (Carmel); CBH Properties Tega Cay, LLC (Tega Cay); CBH Properties Round Rock, LLC (Round Rock).

**Limited Liability Entities** – Certain subsidiaries of the Company are structured as limited liability companies or partnerships in various states throughout the southeastern United States. Members of the limited liability companies are not liable for any debt, obligations, or other liability of the Company unless they have expressly guaranteed certain debt. All limited liability entities have one class of units or equal limited partnership rights, except for the following limited liability companies: Woodman, Meadowbrook, Spring I, Westgreen, Owasso, Fairfield, Allen, Lakeway, Corpus Christi, Norman, Omaha, Springfield and Round Rock. These entities have Class A and Class B units. Class A units have preferential rights for liquidating the entity or capital gain proceeds. Operating cash flows are distributed to Class B units prior to Class A units. As of December 31, 2013, there were no Class A units issued in any of the entities.



**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

---

**Cash and Cash Equivalents** – The Company considers all short-term investments with an original maturity of three months or less to be cash and cash equivalents.

**Revenue Recognition** – Franchise fees are recognized when a franchise location opens to the general public. Franchise fees are collected in installments; the first installment is collected at the signing of the franchise agreement and the remainder is collected when construction commences. Since franchise fees are received prior to opening, they are deferred and presented as unearned revenues on the consolidated balance sheets.

Rent and accounting revenues are recognized as they are earned. For lease agreements with escalating payments, the Company records rental revenue on a straight-line basis over the term of the lease. Deferred rent receivable represents the rent recorded on a straight-line basis in excess of the amounts received in accordance with the lease agreement. Rental payments received in advance are presented as unearned revenue on the consolidated balance sheets.

Royalty fees are recognized as earned. The fees are calculated based on an agreed upon percentage (currently 10% - 50%) of each franchisee's net cash flow.

Service revenue is recognized when service work is completed.

**Accounts Receivable and Allowance for Doubtful Accounts** – Accounts receivable consists of amounts due from franchisees for rental, accounting, and royalty revenues. Accounts receivable are estimated at their net realizable value. Management periodically reviews all accounts receivable to determine if any are considered uncollectible based upon the age of the receivable and the creditworthiness of the parties involved. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. As of December 31, 2013 and 2012, there was no allowance, as all accounts receivable were deemed collectable.

**Leased Properties** – Properties leased to franchisees are presented at cost. The cost of ordinary maintenance and repairs is charged to operations, while renewals and replacements are capitalized. Depreciation is computed at rates sufficient to amortize the cost of the assets over their estimated useful lives using the straight-line method. The estimated useful life for building and improvements depreciation is 38 years. Total depreciation expense for 2013 and 2012 was \$405,550 and \$523,185, respectively.

**Property and Equipment** – Property and equipment are recorded at cost. Depreciation is computed at rates considered sufficient to amortize the costs of the assets over their estimated useful lives using the straight-line method. Depreciation and amortization are based on the following estimated useful lives:

<u>Assets</u>	<u>Life</u>
Office equipment	3 - 5 years
Furniture and fixtures	5 years
Leasehold improvements	6 - 10 years
Vehicles	5 years

Total depreciation expense for 2013 and 2012 was \$341,067 and \$214,597, respectively.

**Franchise Fees** – Franchise fees represent fees paid by franchisees that are amortized over the initial term of the franchise agreement, usually 15 years. In 2012 the Company reacquired the franchise it had previously granted to the franchisee upon the acquisition of the independent franchises, which is a reacquired right. Reacquired rights are identifiable intangible assets that are recognized by the acquirer separately from goodwill in a business combination. The franchise fee is amortized over the remaining contractual period of the franchise agreement.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

---

**Loan Fees** – Costs associated with obtaining financing are capitalized and amortized to interest expense over the term of the loan using the straight-line method which approximates the effective interest method.

**Impairment of Long-Lived Assets** – The Company reviews the carrying value of long-lived assets to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others. If such factors indicate a potential impairment, the Company would assess the recoverability of an asset by determining if the carrying amount of the asset exceeds its estimated undiscounted net cash flow, excluding interest. Any impairment would be measured as the difference between the asset's carrying amount and its estimated fair value. There were no impairments recorded for 2013 and 2012.

**Goodwill** – Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of the net assets acquired. Effective January 1, 2013, the Company had the ability to adopt Accounting Standards Update 2014-2, *Accounting for Goodwill, a consensus of the Private Company Council*, which provides accounting alternative guidance that permits the amortization of goodwill and eliminates the requirement to test goodwill for impairment annually. If a triggering event occurs, this alternative will simplify impairment testing by (1) allowing entities to perform impairment test at the entity level rather than the reporting-unit level and (2) requiring less extensive analysis to measure impairment. The Company chose not to early adopt Accounting Standards Update 2014-2 and continues to review goodwill for impairment on an annual basis. The Company management determined goodwill was not impaired at December 31, 2013.

**Deferred Gain on Real Estate** – The gains on the sales of certain properties which are subsequently leased back to the Company are deferred and amortized using the straight-line method over the life of the lease.

**Deferred Rent Payable** – The Company records rent expense on a straight-line basis over the lease term. Deferred rent payable represents the rent recorded on a straight-line basis in excess of the amounts paid in accordance with the lease agreement.

**Income Taxes** – Prior to January 1, 2007, CBAC had operated as a C corporation. Effective January 1, 2007, the shareholders of the Company elected to be taxed under subchapter S of the Internal Revenue Code. After the S corporation election, federal income taxes are the responsibility of the Company's shareholders. As of the effective date of the election, the Company was responsible for federal built-in gains taxes to the extent applicable. All assets held at election are subject to taxation on any cumulative appreciation, as of the date of election, if sold or transferred within 10 years of S corporation election. For each tax period, taxable gains are restricted by the greater of the amount of the taxable gains or net income and any amount restricted is deferred to subsequent tax periods. Assets held through January 1, 2017 would no longer be subject to corporate taxation and any deferred tax gains held as of this date would be extinguished. Provisions for income taxes and deferred taxes related to federal built-in gains taxes have been recorded in the accompanying financial statements. The deferred taxes represent the future tax return consequences of deferred tax gains.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

---

CBAC and the subsidiaries structured as limited liability entities are treated as partnerships for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for these entities other than the built-in gains tax noted above for CBAC. Partners and members of the limited liability entities are taxed individually based on their share of the Company's stock. The Company's net income or loss is allocated among the partners and members in accordance with the partnership or operating agreement.

Uncertain tax positions are recognized in the financial statements only if that position is more-likely-than-not of being sustained upon examination by taxing authorities based on technical merits of the position. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. At December 31, 2013 and 2012, there were no uncertain tax positions recorded. For 2013 and 2012, the Company did not recognize any interest or penalty expense related to uncertain tax positions or income taxes. The Company does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

The Company is subject to taxes in various states. The Texas margin tax applies to legal entities conducting business in Texas. The tax is calculated by applying a tax rate to a base that considers both revenues and expenses and, therefore, has the characteristics of an income tax. Total state income taxes of approximately \$326,223 and \$181,557 for 2013 and 2012, respectively, are recorded on the consolidated statements of income.

The Company files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. CBAC is no longer subject to U.S. federal and state examinations by tax authorities for years before 2009. At December 31, 2013, the Company's state tax returns open for review by taxing authorities were 2010 through current.

**Advertising Costs** – The Company expenses advertising costs as they are incurred. Total advertising costs for 2013 and 2012 were \$120,298 and \$97,336, respectively.

**Taxes Collected from Customers and Remitted to Governmental Authorities** – Taxes collected from customers and remitted to governmental authorities are reported on a net basis.

**Concentration of Credit Risk** – Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. At times, the Company maintains deposits in federal insured financial institutions in excess of federally insured limits. Management monitors the credit ratings and concentration of risk with these financial institutions on a continuing basis to safeguard cash deposits.

**Use of Estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Material estimates that are particularly susceptible to changes relate to the determination of the useful lives of property and equipment, the valuation of goodwill and the respective analysis of potential impairment and impairment testing of long-lived assets.

**Recent Accounting Pronouncements** – In January 2014, the FASB issued Accounting Standards Update 2014-2, *Accounting for Goodwill, a consensus of the Private Company Council*, which offer eligible private companies simplified alternative approach to account for goodwill. The new accounting alternative permits the amortization of goodwill and eliminates the requirement to test goodwill for impairment annually. If a triggering event occurs, this alternative will simplify impairment testing by (1) allowing entities to perform impairment test at the entity level rather than the reporting-unit level and (2) requiring less extensive analysis to measure impairment. The new goodwill accounting alternative is not effective until annual period beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. However, early adoption is permitted.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

The Company has not adopted the new goodwill accounting alternative by the end of December 31, 2013 and has not elected to amortize its goodwill on a straight-line method. The Company will continue to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under the current accounting standards.

**NOTE 2 – VARIABLE INTEREST ENTITIES**

CBAC has entered into operating lease agreements and guarantees debt on several entities under common control, as listed in *Note 1*. The debt for all of the VIEs is also guaranteed by a shareholder of CBAC and some of the debt is also guaranteed by a director of CBAC. Each of these entities has been determined to be a VIE in which CBAC is the primary beneficiary.

The purpose of the VIEs is to invest in or construct and sell the real estate from which the franchisees operate. The VIEs are thinly capitalized and the lease agreements between the VIE and CBAC are the sole income for the VIE until the real estate is sold to a third-party or franchisee and a gain realized. CBAC's maximum exposure to loss from involvement with these entities is limited to the difference between the fair value of the real estate purchased and constructed and the fair value of the guarantee on the debt at the date of default. The fair value of the guarantee has not been estimated as of December 31, 2013 and 2012, as none of the debt agreements are in default or more-likely-than-not of being in default at year-end.

Due to the consolidation of these VIEs, the following accounts are included in the consolidated balance sheets at December 31, 2013 and 2012:

Entities consolidated	<u>2013</u>	<u>2012</u>
Total leased properties, net	<u>\$ 25,910,805</u>	<u>\$ 18,144,340</u>
Total assets	<u>\$ 26,625,129</u>	<u>\$ 18,566,819</u>
Accounts payable	\$ 1,369,036	\$ 819,288
Current portion of long-term debt	1,908,691	387,208
Long-term debt, net of current portion	<u>23,722,662</u>	<u>17,637,706</u>
Total liabilities	<u>\$ 27,000,389</u>	<u>\$ 18,844,202</u>

The liabilities recognized as a result of consolidating the VIEs do not represent additional claims on CBAC's general assets. The creditors of the VIEs have claims only on the assets of the VIEs. The assets recognized as a result of consolidating the VIEs are the property of the VIE and are not available to CBAC for any other purpose, other than as guarantor for the notes payable and lessee.

**NOTE 3 – EMPHASIS OF MATTER**

In 2007, the shareholders in CBAC began forming VIEs for the sole purpose of investing in, purchasing, and constructing real estate for future franchise locations. Once the buildings are constructed, the real estate is sold to a third-party, or in rare instances franchisees, and leased to CBAC who subleases the property to the franchisee creating a sale-leaseback transaction. In accordance with employment agreements with members of management and shareholders of CBAC (CBAC employment agreements), equity interests in these entities were granted to them allowing participation in any gains realized on the sale of the real estate. Management of CBAC locates potential franchisees, oversees the purchase and construction of the real estate, and secures and administers the financing from financial institutions and related parties.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

At the date of grant, typically at formation, the equity has no fair value. The equity interests are granted requiring no or minimal capital contributions and are thinly capitalized.

The members and the partners of the VIEs (noncontrolling interests) are paid their equitable share determined by partnership and operating agreements of the VIEs of the gain on the sale of the real estate in accordance with CBAC employment agreements. Management considers these expenses paid to noncontrolling interests as a cost of selling the real estate for their services in purchasing, constructing, and administering the real estate and reduces the gain realized by the amounts obligated to the equity holders of the VIEs.

In accordance with GAAP, gains realized on the sale of real estate that are subsequently leased back to the seller are deferred and amortized over the life of the lease. As of December 31, 2013 and 2012, gross gains realized on sale-leaseback transactions were \$5,981,580 and \$11,122,851, respectively. These were offset by expenses paid to noncontrolling interests of \$5,076,779 and \$9,299,901 for 2013 and 2012, which are included in the consolidated statements of income. See *Note 11* for sale-leaseback transactions with net gains amortized as of December 31, 2013.

**NOTE 4 – NOTES RECEIVABLE**

Notes receivable includes amounts due from franchisees for working capital advances, franchise fees, and the purchase of equipment. The notes bear interest at a rate of -0-% to 8% per year, with principal and interest payable monthly with terms ranging from on demand to 20 years.

Future payments from notes receivable are as follows:

For the Year Ending December 31,	2013
2014	\$ 1,397,867
2015	28,823
2016	23,511
2017	17,317
2018	13,286
Thereafter	95,637
Total	<u>\$ 1,576,441</u>

**NOTE 5 – LEASED PROPERTIES**

Leased properties consisted of the following at December 31, 2013 and 2012:

	2013	2012
Leased properties, at cost		
Land	\$ 12,703,004	\$ 11,512,886
Construction in progress	7,805,513	3,823,307
Buildings and improvements	<u>25,190,967</u>	<u>21,622,407</u>
	45,699,484	36,958,600
Less: accumulated depreciation	<u>(3,081,002)</u>	<u>(2,961,005)</u>
Total leased properties, net	<u>\$ 42,618,482</u>	<u>\$ 33,997,595</u>

Interest capitalized for 2013 and 2012 was \$498,281 and \$503,745, respectively.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Property and equipment, at cost		
Office and equipment	\$ 767,170	\$ 883,212
Furniture and fixtures	232,789	219,632
Vehicles	76,183	206,741
Leasehold improvements	<u>351,664</u>	<u>284,513</u>
	<u>1,427,806</u>	1,594,098
Less: accumulated depreciation	<u>(1,101,717)</u>	<u>(895,318)</u>
Total property and equipment, net	<u>\$ 326,089</u>	<u>\$ 698,780</u>

**NOTE 7 – FRANCHISE FEES**

Franchise fees consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Gross carrying amount	\$ 100,000	\$ 100,000
Less: accumulated amortization	<u>(93,964)</u>	<u>(86,030)</u>
Franchise fees, net	<u>\$ 6,036</u>	<u>\$ 13,970</u>

Amortization expense, which is included in selling, general and administrative expenses was \$7,934 and \$7,957 for 2013 and 2012, respectively. The future estimated amortization expense for franchise fees is as follows:

<u>For the Year Ending December 31,</u>	<u>Amount</u>
2014	<u>\$ 6,036</u>
Total	<u>\$ 6,036</u>

**NOTE 8 – FUTURE LEASE REVENUES**

The following is a schedule of future rental revenues based on initial lease terms of 15 years for 99 franchises who lease facilities from the Company at December 31, 2013:

<u>For the Year Ending December 31,</u>	<u>In Operation</u>	<u>New Franchises</u>	<u>Total</u>
2014	\$ 13,094,558	\$ 2,485,284	\$ 15,579,842
2015	13,800,796	2,485,284	16,286,080
2016	13,956,483	2,485,284	16,441,767
2017	13,709,497	2,485,284	16,194,781
2018	13,427,280	2,485,284	15,912,564
Thereafter	<u>87,886,076</u>	<u>24,098,733</u>	<u>111,984,809</u>
Totals	<u>\$ 155,874,690</u>	<u>\$ 36,525,153</u>	<u>\$ 192,399,843</u>

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**NOTE 9 – LINES OF CREDIT**

Debt related to lines of credit was as follows at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Effective December 20, 2011, the Company executed an agreement with a bank for a construction line of credit with a maximum principal amount of \$7,500,000 maturing December 20, 2015. Interest is due monthly at the rate of LIBOR plus 3.25% (3.42% at December 31, 2013). The construction line of credit is secured by all new construction and real estate purchased with loan proceeds and cross-collateralized with existing real estate purchased with debt from the same financial institution.	\$ 3,251,384	\$ 1,627,188
Effective February 28, 2013, the Company executed an agreement with a bank for a construction line of credit with a maximum principal amount of \$900,000 maturing February 28, 2014 and subsequently renewed prior to the report date. Interest is due monthly at the rate of 0.5% plus the prime rate (but never less than 5.00% or greater than 18.00% per annum; 5.00% at December 31, 2013). The construction line of credit is secured by rights to payments under franchise agreements, general intangibles, and chattel paper and Guaranty Agreement executed by Mark A. Carr, CEO.	536,023	-
Effective October 31, 2013, the Company executed an agreement with a bank for a construction line of credit with a maximum principal amount of \$1,300,000 maturing January 2, 2018. Interest is due monthly at the rate of LIBOR plus 3.25% (3.42% at December 31, 2013). The construction line of credit is secured by all new construction and real estate purchased with loan proceeds and cross-collateralized with existing real estate purchased with debt from the same financial institution.	<u>374,181</u>	-
	<u>4,161,588</u>	1,627,188
Less: current maturities	<u>(828,773)</u>	<u>(75,201)</u>
Total long-term portion of lines of credit	<u>\$ 3,332,815</u>	<u>\$ 1,551,987</u>

**NOTE 10 – LONG-TERM DEBT**

Long-term debt was as follows at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Notes payable to various financial institutions, secured by real estate and certain accounts receivable, and/or assets of the subsidiaries; interest rates ranging from 3.75% to 8.50%; with monthly or quarterly principal and interest payments ranging between \$414 and \$11,287; maturing on dates through November 2018.	\$ 25,631,353	\$ 13,580,085

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Notes payable to various financial institutions, secured by assets of CBAC; interest rates ranging from 1.82% to 7.03%; with monthly or quarterly principal and interest payments ranging between \$417 and \$2,041; maturing on various dates through October 2022.	2,760,486	10,793,642
Subordinated notes payable to an affiliate of a shareholder, unsecured; interest rates from 8.0% to 12.5%; with monthly principal and interest payments ranging between \$118 and \$1,042; maturing June 1, 2014.	72,723	162,723
Subordinated notes payable to related parties, including shareholders, directors, members, partners and affiliates of shareholders; secured by land and/or assets of CBAC; interest rates ranging from 10.0% to 12.5%; with monthly or quarterly principal and interest payments ranging between \$521 and \$4,115; maturing on various dates through July 2022.	<u>6,414,500</u>	<u>5,080,141</u>
	<u>34,879,062</u>	<u>29,616,591</u>
Less: current maturities	<u>(2,741,781)</u>	<u>(1,588,663)</u>
Total long-term debt	<u>\$ 32,137,281</u>	<u>\$ 28,027,928</u>

In connection with certain notes payable, the Company has agreed to various covenants including reporting requirements and maintenance of certain financial ratios. The Company was in compliance with these covenants at December 31, 2013.

Future payments on long-term debt and subordinated notes payable are as follows:

<u>For the Year Ending December 31,</u>	<u>Long-Term Debt</u>	<u>Subordinated Notes Payable</u>	<u>Total</u>
2014	\$ 2,669,058	\$ 72,723	\$ 2,741,781
2015	5,556,904	700,000	6,256,904
2016	5,742,287	990,000	6,732,287
2017	1,518,276	572,000	2,090,276
2018	9,372,465	4,152,500	13,524,965
Thereafter	<u>3,532,849</u>	<u>-</u>	<u>3,532,849</u>
Totals	<u>\$ 28,391,839</u>	<u>\$ 6,487,223</u>	<u>\$ 34,879,062</u>

**NOTE 11 – SALE-LEASEBACK TRANSACTIONS**

During prior periods, the Company had entered into eight sale-leaseback agreements of land and buildings on leased property. The Company deferred \$1,423,166 in real estate gains in the current year and \$1,823,777 in prior years for recognition in future periods. This deferred amount is recognized into income over the life of each respective lease. Gains recognized in the 2013 and 2012 consolidated statements of income related to the amortization of deferred gain on real estate were \$150,587 and \$101,766, respectively, included in net miscellaneous expense.



**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

---

**NOTE 12 – INCOME TAXES**

The Company had a deferred federal income tax liability of approximately \$231,727 as of December 31, 2013 and 2012 related to the sale/transfer of assets held as of January 1, 2007 as described in *Note 1*. The Company had estimated \$681,550 of the remaining deferred taxable gain could be realized before January 1, 2017.

**NOTE 13 – SHAREHOLDERS’ EQUITY**

During 2009, the Company performed a stock conversion. For every voting common share outstanding, the Company converted such common share into a 0.1 voting common share and a 0.9 nonvoting common share. The majority shareholder of the Company sold his nonvoting shares to his irrevocable trust.

During 2013 and 2012, the Company released treasury shares to provide a stock grant to a key member of management in the amount of 1.45 and 5.78 shares voting and 144.43 and 571.75 shares nonvoting, respectively. Other minority owners were allocated additional shares to eliminate dilution. The combined original cost of treasury shares released was \$185,022 and \$861,473 for 2013 and 2012, respectively. Management has determined the estimated fair value of the shares provided to the new minority owners to be \$58,995 and \$200,000, with total related compensation expense of \$58,995 and \$300,000 for 2013 and 2012, respectively, including a \$100,000 cash portion for related taxes in 2012.

During 2013 and 2012, the Company had declared \$941,499 and \$500,000, respectively, in distributions on common stock, of which \$-0- is payable at December 31, 2013 and \$92,319 at December 31, 2012.

**NOTE 14 – OPERATING LEASES**

The Company leases its office facilities and leased properties under operating leases which expire in various years through 2031. Rent expense for 2013 and 2012 was \$11,289,661 and \$11,035,170, respectively, included in cost of revenues.

The following is a schedule of future minimum lease payments for operating leases with initial or remaining noncancelable lease terms in excess of one year:

<u>For the Year Ending</u> <u>December 31,</u>	<u>Amount</u>	<u>New</u> <u>Franchises</u>	<u>Total</u>
2014	\$ 18,641,286	\$ 2,198,159	\$ 20,839,445
2015	19,436,086	2,219,121	21,655,207
2016	19,679,482	2,215,128	21,894,610
2017	19,448,016	2,211,076	21,659,092
2018	19,049,858	2,206,963	21,256,821
Thereafter	<u>123,361,854</u>	<u>21,247,663</u>	<u>144,609,517</u>
Totals	<u>\$ 219,616,582</u>	<u>\$ 32,298,110</u>	<u>\$ 251,914,692</u>

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

---

**NOTE 15 – EMPLOYEE BENEFIT PLAN**

In January 2013, the Company established a 401(k) plan, (the “Plan”) for all eligible employees. Employees are permitted to defer a portion of their compensation. The Company matched employee contributions up to 4% of their salary. Company contributions to the Plan totaled \$153,724 in 2013 and \$61,221 in 2012 to the Company’s prior savings incentive match plan.

**NOTE 16 – SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through April 15, 2014, the date which the financial statements were available to be issued. No subsequent events occurred which require adjustment or disclosure to the financial statements at December 31, 2013.

**Christian Brothers Automotive Corporation**  
Consolidated Financial Statements  
For the Year Ended December 31, 2012

## CONTENTS

	Page
Independent Auditors' Report.....	1
Consolidated Balance Sheet .....	3
Consolidated Statement of Income.....	4
Consolidated Statement of Changes in Shareholders' Equity .....	5
Consolidated Statement of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	8



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Christian Brothers Automotive Corporation  
Houston, Texas

We have audited the accompanying consolidated financial statements of Christian Brothers Automotive Corporation (a Texas subchapter "S" Corporation), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Christian Brothers Automotive Corporation as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors of  
Christian Brothers Automotive Corporation  
Re: Independent Auditors' Report

**Emphasis of Matter**

As discussed in *Note 3* to the consolidated financial statements, the Company has gross gains realized on sale-leaseback transactions of \$11,122,851 that are offset with expenses paid to non-controlling interests of \$9,299,901 at December 31, 2012.

**Correction of Error**

As discussed in *Note 17* to the consolidated financial statements, the Company identified certain errors related to the reporting of deferred rent payable related to straight-line rent expense for certain variable interest entities sold as of December 31, 2011. Accordingly, an adjustment has been made to retained earnings as of December 31, 2011 to correct the error and allocate the deferred rent credits over the life of the leases. Our opinion is not modified with respect to these corrections.

**Correction of Prior Year Consolidation**

As discussed in *Note 17* to the consolidated financial statements, the Company identified additional variable interest entities that were not consolidated as of December 31, 2011. Accordingly, an adjustment has been made to retained earnings as of December 31, 2011 to consolidate these entities in 2012. Our opinion is not modified with respect to these corrections.



Briggs & Veselka Co.  
Houston, Texas

April 29, 2013

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED BALANCE SHEET**  
**DECEMBER 31, 2012**

<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 1,792,013
Accounts receivable	1,308,686
Prepaid expenses and other assets	423,575
Current portion of notes receivable	<u>696,800</u>
Total current assets	4,221,074
Leased properties, net	33,997,595
Property and equipment, net	698,780
Franchise fees, net	13,970
Loan fees, net	173,839
Goodwill	1,037,447
Notes receivable, net of current portion	250,603
Deferred rent receivable	6,421,490
Deposits and other assets	<u>22,203</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 46,837,001</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
Current liabilities	
Accounts payable	\$ 1,002,320
Accrued expenses	391,103
State taxes payable	157,783
Distributions payable	92,319
Unearned revenues	2,260,190
Current portion of lines of credit	75,201
Current portion of long-term debt	1,588,663
Other current liabilities	<u>323,105</u>
Total current liabilities	5,890,684
Deferred gain on real estate	807,323
Deferred rent payable	6,827,252
Deferred federal income tax	231,727
Lines of credit, net of current portion	1,551,987
Long-term debt, net of current portion	<u>28,027,928</u>
Total liabilities	43,336,901
Shareholders' equity	
Common stock; \$1 par value; 1,000,000 shares authorized; 12,000 shares issued; 11,550 shares outstanding	12,000
Additional paid-in capital	764,580
Treasury stock; 450 shares at cost	(570,527)
Retained earnings	<u>3,571,772</u>
Total shareholders' equity, net of noncontrolling interests	3,777,825
Noncontrolling interests	<u>(277,725)</u>
Total shareholders' equity	<u>3,500,100</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 46,837,001</u></b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

---

Revenues	\$ 24,834,354
Cost of revenues	<u>12,440,598</u>
Gross profit	12,393,756
Selling, general and administrative expenses	<u>10,453,206</u>
Net income from operations	1,940,550
Other income (expense)	
Gains on sale of leased properties (see <i>Note 3</i> )	11,122,851
Expenses paid to noncontrolling interests (see <i>Note 3</i> )	(9,299,901)
Interest income	65,348
Interest expense	(2,067,360)
Net loss on sales of subsidiaries	(132,603)
Net miscellaneous expense	<u>(59,809)</u>
Total other expense, net	<u>(371,474)</u>
Net income before state income taxes	1,569,076
Provision for state income taxes	<u>181,557</u>
Net income	1,387,519
Less: net income attributable to noncontrolling interests	<u>(180,134)</u>
NET INCOME ATTRIBUTABLE TO CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION	<u>\$ 1,207,385</u>

*The accompanying notes are an integral part of these consolidated financial statements.*



**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE, DECEMBER 31, 2011, AS PREVIOUSLY REPORTED	12,000	\$ 12,000	\$ 764,580	(1,129)	\$ (1,432,000)	\$ 5,443,572	\$ (940,572)	\$ 3,847,580
Prior period adjustments (see Note 17)	-	-	-	-	-	(1,334,459)	(114,486)	(1,448,945)
Prior period reclassifications (see Note 17)	-	-	-	-	-	(583,253)	583,253	-
BALANCE, DECEMBER 31, 2011, AS RESTATED	12,000	12,000	764,580	(1,129)	(1,432,000)	3,525,860	(471,805)	2,398,635
Net income	-	-	-	-	-	1,207,385	180,134	1,387,519
Stock grant compensation	-	-	-	679	861,473	(661,473)	-	200,000
Capital contributions	-	-	-	-	-	-	13,946	13,946
Distributions	-	-	-	-	-	(500,000)	-	(500,000)
BALANCE, DECEMBER 31, 2012	12,000	\$ 12,000	\$ 764,580	(450)	\$ (570,527)	\$ 3,571,772	\$ (277,725)	\$ 3,500,100

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Cash flows from operating activities	
Net income	\$ 1,387,519
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation	737,782
Bad debt expense	656,899
Net gains on sale of leased properties	(1,924,716)
Net loss on sales of subsidiaries	132,603
Amortization of financing costs	109,485
Amortization of franchise fees	7,957
Stock grant compensation	200,000
Changes in operating assets and liabilities:	
Accounts receivable	(661,817)
Prepaid expenses and other assets	79,716
Deferred rent receivable	(1,844,881)
Accounts payable	27,999
Accrued expenses	124,310
State taxes payable	56,783
Distributions payable	(135,188)
Unearned revenues	(161,162)
Due to shareholder	(472,702)
Deferred rent payable	2,200,711
Other current liabilities	(63,874)
Net cash from operating activities	<u>457,424</u>
Cash flows from investing activities	
Proceeds from notes receivable	866,289
Issuance of notes receivable	(571,185)
Purchase of property and equipment	(282,822)
Proceeds from sale of leased properties	31,185,955
Purchase of leased properties	(18,120,318)
Net cash received in purchase of CB Lazar, LLC (Misson Bend)	9,400
Net cash reassigned on sale of LLTGC, LLC (Copperfield)	(16,718)
Net cash reassigned on sale of EC Richardson Enterprises, LLC (Friendswood)	(54,878)
Net cash from investing activities	<u>13,015,723</u>
Cash flows from financing activities	
Borrowings on long-term debt, net of loan fees	13,966,669
Payments on long-term debt	(28,685,855)
Proceeds from lines of credit	1,080,334
Payments on lines of credit	(254,260)
Payments of distributions	(500,000)
Capital contributions	13,946
Net cash from financing activities	<u>(14,379,166)</u>
Net change in cash and cash equivalents	(906,019)
Cash and cash equivalents, beginning of year	<u>2,698,032</u>
Cash and cash equivalents, end of year	<u>\$ 1,792,013</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	\$ <u>2,128,701</u>
Noncash investing and financing activities:	
Sale of LLTGC, LLC (Copperfield):	
Accounts receivable	\$ (7,485)
Prepays and other assets	(7,798)
Property and equipment, net	(32,700)
Franchise fees, net	(47,718)
Goodwill	(141,718)
Accounts payable	62,036
Accrued expenses	12,368
Long-term debt	24,906
Loss on sale of subsidiary	<u>154,827</u>
Net cash reassigned	<u>\$ 16,718</u>
Sale of EC Richardson Enterprises, LLC (Friendswood):	
Accounts receivable	\$ (6,629)
Prepays and other assets	(6,215)
Property and equipment, net	(49,623)
Franchise fees, net	(79,717)
Goodwill	(49,309)
Accounts payable	38,468
Accrued expenses	39,629
Long-term debt	190,498
Gain on sale of subsidiary	<u>(22,224)</u>
Net cash reassigned	<u>\$ 54,878</u>
Acquisition of CB Lazar, LLC (Mission Bend)	
Property and equipment, net	\$ 120,245
Goodwill	131,428
Accounts payable	(927)
Short-term debt	(126,000)
Long-term debt	<u>(134,146)</u>
Net cash received	<u>\$ (9,400)</u>
Treasury stock released in stock grant compensation	<u>\$ 200,000</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

Christian Brothers Automotive Corporation (CBAC), a Texas S-corporation, is a national franchisor of automobile repair establishments located throughout Texas and the southeastern United States. The Company was formed in August 1982 and had 108 independent franchises in operation at December 31, 2012. In addition to franchising operations, the Company engages in the business of investing in, owning, and selling the real estate and facilities from which its franchise locations operate. These real estate sales are typically made to third-parties, some of which are under sale-leaseback agreements. Service revenue is generated from the Company's subsidiaries and consists of revenue on parts and labor.

**Basis of Presentation** – In The Company maintains its accounts and transactions on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Basis of Consolidation** – In accordance with GAAP, CBAC consolidates all wholly-owned subsidiaries and variable interest entities (VIEs) as noted below, for which CBAC has determined to be the primary beneficiary (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated upon consolidation.

The accounts of the following wholly-owned subsidiaries are consolidated in the accompanying consolidated financial statements: CBACF, Inc. (Grand Parkway); CB Lazar, LLC (Mission Bend) and CBA O'Fallon, LLC (O'Fallon). Effective January 1, 2012, the Company sold LLTGC, LLC (Copperfield); and EC Richardson Enterprises, LLC (Friendswood) to third-parties. The subsidiaries were originally formed as independent franchises of CBAC, but were eventually acquired by the CBAC. Management's intent is to locate qualified buyers to operate the subsidiaries for trial periods and eventually sell the subsidiary to them.

In June 2009, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting and disclosure requirements for VIEs. This amendment changed how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether the reporting entity is required to consolidate another entity is based on, among other things, the purpose and design of the other entity and the reporting entity's ability to direct the activities of the other entity that most significantly impact its economic performance.

In accordance with GAAP, the accounts of the following VIEs are consolidated in the accompanying consolidated financial statements: CBH Properties Investments, LLC; Christian Brothers Southaven, LP (Southaven); CBH Properties Arnold, LLC (Arnold); CBH Properties Westhmr, LP (Westheimer); CBH Properties W&P, LLC (Woodman); CBH Properties Acworth, LLC (Acworth); CBH Properties Tulsa Time, LLC (Meadowbrook); CBH Properties Spring I, LLC (Spring I); CBH Properties Westgreen, LLC (Westgreen); CBH Properties Owasso, LLC (Owasso); CBH Properties Fairfield, LLC (Fairfield); CBH Properties Tampa II, LLC (Tampa II); CBH Properties Allen, LLC (Allen); CBH Properties Concord, LLC (Concord); CBH Properties Lakeway, LLC (Lakeway); CB Collierville, LP (Collierville); CB Montgomery A, LP (Montgomery); CB Yukon, LP (Yukon); CB Properties Grand Rapids, LLC (Grand Rapids); CBH Properties Grayson, LLC (Grayson); CBF Properties Oakmont, LLC (Oakmont); CBF Properties Lubbock, LLC (Lubbock); CBF Properties Helotes, LLC (Helotes); CBH Properties Barry Road, LLC (Barry Rd.); CBH Properties Peachtree, LLC (Peachtree); CBH Properties Schertz, LP (Schertz); CBH Properties Tyler, LP (Tyler); CBH Properties Woodlands II, LP (Magnolia); CBH Properties League City, LP (League City); CBH Properties Midland, LLC (Midland); CBH Properties Tampa I, LLC (Terra Bella); CBH Properties Rockwall, LLC (Rockwall); CBH Properties New Braunfels, LLC (New Braunfels); CBH Properties Woodway, LLC (Woodway); CBH Properties Granbury, LLC (Granbury); CB Hoover, LP (Hoover); CBH Properties S Katy, LP (Mission Bend); and CBH Properties L Worth, LLC (Lake Worth).

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

---

**Limited Liability Entities** – Certain subsidiaries of the Company are structured as limited liability companies or partnerships in various states throughout the southeastern United States. Members of the limited liability companies are not liable for any debt, obligations, or other liability of the Company unless they have expressly guaranteed certain debt. All limited liability entities have one class of units or equal limited partnership rights, except for the following limited liability companies: Oakmont, Lubbock, Helotes, Lake Worth, Midland, Rockwall, New Braunfels, Woodway, Granbury, Woodman, Meadowbrook, Spring I, Westgreen, Owasso, Fairfield, Allen and Lakeway. These entities have Class A and Class B units. Class A units have preferential rights for liquidating the entity or capital gain proceeds. Operating cash flows are distributed to Class B units prior to Class A units. As of December 31, 2012, there were no Class A units issued in any of the entities.

**Cash and Cash Equivalents** – The Company considers all cash in banks and other highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

**Revenue Recognition** – Franchise fees are recognized when a franchise location opens to the general public. Franchise fees are collected in installments; the first installment is collected at the signing of the franchise agreement and the remainder is collected when construction commences. Since franchise fees are received prior to opening, they are deferred and presented as unearned revenue until store opening on the consolidated balance sheet.

Rent and accounting revenues are recognized as they are earned. For lease agreements with escalating payments, the Company records rental revenue on a straight-line basis over the term of the lease. Deferred rent receivable represents the rent recorded on a straight-line basis in excess of the amounts received in accordance with the lease agreement. Rental payments received in advance are presented as unearned revenue on the consolidated balance sheet.

Royalty fees are recognized as earned. The fees are calculated based on an agreed upon percentage (currently 10% - 50%) of each franchisee's net cash flow.

Service revenue is recognized when service work is completed.

**Accounts Receivable and Allowance for Doubtful Accounts** – Accounts receivable consists of amounts due from franchisees for rental and royalty revenues. Accounts receivable are estimated at their net realizable value. Management periodically reviews all accounts receivable to determine if any are considered uncollectible based upon the age of the receivable and the creditworthiness of the parties involved. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. As of December 31, 2012, there was no allowance, as all accounts receivable were deemed collectable.

**Leased Properties** – Properties leased to franchisees are presented at cost with depreciation calculated using the straight-line method over their estimated useful lives. The cost of ordinary maintenance and repairs is charged to operations, while renewals and replacements are capitalized. The estimated useful life for building and improvements is 38 years. Total depreciation expense for 2012 was \$523,185.

**Property and Equipment** – Property and equipment are recorded at cost with depreciation calculated using the straight-line method over their estimated useful lives. The cost of ordinary maintenance and repairs is charged to operations, while renewals and replacements are capitalized. Depreciation and amortization are based on the following estimated useful lives:

<u>Assets</u>	<u>Life</u>
Office equipment	3 - 5 years
Furniture and fixtures	5 years
Leasehold improvements	6 - 10 years

Total depreciation expense for 2012 was \$214,597.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012

---

**Franchise Fees** – Franchise fees represent fees paid by franchisees that are amortized over the initial term of the franchise agreement, usually 15 years. The Company reacquired the franchise it had previously granted to the franchisee upon the acquisition of the independent franchises, which is a reacquired right. Reacquired rights are identifiable intangible assets that are recognized by the acquirer separately from goodwill in a business combination. The franchise fee is amortized over the remaining contractual period of the franchise agreement.

**Loan Fees** – Costs associated with obtaining financing are capitalized and amortized to interest expense over the term of the loan using the straight-line method which approximates the effective interest method.

**Impairment of Long-Lived Assets** – The Company reviews the carrying value of long-lived assets to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others. If such factors indicate a potential impairment, the Company would assess the recoverability of an asset by determining if the carrying amount of the asset exceeds its estimated undiscounted net cash flow, excluding interest. Any impairment would be measured as the difference between the asset's carrying amount and its estimated fair value. There were no impairments recorded for 2012.

**Goodwill** – Goodwill represents the excess of the purchase price over the fair market value of net assets acquired in conjunction with certain acquisitions. Under GAAP, goodwill is not amortized but reviewed annually for impairment by management. Based on the review, Company management determined goodwill was not impaired at December 31, 2012.

**Deferred Gain on Real Estate** – The gains on the sales of certain properties which are subsequently leased back to the Company are deferred and amortized using the straight-line method over the life of the lease.

**Deferred Rent Payable** – The Company records rent expense on a straight-line basis over the lease term. Deferred rent payable represents the rent recorded on a straight-line basis in excess of the amounts paid in accordance with the lease agreement.

**Income Taxes** – Prior to January 1, 2007, CBAC had operated as a C corporation. Effective January 1, 2007, the shareholders of the Company elected to be taxed under Subchapter S of the Internal Revenue Code. After S corporation election, federal income taxes are the responsibility of the Company's shareholders. As of the effective date of the election, the Company was responsible for federal built-in gains taxes to the extent applicable. All assets held at election are subject to taxation on any cumulative appreciation, as of the date of election, if sold or transferred within 10 years of S corporation election. For each tax period, taxable gains are restricted by the greater of the amount of the taxable gains or net income and any amount restricted is deferred to subsequent tax periods. Assets held through January 1, 2017 would no longer be subject to corporate taxation and any deferred tax gains held as of this date would be extinguished. Provisions for income taxes and deferred taxes related to federal built-in gains taxes have been recorded in the accompanying financial statements. The deferred taxes represent the future tax return consequences of deferred tax gains.

CBAC and the subsidiaries structured as limited liability entities are treated as partnerships for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for these entities other than the built-in gains tax noted above for CBAC. Partners and members of the limited liability entities are taxed individually based on their share of the Company's stock. The Company's net income or loss is allocated among the partners and members in accordance with the partnership or operating agreement.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

---

Uncertain tax positions are recognized in the financial statements only if that position is more-likely-than-not of being sustained upon examination by taxing authorities based on technical merits of the position. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. At December 31, 2012, there were no uncertain tax positions recorded. For 2012, the Company did not recognize any interest or penalty expense related to uncertain tax positions or income taxes. The Company does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

The Company is subject to taxes in various states. The Texas margin tax applies to legal entities conducting business in Texas. The tax is calculated by applying a tax rate to a base that considers both revenues and expenses and, therefore, has the characteristics of an income tax. Total state income taxes of \$181,557 for 2012 are recorded on the consolidated statement of income.

The Company files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. CBAC is no longer subject to U.S. federal and state examinations by tax authorities for years before 2008. At December 31, 2012, the Company's U.S federal and state tax returns open for review by taxing authorities were 2009 through current.

**Advertising Costs** – The Company expenses advertising costs as they are incurred. Total advertising costs for 2012 were \$97,336.

**Taxes Collected from Customers and Remitted to Governmental Authorities** – Taxes collected from customers and remitted to governmental authorities are reported on a net basis.

**Concentration of Credit Risk** – Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. At times, the Company maintains deposits in federal insured financial institutions in excess of federally insured limits. Management monitors the credit ratings and concentration of risk with these financial institutions on a continuing basis to safeguard cash deposits.

**Use of Estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Material estimates that are particularly susceptible to changes relate to the determination of the useful lives of property and equipment, the valuation of goodwill and the respective analysis of potential impairment and impairment testing of long-lived assets.

**Recent Accounting Pronouncements** – In September 2011, the FASB issued updated guidance on the periodic testing of goodwill for impairment. This guidance will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under the current accounting standards. This new guidance is effective for the Company beginning December 31, 2012. The adoption of this pronouncement did not have a material effect on the Company's consolidated financial position or results of operations.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

---

**NOTE 2 – VARIABLE INTEREST ENTITIES**

CBAC has entered into operating lease agreements and guarantees debt for several entities under common control, as listed in *Note 1*. The debt for all of the VIEs is guaranteed by a shareholder of CBAC and some of the debt is also guaranteed by a director of CBAC. Each of these entities has been determined to be a VIE in which CBAC is the primary beneficiary. The purpose of the VIEs is to invest in or construct and sell the real estate from which the franchisees operate. The VIEs are thinly capitalized and the lease agreements between the VIE and CBAC are the sole income for the VIE until the real estate is sold to a third-party or franchisee and a gain realized. CBAC's maximum exposure to loss from involvement with these entities is limited to the difference between the fair value of the real estate purchased and constructed and the fair value of the guarantee on the debt at the date of default. The fair value of the guarantee has not been estimated as of December 31, 2012 as none of the debt agreements are in default or more-likely-than-not of being in default at year-end.

Due to the consolidation of these VIEs, the following accounts are included in the consolidated balance sheet at December 31, 2012:

Leased properties, net	<u>\$ 18,144,340</u>
Total assets	<u>\$ 18,566,819</u>
Accounts payable	\$ 819,288
Current portion of long-term debt	387,208
Long-term debt, net of current portion	<u>17,637,706</u>
Total liabilities	<u>\$ 18,844,202</u>

The liabilities recognized as a result of consolidating the VIEs do not represent additional claims on CBAC's general assets. The creditors of the VIEs have claims only on the assets of the VIEs. The assets recognized as a result of consolidating the VIEs are the property of the VIE and are not available to CBAC for any other purpose, other than as guarantor for the notes payable and lessee.

**NOTE 3 – EMPHASIS OF A MATTER**

In 2007, the shareholders of CBAC began forming VIEs for the sole purpose of investing in, purchasing, and constructing real estate for future franchise locations. Once the buildings are constructed, the real estate is sold to a third-party, or in rare instances franchisees, and leased to CBAC who subleases the property to the franchisee creating a sale-leaseback transaction. In accordance with employment agreements with members of management and shareholders of CBAC (CBAC employment agreements), equity interests in these entities were granted to them allowing participation in any gains realized on the sale of the real estate. Management of CBAC locates potential franchisees, oversees the purchase and construction of the real estate, and secures and administers the financing from financial institutions and related parties. At the date of grant, typically at formation, the equity has no fair value. The equity interests are granted requiring no or minimal capital contributions and are thinly capitalized.



**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

The members and the partners of the VIEs (noncontrolling interests) are paid their equitable share determined by partnership and operating agreements of the VIEs of the gain on the sale of the buildings in accordance with CBAC employment agreements. Management considers these expenses paid to noncontrolling interests as a cost of selling the real estate for their services in purchasing, constructing, and administering the real estate and reduces the gain realized by the amounts obligated to the equity holders of the VIEs.

In accordance with GAAP, gains realized on the sale of real estate that are subsequently leased back to the seller are deferred and amortized over the life of the lease. However, as management deems all amounts earned through the real estate sales transactions committed to the equity owners and not income to CBAC, there are no net gains to defer. As of December 31, 2012, gross gains realized on sale-leaseback transactions were \$11,122,851 offset by expenses paid to non-controlling interests of \$9,299,901 and are included in the consolidated statement of income. See *Note 11* for sale-leaseback transactions with net gains amortized as of December 31, 2012.

**NOTE 4 – NOTES RECEIVABLE**

Notes receivable includes amounts due from franchisees for working capital advances, franchise fees, and the purchase of equipment. The notes bear interest at a rate of -0-% to 8% per year, with principal and interest payable monthly with terms ranging from on demand to 20 years.

Future payments from notes receivable are as follows:

<u>For the Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 696,800
2014	23,196
2015	24,038
2016	24,912
2017	25,822
Thereafter	<u>152,635</u>
Total	<u>\$ 947,403</u>

**NOTE 5 – LEASED PROPERTIES**

Leased properties consisted of the following at December 31, 2012:

Leased properties, at cost	
Land	\$11,512,886
Construction in progress	3,823,307
Buildings and improvements	<u>21,622,407</u>
	36,958,600
Less: accumulated depreciation	<u>(2,961,005)</u>
Total leased properties, net	<u>\$33,997,595</u>

Interest capitalized for the year ended December 31, 2012 was \$503,745.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2012:

Property and equipment, at cost	
Office and equipment	\$ 883,212
Furniture and fixtures	219,632
Vehicles	206,741
Leasehold improvements	<u>284,513</u>
	1,594,098
Less: accumulated depreciation	<u>(895,318)</u>
 Total property and equipment, net	 <u>\$ 698,780</u>

**NOTE 7 – FRANCHISE FEES**

Franchise fees consisted of the following at December 31, 2012:

Gross carrying amount	\$ 100,000
Less: accumulated amortization	<u>(86,030)</u>
 Franchise fees, net	 <u>\$ 13,970</u>

Amortization expense, which is included in selling, general and administrative expenses was \$7,957 for 2012. The future estimated amortization expense for franchise fees is \$6,667 for 2013 and 2014, with the remaining \$636 expensed in 2015.

**NOTE 8 – FUTURE LEASE REVENUES**

The following is a schedule of future rental revenues based on initial lease terms of 15 years for 91 franchises who lease facilities from the Company at December 31, 2012:

<u>For the Year Ending December 31,</u>	<u>In Operation</u>	<u>New Franchises</u>	<u>Total</u>
2013	\$ 10,678,773	\$ 2,834,657	\$ 13,513,430
2014	11,146,115	2,834,657	13,980,772
2015	11,288,581	2,834,657	14,123,238
2016	11,411,826	2,834,657	14,246,483
2017	11,131,911	2,834,657	13,966,568
Thereafter	<u>72,552,767</u>	<u>26,936,913</u>	<u>99,489,680</u>
 Totals	 <u>\$128,209,973</u>	 <u>\$ 41,110,198</u>	 <u>\$169,320,171</u>

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

---

**NOTE 9 – LINES OF CREDIT**

Effective December 20, 2011, the Company executed an agreement with a financial institution for a construction line of credit with a maximum principal amount of \$7,500,000 maturing December 20, 2015. Interest is due monthly at the rate of LIBOR plus 3.25% (3.63% at December 31, 2012). The construction line of credit is secured by all new construction and real estate purchased with loan proceeds and cross-collateralized with existing real estate purchased with debt from the same financial institution. At December 31, 2012, the Company had an outstanding balance of \$1,627,188, of which \$75,201 reported as current.

The Company had a \$500,000 line of credit with a financial institution, due and payable June 2012, with interest due monthly at a stated rate of 7.0% and secured by certain accounts receivable and other limited assets of the Company not secured by other notes. The Company paid off this line of credit during 2012.

**NOTE 10 – LONG-TERM DEBT**

Long-term debt was as follows at December 31, 2012:

Notes payable to various financial institutions, secured by real estate and certain accounts receivable, and/or assets of the subsidiaries; interest rates ranging from 4.95% to 8.50%; with monthly or quarterly principal and interest payments ranging between \$414 and \$11,287; maturing on dates through March 2018.	\$ 13,580,085
Notes payable to various financial institutions, secured by assets of CBAC; interest rates ranging from 1.82% to 7.03%; with monthly or quarterly principal and interest payments ranging between \$507 and \$19,021; maturing on various dates through October 2022.	10,793,642
Subordinated notes payable to an affiliate of a shareholder, unsecured; interest rates ranging from 8.0% to 12.5%; with monthly principal and interest payments ranging between \$118 and \$1,042; maturing June 1, 2014.	162,723
Subordinated notes payable to related parties, including shareholders, directors, members, partners and affiliates of shareholders; secured by land and/or assets of CBAC; interest rates ranging from 10.0% to 12.5%; with monthly or quarterly principal and interest payments ranging between \$521 and \$4,115; maturing on various dates through July 2022.	5,080,141
	29,616,591
Less: current maturities	<u>(1,588,663)</u>
Total	<u>\$ 28,027,928</u>

In connection with certain notes payable, the Company has agreed to various covenants including reporting requirements and maintenance of certain financial ratios. The Company was in compliance with these covenants at December 31, 2012 or had obtained waivers.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Future payments on long-term debt and subordinated notes payable are as follows:

<u>For the Year Ending December 31,</u>	<u>Long-Term Debt</u>	<u>Subordinated Notes Payable</u>	<u>Total</u>
2013	\$ 1,588,663	\$ -	\$ 1,588,663
2014	5,345,971	414,107	5,760,078
2015	5,387,801	1,669,756	7,057,557
2016	2,335,599	1,637,000	3,972,599
2017	4,700,855	1,522,000	6,222,855
Thereafter	<u>5,014,839</u>	<u>-</u>	<u>5,014,839</u>
Totals	<u>\$ 24,373,728</u>	<u>\$ 5,242,863</u>	<u>\$ 29,616,591</u>

**NOTE 11 – SALE-LEASEBACK TRANSACTIONS**

During prior periods, the Company entered into eight sale-leaseback agreements of land and buildings on leased property. The Company deferred \$1,823,777 in real estate gains in prior years for recognition in future periods. This deferred amount is recognized into income over the life of each respective lease. Gains recognized in the 2012 consolidated statement of income related to the amortization of deferred gain on real estate totaled \$101,766, which is included in net miscellaneous income (expense).

**NOTE 12 – INCOME TAXES**

The Company had a deferred federal income tax liability of approximately \$231,727 as of December 31, 2012 related to the sale/transfer of assets held as of January 1, 2007 as described in *Note 1*. The Company has estimated \$681,550 of the remaining deferred taxable gain could be realized before January 1, 2017.

**NOTE 13 – SHAREHOLDERS' EQUITY**

During 2009, the Company performed a stock conversion. For every voting common share outstanding, the Company converted such common share into a 0.1 voting common share and a 0.9 nonvoting common share. The majority shareholder of the Company sold his nonvoting shares to his irrevocable trust.

During 2012, the Company released treasury shares to provide a stock grant to a key member of management in the amount of 5.78 shares voting and 571.75 shares nonvoting. Other minority owners were allocated additional shares to eliminate dilution. The combined original cost of treasury shares released was \$861,473. Management has determined the estimated fair value of the shares provided to the new minority owner to be \$200,000, with total related compensation expense of \$300,000 including a cash portion for related taxes.

During 2012, the Company had declared \$500,000 in distributions on common stock, of which \$92,319 is payable at December 31, 2012.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 14 – OPERATING LEASES**

The Company leases its office facilities and leased properties under operating leases which expire in various years through 2031. Rent expense for 2012 was \$11,035,170, included in cost of revenues.

The following is a schedule of future minimum lease payments for operating leases with initial or remaining non-cancelable lease terms in excess of one year:

For the Year Ending December 31,	Amount	New Franchises	Total
2013	\$ 10,458,171	\$ 2,739,596	\$ 13,197,767
2014	10,965,963	2,425,996	13,391,959
2015	11,014,793	2,425,875	13,440,668
2016	11,011,536	2,427,135	13,438,671
2017	10,677,412	2,428,414	13,105,826
Thereafter	<u>88,408,439</u>	<u>27,882,099</u>	<u>116,290,538</u>
Totals	<u>\$142,536,314</u>	<u>\$ 40,329,115</u>	<u>\$182,865,429</u>

**NOTE 15 – EMPLOYEE BENEFIT PLAN**

In January 2001, the Company established a savings incentive match plan (SIMPLE) for all eligible employees. Employees are permitted to defer a portion of their compensation. The Company matched employee contributions up to 3% of their salary. Company contributions to the Plan totaled \$61,221 in 2012.

**NOTE 16 – LEGAL PROCEEDINGS**

In 2010, a lawsuit was filed against Mark Carr, CEO of the Company, in the 192<sup>nd</sup> District Court of Dallas County, Texas, styled *Main Carr Development, LLC v. Mark Carr*. The lawsuit alleged that certain fiduciary duties of the CEO were not fully met related to joint property developments for the ultimate use or lease by the Company. The Company submitted a claim in arbitration against Main Carr Development, LLC for its nonperformance of developing properties. In January 2012, a jury unanimously decided in favor of Mark Carr and all claims were dismissed. In June 2012, an arbitration panel provided a final decision in favor of the Company and denied counterclaims against the Company and related parties and awarded damages in favor of the Company.

**NOTE 17 – PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS**

**Prior Period Adjustments** – An adjustment was made to consolidate 2012 beginning balances for additional VIEs listed in *Note 1* that were not consolidated in prior years. The adjustment resulted in an increase in leased properties of \$7,856,943, increase in cash and other assets of \$58,395, increase in accounts payable of \$15,000, increase in long-term debt of \$8,014,824, and a deficit in equity for non-controlling interests of \$114,486.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

---

**Prior Period Adjustments** - The Company recorded deferred rent payable for leases between CBAC and certain VIEs that had been sold in prior years to third-parties in addition to the lease agreements with the third-parties. An entry was made in the prior year to remove the duplicated payable amounts, which reduced deferred rent payable and increased retained earnings by \$1,521,605.

It was subsequently determined that the deferred rent credits should be allocated over the life of the lease as sold to the third-parties. For 2012, an adjustment was made to reverse the increase in retained earnings in the amount of \$1,521,605 and allocate the cumulative effect of the deferred rent credits sold in prior years using a straight-line method over the life of the new leases in the amount of \$187,146.

**Prior Period Reclassifications** - A reclassification was made for consolidated variable interest entities whereas revenues and gains related to the VIEs, which were eliminated during consolidation, were not reallocated to the equity for non-controlling interests. A reclassification was made to decrease the deficit in equity for non-controlling interest by \$583,253 and decrease corporate retained earnings \$583,253.

**NOTE 18 – SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through April 29, 2013, the date which the financial statements were available to be issued.

**Christian Brothers Automotive Corporation**  
Consolidated Financial Statements  
For the Year Ended December 31, 2011

## CONTENTS

	Page
Independent Auditors' Report.....	1
Consolidated Balance Sheet.....	3
Consolidated Statement of Income .....	4
Consolidated Statement of Changes in Shareholders' Equity.....	5
Consolidated Statement of Cash Flows .....	6
Notes to Consolidated Financial Statements.....	8





## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Christian Brothers Automotive Corporation and Subsidiaries  
Houston, Texas

We have audited the accompanying consolidated balance sheet of Christian Brothers Automotive Corporation and Subsidiaries (the "Company") as of December 31, 2011, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

As more fully described in *Note 2* to the consolidated financial statements, the Company has not consolidated variable interest entities in these consolidated financial statements for the year ended December 31, 2011, that, in our opinion, should be consolidated in the consolidated financial statements to conform with accounting principles generally accepted in the United States of America. The effect of this departure from generally accepted accounting principles on the financial position, results of operations, and cash flows of the Company has been disclosed in *Note 2* to the consolidated financial statements.

In our opinion, except for the effects of not consolidating certain variable interest entities as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2011, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 3* to the consolidated financial statements, the Company has gross gains realized on sale-leaseback transactions of \$2,880,190 that are offset with expenses paid to noncontrolling interests of \$2,625,476 at December 31, 2011.

Briggs & Veselka Co.  
Houston, Texas

August 1, 2012

HOUSTON OFFICE 713.667.9147 Tel. ■ 713.667.1697 Fax  
Nine Greenway Plaza, Suite 1700 ■ Houston, Texas 77046 ■ [www.bvccpa.com](http://www.bvccpa.com)

Member of the Center for Public Company Audit Firms of the American Institute of Certified Public Accountants

Independent Member  
**BKR**  
INTERNATIONAL

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED BALANCE SHEET**  
**DECEMBER 31, 2011**

**ASSETS**

Current assets

Cash and cash equivalents	\$ 2,698,032
Accounts receivable, net	1,260,582
Prepaid expenses and other assets	517,304
Current portion of notes receivable	<u>569,094</u>
Total current assets	5,045,012

Leased properties, net	37,636,482
Property and equipment, net	862,676
Franchise fees, net	149,362
Loan fees, net	264,069
Goodwill	1,097,046
Notes receivable, net of current portion	673,413
Deferred rent receivable	4,576,609
Deposits and other assets	<u>21,108</u>

**TOTAL ASSETS** **\$ 50,325,777**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities

Accounts payable	\$ 1,058,898
Accrued expenses	318,790
State taxes payable	101,000
Distributions payable	227,507
Unearned revenues	2,421,352
Due to shareholder	472,702
Current portion of lines of credit	254,260
Current portion of long-term debt	2,136,348
Other current liabilities	<u>386,980</u>
Total current liabilities	7,377,837

Deferred gain on real estate	909,089
Deferred rent payable	3,292,082
Deferred federal income tax	231,727
Lines of credit, net of current portion	546,854
Long-term debt, net of current portion	<u>34,120,608</u>
Total liabilities	46,478,197

Shareholders' equity

Common stock; \$1 par value; 1,000,000 shares authorized; 12,000 shares issued; 10,871 shares outstanding	12,000
Additional paid-in capital	764,580
Treasury stock; 1,129 shares at cost	(1,432,000)
Retained earnings	<u>5,443,572</u>
Total shareholders' equity, net of noncontrolling interests	4,788,152
Noncontrolling interests	<u>(940,572)</u>
Total shareholders' equity	<u>3,847,580</u>

**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** **\$ 50,325,777**

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

---

Revenues	\$22,282,268
Cost of revenues	<u>9,820,259</u>
Gross profit	12,462,009
Selling, general, and administrative expenses	<u>9,296,449</u>
Net income from operations	3,165,560
Other income (expense)	
Gains on sale of leased properties (see Note 3)	2,880,190
Expenses paid to noncontrolling interests (see Note 3)	(2,625,476)
Interest income	133,369
Interest expense	(1,699,561)
Gain on sales of subsidiaries	241,859
Miscellaneous income (expense)	<u>(178,818)</u>
Total other expense, net	<u>(1,248,437)</u>
Net income before state income taxes	1,917,123
Provision for state income taxes	<u>181,174</u>
Net income	1,735,949
Add: net loss attributable to noncontrolling interests	<u>609,946</u>
NET INCOME ATTRIBUTABLE TO CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION	<u>\$ 2,345,895</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE, DECEMBER 31, 2010, AS PREVIOUSLY REPORTED	12,000	\$ 12,000	\$ 764,580	(1,129)	\$ (1,432,000)	\$ 1,962,047	\$ -	\$ 1,306,627
Prior period adjustments	-	-	-	-	-	1,635,630	(330,626)	1,305,004
BALANCE, DECEMBER 31, 2010, AS RESTATED	12,000	12,000	764,580	(1,129)	(1,432,000)	3,597,677	(330,626)	2,611,631
Net income (loss)	-	-	-	-	-	2,345,895	(609,946)	1,735,949
Distributions	-	-	-	-	-	(500,000)	-	(500,000)
BALANCE, DECEMBER 31, 2011	12,000	\$ 12,000	\$ 764,580	(1,129)	\$ (1,432,000)	\$ 5,443,572	\$ (940,572)	\$ 3,847,580

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

---

Cash flows from operating activities	
Net income	\$ 1,735,949
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation	626,093
Bad debt expense	224,516
Net gains on sale of leased properties	(380,515)
Gain on sales of subsidiaries	(118,190)
Amortization of financing costs	87,045
Amortization of franchise fees	23,744
Change in operating assets and liabilities:	
Accounts receivable	(312,362)
Prepaid expenses and other assets	(99,052)
Construction in progress receivable	1,459,934
Deferred rent receivable	(1,267,128)
Accounts payable	562,201
Accrued expenses	(36,661)
State taxes payable	50,490
Distributions payable	(5,273)
Unearned revenues	(202,258)
Due to shareholder	(444,205)
Deferred rent payable	1,188,364
Other current liabilities	<u>354,480</u>
Net cash from operating activities	3,447,172
Cash flows from investing activities	
Proceeds from notes receivable	3,364,324
Issuance of notes receivable	(122,708)
Purchase of property and equipment	(114,457)
Proceeds from sale of leased properties	7,431,770
Purchase of leased properties	(25,082,643)
Net cash reassigned on sale of L&P Cody, Inc.	(40,344)
Net cash reassigned on sale of CBA-Towne Lake, LLC	<u>(25,700)</u>
Net cash from investing activities	(14,589,758)
Cash flows from financing activities	
Borrowings on long-term debt, net of loan fees	24,509,160
Payments on long-term debt	(12,767,822)
Proceeds from lines of credit	821,854
Payments on lines of credit	(519,000)
Payments of distributions	<u>(500,000)</u>
Net cash from financing activities	<u>11,544,192</u>
Net change in cash and cash equivalents	401,606
Cash and cash equivalents, beginning of year	<u>2,296,426</u>
Cash and cash equivalents, end of year	<u>\$ 2,698,032</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

---

Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	<u>\$ 1,621,196</u>
Noncash investing and financing activities:	
Sale of L&P Cody, Inc.:	
Accounts receivable	\$ (1,551)
Prepays and other assets	(4,963)
Property and equipment, net	(81,158)
Franchise fees, net	(86,111)
Goodwill	(195,433)
Accounts payable	11,768
Accrued expenses	7,610
State taxes payable	1,463
Long-term debt	218,961
Deferred rent payable	98,700
Loss on sale of subsidiary	<u>71,058</u>
Net cash reassigned	<u>\$ 40,344</u>
Sale of CBA-Towne Lake, LLC:	
Accounts receivable	\$ (2,259)
Property and equipment, net	(152,413)
Accounts payable	98,369
Accrued expenses	14,650
Long-term debt	256,601
Gain on sale of subsidiary	<u>(189,248)</u>
Net cash reassigned	<u>\$ 25,700</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011

---

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

Christian Brothers Automotive Corporation (CBAC), a Texas S-corporation, is a national franchisor of automobile repair establishments located throughout Texas and the southeastern United States. The Company was formed in August 1982 and had 93 independent franchises in operation at December 31, 2011. In addition to franchising operations, the Company engages in the business of investing in, owning, and selling the real estate and facilities from which its franchise locations operate. These real estate sales are typically made to third-parties, some of which are under sale-leaseback agreements. Service revenue is generated from the Company's subsidiaries and consists of revenue on parts and labor.

**Basis of Consolidation** – In accordance with accounting principles generally accepted in the United States of America (GAAP), CBAC consolidates all wholly-owned subsidiaries and variable interest entities (VIEs), other than those discussed in *Note 2*, for which CBAC has determined to be the primary beneficiary (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated upon consolidation.

The accounts of the following wholly-owned subsidiaries are consolidated in the accompanying consolidated financial statements: CBACF, Inc.; LLTGC, LLC (Copperfield); EC Richardson Enterprises, LLC (Friendswood); and CBA O'Fallon, LLC. Effective January 1, 2011, the Company sold L&P Cody, Inc. and CBA-Towne Lake, LLC to a third-party in exchange for a franchise fee, which is included in revenues on the consolidated statement of income, and an agreement for additional royalties for a certain time period. The subsidiaries were originally formed as independent franchises of CBAC, but were eventually acquired by the Company. Management's intent is to locate qualified buyers to operate the subsidiaries for trial periods and eventually sell the subsidiary to them.

In June 2009, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting and disclosure requirements for VIEs. This amendment changed how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether the reporting entity is required to consolidate another entity is based on, among other things, the purpose and design of the other entity and the reporting entity's ability to direct the activities of the other entity that most significantly impact its economic performance.

In accordance with GAAP, the accounts of the following VIEs are consolidated in the accompanying consolidated financial statements: CBH Properties Investments, LLC; CBH Buda, LLC (Buda); CBH Grayson, LLC (Grayson); CBH Properties Oakmont, LLC (Oakmont); CBF Properties Lubbock, LLC (Lubbock); CBF Properties Helotes, LLC (Helotes); CBH Properties Barry Rd, LLC (Barry Road); CBF Properties L'Worth, LLC (Lake Worth); CBH Properties Hutto, LLC (Hutto); CBH Properties Monument, LLC; CBH Properties Peachtree, LLC (Peachtree); CBH Properties Schertz (Schertz), LP; CBH Properties Tyler, LP (Tyler); CBH Properties Woodlands II, LP (Magnolia); CBH Properties Eldridge, LP; CBH Properties S Katy, LP (Katy); CBH Properties League City, LP; CBH Properties Westhmr, LP; CBH Properties Midland, LLC (Midland); CBH Properties Tampa I, LLC; CBH Properties Rockwall, LLC (Rockwall); CBH Properties New Braunfels, LLC (New Braunfels); CBH Properties Woodway, LLC (Woodway); CBH Properties Granbury, LLC (Granbury); CBH Properties W&P, LLC (Woodman); and CBH Properties Acworth, LLC.

Management has elected not to consolidate the following VIEs: CB Collierville, LP; CB Hoover, LP; CB Montgomery A, LP; Christian Brothers Southaven, LP; CB Yukon, LP; CBH Properties Arnold, LLC; CBH Properties Grand Rapids, LLC; CB Spring Hill, LP; Christian Brothers Friendswood, LP; and Christian Brothers Independence, LP. The effects of this departure on the financial position and results of operations are discussed in *Note 2*.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

---

**Limited Liability Entities** – Certain subsidiaries of the Company are structured as limited liability companies or partnerships in various states throughout the southeastern United States. Members of the limited liability companies are not liable for any debt, obligations, or other liability of the Company unless they have expressly guaranteed certain debt. All limited liability entities have one class of units or equal limited partnership rights, except for the following limited liability companies: Oakmont, Lubbock, Helotes, Lake Worth, Midland, Rockwall, New Braunfels, Woodway, Granbury, and Woodman. These entities have Class A and Class B units. Class A units have preferential rights for liquidating the entity or capital gain proceeds. Operating cash flows are distributed from Class B units prior to Class A units. As of December 31, 2011, there were no Class A units issued in any of the entities.

**Cash and Cash Equivalents** – The Company considers all short-term investments with an original maturity of three months or less to be cash and cash equivalents.

**Revenue Recognition** – Franchise fees are recognized when a franchise location opens to the general public. Franchise fees are collected in installments; the first installment is collected at the signing of the franchise agreement and the remainder is collected when construction commences. Since franchise fees are received prior to opening, they are deferred and presented as unearned revenue on the consolidated balance sheet.

Rent and accounting revenues are recognized as they are earned. For lease agreements with escalating payments, the Company records rental revenue on a straight-line basis over the term of the lease. Deferred rent receivable represents the rent recorded on a straight-line basis in excess of the amounts received in accordance with the lease agreement. Rental payments received in advance are presented as unearned revenue on the consolidated balance sheet.

Royalty fees are recognized as earned. The fees are calculated based on an agreed upon percentage (currently 10% - 50%) of each franchisee's net cash flow.

Service revenue is recognized when service work is completed.

**Accounts Receivable and Allowance for Doubtful Accounts** – Accounts receivable consists of amounts due from financial institutions for draws on construction notes and amounts due from franchisees for rental and royalty revenues. Accounts receivable are estimated at their net realizable value. Management periodically reviews all accounts receivable to determine if any are considered uncollectible based upon the age of the receivable and the creditworthiness of the parties involved. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. As of December 31, 2011, the allowance for doubtful accounts was \$254,316.

**Leased Properties** – Properties leased to franchisees are presented at cost. The cost of ordinary maintenance and repairs is charged to operations, while renewals and replacements are capitalized. Depreciation is computed at rates sufficient to amortize the cost of the assets over their estimated useful lives using the straight-line method. The estimated useful life for building and improvements depreciation is 38 years. Total depreciation expense for 2011 was \$430,263.

**Property and Equipment** – Property and equipment are recorded at cost. Depreciation is computed at rates considered sufficient to amortize the costs of the assets over their estimated useful lives using the straight-line method. Depreciation and amortization are based on the following estimated useful lives:

<u>Assets</u>	<u>Life</u>
Office equipment	3 - 5 years
Furniture and fixtures	5 years
Leasehold improvements	6 - 10 years

Total depreciation expense for 2011 was \$195,830.



**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

---

**Loan Fees** – Costs associated with obtaining financing are capitalized and amortized to interest expense over the term of the loan using the straight-line method which approximates the effective interest method.

**Franchise Fees** – Franchise fees represent fees paid by franchisees that are amortized over the initial term of the franchise agreement, usually 15 years. The Company reacquired the franchise it had previously granted to the franchisee upon the acquisition of the independent franchises, which is a reacquired right. Reacquired rights are identifiable intangible assets that are recognized by the acquirer separately from goodwill in a business combination. The franchise fee is amortized over the remaining contractual period of the franchise agreement.

**Impairment of Long-Lived Assets** – The Company reviews the carrying value of long-lived assets to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others. If such factors indicate a potential impairment, the Company would assess the recoverability of an asset by determining if the carrying amount of the asset exceeds its estimated undiscounted net cash flow, excluding interest. Any impairment would be measured as the difference between the asset's carrying amount and its estimated fair value. There were no impairments recorded for 2011.

**Goodwill** – Goodwill represents the excess of the purchase price over the fair market value of net assets acquired in conjunction with certain acquisitions. Under GAAP, goodwill is not amortized but reviewed annually for impairment by management. Based on the review, Company management determined goodwill was not impaired at December 31, 2011.

**Deferred Gain on Real Estate** – The gains on the sales of properties which are subsequently leased back to the Company are deferred and amortized using the straight-line method over the life of the lease.

**Deferred Rent Payable** – The Company records rent expense on a straight-line basis over the lease term. Deferred rent payable represents the rent recorded on a straight-line basis in excess of the amounts paid in accordance with the lease agreement.

**Income Taxes** – Prior to January 1, 2007, the CBAC had operated as a C corporation. Effective January 1, 2007, the shareholders of the Company elected to be taxed under Subchapter S of the Internal Revenue Code. During such period, federal income taxes were the responsibility of the Company's shareholders, as were certain state income taxes. As of the effective date of the election, the Company was responsible for federal built-in gains taxes to the extent applicable. All assets held at election are subject to taxation on any cumulative appreciation, as of the date of election, if sold or transferred within 10 years of S corporation election. For each tax period, taxable gains are restricted by the greater of the amount of the taxable gains or net income and any amount restricted is deferred to subsequent tax periods. Assets held through January 1, 2017 would no longer be subject to corporate taxation and any deferred tax gains held as of this date would be extinguished. Provisions for income taxes and deferred taxes related to federal built-in gains taxes have been recorded in the accompanying financial statements. The deferred taxes represent the future tax return consequences of deferred tax gains.

CBAC and the subsidiaries structured as limited liability entities are treated as partnerships for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for these entities other than the built-in gains tax noted above for CBAC. Partners and members of the limited liability entities are taxed individually on their share of the entity's earnings. The entity's net income or loss is allocated among the partners and members in accordance with the partnership or operating agreement.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

---

Uncertain tax positions are recognized in the financial statements only if that position is more-likely-than-not of being sustained upon examination by taxing authorities based on technical merits of the position. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. At December 31, 2011, there were no uncertain tax positions recorded. For 2011, the Company did not recognize any interest or penalty expense related to uncertain tax positions or income taxes. The Company does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

The Company is subject to taxes in various states. The Texas margin tax applies to legal entities conducting business in Texas. The tax is calculated by applying a tax rate to a base that considers both revenues and expenses and, therefore, has the characteristics of an income tax. Total state income taxes of approximately \$181,174 for 2011 are recorded on the consolidated statement of income.

The Company files income tax returns in the U.S. federal jurisdiction, and one state jurisdiction. CBAC is no longer subject to U.S. federal and state examinations by tax authorities for years before 2006. At December 31, 2011, the Company's state tax returns open for review by taxing authorities were 2008 through current.

**Advertising Costs** – The Company expenses advertising costs as they are incurred. Total advertising costs for 2011 were \$135,271.

**Taxes Collected from Customers and Remitted to Governmental Authorities** – Taxes collected from customers and remitted to governmental authorities are reported on a net basis.

**Concentration of Credit Risk** – Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. At times, the Company maintains deposits in federal insured financial institutions in excess of federally insured limits. Management monitors the credit ratings and concentration of risk with these financial institutions on a continuing basis to safeguard cash deposits.

**Use of Estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

**Prior Period Adjustments** – An adjustment was made to consolidate 2010 balances for the VIEs listed in *Note 1* that were not consolidated in prior years. The adjustment resulted in an increase in leased properties, net of \$7,000,628, decrease in notes receivable of \$2,972,687, increase in accounts payable of \$56,530, decrease in deferred rent payable of \$52,258, increase in long-term debt of \$4,072,460, increase in retained earnings of \$281,835, and a deficit in equity for noncontrolling interests of \$330,626.

As described in *Note 3*, the Company entered into sale-leaseback transactions in prior years for land and buildings on leased property. The gain deferred as a result of the sales-leaseback transaction was not reduced by the compensation paid to certain individuals of the Company for the sale of the real estate. The compensation was deferred and amortized over the life of the lease transaction in conjunction with the amortization of the deferred gain. An adjustment was made to present these transactions on a net basis to be consistent with the accounting treatment described in *Note 3*. The adjustment decreased deferred compensation expense from \$1,940,332 to \$0-; decreased the deferred gain on real estate sales from \$2,967,805 to \$1,034,891; and decreased retained earnings \$7,418.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011

---

The Company recorded deferred rent payable for leases between CBAC and certain VIEs that had been sold in prior years to third-parties in addition to the lease agreements with the third-parties. The lease agreements with the VIEs were no longer enforceable once the real estate was sold to the third-parties. An entry was made to remove the duplicated leases which reduced deferred rent payable from \$3,685,046 to \$2,254,676, and increased retained earnings by \$1,430,370.

As noted above, franchise fees acquired by a franchisor in the acquisition of a franchisee are reacquired rights. GAAP requires the franchisee fees to be recorded as an intangible asset and amortized over the remaining contractual life of the franchise agreement. Franchise fees, net were eliminated in prior years with the balance recorded to goodwill thereby overstating goodwill. An adjustment was made to record franchise fees, net of \$259,217; reduce goodwill from \$1,620,853 to \$1,292,479; and decrease retained earnings for prior year accumulated amortization eliminated of \$69,157.

**Recent Accounting Pronouncements** – In September 2011, the FASB issued updated guidance on the periodic testing of goodwill for impairment. This guidance will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under the current accounting standards. This new guidance is effective for the Company beginning December 31, 2012. The Company does not expect the adoption will have a material effect on its consolidation financial position or results of operations.

**NOTE 2 – VARIABLE INTEREST ENTITIES**

CBAC has entered into operating lease agreements and guarantees debt on several entities under common control. The debt for all of the VIEs is also guaranteed by a shareholder of CBAC, and for those VIEs not consolidated, the debt is guaranteed also by a director of CBAC. Each of these entities has been determined to be a VIE in which CBAC is the primary beneficiary. The purpose of the VIEs is to invest in or construct and sell the real estate from which the franchisees operate. The VIEs are thinly capitalized and the lease agreements between the VIE and CBAC are the sole income for the VIE until the real estate is sold to a third-party or franchisee and a gain realized. CBAC's maximum exposure to loss from involvement with these entities is limited to the difference between the fair value of the real estate purchased and constructed and the fair value of the guarantee on the debt at the date of default. The fair value of the guarantee has not been estimated as of December 31, 2011 as none of the debt agreements are in default or more-likely-than-not of being in default at year-end.

Due to the consolidation of these VIEs, the following accounts are included in the consolidated balance sheet at December 31, 2011:

Leased properties, net	<u>\$ 24,792,715</u>
Total assets	<u>\$ 24,792,715</u>
Accounts payable	\$ 810
Current portion of long-term debt	406,991
Long-term debt, net of current portion	<u>23,081,974</u>
Total liabilities	<u>\$ 23,489,775</u>

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

---

The liabilities recognized as a result of consolidating the VIEs do not represent additional claims on CBAC's general assets. The creditors of the VIEs have claims only on the assets of the VIEs. The assets recognized as a result of consolidating the VIEs are the property of the VIE and are not available to CBAC for any other purpose, other than as guarantor for the notes payable and lessee.

As described in *Note 1*, management elected not to consolidate certain VIEs in which CBAC shareholders own equity interests ranging from 49% to 60% in the VIEs. At December 31, 2011, the VIEs not consolidated had total assets and liabilities of \$7,915,338 and \$8,029,824, respectively. The assets are comprised of buildings and land leased to CBAC, which are subleased to franchisees. The liabilities consist primarily of notes payable to financial institutions and related parties. As noted previously, all debt is guaranteed by CBAC.

**NOTE 3 – EMPHASIS OF A MATTER**

In 2007, the shareholders in CBAC began forming VIEs for the sole purpose of investing in, purchasing, and constructing real estate for future franchise locations. Once the buildings are constructed, the real estate is sold to a third-party, or in rare instances franchisees, and leased to CBAC who subleases the property to the franchisee creating a sale-leaseback transaction. In accordance with employment agreements with members of management and shareholders of CBAC (CBAC employment agreements), equity interests in these entities was granted to them allowing participation in any gains realized on the sale of the real estate. Management of CBAC locates potential franchisees, oversees the purchase and construction of the real estate, and secures and administers the financing from financial institutions and related parties. At the date of grant, typically at formation, the equity has no fair value. The equity interests are granted requiring no or minimal capital contributions and thinly capitalized.

The members and the partners of the VIEs (noncontrolling interests) are paid their equitable share determined by partnership and operating agreements of the VIEs of the gain on the sale of the buildings in accordance with CBAC employment agreements. Management considers these expenses paid to noncontrolling interests as a cost of selling the real estate for their services in purchasing, constructing, and administering the real estate and reduces the gain realized by the amounts obligated to the equity holders of the VIEs.

In accordance with GAAP, gains realized on the sale of real estate that are subsequently leased back to the seller are deferred and amortized over the life of the lease. However, as management deems all amounts earned through the real estate sales transactions committed to the management of the Company under CBAC employment agreements and not income due to CBAC, there are no net gains to defer. As of December 31, 2011, gross gains realized on sale-leaseback transactions were \$2,880,190 offset by expenses paid to noncontrolling interests of \$2,625,476 for and are included in the consolidated statement of income. See *Note 11* for sale-leaseback transactions with net gains amortized as of December 31, 2011.

**NOTE 4 – NOTES RECEIVABLE**

Notes receivable includes amounts due from franchisees for working capital advances, franchise fees, and the purchase of equipment. The notes bear interest at a rate of 0% to 8% per year, with principal and interest payable monthly with terms ranging from on demand to 20 years.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

---

Future payments from notes receivable are as follows:

<u>For the Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2012	\$ 569,094
2013	290,426
2014	27,792
2015	28,792
2016	26,124
Thereafter	<u>300,279</u>
Total	<u>\$ 1,242,507</u>

**NOTE 5 – LEASED PROPERTIES**

Leased properties consisted of the following at December 31, 2011:

Leased properties, at cost	
Land	\$ 9,967,305
Construction in progress	9,990,354
Buildings and improvements	<u>20,462,019</u>
	40,419,678
Less: accumulated depreciation	<u>(2,783,196)</u>
Total leased properties, net	<u>\$ 37,636,482</u>

Interest capitalized for December 31, 2011 was \$316,292.

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2011:

Property and equipment, at cost	
Office and equipment	\$ 847,509
Furniture and fixtures	205,750
Vehicles	100,635
Leasehold improvements	<u>284,513</u>
	1,438,407
Less: accumulated depreciation	<u>(575,731)</u>
Total property and equipment, net	<u>\$ 862,676</u>

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

**NOTE 7 – FRANCHISE FEES**

Franchise fees consisted of the following at December 31, 2011:

Gross carrying amount	\$ 325,000
Less: accumulated amortization	<u>(175,638)</u>
Franchise fees, net	<u>\$ 149,362</u>

Amortization expense, which is included in selling, general, and administrative expenses, was \$23,744 for 2011. The estimated amortization expense for franchise fees is as follows:

<u>For the Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 21,667
2013	21,667
2014	21,667
2015	16,926
2016	15,000
Thereafter	<u>52,435</u>
Total	<u>\$ 149,362</u>

**NOTE 8 – FUTURE LEASE REVENUES**

The following is a schedule of future rental revenues based on initial lease terms of 15 years for 81 franchises who lease facilities from the Company at December 31, 2011:

<u>For the Year Ending December 31,</u>	<u>In Operation</u>	<u>New Franchises</u>	<u>Total</u>
2012	\$ 8,581,004	\$ 2,014,512	\$ 10,595,516
2013	8,645,455	2,413,238	11,058,693
2014	8,710,874	2,449,436	11,160,310
2015	8,777,273	2,486,178	11,263,451
2016	8,824,692	2,523,471	11,348,163
Thereafter	<u>55,875,751</u>	<u>26,202,744</u>	<u>82,078,495</u>
Totals	<u>\$99,415,049</u>	<u>\$38,089,579</u>	<u>\$137,504,628</u>

**NOTE 9 – LINES OF CREDIT**

The Company has a \$500,000 line of credit with a bank, due and payable June 2012. The Company is currently negotiating amended terms, including an extended maturity date, with the bank. Interest is due monthly at a stated rate of 7.50% and secured by certain accounts receivable and other limited assets of the Company not secured by other notes. At December 31, 2011, the Company had \$254,260 outstanding on the line of credit.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

---

Effective December 20, 2011, the Company executed an agreement with a bank for a construction line of credit with a maximum principal amount of \$7,500,000 maturing December 20, 2015. Interest is due monthly at the rate of LIBOR plus 3.25% (3.50% at December 31, 2011). The construction line of credit is secured by all new construction and real estate purchased with loan proceeds and cross-collateralized with existing real estate purchased with debt from the same financial institution. At December 31, 2011, the Company had an outstanding balance of \$546,854.

**NOTE 10 – LONG-TERM DEBT AND DUE TO SHAREHOLDER**

The Company holds in escrow cash distributed from the sale of real estate held under the VIEs that are due to a shareholder. The shareholder may withdraw the balance upon demand. The balance at December 31, 2011 was \$472,702.

Long-term debt was as follows at December 31, 2011:

Notes payable to various financial institutions, secured by real estate and certain accounts receivable, and/or assets of the subsidiaries; interest rates ranging from 5.0% to 8.0%; with monthly or quarterly principal and interest payments ranging between \$417 and \$11,287; maturing on various dates through July 2022.	\$ 17,480,548
Notes payable to various financial institutions, secured assets of the CBAC; interest rates ranging from 1.82% to 7.03%; with monthly or quarterly principal and interest payments ranging between \$507 and \$19,021; maturing on various dates through October 2022.	11,799,199
Subordinated notes payable to an affiliate of a shareholder; unsecured; interest rates ranging from 12.5% to 8.0%; with monthly principal and interest payments ranging between \$118 and \$1,042; maturing June 1, 2014.	117,723
Subordinated notes payable to related parties, including shareholders, directors, members, partners, and affiliates of shareholders; secured by land and/or assets of CBAC; interest rates ranging from 6.0% to 12.5%; with monthly or quarterly principal and interest payments ranging between \$521 and \$4,115; maturing on various dates through July 2022.	6,859,486
	<u>36,256,956</u>
Less: current maturities	<u>(2,136,348)</u>
Total	<u>\$ 34,120,608</u>

In connection with certain notes payable, the Company has agreed to various covenants including reporting requirements and maintenance of certain financial ratios. The Company was in compliance with these covenants at December 31, 2011 or had obtained waivers.

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

---

Future payments on long-term debt and subordinated notes payable are as follows:

For the Year Ending December 31,	Scheduled Principal Payments of Long-Term Debt	Subordinated Notes Payable	Total
2012	\$ 1,507,566	\$ 628,782	\$ 2,136,348
2013	1,222,816	2,804,806	4,027,622
2014	1,097,713	7,826,487	8,924,200
2015	2,461,527	2,864,914	5,326,441
2016	1,200,152	7,694,385	8,894,537
Thereafter	<u>4,944,648</u>	<u>2,003,160</u>	<u>6,947,808</u>
Totals	<u>\$ 12,434,422</u>	<u>\$23,822,534</u>	<u>\$36,256,956</u>

**NOTE 11 – SALE-LEASEBACK TRANSACTIONS**

During prior periods, the Company had entered into eight sale-leaseback agreements of land and buildings on leased property. The Company deferred \$1,823,777, as adjusted as described in *Note 1*, in real estate gains in prior years for recognition in future periods. This deferred amount is recognized into income over the life of each respective lease. Gains recognized in the 2011 consolidated statement of income related to the amortization of deferred gain on real estate was \$125,800.

**NOTE 12 – INCOME TAXES**

The Company had a deferred federal income tax of approximately \$231,727 as of December 31, 2011 related to the sale/transfer of assets held as of January 1, 2007 as described in *Note 1*. The Company had estimated \$681,550 of the remaining deferred taxable gain will be realized before January 1, 2017.

**NOTE 13 – SHAREHOLDERS' EQUITY**

During 2009, the Company performed a stock conversion. For every voting common share outstanding, the Company converted such common share into a 0.1 voting common share and a 0.9 nonvoting common share. The majority shareholder of the Company sold his nonvoting shares to his irrevocable trust.

During 2011, the Company had declared \$500,000 in distributions on common stock, of which \$227,507 is payable at December 31, 2011.

**NOTE 14 – OPERATING LEASES**

The Company leases its office facilities and leased properties under operating leases which expire in various years through 2031. Rent expense for 2011 was \$7,761,857.



**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

The following is a schedule of future minimum lease payments for operating leases with initial or remaining noncancelable lease terms in excess of one year:

<u>For the Year Ending</u> <u>December 31,</u>	<u>Amount</u>	<u>New</u> <u>Franchises</u>	<u>Total</u>
2012	\$ 7,477,700	\$ 2,824,040	\$ 10,301,740
2013	7,274,004	3,389,492	10,663,496
2014	7,363,072	3,423,403	10,786,475
2015	7,199,802	3,474,755	10,674,557
2016	7,222,351	3,544,319	10,766,670
Thereafter	<u>54,130,125</u>	<u>40,883,873</u>	<u>95,013,998</u>
Totals	<u>\$90,667,054</u>	<u>\$57,539,882</u>	<u>\$148,206,936</u>

**NOTE 15 – EMPLOYEE BENEFIT PLAN**

In January 2001, the Company established a savings incentive match plan (SIMPLE) for all eligible employees. Employees are permitted to defer a portion of their compensation. The Company matched employee contributions up to 3% of their salary. Company contributions to the Plan totaled \$59,657 in 2011.

**NOTE 16 – LEGAL PROCEEDINGS**

In 2010, a lawsuit was filed against Mark Carr, CEO (CEO) of the Company, in the 192<sup>nd</sup> District Court of Dallas County, Texas, styled *Main Carr Development, LLC v. Mark Carr*. The lawsuit alleged that certain fiduciary duties of the CEO were not fully met related to joint property developments for the ultimate use or lease by the Company. The Company submitted a claim in arbitration against Main Carr Development, LLC for its nonperformance of developing properties. In January 2012, a jury unanimously decided in favor of Mark Carr and all claims were dismissed. In June 2012, an arbitration panel provided a final decision in favor of the Company and denied counterclaims against the Company and related parties and preliminarily awarded damages in favor of the Company. The Company does not believe that the final resolution of this matter should result in a material adverse effect on its financial conditions, results of operations, or liquidity.

**NOTE 17 – SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through August 1, 2012, the date which the financial statements were available to be issued.

During 2012, the Company sold Copperfield and Friendswood franchises at cost.

During 2012, the Company also sold the real estate in the following VIEs whereby the gains will be paid to the noncontrolling interests as noted in *Note 3*: Tyler, Magnolia, Montgomery, Barry Road, Helotes, Peachtree, Grayson, Lake Worth, Schertz, Oakmont and Rockwall.

**EXHIBIT B**  
**FRANCHISE AGREEMENT**

Attached as Exhibit B is the Franchise Agreement (from page B - 1 to page B – 106).

**CHRISTIAN BROTHERS AUTOMOTIVE  
CORPORATION**

**FRANCHISE AGREEMENT**

Contents

1. GRANT OF FRANCHISE AND LICENSE.
  - 1.01. Grant of Franchise.
  - 1.02. Grant of License.
  
2. TERRITORY.
  - 2.01. Territorial Grant.
  - 2.02. Franchisor Restrictions.
  - 2.03. Franchise Restrictions.
  - 2.04. Rights Reserved by Franchisor.
  
3. TERM AND RENEWAL.
  - 3.01. Initial Term.
  - 3.02. Renewal Term(s).
  - 3.03. Form and Manner of Renewal.
  - 3.04. Fees Upon Renewal.
  - 3.05. Conditions Precedent to Renewal.
  - 3.06. Notice of Expiration.
  - 3.07. Second Renewal Term.
  - 3.08. Third Renewal Term.
  - 3.09. Fourth Renewal Term.
  - 3.10. Fifth Renewal Term.
  
4. PAYMENTS TO FRANCHISOR.
  - 4.01. Initial Franchise Fee.
  - 4.02. Advertising Fee.
  - 4.03. Training Fees and Administrative Fees..
  - 4.04. Application of Funds.
  - 4.05. Continuing Royalty.
  
5. MARKS.
  - 5.01. Franchisee Has No Interest in Marks.
  - 5.02. Franchisor's Ownership of Marks.
  - 5.03. Use of Marks.
  - 5.04. Nonuse of Trade Name.

- 5.05. White Page and Yellow Page Telephone Listing.
  - 5.06. Defense of Mark by Franchisor.
  - 5.07. Prosecution of Infringers.
  - 5.08. Discontinuance or Substitution of Marks.
  - 5.09. Use of Marks.
  - 5.10. Limited License Only; Rights Reserved.
  
- 6. CONFIDENTIAL OPERATIONS MANUAL.
  - 6.01. Loan of Confidential Operations Manual.
  - 6.02. Subject Matter of Confidential Operations Manual.
  - 6.03. Business To Conform to Confidential Operations Manual.
  - 6.04. Confidential Operations Manual Is Property of Franchisor.
  - 6.05. Keeping Confidential Operations Manual Up-To-Date.
  
- 7. CONFIDENTIAL INFORMATION.
  - 7.01. Non-Disclosure of Confidential Information.
  
- 8. ADVERTISING.
  - 8.01. Advertising Standards.
  - 8.02. Administration of Franchisor's Advertising Program.
  - 8.03. Franchisor-Owned Store Participation.
  - 8.04. Submission of Proposed Local Advertisements, Identification and Promotional Materials.
  - 8.05. Local Advertising.
  - 8.06. Initial Advertising.
  - 8.07. White Page and Yellow Page Advertising.
  
- 9. DUTIES OF FRANCHISOR.
  - 9.01. Confidential Operations Manual.
  - 9.02. Method of Operations.
  - 9.03. Training and Supervision.
  - 9.04. Bookkeeping.
  - 9.05. Preopening Assistance.
  - 9.06. Assistance During Start-Up Period.
  - 9.07. Source of Supply.
  - 9.08. Pricing.
  - 9.09. Unavoidable Delays.
  
- 10. DUTIES OF FRANCHISEE.
  - 10.01. Payments to Franchisor.
  - 10.02. Purchases.
  - 10.03. Compliance with this Agreement, Laws, Rules and Regulations.
  - 10.04. Franchisee Participation in Operation of Business.
  - 10.05. Qualifications of Franchisee's Employees.
  - 10.06. Indemnification.

- 10.07. Manner of Operation.
  - 10.08. Advertising.
  - 10.09. Hours of Operation.
  - 10.10. Equipment.
  - 10.11. Corporate or Other Entity Franchisee Records.
  - 10.12. Requirements Regarding, and Restrictions Relating to, Products and Services Sold by Franchisee.
  - 10.13. Inspection.
  - 10.14. Submission of Nonfinancial Reports.
  - 10.15. Insurance.
  - 10.16. Cooperation with Franchisor.
  - 10.17. Best Efforts.
  - 10.18. Continuing Training.
  - 10.19. Timely Payment of Amounts Due by Franchisee
  - 10.20. Restriction On Transfer of Shares of Franchisee.
  - 10.21. Opening of Franchised Business
  - 10.22. Entering Into the Commercial Sub-Lease Agreement
  - 10.23. Pre-Opening Termination by Franchisor
  - 10.24. Maintenance of Premises and Approval of Improvements
11. RECORDS, AUDITS AND REPORTING REQUIREMENTS.
- 11.01. Financial Statements and Reports.
  - 11.02. Records.
  - 11.03. Audits.
  - 11.04. Online Access and Additional Information.
12. RELATIONSHIP OF THE PARTIES.
- 12.01. Independent Contractor.
13. ASSIGNMENT AND RIGHT OF FIRST REFUSAL.
- 13.01. Assignment by Franchisor.
  - 13.02. Assignment by Franchisee.
  - 13.03. No Encumbrance.
  - 13.04. Corporate Franchisee.
  - 13.05. Death of Principal Operator.
14. DEFAULT AND TERMINATION.
- 14.01. Termination After Right to Cure.
  - 14.02. Termination Without Right to Cure.
  - 14.03. Cross Default.
  - 14.04. Notice Required by Law.
15. FURTHER OBLIGATIONS AND RIGHTS OF THE PARTIES UPON TERMINATION OR EXPIRATION.
- 15.01. Discontinuance of Franchisor's Marks.

- 15.02. Execution of Documents.
- 15.03. Franchisor's Rights Not Prejudiced.
- 15.04. Franchisee's Cancellation of Names Incorporating Marks.
- 15.05. Franchisee's Cancellation of Telephone Listings and Numbers.
- 15.06. Return of Franchisor's Property.
- 15.07. Payment of Sums Due.
- 15.08. Franchisor's Option to Purchase Franchisee's Business.
- 15.09. Key Man Insurance.
  
- 16. COVENANTS NOT TO COMPETE.
  - 16.01. In-Term and Postterm Covenant Not To Compete.
  - 16.02. Procurement of Additional Agreements and Covenants.
  - 16.03. Enforcement of Covenants Not To Compete.
  
- 17. WAIVER AND DELAY.
  - 17.01. Limited Effect of Any Waiver or Delay.
  
- 18. INTEGRATION OF AGREEMENT.
  - 18.01. No Prior Representations.
  - 18.02. No Oral Amendments.
  
- 19. NOTICES.
  - 19.01. Notice to Franchisor.
  - 19.02. Notice to Franchisee.
  
- 20. MISCELLANEOUS.
  - 20.01. Construction and Interpretation.
  - 20.02. Severability.
  - 20.03. Lien on Franchisee's Property
  
- 21. COSTS OF ENFORCEMENT.
  - 21.01. Ability to Recover Litigation Costs.
  
- 22. ACKNOWLEDGMENTS.
  - 22.01. Franchisee's Acknowledgments, Warranties and Representation.
  
- 23. WAIVER OF CONSUMER RIGHTS.
  - 23.01. Waiver of Consumer Rights.
  
- 24. DISPUTE RESOLUTION AGREEMENT.
  - 24.01. Dispute Resolution Agreement.
  
- 25. SUBMISSION OF AGREEMENT.
  - 25.01. Submission of Agreement.

ADDENDA

- A. Ratification of Franchise Agreement
- B. Spouse's Consent To Franchise Agreement

EXHIBITS

- A. Territory
- B. The Marks
- C. Description of Equipment
- D. Commercial Sub-Lease Agreement

THIS PAGE INTENTIONALLY LEFT BLANK



**FRANCHISE AGREEMENT**

THIS FRANCHISE AGREEMENT (the "Agreement") is made effective as of the \_\_\_\_ day of \_\_\_\_\_, 201\_ (the "Effective Date"), between CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION, a Texas corporation with its principal office at 15995 N. Barker's Landing, Suite 145, Houston, Texas 77079 (the "Franchisor" or "CBAC") and \_\_\_\_\_, whose principal place of business is \_\_\_\_\_, a \_\_\_\_\_ formed in the State of \_\_\_\_\_ (the "Franchisee").

WHEREAS, Franchisor is the owner of the trademarks, trade names, service marks, copyrights and logo-types listed in Exhibit "B" (the "Marks"); and of certain techniques, know-how, trade secrets and procedures (the "Know-How"), all of which are used in connection with the establishment and operation of an automotive repair business including processes and techniques for selling and marketing such services, and quality control techniques and training programs; and

WHEREAS, Franchisor as the result of great expenditure of time and effort has developed an effective system of establishing and operating the automotive repair business including business forms; software; bookkeeping and accounting materials and techniques; management and control systems; pricing and purchasing systems; office procedures; site selection techniques; staffing procedures; and, in general, a style, system, technique and method of business operation and procedure developed through and by reason of Franchisor's business experience (collectively the "System"); and

WHEREAS, Franchisor continues to expend time, skill and money to investigate and, if Franchisor deems it desirable, to develop and integrate into the System new procedures, systems,

products, and services; and

WHEREAS, Franchisee has applied to obtain a license to operate one Christian Brothers Automotive Corporation franchise in the Territory described in Section 2.01 of this Agreement for the purpose of offering and selling Franchisor's services and products under the Marks, Know-How and System; and

WHEREAS, the parties wish to enter into an Agreement upon the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE COVENANTS AND AGREEMENTS CONTAINED HEREIN AND FOR OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT AND SUFFICIENCY OF WHICH IS HEREBY ACKNOWLEDGED, FRANCHISOR AND FRANCHISEE AGREE AS FOLLOWS:

1. GRANT OF FRANCHISE AND LICENSE.

1.01 Grant of Franchise. Franchisor hereby grants to Franchisee, and Franchisee accepts, a non-exclusive license to operate one (1) Christian Brothers Automotive Corporation franchise (the "Franchised Business") and, to use solely in connection therewith, the Marks, Know-How and System (as they may be changed or developed from time to time), in the Territory (as defined in Section 2.01 hereof) pursuant to the terms of this Agreement.

1.02 Grant of License. Franchisor grants to Franchisee, and Franchisee accepts, a nonexclusive license to use and display the Marks in connection with the operation of the Franchised Business, and the Services (as defined below) in and only in the Territory described below pursuant to the terms of this Agreement. "Services" shall mean the services authorized by Franchisor to be offered or provided by Franchisee in connection

with the Franchised Business, including the sale of products authorized by Franchisor.

2. TERRITORY.

2.01. Territorial Grant. The territory granted to Franchisee by Franchisor which is subject to the terms of this Agreement shall be the area designated on Exhibit “A” attached to this Agreement (the “Territory”). Except as expressly provided to the contrary herein, Franchisee shall have the sole and exclusive right to solicit the sale of the Services within the Territory.

2.02. Franchisor Restrictions. Franchisor will not operate a Franchisor-owned outlet of the type franchised hereunder or grant a franchise for the operation of a similar or competitive business in the Territory, except as provided in Section 2.04 of this Agreement (“Rights Reserved By Franchisor”).

2.03. Franchisee Restrictions. Franchisee shall sell the Services in the Territory, in accordance with the terms of this Agreement. Franchisee shall not, without Franchisor’s express written consent, solicit, sell or perform any Services outside the Territory. Should Franchisee receive an inquiry or request for the performance of any Services outside of the Territory, it must promptly refer such customer to the Franchisor or to any franchisee of Franchisor to whom such territory has been assigned.

2.04. Rights Reserved by Franchisor. The Franchisor has the right to grant other franchises outside of the Territory as Franchisor deems appropriate. Franchisor reserves the right to offer and sell at wholesale all products which comprise, or may in the future comprise a part of the Services and System, which products may be resold at retail to the general public by Franchisor both within and outside of the Territory. Franchisor further reserves the right, both within and outside of the Territory, to sell at both wholesale and retail all

products and services which do not comprise a part of the System.

3. TERM AND RENEWAL.

3.01. Initial Term. The initial term (“Initial Term”) of this Agreement shall be for a period of fifteen (15) years from the Opening Date (as hereinafter defined) of the Franchised Business, unless sooner terminated in accordance with the provisions of this Agreement. The “Opening Date” shall be the date designated by the Franchisor as the date the Franchised Business must be opened and operating. If no date is designated by the Franchisor then the Opening Date will be the date the franchise was open to the public for business.

3.02. Renewal Terms. If, at the conclusion of the Initial Term of this Agreement, Franchisee has complied in all respects with the requirements and the conditions precedent to renewal set forth in Sections 3.03, 3.04 and 3.05, then Franchisee shall have the right, but not the obligation, to enter into a renewal agreement (the “Renewal Agreement”) for one additional consecutive term of five (5) years (the “Renewal Term”). The Renewal Term shall commence upon the date of the expiration of the Initial Term hereof. If, at the conclusion of the Renewal Term, Franchisee has complied in all respects with the requirements and the conditions precedent to renewal set forth in Sections 3.03, 3.04 and 3.05, then Franchisee will have the right to enter into a second renewal agreement (the “Second Renewal Agreement”) for an additional term of five (5) years (the “Second Renewal Term”). The Second Renewal Term will commence upon the date of the expiration of the Renewal Term. If at the conclusion of the Second Renewal Term, Franchisee has complied in all respects with the requirements and the conditions precedent to renewal set forth in Sections 3.03, 3.04 and 3.05, then Franchisee will have

the right to enter into a third renewal agreement (the “Third Renewal Agreement”) for an additional term of five (5) years (the “Third Renewal Term”). The Third Renewal Term will commence upon the date of the expiration of the Second Renewal Term. In connection with entering into any of the renewal agreements for any of the renewal terms described in this Section 3.02, the provisions of Sections 3.03, 3.04 and 3.05 will be construed in accordance with the provisions of Sections 3.07, 3.08, 3.09 and 3.10.

3.03. Form and Manner of Renewal. If Franchisee wishes to exercise its right to enter into a Renewal Agreement, it will do so by executing Franchisor’s then current form of Renewal Agreement, which agreement will supersede this Agreement. The terms of the Renewal Agreement may differ from the terms of this Agreement, except that: (1) the Territory will remain the same, (2) the royalties upon renewal will be the same royalties contained in this Agreement and (3) the Renewal Agreement will provide Franchisee with an option to renew for the Second Renewal Term, Third Renewal Term, Fourth Renewal Term and the Fifth Renewal Term. Franchisee must exercise its renewal right hereunder in the following manner:

- (a) Not less than one hundred eighty (180) days, but no more than two hundred forty (240) days prior to the expiration of the Initial Term, Franchisee will, in writing, request from Franchisor a copy of its then current franchise disclosure document (the “Disclosure Document”) and then current Renewal Agreement.
- (b) Upon receipt of the Disclosure Document and Renewal Agreement, Franchisee will acknowledge such receipt by executing the acknowledgement of receipt form contained in the Disclosure Document and returning it to Franchisor.
- (c) No sooner than ten (10) business days but no more than twenty (20) business days

FDD Exhibit B

after Franchisee receives Franchisor's then current Disclosure Document and Renewal Agreement, Franchisee shall notify Franchisor, in writing, as to whether or not it elects to execute the Renewal Agreement.

- (d) Upon receipt of Franchisee's notice of its election to execute the Renewal Agreement, Franchisor will deliver to Franchisee three (3) copies of the Renewal Agreement. Promptly upon receipt of them, Franchisee will execute three (3) copies of the Renewal Agreement and return them to Franchisor.
- (e) If Franchisee fails to perform any of the acts set forth in subsections (a), (b), (c) or (d) of this Section 3.03 in a timely fashion, such failure will be deemed an election by Franchisee not to exercise its right to enter into a Renewal Agreement, and will cause Franchisee's right to enter into a Renewal Agreement to expire without further notice or action by Franchisor.
- (f) If Franchisee exercises its renewal right in the form and manner herein described, and if on the date of the expiration of the Initial Term, Franchisee has complied with all of the conditions contained in Section 3.05 hereof, Franchisor will execute the Renewal Agreement executed by Franchisee and will, promptly after expiration of the Initial Term hereof, deliver one fully executed copy of the Renewal Agreement to Franchisee.

3.04. Fees Upon Renewal. If Franchisee enters into a Renewal Agreement for the Renewal Term, Franchisee shall be required to pay, in lieu of the then current initial franchise fee, a renewal fee in an amount equal to ten percent (10%) of the initial franchise fee paid for the most recently sold franchise at the time of renewal (the "Renewal Fee"). Franchisee will be required to pay the Renewal Fee in connection with the Second Renewal Term,

Third Renewal Term, Fourth Renewal Term or Fifth Renewal Term.

- 3.05. Conditions Precedent to Renewal. Franchisee may enter into a Renewal Agreement, only upon fulfillment of each and all of the following conditions:
- (a) At the conclusion of the Initial Term, Franchisee must have fully performed and otherwise been in compliance with all of its obligations under this Agreement and under all other agreements between Franchisor (and its affiliates, subsidiaries and designees, if any) and Franchisee;
  - (b) Franchisee will have refurbished, redesigned or remodeled its Franchised Business, and will have provided for such upgrading and replacement of equipment, displays, materials and inventory, by the time the Renewal Term is scheduled to commence as Franchisor may require to conform to: (i) Franchisor's then current specifications for its franchised businesses; and (ii) the then current requirements of the Renewal Agreement;
  - (c) Franchisee must have executed a general release, satisfactory to Franchisor of any and all claims against Franchisor and its subsidiaries, affiliates, and designees and their respective officers, directors, shareholders, agents, contractors, and employees, in their corporate and individual capacities, arising out of or related to this Agreement or the relationship between the parties. No such document will purport to release Franchisor from any future claims arising out of or related to the Renewal Agreement;
- 3.06. Notice of Expiration. If applicable law requires that Franchisor give notice of expiration to Franchisee prior to the expiration of the Initial Term, Franchisor will provide such notice. If no notice of expiration is required by the law applicable to this Agreement,

Franchisor will not be obligated to deliver any such notice.

3.07 Second Renewal Term. If Franchisee desires to exercise its right to enter into a Second Renewal Agreement, Franchisee must comply with the terms of Sections 3.03 through 3.06, and all references in those Sections to:

- (a) “Initial Term” shall be deemed to refer to “Renewal Term”;
  - (b) “Agreement” shall be deemed to refer to “Renewal Agreement”;
  - (c) “Renewal Agreement” shall be deemed to refer to “Second Renewal Agreement”;
- and
- (d) “Renewal Term” shall be deemed to refer to “Second Renewal Term.”

3.08 Third Renewal Term. If Franchisee desires to exercise its right to enter into a Third Renewal Agreement, Franchisee must comply with the terms of Sections 3.03 through 3.06, and all references in those Sections to:

- (a) “Initial Term” shall be deemed to refer to “Second Renewal Term”;
  - (b) “Agreement” shall be deemed to refer to “Second Renewal Agreement”;
  - (c) “Renewal Agreement” shall be deemed to refer to “Third Renewal Agreement”;
- and
- (d) “Renewal Term” shall be deemed to refer to “Third Renewal Term.”

#### 4. PAYMENTS TO FRANCHISOR.

In consideration of the execution of this Agreement by Franchisor and the services to be performed by Franchisor, Franchisee agrees to pay to Franchisor the following:

4.01. Initial Franchise Fee. The Initial Franchise Fee is One Hundred and Twenty-Five Thousand Dollars (\$125,000.00) (the “Initial Franchise Fee”). Seventy Thousand dollars



FDD Exhibit B

(\$70,000.00) of the Initial Franchise Fee (the “Initial Payment”) is due upon the earlier of (a) the execution of an acknowledgement and receipt agreement (the “Acknowledgement and Receipt Agreement”) by Franchisee and Franchisor, or (b) the execution of this Agreement, and the remaining Fifty-five Thousand Dollars (\$55,000.00) of the Initial Franchise Fee (the “Second Payment”) is due three days after the earlier of (a) the date Franchisor notifies Franchisee that the land where Franchisee will operate its Franchised Business has been purchased or leased, or (b) the date Franchisor notifies Franchisee that the building permits have been obtained for the building where Franchisee will operate its Franchised Business. If you qualify for the discount under the IFA VetFran Program described in Items 5 and 7 of the Franchise Disclosure Document, your Second Payment will be in the amount of \$42,500.00.

This Initial Payment will be deemed fully earned when paid and is not refundable in whole or in part, except as provided in the Acknowledgement and Receipt Agreement that has been entered into by and between Franchisor and Franchisee or as provided in this Agreement. The Second Payment will be deemed fully earned when paid and is not refundable in whole or in part for any reason except as provided in the Acknowledgement and Receipt Agreement that has been entered into by and between Franchisor and Franchisee or as provided in this Agreement.

4.02. Marketing Fee.

(a) At Franchisor’s sole discretion, Franchisor may from time to time establish a regional marketing program (the “Regional Program”). If Franchisee’s Territory is within the area covered by the Regional Program, then after Franchisee’s Franchised Business has operated for a period of six (6) months, Franchisee will

FDD Exhibit B

pay to Franchisor, in addition to all other fees and amounts owed to Franchisor, Franchisee's prorated portion of the costs of the Regional Program (to be expended as provided below). It is specifically agreed that Franchisee will not be required to pay more than \$10,000.00 during any calendar year for such costs.

- (b) Franchisor has established a national marketing program (the "National Program"). If Franchisee's Territory is within the area covered by the National Program, then after Franchisee's Franchised Business has operated for a period of six (6) months, Franchisee will pay to Franchisor, in addition to all other fees and amounts owed to Franchisor, Franchisee's prorated portion of the costs of the National Program (to be expended as provided below). It is specifically agreed that Franchisee will not be required to pay more than \$10,000.00 during any calendar year for such costs. For the purposes of this Agreement "Program" shall mean the Regional Program and/or the National Program.

4.03. Training Fees and Administrative Fees.

- (a) Training Fees. Franchisee's Principal Operator (as defined below) and Franchisee's Initial Service Manager (as defined below) must participate in and successfully complete the Franchisor's Initial Franchisee Training Program (as defined below). There is no additional charge for the initial training for these two individuals. Franchisee may enroll any of its employees in the optional training programs that Franchisor intends to establish from time to time, upon payment of the training fees that will be established by Franchisor for those training programs. "Initial Service Manager" means the individual (i) designated as the initial service manager by Franchisee in a writing delivered to Franchisor, and (ii)

approved by Franchisor. “Principal Operator” means \_\_\_\_\_ and any successor who has been approved in writing by Franchisor. Any successor to the Principal Operator or Successor Service Manager (as defined in Section 9.03) must be approved in writing by Franchisor. Franchisor’s “Initial Franchisee Training Program” means the training conducted in accordance with the Confidential Operations Manual (as defined in Section 6.01). Franchisee may be required to attend and pay for additional mandatory training as provided in Section 9.03 of this Agreement.

(b) Administrative Fees. Franchisee agrees to pay fees to Franchisor for financial and administrative services provided by Franchisor. The amount of the administrative fees will be set out in the Confidential Operations Manual.

4.04. Application of Funds. If Franchisee is delinquent in the payment of any obligation to Franchisor, its subsidiaries, affiliates or designees, then Franchisor (or such subsidiaries, affiliates or designees), will have the right to apply any payment from Franchisee to any obligation due, including the oldest obligation due, whether under this Agreement or otherwise, notwithstanding any contrary designation by Franchisee as to such application.

4.05. Continuing Royalty. During the one year period immediately following the Opening Date (the “Split Profits Review Period”), Franchisor and Franchisee will review the financial condition of the Franchisee at the end of each three month period commencing on the Opening Date and determine whether any royalty payment shall be made to Franchisor from the Split Profits. No distribution or bonus from Split Profits shall be made to Franchisee without the prior written approval of Franchisor. After the end of the Split Profits Review Period, Franchisee must pay Franchisor a royalty fee each month

FDD Exhibit B

calculated as follows:

- (a) From the date of this Agreement until the end of the Initial Term and each subsequent term thereafter, an amount equal to fifty percent (50%) of the “Split Profits” (as defined below).
- (b) “Split Profits” shall mean (x) the gross revenues received in connection with and/or in any way related to the Franchised Business, minus (y) the Approved Expense Items (as defined below). “Approved Expense Items” shall mean (i) those expense items calculated under Generally Accepted Accounting Principles (GAAP) and approved by Franchisor as set forth in an annual budget, (ii) all subsequent written budget adjustments that are approved in writing by Franchisor, and (iii) all adjustments defined in the Confidential Operations Manual. Amendments to the Confidential Operations Manual that impact the Approved Expense Items will be effective upon the later of (a) receipt by Franchisee, or (b) the effective date that is designated in writing from Franchisor.
- (c) The amount of royalty fee due each month will be estimated during the following month, and due by the last day of the month in which the estimate should be made. The estimated amount will be based on the year to date financial activity for the period then ended. A year end reconciliation or true up will be completed by January 31 of each succeeding year and paid accordingly by February 1<sup>st</sup> of the year during which the true up is completed. Any expense that is not an Approved Expense Item, will require an equal amount of royalty fee payment to Franchisor, regardless of the Split Profits calculation, payable at the same time as the payment of the expense.

(d) At anytime the Franchisee pays an unapproved expense, a distribution, or a bonus of Split Profits for his own benefit, he must immediately make a royalty payment to Franchisor for the appropriate amount.

5. MARKS.

5.01. Franchisee Has No Interest in Marks. Nothing in this Agreement will be construed to give Franchisee any right, title or interest in or to any of the Marks except for a revocable privilege and license to display and use them during the term of and pursuant to the conditions contained in this Agreement. Franchisee expressly understands and agrees that it has not acquired and will not acquire any ownership interests, equitable rights, goodwill or other interests in any Mark by virtue of this Agreement, the relationship with Franchisor, or Franchisee's use of any of the Marks, and will not represent that it has. Franchisee also understands and agrees that following the expiration or termination of this Agreement for whatever reason, it will not attribute any monetary amount to any goodwill associated with Franchisee's uses of the Marks, or in connection with Franchisee's operation of the Franchised Business.

5.02. Franchisor's Ownership of Marks. Franchisee agrees that the Marks are the exclusive property of Franchisor, and Franchisee now asserts no claim and will hereafter assert no claim to any goodwill, reputation or ownership thereof, and covenants that it will not contest Franchisor's ownership of the Marks or their validity. Franchisee will not do or permit any act or thing to be done in derogation of any of the rights of Franchisor in connection with the Marks, either during the term of this Agreement or thereafter.

5.03. Use of Marks. Franchisee shall use the Marks in such fashion and at such places as Franchisor designates in its Confidential Operations Manual (as defined in Section 6.01).

FDD Exhibit B

Except as expressly provided in the Confidential Operations Manual, Franchisee shall not erect or display any signs, or display any other trademarks, logotypes, symbols or service marks in, upon, or in connection with the Franchised Business without Franchisor's prior written approval. Franchisor may, at its option, restrict or control the use of the Marks pursuant to the provisions of the Confidential Operations Manual, as such may be amended from time to time, without limiting the generality of the effectiveness of the provisions contained in this Agreement that restrict or control the use of the Marks.

- 5.04. Nonuse of Trade Name. Except as specifically authorized by Franchisor in writing, Franchisee shall not use Franchisor's Marks or its trade name, or any words or symbols similar thereto, in Franchisee's trade and/or entity name. In particular, Franchisee shall not use the words "Christian Brothers", "Christian Brothers Automotive", or "Christian Brothers Automotive Corporation", or any variant thereof as part of any such name, except as specifically authorized in writing by Franchisor.
- 5.05. White Page and Yellow Page Telephone Listing. Franchisee acknowledges and agrees that there will be substantial confusion to the general public if, after the expiration or termination of this Agreement, Franchisee continues to use any telephone number or numbers listed in the "Yellow Pages" or "White Pages" of a telephone directory under any of Franchisor's Marks, including the Authorized Name or any name incorporating the words "Christian Brothers" or "Christian Brothers Automotive" or any variation thereof, whether or not authorized by Franchisor (the "Listing"). Franchisee agrees that promptly after the expiration or Franchisor's termination of this Agreement for any reason, Franchisee will immediately cease using such telephone number or numbers, and/or, upon demand by the Franchisor, Franchisee will direct the telephone company

servicing the Franchised Business to transfer the Listing to Franchisor, or to such person and at such location as Franchisor shall direct. Franchisee hereby irrevocably appoints Franchisor as its attorney-in-fact to direct the telephone company to make any such transfer and to sign any documents required by the telephone company in connection with such transfer.

- 5.06. Defense of Mark by Franchisor. If Franchisee learns of any claim, suit or demand against it on account of any alleged infringement, unfair competition, or similar matter relating to the Marks, Franchisee shall promptly notify Franchisor. Franchisor shall promptly take such action, if any, as it deems necessary to protect and defend Franchisee against any such claim and shall indemnify Franchisee against any loss, cost or expense incurred in connection therewith. Franchisee shall not settle or compromise any such claim without the prior written consent of Franchisor. Franchisor shall have the right to defend, compromise or settle any such claim at Franchisor's sole cost and expense, using attorneys of its own choosing, and Franchisee agrees to cooperate fully with Franchisor in connection with the defense of any such claim. Franchisee hereby irrevocably appoints Franchisor to defend or settle all of such claims, demands or suits. Franchisee may participate at its own expense in such defense or settlement, but Franchisor's decisions shall be final and binding upon Franchisee. Notwithstanding anything herein to the contrary, Franchisor shall have no obligation to defend or indemnify Franchisee if the claim, suit or demand against Franchisee arises out of or relates to Franchisee's use of the Marks in violation of the terms of this Agreement or the law.
- 5.07. Prosecution of Infringers. If Franchisee learns of any use of the Marks which Franchisee believes is unauthorized, Franchisee shall promptly notify Franchisor of the facts relating

FDD Exhibit B

to such use. Franchisor shall, in its sole and exclusive discretion, determine whether or not it wishes to take any action against such third person. In the event Franchisor takes any action against such third person, Franchisee agrees to cooperate fully (including without limitation participating in any legal proceeding) with Franchisor in connection with taking such actions against such third person as Franchisor deems appropriate. Franchisee shall have no right to make any demand against any such alleged infringer of Franchisor's Marks or to prosecute any claims of any kind or nature whatsoever against such alleged infringer of Franchisor's Marks for or on account of such infringement, unless Franchisor specifically authorizes Franchisee in writing to take such actions. Franchisor shall not be liable to Franchisee or any other person on account of (a) Franchisor's decision to take action or not take action in respect of such use, or (b) Franchisee's decision to take any action in respect of such use where Franchisee has written authorization from Franchisor to take such action.

5.08. Discontinuance or Substitution of Marks. If Franchisor, in its sole discretion, decides to modify or discontinue use of any name or Mark and/or to adopt or use one or more additional or substituted names or marks, then Franchisee shall promptly conform its use of the Franchisor's names or marks as directed by the Franchisor. The sole obligation of Franchisor in any such event shall be to reimburse the Franchisee for its documented costs of compliance (such as changing signs, letterhead, etc.), and Franchisee waives any other claim arising from or relating to any such change, modification or substitution of Marks.

5.09. Use of Marks. Franchisee will use the Marks only in the manner directed from time to time by Franchisor. Franchisee is prohibited from using any Mark, or any part thereof,



FDD Exhibit B

with any prefix, suffix, or other modifying words, terms, designs or symbols except as permitted in writing by Franchisor. Franchisee may not use any Mark in connection with the sale of any product or service not authorized in writing by Franchisor. Franchisee will use the Marks only for the operation of the Franchised Business. Any unauthorized use of the Marks will constitute an infringement of Franchisor's rights and a material breach of this Agreement.

5.10. Limited License Only; Rights Reserved. The right and license granted hereunder to Franchisee to utilize the Marks is limited and nonexclusive. As noted in paragraph 2.04 above, Franchisor has and retains the rights, among others, to itself use the Marks in connection with offering or selling any services and products; to grant other Mark licenses; and, to develop and establish other systems using the same or similar Marks, or any other proprietary marks, and to grant licenses or franchises without any obligation to Franchisee.

6. CONFIDENTIAL OPERATIONS MANUAL.

6.01. Loan of Confidential Operations Manual. In order to protect the reputation and goodwill of Franchisor, to maintain uniform standards of service and operation under Franchisor's Marks and System, to promote the good will of the System, and for the mutual benefit of Franchisor and Franchisee, Franchisor shall lend to Franchisee one (1) copy of Franchisor's Confidential Operations Manual (from time to time referred to as the "Confidential Operations Manual") upon the Franchisee's execution of the Agreement.

6.02. Subject Matter of Confidential Operations Manual. The subject matter of the Confidential Operations Manual may include, but need not be limited to, standards, procedures, policies and specifications pertaining to the System and the operation of the

FDD Exhibit B

Franchised Business. Franchisor may make additions to, deletions from or revisions of the Confidential Operations Manual. Such additions, deletions and modifications will become part of the Confidential Operations Manual, and will be effective upon receipt by Franchisee. References in this Agreement to the “Confidential Operations Manual” shall include all such additions, deletions and modifications.

- 6.03. Business to Conform to Confidential Operations Manual. Franchisee shall conduct the operation of the Franchised Business in strict accordance with the operational systems, procedures, policies, methods and requirements contained in the Confidential Operations Manual.
- 6.04. Confidential Operations Manual Is Property of Franchisor. The Confidential Operations Manual, and all of the information contained in it, shall at all times remain the sole property of Franchisor. Franchisee shall at all times treat the Confidential Operations Manual and the information contained therein as confidential, and must take all necessary precautions to maintain such information as secret and confidential. Franchisee acknowledges that the Confidential Operations Manual is confidential, and Franchisee will not at any time contest the confidentiality of the information in it or Franchisor’s sole ownership of it. Franchisee shall not at any time copy, duplicate, record or otherwise reproduce the Confidential Operations Manual, in whole or in part, nor otherwise make it available to any unauthorized person. The Confidential Operations Manual must not be shared with any employee of Franchisee. A separate operations manual will be made available for Franchisee’s staff. Upon the expiration or other termination for any reason of this Agreement, Franchisee shall return to the Franchisor the Confidential Operations Manual and all supplements to the Confidential Operations Manual previously made

available to the Franchisee.

6.05. Keeping Confidential Operations Manual Up-To-Date. Franchisee shall at all times insure that its copy of the Confidential Operations Manual is current and up-to-date. In the event of any dispute as to the contents of the Confidential Operations Manual, the master copy of the Confidential Operations Manual maintained by Franchisor at Franchisor's home office will be controlling.

7. CONFIDENTIAL INFORMATION.

7.01. Non-Disclosure of Confidential Information. Franchisee shall not, during the term of this Agreement or at any time thereafter, communicate, divulge or use for the benefit of any other person, persons, partnership, association, corporation or entity the Confidential Operations Manual, any information, knowledge or Know-How concerning the systems of operation, products, services, procedures, policies, standards, criteria or customers of the System and/or that which Franchisor designates in other sections of this Agreement or elsewhere as confidential (collectively "Confidential Information"). Franchisee shall divulge only such Confidential Information and only to such of its employees as must have access to it in order to participate in the operation of the Franchised Business, and Franchisee shall take such precautions as will insure that its employees retain such information in confidence, including the execution by each such employee of the nondisclosure and noncompetition agreement provided by Franchisor (the "Nondisclosure Agreement"). The Nondisclosure Agreement must be executed at the earlier of the commencement of employment or the commencement of training of the respective employee. The Nondisclosure Agreement will be in a form prescribed by Franchisor and will include, without limitation, specific identification of Franchisor as a

third-party beneficiary of the Nondisclosure Agreement with the independent right to enforce it. Franchisee will submit copies of all such executed Nondisclosure Agreements to Franchisor within ten (10) days of their execution.

8. ADVERTISING.

8.01. Advertising Standards. Franchisee will only use such advertising, identification and promotional materials and programs (including, but not limited to, printed and broadcast advertisements, stationery, business cards, press releases, signs, displays, leaflets, newspaper inserts, promotional mail outs and promotional literature) which have been furnished by Franchisor or been approved in advance by Franchisor in accordance with Section 8.04. All advertising by Franchisee shall be conducted in a dignified manner, shall conform to such standards, specifications and requirements as Franchisor may specify from time to time in writing, in its Confidential Operations Manual or otherwise, and shall not in any way detract from, reflect unfavorably upon, or denigrate the Marks, the System, the products, or Franchisor.

8.02. Administration of Franchisor's Marketing Program. Franchisor or its designee may administer an Marketing Fund (as defined below) as follows:

- (a) As provided in Section 4.02 of this Agreement, if Franchisor establishes the Program, Franchisee will pay to Franchisor a Marketing Fee up to \$10,000 per fund. The Marketing Fee will be combined with contributions made by all other franchisees of Franchisor that are members of that Program to create a marketing fund (the "Advertising Fund").
- (b) Franchisor will have sole discretion over the creative concepts, materials and media used in such Programs, and the placement and allocation of advertising. Franchisee

FDD Exhibit B

acknowledges that the Marketing Fund is intended to further general public recognition and acceptance of the Marks for the benefit of the System and that Franchisor and its designees undertake no obligation to make expenditures which are equivalent or proportionate to Franchisee's contributions. Franchisor will endeavor to structure each Program so that each franchisee member of a Program will receive some benefit from the Program, but Franchisor cannot and does not represent or insure that each franchise member of a Program will benefit directly or on a pro rata basis from the placement of advertising in connection with a particular Program.

- (c) The Marketing Fund may be used to meet any and all costs of employing advertising agencies and administering, directing, preparing, placing and paying for regional and/or national advertising for the Program to which the Marketing Fund pertains, including public relations and promotional campaigns typically used in media such as direct mail advertising, newspapers, radio, and cable and local television. This sum may also be spent for other items including conducting marketing studies, the production and purchase of advertising art, commercials, musical jingles, print advertisements, point of sale materials, media advertising, outdoor advertising art, and direct mail pamphlets and literature. Franchisor need not maintain sums paid by franchisees to the Marketing Fund or income from the Marketing Fund in a separate account from the other funds of Franchisor. Franchisor may expend or allocate up to ten (10%) percent of the Marketing Fund on an annual basis for such reasonable administrative costs and overhead, if any, as Franchisor may incur in connection with the Marketing Fund. Franchisor shall,

FDD Exhibit B

within one hundred twenty (120) days following the close of its fiscal year, prepare and distribute to all System franchisees an unaudited report certified as correct by an officer of Franchisor, setting forth Marketing Fund revenue and expenses for the fiscal year just ended.

- (d) Franchisor shall use its best efforts to expend the amounts contributed to the Marketing Fund during the fiscal year within which the contributions are made. If Franchisor expends less than the total amount of funds available in the Marketing Fund during any fiscal year, it may either expend such unused sum during the following fiscal year or, in its discretion elect to rebate all or a portion of such unused sum on a pro-rata basis to the franchisees who have contributed to that Marketing Fund. If Franchisor in any year expends an amount greater than the amount available in the Marketing Fund, Franchisor may be entitled to reimburse itself from the Marketing Fund during the next fiscal year for all such excess expenditures made during the preceding fiscal year.
- (e) Although the Marketing Fund is intended to be of perpetual duration, Franchisor maintains the right to terminate the Marketing Fund. The Marketing Fund shall not be terminated, however, until all monies in the Marketing Fund have been expended for advertising and promotional purposes, or rebated to the franchisees who made contributions to such Marketing Fund.
- (f) Franchisor is not obligated to pay for any part of the expenses of any Program, except as provided in Section 8.03 of this Agreement.

8.03. Franchisor-Owned Store Participation. Any franchise or outlet which is owned and operated by the Franchisor or any affiliate thereof will participate in or contribute to the

FDD Exhibit B

Marketing Fund for the area in which such franchise or outlet is located on the same basis as the other franchises participating in the respective Program to which the Marketing Fund is related.

8.04. Submission of Proposed Local Advertisements, Identification and Promotional Materials.

Except for suggested local advertising, identification and/or promotional materials furnished to Franchisee by Franchisor pursuant to this Agreement, Franchisee will, prior to use or dissemination, submit to Franchisor for its approval all proposed local advertising materials (whether print or broadcast), and all identification and promotional materials or programs (including, without limitation, stationery, business cards, signs, displays, press releases, leaflets and mailouts). Approval of such local advertising, identification or promotional materials or programs shall not be unreasonably withheld by Franchisor. Franchisee will be allowed to use promotional materials that have been approved unless and until Franchisor otherwise informs Franchisee in writing.

8.05. Local Advertising. Franchisee shall advertise the Franchised Business in accordance with the instructions and standards contained in the Franchisor's Confidential Operations Manual.

8.06. Initial Advertising. Franchisee agrees to distribute materials furnished by Franchisor as instructed by Franchisor in connection with commencing the operation of its Franchised Business.

8.07. White and Yellow Page Advertising. Franchisee will maintain a business telephone, and will list its Franchised Business continually under headings designated by Franchisor in the Confidential Operations Manual in the appropriate sections of the "White Pages". Franchisor does not require nor recommend advertising in the "Yellow Pages". If

FDD Exhibit B

Franchisee decides to advertise in the “Yellow Pages,” the size, style and content of all such “Yellow Page” advertising must be approved in writing by Franchisor. Franchisee must obtain Franchisor’s prior written approval for “Yellow Page” advertising or it will not be an Approved Expense.

9. DUTIES OF FRANCHISOR.

9.01. Confidential Operations Manual. Franchisor shall lend and deliver to Franchisee one (1) copy of Franchisor’s Confidential Operations Manual and shall furnish Franchisee with updates and supplements to the Confidential Operations Manual.

9.02. Method of Operations. In addition to any other training provided for herein, Franchisor shall from time to time furnish to Franchisee such information, instructions, techniques, data, instructional materials, forms and other operational developments pertaining to the offering and selling of services and products, as may be developed by Franchisor from time to time in connection with the operation of the System.

9.03. Training and Supervision. Franchisor agrees to provide Franchisor’s Initial Franchisee Training Program to the Franchisee’s Principal Operator and Franchisee’s Initial Service Manager. Franchisee’s Principal Operator and Franchisee’s Initial Service Manager are required to personally attend and successfully complete Franchisor’s Initial Franchisee Training Program. The Initial Training Program begins on the date Franchisee enters into the Acknowledgement and Receipt Agreement. Franchisor will provide an orientation for Franchisee and will deliver materials to Franchisee. The Initial Training Program will include the Cornerstones of Excellence Training Program (as defined in the Confidential Operations Manual). Franchisee also will receive training in Franchisor’s offices and in a designated training facility regarding the operations, human resources and accounting



FDD Exhibit B

aspects of the Franchised Business. A portion of the Initial Training Program will be conducted at the location of the Franchised Business and will begin prior to the Opening Date and will continue for one and one-half weeks during Franchisee's normal business hours. Franchisor will also provide such additional review and training as Franchisor deems appropriate near the six month anniversary of the opening date of the Franchised Business. Franchisor will at its own cost provide the materials, supervision and instruction for the initial training session. Franchisee must pay all costs incurred by Franchisee's Principal Operator and the Initial Service Manager including all living and travel expenses (e.g. hotel, meals, airfare, employee compensation, etc.) incurred by Franchisee's Principal Operator and its Initial Service Manager, in connection with attending and participating in such training. Franchisor will assist Franchisee in the interviewing and hiring of an Initial Service Manager. The Franchisor must approve the Initial Service Manager. Franchisor may, but is not required to, offer additional training. If Franchisor offers additional training, it may, in its sole discretion, make such additional training mandatory for the Franchisee's Principal Operator and Initial Service Manager or any Successor Service Manger (as defined below). The additional training will take place at such locations as Franchisor reasonably selects, and Franchisee acknowledges and agrees that the reasonableness of the locations will be determined by Franchisor based on a wide variety of factors, including without limitation the locations of all franchisees participating in the training and the location of the available training facilities. Franchisor may establish such fees for the additional training, as Franchisor in its sole discretion deems appropriate. The Franchisee shall be responsible for the costs of such additional training, including all travel expenses, living expenses, and expenses of

FDD Exhibit B

attendance and participation. Franchisee will be charged, and agrees to pay, such fees as are established by the Franchisor from time to time for such additional training, and the price of training materials, as established by Franchisor, provided to the Principal Operator and Initial Service Manager. Franchisor must approve in writing any and all successors to the Initial Service Manager, any successor thereof and any and all additional service managers (collectively the "Successor Service Manager"). The Franchisor may require that any Successor Service Manager (a) attend and successfully complete Franchisor's Initial Training Program, and (b) attend and successfully complete any additional training that Franchisor determines is mandatory. Franchisee will pay all costs related to such training. Franchisor agrees that Franchisee will not be required to attend more than two mandatory training sessions during any twelve month period.

9.04. Bookkeeping. Franchisor shall furnish to Franchisee, as part of Franchisor's Confidential Operations Manual, standard bookkeeping procedures, software and Franchisee reporting forms that are required by Franchisor.

9.05. Pre-opening Assistance.

(a) Site Selection. Franchisor shall select the site for the location for the Franchised Business, construct the building from which the Franchised Business will be operated and sublease the land and building to Franchisee pursuant to the terms of the Commercial Sub-Lease Agreement (as defined in Section 10.22 hereof).

(b) Equipment and Furnishings. Franchisor shall provide Franchisee with information and direction concerning the proper equipment and decorations to be used in the Franchised Business.

(c) Promotional Materials. Franchisor will advise Franchisee concerning

Franchisee's pre-opening publicity. All of the costs and expenses of this publicity must be approved in writing by Franchisor in order to be considered an "Approved Expense" in the Split Profits calculation.

9.06. Additional Assistance

- (a) During Start-Up Period. Beginning on the first business day of the third week of the Start-Up Period (as defined below) and continuing until the end of the Start-Up Period, a management member of Franchisor will be available to consult by phone with the Principal Operator and the Initial Service Manager. The Franchisor management member may, but is not obligated to, visit Franchisee's Franchised Business for the purpose of rendering advice, consultation and additional training with respect to the Franchised Business, its operation and performance, and compliance by Franchisee with the Confidential Operations Manual. If a management member does visit Franchisee's Franchised Business for any of the purposes set out above, Franchisee agrees to pay all travel and living expenses incurred in connection with such visit (excluding the six month anniversary visit, if any, mentioned in 9.03). The "Start-Up Period" begins on the first day the Franchisee's Franchised Business is open to the public ("Opening Date") and ends twelve months from the Opening Date.
- (b) After Start-Up Period. If at any time after the end of the Start-Up Period, Franchisee requests on-site assistance from Franchisor, Franchisor may, but is not obligated to, provide such on-site assistance. If Franchisor does provide such on-site assistance, Franchisee will pay Franchisor's travel and living expenses incurred in connection with such assistance and such fees as are set out in the

FDD Exhibit B

Confidential Operations Manual. The on-site assistance may include management support during the Principal Operator's vacation, the training of new employees and technical support Franchisor deems appropriate.

- 9.07. Sources of Supply. Franchisor agrees that where Franchisee is required to use a supplier or vendor designated by Franchisor, Franchisor will review any alternative supplier or product requested by Franchisee and determine whether Franchisee may use such supplier or product in lieu of the Franchisor designated supplier or product. Franchisor expressly reserves: (a) the right to test, analyze, inspect or randomly sample the product or service of any supplier including any supplier that is proposed by Franchisee, and (b) the right to modify the specifications for all equipment and supplies and qualifications for all service providers from time to time in its sole and exclusive discretion.
- 9.08. Pricing. Franchisor will keep Franchisee advised of Franchisor's schedule of prices for services and products. Franchisee agrees to inform its customers of Franchisor's prices and charges and to promptly inform its customers of any new prices and charges established by Franchisor.
- 9.09. Unavoidable Delays. Delays in the performance of any duties hereunder which are not the fault nor within the reasonable control of the Franchisor, including but not limited to, fire, flood, natural disasters, acts of God, governmental acts or orders, or civil disorders or other matters beyond Franchisor's control, shall not give rise to a default by Franchisor hereunder. Franchisee shall extend the time of performance for the period of such delay.
10. DUTIES OF FRANCHISEE.
- 10.01. Payments to Franchisor. In addition to all other payments provided for herein, Franchisee must pay to Franchisor promptly when due:

FDD Exhibit B

- (a) All fees and royalties described in Sections 4.01, 4.02, 4.03, and 4.05 of this Agreement.
- (b) All fees and expenses set out in the Confidential Operations Manual.
- (c) The amount of all sales taxes, use taxes, personal property taxes, and similar taxes imposed upon, required to be collected or paid by Franchisor on account of goods or services furnished by Franchisor to Franchisee through sale, lease or otherwise, or on account of payments or initial franchisee fees collected by Franchisor from Franchisee.
- (d) All amounts advanced by Franchisor or which Franchisor has paid, or for which Franchisor has become obligated to pay, on behalf of Franchisee for any reason whatsoever.
- (e) All amounts due to Franchisor for products or services purchased by Franchisee from Franchisor.

10.02. Purchases. Franchisee agrees to purchase all equipment required for the operation of the Franchised Business only from: (a) suppliers designated or approved in writing by Franchisor, or (b) from suppliers selected by Franchisee and approved by Franchisor. In Section 9.07, Franchisor has expressly reserved the right to test, analyze, inspect or randomly sample the product or service of any supplier including any supplier that is proposed by Franchisee, and Franchisee agrees to reimburse Franchisor for its documented costs of testing, analyzing, inspecting or sampling the service or product of any supplier proposed by Franchisee regardless of whether such supplier is subsequently approved or rejected by Franchisor as an approved source of supply. Franchisee agrees that Franchisor may modify the specifications for all equipment and supplies and

qualifications for all service providers from time to time in its sole and exclusive discretion. Franchisee agrees to purchase all of the equipment required for the operation of the Franchised Business only from suppliers designated by or approved in writing by Franchisor.

10.03. Compliance With this Agreement, Laws, Rules and Regulations. Franchisee will:

- (a) comply with the terms and conditions included in this Agreement;
- (b) operate the Franchised Business in strict compliance with all applicable laws, rules and regulations of all governmental authorities;
- (c) comply with all applicable wage, hour and other laws and regulations of federal, state and/or local governments;
- (d) prepare and file all necessary tax returns and pay all taxes imposed upon Franchisee, Franchised Business, and Franchisee's property; and
- (e) obtain and keep in good standing all necessary licenses, permits or other required forms of governmental approval required of Franchisee to offer and sell those products and services which are part of the System or which may, in the future, be made a part of that System.

10.04. Franchisee Participation in Operation of Business. The Principal Operator of the Franchisee is required personally and directly to operate, or exercise daily supervision over the operation of, the Franchised Business, unless otherwise permitted in writing by Franchisor. The Principal Operator will be required to be on-site during the normal business hours of the Franchised Business, as provided in the Confidential Operations Manual, for an average of eight hours a day for five days a week and for forty-nine weeks

FDD Exhibit B

a year unless otherwise approved in writing by Franchisor. If Franchisee is a business entity, the Principal Operator must own at least fifty-one (51%) percent of the ownership interest of such business entity and must have and maintain control of the business entity for as long as such entity is the Franchisee pursuant to the terms of this Agreement. Franchisee agrees to open the Franchised Business to provide services to the public on or before five days after receipt of notice from Franchisor that the Franchised Business is operational. The failure of the Principal Operator to comply with the terms of this section will constitute a material breach of this Agreement.

10.05. Qualifications of Franchisee's Employees. Franchisee is required to comply with all specifications, requirements and restrictions regarding the selection, hiring and training of Franchisee's employees as are set forth in the Confidential Operations Manual.

10.06. Indemnification. Franchisee agrees to protect, defend and indemnify and hereby indemnifies Franchisor, its officers, directors, employees, agents, shareholders, its subsidiaries, affiliates, representatives and designees, and their officers, directors, employees, agents, members, managers and shareholders and holds them harmless from and against any and all costs, expenses (including attorneys' fees), court costs, losses, liabilities, damages, claims, and demand of every kind or nature, arising in any way out of Franchisee's operation of the Franchised Business, including without limitation, claims by employees and/or customers of Franchisee, the use or operation of equipment and supplies, damage or injury to customers and/or their property, and theft or crime by employees, consultants, contractors, officers, or directors.

10.07. Manner of Operation. Franchisee understands and hereby acknowledges that every component of the System is vital to Franchisor, to other franchisees of Franchisor and to

FDD Exhibit B

the operation of the business franchised hereby, and that compliance with the System is of the essence of this Agreement. Franchisee shall at all times conduct the Franchised Business in compliance with the System, including all standards, procedures and policies as Franchisor may, from time to time, establish as though all were specifically set forth in this Agreement, and whether set forth in Franchisor's Confidential Operations Manual, bulletins, notices, or elsewhere. Franchisee must operate its Franchised Business in a clean and wholesome manner which complies strictly with all recommendations and standards of quality, service and cleanliness as prescribed from time to time by Franchisor. Franchisee agrees to operate the Franchised Business in a manner that provides all of the services and products which Franchisor designates from time to time to be component services or products of the System. Franchisee agrees to maintain the Franchised Business as provided in the Confidential Operations Manual. Franchisee's failure to comply with the terms of this section will constitute a material breach of this Agreement.

10.08. Advertising. Franchisee must comply with all of the obligations, procedures and duties regarding advertising contained in Article 8 of this Agreement.

10.09. Hours of Operation. Franchisee's Franchised Business must be open for business during those hours prescribed in the Confidential Operations Manual, unless prohibited by local laws, ordinances or regulations.

10.10. Equipment. Franchisee must at all times during the term of this Agreement, and at its sole expense, maintain such equipment as designated in writing by Franchisor including the requirements that are set forth in the Confidential Operations Manual. Franchisee must maintain all equipment used in the Franchised Business in good repair and must



regularly service and maintain such equipment so as to keep it continually in good working order. Franchisee's failure to maintain the equipment as required by Franchisor will constitute a material breach of this Agreement.

10.11. Corporate or Other Entity Franchisee Records.

(a) If Franchisee is a corporation or other legal entity, Franchisee must comply with the following requirements through the term of Agreement:

(i) Franchisee must furnish the Franchisor with all of the following or its equivalent: Articles of Incorporation or Formation; Bylaws; Minutes of Shareholders' Meetings; Minutes of Directors' Meetings; Shareholder Agreements, Regulations, Company Agreements and all other governing documents as amended from time to time; a list of all officers, directors, shareholders; partners, members, managers and any other documents the Franchisor may reasonably request and any amendment thereto.

(ii) Franchisee must limit its activities, and its governing documents, if any, exclusively to the operation of the Franchised Business.

(iii) Franchisee must place the following legend legibly and conspicuously on each security or evidence of ownership interest of Franchisee:

**“The transfer of this stock (or other evidence of equity ownership in a legal entity) is subject to the terms and conditions of a Franchise Agreement with Christian Brothers Automotive Corporation, dated \_\_\_\_\_, 20\_\_.** Reference is made to the provisions of that Franchise Agreement and to the Articles and governance documents of this entity.”

FDD Exhibit B

- (iv) Franchisee must comply with all federal and state laws and requirements concerning the issuance and sale of securities (the “Securities Requirements”). Franchisee acknowledges and agrees that Franchisor makes no representation concerning compliance by Franchisee with the Securities Requirements.
  - (v) Franchisee must maintain a current list of all owners of record and all beneficial owners of any class of voting stock of the Franchisee, and must furnish the list to Franchisor upon request.
- (b) Franchisee shall promptly notify Franchisor of any change in any of the information or documents furnished to Franchisor pursuant to the terms of this Section 10.11.

10.12. Requirements Regarding, and Restrictions Relating to, Products and Services Sold by Franchisee. Franchisee will offer and sell all services and products which are part of the System, as amended or supplemented from time to time. Franchisee is expressly prohibited from offering or selling any service or product which is not a part of the System.

10.13. Inspection. Franchisor, or any of its authorized agents or representatives, may at any time during normal business hours enter upon the Franchised Business location for the purpose of examining and inspecting it, and the Franchisee’s employees, customers and overall operations.

10.14. Submission of Nonfinancial Reports. Franchisee shall complete and submit to Franchisor weekly, monthly, semi-annual or other periodic reports regarding the activity of Franchisee’s Franchised Business as Franchisor prescribes in its Confidential Operations

Manual.

- 10.15. Insurance. To standardize insurance coverage and to afford Franchisee and Franchisor protection against insurable risks, Franchisor may prescribe minimum standards and limits for insurance coverage to be purchased by Franchisee. Such standards and limits may be set forth in the Confidential Operations Manual or by other written notice. Franchisee must promptly provide Franchisor with certificates of insurance evidencing such coverage and copies of the underlying policies, including all endorsements, no later than ten (10) days prior to the Opening Date, and Franchisee must again furnish Franchisor with those certificates and policies whenever any coverage is renewed and/or replaced. If Franchisee fails or refuses to purchase insurance conforming to the standards and limits prescribed by Franchisor, Franchisor may (but is not required to) obtain, through agents and insurance companies of its own choosing, such insurance as meets such standards. All costs for such insurance will be borne by Franchisee as provided in the Approved Expense Items and in the Confidential Operations Manual. Franchisee must reimburse Franchisor for all payments made by Franchisor in connection with obtaining such insurance. Franchisor is not and will not at any time be under an obligation to obtain or maintain any specific form, kind or amount of insurance. Franchisor has not and is not representing that insurance may be obtained by Franchisee, or by Franchisor for Franchisee, that will insure Franchisee against any or all insurable risks of loss which may or can arise out of or in connection with the operation of Franchisee's Franchised Business. All insurance purchased by Franchisee must name Franchisor as an additional insured, and must provide that Franchisor will be given at least thirty (30) days' prior written notice of any termination, amendment, cancellation, or modification thereof.

- 10.16. Cooperation With Franchisor. Franchisee must act in good faith and use its best efforts to comply with its obligations under this Agreement, and to cooperate with Franchisor in accomplishing the purposes of this Agreement.
- 10.17. Best Efforts. Franchisee must expend its best efforts in the operation of the Franchised Business, and shall not engage in any directly or indirectly conflicting or competing enterprises or any other activities which would be detrimental or interfere with the operation, reputation or goodwill of the Franchised Business, the Franchisor, the System or any other of Franchisor's franchises.
- 10.18. Continuing Training. Franchisee's Principal Operator and Service Manager will attend such continuing education and training programs as Franchisor notifies Franchisee are mandatory training programs, and Franchisee will pay all costs including training fees, travel expenses and living expenses incurred in connection with Franchisee's Principal Operator and Service Manager attending such programs.
- 10.19. Timely Payment of Amounts Due by Franchisee. Franchisee will timely pay (a) Franchisor all amounts due to Franchisor pursuant to this Agreement, and (b) all amounts due to each of its employees, vendors, third party landlords, lenders, taxing authorities, utility providers, and to any other parties that Franchisee is obligated to make payments related to the Franchised Business. Franchisee's failure to comply with the provisions of this Section will constitute a material breach of this Agreement.
- 10.20. Restriction On Transfer of Shares of Franchisee. The Principal Operator will not sell, transfer or convey any or all of its shares to any party except as provided in Article 13 of this Agreement. Principal Operator shall at all times continue to own more than fifty percent (50%) of the Franchisee or such greater percent of the ownership interest of the

Franchisee as is necessary to control the decision making process and governance of the Franchisee.

10.21 Opening of Franchised Business. Franchisee must open the Franchised Business on the Opening Date.

10.22 Entering Into the Commercial Sub-Lease Agreement. Franchisee agrees to execute and deliver a commercial sub-lease agreement in the form attached hereto as Exhibit “D” (the “Commercial Sub-Lease Agreement”) to Franchisor on or before ten (10) days after Franchisor notifies Franchisee that Franchisor is prepared to enter into the Commercial Sub-Lease Agreement.

10.23 Pre-Opening Termination by Franchisor. Franchisee agrees that if during the period prior to the Opening Date: (a) any representations or warranties of Franchisee and/or the Principal Operator prove to be inaccurate or false, (b) the Principal Operator fails to take or pass any of Franchisor’s required training, (c) the Principal Manger and/or the Franchisee fails to pass any credit or character check performed by or on behalf of the Franchisor, and/or (d) Principal Operator and/or Franchisee fail to timely or diligently perform any duties or obligations during the period prior to the Opening Date, then Franchisor shall have the right, but not the obligation, to either (a) pay Franchisee the portion of the Initial Franchise Fee that has been paid to Franchisor minus \$10,000.00 and to immediately terminate this Agreement and the relationship between Franchisor and Franchisee without any duty to provide Franchisee any notice or opportunity to cure such breach or (b) terminate this Agreement pursuant to Subsection 14.01(d)(xi).

10.24 Maintenance of Premises and Approval of Improvements. Franchisee agrees to maintain the Premises (as defined in the Commercial Sub-Lease Agreement) in compliance with

the standards set out by the Franchisor in the Confidential Operations Manual. Franchisee agrees to not make any improvements and/or changes to the Premises without first obtaining the written consent of Franchisor, which consent may be withheld in Franchisor's sole discretion.

11. RECORDS, AUDITS AND REPORTING REQUIREMENTS.

11.01. Financial Statements and Reports. Within forty-five (45) days after the expiration of each fiscal year of Franchisee, Franchisee shall furnish to Franchisor, in a form approved by Franchisor, a statement of profit and loss for the fiscal year and a balance sheet as of the end of the fiscal year, certified to be true and correct by Franchisee. Franchisee must comply with all accounting, financial and reporting requirements set out in the Confidential Operations Manual or other similar correspondence. Franchisee's failure to comply with all accounting, financial and reporting requirements set out in the Confidential Operations Manual or other similar correspondence shall constitute a material breach of this Agreement.

11.02. Records. Franchisee shall record and maintain records of its revenues and expenditures as set forth in the Confidential Operations Manual or otherwise. Franchisee's failure to make and maintain records in such manner shall constitute a material breach of this Agreement.

11.03. Audits. Franchisor may during regular business hours enter Franchisee's premises to inspect, audit and make copies of books of account, bank statements, documents, records, sales tax returns, papers, and files of Franchisee relating to the business transacted by Franchisee, and upon request by Franchisor, Franchisee shall make any such materials available for examination at Franchisee's premises. All costs of such inspections will be

the responsibility of Franchisor, unless any such inspection and/or audit determines that Franchisee has failed to pay Franchisor amounts that should have been paid to Franchisor pursuant to the terms of this Agreement.

11.04. Online Access and Additional Information. Franchisee agrees to provide Franchisor view-only access to all of Franchisee's accounts at all financial institutions. Franchisee also agrees to timely provide to Franchisor such financial information, records, reports and supporting information as Franchisor reasonably requests, and to comply with all information requests that are provided for in the Confidential Operations Manual.

12. RELATIONSHIP OF THE PARTIES.

12.01. Independent Contractor. In all matters pertaining to the operation of the Franchised Business, the relationship between Franchisor and Franchisee is and shall be that of an independent contractor. Nothing contained in this Agreement or in the relationship between the parties shall be construed to create a partnership, joint venture or agency; and, neither party shall be liable for the debts or obligations of the other. No employee of Franchisee shall be deemed to be an employee of Franchisor. Franchisor shall not have the right or power to hire or fire Franchisee's employees and, except as expressly provided in this Agreement, Franchisor may not control or have access to or control over Franchisee's funds.

13. ASSIGNMENT, RIGHT OF FIRST REFUSAL AND AGREEMENTS OF FRANCHISEE.

13.01. Assignment by Franchisor. Franchisor may assign this Agreement, and all of its rights and privileges hereunder to any other person, firm or corporation; provided that, in respect to any assignment resulting in the subsequent performance by the assignee of the

functions of the Franchisor:

- (a) the assignee shall, at the time of such assignment, in Franchisor's reasonable judgment, be economically and operationally capable of performing the obligations of Franchisor hereunder, and
- (b) the assignee shall expressly assume and agree to perform such obligations.

13.02. Assignment by Franchisee. Franchisee acknowledges that Franchisor is entering into this Agreement in reliance upon and in consideration of the singular personal skill, character and qualifications of the Principal Operator of Franchisee and the trust and confidence placed in Franchisee by Franchisor or, in the case where a franchisee is a business organization of any nature, in its Principal Operator. Subject to the provisions of this Agreement, Franchisee may assign its rights in this Agreement and in the Franchised Business provided that Franchisee first provides Franchisor the option to purchase the Franchised Business pursuant to the same terms and provisions that have been offered in writing by an independent third party purchaser of the Franchised Business (the "Identified Offer"). Franchisee must deliver a written notice to Franchisor providing Franchisor with the option to purchase the Franchised Business on the same terms that are in the Identified Offer (the "Option Notice"). A copy of the Identified Offer must be included in the Option Notice. Franchisor will have thirty (30) days after receipt of the Option Notice to agree to purchase the Franchised Business on the terms contained in the Identified Offer, and ninety (90) days after the receipt of the Option Notice to close the purchase of the Franchised Business. In the event Franchisor does not purchase the Franchised Business, the Franchisee may assign its rights in this Agreement and in the Franchised Business provided that Franchisee obtains Franchisor's prior written consent



to such assignment, which consent will not be unreasonably withheld. Franchisor agrees to consent to such assignment provided that:

- (a) The assignee (or the principal officer, designated Principal Operator, shareholder or director of a corporate or other legal entity assignee) demonstrates that he or she has the skills, character, experience, business qualifications and economic resources necessary, in Franchisor's judgment, reasonably exercised, to conduct the business contemplated by this Agreement, and to fulfill his or her obligations to the assignor and to Franchisor.
- (b) The assignee, in the case of an assignment of this Agreement, expressly assumes in writing for the benefit of Franchisor all of the obligations of Franchisee under this Agreement.
- (c) As of the date of any assignment, the Franchisee shall have fully complied with all of its obligations to Franchisor, whether under this Agreement or any other agreement, arrangement or understanding with Franchisor.
- (d) In the event of an assignment of this Agreement or the sale of the Franchised Business, the assignee shall execute a separate franchise agreement (the "New Agreement") in the form and on the terms and conditions then being offered by Franchisor to prospective Franchisees similarly situated (except that the assignee shall not be obligated to pay another Initial Franchise Fee). The term of the New Agreement shall expire on the date of the expiration of this Agreement and the Initial Term for the New Agreement will be the same as the Initial Term of this Agreement. The execution of the New Agreement shall, except for the post-term obligations of Franchisee hereunder, be deemed to terminate this Agreement.

FDD Exhibit B

- (e) Franchisee shall pay the Franchisor a transfer fee (the “Transfer Fee”) equal to Thirty Thousand and No/100 Dollars (\$30,000.00). Franchisee acknowledges that the Transfer Fee is reasonably required to reimburse Franchisor for its expenses relating to said assignment, and which amount is payable as follows: (i) a non-refundable amount of \$2,500.00 must be paid at the time the Franchisee initially submits a written request that Franchisor approve the transfer, and (ii) an additional \$27,500.00 must be paid to Franchisor following Franchisor’s verbal agreement to approve the proposed transferee, but prior to Franchisor’s approving the assignment agreement. Until all fees have been paid and Franchisor has executed the assignment, the assignment will not be valid.
- (f) The assignee must have satisfactorily paid for and completed the training then required of all new franchisees of Franchisor, unless such training is waived by Franchisor, in writing, by reason of said assignee’s prior experience or training.
- (g) Prior to execution a copy of the assignment agreement, the transferor or assignee must furnish Franchisor with a copy of the assignment agreement. Franchisor shall have ten days after the date Franchisor receives the assignment agreement to notify Franchisee of any changes to the assignment agreement that will be required by Franchisor
- (h) The assigning Franchisee shall have executed a general release, in a form satisfactory to the Franchisor, of any and all claims against the Franchisor and its officers, directors, shareholders, members, managers, partners, employees and agents in their corporate and individual capacities, including, without limitation, claims arising under federal, state, and local laws, rules and ordinances.

FDD Exhibit B

- (i) The Franchisee must provide to a prospective Assignee and must follow the written guidelines of transfer issued from time to time by the Franchisor. Such guidelines include, among other things, specific terms of this agreement, acknowledgement of and understanding of this agreement, completions of a Non-disclosure Agreement, and detail descriptions of what is approved and unapproved expenses after the completion of the assignment.
- (j) Assignee must provide to Franchisor a detailed five year financial projection/budget which supports the ability of the Assignee to thrive and make all needed necessary payments under the terms of the transfer.

Any transfer that results in the Principal Operator owning less than: (i) fifty-one (51%) percent of the equity or voting power of any legal entity owning the Franchised Business (as such Franchisees were originally constituted at the time of the execution of this Agreement), or (ii) fifty-one (51%) percent of the sole general partner of the Franchisee, if the Franchisee is organized as a limited partnership,, is deemed to be an assignment of this Agreement within the meaning of this Article 13.

13.03. No Encumbrance. Franchisee shall not have the right to pledge, encumber hypothecate or otherwise give any third party a security interest in this Agreement in any manner whatsoever without the express prior written consent of Franchisor, which permission may be withheld for any reason whatsoever in the Franchisor's sole subjective judgment.

THE FOLLOWING ARE ALTERNATIVES OF SECTION 13.04 FOR DIFFERENT TYPES OF ENTITIES. IF YOU DESIRE TO USE A TYPE OF ENTITY THAT IS NOT ONE OF THE FOLLOWING, YOU MUST REQUEST FRANCHISOR'S APPROVAL. IF FRANCHISOR APPROVES YOUR REQUEST, SECTION 13.04 WILL BE MODIFIED TO APPLY TO THAT TYPE OF ENTITY, BUT ALL MODIFICATIONS WILL IN FORM AND SUBSTANCE AS FRANCHISOR IN ITS SOLE DISCRETION DEEMS APPLICABLE.

[[13.04. Corporate Franchisee.

(a) The name and address of each shareholder or other equity holder of Franchisee is set forth below:

<u>Name</u>	<u>Address</u>	<u>Percentage</u> <u>of</u> <u>Ownership Interest</u>
-------------	----------------	--

(b) The name and address of each director of Franchisee is set forth below:

<u>Name</u>	<u>Address</u>	<u>Title</u>
		Director
		Director

(c) The address where Franchisee's records are maintained is \_\_\_\_\_.

(d) The names, and addresses and titles of Franchisee's principal officers are set forth below: Franchisee must designate which is the Principal Operator (See Section 4.3(a))

<u>Name</u>	<u>Office Held</u>	<u>Address</u>
-------------	--------------------	----------------

(e) Franchisee shall notify Franchisor in writing within ten (10) days of any change in the information set forth in subparagraphs (a) through (d) above.

**OR**

13.04. Limited Liability Company Franchisee.

- (a) The name and address of each member or other equity holder of Franchisee and his or her percentage of ownership in the limited liability company is set forth below:

<u>Name</u>	<u>Address</u>	<u>Percentage</u> _____ <u>of</u> <u>Ownership Interest</u>
		__% interest
		__% interest

- (b) The name and address of each director and/or manager of Franchisee is set forth below:

<u>Name</u>	<u>Address</u>	<u>Title</u>
-------------	----------------	--------------

- (c) The address where Franchisee's records are maintained is \_\_\_\_\_.

- (d) If Franchisee has officers, the names, addresses and titles of Franchisee's officers are set forth below: Franchisee must designate the Principal Operator (See Section 4.3(a)) in this Subsection whether or not Franchisee has officers.

<u>Name</u>	<u>Office Held</u>	<u>Address</u>
-------------	--------------------	----------------

- (e) Franchisee shall notify Franchisor in writing within ten (10) days of any change in the information set forth in subparagraphs (a) through (d) above.

**OR**

13.04. Sole Proprietor or General Partnership Franchisee.

- (a) If Franchisee is currently an individual franchisee conducting business as a sole proprietor or a husband and wife conducting business as a general partnership, the name and address of the sole proprietor or of each general partner of Franchisee is set forth below:

<u>Name</u>	<u>Address</u>	<u>Percentage</u> _____ <u>of</u> <u>Ownership Interest</u>
		___% interest
		___% interest

- (b) If Franchisee is a general partnership, the name and address of the managing general partner of Franchisee is set forth below:

<u>Name</u>	<u>Address</u>	<u>Title</u>
		Managing General Partner

- (c) The address where Franchisee's records are maintained is \_\_\_\_\_.

- (d) Franchisee's Principal Operator's (See Section 4.3(a)) name and address is set forth below:

<u>Name</u>	<u>Office Held</u>	<u>Address</u>
	Principal Operator	

- (e) Franchisee shall notify Franchisor in writing within ten (10) days of any change in the information set forth in subparagraphs (a) through (d) above.
- (f) If a sole proprietor or general partner franchisee desires to later assign his and/or her rights, titles and interests under this Agreement and in and to the Franchised Business to a corporation, limited liability company or other entity that is acceptable to the Franchisor, then such Franchisee must comply with all of the following requirements: (i) Franchisee must not be in default under any of Franchisee's obligations to Franchisor, (ii) Franchisee must deliver to Franchisor a written request for Franchisor's approval of such transfer which request must include the type of entity of the proposed transferee and the proposed owner(s) and operator(s) of the proposed transferee, (iii) the Franchisee must deliver to Franchisor such additional information and documentation concerning the proposed transferee and its owners and operators as Franchisor requests, (iv) the Franchisee, the principals of the Franchisee, the proposed transferee and the principals of the proposed transferee must execute the most recent version of Franchisor's Assignment and Assumption Agreement ( a copy of which has been received by Franchisee) together with such other agreements and documents as Franchisor requires. ]]

13.05. Death of Principal Operator. If the Principal Operator dies or becomes disabled and unable to reasonably and prudently manage the Franchised Business, Franchisor and Franchisee agree to either to (a) complete a transfer in compliance with the provisions in Section 13.02, or (b) provide Franchisor the option to acquire the Franchised Business pursuant to the same terms as contained in the Option in Section 15.08. A Principal Operator will be classified as disabled when he or she is not cleared by a licensed physician to perform the normal duties of a Principal Operator for a period in excess of ninety (90) days.

14. DEFAULT AND TERMINATION.

14.01. Termination After Right to Cure.

- (a) If Franchisee fails to perform any of its obligations set forth in Article 10, such failure shall constitute a material breach of this Agreement, in which event Franchisor shall notify Franchisee that it is in default. If Franchisee cures such default within fifteen (15) days after receiving Franchisor's notice, such default shall be cured. If Franchisee fails to cure such default within the fifteen (15) day period, then Franchisor shall have the option to immediately terminate this Agreement without any further notice to Franchisee. In the event a second default occurs within any twelve (12) month period, Franchisee will have the same opportunity to cure, but if a third default occurs during any twelve (12) month period, notwithstanding that prior defaults have been cured, this Agreement may be terminated immediately by Franchisor upon giving notice to Franchisee. Notwithstanding any other provision of this Agreement, if Franchisee's default is by its nature incapable of being cured, this Agreement



may be immediately terminated by Franchisor.

- (b) The termination of this Agreement as a result of Franchisee's failure to comply with its obligations will cause Franchisor to suffer future losses and damages in an amount which are not readily capable of determination. Franchisor and Franchisee agree that the amount of the Initial Franchise Fee is a reasonable estimate of the actual future damages that Franchisor would incur as a result of such termination. Consequently, Franchisee agrees that Franchisor shall be entitled to retain the Initial Franchise Fee as liquidated damages in the event of such termination. In addition to the liquidated damages, Franchisee will remain obligated to Franchisor for any obligations and damages which have accrued as of the date of termination. Franchisor also has not waived, nor will Franchisor waive, any legal or equitable rights or remedies to which Franchisor is or will be entitled to assert after termination of this Agreement.

14.02. Termination Without Right to Cure. Notwithstanding anything to the contrary contained herein, Franchisee understands and agrees that the occurrence of any of the following events, circumstances, or courses of conduct constitute a material default under this Agreement, and Franchisor will have the right, but not the obligation, to immediately terminate this Agreement without giving any notice or opportunity to cure to the Franchisee, except as specifically provided in the respective subsection:

- (a) The Franchisee or the Franchised Business is declared bankrupt or judicially determined to be insolvent; or all or a substantial part of the assets thereof are assigned to or for the benefit of any creditor; or Franchisee admits its inability to pay its debts as they become due; or a petition in bankruptcy is filed against

FDD Exhibit B

Franchisee which is not immediately contested or which is not dismissed within 120 days from its filing.

- (b)** The Franchisee fails to operate the business for five (5) consecutive days during which the Franchisee is required to operate the business under the terms of this Agreement.
- (c)** The Franchisor and the Franchisee agree in writing to terminate the Agreement.
- (d)** The Franchisee makes any material misrepresentation relating to the acquisition of the Franchised Business or engages in conduct which reflects materially and unfavorably upon the operation and reputation of the Franchised Business or Franchisor's services and products.
- (e)** The Franchisee fails, for a period of ten (10) days after notification of noncompliance by any person or entity, to comply with any federal, state, or local law or regulation applicable to the operation of the Franchised Business.
- (f)** The Franchisee, after curing any failure to comply with any lawful requirement of the Agreement, engages in the same noncompliance, whether or not such noncompliance is corrected after notice.
- (g)** The Franchised Business is seized, taken over, or foreclosed by a government official in the exercise of his duties, or seized, taken over, or foreclosed by a creditor, lienholder or lessor.
- (h)** The Franchisee fails to pay any franchise fees, royalty payments or other amounts due to the Franchisor or its affiliates within five (5) days after receiving written notice that such amounts are past due.

FDD Exhibit B

- (i) The Franchisee's Principal Operator or Initial Service Manager fail to successfully complete the Initial Franchisee Training Program without making arrangements with Franchisor to retake the Initial Franchisee Training Program and successfully complete it within forty-five (45) days of any such failure; however if Franchisor elects to terminate this Agreement pursuant to this subsection, Franchisor shall return to Franchisee the Initial Franchise Fee paid to Franchisor less \$10,000.
- (j) The Successor Service Manager fails to successfully complete the Initial Franchisee Training Program within forty-five (45) days of first being proposed by Franchisee to become a Successor Service Manager.
- (k) The misuse or unauthorized use of the Marks and/or the material impairment of the goodwill associated with them or the Franchisor's rights in them.
- (l) The participation of Franchisee in any business, or the marketing by the Franchisee of any service or product, under a name or mark which, in the Franchisor's opinion, is confusingly similar to the Marks.
- (m) The acquisition by the Franchisee of any interest in a business similar to the Franchisor's business, provided that a Franchisee may own less than five (5%) percent of the share of a company whose shares are listed and traded on a national or regional securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System ("NASDAQ").
- (n) The unauthorized utilization or duplication of any aspect of Franchisor's business, services, products, Confidential Information and/or System.
- (o) The disclosure by the Franchisee of any part of the Franchisor's business

practices, procedures, Confidential Information and/or System.

- (p) The sale, assignment, or transfer of any interest in the Agreement, the Franchised Business, or Franchisee in violation of this Agreement.
- (q) The violation by Franchisee of its covenant not to compete set forth in Article 16 of this Agreement.
- (r) Franchisee's violation of those requirements, duties and restrictions pertaining to the Marks set forth in Article 5 of this Agreement.
- (s) Franchisee, or any owner or shareholder of a corporate Franchisee, or any partner of a Franchisee conducting business as a partnership, being convicted or pleading nolo contendere in a court of competent jurisdiction to a felony or any other crime of moral turpitude.

14.03. Cross Default. Any default by Franchisee under the Commercial Sub-Lease Agreement or any other agreement between Franchisor and Franchisee or any lease agreement between Franchisee and any affiliate of Franchisor will constitute a default under this Agreement, and any default under this Agreement will constitute a default under the Commercial Sub-Lease Agreement and under any and all other agreements between Franchisee and Franchisor or between Franchisee and any affiliates of Franchisor.

14.04. Notice Required by Law. Notwithstanding anything to the contrary contained in this Article 14, if applicable law or regulation limits Franchisor's rights of rescission or termination or requires longer notice periods than those set forth above, this Agreement shall be deemed amended to conform to the minimum notice periods or restrictions upon rescission or termination required by such laws and regulations. Franchisor shall not, however, be precluded from contesting the validity, enforceability or application of such

laws or regulations in any action, arbitration, hearing or dispute relating to this Agreement or the rescission or termination thereof.

15. FURTHER OBLIGATIONS AND RIGHTS OF THE PARTIES UPON TERMINATION OR EXPIRATION.

15.01. Discontinuance of Franchisor's Marks. Upon termination of this Agreement for any reason, Franchisee shall discontinue the use of the Marks and any part of them, including, but not limited to the Authorized Name and/or the words "Christian Brothers Automotive", "Christian Brothers", "CBAC" and "CBA" and shall not thereafter operate or do business under any name or in any manner that might tend to give the general public the impression that it is operating a franchise of Franchisor, or any business similar thereto, and Franchisee shall not thereafter use, in any manner, or for any purpose, directly or indirectly, any of Franchisor's trade secrets, procedures, techniques, Confidential Information or materials acquired by Franchisee by virtue of the relationship established by this Agreement, including, without limitation, the information contained in Franchisor's Confidential Operations Manual, forms, advertising matter, marks, devices, signs, insignia, slogans and designs used from time to time in connection with the Franchised Business; and any telephone number listed in any telephone directory under the Authorized Name or any similar designation or directory listing which relates to the Franchised Business.

15.02. Execution of Documents. Franchisor may, if Franchisee fails or refuses to do so, execute in Franchisee's name and on Franchisee's behalf, any and all documents necessary to cause discontinuance of Franchisee's use of any Mark, including, but not limited to the name "Christian Brothers Automotive," or any other related name use hereunder, and

FDD Exhibit B

Franchisor is hereby irrevocably appointed by Franchisee as Franchisee's attorney-in-fact to do so.

- 15.03. Franchisor's Rights Not Prejudiced. The expiration or termination of this Agreement shall be without prejudice to Franchisor's rights against Franchisee for obligations existing at the time of expiration or termination, nor will it terminate the obligations of Franchisee provided in Sections 5.09, 6.04, 7.01, 10.06, 15.01, 15.02, 15.03, 15.04, 15.05, 15.06, 15.07, 15.08, 16.01, 16.03, 21.01, 23.01 and 24.01 this Agreement, which specifically survive the expiration or termination of this Agreement.
- 15.04. Franchisee's Cancellation of Names Incorporating Marks. Upon termination or expiration of this Agreement, Franchisee shall take such action as may be necessary to cancel any assumed name or equivalent registration which contains any name or mark identical, or confusingly similar with a Mark or any other name, trademark or service mark of Franchisor, and Franchisee shall furnish Franchisor with proof of discharge of this obligation within thirty (30) days following the termination or expiration of this Agreement.
- 15.05. Franchisee's Cancellation of Telephone Listings and Numbers. Upon termination or expiration of this Agreement, Franchisee shall immediately comply with the obligations contained in Section 5.05
- 15.06. Return of Franchisor's Property. Upon the termination of this Agreement for any reason, Franchisee shall return, in good condition, the Confidential Operations Manual and all files, records, documents, computer records, studies, strategic plans, compilations of information, pamphlets, brochures and similar items copying, embodying, derived from, or related to the Confidential Information that are in Franchisee's possession or under

Franchisee's control.

- 15.07 Payment of Sums Due. Franchisee shall promptly pay all sums owing to Franchisor (and its subsidiaries, affiliates or designees, if any). In the event of termination for any default of Franchisee, such sums shall include all damages, costs and expenses (including reasonable attorney's fees) incurred by Franchisor as a result of the default.
- 15.08 Franchisor's Option to Purchase Franchisee's Business. Upon the termination of this Agreement for any reason other than as a result of an assignment made in compliance with Section 13.02 of this Agreement, Franchisor will have the option (the "Option"), but not the obligation, for a period of sixty (60) days to purchase for itself or its designees all or any part of the Franchised Business (including without limitation, all vehicles, equipment, inventory, supplies and improvements that have been made by and are owned by Franchisee) for an amount equal to the Appraised Value (as defined below). Any amounts owed by Franchisee to Franchisor or any of Franchisor's affiliates, subsidiaries and designees will be offset against the purchase price. If the parties cannot agree on the fair market value of the Franchised Business on or before fifteen (15) days after the expiration of this Agreement (the "Determination Date"), an independent appraiser will be appointed as provided in the last sentence of this Section, and the independent appraiser's determination of the fair market value of the Franchised Business will be binding on the Franchisor and the Franchisee. Franchisor and Franchisee will each pay one half of the cost of the appraisal. If the parties do not agree on the value of the Franchised Business on or before the Determination Date, Franchisor's option to purchase the Franchised Business will be extended to sixty (60) days from the later of (i) the date the parties agree to the value of the Franchised Business, or (ii) the date the

FDD Exhibit B

appraiser determines the value of the Franchised Business and notifies the parties of the value of the Franchised Business. Franchisor is entitled to specific performance of Franchisee's obligation to sell the Franchised Business as set out in this Section. For purposes of this Agreement, "Appraised Value" means the value of the Franchised Business that is determined as follows: (a) the value that the Franchisor and Franchisee agree upon as the value of the Franchised Business, or (b) if Franchisor and Franchisee cannot agree upon a value for the Franchised Business, then the fair market value determined by an appraiser who is either selected by the Franchisor and Franchisee or appointed by an arbitrator appointed pursuant to the provisions of Section 24 for the sole purpose of selecting such appraiser. The appraiser will determine the fair market value based on the value of the Franchised Business as a going concern unless the Franchisor, in good faith, determines the Franchised Business should be liquidated in which case the appraiser shall determine the liquidation value of the Franchised Business. The arbitrator is hereby instructed to select an appraiser that the arbitrator determines has experience in establishing values for business of the nature of the Franchised Business or of similar businesses.

15.09. Key Man Insurance. Franchisor and Franchisee agree to obtain life insurance on: \_\_\_\_\_, the Principal Operator of the Franchisee (the "Insured Principal") in the amount of \$750,000.00 (the "Key Man Insurance"). The Key Man Insurance will initially be term insurance, but in the event Franchisee and Franchisor subsequently determine that another type of insurance will be more beneficial to Franchisor and Franchisee, Franchisor and Franchisee agree that such insurance may be purchased and substituted for the Key Man Insurance that is currently in place. The



FDD Exhibit B

premium for the Key Man Insurance will be paid by the Franchisee. The life insurance policy that evidences the Key Man Insurance (the "Policy") will be owned by the Franchisee. The beneficiaries of the Policy will be Franchisor and the Franchisee (collectively the "Designated Beneficiary"). Each Designated Beneficiary shall be entitled to receive one-half of the proceeds of the Policy. For example, if the Insured Principal dies while the amount of the Policy is \$750,000.00, Franchisor will be entitled to receive \$375,000.00 of the proceeds of the Key Man Insurance and the Franchisee will be entitled to receive \$375,000.00 of the proceeds of the Key Man Insurance. If the Insured Principal Operator dies during the term of this Agreement or any renewal thereof, the portion of the insurance proceeds of the Key Man Insurance that are paid to the Franchisee will constitute a payment on the purchase price, if any, of the Franchised Business paid by Franchisor to Franchisee pursuant to Section 13.05 of this Agreement.

16. COVENANTS NOT TO COMPETE.

16.01. In-Term and Post-Term Covenant Not To Compete. Franchisee agrees that during the term of this Agreement and for a period of three (3) years immediately following its expiration or termination for any reason, Franchisee will not, either directly or indirectly, as a proprietor, partner, investor, shareholder, director, officer, employee, principal, agent, advisor, franchisor, franchisee or consultant engage in any other business which offers or sells any product or service (or component thereof) which comprises or may in the future comprise a part of the Franchised Business or which competes directly or indirectly with the Franchised Business or any franchise of Franchisor, if such other business is located within Franchisee's Territory, or within ten (10) miles of any franchise of Franchisor (whether Franchisor-owned, franchised or otherwise established,

and whether now or hereafter established and operated).

16.02. Procurement of Additional Agreements and Covenants. At Franchisor's request, Franchisee shall require and obtain the execution of confidentiality agreements and/or covenants not to compete in a form satisfactory to Franchisor from any or all of the following persons: (a) all Service Managers, Principal Operators and any personnel employed by Franchisee who have received or will receive training from Franchisor (excluding any employees who are solely or primarily employed as mechanics); (b) all officers, directors, managers and holders of a beneficial interest of five (5%) percent or more of the securities or other evidence of ownership of Franchisee and of any legal entity directly or indirectly controlling Franchisee, if Franchisee is a legal entity; and (c) the general partners and any limited partners (including any corporation which controls, directly or indirectly, any general or limited partner, along with the officers, directors and holders of a beneficial interest of five (5%) percent or more of the securities of any such corporation), if Franchisee is a partnership.

16.03. Enforcement of Covenants Not To Compete. Franchisee acknowledges that:

- (a) Franchisor would not grant Franchisee a license to operate the Franchise Business or provide Franchisee access to Confidential Information unless the Franchisor's business goodwill and Confidential Information could be protected by the Covenant Not to Compete in Section 16.01 of this Agreement and the Non-Disclosure of Confidential Information provision contained in Section 7.01 of this Agreement.
- (b) The existence of any claims it may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by

FDD Exhibit B

Franchisor of the Covenants Not to Compete set forth in Section 16.01 of this Agreement or of the Non-Disclosure of Confidential Information set forth in Section 7.01 of this Agreement.

- (c) The foregoing provisions, and specifically the Covenant Not to Compete contained in Section 16.01 hereof and the Non-Disclosure of Confidential Information contained in Section 7.01 hereof, when applied in tandem are fair and reasonable in light of all of the facts and circumstances of the relationship between the Franchisee and the Franchisor. The Franchisee expressly acknowledges that such provisions and covenants herein contained will not prevent the Franchisee from being able to earn a living or exist as an entity absent being a franchisee of the Franchisor. Franchisor has disclosed to Franchisee that Franchisor is interested in having Franchisee as the owner of the Franchised Business and Franchisor is willing to provide Franchisee with ongoing access to Franchisor's Confidential Information only if Franchisor is assured by Franchisee that Franchisee will not use such Confidential Information to compete with Franchisor, nor disclose any such Confidential Information to any party without Franchisor's prior written consent.
- (d) The agreements and covenants contained herein are intended by the Franchisor and the Franchisee to be enforceable only to the extent permitted by law, and the Franchisor and the Franchisee agree that in any action or proceeding by the Franchisee challenging the enforceability of the provisions and covenants herein contained, the proper scope of any such challenge or proceeding shall be only the extent to which the provisions and covenants are sought to be enforced by the

FDD Exhibit B

Franchisor. If, in any judicial proceeding or arbitration, a tribunal shall refuse to enforce as drafted all of the separate covenants and provisions included herein, such unenforceable covenants and provisions shall be reformed by the tribunal so as to fall within permissible legal limits and shall not by necessity invalidate the entire covenant. Franchisee expressly agrees to be bound by any lesser covenant subsumed within the terms of this Section 16.01 as if the resulting covenant were separately stated in and made a part hereof.

- (e) A breach or violation of the Covenant Not to Compete contained in Section 16.01 by Franchisee shall entitle the Franchisor, as a matter of right, without the posting of any bond, to an injunction issued by any court of competent jurisdiction, restraining any further or continued breach or violation of this covenant. Such right to an injunction shall be cumulative and in addition to, and not in lieu of, any other remedies to which the Franchisor may show itself justly entitled.
- (f) During any period in which Franchisee is in breach of the Covenant Not to Compete in Section 16.01, the time period of said covenant shall be extended and tolled for an amount of time that Franchisee is in breach thereof.
- (g) Nothing in this Agreement shall prevent Franchisee or its shareholders, directors, officers, members, managers, partners or employees from owning for investment purposes up to an aggregate of five (5%) percent of the capital stock of any competitive business that is a publicly held corporation whose stock is listed and traded on a national or regional stock exchange, or through the NASDAQ, provided that Franchisee does not control any such company.

17. WAIVER AND DELAY.

17.01. Limited Effect of Any Waiver or Delay. No waiver or delay in the enforcement of any breach of any term, covenant or condition of this Agreement shall be construed as a waiver of any preceding or succeeding breach or delay in enforcement, or any other term, covenants or condition of this Agreement; and, without limitation upon any of the foregoing, the acceptance of any payment specified to be paid by Franchisee hereunder shall not be, nor be construed to be, a waiver of any breach of any term, covenant or condition of this Agreement.

18. INTEGRATION OF AGREEMENT.

18.01. No Prior Representations. This Agreement, and all other agreements executed contemporaneously with it, constitute the entire agreement between the Parties with reference to the subject matter hereof and supersedes all prior negotiations, understandings, representations and agreements, oral or written, if any. Franchisee acknowledges that it is entering into this Agreement as a result of its own independent investigation of the business and not as a result of any representations about the Franchisor by its agents, officers or employees that are contrary to the terms set forth here or that are contrary to the terms of any Disclosure Document, prospectus, disclosure document or other similar document required or permitted to be given to Franchisee pursuant to applicable law. Franchisee, on behalf of itself, its agents, officers and owners, hereby waives and release all claims, if any, that it has been fraudulently induced to enter into this Agreement and/or the Sublease Agreement.

18.02. No Oral Amendments. This Agreement may not be amended orally, but may be amended only by a written instrument signed by the parties. Franchisee expressly acknowledges that no oral promises or declarations were made to it and that the obligations of the

Franchisor are confined exclusively to those set forth in this Agreement. Franchisee understands and assumes the business risks inherent in this enterprise.

19. NOTICES.

19.01. Notice to Franchisor. Except as expressly set forth to the contrary in this Agreement, all notices, requests or consents provided for or permitted to be given under this Agreement must be in writing and must be delivered to the recipient in person, by courier, certified mail return receipt requested or by facsimile, or similar transmission; and a notice, request or consent given under this Agreement is effective on receipt by the Person to receive it. Notices given by telecopy shall be deemed to have been received (a) on the day on which the sender receives answer back confirmation if such confirmation is received before or during normal business hours of any day other than a Saturday, a Sunday, or a holiday on which national banking associations in the State of Texas are authorized by law to close (“Business Day”) or (b) on the next Business Day after the sender receives answer back confirmation if such confirmation is received (i) after normal business hours on any Business Day or (ii) on any day other than a Business Day. Notices given by certified mail shall be deemed to have been received as of the day mailed provided that an accompanying return receipt is received by the sending Party. Whenever any notice is required to be given by law or this Agreement, a written waiver thereof, signed by the Person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. All notices, requests and consents to be sent to Franchisor shall be addressed to Franchisor at:

15995 N. Barkers Landing  
Suite 145  
Houston, Texas 77079

Attention: Mark A. Carr

19.02. Notice to Franchisee. Notices to the Franchisee shall be addressed as follows:

---

---

---

20. MISCELLANEOUS.

20.01. Construction and Interpretation.

- (a) This Agreement is to be construed as to form, substance and procedure in accordance with the laws of the State of Texas.
- (b) It is agreed that if any provision of this Agreement is capable of two constructions, one of which would render the provision void and the other which would render the provision valid, then the provision shall have the meaning which renders it valid.
- (c) Since the words “Franchisor” and “Franchisee” herein may be applicable to one or more parties, the singular shall include the plural, and the masculine shall include the feminine and neuter. If there shall be more than one (1) party or person referred to as Franchisee hereunder, then their obligations and liabilities hereunder shall be joint and several.
- (d) Unless otherwise stated, Franchisor reserves the right to withhold its consent hereunder for any reason or no reason whatsoever.
- (e) Each of the Parties hereby agrees that it has carefully reviewed this Agreement and has had ample opportunity to seek legal advice and input. Consequently, the rule of construction that ambiguities and unclear phrases are construed against the

drafting party or in the light most favorable to the non-drafting party shall not apply.

20.02. Severability. Nothing contained in this Agreement shall be construed as requiring the commission of any act contrary to law. Whenever there is any conflict between any provisions of this Agreement and any present or future statute, law, ordinance or regulation contrary to which the Parties have no legal right to contract, the latter shall prevail, but in such event the provision of this Agreement thus affected shall be curtailed and limited only to the extent necessary to bring it within the requirement of the law. Franchisor shall not, however, be precluded from contesting the validity, enforceability or application of such laws or regulations in any action, arbitration, hearing or dispute relating to this Agreement or the rescission or termination thereof. In the event that any article, paragraph, sentence or clause of this Agreement shall be held to be indefinite, invalid or otherwise unenforceable, the entire Agreement shall not fail on account thereof and the balance of the Agreement shall continue in full force and effect.

20.03. Lien on Franchisee's Property. In the event of any judgment against Franchisee in favor of Franchisor, or of any default under this Agreement by Franchisee, a lien in favor of Franchisor against any and all of the personal property, furnishings, equipment, signs, inventory, fixtures or other assets owned and/or claimed by Franchisee and used in or related to the Franchised Business at the time of the judgment or default shall arise. Franchisee hereby grants and conveys a lien upon and a security interest in and to all of Franchisee's accounts, inventory, equipment, fixtures, furniture and other property of any kind or nature now or hereafter acquired. Such lien amount shall be for the amount of the default or of the judgment, but said amount shall also include costs and expenses for



collection (including reasonable attorney's fees) or incurred by Franchisor as a result of the default. Said lien shall remain in effect until all amounts owing to Franchisor by Franchisee have been paid in full.

21. COSTS OF ENFORCEMENT.

21.01. Ability to Recover Litigation Costs. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, including but not limited to actions to obtain an injunction, compel arbitration and/or to defend against claims made by the other party, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which the party may be entitled.

22. ACKNOWLEDGMENTS.

22.01. Franchisee's Acknowledgments, Warranties and Representations. Franchisee acknowledges, warrants and represents to Franchisor that:

- (a) No representation has been made by Franchisor (or any employee, agent or salesman thereof) and relied upon by Franchisee as to the future or past income, expenses, sales volume or potential profitability, earnings or income of the business franchised hereby.
- (b) Franchisee acknowledges that Franchisor has disclosed that Franchisor currently has 111 franchises as of April 30, 2013 that are doing business, and Franchisor has disclosed the name of the principal of each such franchise, and the address and telephone number of each franchise. Consequently, prior to the execution of this Agreement, Franchisee has had the opportunity to contact existing franchisees of Franchisor.

FDD Exhibit B

- (c) Franchisee has had the opportunity to independently investigate, analyze and construe both the business opportunity being offered hereunder, and the terms and provisions of this Agreement itself, utilizing the services of attorneys, accountants or other advisors (if Franchisee so elects).
- (d) No representation or statement has been made by Franchisor (or any employee, agent or salesman thereof) and relied upon by Franchisee regarding the future growth of the customer base of the franchise network; the anticipated income, earnings and growth of Franchisor; or, the viability of the business opportunity conveyed hereunder.
- (e) Franchisor (or its affiliates) has certain rights reserved to it to grant franchises to others; to market any of Franchisor's System products at wholesale and retail; and, to otherwise use the System, Marks and Know-How, techniques and procedures, all as expressly set forth in Section 2.04 of this Agreement.
- (f) Franchisee has received from Franchisor a copy of Franchisor's Disclosure Document, together with a copy of all proposed agreements relating to the sale of the franchise, at least ten (10) business days prior to the execution of this Agreement or at least ten (10) days prior to the payment by Franchisee to Franchisor of any consideration in connection with the sale or proposed sale of the franchise conveyed hereunder, whichever is earlier.
- (g) If a location for the premises of the business franchised hereby has been identified at the date of execution of this Agreement, Franchisee has had ample opportunity and the means to independently investigate, review and analyze said location; the shopping center, mall or other building in which it is contained; the market area in

FDD Exhibit B

which it is located; and all other facts relevant to the selection of the site for Franchisee's Franchised Business, as well as the Commercial Sub-Lease for such location. If no location has been identified, Franchisee has the ability to accomplish the foregoing independent investigative measures, and covenants and agrees that it will do so prior to accepting any such lease. Franchisor's suggestions, selection or approval of any location neither imply nor constitute any representation or indication by Franchisor that such location will be profitable or successful. Franchisee understands that site selection is difficult, risky and not subject to quantification. Franchisor's experience in selecting sites (or in assisting Franchisee in selecting sites) does not mean that Franchisor has the ability to select, suggest or approve any sites that will be profitable or successful. No representation or statement has been made by Franchisor (or its agents and salesmen) and relied upon by Franchisee contravening the contents of this subparagraph. Franchisee further covenants and agrees that no such future representation or statement, if any, will be relied upon by him.

- (h) Franchisee has been advised to consult with its own attorney and advisors with respect to the legal, financial and other aspects of this Agreement, the business franchised hereunder, and the prospects for that business. Franchisee has either consulted with such advisors or has deliberately declined to do so.

23. **WAIVER OF CONSUMER RIGHTS.**

23.01 **Waiver of Consumer Rights. Franchisee waives any and all of Franchisee's rights under the Texas Deceptive Trade Practices-Consumer Protection Act, Section 17.41 et seq., of the Texas Business & Commerce Code, a law that gives consumers special**

rights and protections. After consultation with an attorney of Franchisee's own selection, Franchisee voluntarily consents to this waiver.

24. DISPUTE RESOLUTION AGREEMENT.

24.01 Dispute Resolution Agreement.

- (a) If a dispute, controversy or claim arises between or among any or all of the parties, including without limitation any dispute, controversy or claim that arises out of or relates to this Agreement or any other agreement, instrument, or relationship between the parties, or the breach, termination or invalidity of the Agreement or any such other agreement or instrument, AND including but not limited to a claim based on or arising out of a claim for tortious interference or other tortious or statutory claims arising before, during or after termination of this Agreement and including any dispute that involves any or all of the parties and any employee, officer, director, supervisor or member of management of either party hereto (collectively the "Dispute"), and if the Dispute cannot be settled through direct discussions, the parties agree to resolve the Dispute by binding arbitration administered by the American Arbitration Association in accordance with its Commercial Arbitration Rules (the "Rules"), and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Any arbitration hereunder shall be pursuant to the applicable rules of the American Arbitration Association as set out above except to the extent modified in this Section. The parties acknowledge that this Agreement and/or the dealings of the parties involve interstate commerce and that the

**Federal Arbitrations Act applies to any arbitration hereunder.**

- (b) The parties expressly agree that any court with jurisdiction may order the consolidation of any arbitrable dispute, controversy or claim under this Agreement with any related arbitrable dispute, controversy or claim not arising under this Agreement, as the court may deem necessary in the interests of justice or efficiency or on such other grounds as the court may deem appropriate, provided that the consolidated disputes, controversies and claims are to be resolved in arbitration.**
- (c) The site of the arbitration shall be in Houston, Texas, and shall take place in the offices of the American Arbitration Association or such other place as the parties may agree.**
- (d) The parties agree that the federal and state courts located in the State of Texas and City of Houston shall have exclusive jurisdiction and venue over an action brought to enforce and/or challenge the rights and obligations created in or arising from this agreement to arbitrate, and each of the parties hereto irrevocably submits to the jurisdiction and venue of said courts. Notwithstanding the above, application may be made by a party to any court of competent jurisdiction wherever situated for confirmation and enforcement of any award and the entry of whatever orders are necessary for such confirmation and enforcement.**
- (e) Process in any action arising out of or relating to this Agreement may be served on any party to the Agreement anywhere in the world by delivery in person or by registered or certified mail, return receipt requested.**

- (f) To the fullest extent permitted by applicable law, the parties to this Agreement agree that neither party shall be entitled to any damages in the nature of punitive, exemplary or statutory damages in excess of compensatory damages or any form of damages in excess of compensatory damages, and the parties hereby waive all rights to any damages in the nature of punitive, exemplary or statutory damages. Any arbitrator or arbitrators deciding any disputes hereunder will not have the authority to award and are specifically divested of any power to award any damages in the nature of punitive, exemplary or statutory damages or any other damages in excess of compensatory damages or any form of damages in excess of compensatory damages, and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of the Agreement.
- (g) Neither the parties nor the arbitrator(s) may disclose to any person not involved in the arbitration the existence, content, or results of any arbitration hereunder without the prior written consent of all parties.
- (h) The parties agree that all questions concerning the arbitrator(s)' jurisdiction shall be decided by the arbitrator(s).
- (i) A party or parties against whom any final award is entered by the arbitrator(s) agrees to pay the prevailing party all reasonable costs, charges and expenses, including but not limited to arbitration filing fees, arbitrator fees, reasonable attorney and expert fees, incurred and to be incurred in connection with said arbitration, any action to compel arbitration and/or

compliance with the terms of this section, and/or the confirmation and enforcement of the arbitration award. The arbitrator(s) shall include such costs, charges and expenses as part of the final award. This agreement to arbitrate is intended to be binding upon the signatories hereto, their principals, successors, assigns, subsidiaries or affiliates.

- (j) The arbitrator(s) shall determine the rights and obligations of the parties according to applicable federal laws and to the substantive laws of the State of Texas (excluding conflicts of laws principles).
- (k) The arbitrator(s) is directed to consider any defense that all or part of the claim is not timely by reason of laches or statute of limitations as a preliminary issue and to render an award determining the merits of such claim before considering the substantive merits of the arbitration claim, unless the arbitrator(s) determines that the merits of such claim of laches or statute of limitations is so intertwined with the substantive merits of the arbitration claim as to make impractical the determination of the claim of laches or limitations as a preliminary matter.
- (l) The arbitrator(s) shall hear and determine any preliminary issue of law asserted by a party to be dispositive of any claim, in whole or part, in the manner of a court hearing a motion to dismiss for failure to state a claim or for summary judgment, pursuant to such terms and procedures as the arbitrator(s) deems appropriate.
- (m) It is the intent of the parties that, barring extraordinary circumstances, any arbitration shall be concluded within three months of the date the statement

of claim is received by the arbitrator(s). Unless the parties otherwise agree, once commenced, hearings shall be held five days a week, four weeks a month, with each hearing day to begin at 9:00 A.M. and to conclude at 5:00 P.M. These time limits can be extended or altered by an agreement of the parties or by a determination of the arbitrator that such extension or alteration is in the interests of justice. The arbitrator shall use his or her best efforts to issue the final award or awards within a period of thirty days after closure of the proceedings, but failure to do so shall not be a basis for challenging the award.

- (n) The procedure to be followed in any arbitration hereunder shall be as prescribed herein and in such directives that shall be issued by the arbitrator(s) following consultation with the parties. Unless otherwise agreed by the parties, the procedures shall provide for the submission of briefs by the parties, the introduction of documents and the oral testimony of witnesses, cross-examination of witnesses, oral arguments, the closure of the proceedings and such other matters as the arbitrator(s) may deem appropriate. Further, the arbitrator(s) shall regulate all matters relating to the conduct of the arbitration not otherwise provided for in this Agreement or in the Rules.
- (o) In the event a party, having been given notice and opportunity, shall fail or shall refuse to appear or participate in an arbitration hereunder or in any stage thereof, the proceedings shall nevertheless be conducted to conclusion and final award. Any award rendered under such circumstances shall be as



**valid and enforceable as if all parties had appeared and participated fully at all stages.**

- (p) The parties agree that discovery shall be limited and shall be handled expeditiously. Discovery procedures available in litigation before the courts shall not apply in an arbitration conducted pursuant to this Agreement. However, each party shall produce relevant and non-privileged documents or copies thereof requested by the other parties within the time limits set and to the extent required by order of the arbitrator(s). All disputes regarding discovery shall be resolved by the arbitrator.**
- (q) It is the intent of the parties that the testimony of witnesses be subject to cross-examination. It is agreed that the direct testimony of a witness may be submitted by sworn affidavit, provided that such affiant be subject to cross-examination, and that such affidavit be produced to all parties not less than ten (10) days before the hearing or other proceeding in which the affidavit is submitted to the arbitrator(s).**
- (r) Strict rules of evidence shall not apply in an arbitration conducted pursuant to this Agreement. The parties may offer such evidence as they desire and the arbitrator(s) shall accept such evidence as the arbitrator(s) deems relevant to the issues and accord it such weight as the arbitrator(s) deems appropriate.**
- (s) No witness or party may be required to waive any privilege recognized at law.**
- (t) The parties recognize that any violation of Articles 7 and/or 16 would cause**

**irreparable injury to the party who would suffer from such violations, and therefore the parties agree that in addition to such other rights as may exist in favor of the party who would suffer from such violation and notwithstanding the agreement to arbitrate, the party who would suffer from such violation may apply to any court of law or equity having jurisdiction to enforce the specific performance of the foregoing provisions and for injunctive relief against any act that would violate any such provisions.**

- (u) The parties expressly agree that prior to the selection of the arbitrator(s), nothing in this Agreement shall prevent the parties from applying to a court that has jurisdiction as provided in this Agreement for injunctive relief.. After the arbitrator(s) is selected, he or she shall have the authority and jurisdiction to make such orders as are necessary to maintain the status quo and/or to preserve and protect property, and such orders, by the arbitrator(s) may be immediately and specifically enforced by a court having jurisdiction over the parties as provided in this Agreement.**

25. SUBMISSION OF AGREEMENT.

25.01 Submission of Agreement. The submission of this Agreement does not constitute an offer and this Agreement shall become effective only upon the execution thereof by Franchisor and Franchisee. THIS AGREEMENT SHALL NOT BE BINDING ON THE FRANCHISOR UNLESS AND UNTIL IT HAS BEEN ACCEPTED AND SIGNED BY AN AUTHORIZED OFFICER OF FRANCHISOR. THIS AGREEMENT SHALL NOT BECOME EFFECTIVE UNTIL AND UNLESS FRANCHISEE HAS BEEN FURNISHED BY FRANCHISOR SUCH DISCLOSURE, IN WRITTEN FORM, AS

FDD Exhibit B

MAY BE REQUIRED UNDER OR PURSUANT TO APPLICABLE LAW.

26. COUNTERPARTS. This Agreement may be executed and delivered (including by facsimile or Portable Document Format (pdf) transmission) in any number of counterparts with the same effect as if all signatories had signed the same document. Facsimile and other electronic copies of manually signed originals shall have the same effect as manually-signed originals and shall be binding on the undersigned parties. Each counterpart shall be deemed an original, but all counterparts must be construed together to constitute one and the same instrument.

**The remainder of this page is intentionally left blank; the signature page follows.**

FDD Exhibit B

THE UNDERSIGNED HAS READ ALL OF THE FOREGOING AGREEMENT AND  
HEREBY ACCEPTS AND AGREES TO EACH AND ALL OF THE PROVISIONS,  
COVENANTS AND CONDITIONS THEREOF. THE UNDERSIGNED HEREBY  
ACKNOWLEDGES RECEIPT OF A COPY OF THIS AGREEMENT.

Attest:

FRANCHISEE:

\_\_\_\_\_

\_\_\_\_\_  
Print Name:\_\_\_\_\_

By: \_\_\_\_\_

\_\_\_\_\_, President

Attest:

FRANCHISOR:

CHRISTIAN BROTHERS AUTOMOTIVE  
CORPORATION

\_\_\_\_\_  
Print Name:\_\_\_\_\_

By: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_

**RATIFICATION OF FRANCHISE AGREEMENT**

To Be Executed by Each Member, Manager,  
Director and Officer of a Corporate Franchisee

I, THE UNDERSIGNED SHAREHOLDER, MEMBER, DIRECTOR, OFFICER, MANAGER AND PRINCIPAL OPERATOR OF THE [CORPORATE/LIMITED LIABILITY COMPANY/OTHER ENTITY] FRANCHISEE, DO AS AN INDIVIDUAL JOINTLY AND SEVERALLY WITH THE [CORPORATION/LIMITED LIABILITY COMPANY/OTHER ENTITY] ACCEPT AND AGREE TO ALL OF THE PROVISIONS, COVENANTS AND CONDITIONS OF THE AGREEMENT AND ACKNOWLEDGE RECEIPT THEREOF AS CO-PARTIES THERETO.

By: \_\_\_\_\_  
\_\_\_\_\_

Effective Date: \_\_\_\_\_, 20\_\_\_\_

Address: \_\_\_\_\_

**SPOUSE’S CONSENT TO FRANCHISE AGREEMENT**

The undersigned, being the spouse of the Franchisee hereunder (or in the case of a [corporate/limited liability company/other entity] Franchisee, being the spouse of an officer, or shareholder thereof), hereby consents to all of the terms of this Agreement and the execution thereof by Franchisee.

By: \_\_\_\_\_  
\_\_\_\_\_

Effective Date: \_\_\_\_\_, 20\_\_\_\_

Address: \_\_\_\_\_

**RATIFICATION OF FRANCHISE AGREEMENT**

To Be Executed by Each Member, Manager,  
Director and Officer of a Corporate Franchisee

I, THE UNDERSIGNED SHAREHOLDER, MEMBER, DIRECTOR, OFFICER AND  
MANAGER OF THE [CORPORATE/LIMITED LIABILITY COMPANY/OTHER ENTITY]  
FRANCHISEE, DO AS AN INDIVIDUAL JOINTLY AND SEVERALLY WITH THE  
[CORPORATION/LIMITED LIABILITY COMPANY/OTHER ENTITY] ACCEPT AND  
AGREE TO ALL OF THE PROVISIONS, COVENANTS AND CONDITIONS OF THE  
AGREEMENT AND ACKNOWLEDGE RECEIPT THEREOF AS CO-PARTIES THERETO.

By: \_\_\_\_\_  
\_\_\_\_\_

Effective Date: \_\_\_\_\_, 20\_\_\_\_

Address: \_\_\_\_\_

**SPOUSE’S CONSENT TO FRANCHISE AGREEMENT**

The undersigned, being the spouse of the Franchisee hereunder (or in the case of a  
[corporate/limited liability company/other entity] Franchisee, being the spouse of an officer, or  
shareholder thereof), hereby consents to all of the terms of this Agreement and the execution  
thereof by Franchisee.

By: \_\_\_\_\_  
\_\_\_\_\_

Effective Date: \_\_\_\_\_, 20\_\_\_\_

Address: \_\_\_\_\_

**EXHIBIT "A" TO  
FRANCHISE AGREEMENT  
TERRITORY**

The territory will be the territory described below:

**EXHIBIT "B" TO  
FRANCHISE AGREEMENT  
THE MARKS**

CHRISTIAN BROTHERS AUTOMOTIVE- \_\_\_\_\_.

CHRISTIAN BROTHERS AUTOMOTIVE

CBA- \_\_\_\_\_.



CHRISTIAN BROTHERS AUTOMOTIVE



Any variation of any of the above.



**EXHIBIT “C” TO  
FRANCHISE AGREEMENT**

**DESCRIPTION OF EQUIPMENT**

The equipment will include: eight (8) twin post lifts; one (1) four post alignment rack with jacks; one (1) 4-wheel alignment system; one (1) computer wheel balancer; one (1) tire changer; two(2) brake lathes with adaptors; four (4) 30x60 work benches with edge stops and lower shelf; four (4) 6” bench vices; one (1) 6” grinder/buffer with pedestal; two (2) fireproof rag bins; five (5) fire extinguishers with signs; five (5) air hose reels; five (5) drop light reels; two (2) water hose reels; one (1) tall stand; two (2) sets of 3 ton jack stands; one (1) 20 ton shop press; one (1) transmission jack; one (1) engine stand; one (1) engine hoist; one (1) floor jack; one (1) air compressor; one (1) R-12 air conditioning recycling machine; one (1) R134a air conditioning recycling machine; one (1) brake washer, one (1) parts washer, four (4) evaporative air coolers, one (1) gas caddy, one (1) smoke machine, one (1) engine support with 3rd arm; one (1) power floor scrubber; one (1) 55 gallon drum of floor cleaner; one (1) diagnostic scan tool with import upgrade; one (1) wall mounted strut compressor; one (1) engine support; one (1) electrical system tester; two (2) battery chargers; one (1) portable jump start unit; one (1) transmission flush machine; one (1) wheel weight bin with weights; three (3) exhaust hose kits; nine (9) exhaust door vents; three (3) push brooms; three (3) commercial mops; three (3) mop buckets with wringers; three (3) squeegees; one (1) shop vacuum; six (6) 35 gallon trash cans; one (1) 2 wheel hand truck; one (1) 20’ extension ladder; one (1) first aid safety kit; one (1) office desk; one (1) credenza; one (1) 4 drawer file cabinet (black if possible); one (1) executive chair; two (2) office guest chairs; one (1) couch and loveseat (chosen by CBAC); one (1) coffee table (chosen by CBAC); two (2) end tables (chosen by CBAC); two (2) lamps (chosen by CBAC); one (1) wingback chair (chosen by CBAC); four (4) wall hangings (chosen by CBAC); two (2) silk plants (chosen by CBAC); one (1) task chair; one (1) service managers stool; two (2) stools for lunch counter; one (1) microwave; one (1) refrigerator (white); one (1) coffee maker; one (1) letter bin; one (1) telephone system; one (1) credit card terminal with printer; shelving for parts room; two (2) metal repair order racks; one (1) labor guide; one (1) set repair manuals on disk (chosen by CBAC); one (1) invoicing/database software (chosen by CBAC); one (1) accounting software package with communications (chosen by CBAC); one (1) Bose radio; three (3) calculators; one (1) plain paper fax machine; five (5) computers; two (2) computer printers; one (1) computer network; one (1) cash drawer; one (1) key rack (pegboard with hooks); two (2) towel dispensers; two (2) soap dispensers; six (6) sets of blinds for office and waiting room. CBAC, in its sole discretion, may substitute such equipment or materials for any of the items described above where CBAC determines that such substitution is beneficial or appropriate. This is a list of equipment used in a nine bay building and will be modified for buildings more or less than nine bays.

One shuttle vehicle with appropriate vehicle “wrap” or designs as decided and approved by CBAC.

**EXHIBIT "D" TO  
FRANCHISE AGREEMENT**

**COMMERCIAL SUB-LEASE AGREEMENT**

See next page for start of Commercial Sub-Lease Agreement.

Exhibit D to Franchise Agreement (continued)  
**COMMERCIAL SUB-LEASE AGREEMENT**

1. Parties. This commercial sub-lease agreement (the “Lease”) is entered into between **CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION** (“Lessor”), and \_\_\_\_\_ (“Tenant”).
2. Premises. The Premises sub-leased by Tenant from Lessor consists of the land described on Exhibit “A” attached hereto together with the building and all other improvements located thereon and appurtenances thereto (the “Premises”). The Lessor leases Premises from \_\_\_\_\_ (“Owner”).
3. Term and Renewals. The initial term of this lease commences on the date designated in a written notice to Tenant from Lessor as the date that the Premises is substantially completed for Tenant to conduct its business (the “Commencement Date”) and ends on the last day of the Initial Rental Period. If no written notice of the Commencement Date exists, then the date on any certificate of occupancy issued by a governing body will be the Commencement Date. If no written notice and no certificate of occupancy exist, then the Commencement Date shall be the date that is one week prior to the date that Tenant first opens for business to the public, on the Premises. “Initial Rental Period” will be the period starting on the Commencement Date and ending fifteen years thereafter.  
  
Renewals: Lessor grants Tenant three consecutive options to extend the term of the Lease for five-year periods. To exercise an option, on or before one hundred and eighty days (180 days) prior to the expiration of the then current Lease term, Tenant must deliver a written notice (the “Exercise Notice”) to Lessor that Tenant is exercising the option and commits to lease the Premises for an additional five-year term. Upon timely receipt by Lessor of the Exercise Notice, the Lease shall be extended for five years beyond the end of the then current Lease term.
4. Use of Premises. The Premises will be occupied and used solely by Tenant in connection with the operation of its automotive repair business.
5. Possession. Tenant will take possession of the Premises within five days of receiving notice that the Premises are ready for occupancy.
6. Payment of Rent Tenant will pay Lessor the following amounts during the following periods: (a) \$11,000-16,500 per month for the first one year period of this Lease (exact amount will be as Lessor notifies Tenant is necessary to make the monthly payment to the Owner) commencing on the date defined below (First Rental Payment Date) and on the first day of each calendar month thereafter; and (b) on each one year anniversary of this Lease, the rent for the next one year period of this Lease will be established by increasing the amount of the rent that was paid for the previous one year period by one and one-half percent. For example, at the end of the first year of the Lease, the rent paid

for the initial one year period will be multiplied by one hundred and one and one-half percent and the product will become the rent for the next one year period ( $x$  multiplied by  $101.5\% = y$ ; where  $x$  = rent for previous one year period and  $y$  = rent for subsequent one year period); at the end of the second one year period, the rent for that period will be multiplied by one hundred and one and one-half percent and the product will become the rent for the third one year period. This process will be continued at the end of each one year period of the Lease (including all renewals and extensions) to establish the rent for the next one year period.

Rent is payable in advance and without demand at Lessor's offices located at 15995 N. Barkers Landing, Suite 145, Houston, Texas 77079, on or before the 1st day of each month beginning on the first day of the seventh month after the Commencement Date, without a grace period ("First Rental Payment Date"). For example if the Commencement Date is January 14, 2013, the first payment of Rent shall be due on August 1, 2013. The first rental payment will be in an amount equal to (a) the monthly rent prorated for the actual number of days from the Commencement Date to the end of the first month, plus (b) the Rent for the seventh month. If all rent is not paid on or before the 10th day of each month thereafter, Tenant must pay a late charge of \$200.00 plus \$10 per day until all past due rent is paid. Tenant further agrees to pay a \$20.00 charge for each rent check returned unpaid, and delinquent charges will accrue as if no check had been given until such check is made good. Notwithstanding any notations on a check, all payments by Tenant will be applied first to non-rent items due, if any, and then to rent. ,

Lessor may require that all sums due under this lease be paid in cash, money order, cashier's check or by automatic payment from Tenant's account. If requested by Lessor, Tenant agrees to execute and deliver to Lessor the authorizations, agreements and other documents and instructions necessary or appropriate to authorize automatic payment from Tenant's bank account of the rent due under this lease each month. If the amount of the rent payment changes at any time during the term of this lease or renewals, Lessor agrees to notify Tenant of the change and the amount of the new payment, and Tenant agrees to execute and deliver to Lessor any and all authorizations and agreements necessary to adjust the amount of such automatic payment, if needed.

Tenant and Lessor agree that all rights of Tenant and all duties and obligations of Lessor in this lease are conditioned on rent being paid on time. Tenant's right of possession and all of Lessor's obligations are expressly conditioned on prompt payment of rent, and use of the premises by Tenant is conditioned on prompt payment of rent.

7. Security Deposit. Tenant has not paid any security deposit in connection with this lease.
8. Condition of Premises. **Tenant agrees to thoroughly inspect and then accept the Premises as is (subject to any punch list items set out in a writing delivered to Lessor on or before the Commencement Date of this lease), and from then on, Lessor makes no express or implied warranties as to the condition of the Premises. Tenant**

**acknowledges that Tenant is solely responsible for maintaining all utilities in a good and safe condition and for maintaining the Premises in a safe and habitable condition.** Tenant agrees to surrender the Premises at the end of the term of this lease and any extension thereof in the same condition as of the date of possession, reasonable wear and tear excepted. Reasonable wear means wear which occurs without negligence, carelessness, accident or abuse. Tenant will make no alterations or improvements to the Premises without the prior written permission of Lessor.

9. Compliance. Tenant must strictly comply with all pertinent laws, ordinances, statutes, deed restrictions and regulations whatsoever, of any governmental body or subdivision, incident to its occupancy of the Premises and its use thereof. Without limiting the forgoing, Tenant agrees to not use, store or dispose of any Hazardous Materials on the Premises nor allow the use, storage or disposal of any Hazardous Substances on the Premises except for Permitted Hazardous Materials. Tenant covenants and agrees that its use, storage and disposal of Permitted Hazardous Materials shall be done in compliance with all Environmental Laws. "Hazardous Materials" means any materials and or substances (a) that are described or defined as hazardous or dangerous by any Environmental Laws, or (b) the use, storage and/or disposal of which are regulated or prohibited by any Environmental Laws. "Permitted Hazardous Materials" means any Hazardous Materials that Tenant uses in the normal course of the business of Tenant, provided such use is in compliance with all Environmental Laws. "Environmental Laws" means any applicable federal, state and/or local environmental laws, rules and regulations. Tenant will at the close of business each day to the extent possible, park vehicles in the available space in the building. Tenant will use its best efforts to not park nor store any vehicle outside of the building for more than two consecutive days.
  
10. Maintenance, Taxes and Assumption of Responsibilities. **Tenant agrees to maintain the Premises and pay all real and personal property taxes and all other taxes due on the Premises from the date of the Commercial Lease Agreement and pay all costs and fees incurred in connection with Tenant's use of the Premises. Tenant must pay Lessor for any property damage caused by Tenant, Tenant's employees, guests or other occupants. If Lessor notifies Tenant in writing that any of the improvements located on the Premises are not being properly maintained including without limitation that the exterior or interior paint is unsatisfactory, or that any surface, wall, or wall covering, any area of the roof, flooring or landscaping is in an unsatisfactory condition, Tenant must remedy such situation on or before two weeks from the date of such notice or be in default under the terms of this lease. Both parties acknowledge that the rent would be higher if the responsibilities in this lease were allocated differently. This assumption of responsibility and liability by Tenant is entered into knowingly, voluntarily, and for consideration and is an express waiver of any statutory or common law obligation of Lessor.**

11. Subletting. Tenant will not sublet or make an assignment without the prior written consent of Lessor. If Lessor grants such permission, Tenant will remain fully liable for any and all liabilities and/or damages that arise at anytime that are related to or connected with such sublease or assignment.
12. Nuisance. Tenant will not permit any nuisance to be created on the Premises.
13. Utilities. Tenant will pay for all utilities used on the Premises.
14. Entry by Lessor or Owner. Lessor or Owner or other persons engaged to do so by Lessor or Owner may enter the Premises during reasonable times and for reasonable purposes, including, but not limited to the following purposes: inspections, repairs, preventive maintenance, emergency safety or fire inspections, prevention of property damage, enforcement of Lessor or Owner's lien, inspectors, fire marshals, lenders, appraisers or insurance agents. Lessor or Owner will leave written notice of each entry made in the absence of Tenant.
15. Nonwaiver. Failure by Lessor to enforce or demand performance of any obligation of Tenant hereunder, or to seek remedy for breach thereof, will not operate to waive or excuse defaults of other obligations nor further defaults of the same obligation.
16. Status of Title to Premises. Tenant agrees to take the leasehold estate in the Premises subject to all matters of record on the date of this Lease. Tenant accepts this lease subject and subordinate to any mortgage or deed of trust existing or hereafter placed upon the Premises, and to any renewals and extensions thereof; provided, however, no holder of any such lien or other interest in the Premises shall have the right to interfere with the use and occupancy of the Premises by Tenant or violate the terms of this lease, while Tenant is not in default of this lease agreement. Lessor agrees to use its reasonable efforts following the execution hereof to obtain a non-disturbance and attornment agreement from Owner's present mortgagee and any future mortgagee, in form and substance reasonably satisfactory to Lessor.
17. Default by Lessor. Upon default by Lessor of any obligation imposed hereunder, Tenant shall have the right to enforce specific performance of this lease and/or to recover Tenant's actual damages from Lessor as Tenant's exclusive remedies. Tenant shall not have the right to terminate this lease or to withhold or offset rent because of a default by Lessor. Before Lessor shall be considered in default, Tenant must give Lessor notice of such default and reasonable opportunity for Lessor to cure such default, which reasonable opportunity shall not be less than thirty (30) days.
18. Default By Tenant. The following shall be a default by Tenant:
  - (a) the failure to timely pay any amounts due hereunder; provided Lessor agrees to provide Tenant written notice of failure to pay such amounts due hereunder and five days

to cure such default; provided further Lessor is only obligated to provide such notice and opportunity to cure monetary defaults by Tenant once during any calendar year and thereafter any failure to timely pay any amounts due hereunder during that same calendar year shall be an immediate default; and

(b) the breach of or failure to comply with any provision of this lease (other than the monetary obligation described in subparagraph (a) above), and the failure to cure such breach within a reasonable time from the earlier of (i) the date Lessor notifies Tenant in writing of such breach, or (ii) the date Tenant becomes aware of such breach. The reasonableness of the time period for curing such default shall be determined by considering the nature of the default and the materials, labor and utilities or other resources for cure of the default.

(c) In addition to the other defaults set out in this lease the following shall constitute defaults under this lease: (i) the filing of bankruptcy or any other insolvency proceedings by Tenant; (ii) the filing of an involuntary bankruptcy petition by creditors of Tenant; and (iii) Tenant's giving notice of intent to vacate the Premises prior to the expiration of the lease. In the event of Tenant's filing of bankruptcy or any other insolvency proceedings, abandonment of the Premises, or giving of notice of intent to vacate prior to the expiration of the lease term, Lessor is not obligated to give Tenant notice of such default nor any opportunity to cure such a default.

(d) Cross Default with Franchise Agreement: Any default by Tenant under the franchise agreement between Tenant and Christian Brothers Automotive Corporation will also constitute a default with this Lease Agreement.

In the event of any default hereunder by Tenant and the expiration of any applicable cure period, Lessor may, at Lessor's election:

- (a) Terminate Tenant's possession of the Premises by giving Tenant one day's written notice to vacate and Lessor is entitled to possession by eviction suit. Such election will not relieve Tenant of the obligation to pay all rent due during the remainder of the lease term.
- (b) Declare all remaining rent through the end of the lease term or renewal or extension period immediately due and payable in its entirety without the requirement of notice or demand to Tenant of Lessor's election to so accelerate the rent. Such right of acceleration is in lieu of having rental for the entire lease term payable at the beginning of the lease.
- (c) Declare this lease forfeited and terminated. Tenant will lose all rights, titles, and interests in and to any improvements to the Premises made or caused to be made by Tenant. All rights and remedies given Lessor hereunder will be, to the extent not in conflict with each other, cumulative and exercisable at the election of

Lessor. The exercise, or failure to exercise, any right or remedy of Lessor hereunder will not alter or diminish Lessor's right to exercise any other right or remedy given Lessor by this agreement or by law.

19. Holdover. If Tenant holds over and fails to vacate on or before the contracted move-out date (end of lease term, or any renewal or extension period, or the move-out date agreed to by the parties), Tenant will be liable to pay rents for the holdover period and Tenant hereby indemnifies Lessor and/or prospective tenants or purchasers for damages (i.e., lost rentals or profits of sale, and attorney's fees). Rents during the holdover period are due on a daily basis at a rate two times the rate of the previous term just ended.
20. Abandonment. Tenant will be conclusively deemed to have abandoned the Premises and all personal property located thereon or therein if Tenant has been evicted by judicial process or Tenant remains absent from the Premises for five consecutive days while Tenant is in default of any obligation hereunder. **Upon such abandonment, Lessor may remove and make such disposition of any and all personal property found upon the Premises as provided for in paragraph 21 below.** Such right of Lessor is without prejudice to Lessor's right to elect to exercise Lessor's landlord's lien rights. In the event Tenant's abandonment of the Premises is caused by a Force Majeure (as defined below), Tenant shall not be deemed to have abandoned the Premises for the purposes of this Section provided that: (i) Tenant gives Lessor written notice of the Force Majeure within twenty-four hours of the occurrence of the Force Majeure, and (ii) Tenant uses all reasonable diligence to remove the Force Majeure as quickly as practicable. For the purposes of this Section "Force Majeure" shall mean any of the following: an act of God, war, public riot, lightning, fire, storm, flood, explosion, and governmental action; provided such event prevents Tenant from reasonably operating its business on the Premises.
21. Contractual Lien. **All personal property on the Premises (except property exempt by statute) is hereby subjected to a contractual lien in favor of Lessor to secure payment of rent and of any damages occasioned by Tenant's default.**

In order to enforce said lien, Lessor may peacefully enter the Premises and remove and store all non-exempt property therein. Lessor is entitled to reasonable charges for packing, removing and storing property taken hereunder. If Tenant is not present when property is removed hereunder, written notice of Lessor's entry will be left at the Premises. Lessor may sell all property subject to Lessor's lien at public or private sale after giving Tenant ten (10) days written notice by certified mail of the time and place of such sale. If Tenant fails to furnish Tenant's address to Lessor, said sale may be held without notice to Tenant; provided, however, that Tenant will be informed as to the time and place of said sale upon request. Sale will be to the highest cash bidder and Lessor will credit the proceeds thereof first to all costs and expenses incident to the removal, storage and sale of the property and then in mitigation of other damages hereunder. Any excess realized from such sale over said expenses and damages will be mailed to Tenant



at such address as Tenant may furnish, or, if no address is furnished, will be held for delivery to Tenant for thirty (30) days following the date of the sale, after which time, if Tenant has not requested payment, Tenant will be deemed to have abandoned any right thereto and such excess will become the property of Lessor. The foregoing lien rights may be exercised by Lessor with or without resort to judicial proceedings. The contractual lien provided herein is in addition to, and not in lieu of, any landlord's or other lien provided by law. Lessor and Owner agree to and do hereby subordinate their liens to (a) any liens now existing or hereafter created or arising in favor of a lending bank for Tenant's operating assets, and (b) any purchase money security interests ("PMSI") but only as such PMSI pertain to specific goods or pieces of equipment owned by Tenant and financed by the beneficiary of such liens.

22. Notices. Except as expressly set forth to the contrary in this Lease, all notices, requests or consents provided for or permitted to be given under this Lease must be in writing and must be delivered to the recipient in person, by courier or mail or by email or by facsimile, or similar transmission; a notice, request or consent given under this Lease is effective on receipt by the Person to receive it. Notices given by telecopy shall be deemed to have been received (a) on the day on which the sender receives answer back confirmation if such confirmation is received before or during normal business hours of any business day, or (b) on the next business day after the sender receives answer back confirmation if such confirmation is received (i) after normal business hours on any business day, or (ii) on any day other than a business day. Notices given by email shall be deemed to have been received (c) on the day on which the sender transmits such notice if the sender receives confirmation the email has been received before or during normal business hours of any business day, or (d) on the next business day after the sender transmits such notice if such notice is transmitted (i) after normal business hours on any business day or (ii) on any day other than a business day. All notices, requests and consents to be sent to a party to this Lease must be sent to or made at the addresses, telecopy number and/or email address given for that party below or such other address, telecopy number or email address as that party may specify by notice to the other parties to this Lease. Whenever any notice is required to be given by law or this Lease, a written waiver thereof, signed by the party entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Except as may be otherwise required herein or specified by law, all notices required or permitted hereunder to be given to Tenant shall be given to Tenant, at

---

prior to Commencement date and then to the Premises thereafter; provided, however, that Tenant may furnish Lessor such other address as Tenant may elect and require notice as provided above to such address. All written notices required or permitted to be given to Lessor must be given by certified mail, return receipt requested, addressed to or by personal delivery to 15995 N. Barker's Landing, Suite 145, Houston, Texas 77079, Attention: Mark A. Carr; provided Lessor may furnish Tenant such other address as Lessor may elect and require notice as provided above to such address. Tenant and

Lessor shall furnish each other with email and/or telecopy contact information to be used for the purposes of delivering notices pursuant to this Section 22.

23. Liability, Indemnity and Insurance. Lessor agrees not to grant any easements on the Premises or any portion thereof during the terms of this Lease that would materially interfere with Tenant's operation of its business on the Premises, unless Tenant consents in writing to any such encumbrance or grant. Neither the Lessor nor Owner is liable to Tenant, Tenant's employees, guests or other occupants or persons on the Premises for personal injury, property damage or other losses to such persons or their property caused by other persons, theft, burglary, assault, other crimes, intoxication, fire, water, wind, rain, smoke, drowning, or any other causes. Tenant agrees to indemnify, defend and hold harmless Lessor and Owner from and against any and all injury, loss or damage of whatever nature, to persons or property arising out of the use or occupancy of the Premises, or out of any act, omission or negligence of anyone including without limitation, the Owner, Lessor, Tenant and/or any of their respective agents, servants, representatives, employees, contractors, invitees and licensees whether with or without the express or implied consent of Owner, Lessor, or Tenant.

Tenant shall, during the Term of this Lease commencing on the date hereof, procure and maintain, at its own cost and expense, a fire and extended coverage policy of insurance insuring the improvements on the Premises and all of Tenant's equipment, trade fixtures, furniture and furnishings, personal property, inventory and contents against fire, vandalism, and malicious mischief and such other perils, as are from time to time included in a standard extended coverage endorsement in an amount equal to the full replacement cost thereof (or such lesser amount as Tenant may elect with respect to its trade fixtures, furniture and other personal property), naming the Lessor and the Owner each as an additional insured and loss payee. Tenant shall also obtain and maintain twelve (12) months of business interruption insurance in such amounts as are determined appropriate by Lessor. Solely with respect to the Premises, Tenant further agrees to obtain and keep in force during the term of this Lease at Tenant's own cost and expense commercial general liability insurance on an occurrence basis with a minimum limit of Two Million Dollars (\$2,000,000) per occurrence, naming the Lessor and the Owner each as an additional insured. To the extent determined to be applicable by the Lessor, Tenant shall obtain and maintain a business or commercial automobile liability policy covering all vehicles used in Tenant's business operations with limits of not less than One Million Dollars (\$1,000,000.00) per each accident naming the Lessor and the Owner each as an additional insured. Where such is required by Lessor and/or by Owner, Tenant shall obtain and also maintain earthquake insurance and flood insurance covering the Premises with each type of insurance covering the full replacement cost of the Premises and all improvements thereto and thereon. Where such is required by Lessor and/or by applicable law, rule or regulation, Tenant shall obtain and also maintain workers' compensation insurance with statutory limits, and employers' liability insurance with limits of not less than One Million Dollars (\$1,000,000) per occurrence, all of the policies evidencing the foregoing coverage must be endorsed as required under any state, federal,

or other applicable law. Owner and Tenant each waive any and all rights to recover against the other or the other's agents or employees for any loss or damage to such waiving party arising from any cause covered by any property insurance required to be carried pursuant to this Section 23 or any other property insurance actually carried by such party to the extent of the limits of such policy. Tenant, from time to time, will cause its insurers to issue appropriate waiver of subrogation rights endorsements with respect to all property and liability insurance policies carried in connection with the Premises or the contents of the Premises. All policies of insurance described in this Section 23 which Tenant is required to procure and maintain will be issued by responsible insurance companies, having a claims-paying ability rating of "A" or higher as ascribed by S&P, be considered equivalent to a NAIC 1 or other rating acceptable to the Securities Valuation Office of the National Association of Insurance Commissioners, and in all other respects be reasonably acceptable to Lessor and qualified and licensed to do business in the state in which the Premises are situated. If Tenant fails to acquire or maintain the insurance required pursuant to this Lease or to pay the premiums for such insurance and deliver the certificates of coverage after notice from Lessor, Lessor may, in addition to other rights and remedies available to Lessor, acquire such insurance and/or pay the requisite premiums therefor. Such premiums so paid by Lessor will be reimbursable and payable by Tenant immediately upon written demand therefor made to Tenant by Lessor.

The types of insurance required by Lessor hereunder can be expanded and the amounts of insurance required by Lessor hereunder can be increased at any time by Lessor notifying Tenant of the type and amount of insurance that must be obtained and/or the amount by which an existing policy must be increased. Tenant must obtain such increased insurance coverage (type and/or amount) as promptly as is reasonably possible. Where a provision in this section requires insurance coverage to be in the full replacement cost of the insured property, the full replacement cost shall be an amount sufficient in Lessor's determination to completely cover the replacement cost of such insured property.

Tenant must deliver to Lessor copies of the insurance policies and certificates of such insurance certifying that the same is in full force and effect. Tenant hereby releases Lessor and Owner to the extent of Tenant's insurance coverage, from any and all liability for any loss or damage caused by fire or any of the extended coverage casualties, even if such fire or other casualty are brought about by the fault or negligence of Lessor or Owner, its servants or agents, provided, however, this release will be in force and effect only with respect to loss or damage occurring during such time as Tenant's policies of fire and extended coverage contain (or would contain, if Tenant had made a reasonable effort to obtain same) a clause to the effect that this release will not affect policies or the right of Tenant to recover thereunder. Tenant agrees that its fire and extended coverage insurance policies will include such a clause so long as the same is obtainable without extra cost, or if extra cost is chargeable therefore, so long as Lessor or Owner pays such extra cost. If extra cost is chargeable, then Tenant will advise Lessor thereof, and the amount thereof, and Lessor or Owner may pay the same but is not obligated to do so.

Tenant should maintain such insurance on its contents as it deems necessary or advisable. To the extent any bank or financial institution that has financed or refinanced Owner's acquisition and improvement of the Leased Premises ("Bank") is listed as a co-insured or additional insured, Lessor will subordinate its rights in any insurance proceeds to the Bank. Lessor or Owner may insure the Premises with such insurance as it deems necessary or advisable.

In the event Tenant retains or requests Lessor's or Owner's employees or contractors to render services not contemplated in this agreement, or without the prior knowledge and consent of Lessor or Owner expressed in writing, such employees or contractors are deemed to be the agents of Tenant whether or not compensated by Tenant, Lessor or Owner, and Tenant agrees to hold harmless and indemnify Lessor or Owner for and from all liability for the acts or omissions of such persons.

24. **General.** This lease contains the entire agreement of the parties. **No oral agreements or representations have been made.** Tenant waives and releases all claims, if any, of misrepresentation and fraudulent inducement. This lease may be modified only in writing signed by all parties. A declaration by an arbitrator of the invalidity of any part of this lease or any attachment hereto will not invalidate the remainder. Tenant may not withhold rent or offset against rent. This lease is to be construed under and in accordance with the laws of the State of Texas. This agreement is binding upon and inures to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, successors and assigns.
25. **Condemnation.** If the whole of the Premises shall be taken or condemned by a competent authority for a public or quasi-public use or purpose, then the term of this Lease shall cease as of the date possession of the Premises shall be required for said public use, and any rent paid in advance of such date shall be refunded to Tenant. In the event only a portion of the Premises is so taken or condemned, Lessor shall use any of the funds received by Lessor from such taking to make such repairs or alterations as may be reasonably necessary to restore the Premises to substantially the same condition as it was prior to the taking; provided, however, Lessor shall not be obligated to expend more than any amount Owner or Lessor receives from the condemning authority for the taking of and residual damage to the Premises. In the event the condemning authority takes the whole, or such a substantial part of the Premises as to render the Premises unsuitable for continuing the operation of an automotive repair facility, Tenant may terminate this Lease upon written notice as of the date the condemning authority is entitled to possession, and neither party shall have any further obligation to the other hereunder. Rent shall be apportioned to the date of termination or the date of taking, whichever is earlier. In the event of any taking all sums allowed or paid on account thereof shall belong to and shall be paid to Owner or Lessor, it being the intention of the parties that there be no diminution, by reason of the existence of the Lease in the amount to be received by Owner or Lessor.

26. Destruction. In the event the Premises are partially or totally destroyed or damaged by fire or other casualty, whether or not covered by insurance, Tenant shall be obligated to rebuild or restore or at Lessor's discretion, allow Lessor to use the available insurance proceeds to rebuild or restore the Premises to substantially the condition they were in prior to such destruction or damage and pursuant to the plans and specifications provided by Lessor, and all insurance proceeds shall be available to Lessor or Tenant for such purpose and there shall be no abatement of rent; provided, however, that if such destruction or damage occurs during the last twelve months (12) months of the initial Term or any extension term, Tenant shall have the right, at its option, to terminate this Lease by giving written notice of such termination to Lessor within sixty (60) days after such destruction or damage, provided that Lessor shall be entitled to all of the insurance proceeds. Any and all insurance proceeds not applied to rebuild the Premises as stated above shall be payable to Lessor.
27. Dispute Resolution. **Lessor and Tenant agree that any and all disputes between Tenant, Lessor and Owner will be resolved pursuant to the Dispute Resolution Agreement attached as Exhibit "B" to and made a part of this lease.**
28. State Specific Provisions.  
**NONE FOR TEXAS BUT ANY OTHER STATE WILL HAVE STATE SPECIFIC PROVISIONS INSERTED IN THIS SECTION.**
29. Counterparts. This Lease may be executed and delivered (including by facsimile or Portable Document Format (pdf) transmission) in any number of counterparts with the same effect as if all signatories had signed the same document. Facsimile and other electronic copies of manually signed originals shall have the same effect as manually-signed originals and shall be binding on the undersigned parties. Each counterpart shall be deemed an original, but all counterparts must be construed together to constitute one and the same instrument.

**The remainder of this page is intentionally left blank; the signature page follows.**

EXECUTED effective as of the \_\_\_\_\_ day of \_\_\_\_\_, 201\_\_.

LESSOR:

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**

15995 N. Barkers Landing, Suite 145

Houston, Texas 77079

By: \_\_\_\_\_

\_\_\_\_\_  
Print Name, Title

TENANT:

\_\_\_\_\_

By: \_\_\_\_\_

\_\_\_\_\_, President

Exhibit D to Franchise Agreement (continued)

FDD Exhibit B

**EXHIBIT "A" TO  
COMMERCIAL LEASE AGREEMENT**

Legal description:

Street Address:

**DISPUTE RESOLUTION AGREEMENT  
ATTACHED AS EXHIBIT “B” TO AND MADE A PART OF THE  
COMMERCIAL LEASE AGREEMENT BETWEEN CHRISTIAN BROTHERS  
AUTOMOTIVE CORPORATION AND \_\_\_\_\_**

**DISPUTE RESOLUTION AGREEMENT.**

- (a) If a dispute, controversy or claim arises between or among any or all of the parties, including without limitation any dispute, controversy or claim that arises out of or relates to this lease, the Franchise Agreement or any other agreement, instrument, or relationship between the parties, or the breach, termination or invalidity of the lease, the Franchise Agreement or any such other agreement or instrument, AND including but not limited to a claim based on or arising out of a claim for tortious interference or other tortious or statutory claims arising before, during or after termination of this lease or the Franchise Agreement and including any dispute that involves any or all of the parties and any employee, officer, director, supervisor or member of management of either party hereto (collectively the “Dispute”), and if the Dispute cannot be settled through direct discussions, the parties agree to resolve the Dispute by binding arbitration administered by the American Arbitration Association in accordance with its Commercial Arbitration Rules (the “Rules”), and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Any arbitration hereunder shall be pursuant to the applicable rules of the American Arbitration Association as set out above except to the extent modified in this Section. The parties acknowledge that this lease, the Franchise Agreement and/or the dealings of the parties involve interstate commerce and that the Federal Arbitration Act applies to any arbitration hereunder.
- (b) The parties expressly agree that any court with jurisdiction may order the consolidation of any arbitrable dispute, controversy or claim under this lease or the Franchise Agreement with any related arbitrable dispute, controversy or claim not arising thereunder, as the court may deem necessary in the interests of justice or efficiency or on such other grounds as the court may deem appropriate, provided that the consolidated disputes, controversies and claims are to be resolved in arbitration.
- (c) The site of the arbitration shall be in Houston, Texas, and shall take place in the offices of the American Arbitration Association or such other place as the parties may agree.
- (d) The parties agree that the federal and state courts located in the State of Texas and City of Houston shall have exclusive jurisdiction and venue over



**an action brought to enforce and/or challenge the rights and obligations created in or arising from this agreement to arbitrate, and each of the parties hereto irrevocably submits to the jurisdiction and venue of said courts. Notwithstanding the above, application may be made by a party to any court of competent jurisdiction wherever situated for confirmation and enforcement of any award and the entry of whatever orders are necessary for such confirmation and enforcement.**

- (e) Process in any action arising out of or relating to this lease or the Franchise Agreement may be served on any party to the lease or the Franchise Agreement anywhere in the world by delivery in person or by registered or certified mail, return receipt requested.**
- (f) To the fullest extent permitted by applicable law, the parties to this lease agree that neither party shall be entitled to any damages in the nature of punitive, exemplary or statutory damages in excess of compensatory damages or any form of damages in excess of compensatory damages, and the parties hereby waive all rights to any damages in the nature of punitive, exemplary or statutory damages. Any arbitrator or arbitrators deciding any disputes hereunder will not have the authority to award and are specifically divested of any power to award any damages in the nature of punitive, exemplary or statutory damages or any other damages in excess of compensatory damages or any form of damages in excess of compensatory damages, and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of the lease and the Franchise Agreement.**
- (g) Neither the parties nor the arbitrator(s) may disclose to any person not involved in the arbitration the existence, content, or results of any arbitration hereunder without the prior written consent of all parties.**
- (h) The parties agree that all questions concerning the arbitrator(s)' jurisdiction shall be decided by the arbitrator(s).**
- (i) A party or parties against whom any final award is entered by the arbitrator(s) agrees to pay the prevailing party all reasonable costs, charges and expenses, including but not limited to arbitration filing fees, arbitrator fees, reasonable attorney and expert fees, incurred and to be incurred in connection with said arbitration, any action to compel arbitration and/or compliance with the terms of this section, and/or the confirmation and enforcement of the arbitration award. The arbitrator(s) shall include such costs, charges and expenses as part of the final award. This agreement to arbitrate is intended to be binding upon the signatories hereto, their principals, successors, assigns, subsidiaries or affiliates.**
- (j) The arbitrator(s) shall determine the rights and obligations of the parties according to applicable federal laws and to the substantive laws of the State of Texas (excluding conflicts of laws principles).**

- (k) The arbitrator(s) is directed to consider any defense that all or part of the claim is not timely by reason of laches or statute of limitations as a preliminary issue and to render an award determining the merits of such claim before considering the substantive merits of the arbitration claim, unless the arbitrator(s) determines that the merits of such claim of laches or statute of limitations is so intertwined with the substantive merits of the arbitration claim as to make impractical the determination of the claim of laches or limitations as a preliminary matter.**
- (l) The arbitrator(s) shall hear and determine any preliminary issue of law asserted by a party to be dispositive of any claim, in whole or part, in the manner of a court hearing a motion to dismiss for failure to state a claim or for summary judgment, pursuant to such terms and procedures as the arbitrator(s) deems appropriate.**
- (m) It is the intent of the parties that, barring extraordinary circumstances, any arbitration shall be concluded within three months of the date the statement of claim is received by the arbitrator(s). Unless the parties otherwise agree, once commenced, hearings shall be held five days a week, four weeks a month, with each hearing day to begin at 9:00 A.M. and to conclude at 5:00 P.M. These time limits can be extended or altered by an agreement of the parties or by a determination of the arbitrator that such extension or alteration is in the interests of justice. The arbitrator shall use his or her best efforts to issue the final award or awards within a period of thirty days after closure of the proceedings, but failure to do so shall not be a basis for challenging the award.**
- (n) The procedure to be followed in any arbitration hereunder shall be as prescribed herein and in such directives that shall be issued by the arbitrator(s) following consultation with the parties. Unless otherwise agreed by the parties, the procedures shall provide for the submission of briefs by the parties, the introduction of documents and the oral testimony of witnesses, cross-examination of witnesses, oral arguments, the closure of the proceedings and such other matters as the arbitrator(s) may deem appropriate. Further, the arbitrator(s) shall regulate all matters relating to the conduct of the arbitration not otherwise provided for in this Agreement or in the Rules.**
- (o) In the event a party, having been given notice and opportunity, shall fail or shall refuse to appear or participate in an arbitration hereunder or in any stage thereof, the proceedings shall nevertheless be conducted to conclusion and final award. Any award rendered under such circumstances shall be as valid and enforceable as if all parties had appeared and participated fully at all stages.**
- (p) The parties agree that discovery shall be limited and shall be handled expeditiously. Discovery procedures available in litigation before the courts**

**shall not apply in an arbitration conducted pursuant to this Agreement. However, each party shall produce relevant and non-privileged documents or copies thereof requested by the other parties within the time limits set and to the extent required by order of the arbitrator(s). All disputes regarding discovery shall be resolved by the arbitrator.**

- (q) It is the intent of the parties that the testimony of witnesses be subject to cross-examination. It is agreed that the direct testimony of a witness may be submitted by sworn affidavit, provided that such affiant be subject to cross-examination, and that such affidavit be produced to all parties not less than ten (10) days before the hearing or other proceeding in which the affidavit is submitted to the arbitrator(s).**
- (r) Strict rules of evidence shall not apply in an arbitration conducted pursuant to this Agreement. The parties may offer such evidence as they desire and the arbitrator(s) shall accept such evidence as the arbitrator(s) deems relevant to the issues and accord it such weight as the arbitrator(s) deems appropriate.**
- (s) No witness or party may be required to waive any privilege recognized at law.**
- (t) The parties expressly agree that prior to the selection of the arbitrator(s), nothing in this agreement shall prevent the parties from applying to a court that has jurisdiction as provided in this lease or the Franchise Agreement for injunctive relief and/or to determine the immediate right to possession of the Premises. After the arbitrator(s) is/are selected, he and/or she shall also have the authority and jurisdiction to make such orders as are necessary to determine the immediate right to possession of the Premises, to maintain the status quo and/or to preserve and protect property, and such orders by the arbitrator(s) may be immediately and specifically enforced by a court having jurisdiction over the parties as provided in this lease or the Franchise Agreement.**

**EXHIBIT C**  
**TABLE OF CONTENTS OF CONFIDENTIAL OPERATIONS MANUAL**

Attached as Exhibit C is the Table of Contents of CBAC's Confidential Operations Manual (from page C - 1 to page C - 9).

<b>1</b>	<b>INTRODUCTION TO THE MANUAL</b>	<b>1.1</b>
<b>1.1</b>	<b>Welcome Letter</b>	<b>1.1</b>
<b>1.2</b>	<b>History of the Company</b>	<b>1.2</b>
<b>1.3</b>	<b>Who to Call</b>	<b>1.3</b>
<b>1.4</b>	<b>Manual Organization</b>	<b>1.5</b>
<b>1.5</b>	<b>Ownership of the Manual</b>	<b>1.5</b>
<b>1.6</b>	<b>Purpose of this Manual</b>	<b>1.5</b>
<b>1.7</b>	<b>Importance of Confidentiality</b>	<b>1.6</b>
<b>1.8</b>	<b>Keeping the Manual Current</b>	<b>1.8</b>
<b>1.9</b>	<b>Submitting Suggestions</b>	<b>1.8</b>
<b>1.10</b>	<b>Disclaimer</b>	<b>1.9</b>
<b>2</b>	<b>WORLD CLASS CULTURE</b>	<b>2.1</b>
<b>2.1</b>	<b>Mission</b>	<b>2.1</b>
<b>2.2</b>	<b>Vision</b>	<b>2.1</b>
<b>2.3</b>	<b>Values and Stewardship</b>	<b>2.2</b>
2.3.1	Code of Values	2.2
<b>2.4</b>	<b>CBAC Franchising Business Model</b>	<b>2.3</b>
2.4.1	Franchising Definition	2.3
2.4.2	Unified Thinking	2.3
2.4.3	Building Brand Loyalty	2.3
2.4.4	Customer Centricity	2.3
2.4.5	Purpose of CBA Franchise Business	2.4
<b>2.5</b>	<b>Goal Setting &amp; Business Planning</b>	<b>2.4</b>
<b>2.6</b>	<b>Cornerstones of Excellence (RPMS)</b>	<b>2.4</b>
2.6.1	Relationships Cornerstone	2.5
2.6.2	Profitability Cornerstone	2.6
2.6.3	Marketing Cornerstone	2.7
2.6.4	Service-Experience Cornerstone	2.8
<b>3</b>	<b>STORE OPERATIONS</b>	<b>3.1</b>
<b>3.1</b>	<b>Introduction &amp; Purpose</b>	<b>3.1</b>
<b>3.2</b>	<b>Policy &amp; Expectations</b>	<b>3.1</b>
3.2.1	Who We Are	3.1
3.2.1.1	Clean & Inviting Environment	3.1
3.2.1.2	Polite & Courteous Staff	3.2
3.2.1.3	Friendly & Upbeat Greeting	3.2

3.2.1.4	Honesty & Integrity	3.3
3.2.1.5	When Bad Things Happen:	3.3
3.2.1.6	Truth in Recommendations	3.4
3.2.2	How We Operate	3.4
3.2.2.1	Hours and Days of Operation	3.4
3.2.2.2	The Receiving Process	3.4
3.2.2.3	Record Accurate Information	3.5
3.2.2.4	Asking for Email	3.6
3.2.2.5	Asking Detective Questions	3.7
3.2.2.6	The Approval Policy	3.8
3.2.2.7	Test Drive Policy	3.8
3.2.2.8	Consistent Customer Communication	3.9
3.2.2.9	Excellence in the Little Things	3.9
3.2.3	What We Provide	3.10
3.2.3.1	Simple, Understandable Recommendations	3.11
3.2.3.2	Courtesy Shuttle	3.14
3.2.3.3	Courtesy Vehicle Inspections	3.14
3.2.3.4	Highest Quality Parts	3.15
3.2.3.5	Knowledgeable & Experienced Technicians	3.16
3.2.3.6	Direct Access to the Franchise Owner	3.16
3.2.3.7	12/12 and 18/18 Warranty	3.17
<b>3.3</b>	<b>Procedures</b>	<b>3.18</b>
3.3.1	External (Customer Related) Procedures	3.18
3.3.1.1	Managing Expectations	3.18
3.3.1.2	Customer Complaints	3.18
3.3.1.3	Comebacks (No-Fault & At-Fault)	3.19
3.3.1.4	Pinch Situations	3.20
3.3.1.5	Payment for Service	3.21
3.3.1.6	Early Payments	3.22
3.3.1.7	Fleet Customers	3.23
3.3.1.8	Warranty Co. / Payment Svc. / Insurance Co.	3.24
3.3.1.9	Price Shoppers & Phone Quotes	3.24
3.3.1.10	Outsourcing Labor (Sublets)	3.25
3.3.1.11	Customers Who Wait Throughout the Repair ("Waiters")	3.26
3.3.1.12	Buying Time with a Customer	3.26
3.3.2	Internal (Staff, CBA Related) Procedures	3.27
3.3.2.1	Pricing	3.27
3.3.2.2	Labor	3.28
3.3.2.3	Sublet	3.28
3.3.2.4	Inter-Company Warranty	3.29
3.3.2.5	Unpaid Repair Orders & Accounts Receivable Balances	3.29
3.3.2.6	Bounced Checks (NSF Fees)	3.30

3.3.2.7	Excess Vehicle Workload	3.30
3.3.2.8	Employee Problems	3.32
3.3.2.9	Lack of Staff	3.32
3.3.2.10	Terminating Employees	3.32
3.3.2.11	Employee Family Members' Vehicle Repair	3.33
3.3.2.12	Bartering	3.33
3.3.2.13	The CBA Workflow	3.34
3.3.2.14	Receiving the Customer	3.36
3.3.2.15	Building the Estimate for Approval	3.38
3.3.2.16	Calling for Approval	3.38
3.3.2.17	When Parts Arrive	3.41
3.3.2.18	Completing the Repair Order in Preparation for Pickup	3.42
3.3.2.19	Finalizing the Repair Order	3.42
<b>3.4</b>	<b>Guidelines</b>	<b>3.44</b>
<b>3.5</b>	<b>Reference</b>	<b>3.44</b>
3.5.1	Templates	3.44
<b>3.6</b>	<b>Troubleshooting</b>	<b>3.44</b>
<b>4</b>	<b>RECORD KEEPING AND REPORTING</b>	<b>4.1</b>
<b>4.1</b>	<b>Introduction &amp; Purpose</b>	<b>4.1</b>
4.1.1	Introduction and Purpose	4.1
<b>4.2</b>	<b>Policy &amp; Expectations</b>	<b>4.1</b>
4.2.1	General	4.1
4.2.2	Accuracy of Records	4.1
4.2.3	Timeliness of Entries	4.1
4.2.4	Traceability of Transactions	4.1
4.2.5	Accounting Services	4.2
4.2.6	Automatic Debits	4.3
4.2.7	Company Credit Card Usage	4.4
<b>4.3</b>	<b>Procedures</b>	<b>4.5</b>
4.3.1	Daily	4.5
4.3.2	Weekly	4.5
4.3.3	Monthly	4.6
4.3.4	Quarterly	4.8
4.3.5	Yearly	4.8
4.3.6	Year End Tax Planning	4.9
<b>4.4</b>	<b>Guidelines</b>	<b>4.10</b>
<b>4.5</b>	<b>Reference</b>	<b>4.10</b>
<b>4.6</b>	<b>Troubleshooting</b>	<b>4.10</b>
<b>5</b>	<b>HUMAN RESOURCES</b>	<b>5.1</b>
<b>5.1</b>	<b>Introduction &amp; Purpose</b>	<b>5.1</b>

<b>5.2</b>	<b>Employment Law Basics</b>	<b>5.1</b>
5.2.1	Employee Rights / Employer Responsibilities	5.1
5.2.2	Federal Regulations on Employment Relationships	5.2
5.2.3	State Employment Laws	5.3
<b>5.3</b>	<b>OSHA</b>	<b>5.4</b>
5.3.1	Federal Standards	5.4
5.3.2	State OSHA Programs	5.5
<b>5.4</b>	<b>CBAC Staffing Policies</b>	<b>5.6</b>
<b>5.5</b>	<b>Preparing to Hire Your First Employee</b>	<b>5.6</b>
<b>5.6</b>	<b>Job Responsibilities and Ideal Employee Profiles</b>	<b>5.7</b>
5.6.1	Responsibilities	5.7
5.6.2	Profiles of Ideal Employees	5.8
5.6.3	Job Descriptions	5.9
<b>5.7</b>	<b>Finding Qualified Staff</b>	<b>5.9</b>
5.7.1	Sources of Employee Candidates	5.9
5.7.2	Job Advertisements	5.10
5.7.3	No Requirement to Advertise Open Positions	5.11
<b>5.8</b>	<b>Job Applications</b>	<b>5.11</b>
5.8.1	Application Form	5.11
5.8.2	Confidentiality of Applications	5.11
<b>5.9</b>	<b>Interviewing Job Applicants</b>	<b>5.12</b>
5.9.1	Preparing For Interviews	5.12
5.9.2	Conducting Successful Interviews	5.12
5.9.3	Position-Specific Questions	5.14
5.9.4	Questions to Avoid	5.14
<b>5.10</b>	<b>Background Checks on Job Applicants</b>	<b>5.17</b>
5.10.1	General Tips on Background Checks	5.17
5.10.2	Special Rules for Certain Records	5.17
<b>5.11</b>	<b>Pre-Employment Testing</b>	<b>5.19</b>
<b>5.12</b>	<b>Hiring</b>	<b>5.20</b>
<b>5.13</b>	<b>Making Job Offers</b>	<b>5.20</b>
<b>5.14</b>	<b>Miscellaneous Hiring Issues</b>	<b>5.21</b>
<b>5.15</b>	<b>New Employee Paperwork</b>	<b>5.22</b>
<b>5.16</b>	<b>Additional Steps in Hiring Process</b>	<b>5.24</b>
<b>5.17</b>	<b>New Employee Orientation</b>	<b>5.24</b>
<b>5.18</b>	<b>New Employee Training</b>	<b>5.26</b>
<b>5.19</b>	<b>Dress Code</b>	<b>5.26</b>
<b>5.20</b>	<b>Uniforms</b>	<b>5.26</b>
5.20.1	Shirts	5.27
5.20.2	Slacks/Pants/Shorts	5.27
5.20.3	Hats or Visor	5.27
5.20.4	Socks and Shoes	5.27

5.20.5	Belt	5.27
<b>5.21</b>	<b>Grooming Standards</b>	<b>5.27</b>
5.21.1	Hair	5.28
5.21.2	Facial Hair	5.28
5.21.3	Nails	5.28
5.21.4	Electronics	5.28
5.21.5	Jewelry/Tattoos	5.28
<b>5.22</b>	<b>Personnel Policies</b>	<b>5.28</b>
5.22.1	Introduction	5.28
5.22.2	Communicating Work Rules	5.29
5.22.3	Modifying Your Employee Handbook	5.30
<b>5.23</b>	<b>Wages</b>	<b>5.30</b>
5.23.1	Minimum Wage	5.31
5.23.2	Overtime pay	5.32
5.23.3	CBAC Employee Compensation Guideline	5.32
<b>5.24</b>	<b>Benefits</b>	<b>5.33</b>
5.24.1	Employee Paid Holiday	5.33
5.24.2	Employee Sick Days	5.34
5.24.3	Employee Vacation	5.34
5.24.4	Holidays	5.35
5.24.5	Employee Health Insurance	5.35
<b>5.25</b>	<b>Employee Morale and Motivation</b>	<b>5.36</b>
5.25.1	Factors of Good Morale	5.36
5.25.2	Signs of Bad Morale	5.36
5.25.3	Improving Morale and Motivation	5.37
<b>5.26</b>	<b>Performance Reviews</b>	<b>5.39</b>
<b>5.27</b>	<b>Employee Discipline</b>	<b>5.40</b>
<b>5.28</b>	<b>Resignation / Termination</b>	<b>5.42</b>
5.28.1	Resignation	5.42
5.28.2	Termination	5.42
5.28.3	Termination Tips	5.43
5.28.4	Post-Separation Procedures	5.43
5.28.5	Final Paychecks	5.44
5.28.6	Explaining Termination to Other Employees	5.44
5.28.7	Giving References	5.44
<b>5.29</b>	<b>When to Replace and When to Hire Additional Staff</b>	<b>5.44</b>
<b>5.30</b>	<b>Summary of Good Employee Management Practice</b>	<b>5.45</b>
<b>5.31</b>	<b>Getting Legal Help with Employment Law Issues</b>	<b>5.46</b>
<b>5.32</b>	<b>Owner / Operator Policies</b>	<b>5.47</b>
5.32.1	Franchisee Vacation	5.47
5.32.2	Principal Operator On-Site	5.47
<b>5.33</b>	<b>Reference</b>	<b>5.47</b>



5.33.1	Forms	5.47
5.33.2	Required Postings	5.47
<b>5.34</b>	<b>Troubleshooting</b>	<b>5.47</b>
<b>6</b>	<b>MARKETING</b>	<b>6.1</b>
<b>6.1</b>	<b>Introduction &amp; Purpose</b>	<b>6.1</b>
6.1.1	Definition of Marketing	6.1
6.1.2	Traditional vs. Guerrilla	6.2
<b>6.2</b>	<b>Your General Obligations</b>	<b>6.6</b>
6.2.1	Budget	6.6
<b>6.3</b>	<b>Marketing Standards</b>	<b>6.7</b>
<b>6.4</b>	<b>Guidelines for Using Marks</b>	<b>6.8</b>
<b>6.5</b>	<b>Logo Specifications</b>	<b>6.9</b>
<b>6.6</b>	<b>The Outstanding Customer Experience</b>	<b>6.9</b>
<b>6.7</b>	<b>Internal Marketing</b>	<b>6.10</b>
6.7.1	Phone Greetings	6.10
6.7.2	Counter Greetings	6.11
6.7.3	RO Writer Marketing Module	6.11
<b>6.8</b>	<b>External Marketing</b>	<b>6.12</b>
6.8.1	Understanding Your Existing Target Market	6.12
6.8.2	Website	6.12
6.8.3	Promotional Materials	6.13
6.8.4	Networking	6.14
6.8.5	Local Business Relations	6.15
6.8.6	Community Relations	6.17
6.8.7	Advertising	6.19
<b>6.9</b>	<b>Guidelines</b>	<b>6.20</b>
6.9.1	Cleaning Schedule	6.20
6.9.2	Discounts, Specials, Coupons	6.21
<b>6.10</b>	<b>Reference</b>	<b>6.22</b>
<b>7</b>	<b>SAFETY REGULATIONS</b>	<b>7.1</b>
<b>7.1</b>	<b>Introduction &amp; Purpose</b>	<b>7.1</b>
<b>7.2</b>	<b>Policy &amp; Expectations</b>	<b>7.1</b>
<b>7.3</b>	<b>Procedures</b>	<b>7.2</b>
<b>7.4</b>	<b>Guidelines</b>	<b>7.2</b>
7.4.1	Safety Guidelines	7.2
7.4.2	Hazardous Chemical Spills and Clean-up	7.5
7.4.3	Posting	7.5
7.4.4	Reference	7.6
7.4.5	Service Lloyds Documents	7.6
7.4.6	Troubleshooting	7.6

<b>8</b>	<b>BUSINESS PERFORMANCE</b>	<b>8.1</b>
<b>8.1</b>	<b>Introduction &amp; Purpose</b>	<b>8.1</b>
8.1.1	Purpose	8.1
<b>8.2</b>	<b>Financial Glossary</b>	<b>8.1</b>
<b>8.3</b>	<b>Policy &amp; Expectation</b>	<b>8.3</b>
8.3.1	Aggregate Expense Budget Policy	8.3
8.3.2	Aggregate Expense Budget Expectations	8.4
8.3.3	Gross Profit Margin Policy	8.4
<b>8.4</b>	<b>Procedures</b>	<b>8.4</b>
8.4.1	Aggregate Expense Budget Waiver	8.5
<b>8.5</b>	<b>Guidelines</b>	<b>8.5</b>
8.5.1	Line Item Expenditure Guidelines and/or Approved Expenses	8.5
<b>8.6</b>	<b>Analyzing Business Performance</b>	<b>8.11</b>
8.6.1	Weekly Break-even	8.11
8.6.2	Key Performance Indicators	8.12
8.6.3	Stewardship Reviews	8.13
<b>8.7</b>	<b>Reference</b>	<b>8.15</b>
<b>8.8</b>	<b>Troubleshooting</b>	<b>8.15</b>
8.8.1	Car Count	8.15
<b>9</b>	<b>EQUIPMENT</b>	<b>9.1</b>
<b>9.1</b>	<b>Introduction &amp; Purpose</b>	<b>9.1</b>
9.1.1	Purpose	9.1
9.1.2	CBAC's Role in Purchasing	9.1
<b>9.2</b>	<b>Purchase Approval</b>	<b>9.1</b>
<b>9.3</b>	<b>Unapproved Purchases</b>	<b>9.2</b>
9.3.1	Evaluation Process (Stewardship)	9.2
<b>9.4</b>	<b>Equipment Inspection Schedule</b>	<b>9.3</b>
<b>9.5</b>	<b>Equipment Maintenance Schedules</b>	<b>9.3</b>
9.5.1	Lifts	9.3
9.5.2	Air Compressor	9.3
9.5.3	Floor Scrubber	9.4
<b>9.6</b>	<b>Equipment Maintenance/Updates</b>	<b>9.4</b>
<b>9.7</b>	<b>Product Line Recommendations</b>	<b>9.4</b>
<b>9.8</b>	<b>Reference</b>	<b>9.4</b>
<b>9.9</b>	<b>Troubleshooting</b>	<b>9.5</b>
<b>9.10</b>	<b>Vendor Contact List</b>	<b>9.5</b>
<b>10</b>	<b>BUILDING AND GROUNDS MAINTENANCE</b>	<b>10.1</b>
<b>10.1</b>	<b>Introduction &amp; Purpose</b>	<b>10.1</b>
<b>10.2</b>	<b>Policy &amp; Expectations</b>	<b>10.1</b>

<b>10.3</b>	<b>Site Inspections</b>	<b>10.1</b>
<b>10.4</b>	<b>Building Exterior</b>	<b>10.1</b>
10.4.1	Monthly Exterior Inspection	10.1
10.4.2	Yearly Exterior Inspection	10.2
10.4.3	Grounds	10.2
10.4.4	Trash	10.2
10.4.5	Parking Lot	10.2
<b>10.5</b>	<b>Building Interior</b>	<b>10.3</b>
10.5.1	Lobby and Bathroom	10.3
10.5.2	The Shop	10.3
<b>10.6</b>	<b>Maintenance Requests</b>	<b>10.3</b>
10.6.1	Building Repairs During the One Year Warranty Period	10.3
10.6.2	Building Repairs After the One Year Warranty Period	10.3
<b>10.7</b>	<b>Improvement Requests</b>	<b>10.4</b>
<b>10.8</b>	<b>Guidelines</b>	<b>10.4</b>
<b>10.9</b>	<b>Reference</b>	<b>10.4</b>
<b>10.10</b>	<b>Troubleshooting</b>	<b>10.4</b>
<b>10.11</b>	<b>Construction Vendor Contact List</b>	<b>10.4</b>
<b>11</b>	<b>ADDITIONAL RESOURCES</b>	<b>11.1</b>
<b>11.1</b>	<b>Web Sites For Small Businesses</b>	<b>11.1</b>
<b>11.2</b>	<b>Web Sites For Organizations</b>	<b>11.2</b>
<b>11.3</b>	<b>Web Sites For Employment Laws</b>	<b>11.2</b>
<b>11.4</b>	<b>Web Site For Taxes</b>	<b>11.3</b>
<b>12</b>	<b>MANAGEMENT FORMS AND DOCUMENTS</b>	<b>12.1</b>
<b>12.1</b>	<b>Introduction</b>	<b>12.1</b>
<b>12.2</b>	<b>World Class Culture</b>	<b>12.2</b>
<b>12.3</b>	<b>Goal Setting &amp; Business Planning</b>	<b>12.3</b>
<b>12.4</b>	<b>Store Operations</b>	<b>12.7</b>
12.4.1	Parts Pricing	12.7
12.4.2	Workflow Forms	12.8
12.4.3	Visual Inspection Sheet	12.9
12.4.4	Pre-Purchase Vehicle Inspection	12.11
<b>12.5</b>	<b>Recordkeeping</b>	<b>12.12</b>
12.5.1	Chart of Accounts	12.12
12.5.2	Debit Authorization Form	12.17
12.5.3	Accounting Service Fees	12.18
12.5.4	Writing Off an A/R Balance	12.19
12.5.5	Sublet Chart - Labor Taxed	12.21
12.5.6	Sublet Chart - Labor Untaxed	12.22
<b>12.6</b>	<b>Human Resources</b>	<b>12.23</b>

12.6.1	Application Acknowledgement	12.23
12.6.2	Applicant Information Release	12.24
12.6.3	Authorization for Direct Deposit	12.25
12.6.4	Drug-Free Workplace Consent Form	12.26
12.6.5	Employee Discipline Documentation Form	12.27
12.6.6	Employee Exit Interview Form	12.28
12.6.7	Employee Termination Meeting Checklist	12.30
12.6.8	Employee Setup / Update Information Form	12.31
12.6.9	Form I-9	12.32
12.6.10	Form W-4	12.36
12.6.11	Employee Absence Policy	12.38
12.6.12	General Work Rules	12.39
12.6.13	Job Placement Advertisement - Service Manager	12.40
12.6.14	Job Placement Advertisement - Technician	12.42
12.6.15	Sample Collection Letter	12.44
12.6.16	Sexual Harassment Policy	12.45
12.6.17	Smoking Policy	12.46
12.6.18	Workplace Safety Rules	12.47
<b>12.7</b>	<b>Marketing</b>	<b>12.50</b>
12.7.1	200 Weapons of Guerrilla Marketing	12.50
<b>12.8</b>	<b>Safety Regulations</b>	<b>12.52</b>
<b>12.9</b>	<b>Financial Performance</b>	<b>12.53</b>
12.9.1	Aggregate Expense Budget Waiver Request	12.53
12.9.2	Business Planning	12.54
12.9.3	Business Valuation	12.55
<b>12.10</b>	<b>Equipment &amp; Parts</b>	<b>12.56</b>
<b>12.11</b>	<b>Building Grounds &amp; Maintenance</b>	<b>12.57</b>
<b>13</b>	<b>INDEX</b>	<b>13.1</b>

**EXHIBIT D**  
**CURRENT FRANCHISEES CONTACT INFORMATION**

Attached as Exhibit D is the Current Franchisee's Contact Information (from page D - 1 to page D - 5).

**Current Franchisee Contact Information**

<b>Franchise</b>	<b>Franchisee</b>	<b>Address</b>	<b>Phone</b>
CBA - Mission Bend	Dan Nieves	7051 Addicks Clodine Rd. Houston, TX 77083	(281) 933-3520
CBA - The Woodlands	Jeff Toth	4460 Panther Creek Pine The Woodlands, TX 77381	(281) 298-7771
CBA - Grant Road	Chip Fenner	13333 Grant Road Cypress, TX 77429	(281) 370-9191
CBA - Cedar Park	Steve Berry	12014 North RR 620 Austin, TX 78750	(512) 918-2886
CBA - New Territory	Kelly Adams	8431 Homeward Way Sugar Land, TX 77479	(281) 242-2886
CBA - Grand Parkway	Brad Fink	1455 W. Grand Parkway S. Katy, TX 77494	(281) 693-9393
CBA - McKinney	Don Pope	3790 W. Eldorado Pkwy. McKinney, TX 75070	(972) 542-1900
CBA - Brentwood	Darleen Reese	1714 Carothers Parkway Brentwood, TN 37027	(615) 370-2886
CBA - Round Rock	Scott Baxley	413 Louis Henna Blvd. Round Rock, TX 78664	(512) 248-1000
CBA - Eagles Landing	Dan Evans	450 Eagles Landing Pkwy Stockbridge, GA 30281	(678) 565-1111
CBA - Edmond	Paul Hantla	900 N. Santa Fe Ave. Edmond, OK 73003	(405) 341-2900
CBA - Warwick	Eric Lang	6801 W. Hefner Road. Oklahoma City, OK 73162	(405) 720-1200
CBA - Meadowbrook	Tommy Keeter	9808 E 81st Street South Tulsa, OK 74113	(918) 250-9944
CBA - Suwanee	Brian Klaubert	565 Peachtree Industrial Blvd. Suwanee, GA 30024	(678) 546-5075
CBA - Jones Bridge	Brian Klaubert	10879 Jones Bridge Road Alpharetta, GA 30022	(678) 867-0900
CBA - Frisco	Chris Carney	9299 Lebanon Road Frisco, TX 75035	(972) 668-9425
CBA - Flower Mound	Paul Welch	1713 Justin Road Flower Mound, TX 75028	(972) 691-3700
CBA - S. Western Ave	John Sheffield	10311 S. Western Avenue Oklahoma City, OK 73139	(405) 692-5461
CBA - Hamilton Mill	Brian Klaubert	2770 Braselton Highway Dacula, GA 30019	(770) 271-4080
CBA - Grapevine	Monte Daily	2059 West SH 114 Grapevine, TX 76051	(817) 410-7200
CBA - Rufe Snow	Scott Stidd	7780 Rufe Snow Drive N. Richland Hills, TX 76148	(817) 485-8900

FDD Exhibit D

CBA - Olathe	Steve Schramm	13770 West 135th Street Olathe, KS 66062	(913) 764-3360
CBA - Carrollton	Cindi Smith	19020 Midway Road Dallas, TX 75287	(972) 380-2886
CBA - Plano	Chris Tharp	5800 Avenue K Plano, TX 75074	(972) 424-4044
CBA - Germantown	Ed Pate	7446 Sonic Drive Memphis, TN 38125	(901) 737-8760
CBA - Murfreesboro	Keith Slep	1826 Memorial Blvd. Murfreesboro, TN 37129	(615) 848-0824
CBA - Arlington	Norman Meyer	718 West Sublett Road Arlington, TX 76017	(817) 419-2700
CBA - Garland	Chris Tharp	3213 Naaman School Rd. Garland, TX 75040	(972) 675-9000
CBA - Champions	Mike Souther	2899 Cypress Creek Pkwy Houston, TX 77068	(281) 444-2899
CBA - Cedar Hill	David Faerber	130 N. Highway 67 Cedar Hill, TX 75104	(214) 247-8005
CBA - Liberty	Dave McDonald	8160 North Church Road Kansas City, MO 64158	(816) 415-9100
CBA - Brodie Lane	Neail Hand	9200 Brodie Lane Austin, TX 78748	(512) 282-2886
CBA - Copperfield	Matt Vredenburg	17320 F.M. 529 Houston, TX 77095	(281) 855-0300
CBA - Bartlett	Scott Few	6677 US Hwy 70 Bartlett, TN 38134	(901) 881-6946
CBA - White Rock	Jim Foster	12124 McCree Road Dallas, TX 75238	(214) 342-5700
CBA - Houston Levee	Todd Few	2859 N. Houston Levee Rd. Memphis, TN 38016	(901) 221-0052
CBA - Atascocita	Ken Williams	6935 Atascocita Rd. Humble, TX 77346	(281) 812-0700
CBA - Friendswood	Jeff Ritter	1553 S. Friendswood Dr. Friendswood, TX 77546	(281) 993-2273
CBA - Hoover	Brandon Fisher	1800 Southpark Dr. Hoover, AL 35244	(205) 987-6620
CBA - Space Center	Andy Miller	11600 Space Center Blvd. Houston, TX 77059	(281) 487-8111
CBA - Alliance	Kevin Simmons	6501 Old Denton Rd. Fort Worth, TX 76131	(817) 232-5200
CBA - Green Oaks	Graydon Wall	2804 NE Green Oaks Blvd. Grand Prairie, TX 75050	(817) 633-2886
CBA - Southaven	Rob Thompson	1676 Goodman Rd. East Southaven, MS 38671	(662) 349-3036
CBA - Roanoke	Kevin Simmons	212 East Highway 114 Roanoke, TX 76262	(682) 831-1700
CBA - Georgetown	Jonathan Carr	3723 Williams Dr., Bldg 1 Georgetown, TX 78628	(512) 863-3400
CBA - Corinth	Brandon Pfaffly	5050 South I-35 East Corinth, TX 76210	(940) 497-8788
CBA - Valley Ranch	Michael Allnutt	600 Valley Ranch Pkwy South Irving, TX 75063	(972) 869-2886
CBA - Independence	Mike Gordon	19600 East US Highway 40 Independence, MO 64055	(816) 795-6811

FDD Exhibit D

CBA - Missouri City	David Funderburg	7240 Knights Court Missouri City, TX 77459	(281) 499-4499
CBA - South Tomball	Chip Fenner	24155 Tomball Parkway Tomball, TX 77375	(281) 351-6161
CBA - North Katy	Mark Lackey	3838 N. Fry Rd Katy, TX 77449	(281) 578-7799
CBA - Vista Ridge	Steve Berry	906 North Vista Ridge Blvd. Cedar Park, TX 78613	(512) 259-1357
CBA - West Road	Raymond Hall	9130 West Road Houston, TX 77064	(713) 849-2006
CBA - Lewisville	Robert Pace	1263 W. Round Grove Road Lewisville, TX 75067	(972) 315-1745
CBA - Valley Park	Mike Gebhart	2941 Dougherty Ferry Rd St. Louis, MO 63122	(636) 825-7537
CBA - Yukon	Eric Lang	742 Garth Brooks Blvd Yukon, OK 73099	(405) 350-2338
CBA - Spring Hill	Curt Kinsman	2060 Wall Street Spring Hill, TN 37174	(615) 302-0698
CBA - Maumelle	Sid Moore	12701 Maumelle Blvd Maumelle, AR 72113	(501) 851-8200
CBA - Towne Lake	Danny Branom	1930 Eagle Drive Woodstock, GA 30189	(770) 926-4500
CBA - Hebron	Norman Glass	4121 State Highway 121 Carrollton, TX 75010	(972) 394-0760
CBA - Bedford	Paul Welch	3920 Highway 121 Bedford, TX 76021	(817) 399-0700
CBA - Alamo Heights	Rolf Blaettner	1431 Austin Highway San Antonio, TX 78209	(210) 832-0088
CBA - Buda	Karl Frasier	18660 South IH 35 Buda, TX 78610	(512) 295-8905
CBA - Shawnee	Scott Green	22240 Midland Drive Shawnee, KS 66226	(913) 422-1200
CBA - Weatherford	Scott Stidd	156 Interstate 20 West Weatherford, TX 76086	(817) 599-4844
CBA - College Station	Darrel Fikes	4054 State Hwy 6 South College Station, TX 77845	(979) 690-5127
CBA - Jackson	Wes Pannel	2700 N. Highland Ave Jackson, TN 38305	(731) 660-4111
CBA - Burleson	Norman Meyer	350 NW John Jones Drive Burleson, TX 76028	(817) 447-6060
CBA - Hendersonville	Matt Rucks	563 E. Main Street Hendersonville, TN 37075	(615) 826-5550
CBA - Hutto	James Guzman	580 U.S. Highway 79 Hutto, TX 78634	(512) 759-3760
CBA - O'Fallon	Bobby Balchus	8496 Mexico Rd Saint Peters, MO 63376	(636) 980-1770
CBA - W. Little Rock	Rick Miller	15516 Chenal Parkway Little Rock, AR 72211	(501) 228-2000
CBA - Waxahachie	Mike Simmons	1300 W. Hwy 287 Bypass Waxahachie, TX 75165	(972) 937-4500
CBA - Bentonville	Tom Beadel	600 SE Walton Blvd. Bentonville, AR 72712	(479) 464-7711
CBA - Amarillo	Brian Hoffman	5816 S. Coulter Street Amarillo, TX 79119	(806) 352-3800

FDD Exhibit D

CBA - Murphy	Aaron Tharp	420 W. FM 544 Murphy, TX 75094	(972) 881-0491
CBA - Eldridge	Brad Fink	844 N. Eldridge Parkway Houston, TX 77079	(281) 845-2002
CBA - Waterside	Wayne Pawlik	8132 W. Grand Parkway S. Richmond, TX 77469	(281) 232-5555
CBA - Magnolia Pkwy	Jeff Toth	6872 FM 1488 Magnolia, TX 77354	(281) 259-4211
CBA - Fischer Crossings	Matt Schwab	5020 East Hwy 34 Sharpsburg, GA 30277	(678) 423-3144
CBA - Monument	Jonathan Specht	16130 Jackson Creek Parkway Monument, CO 80132	(719) 488-8030
CBA - W. Frisco	Jonita White	8110 FM 423 Frisco, TX 75034	(214) 469-1635
CBA - Montgomery	Jim Skelley	10885 Chantilly Drive Montgomery, AL 36117	(334) 244-4200
CBA - Tyler	James Proctor	8730 S. Broadway Ave Tyler, TX 75703	(903) 509-2122
CBA - League City	Andy Miller	1515 W FM 646 League City, TX 77573	(281) 534-4000
CBA - Grayson	Kevin Cronic	2547 Loganville Highway Grayson, GA 30017	(678) 825-3833
CBA - Collierville	Jimmy Turner	381 East Poplar Ave Collierville, TN 38017	(901) 457-1005
CBA - Grand Rapids	Kurt Hein	1464 28th Street SE Grand Rapids, MI 49508	(616) 245-1215
CBA - Helotes	Spike Blevins	12544 E. Bandera Road San Antonio, TX 78023	(210) 695-4528
CBA - Oakmont	Alan Crawford	7333 Oakmont Blvd Fort Worth, TX 76132	(817) 292-8100
CBA - Lubbock	Ron Bostick	6207 82nd. Street Lubbock, TX 79424	(806) 794-1200
CBA - Barry Road	Scott Snow	4200 NW Barry Road Kansas City, MO 65154	(816) 420-0180
CBA - Lake Worth	David Schickedanz	6531 Lake Worth Blvd Lake Worth, TX 76135	(817) 237-0606
CBA - Schertz	Mark Moody	205 F.M. 3009 Schertz, TX 78154	(210) 658-1717
CBA - Arnold	Gary Hensley	2190 Church Road Arnold, MO 63010	(636) 282-2886
CBA - Westheimer	Paul Stehr	7937 Westheimer Road Houston, TX 77063	(713) 781-2626
CBA - Midland	Trey Grigsby	5317 W. Loop 250 North Midland, TX 79707	(432) 694-0400
CBA - Land O' Lakes	Larry Giannone	23650 Venezia Drive Land O' Lakes, FL 34639	(813) 949-0100
CBA - Rockwall	Amy Stehr	129 E. Ralph Hall Pkwy Rockwall, TX 75032	(972) 722-9500
CBA - New Braunfels	Kevin Carroll	1760 Hwy 46 West New Braunfels, TX 78132	(830) 625-2884
CBA - Woodway	Sterling Woody	101 Archway Drive Woodway, TX 76712	(254) 772-5600
CBA - Granbury	Mike Loter	3809 E. US Hwy 377 Granbury, TX 76049	(817) 573-3911



FDD Exhibit D

CBA - Woodmen	Jonathan Specht	7355 Duryea Dr. Colorado Springs, CO 80923	(719) 593-2302
CBA - Acworth	Chris Schaefer	3408 Cobb Parkway NW Acworth, GA 30101	(770) 966-1599
CBA - Spring	Blair Jordan	2655 Rayford Road Spring, TX 77386	(281) 298-9111
CBA - Madison	Chris Davis	7264 Hwy 72 W. Madison, AL 35758	(256) 721-4704
CBA - Westchase	Jason Benintendi	12949 Race Track Rd. Tampa, FL 33626	(813) 925-1920
CBA - Westgreen	Rob Woodall	500 Westgreen Blvd Katy, TX 77450	(281) 579-2900
CBA - Owasso	Ray Adcock	9530 N. Garnett Rd. Owasso, OK 74055	(918) 272-4011
CBA - Fairfield	Jay Warner	27210 US Hwy 290 Cypress, TX 77433	(281) 213-8111
CBA - New Tampa	Marty La Barbera	20303 Trout Creek Drive Tampa, FL 33647	(813) 991-7007
CBA - Allen	Aaron Tharp	1713 N. Greenville Ave. Allen, TX 75002	(214) 495-0900
CBA - Concord	Jade Stanford	9725 Harris Rd Concord, NC 28027	(704) 795-5556
CBA - Andover	Dan Anderson	1716 Bunker Lake Blvd NW Andover, MN 55304	(763) 427-7272
CBA - Fishers	Jared Seaman	13048 Publishers Drive Fishers, IN 46038	(317) 842-4111
CBA - Brandon	Jud Cook	10010 McMullen Rd Riverview, FL 33569	(813) 685-0683
CBA - Corpus Christi	Ken Gidney	6901 S Staples Street Corpus Christi, TX 78413	(361) 985-8111
CBA - Aurora	Jared Beard	14755 E. Arapahoe Rd Aurora, CO 80016	(303) 699-3527
CBA - Lakeway	Steve Berry	1811 RR 620 North Lakeway, TX 78734	(512) 266-8600
CBA - Westfield	Russ Miller	14807 N. Gray Road Westfield, IN 46062	(317) 848-5511
CBA - Omaha	Jason Hurt	17330 Evans Street Omaha, NE 68116	(402) 289-4631
CBA - Sandy Springs	Daniel Mulkey	8630 Roswell Road Sandy Springs, GA 30350	(770) 992-0906
CBA - N. Dallas	Michael Allnut	11870 N. Central Expressway Dallas, TX 75243	(214) 575-5662
CBA - Springfield	Lee Grant	2315 W. Republic Road Springfield, MO 65807	(417) 823-3755
CBA - Castle Rock	Steve Peterson	5721 New Abbey Ln Castle Rock, CO 80108	(303) 814-7792
CBA - Meridian	Brett Clancy	1402 W McMillan Rd Meridian, ID 83646	(208) 888-0070
CBA - Highlands Ranch	Greg Joseph	1340 Town Center Drive Highlands Ranch, CO 80129	(303) 683-8707
CBA - Clermont	Bryce Merideth	2659 E Hwy 50 Clermont, FL 34711	(352) 394-0302

**EXHIBIT E**  
**STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS**

Attached as Exhibit E is the State Administrators/Agents for Service of Process (from page E - 1 to page E - 4).

<p><b><u>CALIFORNIA</u></b></p> <p>Department of Corporations:</p> <p>320 West 4th Street, Suite 750          Los Angeles, CA 90013          (213) 576-7500 Toll Free (866) 275-2677</p> <p>1515 K Street, Suite 200          Sacramento, CA 95814          (916) 445-7205</p> <p>1350 Front Street          San Diego, CA 92101          (619) 525-4233</p> <p>One Sansome Street, Suite 600          San Francisco, CA 94102          (415) 972-8559</p> <p>Agent:          California Commissioner of Corporations</p>	<p><b><u>CONNECTICUT</u></b></p> <p>State of Connecticut          Department of Banking          Securities &amp; Business Investments Division          260 Constitution Plaza          Hartford, CT 06103-1800          (860) 240-8230</p> <p>Agent:          Banking Commissioner</p>
<p><b><u>HAWAII</u></b></p> <p>Commissioner of Securities          Department of Commerce and Consumer Affairs          335 Merchant Street          Honolulu, Hawaii 96813          (808) 586-2744</p> <p>Agent:          Commissioner of Securities of the Department for          Commerce and Consumer Affairs</p>	<p><b><u>ILLINOIS</u></b></p> <p>Franchise Division          Office of Attorney General          500 South Second Street          Springfield, Illinois 62706          (217) 782-4465</p> <p>Agent:          Illinois Attorney General</p>

<p><b><u>INDIANA</u></b></p> <p>Franchise Section          Indiana Securities Division          Room E-111          302 West Washington Street          Indianapolis, Indiana 46204          (317) 232-6681</p> <p>Agent:          Indiana Secretary of State          Indiana Securities Division          201 State House          200 West Washington Street          Indianapolis, Indiana 46204          (317) 232-6531</p>	<p><b><u>MARYLAND</u></b></p> <p>Office of the Attorney General          Securities Division          200 St. Paul Place          Baltimore, Maryland 21202-2020          (410) 576-6360</p> <p>Agent:          Maryland Securities Commissioner</p>
<p><b><u>MICHIGAN</u></b></p> <p>Consumer Protection Division          Antitrust and Franchise Unit          Michigan Department of Attorney General          670 Law Building          Lansing, Michigan 48913          (517) 373-7177</p> <p>Agent:          Michigan Department of Commerce          Corporations and Securities Bureau          P.O. Box 30054          6546 Mercantile Way          Lansing, Michigan 48909</p>	<p><b><u>MINNESOTA</u></b></p> <p>Minnesota Department of Commerce          85 7<sup>th</sup> Place East, Suite 500          St. Paul, Minnesota 55101-2198          (651) 296-6328</p> <p>Agent:          Minnesota Commissioner of Commerce</p>
<p><b><u>NEBRASKA</u></b></p> <p>Nebraska Department of Banking and Finance          1200 N Street          P.O. Box 95006          Lincoln, Nebraska 68509-5006</p>	<p><b><u>NORTH CAROLINA</u></b></p> <p>Department of the Secretary of State          P.O. Box 29622          Raleigh, North Carolina 27626-0622</p>

<p><b><u>NEW YORK</u></b></p> <p>Bureau of Investor Protection and Securities          New York State Department of Law          23<sup>rd</sup> Floor          120 Broadway          New York, New York 10271          (212) 416-8211</p> <p>Agent:          New York Secretary of State          162 Washington Street          Albany, New York 12231          (518) 474-4750</p>	<p><b><u>NORTH DAKOTA</u></b></p> <p>North Dakota Securities Department          600 East Boulevard Avenue          State Capitol – Fifth Floor, Dept. 414          Bismarck, North Dakota 58505-0510          (701) 328-4712</p> <p>Agent:          North Dakota Securities Department</p>
<p><b><u>OREGON</u></b></p> <p>Department of Insurance and Finance          Corporate Securities Section          Labor and Industries Building          Salem, Oregon 97310          (503) 378-4387</p> <p>Agent:          Director of Oregon Department of Insurance and Finance</p>	<p><b><u>RHODE ISLAND</u></b></p> <p>Division of Securities          Suite 232          233 Richmond Street          Providence, Rhode Island 02903          (401) 222-3048</p> <p>Agent:          Director of Rhode Island Department of Business Regulation</p>
<p><b><u>SOUTH DAKOTA</u></b></p> <p>Department of Labor and Regulation          Division of Securities          445 E. Capitol Avenue          Pierre, South Dakota 57501          (605) 773-4013</p> <p>Agent:          Director of South Dakota Division of Securities</p>	<p><b><u>TEXAS</u></b></p> <p>Secretary of State          P.O. Box 12887          Austin, Texas 78711</p>

<p><b><u>VIRGINIA</u></b></p> <p>Administrator:          State Corporation Commission          1300 East Main Street, 9<sup>th</sup> Floor          Richmond, Virginia 23219          (804) 371-9051</p> <p>Agent:          Clerk of the State Corporation Commission          1300 East Main Street, 1<sup>st</sup> Floor          Richmond, Virginia 23219          (804) 371-9733</p>	<p><b><u>WASHINGTON</u></b></p> <p>Director          Department of Financial Institutions          Securities Division          P.O. Box 9033          Olympia, Washington 98507          (360) 902-8760</p> <p>Agent:          Securities Administrator, Director of Department of          Financial Institutions          General Admin. Bldg., 3<sup>rd</sup> Floor          210-11<sup>th</sup> Avenue, S.W.          1.1.1 Olympia, Washington 98504</p>
<p><b><u>WISCONSIN</u></b></p> <p>Securities and Franchise Registration          Wisconsin Securities Commission          345 West Washington Street, 4<sup>th</sup> Floor          Madison, Wisconsin 53703          (608) 266-3431</p> <p>Agent:          Wisconsin Commissioner of Securities</p>	

**EXHIBIT F**  
**FORM OF NONUSE AND NONDISCLOSURE AGREEMENT**

Attached as Exhibit F is the Form of Nonuse and Nondisclosure Agreement (from page F - 1 to page F - 3).

**NONUSE AND NONDISCLOSURE AGREEMENT**

This Nonuse and Nondisclosure Agreement (the “**Agreement**”) is entered into by and among \_\_\_\_\_, whose address is \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, (collectively together with all affiliates, representatives and agents collectively referred to as “**Interested Party**”) and **CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**, a Texas corporation, whose address is 15995 N. Barkers Landing, Suite 145, Houston, Texas 77079 (the “**Company**”).

WHEREAS, the Interested Party is interested in entering into a business relationship with the Company; and the Company is interested in entering into a business relationship with the Interested Party; and

WHEREAS, in connection with evaluating the viability of such a business relationship, the Company is furnishing and will furnish the Interested Party with information related to Company and/or its business, including without limitation, financial information, operating information, corporate and business information, documentation and agreements, including without limitation a franchise disclosure document, that contain confidential and proprietary information (all of the forgoing together with all attachments, addenda, exhibits and other agreements described or referred to in any of the forgoing is herein referred to as the “**Information**”).

For good and valuable consideration, including without limitation the Company’s furnishing the Interested Party with the Information, the Interested Party has agreed and does hereby agree that:

1. **Nondisclosure Obligations.** Interested Party will keep the Information confidential, and Interested Party will not, without the Company’s prior written consent disclose the Information, whether in whole or in part, directly or indirectly, except as expressly permitted hereunder. The Interested Party will not use the Information for any purpose other than evaluating the viability of entering into a business relationship with Company (the “**Purpose**”). Interested Party will not use all or any of the Information, or allow all or any of the Information to be used, for any reason other than the Purpose. The Interested Party (a) will not disclose the Information to any employee, agent, or representative of Interested Party unless such person needs access to the Information in order to facilitate the Purpose and executes a nondisclosure agreement with the Interested Party, with terms no less restrictive than those of this Agreement; and (b) will not disclose the Information to any other third party without the Company’s prior written consent. The Interested Party is responsible for any breach of this Agreement by any party that receives any of the Information, either directly or indirectly, from the Interested Party. The Interested Party will promptly notify the Company of any misuse or misappropriation of the Information that comes to the Interested Party’s attention.

2. Additional Nondisclosure Obligations. Without the Company's prior written consent, except where otherwise required by law (such requirements to be confirmed by a written legal opinion of the Interested Party's counsel), the Interested Party will not disclose to any person the fact that the Information has been made available, that discussions or negotiations are taking place or have taken place concerning a possible transaction involving the Interested Party and the Company, or any of the terms, conditions or other facts with respect to any such possible transaction, including the status thereof. If Interested Party is required by law to disclose all or any of the Information and such requirements are confirmed by a written legal opinion of the Interested Party's counsel, Interested Party shall reasonably cooperate with Company in any effort to seek a protective order or otherwise contest such required disclosure, at Company's expense. The Interested Party shall give Company prompt notice of any such legal or governmental demand for the Information.

3. Injunction. The Interested Party agrees that breach of this Agreement would cause the Company irreparable injury, for which monetary damages would not provide adequate compensation, and for which other remedies at law may be inadequate to protect the Company against a breach of this Agreement, and that in addition to any other remedy, the Company will be entitled to injunctive relief against such breach or threatened breach, without proving actual damage or posting a bond or other security, which requirements are hereby expressly waived by the Interested Party.

4. Retention of Rights. This Agreement does not transfer ownership of the Information or grant a license thereto. Company will retain all right, title, and interest in and to all Information.

5. No Waiver. Neither party will be deemed to have waived any of its rights under this Agreement by lapse of time, or by any statement or representation other than a written waiver executed by the party seeking to waive its rights hereunder.

6. Authority. The undersigned parties each represent and warrant that such party has the power and authority to execute this agreement on behalf of the Interested Party or the Company, as is applicable. The Interested Party represents and warrants that he or she has all necessary authorizations, consents and agreements to bind the Interested Party to the terms and conditions contained herein.

7. Choice of Law. This Agreement is made pursuant to, will be construed under, and will be conclusively deemed for all purposes to have been executed and delivered under the laws of the State of Texas.

8. Dispute Resolution. Any and all disputes relating to and/or arising in connection with this Agreement will be resolved by binding arbitration conducted pursuant to the commercial arbitration rules of the American Arbitration Association ("AAA"). The arbitration will be administered by the AAA and will take place in the offices of the AAA located in Houston, Texas. It is specifically agreed that the arbitrability of any issue or dispute will be decided by the arbitrator. It is also specifically agreed that nothing contained in this Section will prevent the Company from

obtaining a temporary restraining order and/or an injunction to prevent the use or disclosure of any of the Information.

9. Severability. To the extent permitted by applicable law, the parties hereby waive any provision of law that would render any clause of this Agreement invalid or otherwise unenforceable in any respect. In the event that a provision of this Agreement is held to be invalid or otherwise unenforceable, such provision will be interpreted to fulfill its intended purpose to the maximum extent permitted by applicable law, and the remaining provisions of this Agreement will continue in full force and effect.

10. Survival. The provisions of this Agreement will survive any termination or expiration of the relationship of the parties hereto.

11. Counterparts. This Agreement may be executed and delivered (including by facsimile or Portable Document Format (pdf) transmission) in any number of counterparts with the same effect as if all signatories had signed the same document. Facsimile and other electronic copies of manually signed originals shall have the same effect as manually-signed originals and shall be binding on the undersigned parties. Each counterpart shall be deemed an original, but all counterparts must be construed together to constitute one and the same instrument.

WITNESS the execution thereof, this \_\_\_\_ day of \_\_\_\_\_, 201\_.

COMPANY:

INTERESTED PARTY:

\_\_\_\_\_  
BY:  
Mark Carr, CEO

\_\_\_\_\_  
Print Name: \_\_\_\_\_



**EXHIBIT G**  
**FORMER FRANCHISEES CONTACT INFORMATION**

Attached as Exhibit G is the Former Franchisee's Contact Information.

1. Bedford, TX - Max Beasley: (817)-922-5856
2. Friendswood, TX - Jonathan Johnson: (281) 745-0434 1603; Castillina Court, Edmond, OK 73034
3. Grapevine, TX - Max Beasley: (817)-922-5856
4. Olathe, KS - Scott Campbell: 14304 Cottonwood Olathe, KS 66062
5. Round Rock, TX - Chip Jennings: (512) 771-4652; 413 Louis Henna Blvd., Round Rock, Texas 78664

**EXHIBIT H**

**ASSIGNMENT AND ASSUMPTION AGREEMENT**

Attached as Exhibit H is the Assignment and Assumption Agreement form (from page H - 1 to page H - 7).

**THIS ASSIGNMENT AND ASSUMPTION AGREEMENT** (this “*Agreement*”) is made and entered into as of the \_\_\_ day of \_\_\_\_\_, 201\_, by and between \_\_\_\_\_, an individual residing at \_\_\_\_\_ (“*Assignor*”) and \_\_\_\_\_, a [Insert Name and Type of Entity and State of Formation] (“*Assignee*”).

**RECITAL:**

WHEREAS, Assignor entered into that certain franchise agreement (the “Franchise Agreement”) dated \_\_\_\_\_, 201\_ with Christian Brothers Automotive Corporation (“CBAC”), as Franchisor (as defined in the Franchise Agreement) and Assignor, as Franchisee (as defined in the Franchise Agreement); and

WHEREAS, Assignee has requested that CBAC approve Assignor’s assignment to Assignee of all of Assignor’s rights, titles and interests in and to the Assigned Interest (as defined below); and

WHEREAS, CBAC has agreed to consent to such assignment contingent upon (i) Assignee’s agreement to assume the liabilities, duties and obligations of Assignor under the Franchise Agreement and related to the Assigned Interest, and (ii) Assignor and Assignee’s compliance with all of the terms, conditions and terms of this Agreement.

**AGREEMENT:**

**NOW, THEREFORE**, for good and valuable consideration, including without limitation the covenants and agreements contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

**1. Assignment and Assumption.** Assignor does hereby SELL, ASSIGN, TRANSFER and DELIVER to, and vest in, Assignee, to the extent permitted by law, all of its right, title and interest in and to the Assigned Interest. Assignee hereby assumes complete and absolute responsibility and liability for all of the Assumed Liabilities (as defined below). All of Assignor’s liabilities, duties and obligations arising directly or indirectly in connection with and/or related to the Assigned Interest will be collectively referred to from time to time as the “Assumed Liabilities.” All of Assignor’s rights, titles and interests in and under the Franchise Agreement and/or the other documents and agreements entered into or to be entered into in connection the Franchise Agreement will be collectively referred to from time to time as the “Assigned Interest.” This assignment is made for good and valuable consideration, is coupled with an interest, and is therefore irrevocable.

Assignor and Assignee acknowledge and agree that CBAC would not consent to this assignment of the Assigned Interest unless until the Assignee assumes all of the Assumed Liabilities

FDD Exhibit H

without any reservation or limitation, and the Assignor remains responsible and liable to Franchisor for all of the Assumed Liabilities. Assignor hereby represents and warrants that it is the owner of the Assigned Interests, free and clear of all liens and encumbrances. Assignee hereby assumes complete and absolute responsibility for the payment, performance and satisfaction of the Assumed Liabilities.

{THE FOLLOWING ARE ALTERNATIVES OF SECTION 2 TO BE USED FOR DIFFERENT TYPES OF ENTITIES. IF YOU DESIRE TO USE A TYPE OF ENTITY THAT IS NOT ONE OF THE FOLLOWING, YOU MUST REQUEST FRANCHISOR’S APPROVAL IN WRITING. IF FRANCHISOR APPROVES YOUR REQUEST IN WRITING, SECTION 2 WILL BE MODIFIED TO APPLY TO THAT TYPE OF ENTITY, BUT ALL MODIFICATIONS WILL IN FORM AND SUBSTANCE AS FRANCHISOR IN ITS SOLE DISCRETION DEEMS APPLICABLE. }

2. Amendment to Franchise Agreement. Assignor, Assignee and CBAC hereby agree that the Franchise Agreement is amended as follows:

(a) Section 13.04 of the Franchise Agreement is hereby amended by deleting the current Section 13.04 and restating Section 13.04 to read in its entirety as follows:

[[13.04. Corporate Franchisee.

(a) The name and address of each shareholder or other equity holder of Franchisee is set forth below:

<u>Name</u>	<u>Address</u>	<u>Percentage</u> of <u>Ownership Interest</u>
-------------	----------------	---

(b) The name and address of each director of Franchisee is set forth below:

<u>Name</u>	<u>Address</u>	<u>Title</u>
		Director

FDD Exhibit H  
Director

(c) The address where Franchisee's records are maintained is \_\_\_\_\_.

(d) The names, and addresses and titles of Franchisee's principal officers are set forth below: Franchisee must designate which is the Principal Operator (See Section 4.3(a))

<u>Name</u>	<u>Office Held</u>	<u>Address</u>
-------------	--------------------	----------------

(e) Franchisee shall notify Franchisor in writing within ten (10) days of any change in the information set forth in subparagraphs (a) through (d) above.

OR

13.04. Limited Liability Company Franchisee.

(a) The name and address of each member or other equity holder of Franchisee and his or her percentage of ownership in the limited liability company is set forth below:

<u>Name</u>	<u>Address</u>	<u>Percentage</u> of <u>Ownership Interest</u>
		___% interest
		___% interest

(b) The name and address of each director and/or manager of Franchisee is set forth below:

<u>Name</u>	<u>Address</u>	<u>Title</u>
-------------	----------------	--------------

(c) The address where Franchisee's records are maintained is \_\_\_\_\_.

(d) If Franchisee has officers, the names, addresses and titles of Franchisee's officers are set forth below: Franchisee must designate the Principal Operator (See Section 4.3(a)) in this Subsection whether or not Franchisee has officers.

<u>Name</u>	<u>Office Held</u>	<u>Address</u>
-------------	--------------------	----------------

(e) Franchisee shall notify Franchisor in writing within ten (10) days of any change in the information set forth in subparagraphs (a) through (d) above.

OR

13.04. Sole Proprietor or General Partnership Franchisee.

(a) If Franchisee is currently an individual franchisee conducting business as a sole proprietor or a husband and wife conducting business as a general partnership, the name and address of the sole proprietor or of each general partner of Franchisee is set forth below:

<u>Name</u>	<u>Address</u>	<u>Percentage</u> _____ <u>of</u> <u>Ownership Interest</u>
		___% interest
		___% interest

(b) If Franchisee is a general partnership, the name and address of the manager general partner of Franchisee is set forth below:

<u>Name</u>	<u>Address</u>	<u>Title</u>
-------------	----------------	--------------

(c) The address where Franchisee's records are maintained is \_\_\_\_\_.

(d) Franchisee's Principal Operator's (See Section 4.3(a)) name and address is set forth below:

<u>Name</u>	<u>Office Held</u>	<u>Address</u>
	Principal Operator	

(e) Franchisee shall notify Franchisor in writing within ten (10) days of any change in the information set forth in subparagraphs (a) through (d) above.

(f) If a sole proprietor or general partner franchisee desires to later assign his and/or her rights, titles and interests under this Agreement and in and to the Franchised Business to a corporation, limited liability company or other entity that is acceptable to the Franchisor, then such Franchisee must comply with all of the following requirements: (i) Franchisee must not be in default under any of Franchisee's obligations to Franchisor, (ii) Franchisee must deliver to Franchisor a written request for Franchisor's approval of such transfer which request must include the type of entity of the proposed transferee and the proposed owner(s) and operator(s) of the proposed transferee, (iii) the Franchisee must deliver to Franchisor such additional information and documentation concerning the proposed transferee and its owners and operators as Franchisor requests, (iv) the Franchisee, the principals of the Franchisee, the proposed transferee and the principals of the proposed transferee must execute the Assignment and Assumption Agreement attached as Exhibit "\_\_\_" to this Agreement together with such other agreements and documents as Franchisor requires. ]]

(b) The Franchise Agreement is hereby amended to provide that the Assignee shall be the Franchisee for all purposes pursuant to the terms of the Franchise Agreement.

(c) The Franchise Agreement is further amended so that the description of the Territory attached as Exhibit "\_\_\_" hereto shall be the Territory for the purposes of the Franchise Agreement.

3. Consent by CBAC. CBAC agrees to consent to the assignment from Assignor to Assignee as provided in this Agreement contingent upon the Assignor's and Assignee's execution and delivery of this Agreement together with any other documents or agreements requested by CBAC in connection with this Assignment, the Franchise Agreement and/or CBAC's relationship with Assignor and Assignee.

4. General Provisions.

4.1 Successors and Assigns. This Assignment Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their successors and assigns.

4.2 Capitalized Terms. Capitalized terms not defined herein shall have the same meanings ascribed to them in the Agreement.

4.3 Counterparts; Governing Law. This Assignment Agreement may be executed and delivered (including by facsimile or Portable Document Format (pdf) transmission) in any number of counterparts with the same effect as if all signatories had signed the same document. Facsimile and other electronic copies of manually signed originals shall have the same effect as manually signed originals and shall be binding on the undersigned parties. Each counterpart shall be deemed an original but all counterparts shall be construed together to constitute one and the same instrument. This Assignment Agreement shall be governed by the laws of the State of Texas.

4.4 Further Assurances. Assignor and Assignee each agree to take all such further action and execute such further documents as may be reasonably necessary or advisable to perfect Assignee's right, title and interest to and in the Assigned Interests and to otherwise carry out the provisions of this Assignment Agreement.

4.5 Rule of Construction. The parties hereto hereby acknowledge that each of the parties and their counsel have reviewed and revised this Assignment Agreement and that the normal rule of construction – to the effect that any ambiguities are to be resolved against the drafting party – shall not be employed in the interpretation of this assignment Agreement or any exhibits or amendments hereto.

4.6 Dispute Resolution. If a dispute, controversy or claim arises between the parties, including without limitation any dispute, controversy or claim that arises out of or relates to this Assignment Agreement or any other agreement or instrument between or among any of the parties to this Assignment Agreement (collectively the “parties”), or the breach, termination or invalidity of the Assignment Agreement or any such other agreement or instrument, AND including but not limited to a claim based on or arising out of a claim for tortious interference or other tortious or statutory claims arising before, during or after termination of the Assignment Agreement (all of the foregoing shall be collectively referred to as “Dispute”), the parties agree to resolve the Dispute by binding arbitration pursuant to the Dispute Resolution Agreement set out in the Franchise Agreement.

**IN WITNESS WHEREOF**, Assignor and Assignee have executed this Assignment Agreement by and through the duly authorized representatives, all on the date first above written.

**ASSIGNEE:**

\_\_\_\_\_

**By:** \_\_\_\_\_  
\_\_\_\_\_, \_\_\_\_\_

**ASSIGNOR:**

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

**EXECUTED FOR THE SOLE PURPOSE OF CONSENTING TO THE ASSIGNMENT AND ASSUMPTION PURSUANT TO THE TERMS OF THIS AGREEMENT:**

**FRANCHISOR:**

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**

**By:** \_\_\_\_\_  
**Mark A. Carr, President**



**EXHIBIT I**  
**STATE SPECIFIC ADDENDUM**

Attached as Exhibit I is the State Specific Addendum (from page I - 1 to page I - 11).

**AMENDMENT TO CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION  
DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT  
FOR THE STATE OF ILLINOIS**

The Christian Brothers Automotive Corporation Disclosure Document (the “Disclosure Document”) and Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Christian Brothers Automotive Corporation, a Texas corporation (“CBAC”), dated \_\_\_\_\_, 20\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Disclosure Document and Agreement (this “Amendment”):

**ILLINOIS LAW MODIFICATIONS**

1. The Illinois Attorney General requires that certain provisions contained in franchise documents be amended to be consistent with Illinois law, including the Franchise Disclosure Act of 1987, 815 ILCS 705/1 – 705/44 (the “Act”), specifically section 705/41 of the Act. To the extent that the Disclosure Document and/or Agreement contain provisions that are inconsistent with the following, such provisions are hereby amended:

a. The Agreement requires the Franchisee to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action of CBAC that would violate the Act, or a rule or order under the Act. Such release shall exclude claims arising under the Act, and such acknowledgments shall be void with respect to claims under the Act. Section 41 of the Act states that any condition, stipulation, or provision (in our Agreement) purporting to waive compliance with any provision of this Act **or any other law of this State** is void.

b. The Agreement and Item 17 of the Disclosure Document designate a jurisdiction, forum and venue and choice of law outside of Illinois. This requirement shall not be interpreted to limit any rights that Franchisee may have under Sec. 705/4 of the Act, to bring suit in the state of Illinois. Applicable sections of the Franchise Agreement and Item 17v and 17w of the Disclosure Document are hereby amended to indicate Illinois as the governing law and choice of forum.

c. The Agreement requires prospective Franchisees to disclaim the occurrence and/or acknowledge the non-occurrence of acts that would constitute a violation of the Act in order to purchase our franchise. Such representations are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Act.

d. No action can be maintained to enforce any liability created by the Illinois law unless brought before the earlier of (i) the expiration of 3 years after the act or transaction constituting the violation upon which such action is based; (ii) the expiration of 1 year after you become aware of facts or circumstances reasonably indicating that you may have a claim for relief in respect to conduct governed by Illinois Law; or (iii) 90 days after delivery to you of a written notice disclosing the violation.

e. The Agreement contains certain provisions regarding termination and non-renewal of franchise and notice and opportunity to cure. To the extent any provision of the Agreement and/or the Disclosure Document are inconsistent with Sections 705/19 - 705/20 of the Act, those provisions of the Agreement and/or Disclosure Document are hereby amended accordingly.

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Act, with respect to each such provision, are met independent of this

Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have fully executed, sealed and delivered this Amendment to the Disclosure Document and Agreement on the \_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

**CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION**  
a Texas corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMENDMENT TO CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION  
DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT  
FOR THE STATE OF INDIANA**

The Christian Brothers Automotive Corporation Disclosure Document (the “Disclosure Document”) and Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Christian Brothers Automotive Corporation, a Texas corporation (“CBAC”), dated \_\_\_\_\_, 20\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Disclosure Document and Agreement (this “Amendment”):

**INDIANA LAW MODIFICATIONS**

1. Indiana Secretary of State requires that certain provisions contained in franchise documents be amended to be consistent with Indiana law, including the Indiana Franchise Law, Indiana Code, Title 23, Article 2, Chapter 2.5, Section 1 – 51 and Chapter 2.7, 1 – 7 (the “Act”). To the extent that the Disclosure Document and/or Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. The Agreement requires the Franchisee to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action of the CBAC that would violate the Act, or a rule or order under the Act. Such release shall exclude claims arising under the Act, and such acknowledgments shall be void with respect to claims under the Act.

b. The Agreement requires litigation to be conducted in a forum other than the State of Indiana. This requirement shall not be interpreted to limit any rights that Franchisee may have under the Act to bring suit in the state of Indiana.

c. The Franchise Agreement requires prospective Franchisees to disclaim the occurrence and/or acknowledge the non-occurrence of acts that would constitute a violation of the Franchise Law in order to purchase our franchise. Such representations are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Act.

d. Any claims arising under the Act must be brought before the expiration of 3 years after the discovery by the plaintiff of the facts constituting the violation.

e. The Agreement contains certain provisions regarding termination and non-renewal of franchise and notice and opportunity to cure. To the extent any provision of this Agreement and/or the Disclosure Document are inconsistent with Chapter 2.7, Section 1 – 3 of the Act, those provisions of the Agreement and/or Disclosure Document are hereby amended accordingly.

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Act, with respect to each such provision, are met independent of

this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have fully executed, sealed and delivered this Amendment to the Disclosure Document and Franchise Agreement on the \_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION,  
a Texas corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMENDMENT TO CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION  
DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT  
FOR THE STATE OF MICHIGAN**

The Christian Brothers Automotive Corporation Disclosure Document (the “Disclosure Document”) and Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Christian Brothers Automotive Corporation, a Texas corporation (“CBAC”), dated \_\_\_\_\_, 20\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Disclosure Document and Agreement (this “Amendment”):

**MICHIGAN LAW MODIFICATIONS**

1. The Michigan Department of Attorney General requires that certain provisions contained in franchise documents be amended to be consistent with the Michigan Franchise Law, Michigan Statute Act 269 of 1974 as Amended Sections 445.1501 through 445.1546, which regulates the sale of franchises to be located in Michigan or to be sold to residents of Michigan. Registration is required by the franchisor offering and selling the franchise. To the extent that the Disclosure Document and/or Agreement contain provisions that are inconsistent with the following, such provisions are hereby amended:

**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.**

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

- (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 a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise 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 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 applies only if: (i) The term of the franchise is less than 5 years and (ii) the franchisee is

FDD Exhibit I

prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or 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 a 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 sub-franchisor.

(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 franchise 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 to 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 franchise 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 provision has been made for providing the required contractual services.

**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:**

**State of Michigan  
Department of Attorney General  
Consumer Protection Division  
Franchise Unit  
P.O. Box 30213  
Lansing, MI 48909  
(517) 373-7117**

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of Michigan law applicable to the provisions are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

3. As to any state law described in this Amendment that declares void or unenforceable any provision contained in the Agreement, CBAC reserves the right to challenge the enforceability of the state law.

4. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have fully and duly executed, sealed and delivered this Amendment on the \_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**  
CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION,  
a Texas corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**  
\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



FDD Exhibit I

**AMENDMENT TO CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION  
DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT  
FOR THE STATE OF MINNESOTA**

The Christian Brothers Automotive Corporation Disclosure Document (the “Disclosure Document”) and Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Christian Brothers Automotive Corporation, a Texas corporation (“CBAC”), dated \_\_\_\_\_, 20\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Disclosure Document and Agreement (this “Amendment”):

MINNESOTA LAW MODIFICATIONS

1. The Minnesota Department of Commerce requires that certain provisions contained in franchise documents be amended to be consistent with the Minnesota Franchise Law, Minnesota Statute Chapter 80C, which regulates the sale of franchises to be located in Minnesota or to be sold to residents of Minnesota. Registration is required by the franchisor offering and selling the franchise. To the extent that the Disclosure Document and/or Agreement contain provisions that are inconsistent with the following, such provisions are hereby amended:

a. The Agreement requires the Franchisee to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action of CBAC that would violate the Act, or a rule or order under the Act. Minn. Rule 2860.4400D prohibits requiring a franchisee to assent to a general release. Any release of claims or acknowledgment of fact contained in the Agreement that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Minnesota Franchises Act or a rule or order promulgated thereunder shall be void with respect to claims arising under the Minnesota Franchises Act.

b. The following language must amend the Governing Law, Jurisdiction and Venue, and Choice of Forum sections of the Franchise Disclosure Document and agreement(s):

“Minnesota Statutes, Section 80C.21 and Minnesota Rule 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota-, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce any of franchisee’s rights as provided for in Minnesota Statutes, Chapter 80C, or franchisee’s rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.”

c. The Minnesota Department of Commerce requires that CBAC indemnify you against liability to third parties for infringement resulting from your use of the trademarks licensed under the Agreement. Article 10 of the Agreement describes the circumstances under which CBAC will indemnify you against third party liability for trademark infringement. Requirements imposed under

the Minnesota Franchises Act will supersede inconsistent provisions contained in Article 10 of the Agreement.

d. Sec. 80C.17, Subd. 5 of the Minnesota Franchises Act provides that no action may be commenced thereunder more than three (3) years after the cause of action accrues. To the extent that the Agreement conflicts with this law, the Minnesota law will control.

e. The Agreement contains certain provisions regarding termination and non-renewal of franchise and notice and opportunity to cure. To the extent any provision of this Agreement and/or the Disclosure Document are inconsistent with respect to franchises governed by Minnesota law, the 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, those provisions of the Agreement and/or Disclosure Document are hereby amended accordingly. Requirements imposed under the Minnesota Franchise Act will supersede inconsistent provisions contained in the Agreement.

f. Any section of the Agreement (pertaining to liquidated damages) is hereby deleted; provided, that such deletion shall not excuse you from liability for actual or other damages and the formula for assessing liquidated damages shall be admissible in any litigation or proceeding as evidence of actual damages.

g. Minn. Rule Part 2860.4400J prohibits a franchisee from waiving his rights to a jury trial or waiving his rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction, or consenting to liquidated damages, termination penalties or judgment notes. To the extent that the Agreement conflicts with this law, the Minnesota law will control.

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of Minnesota law applicable to the provisions are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

3. As to any state law described in this Amendment that declares void or unenforceable any provision contained in the Agreement, CBAC reserves the right to challenge the enforceability of the state law.

4. All other provisions of the Agreement are hereby ratified and confirmed.

***[SIGNATURE PAGE FOLLOWS]***

FDD Exhibit I

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have fully and duly executed, sealed and delivered this Amendment on the \_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION,  
a Texas corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FDD Exhibit I

**AMENDMENT TO CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION  
DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT  
FOR THE STATE OF VIRGINIA**

The Christian Brothers Automotive Corporation Disclosure Document (the “Disclosure Document”) and Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Christian Brothers Automotive Corporation, a Texas corporation (“CBAC”), dated \_\_\_\_\_, 20\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Disclosure Document and Agreement (this “Amendment”):

VIRGINIA LAW MODIFICATIONS

1. The Virginia Securities Division requires that certain provisions contained in franchise documents be amended to be consistent with Virginia law, including the Retail Franchising Act, Sections 13.1-557 through 13.1-574 of the Virginia Code (the “Act”). To the extent that the Disclosure Document and/or Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. The Agreement requires the Franchisee to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action of CBAC that would violate the Act, or a rule or order under the Act. Such release shall exclude claims arising under the Act, and such acknowledgments shall be void with respect to claims under the Act.

b. The Agreement designates a jurisdiction and venue outside of the State of Virginia. This requirement shall not be interpreted to limit any rights that Franchisee may have under the Act to bring suit in the state of Virginia.

c. The Franchise Agreement requires prospective Franchisees to disclaim the occurrence and/or acknowledge the non-occurrence of acts that would constitute a violation of the Act in order to purchase our franchise. Such representations are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Act.

d. Any claims arising under the Act must be brought within 4 years after the grant of the franchise.

e. The Agreement contains certain provisions regarding the termination and non-renewal of a franchise. To the extent any provision of this Agreement and/or the Disclosure Document are inconsistent with Section 13.1-565 of the Act, those provisions of the Agreement and/or Disclosure Document are hereby amended accordingly.

f. In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for Christian Brothers Automotive Corporation for use in the Commonwealth of Virginia shall be amended as follows:

Additional Disclosure. The following statements are added to Item 17.h.

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any ground 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.

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Act, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have fully executed, sealed and delivered this Amendment to the Disclosure Document and Franchise Agreement on the \_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION,  
a Texas corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT J  
INVENTORY LIST**

Attached as Exhibit J is the Inventory List (from page J - 1 to page J - 5).

<b>REQUIRED INVENTORY ITEMS</b>				
Description	Quantity	Part Number	Unit Price	Extension
Oil Filters - Auto Extra	12	AXO618-51036	1.77	21.24
	12	AXO618-51040	1.77	21.24
	12	AXO618-51042	2.07	24.84
	12	AXO618-51060	1.77	21.24
	12	AXO618-51085	1.77	21.24
	6	AXO618-51212	8.57	51.42
	12	AXO618-51223	5.27	63.24
	12	AXO618-51315	2.37	28.44
	12	AXO618-51334	1.77	21.24
	12	AXO618-51348	1.77	21.24
	6	AXO618-51355	3.57	21.42
	12	AXO618-51356	2.07	24.84
	6	AXO618-51358	2.87	17.22
	6	AXO618-51361	2.37	14.22
	12	AXO618-51365	2.37	28.44
	12	AXO618-51372	1.77	21.24
	12	AXO618-51393	2.87	34.44
	12	AXO618-51394	1.77	21.24
	12	AXO618-51396	2.69	32.28
	12	AXO618-51515	1.77	21.24
	12	AXO618-51516	1.77	21.24
	6	AXO618-51522	1.77	10.62
	6	AXO618-51734	8.97	53.82
	6	AXO618-57021	3.87	23.22
	6	AXO618-57033	3.57	21.42
	12	AXO618-57060	1.77	21.24
	12	AXO618-57082	3.57	42.84
	6	AXO618-57090	3.17	19.02
	12	AXO618-57092	2.87	34.44
	12	AXO618-57203	2.97	35.64
<b>Sub-total Oil Filters</b>				<b>815.46</b>

Air Filters - Auto Extra	1	AXO619-42487	5.67	5.67
	1	AXO619-42843	5.37	5.37
	1	AXO619-46116	2.77	2.77
	1	AXO619-46253	4.27	4.27
	1	AXO619-46418	6.37	6.37
	1	AXO619-46440	7.37	7.37
	1	AXO619-46443	4.87	4.87
	1	AXO619-46673	6.27	6.27
	1	AXO619-46699	6.17	6.17

FDD Exhibit J

	1	AXO619-46834	7.97	7.97
Sub-total Air Filters				57.10

Description	Quantity	Part Number	Unit Price	Extension
Fuel Filters - Generic	1	AXF616-33033	2.49	2.49
	1	AXF616-33044	1.49	1.49
	1	AXF616-33296	5.99	5.99
	1	AXF616-33311	5.49	5.49
	1	AXF616-33319	11.49	11.49
	1	AXF616-33481	3.49	3.49
	1	AXF616-33558	13.09	13.09
	1	AXF616-33559	11.99	11.99
	1	AXF616-33595	6.49	6.49
	1	AXF616-33623	7.49	7.49
Sub-total Fuel Filters				69.50

Description	Quantity	Part Number	Unit Price	Extension
Hose Clamps – Ideal	1	MPRA101	44.99	44.99
Sub-total Hose Clamps				44.99

Description	Quantity	Part Number	Unit Price	Extension
Headlamps - Wagner	2	9003	5.34	10.68
	2	9005	5.60	11.20
	2	9006	5.34	10.68
	2	9007	5.60	11.20
	Asst.	1	TLF32	99.99
Sub-total Headlamps				143.75

Description	Quantity	Part Number	Unit Price	Extension
Anco Wiper Blades	2	ANC31-15	4.17	8.34
	2	ANC31-16	4.17	8.34
	4	ANC31-17	4.17	16.68
	6	ANC31-18	4.17	25.02
	4	ANC31-19	4.17	16.68
	4	ANC31-20	4.17	16.68
	4	ANC31-21	4.17	16.68
	4	ANC31-22	4.17	16.68
	4	ANC31-24	4.17	16.68
	2	ANC31-28	4.17	8.34
Sub-total Wiper Blades				150.12

Description	Quantity	Part Number	Unit Price	Extension
A/C O-Ring Assortments – 4 Seasons	1	24813	144.68	144.68
Sub-total A/C O-Ring Assortments				144.68

Description	Quantity	Part Number	Unit Price	Extension
A/C Flush - Johnson/Interdynamics	2	6545-6	11.58	23.16
Sub-total A/C Flush				23.16

FDD Exhibit J

Description	Quantity	Part Number	Unit Price	Extension
Battery Terminals –SS	1	7000	10.99	10.99
	1	7410	9.99	9.99
Sub-total Battery Terminals				20.98

Description	Quantity	Part Number	Unit Price	Extension
Vacuum Hose – Gates	1	27072 3/16	27.00	27.00
	1	27073 1/4	30.00	30.00
	1	27074 5/16	36.00	36.00
Sub-total Fuel & Vacuum Hose				93.00

Description	Quantity	Part Number	Unit Price	Extension
Freon – Johnsons R134A	2	6330 30lb	99.00	198.00
Check Market				
Sub-total Freon R-134A				198.00

Description - BG Products	Quantity	Part Number	Unit Price	Extension
6600 Transmission Kits	24	6600	\$16.95	406.80
5901 Coolant Kits	24	5901	\$13.95	334.80
2901 Fuel Kits	6	2901	\$30.95	185.70
2902 Fuel Kits	16	2902	\$31.95	511.20
6550 Fuel Saver	12	6550	\$15.95	191.40
84032 Brake Fluid	12	84032	\$11.50	138.00
PF 910 Brake Test Strips	1	PF910	\$65.00	65.00
6700 Red Power Steering	6	6700 Red	\$27.95	167.70
6700 Power Steering	6	6700	\$27.95	167.70
7018 Dye	6	7018	\$14.95	89.70
110 MOA	12	110	\$7.50	90.00
109 Compression Perf Restoration	6	109	\$6.95	41.70
208 44K Fuel System Cleaner	12	208	\$15.25	183.00
Battery Kit Bat50,Bat40	6	Bat50.Bat40	\$5.95	35.70
825 Pre Lube	3	825	\$7.75	23.25
4068 Throttle Body Cleaner	12	4068	\$6.95	83.40
203 CF5 Carbon Fighter 5 with Ethanol corrosion inhibitors	12	203	\$7.35	88.20
Dab-A-lube	1	Lube	\$10.00	10.00
997-1 Coolant Test strips	1	997-1	\$17.25	17.25
BG 75264 + 328	6	75264+328	\$43.55	261.30
BG 752 Qt of 75x 140	6	752	\$17.75	106.50
BG 792 Syncro-Shift II in QT	6	792	\$15.90	95.40
Sub-total BG Products				3293.70



FDD Exhibit J

Description - Ram Products	Quantity	Part Number	Unit Price	Extension
Tuff-Torq Fastener Assortment	1	LP79		0.00
Metric Assortment – Part 1	1	Assortment		0.00
Metric Assortment – Part 2	1	Assortment		0.00
Industrial Terminal Assortment	1	LP191		0.00
16-14 GA Nylon Insul Ring Terminals	1	86042		0.00
GM Door Handle Rivets	1	97640		0.00
Heavy Duty Rack	2	A33		0.00
Roller Rack Stand	1	A26		0.00
Vacuum Hose Connector Assortment	1	LP308		0.00
Cotter Pin Assortment	1	LP70		0.00
Mini/ATO/Maxi Fuse Assortment	1	LP652		0.00
Sheet Metal Screw Assortment	1	LP135		0.00
Assortment with Drawers Total	1			1269.67
Sales Tax	1			104.74
Sub-total Rams Products				1374.41

Description - Oil Products	Quantity	Part Number	Unit Price	Extension
Bulk Engine Oil – Bulk Gallons	250	Bulk 5w30	8.20	2050.00
Bulk Engine Oil – Bulk Gallons	50	Bulk 5w20 Syn	15.48	774.00
Gear Lube - 120#	1	80w90 GL-4	135.75	135.75
Trans Fluid - 55 Gallon Drum	1	DEXRON III	424.19	424.19
Wheel Bearing Grease - 35#	1	MP 35#	44.54	44.54
Grease Gun Cartridges – Case	1	MP 10/14	10.88	10.88
Sub-total Oil Products				3439.36

Miscellaneous	Quantity	Part Number	Unit Price	Extension
Mirror Glue Kits – Permatex	4	11109	2.49	9.96
Valve Stems – Generic	25	Long	0.29	7.25
Valve Stems – Generic	25	Short	0.22	5.50
Coolant Tabs – BARS J100	1	J100	23.99	23.99
Ultra Black RTV – Permatex	6	82180	6.99	41.94
Ultra GREY RTV – Permatex	6	82194	6.99	41.94
Yellow Adhesive – 3M	2	8001	5.41	10.82
Black Weatherstrip Adhesive – 3M	2	8011	6.76	13.52
Electrical Tape – 3M	4	49656	0.99	3.96
Brake Fluid – Johnson	2	2032 32oz.	6.49	12.98
Dot 4 Brake Fluid	2	80035	7.99	15.98
Engine Degreaser – Generic	12	72415	3.29	39.48
Brake Cleaner – Generic	24	72408	3.79	90.96
Power Steering Fluid – Johnson	3	72810 32oz.	5.29	15.87
P.S. Fluid / Honda – Johnson	3	80813 12oz.	3.99	11.97
Wheel Brg. Grease	1	Val 616	9.99	9.99
High Temp master Pro Grease	4	90376	3.29	13.16
Brake Caliper Grease 8oz.	2	CRC5359	10.99	21.98
Hose Clamp Asst.	1	MPRA101	44.99	44.99
Rotella 15w40 Oil Gal.	6	T15-40-1	16.99	101.94
PB Blaster	6	PBB	5.29	31.74
Battery Cleaner	2	CRC5023	3.99	7.98
Battery Protector	2	CRC5046	3.99	7.98
Silicone Spray	2	4603	3.49	6.98

FDD Exhibit J

Dorman Drain Plug Kit	1	030-001	122.55	122.55
DiElectric Grease	2	CRC5105	8.99	17.98
Yellow Funnel	2	10703	1.49	2.98
Antisieze compound	2	Ver13010	6.49	12.98
Trans Gel/Tub	2	LBG19250	7.49	14.98
Sub-total - Misc.				764.33

Sub-total Oil Filters	815.46
Sub-total Air Filters	57.10
Sub-total Fuel Filters	69.50
Sub-total Hose Clamps	44.99
Sub-total Headlamps & Small Bulbs	143.75
Sub-total Wiper Blades	150.12
Sub-total A/C Flush	23.16
Sub-total A/C O-Rings	144.68
Sub-total Battery Terminals	20.98
Sub-total Fuel & Vacuum Hose	93.00
Sub-total Freon R-134A	198.00
Sub-total BG Products	3293.70
Sub-total Ram Products	1374.41
Sub-total Oil Products	3439.36
Sub-total - Misc.	764.33

TOTAL REQUIRED INVENTORY ITEMS	\$10,632.54
--------------------------------	-------------

Consignment:
Batteries – Interstate
Batteries - Continental

**EXHIBIT K**  
**COPY OF CURRENT RECEIPT AND ACKNOWLEDGEMENT AGREEMENT**

Attached as Exhibit K is a copy of the current Receipt and Acknowledgement Agreement (from page K - 1 to page K – 3).

Christian Brothers Automotive Corporation  
15995 North Barkers Landing, Suite 145  
Houston, Texas 77079  
[Date]

[First & Last name of Principal Operator and Spouse]  
[Address 1]  
[Address 2]  
[City, State and Zip Code]

Re: Acknowledgement and Receipt

Dear Mr. and Mrs. [Last Name]:

The purpose of this letter is to document the understanding between you and Christian Brothers Automotive Corporation (“CBAC”) as of the date of this letter. You are in the process of becoming a franchisee of CBAC, and in connection with this process, you have requested that your franchise (the “Franchise”) be in the [Location] area (the “Location”). CBAC is in the process of purchasing Land or acquiring an Existing Business and is incurring expenses in connection with that purchase. “Land” means real property that is located in the general area of the Location. “Existing Business” means an operating CBAC franchise business in the general market of the Location. In order to proceed, CBAC has requested that you pay \$70,000 (the “Down Payment”) of your initial franchise fee at this time. You have requested CBAC’s assurance that the Down Payment will be applied to the franchise fee described in the Franchise Disclosure Document. To document these agreements, CBAC and you are affirming the following understanding and agreeing to the following terms:

1. You will pay CBAC \$70,000 on the date you sign this letter. CBAC will sign this letter after receiving your payment, and CBAC’s signature will constitute its acknowledgement of the receipt of your Down Payment.
2. You acknowledge that CBAC may not be able to purchase the Land or acquire an Existing Business. CBAC agrees to notify you in writing if it determines, for any reason, that it will not purchase the Land or acquire an Existing Business. CBAC will then give you the option of either (a) choosing another one of the locations which

FDD Exhibit K

CBAC has determined to establish a franchise or acquire another existing CBAC franchise business, or (b) having your Down Payment returned.

- A. In the event a Termination Event occurs prior to CBAC executing a Contract for the Land or the Existing Business, then CBAC will deduct the reasonable costs that it has incurred in processing your application, selecting the site for the Land, determining the viability of acquiring an Existing Business and preparing to enter into the franchise relationship with you, and return any remainder to you, provided that such deduction will not exceed \$25,000. "Termination Event" means any of the following (i) you do not qualify for the necessary financing to open and operate your Franchise, (ii) you choose not to proceed with the decision to open the selected store, (iii) you choose not to proceed with the decision to acquire the Existing Business from CBAC, and/or (iv) you are unable to complete any of your other obligations that are conditions to your owning and operating a CBAC franchise. "Contract" means a contract for either (a) the acquisition of land in the general area of the Location, or (b) a contract for the acquisition of an existing business.
- B. In the event a Termination Event occurs after CBAC has executed a Contract but prior to CBAC (a) submitting site plans to the appropriate authority for approval in connection with the purchase of the Land, or (b) performing due diligence in connection with the acquisition of an Existing Business, then CBAC will deduct \$25,000 from your initial \$70,000 deposit and return \$45,000 to you.
- C. In the event a Termination Event occurs after CBAC has executed a Contract and either (a) has submitted site plans to the appropriate authority for approval in connection with the purchase of the Land, or (b) has performed due diligence in connection with the acquisition of an Existing Business, then CBAC will retain all of your initial \$70,000 deposit.
- 6. You acknowledge that you will pay the remaining amount of your franchise fee as provided in the Franchise Agreement to be entered into between you (or an entity formed and owned by you for the sole purpose of owning and operating the Franchise) and CBAC.

If you agree to the forgoing, please acknowledge your agreement by executing each counterpart of this letter agreement in the space provided below, retain one copy for your files, and return the other counterpart to the attention of the undersigned at your earliest convenience.

CHRISTIAN BROTHERS AUTOMOTIVE CORPORATION

By: \_\_\_\_\_  
Mark Carr, President

ACCEPTED, AGREED TO AND ACKNOWLEDGED  
AS OF \_\_\_\_\_, 2014

---

Mr. [Principal Operator]

ACCEPTED, AGREED TO AND ACKNOWLEDGED  
AS OF \_\_\_\_\_, 2014

---

Mrs. [Principal Operator's Spouse]

**EXHIBIT L-1**  
**RECEIPT**

This Disclosure Document summarizes certain provisions of the franchise agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If Christian Brothers Automotive Corporation (“CBAC”) offers you a franchise, it must provide this Disclosure Document to you 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 or grant.

If CBAC 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, D.C. 20580 and the Office of the State Agency listed on Exhibit E.

The Franchisor is CBAC, located at 15995 N. Barker’s Landing, Suite 145, Houston, Texas 77079. Its telephone number is (832) 598-0419.

Issuance Date: April 30, 2014

The name, principal business address and telephone number of each franchise seller offering the franchise is as follows: Josh Wall, VP Franchise Development, Christian Brothers Automotive Corporation, located at 15995 N. Barker’s Landing, Suite 145, Houston, Texas 77079, (832) 598-0419; and \_\_\_\_\_.

CBAC authorizes the respective state agencies identified on Exhibit E to receive service of process for it in the particular state.

I received a Disclosure Document dated \_\_\_\_\_ that included the following Exhibits:

- |  |   |
|--|---|
| A. Audited Financial Statements                        | F. Nonuse and Nondisclosure Agreement     |
| B. Franchise Agreement                                 | G. Former Franchisees Contact Information |
| C. Table of Contents of Confidential Operations Manual | H. Assignment and Assumption Agreement    |
| D. Current Franchisees Contact Information             | I. State Specific Addendum                |
| E. State Administrators/Agents for Service of Process  | J. Receipt and Acknowledgement Agreement  |

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of Prospective Franchisee

\_\_\_\_\_  
Printed Name

You should keep this copy for your records. Please sign, date and return the additional copy to Christian Brothers Automotive Corporation by delivering it personally to CBAC, by mailing it to CBAC at 15995 N. Barker’s Landing, Suite 145, Houston, Texas 77079, by emailing it to Josh Wall at jwall@cbac.com or by faxing a copy of the signed receipt to CBAC at (832) 598-0419.

**EXHIBIT L-2**  
**RECEIPT**

This Disclosure Document summarizes certain provisions of the franchise agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If Christian Brothers Automotive Corporation (“CBAC”) offers you a franchise, it must provide this Disclosure Document to you 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 or grant.

If CBAC 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, D.C. 20580 and the Office of the State Agency listed on Exhibit E.

The Franchisor is CBAC, located at 15995 N. Barker’s Landing, Suite 145, Houston, Texas 77079. Its telephone number is (832) 598-0419.

Issuance Date: April 30, 2014

The name, principal business address and telephone number of each franchise seller offering the franchise is as follows: Josh Wall, VP Franchise Development, Christian Brothers Automotive Corporation, located at 15995 N. Barker’s Landing, Suite 145, Houston, Texas 77079, (832) 598-0419; and \_\_\_\_\_.

CBAC authorizes the respective state agencies identified on Exhibit E to receive service of process for it in the particular state.

I received a Disclosure Document dated \_\_\_\_\_ that included the following Exhibits:

- |  |   |
|--|---|
| A. Audited Financial Statements                        | F. Nonuse and Nondisclosure Agreement     |
| B. Franchise Agreement                                 | G. Former Franchisees Contact Information |
| C. Table of Contents of Confidential Operations Manual | H. Assignment and Assumption Agreement    |
| D. Current Franchisees Contact Information             | I. State Specific Addendum                |
| E. State Administrators/Agents for Service of Process  | J. Receipt and Acknowledgement Agreement  |

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of Prospective Franchisee

\_\_\_\_\_  
Printed Name

This copy should be signed, dated and returned to Christian Brothers Automotive Corporation by delivering it personally, by mailing it to CBAC at 15995 N. Barker’s Landing, Suite 145, Houston, Texas 77079, by emailing it to Josh Wall at jwall@cbac.com or by faxing a copy of the signed receipt to Christian Brothers Automotive Corporation at (832) 598-0419. You may keep the second copy for your records.