

FRANCHISE DISCLOSURE DOCUMENT



FRANCHISOR

Pinot's Palette Franchise LLC
A Texas limited liability company
10333 Harwin Drive, Suite 580
Houston, Texas 77036
(713) 777-5112
franchise@pinotpalette.com
pinotpalette.com

As a franchisee, you will operate a studio offering customers artistic classes, including painting classes, with the opportunity to enjoy food, wine or other beverages under the name "Pinot's Palette."

The total investment necessary to begin operation of a Pinot's Palette franchised business is from \$74,200 to \$173,500. This includes \$37,400 to \$49,400 that must be paid the franchisor or its affiliate(s). The total investment necessary to begin operation of a mobile Pinot's Palette studio in connection with a Pinot's Palette franchised business is from \$16,000 to \$36,000. This includes \$5,000 to \$7,500 that must be paid the franchisor or its affiliate(s).

We may offer to enter into an area development agreement to establish and operate a certain number of Pinot's Palette franchises at specific locations pursuant to individual franchise agreements. The area development fee will be equal to \$12,500 multiplied by the number of Pinot's Palette franchises to be developed under the area development agreement. The area development fee will then be credited, in increments of \$12,500, toward the franchise fee owed for each Pinot's Palette franchise developed. Your estimated initial investment will vary based on the number of studios to be developed.

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 the 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 government agency has verified the information contained in this document.**

You may wish to receive your Disclosure Document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Craig Ceccanti, Pinot's Palette Franchise LLC, 10333 Harwin Drive, Suite 580, Houston, Texas 77036, (713) 777-5112, franchise@pinotpalette.com.

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

Buying a franchise is a complex investment. The information in this Disclosure Document can help you make up your mind. More information on franchising, such as "*A Consumer's Guide to Buying a Franchise*," which can help you understand how to use this Disclosure Document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

Issuance Date: April 16, 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 franchise administrator listed in Exhibit A 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 AND AREA DEVELOPMENT AGREEMENT REQUIRE THE FRANCHISEE TO ARBITRATE OR LITIGATE ONLY IN TEXAS. OUT OF STATE ARBITRATION OR LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO ARBITRATE OR LITIGATE WITH THE FRANCHISOR IN TEXAS THAN IN YOUR HOME STATE.
2. THE FRANCHISE AGREEMENT AND AREA DEVELOPMENT AGREEMENT STATE THAT THE LAW OF TEXAS GOVERNS THE AGREEMENTS, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

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.

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

STATE EFFECTIVE DATES

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

STATE	EFFECTIVE DATE
California	June 3, 2013
Illinois	April 29, 2013
Indiana	
Maryland	August 14, 2013
Michigan	August 15, 2013
Minnesota	
New York	November 19, 2013
North Dakota	March 7, 2014
Rhode Island	
South Dakota	
Virginia	October 25, 2013
Washington	August 27, 2013
Wisconsin	June 28, 2013

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EXHIBITS

- Exhibit A – State Administrators/Agents for Service of Process
- Exhibit B – State Specific Addendum
- Exhibit C – Franchise Agreement
- Exhibit D – Area Development Agreement
- Exhibit E – Table of Contents of Confidential Operations Manual
- Exhibit F – List of Franchisees and Area Developers
- Exhibit G – List of Franchisees and Area Developers Who Have Left the System
- Exhibit H – Financial Statements

RECEIPT

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

The Franchisor

Pinot's Palette Franchise LLC, a Texas limited liability company ("we" or "us" or "our" or "Pinot's Palette Franchise LLC"), is the franchisor. We and our affiliates have our principal place of business at 10333 Harwin Drive, Suite 580, Houston, Texas 77036. We were formed on May 5, 2010. We conduct business under the name and mark "Pinot's Palette" and related names, marks and slogans.

We are a franchising company which promotes and sells franchises for the operation of Pinot's Palette studios. We do not own or operate a studio of the type being franchised, although we have affiliates that do. We have not offered franchises in any other line of business, and we are not engaged in any business other than selling franchises for Pinot's Palette studios. We have offered franchises since October 18, 2010.

Our agent for service of process is Craig Ceccanti. His principal business address is 10333 Harwin Drive, Suite 580, Houston, Texas 77036. If we have an agent for service of process in your state, we disclose that agent in Exhibit A.

Our Parents, Affiliates and Predecessors

We have no parents or predecessors.

Our affiliate, Pinot's Palette LLC, a Texas limited liability company formed May 5, 2010, is the parent to the following wholly owned subsidiaries: Pinot's Palette Studio 1 LLC (formerly Pinot & Picasso LLC), a Texas limited liability company formed March 16, 2009, Pinot's Palette Studio 2 LLC, a Texas limited liability company formed May 5, 2010, Pinot's Palette Studio 3 LLC, a Texas limited liability company formed March 8, 2011, Pinot's Palette Studio 5 LLC, an Oklahoma limited liability company formed September 4, 2012, and Paint and Sip Supply, LLC, a Texas limited liability company formed September 25, 2013.

Pinot's Palette Studio 1 LLC operates a Pinot's Palette studio at 2406 Taft Street, Houston, Texas 77006, which opened May 2009 under the name "Pinot & Picasso." In May 2010 we changed the name of our concept from "Pinot & Picasso" to "Pinot's Palette," and Pinot's Palette Studio 1 LLC began operating under the new name on May 3, 2010.

Pinot's Palette Studio 2 LLC operates a Pinot's Palette studio at 5539 Richmond Avenue, Houston, Texas 77056, which opened September 2010.

Pinot's Palette Studio 3 LLC operates a Pinot's Palette studio at 12343 Kingsride Lane, Houston, Texas 77024, which opened October 2012.

Pinot's Palette Studio 5, LLC operates a Pinot's Palette studio at 115 E. California Avenue, Suite 100, Oklahoma City, Oklahoma 73104, which opened March 2013.

The above affiliates which operate Pinot's Palette studios all pay the same royalty fee, email account fee and technology fee, as well as make the same advertising contributions, as franchisees pay.

Paint and Sip Supply, LLC ("PASS") sells branded apparel, glassware, marketing collateral, gift certificates, easels, tables, seating, ice machines, frames, canvases, point of sale computer systems, and

audio/video equipment, among other products and supplies to our franchisees. All such products are purchased through our affiliate's website at www.paintandsipsupply.com.

Our affiliate, Pinot's Palette Studio 1 LLC, owns the Proprietary Marks (as described below) and has licensed them to us so that we may sublicense them to our franchisees. See Item 13 for additional details.

Our affiliates are not offering, and have never offered, franchises in any line of business. We have no other affiliates required to be disclosed in this Disclosure Document.

The Franchise Offered

We are offering franchises for studios that operate under the name "Pinot's Palette," (each a "**Pinot's Palette Studio**"). Each Pinot's Palette Studio is established and operated using the format and system we developed (the "**System**"), and operate at retail locations displaying our interior and exterior trade dress. Pinot's Palette Studios feature and operate under the Proprietary Marks (as described below). Pinot's Palette Studios offer customers artistic classes, including painting classes, with the opportunity to enjoy food, wine or other beverages. Our interior trade dress is designed to make Pinot's Palette Studios welcoming, comfortable, and easily identifiable for customers. All products and services offered for sale at a Pinot's Palette Studio are subject to our approval.

Pinot's Palette Studios are characterized by our System. Some of the features of our System include: (a) exterior and interior design standards and specifications; (b) uniform standards, specifications, and procedures for operations; (c) training and assistance; and (d) marketing and promotional programs. We may periodically change and improve the System.

You must operate your Pinot's Palette Studio in accordance with our standards and procedures, as set out in our Confidential Operations Manuals (the "**Manuals**"). We will lend you a copy of the Manuals for the duration of the Franchise Agreement (or, at our option, we may make these available to you electronically). In addition, we will grant you the right to use our marks, including the mark "Pinot's Palette" and any other trade names and marks that we designate in writing for use with the System (the "**Proprietary Marks**"). We may modify the Proprietary Marks or substitute new Proprietary Marks. See Items 13 and 14 for additional information regarding the Proprietary Marks and the Manuals.

Franchise Agreement

We offer to enter into a franchise agreement ("**Franchise Agreement**") (included as Exhibit C to this Disclosure Document) with qualified legal entities and persons ("**you**") that wish to establish and operate Pinot's Palette Studios. (In this Disclosure Document, "**you**" means the person or legal entity with whom we enter into an agreement. The term "**you**" also refers to the direct and indirect owners of a corporation, partnership, or limited liability company that signs a Franchise Agreement as the "franchisee".)

Under a Franchise Agreement, we will grant you the right (and you will accept the obligation) to operate a Pinot's Palette Studio at an agreed-upon specified location (the "**Approved Location**"). (In this Disclosure Document, the term "**Franchised Studio**" means the Pinot's Palette Studio franchised to you under a Franchise Agreement.)

At your option, you may enter into an addendum to the Franchise Agreement which will grant you the right to operate a mobile Pinot's Palette Studio, utilizing one vehicle ("**Mobile Studio Vehicle**"), at customer residences, places of business, or other suitable venues that are off-site from the Franchised

Studio (“**Franchised Mobile Studio**”). Unless expressly agreed to by us, the Franchised Mobile Studio can only be operated in connection with the Franchised Studio. You may operate a maximum of two Mobile Studio Vehicles in connection with the Franchised Mobile Studio.

If you are not an individual, then you must designate one of your owners, who must be an individual person with at least a ten percent (10%) ownership interest in the franchisee legal entity, and who must be reasonably acceptable to us to assume the responsibilities of general oversight and management of your Franchised Studio (the “**Designated Principal**”). You must also designate either the Designated Principal or a “**General Manager**” (subject to our reasonable approval) to assume the full-time responsibility for daily supervision and operation of the Franchised Studio.

Area Development Agreement

We may also offer to enter into an area development agreement (the “**Area Development Agreement**”) (included as Exhibit D to this Disclosure Document) with qualified legal entities and persons (an “**Area Developer**”), which grants the right to establish and operate a specified number of Pinot’s Palette Studios in a specified area (the “**Development Area**”) at specific locations that must be approved by us, each under a separate Franchise Agreement. We will enter into Area Development Agreements under which at least two Pinot’s Palette Studios will be developed by an Area Developer.

Area Developers must open each Pinot’s Palette Studio in accordance with an agreed upon opening schedule (the “**Development Schedule**”). The Development Schedule will be set forth in Exhibit A of the Area Development Agreement. The Area Developer exercises its right to open Pinot’s Palette Studios by entering into a separate Franchise Agreement for each Franchised Studio opened.

The Market and Competition

The market for art, specifically artistic painting, classes is well developed and intensely competitive. The market for artistic painting classes in a venue such as a Pinot’s Palette Studio is also competitive. You will serve the general public and will compete with a variety of businesses, from locally owned to national and chain businesses. These studios compete on the basis of factors such as price, service, and location. These businesses are often affected by other factors as well, such as changes in consumer taste, economic conditions, population size and density and travel patterns.

We may establish other Pinot’s Palette Studios in your area (if permitted under the Franchise Agreement). See Items 12 and 16 for a description of your permitted and restricted activities and rights, as well as our permitted and restricted activities and rights. To the extent your Franchised Studio may be located near another Franchised Studio, you may appear to or actually compete with other Pinot’s Palette Studios.

Industry Specific Regulations

You must comply with all local, state and federal laws that apply to your Franchised Studio operations, including health, sanitation, no smoking, EEOC, OSHA, discrimination, employment, and sexual harassment laws. The Americans with Disabilities Act of 1990 requires readily accessible accommodations for disabled people and may affect your building construction, site design, entrance ramps, doors, seating, bathrooms, drinking facilities, etc. Among licenses and permits you may need are: Sales and Use Tax Permits, Fire Department Permits, Health Permits, Alarm Permits, County Occupational Permits, Retail Sales Licenses. You will be required to obtain all necessary and applicable alcoholic beverage permitting and licensing or any other permitting or licensing that will allow your customers to bring (and consume) their own beer, wine or spirits to the Franchised Studio. In the event

such licensing or permitting is not available in your jurisdiction, in the alternative we will require you to obtain all necessary and applicable alcoholic beverage permitting and licensing to offer beer, wine and spirits for sale and consumption at the Franchised Studio. In any case, you are responsible for complying with any federal, state, county, municipal, or other local laws and regulations relating to the sale and/or consumption of alcohol and liquor that may apply to your Franchised Studio. There may be other laws, rules or regulations which affect your Franchised Studio, including point-of-sale disclosure regarding laws concerning the protection of customers' credit card numbers and financial data, liquor liability laws, minimum wage and labor laws, along with ADA, OSHA and EPA considerations. We urge you to make further inquiries about these and other applicable laws.

We are not obligated to provide you with guidance about these laws and regulations and you are solely responsible for knowing about and complying with all laws and regulations applicable to your Franchised Studio. We recommend that you consult with your attorney for an understanding of these laws.

The United States enacted the "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001" (the "USA Patriot Act"). We are required to comply with the USA Patriot Act. To help us comply with the USA Patriot Act, we ask you in the Franchise Agreement to confirm for us that neither you nor your directors, officers, shareholders, partners, members, employees, or agents are suspected terrorists or persons associated with suspected terrorists or are under investigation by the U.S. government for criminal activity. You may review the Patriot Act and related regulations at: <http://www.treasury.gov/offices/enforcement/ofac/sdn>.

ITEM 2 **BUSINESS EXPERIENCE**

Managing Member: Craig Ceccanti

Mr. Ceccanti has been our Managing Member since inception. He is one of the Pinot's Palette concept founders and also a principal of our affiliates (described in Item 1) since each company's inception. From July 2008 to April 2010, Mr. Ceccanti held the position of Senior Consultant for the management consulting firm Kalypso LP in Houston, Texas. From October 2012 to the present, he has held the position of lecturer in management at Rice University's Jones Graduate School of Business in Houston, Texas.

Managing Member: Charles H. Willis, II

Mr. Willis has been our Managing Member since inception. He is one of the Pinot's Palette concept founders and also a principal of our affiliates (described in Item 1) since each company's inception. From July 2006 to February 2009, he held the position of Electrical, Instrument, and Automation Engineer for Technip USA in Houston, Texas. From February 2009 to April 2010, Mr. Willis held the same position with Technip USA in Beaumont, Texas.

Managing Member: Mary Elizabeth "Beth" Willis

Ms. Willis has been our Managing Member since inception. She is one of the Pinot's Palette concept founders and also a principal of our affiliates (described in Item 1) since each company's inception. From November 2007 to the present, Ms. Willis has held the position of Clinical Pharmacy Specialist for Memorial Hermann Memorial City Hospital in Houston, Texas.

ITEM 3
LITIGATION

On or about November 11, 2013 we entered into an Assurance of Discontinuance with the Attorney General of the State of New York. The Assurance of Discontinuance acknowledged that we offered and sold franchises in New York when we were not registered to offer and sell franchises, in violation of the New York State Franchise Sales Act. Under the Assurance of Discontinuance we agreed to cease offering and selling franchises until we have been properly registered under the New York State Franchise Sales Act, and to offer rescission to each franchisee that purchased a franchise within or from the State of New York while we were not properly registered. We intend to fully comply with the Assurance of Discontinuance.

Except as described above, no litigation is required to be disclosed in this Item.

ITEM 4
BANKRUPTCY

No bankruptcy is required to be disclosed in this Item.

ITEM 5
INITIAL FEES

Franchise Agreement

When you sign the Franchise Agreement you must pay us an initial franchise fee of \$25,000 (the “**Franchise Fee**”). You must pay the Franchise Fee in full at the time you sign the Franchise Agreement. Additionally, as described below, if you signed an Area Development Agreement, we will credit a portion of the Area Development Fee you paid toward the Franchise Fee under the conditions described below.

At your option, you may enter into an addendum to the Franchise Agreement which will grant you the right to operate a Franchised Mobile Studio in connection with the Franchised Studio at customer residences, places of business, or other suitable off-site venues. When you sign this addendum to the Franchise Agreement, you must pay us a “**Mobile Studio Franchise Fee**” of \$7,500. You may operate a maximum of two Mobile Studio Vehicles in connection with the Franchised Studio, subject to the payment of a Mobile Studio Franchise Fee and the execution of a Franchise Agreement addendum for each Mobile Studio Vehicle. When franchisees choose to sign the Franchise Agreement addendum to operate a Franchised Mobile Studio at the same time as signing the Franchise Agreement to operate a Pinot’s Palette Studio, the Mobile Studio Franchise Fee will be reduced to \$5,000. If franchisees choose to sign two Franchise Agreement addendum for the maximum operation of two Mobile Studio Vehicles at the same time as signing the Franchise Agreement to operate a Pinot’s Palette Studio, the Mobile Studio Franchise Fee for the second Mobile Studio Vehicle will be reduced to \$2,500. If franchisees choose to delay the signing of the Franchise Agreement addendum to operate a Franchised Mobile Studio until after such date, they must pay the full \$7,500 Mobile Studio Franchise Fee for each Mobile Studio Vehicle.

The Franchise Fee and Mobile Studio Franchise Fee will be fully earned when paid and non-refundable in consideration of administrative and other expenses we incur in entering into the Franchise Agreement and for our lost or deferred opportunities to enter into the Franchise Agreement with others.

Currently, in some cases, we pay a referral fee in the amount of \$1,500 to existing franchisees and Pinot’s Palette Studio employees who provided us with prospective franchisee leads that result in the signing of Franchise Agreements. This referral program is administered in our sole discretion and may be

changed or discontinued by us at any time. The amount of the referral fee is further subject to change at any time. Those who are eligible to participate in this referral program and who may 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 individuals may say, and we cannot guarantee the accuracy of any statement made by them, to you or any other prospective franchisee.

Area Development Fee

If you are going to be an Area Developer, then you will sign an Area Development Agreement and pay us an area development fee (the “**Area Development Fee**”). The amount of the Area Development Fee will be calculated by multiplying \$12,500 times the number of Pinot’s Palette Studios to be developed under the Area Development Agreement. The Area Development Fee will be due in a lump sum payment upon the signing of an Area Development Agreement.

If you meet your obligations under the Area Development Agreement and are not otherwise in default under any other agreement with us, as you sign Franchise Agreements for each Franchised Studio developed under the Area Development Agreement, we will credit \$12,500 of the Area Development Fee that you paid towards the Franchise Fee due for each Franchised Studio. However, under no circumstances will we grant credits in excess of the total amount of the Area Development Fee you paid under the Area Development Agreement. Additionally, if you are in compliance with the Area Development Agreement, then as you sign a Franchise Agreement for each Franchised Studio that you develop to satisfy the Development Schedule, the Franchise Fee for those Franchised Studios will be the amount specified in the Area Development Agreement (currently \$25,000 for each Franchised Studio), regardless of whether our standard Franchise Fee is higher at the time you sign the Franchise Agreements for each Franchised Studio.

The Area Development Fee is fully earned and non-refundable in consideration of administrative and other expenses we incur in entering into the Area Development Agreement, and for our lost or deferred opportunities to enter into the Area Development Agreement with others, regardless of whether you enter into any Franchise Agreements for Franchised Studios to be developed.

The Franchise Fee and Area Development Fee are uniform for all franchisees.

Other Initial Fees

You must pay us an initial artist training fee of \$500 per day, plus our actual costs of lodging, food and travel arrangements for an artist trainer (the “**Artist Training Fee**”), for which we will provide such artist trainer who will conduct on-site initial artist training to all artists you have hired to perform classes for the Franchised Studio. Currently, our initial artist trainers will conduct a minimum of 25 to 35 hours of training over a period of three to four days. See Item 11 under the heading “Training” for additional information. The Artist Training Fee is payable to us upon demand, after the training has taken place, and is non-refundable.

Prior to opening your Pinot’s Palette Studio, you must purchase from our affiliate, PASS, certain branded apparel, glassware, marketing collateral, gift certificates, easels, tables, seating, ice machine, frames, canvases, point of sale computer system, and audio/video equipment, among other products and supplies at a cost in the range of \$10,000 to \$20,000. Payments made for all such items are non-refundable.

Prior to opening your Pinot’s Palette Studio, you must also pay us a fee of \$400 for which we will have our architect consultant provide you with prototype drawings specific to your Approved Location

that your architect will use for the preparation of construction drawings. You will be limited to three revisions of these prototype drawings prepared by our architect consultant. This fee is payable to us upon demand, after the prototype drawings have been provided, and is non-refundable.

Deferred Fees

For the purposes of franchises sold in Illinois, all initial franchise fees are deferred until such time as we have completed our initial obligations owed to you and you have commenced doing business. This requirement has been imposed by the Illinois Attorney General’s Office based on our financial statements.

For the purposes of franchises sold in Maryland, all initial franchise fees are deferred until such time as all of our material pre-opening obligations to you have been met.

For the purposes of franchises sold in the state of Washington, collection of the initial franchise fee will be deferred until we have fulfilled our pre-opening obligations and you are open for business.

**ITEM 6
OTHER FEES**

Type of Fee (Note 1)	Amount	Date Due	Remarks
Royalty Fee ("Royalty Fee")	5% of Net Sales.	By the third business day after the close of each Week based on the Net Sales for that Week. (Note 2)	"Net Sales" means all revenue related to the Franchised Studio and Mobile Franchised Studio (excluding customer refunds and sales taxes collected and remitted to the proper authorities).
Advertising Obligations	2% of Net Sales to the System Ad Fund. You must directly spend an additional 2% of Net Sales on your own local advertising.	Same as Royalty Fee.	We may change the allocation between the "System Ad Fund", the amount spent on local advertising, and a regional "Cooperative Ad Fund," as described in Item 11. We have the option to require our franchisees to form regional advertising cooperatives in their local markets and contribute into a Cooperative Ad Fund. If this is done, your Cooperative Ad Fund contribution will be credited against the local advertising requirement. See Notes 3 and 4 and Item 11 under the heading "Advertising."

Type of Fee (Note 1)	Amount	Date Due	Remarks
Electronic Mail Account Fee	Our cost, which is currently \$20 per month, for each electronic mail account.	The date the first Royalty Fee of each month is due. (Note 2)	For each electronic mail account, you will pay us a fee equal to the amount we are charged for such account by our service providers, which is currently \$20 per month.
Additional on-site training and assistance	Our per-diem charge (which is currently \$500, plus our out-of-pocket costs), per trainer.	Upon demand.	If you ask that we (a) provide additional on-site training, or (b) conduct at your Franchised Studio any training session that we offer at our headquarters, and we do so, then you will have to pay our then-current per-diem charge for extra training. See Note 5 and Item 11 under the heading "Training."
Technology Fee	\$50 per month.	The date the first Royalty Fee of each month is due. (Note 2)	As described in Item 11 under the heading "Computer System," we require you to use certain software, hardware and/or support services in connection with the operation of the Franchised Studio. In return for this fee, we provide proprietary cloud, mobile and desktop based software-for management of your Pinot's Palette Studio.
Prototype Drawing Fee	\$400.	Upon demand.	Prior to opening your Pinot's Palette Studio, you must pay us \$400 for which we will have our architect consultant provide you with prototype drawings specific to your Approved Location that your architect will use for the preparation of construction drawings. You will be limited to three revisions of these prototype drawings prepared by our architect consultant.

Type of Fee (Note 1)	Amount	Date Due	Remarks
Product and Services Purchases	Discussed in Item 8.	As incurred.	You must purchase all of the following items from our affiliate, PASS: branded apparel, glassware, marketing collateral, gift certificates, easels, tables, seating, ice machine, frames, canvases, point of sale computer system, and audio/video equipment, among other products and supplies. We may add or delete items you must purchase from our affiliate, PASS, in our sole discretion.
Local Telephone and On-line Directories	If we obtain such listings on your behalf, you must reimburse us an amount equal to the cost of obtaining listings of the on-line directories required under the Manuals for your Franchised Studio.	Upon demand.	We will require you to, or we may on your behalf, obtain listings for your Franchised Studio in the white and yellow pages of the local and on-line directories. You must bear the costs for your Franchised Studio, including reimbursements to us.
Product/Supplier Testing	An amount equal the reasonable cost of the evaluation and testing of such products for approval.	Upon demand, if incurred.	If you desire to purchase unapproved products or equipment, supplies, or (other than Proprietary Products) from other than approved suppliers, we may require that our representatives be permitted to inspect, from time to time, the supplier's facilities, and that samples from the supplier be delivered for evaluation and testing either to us or to an independent testing facility designated by us. You must pay a charge not to exceed the reasonable cost of the evaluation and testing.

Type of Fee (Note 1)	Amount	Date Due	Remarks
Transfer Fee	<p>An amount equal to 50% of our then-current initial franchise fee, however, not to exceed \$15,000.</p> <p>An amount equal to 50% of our then-current Mobile Studio Franchise Fee, however not to exceed \$3,750 per Mobile Studio Vehicle.</p> <p>An Area Developer will pay a transfer fee equal to \$10,000 for each Pinot's Palette Studio not developed, but not less than 50% of the Area Development Fee.</p>	At time of transfer.	Payable only if you make a transfer (as defined in the Franchise Agreement), which includes any sale or assignment of your franchise or your company. We do not impose a fee for a transfer to a corporation you form for the convenience of ownership.
Renewal Fee	An amount equal to 50% of our then-current initial franchise fee, however, not to exceed \$15,000.	Before renewal.	The Franchise Agreement may be renewed after an initial term of 10 years. You will only need to pay this fee if you renew the Franchise Agreement. There is no renewal under the Area Development Agreement.
Charges for "mystery customer" quality control evaluation	An amount equal to the charges imposed by the "mystery customer" evaluation service provider for your Franchised Studio, but not to exceed \$500 per year.	Upon demand, if incurred.	We may use an independent service to conduct a "mystery customer" quality control and evaluation program. You must participate in this program, and we will require that you pay the then-current charges imposed by the evaluation service (as we direct, either directly to the evaluation service provider or to us as a reimbursement).
Late Fee and Interest on Overdue Payments	A late fee equal to 5% of your overdue amount, and interest equal to 1.5% per month (but not more than any maximum rate set by law).	At time the Overdue Payments are paid.	Only due if you don't pay us the amounts you owe on time. Interest will be charged only on overdue amounts and will start to accrue on the date when the payment was originally due.

Type of Fee (Note 1)	Amount	Date Due	Remarks
Dues and Assessments Imposed by a Franchisee Advisory Council	An amount determined by the franchisee advisory council (if established). Currently – none.	At the times required by a franchisee advisory council.	We may form, or require that our franchisees form, a franchisee advisory council. If one is formed, you must become a member if we require, and you must pay the fees and assessments imposed by the council.
Gift Card Program	An amount equal to the actual cost of the Gift Cards.	If incurred	You must participate in our Gift Card program when it is established. Gift Cards will be available for sale and redemption at any Pinot's Palette Studio in the System.
Studio Refurbishment	An amount equal to the actual costs to refurbish your Franchised Studio.	As agreed	We may require you to refurbish your Franchised Studio to meet our then-current requirements for décor, layout, etc. We will not require you to refurbish the Franchised Studio more frequently than every five years
Prohibited Product or Service Fine	\$250 per day of use of unauthorized products or services	If incurred	In addition to other remedies available to us. This may not be enforceable under California law.
Audit Expenses	An amount equal to the actual costs and expenses associated with the audit, including reasonable accounting and legal costs.	Upon demand.	Payable only if we audit and the audit discloses an understatement in any statement or report of 3% or more. (You will also have to pay the monies owed and interest on the underpayment (see "interest" above).)
Insurance Procurement	An amount equal to our actual cost to obtain insurance coverage for you if you fail to obtain the required insurance coverage under your Franchise Agreement.	Upon demand.	We have the right (but not obligation) to buy insurance coverage if you do not do so.
Relocation Expenses	An amount equal to our actual costs and expenses related to an approved relocation of your Franchised Studio.	Upon demand.	Payable only if you relocate your Franchised Studio, in order to reimburse us our costs and expenses related to an approved relocation of your Franchised Studio.

Type of Fee (Note 1)	Amount	Date Due	Remarks
Securities Offering	An amount equal to our reasonable costs and expenses (including legal and accounting fees) to evaluate your proposed offering.	Upon demand.	Payable only if you propose to engage in a public or private securities offering, to reimburse us for our reasonable costs and expenses (including legal and accounting fees) to evaluate your proposed offering.
Costs and Attorneys' Fees	An amount equal to our expenses incurred (including reasonable attorneys' fees) as a result of your default and to enforce and terminate the Franchise Agreement.	Upon demand.	Due only if you are in default under the Franchise Agreement, in which case you must reimburse us for the expenses we incur (including reasonable attorneys' fees) as a result of your default and to enforce and terminate the Franchise Agreement.
Indemnification	All amounts we are held liable for claims arising from your operation of the Franchised Studio, as well as your use of the Proprietary Marks.	Upon demand.	You must reimburse us if we are sued or held liable for claims arising from your operation of the Franchised Studio, as well as your use of the Proprietary Marks in a manner inconsistent with our instructions, and any transfers or securities offerings that you propose.

Explanatory Notes to Item 6 Table:

1. Except as otherwise noted in this Item 6, we impose and collect all of the fees described above. None of these fees are refundable. All of the fees described above in this Item 6 are uniform for all franchisees.
2. You must pay your royalties and System Ad Fund contributions by Electronic Funds Transfer ("EFT") using the Automated Clearing House ("ACH") method. To make arrangements for EFT, you must sign our current form of Authorization Agreement for Prearranged Payments (Direct Debits), which is Exhibit D to the Franchise Agreement.
3. The chart reflects the maximum required percentage amount (four percent (4%)) which you will be required to contribute to the System Ad Fund and/or spend on local advertising (together the "Advertising Obligation"). Our current allocation of the Advertising Obligation is two percent (2%) toward the System Ad Fund and two percent (2%) spent directly by you toward local advertising. With the exception described in Note 4 below, we cannot require additional advertising, marketing or promotional contributions. Further details about the applicable advertising, marketing and promotional requirements can be found in Item 11, under the subheading "Advertising."

4. We have the option to require our franchisees to form regional advertising cooperatives in their local markets and contribute into a Cooperative Ad Fund for this purpose. If this is done, your Cooperative Ad Fund contribution will be credited against the local advertising requirement. The amount of required Cooperative Ad Fund contributions will be determined by us, unless we authorize the Cooperative Ad Fund to set the amount itself. If the Cooperative Ad Fund is so authorized, members of any Cooperative Ad Fund may agree (by a majority vote) to increase the Cooperative Ad Fund contribution to a rate in excess of the maximum amount that we require. If we operate a company-owned or affiliate-owned Pinot's Palette Studio within a region that has formed a Cooperative Ad Fund, the company-owned or affiliate-owned Pinot's Palette Studio may contribute to such Cooperative Ad Fund on the same basis as franchisees within this region, each Pinot's Palette Studio having one vote. At present, there are no Cooperative Ad Funds in our System. Further details about the applicable advertising, marketing and promotional requirements can be found in Item 11, under the subheading "Advertising."

5. As part of the opening of your Franchised Studio, we will conduct pre-opening and opening training and assistance at your Franchised Studio. We will bear the costs associated with providing this training, not including expenses related to transportation, lodging, meals, wages, and worker's compensation insurance which you will be responsible for. However, if you request additional days of on-site training or assistance in connection with your opening after we have concluded our pre-opening and opening training, or at a later time, we will charge you our then-current per diem training fee for the additional training provided; and you will also have to reimburse us for all out of pocket costs and expenses associated with the additional training, including lodging, food and travel arrangements of the trainers. Additionally, we may require that you complete refresher and additional training programs, and we may offer the programs on a voluntary basis. If you request that we conduct any additional training sessions (required or voluntary) at your Franchised Studio rather than at our headquarters or Pinot's Palette Studio(s), and we do so, then we will charge you our then-current per diem training fee for that training we provide, and you will also have to reimburse us for all out of pocket costs and expenses described above. Our current per diem charge is \$500 per trainer (we reserve the right to change our per diem rate in the future). See Item 11 under the heading "Training" for more detailed information.

ITEM 7
ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Estimated Initial Investment for a Single Pinot's Palette Studio

Type of Expenditure (Note 1)	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Franchise Fee (Note 2)	\$25,000	Lump sum	When you sign the Franchise Agreement	Us
Artist Training Fee (Note 2)	\$2,000 to \$4,000	Lump sum	Upon demand, after training has taken place	Us

Type of Expenditure (Note 1)	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Business Licenses & Permits (Note 3)	\$500 to \$ 5,000	As arranged	As incurred	Local and other state government agencies
Leasehold Improvements (Note 4)	\$10,000 to \$ 45,000	As arranged	As arranged	Us, Independent contractors, Lessor
Fixtures, Furnishings & Equipment (Note 5)	\$10,000 to \$25,000	As arranged	As incurred	Us and Approved Suppliers
Computer System (Note 6)	\$2,000 to \$ 3,500	As arranged	As incurred	Us and Approved Suppliers
Architect/ Engineering Fees (Note 7)	Included in Leasehold Improvements	As arranged	As arranged	Independent contractors, Approved Suppliers
Rent, Security Deposits and Utility Deposits (Note 8)	\$0 to \$5,000	As arranged	As arranged	Lessor, Utility companies
Other Professional Fees (Note 9)	\$1,000 to \$5,000	As arranged	As arranged	Various service providers and contractors
Insurance Deposit (Note 10)	\$200 to \$1,000	As arranged	As arranged	Insurance providers
Initial Inventory of General and Art Supplies (Note 11)	\$8,000 to \$15,000	As arranged	As incurred	Us and Approved Suppliers
Training Expenses (Note 12)	\$500 to \$5,000	As arranged	Payment terms arranged with suppliers and your employees	Us and Approved Suppliers and your employees
Grand Opening Advertising (Note 13)	\$10,000 to \$15,000	As arranged	As arranged	Approved Suppliers
Additional Funds (for the initial 3 months of operations) (Note 14)	\$5,000 to \$20,000	As arranged	As needed	Us and/or affiliates, Approved Suppliers, employees and other creditors

Type of Expenditure (Note 1)	Amount	Method of Payment	When Due	To Whom Payment is to be Made
TOTAL ESTIMATED INITIAL INVESTMENT	\$74,200 to \$173,500			

Explanatory Notes to the above Item 7 Table:

1. **General** – We do not impose or collect the fees or costs described in this Item 7, except for the items noted with “Us” in the column labeled “To Whom Paid.” Except as described below, all fees and amounts that you must pay to us are non-refundable. For any amounts paid to third parties, the availability and conditions under which you may obtain refunds will depend on the terms offered by those third party suppliers. We do not offer our franchisees financing for any part of the initial investment (see Item 10 for additional information). Our estimates in this Item 7 are based on our current prototype for Pinot’s Palette Studios, our experience in developing and operating our affiliate-owned Pinot’s Palette Studios, and our knowledge of business practices and conditions in the general marketplace. They are, however, only estimates and by their nature may change from time to time and may vary from location to location. The figures do not provide for your cash needs to cover financing incurred by you or your other expenses. You should not plan to draw income from the operation during the start-up and developmental stage of your business, the actual duration of which will vary materially from location to location and cannot be predicted by us for your Franchised Studio (and which may extend for longer than the three month “initial period” described in Note 14 of this Item 7). You must have additional sums available, whether in cash or through a bank line of credit, or have other assets which you may liquidate or against which you may borrow, to cover other expenses and any operating losses you may sustain, whether during your start-up and development stage, or beyond. The amount of necessary reserves will vary greatly from franchisee to franchisee and will depend upon many factors, including the rate of growth and success of your Franchised Studio, which will in turn depend upon factors such as the demographics and economic conditions in the area in which your Franchised Studio is located, the presence of other Pinot’s Palette Studios, public awareness of our business, your ability to operate efficiently and in conformance with the System, and competition. Because the exact amount of reserves will vary and cannot be meaningfully estimated, we urge you to carefully review these figures and the figures you obtain from your own inquiries with an experienced business advisor, such as an accountant or consultant, or a legal advisor, before making any decision to purchase a Pinot’s Palette Studio franchise or any other franchised business.

The above table describes the estimated initial investment for a single Pinot’s Palette Studio. We have not included a separate table for the initial investment if you sign an Area Development Agreement. As described in item 5, upon execution of an Area Development Agreement you must pay us \$12,500 multiplied by the number of Pinot’s Palette Studios to be developed under the Area Development Agreement, and you will receive a credit of \$12,500 toward the Franchise Fee each time you execute a Franchise Agreement for a Pinot’s Palette Studio to be developed. Other than the Area Development Fee, the following estimated initial investment expenditures will apply, subject to potential increases over time and other changes in circumstances. If you sign a Area Development Agreement, your professional fees, such as in the category of legal and financial, may be higher and cannot be predicted by us.

2. **Franchise Fee, Area Development Fee and Artist Training Fee** – The Franchise Fee shown in the chart above is uniform for all franchisees and the same for each Franchised Studio opened. If you

sign an Area Development Agreement, you will have to pay an Area Development Fee, which is described in Item 5. A portion of the Area Development Fee will be credited against the Franchise Fee for the Franchised Studio to be developed in order to satisfy the Development Schedule. In addition to the Franchise Fee and Area Development Fee, you must pay us an Artist Training Fee of \$500 per day, plus all out of pocket costs and expenses associated with this training, including lodging, food and travel arrangements, for which we will provide an artist trainer who will provide on-site initial artist training to all artists you have hired to perform classes for the Franchised Studio. Currently, our initial artist trainers will conduct a minimum of 12 hours of training over a period of four days. The amount shown in the chart above assumes that we will provide an artist trainer for a period of four days. The Franchise Fee, Area Development Fee and Artist Training Fee (as described below) are non-refundable. See Item 5 for further details regarding the Franchise Fee, Area Development Fee and Artist Training Fee. See Item 11 under the heading "Training" for additional information regarding the Artist Training Fee. We do not provide financing for any of these fees.

3. **Business Licenses and Permits** – These are general estimates for permits and licensing that may be required by local and state governments. Local, municipal, county and state regulations vary on the licenses and permits you will need to operate a Pinot's Palette Studio. You will pay these fees to governmental authorities before starting business. You are solely responsible for obtaining all appropriate licenses and permits. You will be required to obtain all necessary and applicable alcoholic beverage permitting and licensing or any other permitting or licensing that will allow your customers to bring (and consume) their own beer, wine or spirits to the Franchised Studio. In the event such licensing or permitting is not available in your jurisdiction, in the alternative we will require you to obtain all necessary and applicable alcoholic beverage permitting and licensing to offer beer, wine and spirits for sale and consumption at the Franchised Studio. You are responsible for complying with any federal, state, county, municipal, or other local laws and regulations relating to the sale and/or consumption of alcohol and liquor that may apply to your Franchised Studio.

4. **Leasehold Improvements** – You will need to employ a qualified licensed general contractor to construct the improvements to, or "build out," the premises who is acceptable to us. Our estimates are based on the assumption that the location is in a retail strip or in-line shopping center approximately 1,300 to 2,500 square feet, and that your lessor will provide a shell space that includes, at a minimum, a level concrete floor suitable for floor covering, demising walls, and air-conditioning, electricity, sewers, bathroom facilities, and water and plumbing suitable for a retail business. Among other things, you will probably need to arrange for the following items to meet our standard plans and specifications: proper wiring and plumbing, floor covering, wall covering, partitions, lighting and fixtures, storefront modifications, painting, cabinetry, and the like. Costs will vary depending upon various factors, including: the geographic location of your business; the size of the premises; the availability and cost of labor and materials; and the condition of the premises and the work that the lessor will do as a result of the lease negotiations. Lessors may, instead of constructing or installing some of the improvements itself, provide you with credits towards your future rent payments and/or a tenant improvement allowance. Our estimates do not account for any rental credits or tenant improvement allowance.

5. **Fixtures, Furnishings & Equipment** – As described in Item 8, you must purchase all fixtures, furnishings, equipment, signage and supplies that we specify as required for a Pinot's Palette Studio. *Fixtures, Furnishings and Equipment:* This estimate includes fixtures and equipment required for a Pinot's Palette Studio, including (without limitation) a custom reception desk, ice machine, dishwasher, lighting, audio/video equipment, among other fixtures, furnishings and equipment, including smallwares. This estimate also includes the cost of your office furniture, filing cabinet and miscellaneous office supplies, and equipment. *Signage:* This estimate also includes the costs for interior and exterior signage. The cost of signage may vary significantly depending on the location of your Franchised Studio, market

conditions and local codes. In some instances, the use of additional or larger signage may be possible, with our prior written approval. The costs of optional items are not included in the line item total above.

6. **Computer System** – As described in Item 11 under the heading “Computer System,” you must purchase or lease specified computers and related hardware necessary to operate the Franchised Studio from our affiliate, PASS. The estimate includes the costs for the items that we currently require. We may periodically require franchisees to update their computer systems to our then-current standards. We require you to use certain software, hardware and/or support services in connection with the operation of the Franchised Studio. We provide proprietary cloud, mobile and desktop based software for management of your Pinot’s Palette Studio for the cost of \$50 per month, as described in Item 6. See Item 11 under the heading “Computer System” for additional information.

7. **Architect/Engineering Fees** – We will provide you or the approved design firm and/or architect with our prototype plans and specifications for the construction of a Pinot’s Palette Studio and for the exterior and interior design and layout, fixtures, equipment, furnishings, and signs. You must hire a qualified and licensed architect and engineer to prepare all required construction plans and specifications to suit the shape and dimensions of the site. You must pay us \$400 for which we will have our architect consultant provide you with prototype drawings specific to your Approved Location that your architect will use for the preparation of construction drawings. You will be limited to three revisions of these prototype drawings prepared by our architect consultant. We have the right to designate one or more suppliers of design and/or architecture services to perform these services for our system. During any period that we have designated a design or architecture firm prior to the time you begin to develop your Franchised Studio, you must employ the designated supplier to prepare all designs and plans for the Franchised Studio. If we have not designated suppliers for design and architecture services for your geographic area, you must locate and employ a qualified architect and engineer who are licensed in your jurisdiction and who are reputable and experienced in providing design and architecture services. You will be responsible for paying for all design and architecture services. (with our approval as described below under the heading “Construction and Layout of Studio”). You are also responsible for compliance with all local and other requirements relating to the plans, including for example, zoning, code, and compliance with the Americans with Disabilities Act. As described in Item 11, we may from time to time develop or approve variations with respect to our prototype locations and plans.

8. **Rent, Security Deposits and Utility Deposits** – If you do not own a location for your Franchised Studio, you must purchase or lease a space. Locations for Pinot’s Palette Studios will typically need approximately 1,300 to 2,500 square feet. The estimate in the chart above includes your first month’s rent payment, security deposits and utility deposits (for example, telephone, electricity, and water). We have assumed the security deposit to your landlord will equal one month’s rent, although this may vary from landlord to landlord. The estimates assume that rent commences upon the Franchised Studio’s opening. You, however, will need to lease a space in advance to build-out the Franchised Studio. However, you may attempt to negotiate an abatement from the lessor for this period.

We anticipate that Pinot’s Palette Studios will typically be located in retail strip or in-line shopping centers in high traffic urban and suburban areas, preferably near large residential communities, office buildings and other commercial areas. Rent varies considerably from market to market, and from location to location within each market. Rents may vary beyond the range that we have provided, based on factors such as market conditions in the relevant area, the type and nature of improvements needed to the premises, the size of the site for the Franchised Studio, the terms of the lease, the desirability of the location, and your ability to negotiate with your lessor.

The estimates assume that you will lease the premises for your Franchised Studio and, therefore, do not include costs related to the purchase of land or the construction of any buildings. If you decide to

purchase the property for the location of your Franchised Studio, you will incur additional costs that we cannot estimate.

9. **Professional Fees** – The estimate assumes that you will employ an attorney to help you negotiate your lease for the Franchised Studio premises. In addition, you may choose to employ an attorney, accountant, and other consultants to help you evaluate our franchise offering and your establishment of a new business, and in obtaining all required permits and licenses to establish and operate the Franchised Studio. In addition, you may also form a corporation or other entity to operate the business. Your actual costs may vary substantially, for example, depending on the degree to which you rely upon your advisors and upon the licensing requirements that may apply to your Franchised Studio.

10. **Insurance Deposit** – The estimate represents an initial deposit for the coverage necessary to operate the business and represents approximately three months of coverage. Insurance costs will vary depending upon factors such as the size and location of the Franchised Studio. Your obligations with respect to insurance are more fully described in Item 8.

11. **Initial Inventory of Art and General Supplies** – These expenses include an initial inventory of art supplies, as well as general supplies. You will need to replenish your initial inventory on an as needed basis as supplies are used. The amount and cost of your initial and subsequent orders for all of these items will vary depending on various factors, including the size and anticipated volume of your Franchised Studio's sales and the frequency of your orders.

12. **Training Expenses** – You will incur expenses associated with our training program. For this training program, we provide instructors and instructional materials at no charge for up to three (3) persons, but you must pay for transportation, lodging, meals, wages, and worker's compensation insurance (if you send any employees) for your trainees. As to the amounts shown, the low end of the estimate assumes that the trainees are within driving distance to the training location, and the high end assumes that other travel will be needed, and includes travel expenses, although these may vary significantly depending upon factors such as the distance traveled and mode of transportation. Your costs will also vary depending on the nature and style of accommodations, and the number of persons who will attend training. See Item 11 under the heading "Training" for additional details regarding the program. If you are not proficient in the Microsoft Office Suite software (including Microsoft Word, Excel, PowerPoint and Outlook) and the QuickBooks software, you must take a course approved in advance by us, and at your expense, to obtain proficiency in such software.

13. **Grand Opening Advertising** – This advertising and marketing promotion is intended to provide initial awareness and momentum for your new Franchised Studio. You must spend a minimum \$10,000 on this advertising. Additional details regarding advertising and promotion can be found in Item 11, under the heading "Advertising."

14. **Additional Funds** – You will need additional capital to support on-going expenses, such as payroll, rent and utilities, to the extent that these costs are not covered by sales revenue. New businesses often generate a negative cash flow. We estimate that the amount shown in the chart above will be sufficient to cover on-going expenses for the start-up phase or initial period of the business, which we calculate to be three months. Such amounts are the minimum recommended levels and are only estimates. There is no assurance that additional working capital will not be necessary during this initial period or after. Your actual costs may vary considerably, depending, for example, on factors such as: local economic conditions; the local market for our product and service; the prevailing wage rate; competition; the sales level achieved during the initial period of operation; and your management and training experience, skill, and business acumen. You should review these figures carefully with a business advisor before making any decision to purchase the franchise. You should take into account the

cash outlays and probable losses that you may incur while you are trying to get established. The disclosure laws require us to include this estimate of all costs and expenses to operate your franchise during the “initial period” of your business, which is defined as three months or a longer period if “reasonable for the industry.” We are not aware of any established longer “reasonable period” for our industry, so our disclosures cover a three month period.

Estimated Initial Investment for Your Franchised Mobile Studio

Type of Expenditure (Note 1)	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fee (Note 2)	\$5,000 to \$7,500	Lump sum	When you sign the Franchise Agreement	Us
Business Licenses & Permits	\$0 to \$2,000	As arranged	As incurred	Local and other state government agencies
Initial Inventory of Equipment and Supplies (Note 3)	\$2,500 to \$4,500	As arranged	As incurred	Us and Approved Suppliers
Computer and Point of Sale System (Note 4)	\$0 to \$500	As arranged	As incurred	Us and Approved Suppliers
Rent and Security Deposits (Note 5)	\$0 to \$200	As arranged	As arranged	Lessor, Utility companies
Additional Insurance Deposit	\$0 to \$500	As arranged	As arranged	Insurance providers
Training Expenses	\$0 to \$2,000	As arranged	Payment terms arranged with suppliers and your employees	Us, Suppliers and your employees
Vehicle (Note 6)	\$0 to \$1,000	As arranged	As needed	Suppliers
Vehicle Signage (Note 7)	\$3,500 to \$4,500	As arranged	As needed	Suppliers
Grand Opening Advertising (Note 8)	\$5,000 to \$10,000	As arranged	As arranged	Suppliers
Additional Funds (for the initial 3 months of operations) (Note 9)	\$0 to \$3,300	As arranged	As needed	Us and/ or affiliates, Suppliers, employees and other creditors

Type of Expenditure (Note 1)	Amount	Method of Payment	When Due	To Whom Payment is to be Made
TOTAL ESTIMATED INITIAL INVESTMENT	\$16,000 to \$36,000			

Explanatory Notes to the above Item 7 Table:

1. **General** – See Note 1 above with respect to expenses related to the establishment of a single Pinot’s Palette Studio. You may only operate a Franchised Mobile Studio in connection with your Franchised Studio. All fees and amounts that you must pay to us are non-refundable.

2. **Mobile Studio Franchise Fee** – At your option, you may enter into an addendum to the Franchise Agreement which will grant you the right to operate a Franchised Mobile Studio in connection with the Franchised Studio at customer residences, places of business, or other suitable off-site venues. When you sign this addendum to the Franchise Agreement, you must pay us a Mobile Studio Franchise Fee of \$7,500. You may operate a maximum of two Mobile Studio Vehicles in connection with the Franchised Studio, subject to the payment of a Mobile Studio Franchise Fee and the execution of a Franchise Agreement addendum for each Mobile Studio Vehicle. When franchisees choose to sign the Franchise Agreement addendum to operate a Franchised Mobile Studio at the same time as signing the Franchise Agreement to operate a Pinot’s Palette Studio, the Mobile Studio Franchise Fee will be reduced to \$5,000. If franchisees choose to sign two Franchise Agreement addendum for the maximum operation of two Mobile Studio Vehicles at the same time as signing the Franchise Agreement to operate a Pinot’s Palette Studio, the Mobile Studio Franchise Fee for the second Mobile Studio Vehicle will be reduced to \$2,500. If franchisees choose to delay the signing of the Franchise Agreement addendum to operate a Franchised Mobile Studio until after such date, they must pay the full \$7,500 Mobile Studio Franchise Fee for each Mobile Studio Vehicle.

3. **Equipment and Supplies** – As described in Item 8, you must purchase all equipment and supplies that we specify as required for a Franchised Mobile Studio. This estimate includes the initial inventory of tables, chairs, audio and video equipment, canvases, paint brushes, paint, among other items. The costs of optional items are not included in the line item total above.

4. **Computer System** – You may purchase, at your option, a smart phone or other mobile device and applications to process credit card payments off-site and for other purposes.

5. **Rent and Security Deposits** – If you do not own a facility to store the equipment and supplies for your Franchised Mobile Studio, you may need to rent a storage facility. This estimate includes the initial cost of renting such storage facility.

6. **Franchised Mobile Studio Vehicle** – Prior to commencing operations of your Franchised Mobile Studio, you must purchase or lease (or have purchased or leased) a Mobile Studio Vehicle. This estimate includes only your down payment to purchase or lease for one such vehicle. Each Mobile Studio Vehicle shall be of the make and model specified and/or approved by us, and be fully equipped and affixed with signage in complete compliance with our standards and specifications, as set forth in the Manuals or otherwise in writing. Our current specifications require that your Mobile Studio Vehicle be a cargo van capable of seating five passengers, with a cargo area that is eight feet deep, four feet tall and five feet wide. We have approved the Ford E-2500 Extended Cab van as an approved make and model. You must

maintain a suitable place for the parking or garaging of the Mobile Studio Vehicle(s) and you must clean and maintain the Mobile Studio Vehicle(s) in accordance with our standards to present a professional appearance. You must, at your expense, repair and replace decals and signage affixed to your Mobile Studio Vehicle(s) as necessary to maintain it in first class condition and repair. You must replace the Mobile Studio Vehicle(s), as we direct, in our sole discretion, in the case that it has become in disrepair and unreliable. You must maintain all permits, licenses and certifications required for the lawful operation of the Mobile Studio Vehicle(s), and certify in writing that all such permits, licenses, and certifications have been obtained. You may operate a maximum of two Mobile Studio Vehicles in connection with the Franchised Mobile Studio, subject to the payment of a Mobile Studio Franchise Fee and the execution of a Franchise Agreement addendum for each Mobile Studio Vehicle.

7. **Vehicle Signage** – This estimate includes the signage wrap we require for all Mobile Studio Vehicles.

8. **Grand Opening Advertising** – This advertising and marketing promotion is intended to provide initial awareness and momentum for your new Franchised Mobile Studio. You must spend a minimum of \$5,000 on this advertising. Additional details regarding advertising and promotion can be found in Item 11, under the heading “Advertising.”

9. **Additional Funds** – See Note 14 above with respect to expenses related to the establishment of a single Pinot’s Palette Studio

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

To insure that the highest degree of quality and service is maintained, you must operate the Franchised Studio and Franchised Mobile Studio in strict conformity with the methods, standards, and specifications as we may from time to time prescribe in the Manuals or otherwise in writing.

Products and Other Purchases

General

All products and services sold or offered for sale at the Franchised Studio and Franchised Mobile Studio must meet our then-current standards and specifications and be approved by us. You must purchase, install, and use all fixtures, furnishings, equipment, décor, supplies, computers and communications hardware and software, signs and materials as we may reasonably require in the Manuals or other written materials (collectively, “**Studio Items**”). You must purchase all additional products and other Studio Items solely from manufacturers, distributors, and suppliers who demonstrate to our continuing reasonable satisfaction the ability to meet our standards and specifications, who possess adequate quality controls and capacity to supply your needs promptly and reliably, and who have been approved by us in the Manuals or otherwise in writing. You may not purchase, offer or sell any product or service, or use at your Franchised Studio or Franchised Mobile Studio any product or service or Studio Items, that we have not previously approved as meeting our standards and specifications. We and our affiliates have the right to be an approved supplier of any Studio Item. We may disapprove of product, service or supplier based on our desire to consolidate System purchases through fewer suppliers. We may designate a single supplier, which may be us or one of our affiliates, for any products, equipment, supplies, or services, in which event you must purchase such items exclusively from us, our affiliate, or the designated supplier.

If you desire to purchase unapproved products or services (except for Proprietary Products, which are discussed below) or Studio Items from other than approved suppliers, you must submit to us a written request to approve the proposed product, service or supplier, together with such evidence of conformity with our specifications as we reasonably require. We will have the right to require that our representatives be permitted to inspect the supplier's facilities and that samples from the supplier be delivered for evaluation and testing either to us or to an independent testing facility designated by us. You must pay a charge, not to exceed the reasonable cost of the evaluation and testing. We will complete our review within six months. If we do not give our written approval within this six month period, we will be deemed to have disapproved the proposed new supplier. We may, from time to time, revoke our approval of particular products or services, Studio Items or suppliers if we determine, in our sole discretion, that the product, service or supplier no longer meet our standards. Upon receipt of written notice of such revocation, you must cease to sell any disapproved product or service and/or cease to purchase from any disapproved supplier.

Our specifications either: (1) are contained in the Manuals; or (2) will be provided to you upon request. We, however, have no obligation to make available to prospective suppliers the standards and specifications that we deem confidential. When approving suppliers, we consider whether they demonstrate the ability to meet our standards and specification and whether they possess adequate quality controls and capacity to supply your needs promptly and reliably. However, our approval may be withheld for any reason.

We estimate that your purchases from approved suppliers will represent approximately 60% to 80% of your total purchases in establishing the Franchised Studio and Franchised Mobile Studio, and approximately 60% to 80% in the continuing operation of the Franchised Studio and Franchised Mobile Studio. We also estimate that your purchases that must conform to our specifications will represent approximately 80% to 100% of your total purchases in establishing the Franchised Studio and Franchised Mobile Studio, and approximately 80% to 100% of your total purchases in the continuing operation of the Franchised Studio and Franchised Mobile Studio.

We may establish strategic alliances or preferred vendor programs with suppliers that are willing to supply some products, equipment, or services to some or all of the Pinot's Palette Studios in our System. If we do establish those types of alliances or programs, we may limit the number of approved suppliers with whom you may deal, we may designate sources that you must use for some or all products, equipment and services, and we may refuse to approve proposals from franchisees to add new suppliers if we believe that action would not be in the best interests of the System or the franchised network of Pinot's Palette Studios. There are currently no purchasing or distribution cooperatives in our System.

We and/or our affiliates may receive payments or other compensation from suppliers on account of the suppliers' dealings with us, you, or other Pinot's Palette Studios in the System. We may use any amounts that we receive from suppliers for any purpose that we deem appropriate. We and/or our affiliates may negotiate supply contracts with our suppliers under which we are able to purchase products, equipment, supplies, services and other items at a price that will benefit us and our franchisees.

We provide no material benefits to franchisees based on their use of suppliers or sources we approve.

With the exception of our officer's ownership interest in our affiliate, PASS, no officer of ours has an interest any approved supplier.

If you choose to operate a Franchised Mobile Studio, prior to commencing operations you must purchase or lease (or have purchased or leased) a Mobile Studio Vehicle. Each Mobile Studio Vehicle

shall be of the make and model specified and/or approved by us, and be fully equipped and affixed with signage in complete compliance with our standards and specifications, as set forth in the Manuals or otherwise in writing. Our current specifications require that your Mobile Studio Vehicle be a cargo van capable of seating five passengers, with a cargo area that is eight feet deep, four feet tall and five feet wide. We have approved the Ford E-2500 Extended Cab van as an approved make and model. You must maintain a suitable place for the parking or garaging of the Mobile Studio Vehicle(s) and you must clean and maintain the Mobile Studio Vehicle(s) in accordance with our standards to present a professional appearance. You must, at your expense, repair and replace decals and signage affixed to your Mobile Studio Vehicle(s) as necessary to maintain it in first class condition and repair. You must replace the Mobile Studio Vehicle(s), as we direct, in our sole discretion. You must maintain all permits, licenses and certifications required for the lawful operation of the Mobile Studio Vehicle(s), and certify in writing that all such permits, licenses, and certifications have been obtained. You may operate a maximum of two Mobile Studio Vehicles in connection with the Franchised Mobile Studio, subject to the payment of a Mobile Studio Franchise Fee and the execution of a Franchise Agreement addendum for each Mobile Studio Vehicle.

We administer a painting rewards program, under which the following described fee is paid to an artist who creates a painting that is added to our master library of paintings franchisees may use for classes in their Pinot's Palette Studio. Each time such painting is used by any Pinot's Palette Studio for a class, the artist receives \$5. In the case that the artist is no longer conducting classes in our System, the fee is forwarded to the franchisee who's Pinot's Palette Studio originated the painting. This fee is also paid to an artist who creates a painting that goes into the local library of a Pinot's Palette Studio in the same fashion.

Proprietary Products

The "**Proprietary Products**" that are or may be offered and sold in Pinot's Palette Studios are manufactured in accordance with our proprietary specifications. In order to maintain the high standards of quality and uniformity associated with Proprietary Products sold at all Pinot's Palette Studios in the System, you must purchase Proprietary Products only from the suppliers and distributors that we designate in our sole discretion, and you may not offer or sell any Proprietary Products that have not been purchased from us or our designated supplier at or from the Franchised Studio or Franchised Mobile Studio. We will have the right to periodically introduce additional Proprietary Products, or to withdraw Proprietary Products.

Currently, you must purchase all of the following Studio Items from our affiliate, PASS: branded apparel, glassware, marketing collateral, gift certificates, easels, tables, seating, ice machine, frames, canvases, point of sale computer system, and audio/video equipment, among other products and supplies. We may add or delete Studio Items you must purchase from our affiliate, PASS, in our sole discretion. Prior to opening your Pinot's Palette Studio, you must purchase such Studio Items at a cost in the range of \$10,000 to \$20,000.

For the year ending December 31, 2013, total revenue of our affiliate, PASS, from all sources was \$56,051, of which 100% was received from purchases of Studio Items by franchisees.

Prior to the formation of our affiliate, PASS, the above described Studio Items were purchased directly from us. For the year ending December 31, 2013, our total revenue from all sources was \$1,205,412, of which \$390,653 or approximately 32.41% was received from purchases of Studio Items by franchisees.

Computer System

As described in Item 11 under the heading “Computer System,” you must purchase or lease specified computers and related hardware necessary to operate the Franchised Studio from us. The estimate includes the costs for the items that we currently require. We may periodically require franchisees to update their computer systems to our then-current standards. We require you to use certain software, hardware and/or support services in connection with the operation of the Franchised Studio. We provide proprietary cloud, mobile and desktop based software for management of your Pinot’s Palette Studio. Currently, such software is provided to you at a cost of \$50 per month payable to us, as described in Item 6. See Item 11 under the heading “Computer System” for additional information.

Insurance

You also must obtain, before beginning any operations under the Franchise Agreement, and must maintain in full force and effect at all times during the term of the Franchise Agreement, at your own expense, an insurance policy or policies protecting you, us, our affiliates, and our respective officers, directors, partners, and employees. The policies must provide protection against any demand or claim relating to personal and bodily injury, death, or property damage, or any liability arising from your operation of the Franchised Studio and Franchised Mobile Studio. Required insurance will include, but not be limited to, comprehensive general liability coverage, including employment practices coverage; personal injury coverage; automobile coverage, including underinsured or uninsured coverage; business interruption insurance; and property damage coverage. All policies must be written by a responsible carrier or carriers whom we determine to be acceptable, must name us and our affiliates as additional insureds, and must provide at least the types and minimum amounts of coverage specified in the Franchise Agreement or otherwise in the Manuals. Additionally, we may designate one or more insurance companies as the insurance carrier(s) for Pinot’s Palette Studios. If we do so, we may require that you obtain your insurance through the designated carrier(s).

Presently we require you to maintain the following minimum insurance amounts: (1) builder’s risk insurance during any periods of construction or renovation; (2) all risks coverage for full repair and replacement value of all of the equipment, fixtures and supplies used in your Franchised Studio; (3) worker’s compensation and employer’s liability insurance, as well as any other insurance required by law; (4) comprehensive general liability insurance with limits of at least \$1,000,000 per occurrence, and \$2,000,000 general aggregate, including the following coverages: personal injury (employee and contractual inclusion deleted); employment practices; products/completed operation; and tenant’s legal liability; (5) automobile liability insurance, and property damage liability, including owned, non-owned, and hired vehicle coverage, with at least \$1,000,000 combined single limit; (6) liquor liability coverage for third party bodily injury and property damage arising out of the sale or distribution of liquor with limits of at least \$1,000,000 combined single limit, and \$1,000,000 general aggregate limit; (7) excess liability coverage over general liability, automobile liability, and employer’s liability, with at least \$4,000,000 per occurrence; (8) insurance coverage required by your lease or sublease, or as we may otherwise require; and (9) business interruption insurance for actual losses sustained of no less coverage than \$1,000,000 per occurrence.

We do not derive revenue as a result of our franchisees purchasing insurance coverage from designated carriers. We provide no material benefits to franchisees based on their use of an approved insurance carrier.

Leases

If you will occupy the premises of your Franchised Studio under a lease, then you must, before executing the lease, submit the lease to us for our review and approval, which will not be unreasonably withheld. Your lease or sublease (or rider to the lease or sublease) must contain the lease terms and conditions that we may reasonably require in writing, a current list of which is included as an Exhibit to the Franchise Agreement and the Area Development Agreement (see Item 22). We do not derive revenue or other material consideration as a result of our franchisees leasing space for the Franchised Studio. We provide no material benefits to franchisees for leasing any particular space for the Franchised Studio.

Design and Construction

You must hire a licensed architect to prepare all required construction plans and specifications to suit the shape and dimensions of the site. We have the right to designate one or more suppliers of design and/or architecture services to perform these services for our system. During any period that we have designated a design or architecture firm prior to the time you begin to develop your Franchised Studio, you must employ this designated supplier to prepare all designs and plans for the Franchised Studio. If we have not designated suppliers for design and architecture services for your geographic area, you must locate and employ a qualified design consultant and architect who are licensed in your jurisdiction and who are reputable and experienced in providing design and architecture services. (see Item 11 under the subheading “Construction and Layout of Studio” for additional information)

You must pay us \$400 for which we will have our architect consultant provide you with prototype drawings specific to your Approved Location that your architect will use for the preparation of construction drawings. You will be limited to three revisions of these prototype drawings prepared by our architect consultant.

You must hire a qualified licensed general contractor, who is acceptable to us, to construct the Franchised Studio.

We do not derive revenue or other material consideration as a result of our franchisees using a designated architect or contractor. We provide no material benefits to franchisees based on their use of a designated architect or contractor.

Advertising

As noted in Item 11 below, we will have the right to review and approval all marketing plans and promotional materials that you propose to use. You may not implement any marketing plan or use any promotional material without our prior written consent

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.

Obligation	Section(s) in Franchise Agreement	Section(s) in Area Development Agreement	Item in Disclosure Document
(a) Site selection and acquisition / lease	Section 5	3.2, 3.3 and 5.1	7, 8 and 11
(b) Pre-opening purchases/leases	Section 5	3.2 and 3.3	7, 8 and 11
(c) Site development and other pre-opening requirements	Section 5	3	7, 8 and 11
(d) Initial and ongoing training	Section 6	5.5	6, 7 and 11
(e) Opening	Section 5	1.1, 3.1, 3.2, and Exhibit A	7, 8 and 11
(f) Fees	Sections 4 and 13	4 and 7.4	5 and 6
(g) Compliance with standards and policies/Operating Manual	Sections 8, 10, and 13	5	8, 11, and 14
(h) Trademarks and proprietary information	Sections 8.8, 8.11, 9, and 10.2	1.4	13 and 14
(i) Restrictions on products/services offered	Sections 1.3, 8.6, 8.7 and 8.8	1	5, 8 and 16
(j) Warranty and customer service requirements	Sections 8.9 and 23	None	16
(k) Territorial development and sales quotas	Section 1 and Exhibit A	1, 3.2 and Exhibit A	12
(l) On-going product/service purchases	Section 8	None	8
(m) Maintenance, appearance and remodeling requirements	Sections 5 and 8	None	8
(n) Insurance	Section 14	None	7 and 8
(o) Advertising	Section 13	None	6, 7, 8, and 11
(p) Indemnification	Section 21.4	12.4	None
(q) Owner's participation / management and staffing	Sections 8.3 and 8.4	5.2	15
(r) Records/reports	Section 12	5.3 and 5.4	6
(s) Inspections/audits	Section 8.10	5.4	6 and 11

Obligation	Section(s) in Franchise Agreement	Section(s) in Area Development Agreement	Item in Disclosure Document
(t) Transfer	Section 15	7	17
(u) Renewal	Section 2.2	None	17
(v) Post-termination obligations	Sections 17 and 18.3	6.6	17
(w) Non-competition covenants	Section 18	8	17
(x) Dispute resolution	Section 27	16	17
(y) Liquidated Damages	None	None	

**ITEM 10
FINANCING**

We do not offer direct or indirect financing. We do not guarantee your notes, leases or other obligations.

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

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

Pre-opening Obligations

Under the Franchise Agreement. Before you open your Franchised Studio:

1. We will approve or deny your proposed site for each Franchised Studio. (Franchise Agreement, Section 5.1)
2. We will provide you with our standard initial training program for up to three (3) persons (unless you are an Area Developer and the Franchise Agreement is for your fourth or subsequent Franchised Studio) including one manager. (Training is also discussed below in this Item 11 under the subheading "Training.") We will be responsible for the cost of instruction and materials. (Franchise Agreement, Sections 3.2, 6)
3. We will provide you or the approved design firm and/or architect with our prototype plans and specifications for the construction of a Pinot's Palette Studio and for the exterior and interior design and layout, fixtures, equipment, furnishings, and signs. You must pay us \$400 for which we will have our architect consultant provide you with prototype drawings specific to your Approved Location that your architect will use for the preparation of construction drawings. You will be limited to three revisions of these prototype drawings prepared by our architect consultant. You must hire a qualified and licensed architect and engineer to prepare all required construction plans and specifications to suit the shape and dimensions of the site. We have the right to designate one or more suppliers of design and/or architecture services to perform these services for our system. During any period that we have designated

a design or architecture firm prior to the time you begin to develop your Franchised Studio, you must employ the designated supplier to prepare all designs and plans for the Franchised Studio. If we have not designated suppliers for design and architecture services for your geographic area, you must locate and employ a qualified architect and engineer who are licensed in your jurisdiction and who are reputable and experienced in providing design and architecture services. You will be responsible for paying for all design and architecture services. (with our approval as described below under the heading “Construction and Layout of Studio”). You must also hire a contractor to build the Franchised Studio in accordance with those approved plans. You are also responsible for compliance with all local and other requirements relating to the plans, including for example, zoning, code, and compliance with the Americans with Disabilities Act. (Franchise Agreement, Sections 3.1, 5.3)

4. We have the right to inspect and approve the Franchised Studio for opening before the initial opening. You may not start operation of your Franchised Studio until receiving our approval to do so. (Franchise Agreement, Section 5.3, 5.4)

5. We will provide on-site pre-opening and opening supervision and assistance. (Franchise Agreement, Section 3.3)

6. We will lend you, for the duration of the Franchise Agreement, copies of the Manual (which is more fully described in Item 14 below). (Franchise Agreement, Section 3.4)

7. We will assist you in developing a Grand Opening Advertising Program (which is more fully described in Item 7 of this Disclosure Document and in this Item under “Advertising”); you will be responsible for the cost of this program. (Franchise Agreement, Sections 3.6, 13.5)

8. We will provide you a list of our then-current designated or approved suppliers. (Franchise Agreement, Section 3.9)

Under the Area Development Agreement: Before you open the Franchised Studio:

1. We will approve or deny your proposed site for each Franchised Studio. (Area Development Agreement, Section 3.2)

2. We will provide you with site selection guidelines, including our minimum standards for studio sites, and other site selection counseling and assistance as we deem appropriate. (Area Development Agreement, Section 5.1)

3. If we determine that on-site evaluation is appropriate, we will, at no charge to you, provide you with such on-site evaluations as we consider advisable for each Franchised Studio to be developed under the Development Schedule. (Area Development Agreement, Section 5.1)

We are not required by the Franchise Agreement or Area Development Agreement to furnish any other service or assistance to you before the opening of your Franchised Studio.

Continuing Obligations

We are required by the Franchise Agreement to provide certain assistance and service to you. During the operation of your Franchised Studio:

1. We will conduct, as we deem advisable, periodic inspections of the Franchised Studio and provide evaluations of the products and services rendered at the Franchised Studio. (Franchise Agreement, Sections 3.8, 8.7.2, 8.7.3)

2. We will make available additional training programs, as we deem appropriate. (Franchise Agreement, Sections 6.4, 6.7)

3. We will give you periodic and continuing advisory assistance as to the operation and promotion of the Franchised Studio, as we deem advisable. (Franchise Agreement, Section 3.7)

4. We will have the right, in our sole discretion, to establish and administer the System Ad Fund as stated in the Franchise Agreement and as described below in this Item 11. (Franchise Agreement, Section 13.2)

The Franchise Agreement does not require us to provide any other assistance or services to you during the operation of the Franchised Studio. As the Area Development Agreement relates to the development of Franchised Studios, the Area Development Agreement does not require us to provide any other assistance or services during the operation of the Franchised Studio.

Site Selection

Under the Franchise Agreement

If you do not already possess a location that we find acceptable for a Pinot's Palette Studio when you sign our Franchise Agreement, we will provide you with procedures for locating, evaluating, and obtaining our approval of a site. You will be given up to three (3) months in which to find and secure a suitable site (through lease or purchase) for your Pinot's Palette Studio within the area that we designate as your designated site selection area. In the event you do not find and secure a suitable site within this time frame we may terminate the Franchise Agreement and you will receive no refund of any fees paid. In order for us to review a proposed site for approval, you must submit to us a completed site approval package in a form specified by us, which includes a trade area and site marketing research analysis (prepared by a company approved in advance by us), an option contract, letter of intent or other evidence satisfactory to us that describes your favorable prospects for obtaining such site, photographs of the site, demographic statistics, and other such other information or materials that we may reasonably require (collectively, the "SAP"). We will have 20 business days after we receive the SAP from you to approve or disapprove, in our sole discretion, the proposed location for the Franchised Studio. You must, on terms that we deem acceptable, secure a lease or a binding agreement for the purchase of the approved site. The lease or purchase agreement must be submitted to us for our approval prior to its signing. Under any of the above circumstances, you must be opened and operating the earlier of six (6) months following the execution of the Franchise Agreement or three (3) months following the time you leased or acquired the Approved Location. In the event you do not open within this time frame we may terminate the Franchise Agreement and you will receive no refund of any fees paid.

You will be required to obtain all necessary and applicable alcoholic beverage permitting and licensing or any other permitting or licensing that will allow your customers to bring (and consume) their own beer, wine or spirits to the Franchised Studio. In the event such licensing or permitting is not available in your jurisdiction, in the alternative we will require you to obtain all necessary and applicable alcoholic beverage permitting and licensing to offer beer, wine and spirits for sale and consumption at the Franchised Studio. You are responsible for complying with any federal, state, county, municipal, or other local laws and regulations relating to the sale and/or consumption of alcohol and liquor that may apply to

your Franchised Studio. If any such licensing or permitting is required, you will be provided an additional three (3) three months to open.

Under an Area Development Agreement

For each proposed site for a Franchised Studio to be developed under the Area Development Agreement, you must also submit to us a completed SAP. We will have 20 business days after we receive the SAP from you to approve or disapprove, in our sole discretion, the location for the Franchised Studio. You must, on terms that we deem acceptable, secure a lease or a binding agreement for the purchase of the approved site.

Under the Franchise Agreement and Area Development Agreement, we will be deemed to have disapproved a proposed location unless we have expressly approved it in writing. In approving a location for a Franchised Studio, we consider the location, neighborhood, traffic patterns, visibility, parking facilities, size, lease, and zoning. If you do not locate and secure an acceptable site within the required time frames, you will be in default of your agreement with us for which we may terminate your agreement.

Under the Franchise Agreement and Area Development Agreement, our approval (or failure to disapprove) of a site does not constitute an assurance, representation, or warranty of any kind, express or implied, as to the suitability of the site for the Franchised Studio or for any other purpose, or as to any expected level of sales, revenues or profits. Approval by us of the site indicates only that the site meets the minimum requirements for a Pinot's Palette Studio location.

Construction and Layout of Studio

You are responsible for developing your Franchised Studio. We will provide our standard plans and specifications for a Pinot's Palette Studio, including interior design and layout, to you or to the design firm or architect that we have designated or approved (as described below). You must pay us \$400 for which we will have our architect consultant provide you with prototype drawings specific to your Approved Location that your architect will use for the preparation of construction drawings. You will be limited to three revisions of these prototype drawings prepared by our architect consultant. These prototype drawings are not intended, with respect to your particular location, to contain, address or comply with the requirements of any federal, state or local law, code or regulation, including those concerning the Americans with Disabilities Act (the "ADA") or similar rules governing public accommodations for persons with disabilities. We may from time to time change our prototypes and plans (including our specifications for the interior and exterior appearances) of Pinot's Palette Studios, and develop or approve variations on our prototypes and plans to reflect locations with differing sizes, structural elements, visibility and other relevant factors.

You must hire a qualified and licensed architect and engineer to prepare all required construction plans and specifications to suit the shape and dimensions of the site. We have the right to designate one or more suppliers of design and/or architecture services to perform these services for our system. During any period that we have designated a design or architecture firm prior to the time you begin to develop your Franchised Studio, you must employ the designated supplier to prepare all designs and plans for the Franchised Studio. If we have not designated suppliers for design and architecture services for your geographic area, you must locate and employ a qualified architect and engineer who are licensed in your jurisdiction and who are reputable and experienced in providing design and architecture services. You will be responsible for paying for all design and architecture services.

You will be solely responsible for ensuring that such plans and specifications comply with the ADA and all other applicable regulations, ordinances, building codes and permit requirements and with lease or sublease requirements and restrictions, if any. You must submit final plans and specifications to us for approval before construction of the Franchised Studio begins. Our review is not designed to assess compliance with federal, state or local laws and regulations and is limited to review of such plans to access compliance with our design standards for Pinot's Palette Studios, including such items as trade dress, presentation of Proprietary Marks, and the provision to the potential customer of certain products and services that are central to the functioning of Pinot's Palette Studios.

Opening of Franchised Studio

We estimate that the time period between the signing of the Franchise Agreement and the start of operations will be approximately three (3) to six (6) months. Factors that may affect this time period include your ability to obtain financing or building permits, zoning and local ordinances, weather conditions, shortages, or delayed installation of equipment, fixtures and signs. Unless we agree in writing otherwise, you must conduct the opening of your Franchised Studio by the earlier of six (6) months following the execution of the Franchise Agreement or three (3) months following the time you leased or acquired the Approved Location. In the event you do not open within this time frame we may terminate the Franchise Agreement and you will receive no refund of any fees paid. If a liquor license is required in order for you to operate the Franchise Studio, you will be provided an additional three (3) three months to open.

Computer System

You will need to acquire (either by purchase or lease) the computer hardware and software system (a "**Computer System**") that we may specify from time to time. (Franchise Agreement, Section 7.1.) The term Computer System refers to cash register or point of sale systems, hardware, software for the management and operation of the Franchised Studio and for reporting and sharing information with us, as well as communication systems (including modems, cables, etc.). Our requirements may fluctuate as does the price and availability of new computer technology. As of the date of this Disclosure Document our requirements are described below. We have not approved any hardware or software in place of these systems and programs, although we reserve the right to do so in the future.

The Computer System includes two desktop computers, with the following minimum specifications:

- Processor: Intel
- Hard Drive: 120 GB
- Monitor with touch screen capabilities
- Memory: 2 GB
- Wireless Network Adaptor for broadband internet access, along with cellular service
- Operation System: Microsoft Windows 7, or more recent version
- Media Drive: CDROM/DVDRW
- Other Items: Internet Ready Network Card, Mouse, Keyboard
- Software: QuickBooks Pro, Microsoft Office Suite and Internet Explorer
- Multi-Function Printer
- Credit Card Processing Equipment.

You must buy your Computer System from our affiliate, PASS. The total cost for the Computer System is approximately \$2,000 to \$3,500. We may require you to purchase additional equipment

depending on the size of your Franchised Business. Other than the Computer System, we have not approved any hardware or software in place of these systems and programs, although we reserve the right to do so in the future.

We provide proprietary cloud, mobile and desktop based software for management of your Pinot's Palette Studio. Such software is provided to you at a cost of \$50 per month, as described in Item 6.

We will have independent access to information generated and stored on your Computer System.

The hardware and software, other than our proprietary cloud, mobile and desktop based software, that we currently use is not proprietary to us, but is proprietary property to the vendors described above and you may be required to sign a license or maintenance agreement in order to obtain and use this software. In the future, we may require you to sign a license or maintenance agreement in order to obtain and use our proprietary software. We currently do not require that you maintain contracts for hardware and software maintenance, support and upgrade services for the Computer System. You will be required to maintain a high-speed internet connection at all times (i.e., T1 line, DSL, cable modem).

We reserve the right to change our specifications in the future to take advantage of technological advances or to adapt the system to meet operational needs and changes. We may require you to bring any computer hardware and software, related peripheral equipment, communications systems into conformity with our then-current standards for new Pinot's Palette Studios. Other than providing you with information regarding our specifications and requirements for the Computer System, we are not required to assist you in obtaining hardware, software or related services, with the exception of the software we provide. We will endeavor to keep these changes infrequent and reasonable in cost, but the Franchise Agreement does not impose a limit as to the number or cost of such changes to the Computer System.

You must provide us with access to your Computer System in the form and manner that we may request. We reserve the right to download sales, other data and communications from your Computer System. There is no contractual limitation on our right to receive this information. We will exclusively own all data provided by you, downloaded from your Computer System, and otherwise collected from your Computer System. We will have the right to use such data in any manner that we deem appropriate without compensation to you.

We will also have the right to establish a website or other electronic system providing private and secure communications (e.g., an extranet or intranet) between us, our franchisees, and other persons and entities that we determine appropriate, which requires you to have high speed internet access at all times. If we require, you must establish and maintain access to the extranet or intranet in the manner we designate. Additionally, we may from time to time prepare agreements and policies concerning the use of the intranet that you must acknowledge and/or sign. (Franchise Agreement, Section 7.5)

Advertising

Recognizing the value of advertising, and the importance of the standardization of advertising programs to the furtherance of the goodwill and public image of the System, we reserve the right to require that you spend certain amounts on advertising and promotion each year during the term of the Franchise Agreement (the "**Advertising Obligation**"). The primary source of advertising will be in-house.

We will determine what proportion of the Advertising Obligation you must: (1) contribute to a fund for the system-wide advertising, promotion and marketing of the System (the "**System Ad Fund**");

(2) contribute to a regional or market advertising fund (if one is established for your region (a “Cooperative Ad Fund”)); or (3) spend on “local advertising and promotion.” No matter how we determine to split your Advertising Obligation, the total amount you must pay or spend may only exceed four percent (4%) of the Net Sales of your Franchised Studio, if the Cooperative Ad Fund you must contribute to chooses a contribution that would cause your Advertising Obligations to exceed four percent (4%). (Section 13.1 of Franchise Agreement.) Our affiliate-owned Pinot’s Palette Studios may, but are not obligated to, contribute to the System Ad Fund or Cooperative Ad Fund on the same basis as franchisees in the System, generally, are required to contribute.

System Ad Fund

For the year ending December 31, 2013, the System Ad Fund was spent in the following manner: 20% on creative and advertising copy, 20% on search and online optimization, 20% national media advertising, 20% national public relations, and 20% customer support and consulting.

We (or our designee, which might be a corporate subsidiary or an advertising agency or consulting firm) will maintain and administer the System Ad Fund, as follows:

- (a) We (or our designee) will direct all advertising programs, with the sole right to decide the concepts, materials, and media used in these programs and the placement and allocation of the programs. The System Ad Fund is intended to maximize general public recognition, acceptance, and use of the System. Neither we nor our designee will be obligated to make expenditures for you that are equivalent or proportionate to your contribution, or to ensure that any particular franchisee benefits directly or *pro rata* from expenditures by the System Ad Fund. There is no requirement that we spend any amount on advertising in your Territory or Development Area.
- (b) The System Ad Fund, and all contributions to and earnings from the System Ad Fund, will be used exclusively to meet the costs of marketing and any other activities that we believe will enhance the System’s image and, in our sole discretion, promote general public awareness of and favorable support for the System. This includes, among other things, the costs of preparing and conducting media advertising campaigns; direct mail advertising; marketing surveys and other public relations activities; developing and maintaining our Website (except for the portion, if any, specifically relating to soliciting franchisees); employing advertising or public relations agencies; purchasing promotional items, conducting and administering visual merchandising, point of sale, and other merchandising programs; and providing promotional and other marketing materials and services to the Pinot’s Palette Studios operated under the System.
- (c) You must contribute to the System Ad Fund by EFT (electronic funds transfer) at the same time as the Royalty Fee is due. All sums you pay to the System Ad Fund will be maintained in an account separate from our other monies. The System Ad Fund is not and will not be our asset, and we or our designee will maintain separate bookkeeping accounts for the System Ad Fund. We will have the right to charge the System Ad Fund for the reasonable administrative costs and overhead that we incur in activities reasonably related to the direction and implementation of the System Ad Fund and advertising programs for you and the System (for example, salaries, costs of our personnel for creating and implementing, associated overhead, advertising, merchandising, promotional and marketing programs). The System Ad Fund and its earnings will not otherwise inure to our benefit or be used to solicit the sale of franchises.

- (d) We may make available to franchisees, from time to time, marketing plans and promotional materials, including newspaper mats, coupons, merchandising materials, sales aids, point-of-purchase materials, special promotions, direct mail materials, and similar marketing and promotional materials produced from contributions to the System Ad Fund. Additionally, we may sell such items to franchisees in the System at a reasonable price (a 5% to 10% mark-up over our actual cost of such items), and any proceeds from any those sales will be contributed to the System Ad Fund.
- (e) If all of the money in the System Ad Fund is not used in the year in which it is received, these amounts will be used in the next fiscal year. Although the System Ad Fund is intended to be of perpetual duration, we maintain the right to terminate the System Ad Fund. The System Ad Fund will not be terminated, however, until all monies in the System Ad Fund have been spent for advertising or promotional purposes.
- (f) Upon request, we will make available to you an annual accounting of the System Ad Fund receipts and disbursements. We do not audit the System Ad Fund.

Cooperative Ad Fund

We will have the right, as we see fit, to establish a Cooperative Ad Fund for your region, or we may approve of a Cooperative Ad Fund that has been organized by franchisees in a region. The purpose of a Cooperative Ad Fund is to conduct advertising campaigns for the Pinot's Palette Studios located in that region. The size or membership of a cooperative shall be determined by us, on a case by case basis, in our sole discretion. Factors we consider are demographic statistics and the number of Pinot's Palette Studios operating in a particular area, among other things. Contributions to a Cooperative Ad Fund will not exceed the total Advertising Obligation unless the Cooperative votes to exceed such amount. Any amounts paid to a Cooperative Ad Fund will count as part of your local advertising and promotion requirement. As of the date of this Disclosure Document, there are no Cooperative Ad Funds in existence.

If a Cooperative Ad Fund for your area was established before you began to operate your Franchised Studio, then when you open your Franchised Studio, you must immediately join that Cooperative Ad Fund. If a Cooperative Ad Fund for your area is established after you begin to operate your Franchised Studio, then you will have 30 days to join the new Cooperative Ad Fund. An individual Pinot's Palette Studio will not be required to be a member of more than one Cooperative Ad Fund. If we (or an affiliate) contribute to a Cooperative Ad Fund, we will have the same voting rights for our Pinot's Palette Studios as do our franchisees with respect to their studios.

The following provisions will apply to each Cooperative Ad Fund (if and when organized):

- (a) Cooperative Ad Funds will be established, organized, and governed in the form and manner that we have approved in advance in writing. The activities carried on by each Cooperative Ad Fund shall be decided by a majority vote of its members. Any Pinot's Palette Studio that we operate in the region shall have the same voting rights as those owned by franchisees. Each Pinot's Palette Studio franchisee shall be entitled to cast one (1) vote for each Pinot's Palette Studio its operates that belongs to the Cooperative Ad Fund.
- (b) Cooperative Ad Funds will be organized according to written governing documents for the exclusive purpose of administering regional advertising programs and developing (subject to our approval) standardized promotional materials for use by the members in

local advertising and promotion. Such governing documents are currently not available for review.

- (c) Cooperative Ad Funds may not use advertising, promotional plans, or materials without our prior written approval, as described below under the heading “Local Advertising and Promotion.”
- (d) You must submit your required contribution to the Cooperative Ad Fund according to the schedule we designate for the Cooperative Ad Fund. At the same time, you will have to submit the reports that we or the Cooperative Ad Fund require. We may require you to submit this payment by EFT or by check. We also may require that your payments and reports to the Cooperative Ad Fund be made to us for distribution to the Cooperative Ad Fund. The Cooperative shall be required to prepare annual financial statements available for our and member’s review.
- (e) We maintain the right to terminate any Cooperative Ad Fund. A Cooperative Ad Fund will not be terminated, however, until all monies in that Cooperative Ad Fund have been expended for advertising or promotional purposes; unless there are no remaining Pinot’s Palette Studios in the Cooperative Ad Fund, in which event, we will transfer the remaining monies to the System Ad Fund.

Local Advertising and Promotion

Certain criteria will apply to any local advertising and promotion that you conduct. All of your local advertising and promotion must be dignified, must conform to our standards and requirements, and must be conducted in the media, type, and format that we have approved. You, or any Cooperative Ad Fund, may not use any advertising or promotional plans that we have not approved in writing. If you wish to use your own advertising materials or promotional plans, you must submit to us samples of all proposed plans and materials. If we do not give our written approval within five days, we will have been deemed to have disapproved the plans or materials.

All copyrights in and to advertising and promotional materials you develop (or that are developed for you) will become our sole property. You must sign the documents (and, if necessary, require your independent contractors to sign the documents) that we deem necessary to implement this provision. (The requirements in this paragraph, as well as in the previous paragraph, will also apply to any Cooperative Ad Funds.)

In addition to (and not in place of) the Advertising Obligations, you must prepare and conduct a grand opening advertising program (the “**Grand Opening Advertising Program**”), in accordance with our specifications for that program for both your Pinot’s Palette Studio and your Franchised Mobile Studio. All materials used in the Grand Opening Advertising Program will be subject to our prior written approval, as described above. The Grand Opening Advertising Program is considered “local advertising and promotion” and is therefore subject to the restrictions described below. We will work with you to develop your Grand Opening Advertising Program for your market.

We, our affiliates or approved suppliers may periodically make available to you, for purchase, certain advertising plans and promotional materials for your use in local advertising and promotion.

As used in the Franchise Agreement, the term “**local advertising and promotion**” refers to advertising and promotion related directly to the Franchised Studio, and unless otherwise specified, consists only of the direct costs of purchasing advertising materials (including, but not limited to, camera-

ready advertising and point of sale materials), media (space or time), promotion, direct out-of-pocket expenses related to costs of advertising and sales promotion (including, but not limited to, advertising agency fees and expenses, cash and “in-kind” promotional payments to landlords, postage, shipping, telephone, and photocopying), and such other activities and expenses as we, in our sole discretion, may specify. Local advertising and promotion does not, however, include any of the following: salaries and expenses of your employees; charitable, political, or other contributions or donations; and the value of discounts given to customers.

Advisory Council

Currently an active advisory council made up of franchisees and franchisor representatives is in place. Franchisees will be chosen to participate in the council based on, in part, performance and length of time in the System. The advisory council will act in an advisory capacity only and will not have decision making authority. We reserve the right to change or dissolve the formed advisory council at any time.

Websites

Websites (as defined below) are considered as “advertising” under the Franchise Agreement, and are subject (among other things) to our review and prior written approval before they may be used (as described above). As used in the Franchise Agreement, the term “**Website**” means an interactive electronic document, contained in a network of computers linked by communications software, that you operate or authorize others to operate and that refers to the Franchised Studio, Proprietary Marks, us, or the System. The term Website includes, but is not limited to, Internet and World Wide Web home pages. In connection with any Website, the Franchise Agreement provides that you may not establish a Website, nor may you offer, promote, or sell any products or services, or make any use of the Proprietary Marks, through the Internet without our prior written approval. As a condition to granting any such consent, we will have the right to establish any requirement that we deem appropriate, including among other things a requirement that your only presence on the Internet will be through one or more web pages that we establish on our Website.

Training

Before your Franchised Studio opens, you must complete all of our initial training requirements. Unless you are an Area Developer and you are opening your fourth or subsequent Franchised Studio (the differing requirements for Area Developers are described below) you (or, if you are other than an individual, your Designated Principal) and, if applicable, the General Manager, and one additional trainee must attend and successfully complete, to our satisfaction, the initial training program that we offer at a location designated by us. We will bear the cost of all training (instruction and required materials) for the initial training program, except as described below regarding the Artists Training Fee and additional training and assistance that we provide at your Franchised Studio. You will bear all other expenses incurred in attending training, such as the costs of transportation, lodging, meals, wages, and worker’s compensation insurance. If you are an Area Developer, then by the time you are developing your fourth Franchised Studio, you must be prepared (by meeting all of our requirements) to train the General Manager and other managerial personnel for your fourth and subsequent Franchised Studios. This requires that you have management personnel who have completed to our satisfaction our initial training program and who continue to meet our standards and requirements for providing this training to other managers, and that you conduct the training of these additional managers according to the programs and requirements that we specify in the Manuals and other written materials. If we determine that you or your managers do not meet these requirements, we may require that your additional managers attend and complete the initial training program we provide for new franchisees. If we require that additional or

replacement managers attend and complete the initial training program, we will require you to pay our per diem training charges.

You must pay us an initial Artist Training Fee of \$500 per day, plus all out of pocket costs and expenses associated with this training, including lodging, food and travel arrangements, for which we will provide an artist trainer who will provide on-site initial artist training to all artists you have hired to perform classes for the Franchised Studio. Currently, our initial artist trainers will conduct a minimum of 12 hours of training over a period of four days. The Artist Training Fee is payable to us upon demand, after the training has taken place, and is non-refundable.

If you (or the Designated Principal) or the General Manager cease active employment in the Franchised Studio, then you must enroll a qualified replacement (who must be reasonably acceptable to us) in our initial training program promptly following cessation of employment of said individual, provided that you may train General Managers in accordance with Section 6.3 of the Franchise Agreement. You must maintain a minimum of one certified manager in the Franchised Studio at all times. The replacement Designated Principal and any required managers shall complete the initial training program as soon as is practicable, but in no event later than any time periods we specify from time to time in the Manuals and otherwise in writing. Replacements managers must be trained according to our standards and you may be permitted to provide such training directly, provided you meet our then-current standards for qualifying as a training facility. We have the right to review any personnel you trained and to require that such persons attend and complete, to our satisfaction, our initial training program.

As part of the opening of your Franchised Studio, we will conduct pre-opening training and opening assistance at your Franchised Studio. We will bear the costs associated with providing this training. We will provide one or more of our representatives for the purpose of facilitating the opening of your Franchised Studio. Prior to the time our representative(s) arrives at your Franchised Studio, you must have hired and substantially completed the training of your initial staff of employees. During this pre-opening training and opening assistance, our representative will assist you in establishing and standardizing procedures and techniques essential to the operation of a Pinot's Palette Studio and will assist in training personnel. We will not be responsible for training or offering guidance with respect to compliance with any laws, ordinance or other legal matters. If you request additional days of on-site training or assistance in connection with your opening, or at a later time, we may charge you our then-current per diem training fee for the additional training provided; and you will also have to reimburse us for all out of pocket costs and expenses associated with the additional training, including lodging, food and travel arrangements of the trainers (See Item 6 regarding the costs.).

The subjects covered in the initial training program are described below. Initial training programs are scheduled throughout the year on an as needed basis. We have the right to change the duration and content of our initial training program. In accordance with Virginia law, in the event we change the duration or content of our initial training program, we will amend our effective franchise registration with the State Corporation Commission of Virginia within 30 days.

TRAINING PROGRAM
(Initial Training)

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location
Mission and Values	2 Hours		Affiliate-Owned Location in Houston, Texas
Planning and Strategy	2 Hours		Affiliate-Owned Location in Houston, Texas
Jump Start Training	2 Hours		Online
Site Selection Training	4 to 6 Hours		Franchisee's Territory
Letter of Intent Training	1 Hour		Online
Website/Software	4 Hours	Throughout Training	Affiliate-Owned Location in Houston, Texas
Class Training	4 Hours	10 Hours	Affiliate-Owned Location in Houston, Texas
Operations Training	2 Hours	16 Hours	Affiliate-Owned Location in Houston, Texas
Accounting Training	4 Hours		Affiliate-Owned Location in Houston, Texas
Recruiting Training	2 Hours		Affiliate-Owned Location in Houston, Texas
Marketing Training	12 Hours		Affiliate-Owned Location in Houston, Texas and Online
Build-Out Support	8 to 16 Hours		Online
Pre-Opening Training		40 Hours	Affiliate-Owned Location in Houston, Texas
Soft Opening Training		25 to 35 Hours	Franchisee's Approved Location

If you are not proficient in the Microsoft Office Suite software (including Microsoft Word, Excel, PowerPoint and Outlook) and the QuickBooks software, you must take a course approved in advance by us, and at your expense, to obtain proficiency in such software.

The initial training, as described above, is currently conducted at our affiliate-owned studio in Houston, Texas. Pre-opening training and opening assistance will also be conducted on-site at your Franchised Studio for a period of time as is deemed required by us. The initial training must be completed at least 30 days in advance of the scheduled opening of your Franchised Studio.

In connection with the on-site pre-opening training and opening assistance, we will provide an artist trainer who will provide initial artist training to all artists you have hired to perform classes for the Franchised Studio. Our artist trainers will conduct a minimum of 12 hours of training over a period of four days. We reserve the right to change our initial artist training program at any time, in our sole discretion. In accordance with Virginia law, in the event we change our initial artist training program, we will amend our effective franchise registration with the State Corporation Commission of Virginia within 30 days.

Additionally, we may require that you or your Designated Principal and General Manager attend such refresher courses, seminars, and other training programs as we may require from time to time, provided that required refresher and additional training will not exceed (a) four days (per trainee) each year at our headquarters and/or our affiliate-owned studio(s), and (b) three days (per trainee) each year to attend a convention for the franchise system. We may also offer voluntary training programs. If these refresher and additional training programs are conducted at our headquarters in Houston, Texas, or at our affiliate-owned Pinot's Palette Studio, we will bear the costs associated with providing these training programs, not including the costs of transportation, lodging, meals, wages, and worker's compensation insurance. However, if you request that we provide any of this training at your Franchised Studio, and we do so, we may charge you our then-current per diem training fee for the additional training provided; and you will also have to reimburse us for all out of pocket costs and expenses associated with the additional training, including lodging, food and travel arrangement of the trainers.

If you sign the addendum to the Franchise Agreement granting you the right to operate a Franchised Mobile Studio, we will provide you training, as determined by us. In accordance with Virginia law, in the event we change the duration or content of our initial training program for Franchised Mobile Studios, we will amend our effective franchise registration with the State Corporation Commission of Virginia within 30 days.

TRAINING PROGRAM
(Franchised Mobile Studio Training)

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location
Franchised Mobile Studio training	2 Hours		Affiliate-Owned Location in Houston, Texas

Currently, our training staff is run by Craig Ceccanti and Charles Willis. Mr Ceccanti and Mr. Willis created the Pinot's Palette concept and have been operating Pinot's Palette Studios since May 2009. We will use additional instructors on our training staff to conduct our training programs. Our additional instructors will generally have an estimated minimum of one year's experience in operation of a Pinot's Palette Studio, with strong abilities in training and development.

Gift Card Program

We may institute a program for all franchisees to sell or otherwise issue gift cards or certificates (together “**Gift Cards**”). When the Gift Card program is made a part of the System, you must participate by offering Gift Cards to your customers and honoring all Gift Cards presented to you as payment for products, regardless of whether the Gift Card was issued by you or another Pinot’s Palette Studio.

Manuals

You will be required to comply with all of the specifications, procedures, and standards set out in our Manuals. The table of contents to our Manuals is contained in Exhibit E. There are a total of 307 pages in the Manuals. Please note that the current table of contents is subject to change.

ITEM 12 **TERRITORY**

Franchise Agreement and Area Development Agreement

The following describes how Territories and Development Areas are determined, and the rights that you and we have under the Franchise Agreement and the Area Development Agreement.

Under the Franchise Agreement

Your Franchise Agreement will specify the site that will be the Approved Location for your Franchised Studio. Your Franchise Agreement may also specify a protected territory (“**Territory**”). The size and scope of the Territory will vary and will be determined based upon various factors such as (a) whether the Approved Location is an urban area or a suburban area; (b) the number of residents living in the area; and (c) the number of competitive studios in the area; among other factors. The Territory is not the same area as, and will be smaller than, the site selection area in which you will be looking for a site. Generally, we will specify your Territory as a diameter of miles surrounding the Approved Location, although we may also define your Territory by postal ZIP code(s), physical boundaries such as streets and highways, or city and county limits. We currently utilize the following population densities to determine the diameter of miles for a Territory: a population density of less than 2000 would result in an 8 mile diameter, a population density of 2001 to 3000 would result in a 6 mile diameter, a population density of 3001 to 4000 would result in a 4 mile diameter, and a population density of over 4000 would result in a 2 mile diameter. Population densities are determined using the most recent census bureau data, as well as google population data.

As a result of our reserved rights described below, you will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

During the term of the Franchise Agreement, we will not establish or operate, nor license any other person to establish or operate, a Pinot’s Palette Studio in the Territory, except as may be permitted under the Franchise Agreement and those exceptions are described below. Your territorial protection is not dependent upon achievement of a certain sales volume, market penetration, or other factors, other than compliance with the Franchise Agreement. There are no circumstances under which the Territory may be modified or altered prior to expiration or termination of the Franchise Agreement.

If, during the term of the Franchise Agreement, you wish to relocate your Franchised Studio, or if the Franchised Studio is damaged or destroyed and cannot be repaired within 60 days, you must submit to us in writing the materials require in order to consider your request, including information concerning the proposed new location for the Franchised Studio and our fee (see Item 6). You must also meet certain other requirements, including but not limited to being in compliance with the Franchise Agreement, the location meets our then-current requirements for a Pinot's Palette Studio and is located within your Territory, and you must sign our then-current form of Franchise Agreement. If we permit you to relocate, you will not pay a new Franchise Fee when you sign the new Franchise Agreement. (Franchise Agreement, Section 8.21)

You may sell products and services to retail customers and prospective retail customers who live anywhere but who choose to visit your Pinot's Palette Studio. You may not place advertisements in printed media and on television and radio that are targeted to customers and prospective customers located outside of your Territory. You have no options, rights of first refusal, or similar rights to acquire additional franchises. You may not sell the products to any business or other customer for resale purposes.

At your option, you may enter into an addendum to the Franchise Agreement which will grant you the right to operate a Franchised Mobile Studio at customer residences, places of business, or other suitable venues that are off-site from the Franchised Studio. You will be limited to operating the Franchised Mobile Studio to within a 100 mile radius surrounding the Franchised Studio ("**Mobile Studio Territory**"). The Mobile Studio Territory is non-exclusive, and you may compete directly with other franchisees operating Pinot's Palette Studios and/or other mobile Pinot's Palette studios. Unless expressly agreed to by us, the Franchised Mobile Studio can only be operated in connection with the Franchised Studio. You may operate a maximum of two Mobile Studio Vehicles in connection with the Franchised Mobile Studio within the Mobile Studio Territory.

Neither we nor any parent or affiliate has established, or presently intends to establish, other franchised or affiliate-owned studios which sell the products or services under a different trade name or trademark, but we reserve the right to do so in the future, without first obtaining your consent.

Under the Area Development Agreement

If you sign an Area Development Agreement, the Area Development Agreement will specify the Development Area within which you may locate potential sites for Pinot's Palette Studios, subject to our approval. The size and scope of the Development Area will be determined on a case-by-case basis, as we mutually agree upon prior to signing the Area Development Agreement and will be specified in the Area Development Agreement. The factors that we consider in determining the size of a Development Area include current and projected market demand, demographics and population, traffic patterns, location of other Pinot's Palette Studios, your financial and other capabilities, the number of Pinot's Palette Studios you wish to develop and our development plans. During the term of the Area Development Agreement, if you comply with the obligations under the Area Development Agreement and all of the Franchise Agreements between you (and your affiliates) and us, we will not establish or operate, or license anyone other than you to establish or operate, a Pinot's Palette Studio in the Development Area. Except as described below, there are no circumstances under which the Area Development Agreement may be altered prior to expiration or termination of the Area Development Agreement. Your territorial protection is not dependent upon achievement of a certain sales volume, or other factors, other than compliance with the Area Development Agreement and Development Schedule.

If you do not comply with a deadline under the Development Schedule (a "**Missed Deadline**"), you will be in default under the Area Development Agreement. For one Missed Deadline, we will

provide you with an opportunity to cure your default and we will determine and notify you of a new deadline for that one Missed Deadline (without changing the remainder of the Development Schedule). If you fail to come into compliance by that new deadline, and/or upon the occurrence of a second Missed Deadline, we may terminate your Area Development Agreement, or we may elect to take one or more of the following actions: (a) cease crediting the Area Development Fees paid towards the Franchise Fees for the Franchised Studios to be developed (see Item 5 for explanation of credits); (b) eliminate the limited exclusivity or reduce the scope of protections granted to you within the Development Area; (c) reduce the scope of the Development Area; (d) reduce the number of Franchised Studios for you to develop, or (e) retain all Area Development Fees paid to us. If we elect to take one or more of these actions, we will provide written notice of such action, and the Area Development Agreement will be amended to reflect the changes.

Our Reserved Rights under the Franchise Agreement and Area Development Agreement

Under both the Franchise Agreement and Area Development Agreement, we and our affiliates retain all the rights that we do not specifically grant to you. Among the rights that we retain are the following (the following list is only for purposes of illustration and is not meant to limit our rights):

(1) We may own, acquire, establish, and/or operate and license others to establish and operate businesses, including Pinot's Palette Studios operating under the Proprietary Marks and the System at any location outside your Territory or Development Area regardless of their proximity to, or potential impact on, your Territory or Development Area or Franchised Studios.

(2) We may own, acquire, establish, and/or operate and license others to establish and operate mobile Pinot's Palette Studios offering customers artistic classes, including painting classes, with the opportunity to enjoy food, wine or other beverages, under the Proprietary Marks at customer residences, places of business, or other suitable venues that are off-site from your Franchised Studio, at any location within or outside the Territory or Development Area, notwithstanding their proximity to the Territory or Development Area or the Approved Location or their actual or threatened impact on sales of the Franchised Studio.

(3) We may own, acquire, establish and/or operate, and license others to establish and operate, businesses under proprietary marks other than the Proprietary Marks, whether such businesses are similar or different from the Franchised Studio, at any location within or outside the Territory or Development Area, notwithstanding their proximity to the Territory or Development Area or the Approved Location or their actual or threatened impact on sales of the Franchised Studio.

Additionally, during the term of your Area Development and Franchise Agreement, we may (i) acquire one or more retail businesses that are the same as, or similar to, Pinot's Palette Studios then operating under the System (each an "**Acquired Business**"), which may be at any location within or outside the Territory or Development Area, notwithstanding their proximity to the Territory or Development Area or the Approved Location or their actual or threatened impact on sales of the Franchised Studio, and we may (ii) operate and/or license others to operate any Acquired Business under its existing name or as a Pinot's Palette Studio under the System at any location. If we operate and/or license others to operate any Acquired Business, then the following terms apply:

(1) If you are in compliance with your agreements with us, then for any Acquired Business that is both located within your Territory or Development Area and is purchased by us for operation by us or our affiliates, we may, in our discretion, offer you the option to purchase and operate, as a Pinot's Palette Studio, those Acquired Business(es). We will provide you with written notice of our purchase of such Acquired Business(es), the terms and conditions applicable to your option to purchase such

Acquired Business(es), and such other information that we deem necessary to include in the notice. The terms and conditions offered to you will include, without limitation, the following: (a) the purchase price for such Acquired Business will be determined using a ratio equal to the sales of such Acquired Business during the prior year, as compared to the total sales during such year of all Acquired Businesses that we purchased in the same transaction; and (b) the requirement that you enter into our then-current form of System franchise agreement for the Acquired Business, provided that you will not be required to pay an initial franchise fee for an Acquired Business. If you do not elect to purchase, or fail to complete the purchase of, an Acquired Business, we shall have the right to operate the Acquired Business ourselves, or through its affiliates or third party licensees or franchisees, under any trade name or trademarks including the Proprietary Marks.

(2) If an Acquired Business is part of a system of retail businesses that we acquire (an “Acquired System”), you will have no right to purchase, and we will not be obligated to offer you any option to purchase, any Acquired Business that is operated by a licensee or franchisee under the Acquired System. We may license such unit to be operated under any trade name or trademarks, including the Proprietary Marks, and may also license to the licensee or franchisee additional units of the Acquired System that the licensee or franchisee has the right to develop and operate within the Territory or Development Area.

ITEM 13
TRADEMARKS

The Franchise Agreement will grant you rights to use the Proprietary Marks in connection with your Franchised Studio. Our affiliate, Pinot’s Palette Studio 1 LLC (formerly Pinot & Picasso LLC), has registered the following trademark, along with all required affidavits, on the Principal Register of the United States Patent and Trademark Office:

Proprietary Mark	Registration Number	Registration Date
PINOT’S PALETTE (word mark)	3921188	February 15, 2011

Our affiliate, Pinot’s Palette Studio 1 LLC, intends to file the following trademark registration applications, along with all required affidavits, on the Principal Register of the United States Patent and Trademark Office:

Proprietary Mark	Serial Number	Filing Date	Registration Date
PAINTING IT FORWARD	Pending	Pending	Pending
LITTLE BRUSHES	Pending	Pending	Pending

Our affiliate, Pinot’s Palette Studio 1 LLC, has licensed all of the Proprietary Marks to us via a license agreement so that we may sub-license them to our franchisees. The term of this license agreement is perpetual.

There are no currently effective determinations of the Patent and Trademark Office, the Trademark Trial and Appeal Board, the Trademark Administrator of this state or any court. There is no pending infringement, opposition or cancellation proceeding. There is no pending material litigation involving the trademarks which may be relevant to their use in this state or in any other state.

We do not know of any infringing uses that could materially affect your use of the Proprietary Marks in this state or elsewhere.

You must promptly notify us of any unauthorized use of the Proprietary Marks, any challenge to the validity of the Proprietary Marks, or any challenge to our ownership of, right to use and to license others to use, or your right to use, the Proprietary Marks. We have the right to direct and control any administrative proceeding or litigation involving the Proprietary Marks, including any settlement. We have the right, but not the obligation, to take action against uses by others that may constitute infringement of the Proprietary Marks. We will defend you against any third party claim, suit or demand arising out of your use of the Proprietary Marks. If we determine that you have used the Proprietary Marks in accordance with the Franchise Agreement, we will bear the cost of defense, including the cost of any judgment or settlement. If we determine that you have not used the Proprietary Marks in accordance with the Franchise Agreement, you must bear the cost of defense, including the cost of any judgment or settlement. If there is any litigation due to your use of the Proprietary Marks, you must execute all documents and do all things as may be necessary to carry out a defense or prosecution, including becoming a nominal party to any legal action. Unless litigation results from your use of the Proprietary Marks in a manner inconsistent with the terms of the Franchise Agreement, we will reimburse you for your out-of-pocket costs, except that you will bear the salary costs of your employees.

There are no agreements currently in effect which limit our rights to use or license the use of any Proprietary Mark. We reserve the right to substitute different proprietary marks for use in identifying the System and businesses operating under it if we, in our sole discretion, determine that substitution of different marks as Proprietary Marks will be beneficial to the System. You must promptly implement any substitution of new Proprietary Marks.

If it becomes advisable at any time in our sole discretion for us and/or you to modify or discontinue the use of any Proprietary Marks and/or use one or more additional or substitute trade or service marks, you must comply with our directions within a reasonable period of time after receiving notice. We will not be obligated to reimburse you for any cost attributable to or associated with any modified or discontinued Proprietary Marks or for any expenditures you make to promote a modified or substitute trademark or service mark.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

Patents

No patents are material to the operation of your Franchised Studio.

Copyrights

We claim copyright protection covering various materials used in our business and the development and operation of Pinot's Palette Studios, including the Manuals, our proprietary software, paintings, advertising and promotional materials, and similar materials. We have not registered all of these materials with the United States Registrar of Copyrights, but we are not required to do so. We have filed for registration and/or registered the following copyright series with the United States Copyright Office:

Copyright	Registration/Case Number	Registration Date
Pinot's Palette 2009 Series	VA0001882394	July 8, 2013
Pinot's Palette 2010 Series	1-960826841	Pending
Pinot's Palette 2011 Series	1-1249053071	Pending
Pinot's Palette 2012 Series	1-1336154623	Pending
Pinot's Palette 2013 Series	1-1336154667	Pending

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

All rights, title, and interest in advertising and promotional materials that you develop or prepare (or that are prepared by someone on your behalf) or that bear any Proprietary Marks will belong to us. You must sign any documents we reasonably deem necessary to evidence our right, title, and interest in and to any advertising and promotional materials. We will have the right to use these materials and to provide them to other franchisees of the System, without compensation to you, regardless of how the materials were developed. Additionally, we may from time to time require that you sign a license agreement for the use of proprietary materials that we provide to you in an electronic format.

Confidential Information

Except for the purpose of operating the Franchised Studio or Franchised Mobile Studio under a Franchise Agreement and developing Franchised Studios under an Area Development Agreement, you may never (during Franchise Agreement's term or later) communicate, disclose, or use for any person's benefit any of the confidential information, knowledge, or know-how concerning the development and operation of the Franchised Studio or Franchised Mobile Studio that may be communicated to you or that you may learn by virtue of your operation of a Pinot's Palette Studio. You may divulge confidential information only to those of your employees who must have access to it in order to operate the Franchised Studio or Franchised Mobile Studio. Any information, knowledge, know-how, and techniques that we designate as confidential will be deemed "confidential" for purposes of the Franchise Agreement and the Area Development Agreement. However, this will not include information that you can show came to your attention before we disclosed it to you; or that at any time became a part of the public domain, through publication or communication by others having the right to do so.

In addition, we may require you, your Designated Principal, other owners, managers, and your employees with access to confidential information to sign confidentiality and non-competition agreements or obligate themselves to such covenants. Each of these covenants must provide that the person signing will maintain the confidentiality of information that they receive in their employment or affiliation with you or the Franchised Studio. These agreements must be in a form that we find satisfactory, and in some

cases include, among other things, specific identification of our company as a third party beneficiary with the independent right to enforce the covenants. Our current forms of these agreements are included as Exhibit C to the Franchise Agreement (which is included in this Disclosure Document, see Item 22), and contained in our Manuals.

Confidential Manuals

In order to protect our reputation and goodwill and to maintain high standards of operation under our Proprietary Marks, you must conduct your business in accordance with the Manuals. We will lend you one set of our Manuals for the term of the Franchise Agreement, which you must return to us at the expiration or termination of the Franchise Agreement. The Manuals may consist of multiple volumes of printed text, computer disks, other electronic stored data, videotapes, and periodic updates or bulletins that we issue to franchisees and others operating under the System. You must treat the Manuals, all supplements and revisions to the Manuals, including bulletins and the information contained in them, as confidential, and must use best efforts to maintain this information (whether in written or electronic format) as secret and confidential. You must not reproduce these materials (except for the parts of the Manuals that are meant for you to copy, which we will clearly mark as such) or otherwise make them available to any unauthorized person. The Manuals will remain our sole property. You must keep them in a secure place on the Franchised Studio premises.

We may revise the contents of the Manuals, and you must comply with each new or changed standard. We will notify you in writing of revisions to the Manuals. You must ensure that the Manuals are kept current at all times. If there is a dispute as to the contents of the Manuals, the terms of the master copies that we maintain at our home office will control.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

If the Designated Principal or your General Manager fails to satisfactorily complete our initial training program or if your General Manager is no longer an employee, you must designate a replacement Designated Principal or General Manager as soon as is practical, who is acceptable to us and who satisfactorily completes our training program. We will require you to reimburse our training costs (see Items 6 and 11).

Under the Franchise Agreement, you (or, if you are an entity, your Designated Principal) must be involved in the general oversight and management of the operations of the Franchised Studio. Additionally, you must designate either yourself, your Designated Principal (if you are an entity) or a General Manager (subject to our reasonable approval) to assume the full-time responsibility for daily supervision and operation of the Franchised Studio. We will have the right to rely upon the Designated Principal and/or your General Manager to have the responsibility and decision-making authority regarding your business and operations.

Under the Area Development Agreement, you (or, if you are an entity, your Designated Principal) must be involved in the general oversight and management of the development of the Franchised Studios, as well as the operations of the Franchised Studios that are developed under the Area Development Agreement. We will have the right to rely upon the Designated Principal to have the responsibility and decision-making authority regarding your business and operations.

Under both the Franchise Agreement and the Area Development Agreement, if you are other than an individual, we may require that the individuals that own the franchisee entity personally sign a

guaranty, indemnification and acknowledgement (in the forms included as Exhibit C to the Franchise Agreement and Exhibit C to the Area Development Agreement), guarantying and acknowledging the legal entity's covenants and obligations under that agreement. Additionally, your employees with access to confidential information or who have received training may be required to sign agreements to maintain confidentiality and not compete with businesses under the System (our current forms for these agreements are contained in our Manuals). See Items 14 and 17 for a further description of these obligations.

ITEM 16
RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You may sell and provide only products and services that we have approved in writing and which conform to our standards and specifications (see also Item 8 above). We have the right, without limit, to change the types of authorized products and services. You must offer all products and services, including painting classes, that we approve and specify to be offered by all Pinot's Palette Studios, unless we otherwise provide our written approval.

You may only sell to retail customers at or from the Approved Location. If you wish to engage in off-premises activities, you may apply in writing for our approval to do so. If we provide our approval, you may engage in these activities provided that you comply with the programs, policies terms, and conditions that we may establish from time to time.

You must not use the Franchised Studio or Franchised Mobile Studio for any other business or operation or for any other purpose or activity at any time without first obtaining our prior written consent. You must keep the Franchised Studio open and in normal operation for the minimum hours and days as we may specify. You must operate the Franchised Studio and Franchised Mobile Studio in strict conformity with the methods, standards, and specifications as we prescribe in the Manuals or in writing.

You must keep the Franchised Studio open and in normal operation for the minimum hours and days as we may specify. The Franchised Studio must be available for calls and electronic mail correspondence a minimum of eight hours per day, seven days per week, and provide a minimum of three classes per week (a two hour class on Thursday night, a three hour class on Friday night, and a three hour class on Saturday night).

ITEM 17
RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

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

THE FRANCHISE RELATIONSHIP

Under the Franchise Agreement

Provision	Section(s) in Franchise Agreement	Summary
(a) Length of the franchise term	Section 2.1	10 years.
(b) Renewal or extension of the term	Section 2.2	One renewal term of 10 years.

Provision	Section(s) in Franchise Agreement	Summary
(c) Requirements for franchisee to renew or extend	Section 2.2	<p>Notice, satisfaction of monetary obligations, compliance with Franchise Agreement, mutual release, sign new Franchise Agreement, pay renewal fee, and others; see Sections 2.2.1 - 2.2.10 in Franchise Agreement.</p> <p>If you seek to renew your franchise at the expiration of the initial term or any renewal term, you will be asked to sign a new Franchise Agreement that contains terms and conditions materially different from those in your previous Franchise Agreement, such as different fee requirements and different territorial rights.</p>
(d) Termination by franchisee	None	
(e) Termination by franchisor without cause	None	
(f) Termination by franchisor with cause	Section 16	Default under Franchise Agreement, bankruptcy, abandonment, and other grounds; see Section 16 of the Franchise Agreement. Under the U.S. Bankruptcy Code, we may not be able to terminate the agreement merely because of a bankruptcy filing.
(g) "Cause" defined – defaults which can be cured	Sections 16.3 and 16.4	All other defaults not specified in Sections 16.1 and 16.2 of the Franchise Agreement
(h) "Cause" defined – non-curable defaults	Sections 16.1 and 16.2	Bankruptcy, abandonment, conviction of felony, and others; see Section 16.2 of the Franchise Agreement. (Under the U.S. Bankruptcy Code, we may be unable to terminate the agreement merely because you make a bankruptcy filing.)
(i) Franchisee's obligations on termination/non-renewal	Section 17	Cease operating the Franchised Studio and Franchised Mobile Studio, payment of amounts due, and others; see Section 17.1 – 17.11 of the Franchise Agreement.
(j) Assignment of contract by franchisor	Section 15.1	There are no limits on our right to assign the Franchise Agreement.

Provision	Section(s) in Franchise Agreement	Summary
(k) "Transfer" by franchisee - defined	Section 15.2	Includes transfer of any interest.
(l) Franchisor approval of transfer by franchisee	Section 15.2	We have the right to approve transfers and can apply standards to determine (for example) whether the proposed transferee meets our requirements for a new franchisee.
(m) Conditions for franchisor approval of transfer	Sections 15.3 and 15.4	Release, signature of new Franchise Agreement, payment of transfer fee, and others; see Sections 15.3.1 – 15.3.11 and 15.4 of the Franchise Agreement.
(n) Franchisor's right of first refusal to acquire franchisee's business	Section 15.6	We can match any offer.
(o) Franchisor's option to purchase franchisee's business	None	
(p) Death or disability of franchisee	Sections 15.7 and 15.8	Your estate must transfer your interest in the Franchised Studio to a third party we have approved, within a year after death or six months after the onset of disability.
(q) Non-competition covenants during the term of the franchise	Sections 18.2 and 18.5	Includes prohibition on engaging in any other business offering similar products, and soliciting or diverting customers to other businesses, and others; see Section 18.2 of the Franchise Agreement.
(r) Non-competition covenants after the franchise is terminated or expires	Sections 18.3 and 18.5	Includes a two year prohibition similar to "q" (above), at the Approved Location, or within 25 miles of the Franchised Studio or any other Pinot's Palette Studio in operation or under construction on the effective date of termination or expiration located anywhere.
(s) Modification of the agreement	Section 25	Must be in writing signed by both parties.

Provision	Section(s) in Franchise Agreement	Summary
(t) Integration/merger clause	Section 25	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to state law). Any representation or promises outside of the Disclosure Document and Franchise Agreement may not be enforceable. Nothing in Section 25 is intended to disclaim any of the information contained in this Disclosure Document or its attachments or exhibits.
(u) Dispute resolution by arbitration or mediation	Section 27.2 and 27.3	Except for certain claims, we and you must first mediate, and if unsuccessful arbitrate, all disputes at a location within 5 miles of our then current principal place of business. (Currently in Houston, Texas.)
(v) Choice of forum	Section 27.4	Subject to state law, all mediations, arbitrations and litigation proceedings must be conducted in the city of our then current principal place of business. (Currently in Houston, Texas.) See applicable Addendum in Exhibit B of this Disclosure Document.
(w) Choice of law	Section 27.1	Subject to state law, Texas. See applicable Addendum in Exhibit B of this Disclosure Document.

Under the Area Development Agreement

Provision	Section(s) in Area Development Agreement	Summary
(a) Length of the franchise term	Section 2 and Exhibit A	Last date in Development Schedule
(b) Renewal or extension of the term	None	
(c) Requirements for area developer to renew or extend	None	
(d) Termination by area developer	None	
(e) Termination by franchisor without cause	None	
(f) Termination by franchisor with cause	Section 6	We can terminate if you default.

Provision	Section(s) in Area Development Agreement	Summary
(g) "Cause" defined – curable defaults	Sections 6.3 and 6.4	All other defaults not specified in Sections 6.1 and 6.2 of Area Development Agreement.
(h) "Cause" defined – non-curable defaults	Sections 6.1 and 6.2	Bankruptcy, termination of any individual Franchise Agreement for a Franchised Studio operated by you or a person or entity affiliated with you, conviction of felony, and improper transfer.
(i) Area developer's obligations on termination/non-renewal	Section 6.6	Cease establishing or operating Franchised Studios under the System for which Franchise Agreements have not been signed at the time of termination and compliance with covenants.
(j) Assignment of contract by franchisor	Section 7.1	There are no limits on our right to assign the Area Development Agreement.
(k) "Transfer" by area developer – defined	Section 7.2	Includes a transfer of an interest in the Area Development Agreement, developer entity, or any material asset of your business.
(l) Franchisor approval of transfer by area developer	Section 7.2	We have the right to approve transfers.
(m) Conditions for franchisor's approval of transfer	Sections 7.2 and 7.3	Any of the conditions for transfer described in the Franchise Agreement executed pursuant to the Area Development Agreement that we deem applicable, and simultaneous transfer of Franchise Agreements executed pursuant to the Area Development Agreement.
(n) Franchisor's right of first refusal to acquire area developer's business	None	
(o) Franchisor's option to purchase area developer's business	None	
(p) Death or disability of area developer	None	
(q) Non-competition covenants during the term of the franchise	Section 8.2	Includes prohibition on engaging in any other business offering similar products, and soliciting or diverting customers to other businesses.

Provision	Section(s) in Area Development Agreement	Summary
(r) Non-competition covenants after the franchise is terminated or expires	Section 8.3	Includes a two year prohibition similar to “q” (above), within the Development Area, or within 25 miles of any Pinot’s Palette Studio in operation or under construction on the effective date of termination or expiration located anywhere.
(s) Modification of the agreement	Section 15	Must be in writing signed by both parties.
(t) Integration/merger clause	Section 15	Only the terms of the Area Development Agreement and other related written agreements are binding (subject to state law). Any representation or promises outside of the Disclosure Document and Area Development Agreement may not be enforceable. Nothing in Section 15 is intended to disclaim any of the information contained in this Disclosure Document or its attachments or exhibits.
(u) Dispute resolution by arbitration or mediation	Section 16.2 and 16.3	Except for certain claims, we and you must first mediate, and if unsuccessful arbitrate, all disputes at a location within 5 miles of our then current principal place of business. (Currently in Houston, Texas.)
(v) Choice of forum	Section 16.4	Subject to state law, all mediations, arbitrations and litigation proceedings must be conducted in the city of our then current principal place of business. (Currently in Houston, Texas.)
(w) Choice of law	Section 16.1	Subject to state law, Texas.

See Exhibit B, the State Specific Addendum, for special state disclosures.

ITEM 18
PUBLIC FIGURES

We do not use any public figure to promote our franchise.

ITEM 19
FINANCIAL PERFORMANCE REPRESENTATIONS

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

The following figures relate to the actual average Net Sales achieved by all affiliate-owned and franchisee-owned Pinot's Palette Studios that were opened and operated for the full twelve month period from January 1, 2013 to December 31, 2013. Net Sales is defined as all revenue related to the Pinot's Palette Studio, excluding customer refunds and sales taxes collected and remitted to the proper authorities. The units included in 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 Pinot's Palette Studio. Franchisees or former franchisees, if any, listed in this Disclosure Document, may be one source of this information.

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

There were 13 Pinot's Palette Studios open the entire 2013 year. The following tables represents the average Net Sales for the 3 best performing studios (top 23%), the average Net Sales for the 7 best performing studios (top 54%) and the overall average Net Sales for all 13 studios reported:

Table 1

Average Net Sales for the 3 Best Performing Studios Open for Entire Year of 2013	Average	Number / % of Units Above Average
Net Sales	\$419,308	2 / 67%

Table 2

Average Net Sales for the 7 Best Performing Studios Open for Entire Year of 2013	Average	Number / % of Units Above Average
Net Sales	\$336,343	3 / 43%

Table 3

Average Net Sales for all 13 Studios Open for Entire Year of 2013	Average	Number / % of Units Above Average
Net Sales	\$267,938	5 / 38%

Other than the preceding financial performance representation, we do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Craig Ceccanti, Pinot's Palette Franchise LLC, 10333 Harwin Drive, Suite 580, Houston, Texas 77036, (713) 777-5112, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

Table No. 1
Systemwide Outlet Summary
For years 2011, 2012, and 2013

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2011	1	2	+1
	2012	2	10	+8
	2013	10	29	+19
Company-Owned or Affiliate-Owned	2011	2	2	0
	2012	2	3	+1
	2013	3	4	+1
Total Outlets	2011	3	4	+1
	2012	4	13	+9
	2013	13	33	+20

Table No. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years 2011, 2012, and 2013

State	Year	Number of Transfers
None	2011	0
	2012	0
	2013	0
Total	2011	0
	2012	0
	2013	0

**Table No. 3
Status of Franchised Outlets
For years 2011, 2012, and 2013**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
Arizona	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
Arkansas	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
California	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	2	0	0	0	0	2
Colorado	2011	0	0	0	0	0	0	0
	2012	0	1	0	0	0	0	1
	2013	1	1	0	0	0	0	2
Connecticut	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
Florida	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
Georgia	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
Illinois	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
Kansas	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
Kentucky	2011	0	0	0	0	0	0	0
	2012	0	1	0	0	0	0	1
	2013	1	0	0	0	0	0	1

Louisiana	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
Missouri	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
New Jersey	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
Ohio	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
	2013	0	1	0	0	0	0	1
Oklahoma	2011	0	0	0	0	0	0	0
	2012	0	1	0	0	0	0	1
	2013	1	1	0	0	0	0	2
Tennessee	2011	0	0	0	0	0	0	0
	2012	0	1	0	0	0	0	1
	2013	1	0	0	0	0	0	1
Texas	2011	1	1	0	0	0	0	2
	2012	2	4	0	0	0	0	6
	2013	6	4	0	0	0	0	10
Totals	2011	1	1	0	0	0	0	2
	2012	2	8	0	0	0	0	10
	2013	10	19	0	0	0	0	29

Table No. 4
Status of Company-Owned or Affiliate-Owned Outlets
For years 2011, 2012, and 2013

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Oklahoma	2011	0	0	0	0	0	0
	2012	0	0	0	0	0	0
	2013	0	1	0	0	0	1
Texas	2011	2	0	0	0	0	2
	2012	2	1	0	0	0	3
	2013	3	0	0	0	0	3
Totals	2011	2	0	0	0	0	2
	2012	2	1	0	0	0	3
	2013	3	1	0	0	0	4

Table No. 5
Projected Openings as of December 31, 2013

State	Franchise Agreements Signed but Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Company-Owned or Affiliate-Owned Outlets in the Next Fiscal Year
Arizona	0	1	0
Arkansas	0	1	0
California	6	8	0
Florida	3	3	0
Georgia	1	1	0
Illinois	1	1	0
Iowa	2	2	0
Kansas	1	1	0
Kentucky	1	1	0
Maryland	1	1	0
Massachusetts	1	1	0
Michigan	1	1	0
Nebraska	2	2	0
Nevada	2	2	0
New York	4	4	0
North Carolina	2	2	0
Oklahoma	1	1	0
Pennsylvania	2	2	0
Tennessee	0	4	0
Texas	2	2	0
Washington	1	3	0
Wisconsin	1	1	0
Total	35	45	0

All numbers are as of December 31st for each year.

A list of the names of all franchisees and area developers and the addresses and telephone numbers of their franchises will be provided in Exhibit F to this Disclosure Document when applicable.

The name, city, state and current business telephone number (or if unknown, the last known home telephone number) of every franchisee or area developer who had a franchise terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during the most recently completed fiscal year or who has not communicated with us within 10 weeks of

the issuance date of this Disclosure Document will be listed on Exhibit G to this Disclosure Document when applicable. **If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.**

During the last three fiscal years, we have not signed any confidentiality clauses with current or former franchisees which would restrict them from speaking openly with you about their experience with us.

There is no trademark-specific franchisee organization associated with us.

ITEM 21 **FINANCIAL STATEMENTS**

Attached to this Disclosure Document as Exhibit H are the audited financial statements for the year ending December 31, 2011, the year ending December 31, 2012, and the year ending December 31, 2013. Our fiscal year ends December 31st.

ITEM 22 **CONTRACTS**

The following contracts are attached to this Disclosure Document:

Exhibit C – Franchise Agreement, including the following agreements:

- Guaranty (as Exhibit C to the Franchise Agreement)
- Authorization for Prearranged Payments (as Exhibit D to the Franchise Agreement)
- Telephone Number Assignment and Power of Attorney (as Exhibit E to the Franchise Agreement)
- Mobile Franchise Addendum (as Exhibit F to the Franchise Agreement)
- Franchisee Disclosure Acknowledgment Statement (as Exhibit H to the Franchise Agreement)

Exhibit D – Area Development Agreement, including the following agreements:

- Guaranty Indemnification and Acknowledgment (as Exhibit C to the Area Development Agreement)
- Area Developer Certification (as Exhibit E to the Area Development Agreement)

ITEM 23 **RECEIPT**

This Disclosure Document summarizes certain provisions of the Franchise Agreement and Area Development Agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

Two copies of an acknowledgment of your receipt of this Disclosure Document appear at the end of the Disclosure Document. Please return one signed copy to us and retain the other for your records.

EXHIBIT A
STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS

<p><u>CALIFORNIA</u></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 94104 (415) 972-8559</p> <p>Agent: California Commissioner of Corporations</p>	<p><u>CONNECTICUT</u></p> <p>State of Connecticut Department of Banking Securities & Business Investments Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8230</p> <p>Agent: Banking Commissioner</p>
<p><u>HAWAII</u></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 of Commerce and Consumer Affairs</p>	<p><u>ILLINOIS</u></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><u>INDIANA</u></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, IN 46204 (317) 232-6531</p>	<p><u>MARYLAND</u></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><u>MICHIGAN</u></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><u>MINNESOTA</u></p> <p>Minnesota Department of Commerce 85 7th Place East, Suite 500 St. Paul, Minnesota 55101-2198 (651) 296-6328</p> <p>Agent: Minnesota Commissioner of Commerce</p>
<p><u>NEBRASKA</u></p> <p>Nebraska Department of Banking and Finance 1200 N Street P.O. Box 95006 Lincoln, Nebraska 68509-5006</p>	<p><u>NORTH CAROLINA</u></p> <p>Department of the Secretary of State PO Box 29622 Raleigh, NC 27626-0622</p>
<p><u>NEW YORK</u></p> <p>Bureau of Investor Protection and Securities New York State Department of Law 23rd Floor 120 Broadway New York, New York 10271 (212) 416-8211</p> <p>Agent: The Secretary of State 99 Washington Street Albany, New York 12231 (518) 474-4750</p>	<p><u>NORTH DAKOTA</u></p> <p>Office of Securities Commissioner Fifth Floor 600 East Boulevard Bismarck, North Dakota 58505 (701) 328-2910</p> <p>Agent: North Dakota Securities Commissioner</p>
<p><u>OREGON</u></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><u>RHODE ISLAND</u></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><u>SOUTH DAKOTA</u></p> <p>Division of Securities c/o 118 West Capitol Pierre, South Dakota 57501 (605) 773-4013</p> <p>Agent: Director of South Dakota Division Securities</p>	<p><u>TEXAS</u></p> <p>Secretary of State P.O. Box 12887 Houston, Texas 78711</p>

<p><u>VIRGINIA</u></p> <p>Clerk of the State Corporation Commission 1300 East Main Street, 1st Floor Richmond, Virginia 23219 (804) 371-9733</p> <p>Agent: Clerk of the State Corporation Commission</p>	<p><u>WASHINGTON</u></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 150 Israel Road SW Tumwater, Washington 98501</p>
<p><u>WISCONSIN</u></p> <p>Securities and Franchise Registration Wisconsin Securities Commission 345 West Washington Street, 4th Floor Madison, Wisconsin 53703 (608) 266-3431</p> <p>Agent: Wisconsin Commissioner of Securities</p>	

EXHIBIT B
STATE SPECIFIC ADDENDUM

**AMENDMENT TO PINOT'S PALETTE FRANCHISE LLC
DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT
FOR THE STATE OF CALIFORNIA**

The Pinot's Palette Franchise LLC Disclosure Document (the "Disclosure Document") and Franchise Agreement between _____ ("Franchisee") and Pinot's Palette Franchise LLC, a Texas limited liability company ("Pinot's Palette"), 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"):

CALIFORNIA LAW MODIFICATIONS

1. The California Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with California law, including the California Franchise Relations Act, Cal. Bus. Prof. Code, Division 8, Chapter 5.5, Section 20000-20043 (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. All appendices to the Disclosure Document are hereby amended to include the following provision: "THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT."

b. Item 17 of the Disclosure Document and the Agreement are hereby amended to include the following paragraph: "California Business and Professions Code Sections 20000 through 20043 provides rights to the franchisee concerning termination or nonrenewal of a franchise. If the franchise agreement contains a provisions that is inconsistent with the law, the law will control"

c. The Agreement contains provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).

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

e. The Agreement requires binding arbitration. The arbitration will occur at Houston, Texas which the costs being borne by each party equally. This provision may not be enforceable under California law.

f. The Agreement requires applicable of the laws of Texas. This provision may not be enforceable under California law.

g. 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 Pinot's Palette that would violate the Act, or a rule or order under the Act. Pursuant to Section 20010 of the Act, such release shall exclude claims arising under the Act, and such acknowledgments shall be void with respect to claims under the Act.

h. The Agreement and Item 17 of the Disclosure Document designates a jurisdiction and venue outside of California. Pursuant to Section 20040.5 of the Act, this requirement shall not be interpreted to limit any rights that Franchisee may have under the Act to bring suit in the state of California.

i. 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.

j. 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 the Disclosure Document are inconsistent with Section 20020 and 20021 of the Act (Termination), Section 20040 of the Act (Notice of Termination), Section 20025 and 20026 of the Act (Non-Renewal), those provisions of the Agreement and 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:
PINOT'S PALETTE FRANCHISE LLC,
a Texas limited liability company

By: _____
Name: _____
Title: _____

FRANCHISEE:

By: _____
Name: _____
Title: _____

**AMENDMENT TO PINOT'S PALETTE FRANCHISE LLC
DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT
FOR THE STATE OF ILLINOIS**

The Pinot's Palette Franchise LLC Disclosure Document (the "Disclosure Document") and Franchise Agreement and Area Development Agreement between _____ ("Franchisee") and Pinot's Palette Franchise LLC, a Texas limited liability company ("Pinot's Palette"), dated _____, 20__ (the "Agreements") shall be amended by the addition of the following language, which shall be considered an integral part of the Disclosure Document and Agreements (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 Agreements contain provisions that are inconsistent with the following, such provisions are hereby amended:

a. The Agreements require 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 Pinot's Palette 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 Agreements and Item 17 of the Disclosure Document designates 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.

c. The Agreements require 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 3 years after the grant of the franchise.

e. The Agreements contain certain provisions regarding termination and non-renewal of franchise and notice and opportunity to cure. To the extent any provision of the Agreements and/or the Disclosure Document are inconsistent with Sections 705/19 - 705/20 of the Act, those provisions of the Agreements 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.

3. Notwithstanding anything to the contrary in the Agreements, all initial franchise fees shall be deferred until such time as Franchisor has completed all initial obligations owed to Franchisee and Franchisee has commenced doing business.

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:

PINOT'S PALETTE FRANCHISE LLC,
a Texas limited liability company

By: _____
Name: _____
Title: _____

FRANCHISEE:

By: _____
Name: _____
Title: _____

**AMENDMENT TO PINOT'S PALETTE FRANCHISE LLC
DISCLOSURE DOCUMENT
FOR THE STATE OF MARYLAND**

The Pinot's Palette Franchise LLC Disclosure Document is amended as follows:

1. Item 17 (v) is amended to state that a franchisee may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
2. Item 17 is amended to state that any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.
3. Item 17 is amended to the effect that any general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
4. Any provision in the Agreements which provides for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law.

**AMENDMENT TO PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT AND AREA DEVELOPMENT AGREEMENT
FOR THE STATE OF MARYLAND**

The Pinot's Palette Franchise LLC Disclosure Document (the "Disclosure Document") and Franchise Agreement and Area Development Agreement between _____ ("Franchisee") and Pinot's Palette Franchise LLC, a Texas limited liability company ("Pinot's Palette"), dated _____, 20__ (the "Agreements") shall be amended by the addition of the following language, which shall be considered an integral part of the Disclosure Document and Agreements (this "Amendment"):

The Maryland Securities Division requires that certain provisions contained in the Agreements be amended as follows:

1. The Agreements are amended to permit a franchisee to bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
2. The Agreements are amended to state that any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.
3. The Agreements are amended to the effect that any general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
4. The Agreements are amended to the effect that all representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.
5. The Agreements are amended to the effect that all franchise fees are deferred until such time as all Pinot's Palette's material pre-opening obligations have been 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:
PINOT'S PALETTE FRANCHISE LLC,
a Texas limited liability company

By: _____
Name: _____
Title: _____

FRANCHISEE:

By: _____
Name: _____
Title: _____

**AMENDMENT TO PINOT'S PALETTE FRANCHISE, LLC
DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT
FOR THE STATE OF NEW YORK**

The Pinot's Palette Franchise LLC Disclosure Document (the "Disclosure Document") and Franchise Agreement and Area Development Agreement between _____ ("Franchisee") and Pinot's Palette Franchise LLC, a Texas limited liability company ("Pinot's Palette"), dated _____, 20__ (the "Agreements") shall be amended by the addition of the following language, which shall be considered an integral part of the Disclosure Document and Agreements (this "Amendment"):

NEW YORK LAW MODIFICATIONS

1. The New York Department of Law requires that certain provisions contained in franchise documents be amended to be consistent with New York law, including the General Business Law, Article 33, Sections 680 through 695 (1989). To the extent that the Disclosure Document and/or Agreements contain provisions that are inconsistent with the following, such provisions are hereby amended:

a. If the Franchisee is required in the Agreements to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the General Business Law, regulation, rule or order under the Law, such release shall exclude claims arising under the New York General Business Law, Article 33, Section 680 through 695 and the regulations promulgated thereunder, and such acknowledgments shall be void. It is the intent of this provision that non-waiver provisions of Sections 687.4 and 687.5 of the General Business Law be satisfied.

b. If the Agreements require that it be governed by a state's law, other than the State of New York, the choice of law provision shall not be considered to waive any rights conferred upon the Franchisee under the New York General Business Law, Article 33, Sections 680 through 695.

c. Except as disclosed in Item 3 of the Disclosure Document, neither Pinot's Palette, its predecessor, any person identified in Item 2 of the Disclosure Document or an franchise offering franchises under Pinot's Palette's marks (i) has an administrative, criminal or civil action pending against that person alleging: a felony; a violation of franchise, antitrust or securities law; fraud, embezzlement, fraudulent conversion, misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations, or pending actions that are significant to the franchise system or Pinot's Palette's business operations, (ii) has been convicted of a felony or pleaded nolo contendere to a felony charge or, within a ten-year period preceding the date of the Disclosure Document, been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of franchise, antitrust or securities law; fraud, embezzlement, fraudulent conversion, misappropriation of property; unfair or deceptive practices or comparable allegations or (iii) is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a federal, state or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, as amended, suspending or expelling such person from membership in such association or exchange, or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including actions affecting a license as a real estate broker or sales agent.

d. Neither Pinot's Palette, its affiliates, its predecessor, officers or general partner during the 10-year period immediately before the date of the Disclosure Document (a) filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after the officer or general partner of Pinot's Palette held this position in the company or partnership.

e. The following language is substituted for the existing language in the Summary column opposite provision (d) in Item 17 of the Disclosure Document: "You may terminate the Franchise Agreement/Area Development Agreement upon any grounds permitted by law."

f. The following language is added to the Summary column opposite provision (w) in Item 17 of the Disclosure Document: "The foregoing choice of law should not be considered a waiver of any right conferred upon you by the General Business Law of the State of New York."

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the New York General Business Law, 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:

PINOT'S PALETTE FRANCHISE LLC,
a Texas limited liability company

By: _____
Name: _____
Title: _____

FRANCHISEE:

By: _____
Name: _____
Title: _____

**AMENDMENT TO PINOT'S PALETTE FRANCHISE LLC
DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT
FOR THE STATE OF VIRGINIA**

The Pinot's Palette Franchise LLC Disclosure Document (the "Disclosure Document") and Franchise Agreement and Area Development Agreement between _____ ("Franchisee") and Pinot's Palette Franchise LLC, a Texas limited liability company ("Pinot's Palette"), dated _____, 20__ (the "Agreements") shall be amended by the addition of the following language, which shall be considered an integral part of the Disclosure Document and Agreements (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 Pinot's Palette 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 Pinot's Palette Franchise LLC 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.

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to use undue influence to induce a franchisee to surrender any right given to him under the franchise. If any provision of the Franchise Agreement involves the use of undue influence by the franchisor to induce a franchisee to surrender any rights given to him under the franchise, 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:

PINOT’S PALETTE FRANCHISE LLC,
a Texas limited liability company

By: _____
Name: _____
Title: _____

FRANCHISEE:

By: _____
Name: _____
Title: _____

**AMENDMENT TO PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT AND AREA DEVELOPMENT AGREEMENT
FOR THE STATE OF WASHINGTON**

The Pinot's Palette Franchise LLC Disclosure Document (the "Disclosure Document") and Franchise Agreement and Area Development Agreement between _____ ("Franchisee") and Pinot's Palette Franchise LLC, a Texas limited liability company ("Pinot's Palette"), dated _____, 20__ (the "Agreements") shall be amended by the addition of the following language, which shall be considered an integral part of the Disclosure Document and Agreements (this "Amendment"):

WASHINGTON LAW MODIFICATIONS

1. BACKGROUND. Pinot's Palette and you are parties to the certain Agreements dated _____, 20__ that have been signed concurrently with the signing of this Amendment. This Amendment is annexed to and forms part of the Agreements. This Amendment is being signed because (a) the offer or sale of the franchise for the Pinot's Palette Studio that you will operate under the Agreements was made in the State of Washington, (b) you are a resident of Washington, and/or (c) the Pinot's Palette Business will be located or operated in the State of Washington.

2. ADDITION OF PARAGRAPHS. The following paragraphs are added to the end of the Agreements:

In recognition of the requirements of the Washington Franchise Investment Protection Act (the "Act") and the rules and regulations promulgated thereunder, the Agreements of Pinot's Palette shall be modified as follows:

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

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

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

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

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

Notwithstanding anything to the contrary in the Franchise Agreement, collection of the initial franchise fee will be deferred until Franchisor has fulfilled its pre-opening obligations and Franchisee is open for business

The undersigned does hereby acknowledge receipt of this Amendment.

IN WITNESS WHEREOF, the parties hereto have fully executed, sealed and delivered this Amendment to the Disclosure Document and Agreements on the ___ day of _____, 20__.

FRANCHISOR:

PINOT'S PALETTE FRANCHISE LLC,
a Texas limited liability company

By: _____
Name: _____
Title: _____

FRANCHISEE:

By: _____
Name: _____
Title: _____

EXHIBIT C
FRANCHISE AGREEMENT



PINOT'S PALETTE FRANCHISE LLC

FRANCHISE AGREEMENT

FRANCHISEE

APPROVED LOCATION

EFFECTIVE DATE OF AGREEMENT

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EXHIBITS

EXHIBIT A – DATA SHEET

EXHIBIT B – LIST OF FRANCHISEE’S PRINCIPALS AND DESIGNATED PRINCIPAL

EXHIBIT C – GUARANTY

EXHIBIT D – AUTHORIZATION AGREEMENT FOR PREARRANGED PAYMENTS

EXHIBIT E – TELEPHONE NUMBER ASSIGNMENT AND POWER OF ATTORNEY

EXHIBIT F – MOBILE FRANCHISE ADDENDUM

EXHIBIT G – LEASE TERMS

EXHIBIT H – FRANCHISEE DISCLOSURE ACKNOWLEDGMENT STATEMENT

FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (the “**Agreement**”) is made and entered into on this _____ day of _____, 20____ (the “**Effective Date**”), by and between:

- ◆ Pinot’s Palette Franchise LLC, a Texas limited liability company, whose principal place of business is 10333 Harwin Drive, Suite 580, Houston, Texas 77036 (“**Franchisor**”); and

- ◆ _____ a [resident of] _____ [corporation organized in] [limited liability company organized in] [*select one*], having offices at _____

_____ (“**Franchisee**”).

BACKGROUND:

A. Franchisor owns a format and system (the “**System**”) relating to the establishment and operation of businesses at retail locations that feature and operate under the Proprietary Marks (as defined below) (each a “**Pinot’s Palette Studio**”). Pinot’s Palette Studios offer customers artistic classes, including painting classes, with the opportunity to enjoy food, wine or other beverages, under the name “Pinot’s Palette.”

B. The distinguishing characteristics of the System include exterior and interior design standards and specifications; uniform standards, specifications, and procedures for operations; training and assistance; and marketing and promotional programs; all of which may be changed, improved, and further developed by Franchisor from time to time.

C. The System is identified by means of certain indicia of origin, emblems, trade names, service marks, logos, and trademarks, including applications and/or registrations therefor, as are now designated and may hereafter be designated by Franchisor in writing for use in connection with the System including the mark “Pinot’s Palette” and other related marks (the “**Proprietary Marks**”). The Proprietary Marks are owned by Pinot’s Palette Studio I LLC (formerly Pinot & Picasso LLC), a Texas limited liability company, and it has licensed them to Franchisor so that Franchisor may sub-license them to its franchisees.

D. Franchisee desires to enter into the business of operating a Pinot’s Palette Studio under the System and using the Proprietary Marks, and wishes to enter into this Agreement with Franchisor for that purpose, and to receive the training and other assistance provided by Franchisor in connection therewith.

E. Franchisee acknowledges that it has read this Agreement and the Franchisor’s Franchise Disclosure Document and that it understands and accepts the terms, conditions and covenants contained in this Agreement as being reasonably necessary to maintain the Franchisor’s high standards of quality and service and the uniformity of those standards at all Pinot’s Palette Studios in order to protect and preserve the goodwill of the Proprietary Marks.

F. Franchisee has applied for a franchise to own and operate a Pinot’s Palette Studio, and such application has been approved by the Franchisor in reliance upon all of the representations made herein.

NOW, THEREFORE, the parties agree as follows:

1. **GRANT**

1.1 **Grant and Acceptance.** Franchisor grants to Franchisee the right, and Franchisee hereby undertakes the obligation, upon the terms and conditions set forth in this Agreement to: (a) establish and operate a Pinot's Palette Studio (the "**Franchised Studio**"), (b) use, only in connection therewith, the Proprietary Marks and the System, as they may be changed, improved, or further developed from time to time by Franchisor; and (c) operate the Franchised Studio only at the Approved Location (as defined in Section 1.2 below) in accordance with this Agreement.

1.2 **Site Selection Area.** Franchisee shall locate and secure, through lease or purchase, subject to Franchisor's approval, the Approved Location (as defined below) for the Franchised Studio within the area described in Exhibit A (the "**Site Selection Area**"). Franchisee shall be limited to locating and securing a site for the Franchised Studio within this Site Selection Area. Franchisee agrees and acknowledges that the Site Selection Area is solely for the purpose of locating a site, and shall in no way be considered an exclusive or protected area for the Franchised Studio. In the case that another franchisee of Franchisor has been granted franchise rights to operate a Pinot's Palette Studio within the Site Selection Area, Franchisee's Approved Location must not encroach upon such franchisee's specified territory.

1.3 **Approved Location.** Franchisee shall develop and operate the Franchised Studio only at the site specified in Exhibit A to this Agreement as the "**Approved Location**" or "**Premises.**" The Approved Location shall be described in Exhibit A subsequent to the execution of this Agreement, upon Franchisor's approval of the location and execution of the related lease or purchase agreement. Franchisee shall not relocate the Franchised Studio without Franchisor's prior written consent and/or otherwise in writing by Franchisor, as provided in Section 8.21 below.

1.4 **Territory and Reserved Rights.** Except as otherwise provided in this Agreement, during the term of this Agreement, Franchisor shall not establish or operate, nor license any other person to establish or operate, a Pinot's Palette Studio at any location within the territory specified in Exhibit A (the "**Territory**"). Franchisor retains the following rights, among others, on any terms and conditions Franchisor deems advisable, and without granting Franchisee any rights therein:

1.4.1 To own, acquire, establish, and/or operate and license others to establish and operate, Pinot's Palette Studios under the System at any location outside the Territory, notwithstanding their proximity to the Territory or the Approved Location or their actual or threatened impact on sales of the Franchised Studio;

1.4.2 To own, acquire, establish and/or operate, and license others to establish and operate, businesses under proprietary marks other than the Proprietary Marks, whether such businesses are similar to or different from the Franchised Studio, at any location within or outside the Territory, notwithstanding their proximity to the Territory or the Approved Location or their actual or threatened impact on sales of the Franchised Studio;

1.4.3 To own, acquire, establish, and/or operate and license others to establish and operate mobile Pinot's Palette Studios offering customers artistic classes, including painting classes, with the opportunity to enjoy food, wine or other beverages, under the Proprietary Marks at customer residences, places of business, or other suitable venues that are off-site from the Franchised Studio, at any location within or outside the Territory, notwithstanding their proximity to the Territory or the Approved Location or their actual or threatened impact on sales of the Franchised Studio; and

1.4.4 To (i) acquire one or more retail businesses that are the same as, or similar to, Pinot's Palette Studios then operating under the System (each an "**Acquired Business**"), which may be at any location within or outside the Territory, notwithstanding their proximity to the Territory or the Approved Location or their actual or threatened impact on sales of the Franchised Studio, and to (ii) operate and/or license others to operate any Acquired Business under its existing name or as a Pinot's Palette Studio under the System, subject to the following conditions that apply to each Acquired Business located within the Territory:

1.4.4.1 Except as provided in Section 1.4.4.2 below, and provided that Franchisee is in compliance with this Agreement and any other agreement with Franchisor, Franchisor shall offer to Franchisee the option to purchase and operate, as a Pinot's Palette Studio, an Acquired Business that is purchased by Franchisor for operation by Franchisor or its affiliates. Franchisor shall provide Franchisee with written notice of Franchisor's purchase of the Acquired Business(es), the terms and conditions applicable to the Franchisee's option to purchase such Acquired Business(es), and such other information that Franchisor deems necessary to include in the notice. The terms and conditions offered to Franchisee shall include, without limitation, the following: (a) the purchase price will be based on Franchisor's purchase price for such Acquired Business, and if the Acquired Business was part of an Acquired System (as defined below in Section 1.4.4.2), then Franchisee's purchase price for such Acquired Business shall be determined using a ratio equal to the sales during the prior year of such Acquired Business as compared to the total sales in such prior year of all Acquired Businesses purchased by Franchisor in the same transaction; and (b) the requirement that Franchisee enter into Franchisor's then-current form of System franchise agreement for the Acquired Business. If Franchisee does not elect to purchase, or fails to complete the purchase of, an Acquired Business, Franchisor shall have the right to operate itself, or through its affiliates or third party licensees or franchisees, the Acquired Business under any trade name, service mark, or trademarks including the Proprietary Marks.

1.4.4.2 If an Acquired Business is part of a system of retail businesses that Franchisor acquires (an "**Acquired System**"), Franchisee shall have no right to purchase, and Franchisor shall not be obligated to offer Franchisee any option to purchase, any Acquired Business that is operated by a licensee or franchisee under the Acquired System. Franchisor may license such unit to be operated under any trade name or trademarks including the Proprietary Marks, and may also license to the licensee or franchisee additional units of the Acquired System that the licensee or franchisee has the right to develop and operate within the Territory.

1.5 **No Territory Established.** If there is no Territory established in Exhibit A, Franchisee expressly acknowledges and agrees that Franchisor may own, acquire, establish, and/or operate and license others to establish and operate, Pinot's Palette Studios under the System at any location, and exercise all of the rights reserved to it in Section 1.4 at any location, notwithstanding the proximity to or the actual or threatened impact on sales of the Franchised Studio.

2. **TERM AND RENEWAL**

2.1 **Initial Term.** This Agreement shall be in effect upon its acceptance and execution by Franchisor and, except as otherwise provided herein, this Agreement shall expire ten (10) years from the Effective Date.

2.2 **Renewal.** Franchisee may apply to operate the Franchised Studio for one (1) additional term of ten (10) years, if the following conditions are met prior to renewal:

2.2.1 Franchisee shall give Franchisor written notice of Franchisee's election to renew at least six (6) months, but not more than twelve (12) months, prior to the end of the term of this Agreement;

2.2.2 Franchisee shall not have any past due monetary obligations or other outstanding obligations to Franchisor and its affiliates, the approved suppliers of the System, or the lessor of the Premises;

2.2.3 Franchisee shall not be in default of any provision of this Agreement, any amendment hereof or successor hereto, or any other agreement between Franchisee and Franchisor or its affiliates, the approved suppliers of the System, or the lessor of the Premises; and Franchisee shall have substantially complied with all the terms and conditions of such agreements during the terms thereof;

2.2.4 Franchisee and Franchisor shall execute a mutual general release, in a form prescribed by Franchisor, of any and all claims against Franchisor and its affiliates, and their respective officers, directors, agents, and employees;

2.2.5 Franchisee shall execute the then-current form of franchise agreement offered by Franchisor, which shall supersede this Agreement in all respects, and the terms of which may differ from the terms of this Agreement including, without limitation, requirements to pay additional and/or higher fees such as royalties and advertising contributions;

2.2.6 Franchisee shall comply with the then-current qualification and training requirements of Franchisor;

2.2.7 Franchisee shall make or provide for, in a manner satisfactory to Franchisor, such renovation and modernization of the Premises as Franchisor may reasonably require, including installation of new equipment and renovation of signs, furnishings, fixtures, and decor to reflect the then-current standards and image of the System;

2.2.8 Franchisee shall present evidence satisfactory to Franchisor that Franchisee has the right to remain in possession of the Premises (or such other location acceptable to Franchisor) for the duration of the renewal term;

2.2.9 Franchisee, at the time of renewal, satisfies Franchisor's standards of financial responsibility and, if requested by Franchisor, Franchisee demonstrates to Franchisor that Franchisee has sufficient financial resources and means to continue to operate the Franchised Studio during the renewal term; and

2.2.10 Franchisee shall remit to Franchisor a renewal fee equal to one half (1/2) of the then-current initial franchise fee, however not to exceed Fifteen Thousand Dollars (\$15,000).

3. DUTIES OF FRANCHISOR

3.1 Franchisor's Prototype Plans. Franchisor shall make available, at no charge to Franchisee, design plans and specifications for the construction of a Pinot's Palette Studio and for the exterior and interior design and layout, fixtures, furnishings, equipment, and signs. Franchisee acknowledges that such standard design plans and specifications shall not contain the requirements of any federal, state or local law, code or regulation (including without limitation those concerning the Americans with Disabilities Act (the "ADA") or similar rules governing public accommodations or commercial facilities for persons with disabilities), nor shall such plans contain the requirements of, or be

used for, construction drawings or other documentation necessary to obtain permits or authorization to build a specific Pinot's Palette Studio, compliance with all of which shall be Franchisee's responsibility and at Franchisee's expense. Franchisee understands and acknowledges that Franchisor has the right to modify the prototype design plans and specifications, and develop additional prototype design plans and specifications, as Franchisor deems appropriate from time to time (however Franchisor will not modify the prototype plans and specifications for the Franchised Studio developed pursuant to this Agreement once those prototype architectural plans and specifications have been given to Franchisee). Franchisee shall adapt the standard plans to the Franchised Studio's location, as provided in Section 5.3 hereof, subject to Franchisor's approval.

3.2 **Initial Training.** Franchisor shall provide its initial training for operators and managers ("**Initial Training**"), as described in Section 6 of this Agreement, for up to three (3) trainees (unless this Agreement is for the fourth or subsequent Pinot's Palette Studio being developed pursuant to an Area Development Agreement between Franchisor and Franchisee (or an affiliate of Franchisee), in which event the terms set forth in Section 6.1.3 below shall apply with respect to the pre-opening training of Franchisee, the Designated Principal and any General Manager). Franchisor shall also provide such ongoing training as it may, from time to time, deem appropriate.

3.3 **Opening Training.** Franchisor shall make available to Franchisee at Franchisor's expense and at Franchisee's Premises any assistance that Franchisor may deem is required, based on the experience and judgment of Franchisor, in pre-opening, opening and initial business operation of the Franchised Studio. Such assistance will include providing Franchisees with the services of one (1) or more representative of Franchisor for supervisory assistance and guidance in connection with the opening and initial operations of the Franchised Studio. Additionally, in return for the Artist Training Fee paid by Franchisee under Section 4.5, and in connection with such opening supervisory assistance and guidance, Franchisor will provide an artist trainer who will provide initial artist training at Franchisee's Premises to all artists Franchisee has hired to perform classes for the Franchised Studio. Franchisee acknowledges that Franchisor shall not be responsible for offering guidance with respect to compliance with any laws, ordinances or other legal matters. Prior to the arrival of Franchisor's representative(s), Franchisee shall have substantially completed all training of Franchisee's initial staff of employees for the Franchised Studio, as shall be necessary for Franchisee to comply with its staffing obligations under Section 8.4 below. Should Franchisee request additional assistance from Franchisor in order to facilitate the opening of the Franchised Studio, and should Franchisor deem it necessary and appropriate to comply with the request, Franchisee shall pay Franchisor's per diem charges and Franchisor's out of pocket expenses in providing such additional assistance as set forth from time to time in the Manuals. For the purposes of this Section 3.3, Franchisor shall have the right to determine the time or times at which such representatives shall be made available to Franchisee.

3.4 **Loan of Manuals.** Franchisor shall provide Franchisee, on loan, copies of the Franchisor's confidential operations manuals and other manuals, instructional materials, and written policies and correspondence (collectively, the "**Manuals**"), as more fully described in Section 10 hereof.

3.5 **Advertising Programs and Materials.** Franchisor shall review and shall have the right to approve or disapprove all advertising and promotional materials that Franchisee proposes to use, pursuant to Section 13 below. Franchisor shall administer the System or Cooperative Ad Funds, if such funds exist or are created, in the manner set forth in Section 13 below.

3.6 **Grand Opening Advertising.** Franchisor shall assist Franchisee in developing and conducting the Grand Opening Advertising Program (as described in Section 13.5 below), which program shall be conducted at Franchisee's expense.

3.7 **Guidance.** Franchisor may provide periodic advice or offer guidance to Franchisee in the marketing, management, and operation of the Franchised Studio as Franchisor determines at the time(s) and in the manner determined by Franchisor.

3.8 **Inspections.** Franchisor shall conduct, as it deems advisable, inspections of the operation of the Franchised Studio by Franchisee.

3.9 **List of Suppliers.** Franchisor shall, in the Manuals (or otherwise in writing as determined by Franchisor), provide Franchisee with a list of suppliers designated and/or approved by Franchisor to supply products, equipment, signage, materials and services to franchisees in the System.

3.10 **Delegation.** Franchisee acknowledges and agrees that any duty or obligation imposed on Franchisor by this Agreement may be performed by any distributor, designee, employee, or agent of Franchisor, as Franchisor may direct.

3.11 **Fulfillment of Obligations.** In fulfilling its obligations pursuant to this Agreement, and in conducting any activities or exercising any rights pursuant to this Agreement, Franchisor (and its affiliates) shall have the right: (i) to take into account, as it sees fit, the effect on, and the interests of, other Franchised Studios and systems in which Franchisor (or its affiliates) has an interest and Franchisor's (and its affiliates' or parent's) own activities; (ii) to share market and product research, and other proprietary and non-proprietary business information, with other Franchised Studios and systems in which Franchisor (or its affiliates) has an interest, or with Franchisor's affiliates; and/or (iii) to allocate resources and new developments between and among systems, and/or Franchisor's affiliates, as it sees fit. Franchisee understands and agrees that all of Franchisor's obligations under this Agreement are subject to this Section 3.11, and that nothing in this Section 3.11 shall in any way affect Franchisee's obligations under this Agreement.

4. **FEES**

4.1 **Franchise Fee.** In consideration of the execution of this Agreement and Franchisor's granting to Franchisee the franchise covered hereby, Franchisee agrees to pay to Franchisor an initial franchise fee of Twenty-Five Thousand Dollars (\$25,000) (the "**Franchise Fee**"), as reflected in Exhibit A, which sum shall be deemed fully earned by Franchisor upon receipt thereof and non-refundable as set forth in Section 4.2 below. If Franchisee does not obtain a lease or sublease for the Franchised Studio within three (3) months of the Effective Date (pursuant to Section 5.1), or if the Franchised Studio is not open and operating the earlier of six (6) months following the Effective Date or three (3) months after the Approved Location is identified and leased or purchased (pursuant to Section 5.4), Franchisor may, at its option, terminate this Agreement without providing any refund to Franchisee. The Franchise Fee shall be paid in full upon the execution of this Agreement, subject to a development credit, if any, that may be applied from the remaining portion (if any) of the Area Development Fees that Franchisee previously paid to Franchisor pursuant to a separate Area Development Agreement executed between Franchisor and Franchisee relating to the Franchised Studio.

4.2 **Refundability.** Payment of the Franchise Fee shall be non-refundable in consideration of administrative and other expenses incurred by Franchisor in granting this franchise and for Franchisor's lost or deferred opportunity to franchise others.

4.3 **Royalty Fee.** In consideration of this franchise granted hereby, the services to be provided by Franchisor hereunder, and for the use of the Proprietary Marks during the term hereof, Franchisee shall pay to Franchisor, each Week during the term of this Agreement, in addition to the Franchise Fee and other fees set forth herein, a Royalty Fee equal to five percent (5%) of the Net Sales

generated by, from, or through the Franchised Studio (“**Royalty Fee**”) and report to Franchisor, in the manner specified by Franchisor, its Net Sales (a “**Sales Report**”). As used in this Agreement, the following terms shall apply:

4.3.1 The term “**Week**” means the period starting with the commencement of business on Monday and concluding at the close of business on the following Sunday (or, if the Franchised Studio is not open on a particular Sunday in accordance with this Agreement or the Manuals, the immediately preceding business day); however, Franchisor shall have the right to designate in writing any other period of not less than seven days to constitute a “**Week**” under this Agreement.

4.3.2 The term “**Net Sales**” means all revenue from the sale of all products and services, and all other income of every kind and nature related to, derived from, or originating from the Franchised Studio, whether at retail or wholesale (whether such sales are permitted or not), whether for cash, check, or credit, and regardless of collection in the case of check or credit; provided, however, that “**Net Sales**” excludes any customer refunds, coupon sales, and/or sales taxes collected from customers by Franchisee and actually transmitted to the appropriate taxing authorities.

4.4 **Advertising Contributions.** Franchisee shall make Weekly advertising contributions for marketing and promotion as Franchisor may direct pursuant to Section 13.1 based on the Net Sales of the Franchised Studio.

4.5 **Artist Training Fee.** Franchisee shall pay to Franchisor an initial artist training fee of Five Hundred Dollars (\$500) per day, plus all out of pocket costs and expenses associated with this training, including lodging, food and travel arrangements (the “**Artist Training Fee**”), for which Franchisor will provide an artist trainer who will provide initial artist training at Franchisee’s Premises to all artists Franchisee has hired to perform classes for the Franchised Studio, pursuant to Section 3.3. The Artist Training Fee is non-refundable.

4.6 **Electronic Mail Account Fee.** During the term of this Agreement, Franchisor will provide Franchisee with System electronic mail accounts for a fee paid from Franchisee to Franchisor equal to the same amount Franchisor is charged for each such electronic mail account by Franchisor’s service providers, which fee is currently \$20 per month for each electronic mail account provided, and subject to increases. All fees paid by Franchisee to Franchisor for electronic mail accounts are non-refundable.

4.7 **Technology Fee.** During the term of this Agreement, Franchisor will grant Franchisee use of Franchisor’s cloud based software application for management of the Franchised Business in return for a fee equal to Fifty Dollars (\$50) per month paid by Franchisee to Franchisor. All fees paid in accordance with this Section 4.7 are non-refundable.

4.8 **Prototype Drawings.** Franchisee shall pay to Franchisor a non-refundable amount equal to Four Hundred Dollars (\$400) for which Franchisor will have an architect consultant provide prototype drawings for the Franchised Studio specific to the Approved Location to be utilized by Franchisee’s architect for the preparation of construction drawings. Franchisee will be limited to three revisions of these prototype drawings prepared for the Franchised Studio.

4.9 **When Payments Due.** All payments required by Sections 4.3 and 4.4 above based on the Net Sales for the preceding Week, and the Sales Report required by Section 4.3 for the Net Sales for the preceding Week, shall be paid and submitted so as to be received by Franchisor by the third (3rd) business day after the close of each Week. The Artist Training Fee required by Section 4.5 and the fee required by Section 4.8 shall be paid immediately upon Franchisor’s demand after such services have

been rendered. All payments required by Sections 4.6 and 4.7 shall be paid so as to be received by Franchisor on the same date as the first Royalty Fee payment of each month during the term of this Agreement becomes due. Franchisee shall deliver to Franchisor any and all reports, statements and/or other information required under Section 12.2 below, at the time and in the format reasonably requested by Franchisor. Franchisee shall establish an arrangement for electronic funds transfer or deposit of any payments required under this Agreement. Franchisee shall execute Franchisor's current form of "Authorization Agreement for Prearranged Payments," a copy of which is attached to this Agreement as Exhibit D, and Franchisee shall comply with the payment and reporting procedures specified by Franchisor in the Manuals. Franchisee expressly acknowledges and agrees that Franchisee's obligations for the full and timely payment of the Royalty Fee and Advertising Contributions (and all other amounts provided for in this Agreement) shall be absolute, unconditional, fully earned, and due upon Franchisee's generation and receipt of Net Sales. Franchisee shall not for any reason delay or withhold the payment of all or any part of those or any other payments due hereunder, put the same in escrow or set-off same against any claims or alleged claims Franchisee may allege against Franchisor, the System Ad Fund, the Cooperative Ad Fund or others. Franchisee shall not, on grounds of any alleged non-performance by Franchisor or others, withhold payment of any fee, including, without limitation, Royalty Fees or advertising contributions, nor withhold or delay submission of any reports due hereunder including, but not limited, to Sales Reports. Franchisee further agrees that it shall, at all times throughout the term of this Agreement, maintain a minimum balance of Two Thousand Five Hundred Dollars (\$2,500.00) in Franchisee's bank account against which such electronic funds transfers shall be drawn for the Franchised Studio operated under this Agreement.

4.10 **Designated Accountants and Fees.** If required by Franchisor, Franchisee shall use a certified public accountant service designated or approved by Franchisor for bookkeeping and financial records management of the Franchised Studio.

4.11 **Additional Payments.** Franchisee shall pay to Franchisor, within fifteen (15) days of any written request by Franchisor, which is accompanied by reasonable substantiating material, any monies which Franchisor has paid, or has become obligated to pay, on behalf of Franchisee, by consent or otherwise under this Agreement.

4.12 **Overdue Payments and Reports.** Any payment, contribution, statement, or report not actually received by Franchisor on or before such due date shall be overdue. If any contribution or payment is overdue, Franchisee shall pay Franchisor immediately upon demand, in addition to the overdue amount: (i) a late payment fee in an amount equal to five percent (5%) of the overdue amount, and (ii) interest on the overdue amount from the date it was due until paid, at the rate of one and one-half percent (1.5%) per month, or the maximum rate permitted by law, whichever is less. Entitlement to such interest shall be in addition to any other remedies Franchisor may have. In the event any payment due hereunder is overdue, and for as long as such payment is overdue, Franchisor reserves the right to deny Franchisee access to Franchisor's cloud based software application and System electronic mail account(s).

4.13 **No Waiver.** Acceptance by Franchisor of the payment of any Royalty Fee, or any and all other payments provided for in this Agreement, shall not be conclusive or binding on Franchisor with respect to the accuracy of such payment until two (2) years after the effective date of termination or non-renewal of this Agreement. Acceptance of any payment on account of the Royalty Fee or any and all other payments provided for in this Agreement does not constitute any waiver of Franchisor's rights hereunder.

4.14 **No Subordination.** Franchisee shall not subordinate to any other obligation its obligation to pay Franchisor the royalties and/or any other fee or charge payable to Franchisor, whether under this Agreement or otherwise.

5. **SITE SELECTION, CONSTRUCTION AND OPENING OF BUSINESS**

5.1 **Identifying and Securing Sites.** Franchisee shall, within three (3) months of the Effective Date, be solely responsible for identifying, submitting for Franchisor's approval, and securing a site for the Franchised Studio through lease or purchase. The following terms and conditions shall apply to the Franchised Studio:

5.1.1 Franchisee shall submit to Franchisor, in a form specified by Franchisor, a completed site approval package, which shall include: (i) a site approval form prescribed by Franchisor; (ii) a trade area and site marketing research analysis (prepared by a company approved in advance by Franchisor); (iii) an option contract, letter of intent, or other evidence satisfactory to Franchisor which describes Franchisee's favorable prospects for obtaining such site; (iv) photographs of the site; (v) demographic statistics; and (vi) such other information or materials as Franchisor may reasonably require (collectively, the "SAP"). Franchisor shall have twenty (20) business days after receipt of the SAP from Franchisee to approve or disapprove, in its sole discretion, the proposed site for the Franchised Studio. In the event Franchisor does not approve a proposed site by written notice to Franchisee within said twenty (20) business days, such site shall be deemed disapproved by Franchisor. No site shall be deemed approved unless it has been expressly approved in writing by Franchisor.

5.1.2 Following Franchisor's approval of a proposed site, Franchisee shall use its best efforts to secure such site, either through a lease/sublease that is acceptable to Franchisor, as provided in Section 5.2 below, or a binding purchase agreement, and shall do so within sixty (60) business days of approval of the site by Franchisor. Franchisee shall immediately notify Franchisor of the execution of the approved lease or binding purchase agreement. The site approved and secured pursuant to this Agreement shall be specified as the Approved Location.

5.1.3 Franchisee hereby acknowledges and agrees that approval by Franchisor of a site does not constitute an assurance, representation, or warranty of any kind, express or implied, as to the suitability of the site for the Franchised Studio or for any other purpose. Approval by Franchisor of the site indicates only that Franchisor believes the site complies with acceptable minimum criteria established by Franchisor solely for its purposes as of the time of the evaluation. Both Franchisee and Franchisor acknowledge that application of criteria that have been effective with respect to other sites and premises may not be predictive of potential for all sites and that, subsequent to approval by Franchisor of a site, demographic and/or economic factors, such as competition from other similar businesses, included in or excluded from criteria used by Franchisor, could change, thereby altering the potential of a site. Such factors are unpredictable and are beyond the control of Franchisor. Franchisor shall not be responsible for the failure of a site approved by Franchisor to meet Franchisee's expectations as to revenue or operational criteria.

5.2 **Lease Terms.** For each Franchised Studio to be developed hereunder, if Franchisee will occupy the premises from which the Franchised Studio will be operated under a lease or sublease, Franchisee shall, prior to execution of such lease, submit the lease to Franchisor for its review and approval; provided, however, if pre-submission to Franchisor is not possible, then Franchisee may sign the lease only on the condition, agreed to in writing by the lessor, that the lease shall become null and void if Franchisor does not approve such lease. Franchisor's approval of the lease or sublease may be conditioned upon the inclusion of such provisions as Franchisor may reasonably require, including,

without limitation, the terms and conditions set forth by Franchisor in the Manuals or otherwise in writing from time to time, a current list of which is included in Exhibit G to this Agreement.

5.3 **Preparing a Location.** Before commencing any construction of the Franchised Studio, Franchisee, at its expense, shall comply, to Franchisor's satisfaction, with all of the following requirements:

5.3.1 Franchisee shall employ a qualified, licensed architect or engineer who has been approved or designated (as described below) by Franchisor to prepare, subject to Franchisor's approval, preliminary plans and specifications for site improvement and/or construction of the Franchised Studio based upon design plans and specifications furnished by Franchisor, as described in Section 3.1 above. Franchisor shall have the right to designate one or more suppliers of design services and/or architecture services to supply such services to the System. If Franchisor designates a design firm and/or architecture firm prior to the time Franchisee commences to develop the Franchised Studio, Franchisee shall employ such designated supplier(s) to prepare all designs and plans for the Franchised Studio, unless Franchisee obtains Franchisor's prior written approval to use an alternative professional. If Franchisor has not designated a design firm or architecture firm, Franchisee shall be responsible for locating and employing a qualified design consultant and architect who is/are licensed in the jurisdiction in which the Franchised Studio will be located, and who is reputable and experienced in providing design and architecture services. Franchisee shall be solely responsible for payments for all design and architecture services. Franchisee expressly acknowledges and agrees that Franchisor shall not be liable for the unsatisfactory performance of any contractor, firm, supplier, professional or consultant retained by Franchisee, whether or not designated by Franchisor.

5.3.2 Franchisee shall comply with all federal, state and local laws, codes and regulations, including the applicable provisions of the ADA regarding the construction, design and operation of the Franchised Studio. In the event Franchisee receives any complaint, claim, other notice alleging a failure to comply with the ADA, Franchisee shall provide Franchisor with a copy of such notice within five (5) days after receipt thereof.

5.3.3 Franchisee shall be responsible for obtaining all zoning classifications and clearances that may be required by state or local laws, ordinances, or regulations or that may be necessary or advisable owing to any restrictive covenants relating to the Approved Location. After having obtained such approvals and clearances, Franchisee shall submit to Franchisor, for Franchisor's approval, final plans for construction based upon the preliminary plans and specifications. Franchisor's review and approval of plans shall be limited to review of such plans to assess compliance with Franchisor's design standards for Pinot's Palette Studios, including such items as trade dress, presentation of Proprietary Marks, and the providing to the potential customer of certain products and services that are central to the functioning of Pinot's Palette Studios. Such review is not designed to assess compliance with federal, state or local laws and regulations, including the ADA, as compliance with such laws is the sole responsibility of Franchisee. Once approved by Franchisor, such final plans shall not thereafter be changed or modified without the prior written permission of Franchisor. Any such change made without Franchisor's prior written permission shall constitute a default and Franchisor may withhold its authorization to open the Franchised Studio until the unauthorized change is rectified (or reversed) to Franchisor's reasonable satisfaction.

5.3.4 Franchisee shall obtain all permits and certifications required for the lawful construction and operation of the Franchised Studio and shall certify in writing to Franchisor that all such permits and certifications have been obtained.

5.3.5 Franchisee shall employ a qualified licensed general contractor who has been approved or designated by Franchisor to construct the Franchised Studio and to complete all improvements. Franchisee shall obtain and maintain in force during the entire period of construction the insurance required under Section 14 below. Franchisee expressly acknowledges and agrees that Franchisor shall not be liable for the unsatisfactory performance of any contractor retained by Franchisee.

5.3.6 Throughout the construction process, Franchisee shall comply with Franchisor's requirements and procedures for periodic inspections of the Premises, and shall fully cooperate with Franchisor's representatives in such inspections by rendering such assistance as they may reasonably request.

5.3.7 Franchisee agrees to use in the construction and operation of the Franchised Studio only those brands, types or models of construction and decorating materials, fixtures, equipment, furniture and signs that the Franchisor has approved for the Pinot's Palette Studios as meeting its specifications and standards for quality, design, appearance, function and performance. Franchisee further agrees to place or display at the premises of the Franchised Studio only such signs, emblems, lettering, logos and display materials that are from time to time approved in writing by the Franchisor. Franchisee may purchase approved types or models of construction and decorating materials, fixtures, equipment, furniture and signs from any supplier approved or designated by the Franchisor (which may include the Franchisor and/or its affiliates), which approval may not be unreasonably withheld. If Franchisee proposes to purchase any type or model of construction or decorating material, fixture, equipment, furniture or sign not then approved by the Franchisor, and/or any such item from any supplier which is not then approved by the Franchisor, Franchisee shall first notify Franchisor in writing and shall submit to Franchisor sufficient specifications, photographs, drawings and/or other information or samples for a determination by Franchisor of whether such brand or type of construction or decorating material, fixture, equipment, furniture or sign complies with its specifications and standards. Franchisor may, in its sole discretion, refuse to approve any such item(s) and/or supplier(s) that does not meet Franchisor's standards or specifications.

5.4 **Opening Date.** Unless delayed by the occurrence of events constituting "force majeure" as defined in Section 5.5 below, Franchisee shall construct, furnish, and open the Franchised Studio in accordance with this Agreement the earlier of six (6) months following the execution of this Agreement or three (3) months after the Approved Location is identified and secured through lease or purchase. Time is of the essence. Franchisee shall provide Franchisor with (a) written notice of its specific intended opening date; and (b) request for Franchisor's approval to open on such date. Such notice and request shall be made no later than thirty (30) days prior to such intended opening date. Additionally, Franchisee shall comply with all other of Franchisor's pre-opening requirements, conditions and procedures (including, without limitation, those regarding pre-opening scheduling, training, and communications) as set forth in this Agreement, the Manuals, and/or elsewhere in writing by Franchisor, and shall obtain Franchisor's written approval as to the opening date prior to opening the Franchised Studio.

5.5 **Force Majeure.** As used in this Agreement, "force majeure" means an act of God, war, civil disturbance, act of terrorism, government action, fire, flood, accident, hurricane, earthquake, or other calamity, strike or other labor dispute, or any other cause beyond the reasonable control of Franchisee; provided, however, force majeure shall not include Franchisee's lack of adequate financing.

6. **TRAINING**

6.1 **Initial Training and Attendees.** Before opening the Franchised Studio, Franchisee shall have satisfied all initial training obligations required by Franchisor, which are as follows:

6.1.1 Franchisee (or, if Franchisee is other than an individual, the Designated Principal (defined in Section 8.3 below)) and, if applicable, the General Manager and up to one (1) additional persons as Franchisor may require, (not to exceed a total of three (3) persons), shall attend and successfully complete, to Franchisor's satisfaction, the initial training program offered by Franchisor at a location designated by Franchisor (unless this Agreement is for the fourth or subsequent Pinot's Palette Studio being developed pursuant to an Area Development Agreement between Franchisor and Franchisee (or an affiliate of Franchisee), in which event the requirements set forth in Section 6.1.3 below shall apply with respect to the pre-opening training of Franchisee, the Designated Principal and any General Manager). The duration of the initial training will be from approximately ninety (90) to one hundred (100) hours, depending on the function of the individual attending such training. During the initial training, Franchisee shall receive instruction, training and education in the operation of the Franchised Studio and indoctrination into the System. If any required attendee does not satisfactorily complete such training, Franchisor may require that a replacement person attend and successfully complete, to Franchisor's satisfaction, the initial training program.

6.1.2 If Franchisee is other than an individual, Franchisor may require (in addition to the training of the Designated Principal and General Manager) that any or all owners of beneficial interests in Franchisee (each a "**Principal**"), who are individuals and own at least a ten percent (10%) beneficial interest in Franchisee, attend and successfully complete, to Franchisor's satisfaction, such portions of the initial training program as determined by Franchisor appropriate for Principals not involved in the day-to-day operations of the Franchised Studio.

6.1.3 If this Agreement is for the fourth or subsequent Pinot's Palette Studio being developed pursuant to an Area Development Agreement between Franchisor and Franchisee (or an affiliate of Franchisee), then Franchisee shall be responsible for conducting the initial training of its Designated Principal, its General Manager (if applicable), and any other managerial personnel, in accordance with the requirements and conditions as Franchisor may from time to time establish for such training. Franchisor's requirements for initial training by Franchisee shall be set forth in the Manuals or other written materials and shall include, but are not limited to, the requirement that all such training activities be conducted: (a) by the Designated Principal(s) or personnel of Franchisee (or an affiliate of Franchisee) who have completed Franchisor's initial training program to the satisfaction of the Franchisor, and who remain acceptable to Franchisor to provide initial training; and (b) following the procedures and conditions established by Franchisor. If Franchisor determines that the training provided by Franchisee does not satisfy Franchisor's standards and requirements, or that any newly trained individual is not trained to Franchisor's standards, then Franchisor may require that such newly trained individual(s) attend and complete an initial training program provided by Franchisor, at a location designated by Franchisor, prior to the opening of the Franchised Studio.

6.1.4 Franchisee must satisfy all pre-opening training requirements under this Section 6.1 by no later than thirty (30) days prior to the scheduled opening of the Franchised Studio.

6.2 **New or Replacement Designated Principal and General Managers.** In the event that Franchisee's Designated Principal or General Manager ceases active employment in the Franchised Studio, Franchisee shall enroll a qualified replacement who is reasonably acceptable to Franchisor in Franchisor's training program reasonably promptly following cessation of employment of said individual. In the alternative, with respect to training a replacement General Manager, Franchisee may train such replacement(s) in accordance with Section 6.3 below. The replacement Designated Principal and/or General Manager shall complete the initial training program as soon as is practicable and in no event later than any time periods as Franchisor may specify from time to time in the Manuals and otherwise in writing. Franchisor reserves the right to review any Franchisee trained personnel and require that such

persons attend and complete, to the satisfaction of Franchisor, the initial training program offered by Franchisor at a location designated by Franchisor.

6.3 Training by Franchisee of Additional or Replacement General Managers.

Franchisee shall have the option of training any General Manager (following the training of the first General Manager by Franchisor) at the Franchised Studio or other Pinot's Palette Studios operated by Franchisee or its affiliates, provided that Franchisee is in compliance with all agreements between Franchisee and Franchisor and further provided that the training is conducted: (a) by the Designated Principal or other personnel who has completed Franchisor's initial training program to the satisfaction of the Franchisor (and who remains acceptable to Franchisor to provide such training) and (b) in accordance with any requirements or standards as Franchisor may from time to time establish in writing for such training. In the event Franchisor assists Franchisee with such training, Franchisor reserves the right to require Franchisee to pay Franchisor's then-current per diem charges for such training.

6.4 Refresher Training. Franchisor may also require that Franchisee or its Designated Principal and General Manager attend such refresher courses, seminars, and other training programs as Franchisor may reasonably require from time to time, provided that such training shall not exceed four (4) days per person each year, and attendance for up to three (3) days per person each year at conventions, if any, conducted for Franchisor's franchisees.

6.5 Training Costs. The cost of all training (instruction and required materials) shall be borne by Franchisor, except as provided in Sections 6.3 and 6.7. All other expenses incurred in connection with training, including, without limitation, the costs of transportation, lodging, meals, wages, and worker's compensation insurance, shall be borne by Franchisee.

6.6 Location of Training. All training programs shall be at such times as may be designated by Franchisor. Training programs shall be provided at Franchisor's headquarters and/or such other locations as Franchisor may designate.

6.7 Additional On-site Training. If Franchisee requests that Franchisor provide additional on-site supervision or supplemental training or that any training programs offered or required by Franchisor be conducted for Franchisee at the Franchised Studio, then Franchisee agrees that it shall pay Franchisor's then-current per diem charges and out-of-pocket expenses, which shall be as set forth in the Manuals or otherwise in writing.

7. TECHNOLOGY

7.1 Computer Systems and Required Software. The following terms and conditions shall apply with respect to the Computer System and Required Software:

7.1.1 Franchisor shall have the right to specify or require that certain brands, types, makes, and/or models of communications, computer systems, and hardware be used by, between, or among Pinot's Palette Studios, including without limitation: (a) desk top computer system, data, and voice storage, retrieval, and transmission systems for use at Pinot's Palette Studios, between or among Pinot's Palette Studios, and between and among the Franchised Studio and Franchisor and/or Franchisee; (b) camera systems; (c) physical, electronic, and other security systems; (d) printers and other peripheral devices; (e) archival back-up systems; (f) audio video equipment; and (g) internet access mode and speed (collectively, the "Computer System").

7.1.2 Franchisor shall have the right, but not the obligation, to develop or have developed for it, or to designate: (a) computer software programs and accounting system software that

Franchisee must use in connection with the Computer System (“**Required Software**”), which Franchisee shall install; (b) updates, supplements, modifications, or enhancements to the Required Software, which Franchisee shall install; (c) the tangible media upon which such Franchisee shall record data; and (d) the database file structure of Franchisee’s Computer System.

7.1.3 Franchisee shall record all sales on the Computer System.

7.1.4 Franchisee shall make, from time to time, such upgrades and other changes to the Computer System and Required Software as Franchisor may request in writing (collectively, “**Computer Upgrades**”).

7.1.5 Franchisee shall comply with all specifications issued by Franchisor with respect to the Computer System and the Required Software, and with respect to Computer Upgrades. Franchisee shall also afford Franchisor unimpeded access to Franchisee’s Computer System and Required Software as Franchisor may request, in the manner, form, and at the times requested by Franchisor.

7.2 **Data.** Franchisor may, from time-to-time, specify in the Manuals or otherwise in writing the information that Franchisee shall collect and maintain on the Computer System installed at the Franchised Studio, and Franchisee shall provide to Franchisor such reports as Franchisor may reasonably request from the data so collected and maintained. All data pertaining to the Franchised Studio, and all data created or collected by Franchisee in connection with the System, or in connection with Franchisee’s operation of the business (including without limitation data pertaining to or otherwise concerning the Franchised Studio’s customers) or otherwise provided by Franchisee (including, without limitation, data uploaded to, or downloaded from Franchisee’s Computer System) is and will be owned exclusively by Franchisor, and Franchisor will have the right to use such data in any manner that Franchisor deems appropriate without compensation to Franchisee. Copies and/or originals of such data must be provided to Franchisor upon Franchisor’s request. Franchisor hereby licenses use of such data back to Franchisee for the term of this Agreement, at no additional cost, solely for Franchisee’s use in connection with the business franchised under this Agreement.

7.3 **Privacy.** Franchisee shall abide by all applicable laws pertaining to privacy of information collected or maintained regarding customers or other individuals (“**Privacy**”), and shall comply with Franchisor’s standards and policies pertaining to Privacy. If there is a conflict between Franchisor’s standards and policies pertaining to Privacy and applicable law, Franchisee shall: (a) comply with the requirements of applicable law; (b) immediately give Franchisor written notice of said conflict; and (c) promptly and fully cooperate with Franchisor and Franchisor’s counsel as Franchisor may request to assist Franchisor in its determination regarding the most effective way, if any, to meet Franchisor’s standards and policies pertaining to Privacy within the bounds of applicable law.

7.4 **Telecommunications.** Franchisee shall comply with Franchisor’s requirements (as set forth in the Manuals or otherwise in writing) with respect to establishing and maintaining telecommunications connections between Franchisee’s Computer System and Franchisor’s Intranet (as defined below), if any, and/or such other computer systems as Franchisor may reasonably require.

7.5 **Intranet.** Franchisor may establish a website providing private and secure communications between Franchisor, Franchisee, franchisees, licensees and other persons and entities as determined by Franchisor, in its sole discretion (an “**Intranet**”). Franchisee shall comply with Franchisor’s requirements (as set forth in the Manuals or otherwise in writing) with respect to connecting to the Intranet, and utilizing the Intranet in connection with the operation of the Franchised Studio. The Intranet may include, without limitation, the Manuals, training or other assistance materials, and management reporting solutions (both upstream and downstream, as Franchisor may direct). Franchisee

shall purchase and maintain such computer software and hardware as may be required to connect to and utilize the Intranet.

7.6 **Websites.** As used in this Agreement, the term “**Website**” means an interactive electronic document; series of symbols, or otherwise, that is contained in a network of computers linked by communications software. The term Website includes, but is not limited to, Internet and World Wide Web home pages. In connection with any Website, Franchisee agrees to the following:

7.6.1 Franchisor shall have the right, but not the obligation, to establish and maintain a Website, which may, without limitation, promote the Proprietary Marks, Pinot’s Palette Studios, the franchising of Pinot’s Palette Studios, and/or the System. Franchisor shall have the sole right to control all aspects of the Website, including without limitation its design, content, functionality, links to the websites of third parties, legal notices, and policies and terms of usage; Franchisor shall also have the right to discontinue operation of the website.

7.6.2 Franchisor shall have the right, but not the obligation, to designate one or more web page(s) to describe Franchisee and/or the Franchised Studio, with such web page(s) to be located within Franchisor’s Website. Franchisee shall comply with Franchisor’s policies with respect to the creation, maintenance and content of any such web pages; and Franchisor shall have the right to refuse to post and/or discontinue posting any content and/or the operation of any web page.

7.6.3 Franchisee shall not establish a separate Website, without Franchisor’s prior written approval (which Franchisor shall not be obligated to provide). If approved to establish a Website, Franchisee shall comply with Franchisor’s policies, standards and specifications with respect to the creation, maintenance and content of any such Website. Franchisee specifically acknowledges and agrees that any Website owned or maintained by or for the benefit of Franchisee shall be deemed “advertising” under this Agreement, and will be subject to (among other things) Franchisor’s approval under Section 13 below.

7.6.4 Franchisor shall have the right to modify the provisions of this Section 7 relating to Websites as Franchisor shall solely determine is necessary or appropriate.

7.7 **Online Use of Marks.** Franchisee shall not use the Proprietary Marks or any abbreviation or other name associated with Franchisor and/or the System as part of any e-mail address, domain name, and/or other identification of Franchisee in any electronic medium. Franchisee agrees not to transmit or cause any other party to transmit advertisements or solicitations by e-mail or other electronic media without Franchisor’s prior written consent as to Franchisee’s plan for transmitting such advertisements.

7.8 **No Outsourcing without Prior Written Approval.** Franchisee shall not hire third party or outside vendors to perform any services or obligations in connection with the Computer System, Required Software, or any other of Franchisee’s obligations without Franchisor’s prior written approval therefor. Franchisor’s consideration of any proposed outsourcing vendor(s) may be conditioned upon, among other things, such third party or outside vendor’s entry into a confidentiality agreement with Franchisor and Franchisee in a form that is reasonably provided by Franchisor.

7.9 **Changes to Technology.** Franchisee and Franchisor acknowledge and agree that changes to technology are dynamic and not predictable within the term of this Agreement. In order to provide for inevitable but unpredictable changes to technological needs and opportunities, Franchisee agrees that Franchisor shall have the right to establish, in writing, reasonable new standards for the implementation of technology in the System; and Franchisee agrees that it shall abide by those reasonable

new standards established by Franchisor as if this Section 7 were periodically revised by Franchisor for that purpose.

8. OTHER DUTIES OF FRANCHISEE

8.1 Details of Operation. Franchisee understands and acknowledges that every detail of the System and this Agreement is important to Franchisee, Franchisor, and other franchisees in order to develop and maintain high operating, quality and service standards, to increase the demand, to protect Pinot's Palette Studios operating under the System, and to protect the reputation and goodwill of Franchisor.

8.2 Compliance with the Agreement, including the Manuals. Franchisee shall operate the Franchised Studio in strict conformity with this Agreement and such standards and specifications as Franchisor may from time to time prescribe in the Manuals or otherwise in writing, and shall refrain from deviating from such standards, specifications, and procedures without the prior written consent of Franchisor.

8.3 Management of Business & Designated Principal. If Franchisee is other than an individual, prior to beginning training, Franchisee shall comply with the following:

8.3.1 Franchisee shall designate, subject to Franchisor's reasonable approval, one Principal who is both an individual person and owns at least a ten percent (10%) beneficial interest in Franchisee, and who shall be responsible for general oversight and management of the operations of the Franchised Studio on behalf of Franchisee (the "**Designated Principal**"). In the event the person designated as the Designated Principal dies, becomes incapacitated, transfers his/her interest in Franchisee, or otherwise ceases to supervise the operations of the Franchised Studio, Franchisee shall promptly designate a new Designated Principal, subject to Franchisor's reasonable approval.

8.3.2 Franchisee shall designate either the Designated Principal or an experienced manager to assume the full-time responsibility for the daily supervision and operation of the Franchised Studio (the "**General Manager**"). Franchisor reserves the right to approve the hiring of any General Manager. Franchisee shall inform Franchisor in writing whether Franchisee, the Designated Principal (if Franchisee is other than an individual), or a General Manager will assume this role.

8.3.3 Franchisee acknowledges and agrees that Franchisor shall have the right to rely upon either or both the Designated Principal and the General Manager as having responsibility and decision-making authority regarding the Franchised Studio's operation and Franchisee's business.

8.4 Staffing. Franchisee agrees to maintain a competent, conscientious, staff of artists and non-artists (who are trained by Franchisee to Franchisor's standards and requirements) in numbers sufficient to promptly service customers and to take such steps as are necessary to ensure that its employees preserve good customer relations; render competent, prompt, courteous, and knowledgeable service; comply with such uniforms and/or dress code as Franchisor may prescribe; and meet such minimum standards as Franchisor may establish from time to time in the Manuals. In no way limiting the foregoing, Franchisee shall have on payroll at all times a minimum number of artists equal to the number of art classes scheduled each week, who have completed all training and certifications required by Franchisor. Franchisee shall be solely responsible for all employment decisions and functions of the Franchised Studio, including those related to hiring, firing, wage and hour requirements, recordkeeping, supervision, and discipline of employees.

8.5 **Use of Premises.** Franchisee shall use the Premises solely for the operation of the Franchised Studio; shall keep the Franchised Studio open and in normal operation for such minimum hours and days as Franchisor may specify; shall refrain from using or permitting the use of the Premises for any other purpose or activity at any time without first obtaining the written consent of Franchisor.

8.6 **Conformity to Standards.** To insure that the highest degree of quality and service is maintained, Franchisee shall operate the Franchised Studio in strict conformity with such methods, standards, and specifications as Franchisor may from time to time prescribe in the Manuals or otherwise in writing. Without limitation, Franchisee agrees as follows:

8.6.1 Franchisee shall purchase and install prior to the opening of the Franchised Studio, and thereafter maintain, all fixtures, furnishings, equipment, decor, and signs, and maintain in sufficient supplies and materials, as Franchisor may prescribe in the Manuals or otherwise in writing. Franchisee shall refrain from deviating therefrom by the use of any unapproved item without the prior written consent of Franchisor.

8.6.2 Franchisee shall offer and sell only products and services that Franchisor specifies from time to time, unless otherwise approved in writing by Franchisor; and Franchisee shall offer and sell all products and services as Franchisor may specify from time to time as required offerings at the Franchised Studio. Franchisee is prohibited from offering or selling any products or services at or from the Franchised Studio that have not previously been authorized by Franchisor, and shall discontinue selling and offering for sale any products or services which Franchisor shall have disapproved, in writing, at any time. If Franchisee wishes to offer or sell any products or services that have not previously been authorized by Franchisor, Franchisee must first make a written request to Franchisor for approval. Franchisor may deny such approval for any reason.

8.6.3 Franchisor may, in the exercise of its reasonable business judgment and to the extent permitted by applicable law, establish specific prices for products and/or services (including art classes and/or private party events) or a range of acceptable prices that, in either case, shall be adhered to by Franchisee and all other similarly situated Pinot's Palette Studios.

8.6.4 Franchisor may designate an independent evaluation service to conduct a "mystery shopper" quality control and evaluation program with respect to Franchisor or affiliate-owned and/or franchised Pinot's Palette Studios. Franchisee agrees that the Franchised Studio will participate in such mystery shopper program, as prescribed and required by Franchisor, provided that Franchisor-owned, affiliate-owned, and franchised Pinot's Palette Studios also participate in such program to the extent Franchisor has the right to require such participation. Franchisor shall have the right to require Franchisee to pay the then-current charges imposed by such evaluation service with respect to inspections of the Franchised Studio, and Franchisee agrees that it shall promptly pay such charges; provided, however, that such charges shall not exceed Five Hundred Dollars (\$500) during each year of this Agreement.

8.6.5 Franchisee acknowledges and agrees that in certain jurisdictions, Franchisee may be required by applicable law and/or Franchisor to obtain a liquor license or alcoholic beverage permit or similar license or permit, for the sale and/or consumption of alcoholic beverages. In the event this licensing or permitting is required, Franchisee shall: (i) be solely responsible for complying with all laws and regulations relating to alcohol and alcohol sales, service, consumption, presentation and preparation; (ii) comply with Franchisor's standards and specifications relating to alcohol and alcohol sales, service, consumption, presentation and preparation; and (iii) obtain and maintain such additional insurance coverage as Franchisor may require pursuant to Section 14 of this Agreement. Notwithstanding anything

to the contrary in this Agreement, if such liquor licensing or alcoholic beverage permitting is required, Franchisee shall be provided an additional three (3) months in which to open the Franchised Studio.

8.6.6 Franchisee shall participate in all customer surveys and satisfaction audits, which may require that Franchisee provide discounted or complimentary art classes and/or private party events, provided that such discounted or complimentary sales shall not be included in the Net Sales of the Franchised Studio. Additionally, Franchisee shall participate in any complaint resolution and other programs as Franchisor may reasonably establish for the System, which programs may include, without limitation, providing discounts or refunds to customers.

8.7 **Purchases and Approved Suppliers.** Franchisee shall purchase all equipment, fixtures, furnishings, signs, décor, supplies, services, and products required for the establishment and operation of the Franchised Studio from Suppliers designated or approved in writing by Franchisor (as used in this Section 8.7 the term “**Supplier**” shall include manufacturers, distributors and other forms of suppliers). In determining whether it will approve any particular Supplier, Franchisor shall consider various factors, including but not limited to whether the Supplier (i) can demonstrate, to Franchisor’s continuing reasonable satisfaction, the ability to meet Franchisor’s then-current standards and specifications for such items; (ii) possesses adequate quality controls and capacity to supply Franchisee’s needs promptly and reliably; (iii) approval of who would enable the System, in Franchisor’s sole opinion, to take advantage of marketplace efficiencies; and (iv) has been approved in writing by Franchisor prior to any purchases by Franchisee from any such Supplier, and have not thereafter been disapproved. Franchisor reserves the right to designate, at any time and for any reason, a single Supplier for any equipment, supplies, services, or products and to require Franchisee to purchase exclusively from such designated Supplier, which exclusive designated supplier may be Franchisor or an affiliate of Franchisor.

8.7.1 If Franchisee desires to purchase any products or other items, equipment, supplies, services from suppliers other than those previously designated or approved by Franchisor, Franchisee must first submit to Franchisor a written request for authorization to purchase such items. Franchisee shall not purchase from any Supplier until, and unless, such Supplier has been approved in writing by Franchisor. Franchisor may deny such approval for any reason, including its determination to limit the number of approved Suppliers. Franchisee must submit to Franchisor such information as Franchisor may reasonably require, and Franchisor shall have the right to require periodically that its representatives be permitted to inspect such items and/or Supplier’s facilities. A charge not to exceed the reasonable cost of the evaluation shall be paid by Franchisee.

8.7.2 Franchisor reserves the right, at its option, to revoke its approval upon the Supplier’s failure to continue to meet any of Franchisor’s then-current criteria. Upon receipt of written notice of such revocation, Franchisee shall cease to sell or use any disapproved item and/or cease to purchase from any disapproved Supplier.

8.7.3 Nothing in the foregoing shall be construed to require Franchisor to approve any particular Supplier, nor to require Franchisor to make available to prospective Suppliers, standards for approval and/or specifications for formulas, which Franchisor shall have the right to deem confidential.

8.7.4 Notwithstanding anything to the contrary contained in this Agreement, Franchisee acknowledges and agrees that, at Franchisor’s sole option, Franchisor may establish one or more strategic alliances or preferred vendor programs with one or more nationally or regionally known Suppliers who are willing to supply all or some Pinot’s Palette Studios with some or all of the products and/or services that Franchisor requires for use and/or sale in the development and/or operation of Pinot’s Palette Studios. In this event, Franchisor may limit the number of approved Suppliers with whom Franchisee may deal, designate sources that Franchisee must use for some or all products and services,

and/or refuse any of Franchisee's requests for approval if Franchisor believes that this action is in the best interest of the System or the franchised network of Pinot's Palette Studios. Franchisor shall have unlimited discretion to approve or disapprove of the Suppliers who may be permitted to sell products and services to Franchisee.

8.7.5 Franchisor and its affiliates may receive payments or other compensation from Suppliers on account of such Suppliers' dealings with Franchisee and other franchisees; and Franchisor may use all amounts so received for any purpose Franchisor and its affiliates deem appropriate.

8.8 **No Warranties.** Franchisee acknowledges that in purchasing or leasing supplies, equipment and/or materials from Suppliers approved by Franchisor, **FRANCHISOR EXPRESSLY DISCLAIMS ANY WARRANTIES OR REPRESENTATIONS AS TO THE CONDITION OF SAME, INCLUDING WITHOUT LIMITATION, EXPRESS OR IMPLIED WARRANTIES AS TO MERCHANTABILITY OR FITNESS FOR ANY INTENDED PURPOSE. FRANCHISEE AGREES TO LOOK SOLELY TO THE MANUFACTURER OR SUPPLIER OF SAME IN THE EVENT OF ANY DEFECTS THEREIN.**

8.9 **Inspections.** Franchisee shall permit Franchisor and its agents to enter upon the Premises at any time during normal business hours for the purpose of conducting inspections of the Premises and the operations of Franchisee. Franchisee shall cooperate with representatives in such inspections by rendering such assistance as they may reasonably request; and, upon notice from Franchisor or its agents, and without limiting other rights of Franchisor under this Agreement, shall take such steps as may be necessary to correct immediately any deficiencies detected during any such inspection. Should Franchisee, for any reason, fail to correct such deficiencies within a reasonable time as determined by Franchisor, Franchisor shall have the right, but not the obligation, to correct any deficiencies which may be susceptible to correction by Franchisor and to charge Franchisee the actual expenses of Franchisor in so acting, which shall be payable by Franchisee upon demand. The foregoing shall be in addition to such other remedies Franchisor may have.

8.10 **Trademarked Items.** Franchisee shall ensure that all advertising and promotional materials, signs, decorations, and other items specified by Franchisor bear the Proprietary Marks in the form, color, location, and manner prescribed by Franchisor. Franchisee shall place and illuminate all interior and exterior signs and décor items in accordance with Franchisor's specifications.

8.11 **Compliance.** Franchisee shall comply with all federal, state and local laws, rules and regulations, and shall timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the business licensed by this Agreement, including, without limitation, operation licenses, licenses to do business and fictitious name registration.

8.12 **Uniforms.** Franchisee shall be responsible for having all personnel employed by Franchisee wear standard related uniforms and attire during business hours in order to further enhance Franchisor's product and format. Franchisee shall be permitted to purchase such uniforms and attire from manufacturers or distributors approved by Franchisor, which uniforms and attire must be in strict accordance with Franchisor's design and other specifications.

8.13 **Prohibited Product Fine.** In the event Franchisee sells product or performs any services that Franchisor has not prescribed, approved or authorized, Franchisee shall (i) cease and desist offering or providing the unauthorized or unapproved product or from performing such services and (ii) pay to Franchisor, on demand, a prohibited product or service fine equal to Two Hundred Fifty Dollars (\$250) per day for each day such unauthorized or unapproved product or service is offered or

provided by Franchisee. The prohibited product or service fine shall be in addition to all other remedies available to Franchisor under this Agreement or at law.

8.14 **Participation in Promotions.** Franchisee shall participate in promotional programs developed by Franchisor for the System, in the manner directed by Franchisor in the Manuals or otherwise in writing. In no way limiting the foregoing, Franchisee agrees that if required by Franchisor:

8.14.1 Franchisee shall participate in all programs and services for frequent customers, senior citizens, children, and other categories, which may include providing discounts.

8.14.2 Franchisee shall sell or otherwise issue gift cards or certificates (together “**Gift Cards**”) that have been prepared utilizing the standard form of Gift Card provided or designated by Franchisor, and only in the manner specified by Franchisor in the Manuals or otherwise in writing. Franchisee shall fully honor all Gift Cards that are in the form provided or approved by Franchisor regardless of whether a Gift Card was issued by Franchisee or another Pinot’s Palette Studio. Franchisee shall sell, issue, and redeem (without any offset against any Royalty Fee or other contribution) Gift Cards in accordance with procedures and policies specified by Franchisor in the Manuals or otherwise in writing, including those relating to procedures by which Franchisee shall request reimbursement for Gift Cards issued by other Pinot’s Palette Studios and for making timely payment to Franchisor, other operators of Pinot’s Palette Studios, or a third-party service provider for Gift Cards issued from the Franchised Studio that are honored by Franchisor or other Pinot’s Palette Studio operators.

8.15 **Maintenance of Premises.** Franchisee shall maintain the Franchised Studio and the Premises in a clean, orderly condition and in excellent repair; and, in connection therewith, Franchisee shall, at its expense, make such repairs and replacements thereto (but no others without prior written consent of Franchisor) as may be required for that purpose, including such periodic repainting or replacement of obsolete signs, furnishings, equipment, and decor as Franchisor may reasonably direct.

8.16 **Ongoing Upgrades and Replacements.** As set forth in Section 8.6.1, throughout the term of this Agreement, Franchisee shall maintain all fixtures, furnishings, equipment, decor, and signs as Franchisor may prescribe from time to time in the Manuals or otherwise in writing. Franchisee shall make such changes, upgrades, and replacements as Franchisor may periodically require, in the time frames specified by Franchisor.

8.17 **Five-Year Refurbishment and Renovations.** At the request of Franchisor, but not more often than once every five (5) years, unless sooner required by Franchisee’s lease, Franchisee shall refurbish the Premises, at its expense, to conform to the Franchised Studio design, trade dress, color schemes, and presentation of the Proprietary Marks in a manner consistent with the then-current image for new Pinot’s Palette Studios. Such refurbishment may include structural changes, installation of new equipment and signs, remodeling, redecoration, and modifications to existing improvements, and shall be completed pursuant to such standards, specifications and deadlines as Franchisor may specify.

8.18 **Compliance with Lease.** Franchisee shall comply with all terms of its lease or sublease, its financing agreements (if any), and all other agreements affecting the operation of the Franchised Studio; shall undertake best efforts to maintain a good and positive working relationship with its landlord and/or lessor; and shall not engage in any activity which may jeopardize Franchisee’s right to remain in possession of, or to renew the lease or sublease for, the Premises.

8.19 **Obligations to Third Parties.** Franchisee must at all times pay its contractors, suppliers, employees, lessors, lenders, tax authorities, and other creditors, promptly as the debts and obligations to such persons become due. Failure to do so shall constitute a breach of this Agreement.

8.20 **Notice of Legal Actions.** Franchisee shall notify Franchisor in writing within five (5) days of the commencement of any suit to foreclose any lien or mortgage, or any action, suit, or proceeding, and of the issuance of any order, writ, injunction, award, or decree of any court, agency, or other governmental instrumentality, including health agencies, which (i) relates to the operation of the Franchised Studio, (ii) may adversely affect the operation or financial condition of the Franchised Studio, or (iii) may adversely affect Franchisee's financial condition.

8.21 **No Relocation.** Franchisee shall not relocate the Franchised Studio from the Approved Location without the prior written approval of Franchisor. If Franchisee desires to relocate the Franchised Studio, the following terms and conditions shall apply:

8.21.1 Franchisee shall submit such materials and information as Franchisor may request for the evaluation of the requested plan of relocation. Franchisor may, in its sole discretion, require any or all of the following as conditions of its approval for relocation: (i) Franchisee not be in default under any provision of this Agreement, or any other agreement between Franchisee and Franchisor; (ii) the proposed substitute location meets Franchisor's then-current standards for Pinot's Palette Studios; (iii) the lease (if applicable) for the proposed substitute location must comply with Franchisor's then-current lease requirements for Pinot's Palette Studios (which may include the requirement that the lease contain certain terms and conditions, which may be different than, or in addition to, those terms Franchisor required as of the Effective Date with respect to the Approved Location), and Franchisee must obtain Franchisor's approval of the proposed lease; (iv) Franchisee must possess the financial resources to meet the costs associated with relocating; and (v) Franchisee enter into Franchisor's then-current form of Franchise Agreement (which shall replace this Agreement), provided that Franchisee shall not be required to pay an initial Franchise Fee, and execute a general release in favor of Franchisor in the form prescribed by Franchisor.

8.21.2 Any relocation of the Franchised Studio shall be at Franchisee's sole cost and expense.

8.21.3 Franchisor shall have the right to charge Franchisee for costs and expenses incurred by Franchisor in connection with any approved relocation.

8.21.4 If, through no fault of Franchisee, the Premises are damaged or destroyed by an event such that repairs or reconstruction cannot be completed within sixty (60) days thereafter, then Franchisee shall have forty five (45) days after such event in which to apply for Franchisor's approval to relocate and/or reconstruct the Premises, which approval shall not be unreasonably withheld.

8.21.5 Franchisee agrees that in the event of a relocation of the Franchised Studio, Franchisee shall promptly remove from the first Franchised Studio premises, and discontinue using for any purposes, any and all signs, fixtures, furniture, posters, furnishings, equipment, menus, advertising materials, stationery supplies, forms and other articles which display any of the Proprietary Marks or any distinctive features or designs associated with Pinot's Palette Studios. Furthermore, Franchisee shall, at its expense, immediately make such modifications or alterations as may be necessary to distinguish the first Franchised Studio so clearly from its former appearance and from other Pinot's Palette Studios and to prevent any possibility of confusion therewith by the public (including, without limitation, removal of all distinctive physical and structural features identifying Pinot's Palette Studios and removal of all distinctive signs and emblems). Franchisee shall, at its expense, make such specific additional changes as the Franchisor may reasonably request for this purpose. If Franchisee fails to initiate immediately or complete such alterations within such period of time as the Franchisor deems appropriate, Franchisee agrees that the Franchisor or its designated agents may enter the premises of the first Franchised Studio and adjacent areas at any time to make such alterations, at Franchisee's sole risk and expense, without

responsibility for any actual or consequential damages to the property of Franchisee or others, and without liability for trespass or other tort or criminal act. Franchisee expressly acknowledges that its failure to make such alterations will cause irreparable injury to the Franchisor and consents to entry, at Franchisee's expense, of an ex-parte order by and court of competent jurisdiction authorizing the Franchisor or its agents to take such action, if the Franchisor seeks such an order. Compliance with the foregoing shall be a condition subsequent to the Franchisor's approval of any relocation request by Franchisee, and in the event complete de-identification of the first Franchised Studio premises is not promptly and completely undertaken, the Franchisor may then revoke its permission for relocation and declare a default under this Agreement.

8.22 **Franchisee Advisory Councils.** If Franchisor should, during the term of this Agreement, form or require the formation of a franchisee advisory council or association (hereinafter "**Advisory Council**") or such successor council to serve as an advisory council to Franchisor with respect to advertising, marketing, and other matters relating to franchised Pinot's Palette Studios, Franchisee may be required to become a member of the Advisory Council. In such event, Franchisee shall pay to the Advisory Council all dues and assessments authorized by the Advisory Council and shall otherwise abide by the rules and regulations of the Advisory Council and shall at all times maintain its membership in the Advisory Council in good standing.

8.23 **Changes to the System.** Franchisee acknowledges and agrees that from time to time hereafter Franchisor may change or modify the System presently identified by the Proprietary Marks, as Franchisor deems appropriate, including without limitation to reflect the changing market and to meet new and changing consumer demands, and that variations and additions to the System may be required from time to time to preserve and enhance the public image of the System and operations of Pinot's Palette Studios. Changes to the System may include, without limitation, the adoption and use of new, modified, or substituted products, services, programs, standards, policies and procedures, forms, Trademark, equipment and furnishings and new techniques and methodologies, and (as described in Section 9 below) additional or substitute trademarks, service marks and copyrighted materials. Changes to the System may further include, without limitation, abandoning the System altogether in favor of another system in connection with a merger, acquisition, other business combination; and modifying or substituting entirely the building, premises, equipment, furnishings, signage, Trademark, décor, color schemes and uniform specifications and all other unit construction, design, appearance and operational attributes which Franchisee is required to observe hereunder. Franchisee shall, upon reasonable notice, accept, implement, use and display in the operation of the Franchised Studio any such changes in the System, as if they were part of this Agreement at the time of execution hereof, at Franchisee's sole expense. Additionally, Franchisor reserves the right, in its sole discretion, to vary the standards throughout the System, as well as the services and assistance that Franchisor may provide to some franchisees based upon the peculiarities of a particular site or circumstance, existing business practices, or other factors that Franchisor deems to be important to the operation of any Pinot's Palette Studio or the System. Franchisee shall have no recourse against Franchisor on account of any variation to any franchisee and shall not be entitled to require Franchisor to provide Franchisee with a like or similar variation hereunder. Except as provided herein, Franchisor shall not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any of the modifications contemplated hereby. Franchisee hereby covenants not to commence or join in any litigation or other proceeding against Franchisor or any third party complaining of any such modifications or seeking expenses, losses or damages caused thereby. Finally, Franchisee expressly waives any claims, demands or damages arising from or related to the foregoing activities including, without limitation, any claim of breach of contract, breach of fiduciary duty, fraud, and/or breach of the implied covenant of good faith and fair dealing.

8.24 **Modifications Proposed by Franchisee.** Franchisee shall not implement any change to the System (including the use of any product or service not already approved by Franchisor) without Franchisor's prior written consent. Franchisee acknowledges and agrees that, with respect to any change, amendment, or improvement in the System or use of additional product or service for which Franchisee requests Franchisor's approval: (i) Franchisor shall have the right to incorporate the proposed change into the System and shall thereupon obtain all right, title, and interest therein without compensation to Franchisee, (ii) Franchisor shall not be obligated to approve or accept any request to implement change, and (iii) Franchisor may from time to time revoke its approval of a particular change or amendment to the System, and upon receipt of written notice of such revocation, Franchisee shall modify its activities in the manner described by Franchisor.

9. **PROPRIETARY MARKS**

9.1 **Ownership.** Franchisor represents with respect to the Proprietary Marks that:

9.1.1 The owner of the Proprietary Marks ("**Licensor**") has licensed its right, title, and interest in and to the Proprietary Marks to Franchisor. Franchisor represents that applications for registration of certain Proprietary Marks have been filed (and others may be filed in the future) by the Licensor with the appropriate authorities. Franchisee acknowledges that neither Franchisor nor Licensor has made any representation or warranty to the effect that the Proprietary Marks which have not been registered shall be registered or are able to be registered therein, and the failure to obtain registrations of any of the Proprietary Marks shall not be deemed to be a breach of the terms of this Agreement by Franchisor. Moreover, Franchisee shall cooperate with Franchisor, Licensor and their representatives, at Franchisor's expense, in the prosecution of any applications or registrations of any Proprietary Marks which have been filed with the appropriate authorities.

9.1.2 Franchisor will take all steps reasonably necessary to preserve and protect the ownership and validity in and to the Proprietary Marks.

9.2 **License to Franchisee.** Franchisee's right to use the Proprietary Marks is limited to such uses as are authorized under this Agreement in connection with the operation of the Franchised Studio, and any unauthorized use thereof shall constitute an infringement of rights of Franchisor. Nothing in this Agreement shall be construed as authorizing or permitting their use at any other location or for any other purpose except as may be authorized in writing by Franchisor.

9.3 **Terms of Franchisee's Usage.** With respect to Franchisee's use of the Proprietary Marks, Franchisee agrees that:

9.3.1 It shall use only the Proprietary Marks designated by Franchisor, and to use them only in the manner authorized and permitted by Franchisor. Further, Franchisee shall not use any confusingly similar Trademarks in connection with its franchise or any other business in which it has an interest;

9.3.2 It shall use the Proprietary Marks only for the operation of the business franchised hereunder and only at the location authorized hereunder, or in Franchisor-approved advertising for the business conducted at or from that location;

9.3.3 It shall operate and advertise the Franchised Studio only under the name "Pinot's Palette," and use the Proprietary Marks without prefix or suffix, unless otherwise authorized or required by Franchisor.

9.3.4 It shall not use the Proprietary Marks as part of its corporate or other legal name, or as part of any e-mail address, domain name, or other identification of Franchisee in any electronic medium. Franchisee may, as necessary to conduct the business of the Franchised Studio and to obtain governmental licenses and permits for the Franchised Studio, indicate that Franchisee shall be operating the Franchised Studio under the trade name "Pinot's Palette," provided that Franchisee shall also clearly identify itself as the owner and operator of the Franchised Studio;

9.3.5 It shall identify itself as the owner of the Franchised Studio (in the manner required by Franchisor) in conjunction with any use of the Proprietary Marks, including on invoices, order forms, receipts, and business stationery, as well as at such conspicuous locations on the Premises as Franchisor may designate in writing;

9.3.6 It shall not use the Proprietary Marks in such a way as to incur any obligation or indebtedness on behalf of Franchisor; and

9.3.7 It shall execute any documents deemed necessary by Franchisor to obtain protection for the Proprietary Marks or to maintain their continued validity and enforceability. At Franchisor's request, Franchisee shall assign, transfer or convey to Franchisor, in writing, all additional rights, if any, that may be acquired by Franchisee as a result of its use of the Proprietary Marks.

9.4 **Franchisee Acknowledgments.** Franchisee expressly understands and acknowledges that:

9.4.1 During the term of this Agreement and after its expiration or termination, Franchisee shall not directly or indirectly contest the validity of Franchisor's right to use and to license others to use, the Proprietary Marks;

9.4.2 Franchisee's use of the Proprietary Marks does not give Franchisee any ownership interest or other interest in or to the Proprietary Marks;

9.4.3 Any and all goodwill arising from Franchisee's use of the Proprietary Marks shall inure solely and exclusively to the benefit of Franchisor, and, upon expiration or termination of this Agreement, no monetary amount shall be assigned as attributable to any goodwill associated with Franchisee's use of the System or the Proprietary Marks;

9.4.4 The right and license of the Proprietary Marks granted hereunder to Franchisee is nonexclusive, and Franchisor thus has and retains the rights, among others: (a) to use the Proprietary Marks itself; (b) to grant other licenses for the Proprietary Marks; and (c) to develop and establish other systems using the Proprietary Marks, similar proprietary marks, or any other proprietary marks, and to grant licenses thereto without providing any rights therein to Franchisee;

9.4.5 Franchisor reserves the right to approve all signs, memos, stationery, business cards, advertising material forms and all other objects and supplies using the Proprietary Marks. All advertising, publicity, point of sale materials, signs, decorations, furnishings, equipment, or other materials employing the Proprietary Marks shall be in accordance with this Agreement and the Confidential Operations Manuals, and Franchisee shall obtain Franchisor's approval prior to such use;

9.4.6 Franchisor shall have the right to substitute different proprietary marks for use in identifying the System and the businesses operating thereunder at the sole discretion of Franchisor. If it becomes advisable at any time, in the discretion of Franchisor, to modify or discontinue use of any Proprietary Mark and/or to adopt or use one or more additional or substitute Proprietary Marks, then

Franchisee shall be obligated to comply with any such instruction by Franchisor. In such event and at Franchisor's direction, Franchisee shall adopt, use and display only such new or modified Proprietary Marks and shall promptly discontinue the use and display of outmoded or superseded Proprietary Marks, at Franchisee's expense. Franchisee waives any other claim arising from or relating to any Proprietary Mark change, modification or substitution. Franchisor will not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any proprietary mark addition, modification, substitution or discontinuation. Franchisee covenants not to commence or join in any litigation or other proceeding against Franchisor for any of these expenses, losses or damages;

9.4.7 Upon the expiration, termination or non-renewal of this Agreement, Franchisee shall immediately cease using the Proprietary Marks, color combinations, designs, symbols or slogans; and Franchisor may cause Franchisee to execute such documents and take such action as may be necessary to evidence this fact. After the effective date of expiration, termination or non-renewal, Franchisee shall not represent or imply that he is associated with Franchisor. To this end, Franchisee irrevocably appoints Franchisor or its nominee to be Franchisee's attorney-in-fact to execute, on Franchisee's behalf, any document or perform any legal act necessary to protect the Proprietary Marks from unauthorized use. Franchisee acknowledges and agrees that the unauthorized use of the Proprietary Marks will result in irreparable harm to Franchisor for which Franchisor may obtain injunctive relief, monetary damages, reasonable attorneys' fees and costs;

9.4.8 In order to develop and maintain high uniform standards of quality and service and to protect the reputation and goodwill of Franchisor, Franchisee agrees to do business and advertise using only the Proprietary Marks designated by the Franchisor. Franchisee shall not do business or advertise using any other name. Franchisee is not authorized to and shall not use the word "Pinot's Palette" by itself, as a part of the legal name of any corporation, partnership, proprietorship or other business entity to which Franchisee is associated, or with a bank account, trade account or in any legal or financial connection;

9.4.9 In order to preserve the validity and integrity of the Proprietary Marks, and to assure that Franchisee is properly employing them in the operation of Franchisee's business, Franchisor and its agents shall have the right at all reasonable times to inspect Franchisee's business, financial books and records, and operations. Franchisee shall cooperate with and assist Franchisor's representative in such inspections;

9.4.10 Franchisee shall be required to affix the tm or sm or ® symbol upon all advertising, publicity, signs, decorations, furnishings, equipment or other printed or graphic material employing the words "Pinot's Palette" or any other of the Proprietary Marks, whether presently existing or developed in the future;

9.4.11 Franchisee acknowledges that it does not have any right to deny the use of the Proprietary Marks to any other franchisees. In consideration therefor, Franchisee shall execute all documents and take such action as may be requested to allow Franchisor or other franchisees to have full use of the Proprietary Marks;

9.4.12 If, during the term of this Agreement, there is a claim of prior use of any of the Proprietary Marks in the area in which Franchisee is doing business or in another area or areas, Franchisee shall so use any of Franchisor's other Proprietary Marks in such a way and at Franchisor's discretion in order to avoid a continuing conflict;

9.4.13 Franchisee shall immediately notify Franchisor of any apparent infringement of or challenge to Franchisee's use of the Proprietary Marks, or any claim, demand, or suit based upon or

arising from the unauthorized use of, or any attempt by any other person, firm, or corporation to use, without authorization, or any infringement of or challenge to, any of the Proprietary Marks. Franchisee also agrees to immediately notify Franchisor of any other litigation instituted by any person, firm, corporation or governmental entity against Franchisor or Franchisee;

9.4.14 Franchisor shall undertake the defense or prosecution of any litigation concerning Franchisee that relates to any of the Proprietary Marks or that, in Franchisor's judgment, may affect the goodwill of the System; and Franchisor may, in such circumstances, undertake any other action which it deems appropriate. Franchisor shall have sole and complete discretion in the conduct of any defense, prosecution or other action it chooses to undertake. In that event, Franchisee shall execute those documents and perform those acts which, in the opinion of Franchisor, are necessary for the defense or prosecution of the litigation or for such other action as may be undertaken by Franchisor; and

9.4.15 Franchisor agrees to indemnify Franchisee against, and to reimburse Franchisee for, all damages for which it is held liable in any proceeding in which Franchisee's use of any Proprietary Mark pursuant to and in compliance with this Agreement is held to constitute trademark infringement, unfair competition or dilution, and for all costs reasonably incurred by Franchisee in the defense of any such claim brought against it or in any such proceedings in which it is named as a party, provided that Franchisee has timely notified the Franchisor of such claim or proceedings, has otherwise complied with this Agreement and has tendered complete control of the defense of such to the Franchisor. If the Franchisor defends such claim, the Franchisor shall have no obligation to indemnify or reimburse Franchisee with respect to any fees or disbursements of any attorney retained by Franchisee.

10. MANUALS

10.1 **The Manuals and Furnishings to Franchisee.** In order to protect the reputation and goodwill of Franchisor and to maintain high standards of operation under the System, Franchisee shall operate the Franchised Studio in accordance with the standards, specifications, methods, policies, and procedures specified in the Manuals, which Franchisee shall receive on loan from Franchisor, in a manner chosen by Franchisor, via electronic access, hard copy volumes, computer disks, videotapes, or otherwise, including such amendments thereto, as Franchisor may publish from time to time, upon completion by Franchisee of initial training. Franchisee expressly acknowledges and agrees that Franchisor may provide a portion or all (including updates and amendments) of the Manuals, and other instructional information and materials in, or via, electronic media, including without limitation, the use of the Internet.

10.2 **The Manuals are Proprietary and Confidential.** Franchisee shall treat the Manuals, any other materials created for or approved for use in the operation of the Franchised Studio, and the information contained therein, as confidential, and shall use all reasonable efforts to maintain such information (both in electronic and other formats) as proprietary and confidential. Franchisee shall not download, copy, duplicate, record, or otherwise reproduce the foregoing materials, in whole or in part, or otherwise make the same available to any unauthorized person, except as authorized in advance by the Franchisor.

10.3 **The Manuals Remain Franchisor's Property.** The Manuals shall remain the sole property of Franchisor and shall be accessible only from a secure place on the Premises, and shall be returned to Franchisor, as set forth in Section 17.8 below, upon the termination or expiration of this Agreement.

10.4 **Revisions to the Manuals.** Franchisor may from time to time revise the contents of the Manuals to improve or maintain the standards of the System and the efficient operation thereof, or to protect or maintain the goodwill associated with the Proprietary Marks or to meet competition, and

Franchisee expressly agrees to comply with each new or changed standard. Franchisee shall insure that the Manuals are kept current at all times. In the event of any dispute as to the contents of the Manuals, the terms of the master copies maintained at the home office of Franchisor shall be controlling.

10.5 **Part of Agreement.** From the date of the opening of the Franchised Studio, the mandatory specifications, standards and operating procedures prescribed by Franchisor and communicated to Franchisee in writing, shall constitute provisions of this Agreement as if fully set forth herein. All references herein to this Agreement shall include the provisions of the Manuals and all such mandatory specifications standards and operating procedures.

11. **CONFIDENTIAL INFORMATION**

11.1 **Agreement with Respect to Confidentiality.** Franchisee acknowledges and agrees that it shall not, during the term of this Agreement or thereafter, communicate, divulge, or use for the benefit of any other person or entity any confidential information, knowledge, or know-how concerning Franchisor, the System, and/or the marketing, management or operations of the Franchised Studio that may be communicated to Franchisee or of which Franchisee may be apprised by virtue of Franchisee's operation under the terms of this Agreement. Franchisee shall divulge such confidential information only to such of its employees as must have access to it in order to operate the Franchised Studio. Any and all information, knowledge, know-how, and techniques which Franchisor designates as confidential shall be deemed confidential for purposes of this Agreement, except information which Franchisee can demonstrate came to its attention prior to disclosure thereof by Franchisor; or which, at or after the time of disclosure by Franchisor to Franchisee, had become or later becomes a part of the public domain, through publication or communication by others.

11.2 **Individual Covenants of Confidentiality.** Franchisee shall require its manager(s), artists and any personnel having access to any confidential information of Franchisor to execute covenants that they will maintain the confidentiality of information they receive in connection with their employment by Franchisee at the Franchised Studio. Such covenants shall be in a form approved by Franchisor, including specific identification of Franchisor as a third-party beneficiary of such covenants with the independent right to enforce them, the current forms of which are contained in the Manuals.

11.3 **Remedies for Breach.** Franchisee acknowledges that any failure to comply with the requirements of this Section 11 will cause Franchisor irreparable injury, and Franchisee agrees to pay all court costs and reasonable attorney's fees incurred by Franchisor in obtaining specific performance of, or an injunction against violation of, the requirements of this Section 11.

11.4 **Grantback.** Franchisee agrees to disclose to Franchisor all ideas, paintings, concepts, methods, techniques, products and services, software applications, and software application improvements conceived or developed by Franchisee, its affiliates, owners or employees during the term of this Agreement relating to the development and/or operation of the Franchised Studio. Franchisee hereby grants to Franchisor and agrees to procure from its affiliates, owners or employees a perpetual, non-exclusive, and worldwide right to use any such ideas, concepts, methods, techniques, software applications, software application improvements in all businesses operated by Franchisor or its affiliates, franchisees and designees. Franchisor shall have no obligation to make any payments to Franchisee with respect to any such ideas, concepts, methods, techniques, software applications, software application improvements or products. Franchisee agrees that Franchisee will not use or allow any other person or entity to use any such concept, method, technique, software application or product without obtaining Franchisor's prior written approval.

12. **ACCOUNTING AND RECORDS**

12.1 **Books and Records.** With respect to the operation and financial condition of the Franchised Studio, Franchisor may require that Franchisee adopt, until otherwise specified by Franchisor, a fiscal year that coincides with Franchisor's then-current fiscal year, as specified by Franchisor in the Manuals or otherwise in writing. Franchisee shall maintain for a period of not less than seven (7) years during the term of this Agreement, and, for not less than seven (7) years following the termination, expiration, or non-renewal of this Agreement, full, complete, and accurate books, records, and accounts in accordance with generally accepted accounting principles and in the form and manner prescribed by Franchisor from time to time in the Manuals or otherwise in writing, including but not limited to: (i) daily transaction reports; (ii) cash receipts journal and general ledger; (iii) cash disbursements and weekly payroll journal and schedule; (iv) monthly bank statements, deposit slips and cancelled checks; (v) all tax returns; (vi) suppliers' invoices (paid and unpaid); (vii) dated daily and weekly transaction journal; (viii) semi-annual fiscal period balance sheets and fiscal period profit and loss statements; and (ix) such other records as Franchisor may from time to time request.

12.2 **Franchisee's Reports to Franchisor.** In addition to the Sales Reports required pursuant to Section 4.3 above, Franchisee shall:

12.2.1 Prepare by the twentieth (20th) day after each four week accounting period a balance sheet, profit and loss statement, cash flow statement and an activity report for the last preceding calendar month, which shall be in the form prescribed by Franchisor. Franchisee shall maintain and submit such statements and reports to Franchisor at the times as Franchisor may designate or otherwise request.

12.2.2 Submit to Franchisor on April 15th of the year following the end of each calendar year, unless Franchisor designates in writing a different due date, during the term of this Agreement, a profit and loss statement for such year and a balance sheet as of the last day of such year, prepared on an accrual basis, including but not limited to all adjustments necessary for fair presentation of the financial statements. Franchisee shall certify such financial statements to be true and correct. Additionally, Franchisor reserves the right to require Franchisee to prepare (or cause to be prepared) and provide to Franchisor annual financial statements, (that includes a fiscal year-end balance sheet, an income statement of the Franchised Studio for such fiscal year reflecting all year-end adjustments, and a statement of changes in cash flow of Franchisee), and to require that such statements be prepared on a review basis by an independent certified public accountant (who Franchisor may require to be retained in accordance with Section 4.9).

12.2.3 Franchisee shall maintain its books and records, and provide all statements and reports to Franchisor, using the standard statements, templates, categories, and chart of accounts that Franchisor provides to Franchisee.

12.2.4 Submit to Franchisor such other periodic reports, forms and records as specified, and in the manner and at the time as specified in the Manuals or as Franchisor shall otherwise require in writing from time to time (including without limitation the requirement that Franchisee provide or make available to Franchisor certain sales and financial information in electronic format and/or by electronic means).

12.3 **Inspection and Audit.** Franchisor and its agents shall have the right at all reasonable times to examine and copy, at the expense of Franchisor, the books, records, accounts, and/or business tax returns of Franchisee. Franchisor shall also have the right, at any time, to have an independent audit made of the books of Franchisee. If an inspection should reveal that any contributions or payments have been understated in any statement or report to Franchisor, then Franchisee shall immediately pay to Franchisor the amount understated upon demand, in addition to interest from the date such amount was

due until paid, at the rate of eighteen percent (18%) per annum, or the maximum rate permitted by law, whichever is less. If an inspection discloses an understatement in any statement or report of three percent (3%) or more, Franchisee shall, in addition to repayment of monies owed with interest, reimburse Franchisor for any and all costs and expenses connected with the inspection (including travel, lodging and wages expenses, and reasonable accounting and legal costs). The foregoing remedies shall be in addition to any other remedies Franchisor may have.

13. MARKETING AND PROMOTION

13.1 Franchisee's Advertising Obligations. Recognizing the value of marketing and promotion, and the importance of the standardization of marketing and promotion programs to the furtherance of the goodwill and public image of the System, Franchisee and Franchisor agree as follows:

13.1.1 Franchisor reserves the right to require that Franchisee, during each Week (except for expenditures on local advertising and promotion, which shall be measured on an annual basis), spend and/or contribute on advertising and promotion amounts, which, in the aggregate, are equal to four percent (4%) of Franchisee's Net Sales during the preceding Week to advertise and to promote the Franchised Studio (together, the "**Advertising Obligation**"); provided, however, that the Advertising Obligations may exceed such amount under the circumstances set forth in Section 13.1.4 below. The Advertising Obligation shall be in the form of the following, and in such proportions as may be designated by Franchisor in writing from time to time: (i) contributions paid to the System Ad Fund, pursuant to Section 13.2 below, (ii) contributions paid to any Cooperative Ad Fund, as may be established pursuant to Section 13.3 below, and/or (iii) expenditures by Franchisee on "local advertising and promotion" pursuant to Section 13.4.

13.1.2 As of the Effective Date and until Franchisee receives written notice from Franchisor of new allocations, the allocation of the Advertising Obligations shall be as follows: two percent (2%) of Net Sales shall be contributed by Franchisee to the System Ad Fund and two percent (2%) of Net Sales shall be spent by Franchisee on local advertising and promotion, which amount will be used to satisfy the Cooperative Ad Fund, if and when one is instituted in Franchisee's trading area. The Cooperative Ad Fund contribution will not exceed four percent (4%) of Franchisee's Net Sales, unless the members of such Cooperative Ad Fund vote to exceed the maximum amount. Any contributions made by Franchisee to a Cooperative Ad Fund will be credited against Franchisee's local advertising expenditure requirement.

13.1.3 The Advertising Obligation is the minimum requirement only, and Franchisee may, and is encouraged to, expend additional funds for marketing and promotion. In addition to the Advertising Obligation, Franchisee shall undertake and complete the Grand Opening Advertising Program, as provided in Section 13.5 below.

13.1.4 Franchisee's aggregate Advertising Obligations may exceed four percent (4%) of Franchisee's Net Sales, if the members of a Cooperative Ad Fund, of which Franchisee is a member, approve (as described in Section 13.3.3 below) required contributions to the Cooperative Ad Fund that, when aggregated with Franchisee's other requirements under this Section 13, would cause Franchisee's Advertising Obligations to exceed four percent (4%) of Franchisee's Net Sales.

13.2 System Ad Fund. Franchisor shall have the right at any time, in its sole discretion to establish a fund for system-wide advertising and promotion of the System (the "**System Ad Fund**"). During the existence of the System Ad Fund, Franchisee shall contribute to the System Ad Fund in the manner specified in Section 4.7 above, such amounts as Franchisor may specify in accordance with Section 13.1 above. The System Ad Fund shall be maintained and administered by Franchisor as follows:

13.2.1 Franchisor shall direct all marketing programs, with sole discretion over the concepts, materials, and media used in such programs and the placement and allocation thereof. Franchisor is not obligated, in administering the System Ad Fund, to make expenditures for Franchisee which are equivalent or proportionate to Franchisee's contribution, or to ensure that any particular franchisee benefits directly or pro rata from expenditures by the System Ad Fund.

13.2.2 The System Ad Fund, all contributions thereto, and any earnings thereon shall be used exclusively to meet any and all costs of maintaining, administering, directing, conducting, and preparing marketing, advertising, public relations, and/or promotional programs and materials, and any other activities including socially responsible activities, which Franchisor believes will enhance the image of the System, including, among other things, the costs of preparing and conducting media marketing campaigns; direct mail advertising; marketing surveys and other public relations activities; employing advertising and/or public relations agencies to assist therein; sponsorship of organizations and events; purchasing promotional items; conducting and administering in-store promotions; and providing promotional and other marketing materials and services to the Pinot's Palette Studios operating under the System.

13.2.3 Franchisee shall contribute to the System Ad Fund by separate payment made payable (or as otherwise directed for payment) to Franchisor. All sums paid by Franchisee to the System Ad Fund shall be accounted for separately and shall not be used to defray any of the expenses of Franchisor, except for such reasonable costs, salaries and overhead, if any, as Franchisor may incur in activities reasonably related to the direction and implementation of the System Ad Fund and marketing programs for operators and the System, including costs of personnel for creating and implementing marketing, advertising, and promotional programs. The System Ad Fund and any earnings from it shall not otherwise inure to the benefit of Franchisor. Franchisor shall maintain separate bookkeeping accounts for the System Ad Fund.

13.2.4 Franchisor, upon request, shall provide Franchisee with an annual accounting of System Ad Fund receipts and disbursements.

13.2.5 Franchisor reserves the right, in its sole discretion, to discontinue the System Ad Fund upon written notice to Franchisee.

13.2.6 Franchisor may, but is not required to, make available to Franchisee from time to time, marketing plans and promotional materials, including newspaper mats, coupons, merchandising materials, sales aids, point-of-purchase materials, special promotions, direct mail materials, and similar marketing and promotional materials produced from contributions to the System Ad Fund. Franchisee acknowledges and agrees that it shall be reasonable for Franchisor to not provide any such materials to Franchisee during any period in which Franchisee is not in full compliance with its obligations to contribute to the System Ad Fund. Additionally, if monies of the System Ad Fund are used to produce point of sale materials, or other samples or other promotional materials and items, Franchisor may, on the behalf of the System Ad Fund, sell such items to franchisees in the System at a reasonable price, and any proceeds from the sale of such items or materials shall be contributed to the System Ad Fund.

13.3 **Cooperative Ad Fund.** Franchisor shall have the right to designate any geographical area for purposes of establishing a regional or local market advertising fund ("**Cooperative Ad Fund**"). If a Cooperative Ad Fund is established for the geographic area in which the Franchised Studio is located, Franchisee shall become a member of such Cooperative Ad Fund within thirty (30) days after the date on which the Cooperative Ad Fund commences operation, or at the time the Franchisee commences operation hereunder. In no event shall Franchisee be required to be a member of more than one (1) Cooperative Ad Fund. The following provisions shall apply to each such Cooperative Ad Fund:

13.3.1 Each Cooperative Ad Fund shall be organized and governed in a form and manner, and shall commence operations on a date, approved in advance by Franchisor in writing. Unless otherwise specified by Franchisor, the activities carried on by each Cooperative Ad Fund shall be decided by a majority vote of its members. Any Pinot's Palette Studio that Franchisor operates in the region shall have the same voting rights as those owned by its franchisees. Each Pinot's Palette Studio franchisee shall be entitled to cast one (1) vote for each Pinot's Palette Studio it operates that belongs to the Cooperative Ad Fund. Any disputes arising among any members of the Cooperative Ad Fund shall be resolved in accordance with the rules and procedures set forth in the Cooperative Ad Fund's governing documents.

13.3.2 Each Cooperative Ad Fund shall be organized for the exclusive purpose of administering regional or local advertising programs and developing, subject to Franchisor's approval, standardized promotional materials for use by the members in local advertising and promotion.

13.3.3 Franchisee shall contribute to the Cooperative Ad Fund in such amounts as Franchisor may specify pursuant to Section 13.1 above, unless the members of the Cooperative Ad Fund, by a majority vote conducted in accordance with the rules, bylaws, or other governing documents of the Cooperative Ad Fund, agree to increase the Cooperative Ad Fund contribution to a rate in excess of the amount required by Franchisor.

13.3.4 Franchisee shall submit its required contributions to the Cooperative Ad Fund at the time required by Franchisor, together with such statements or reports as may be required by Franchisor or by the Cooperative Ad Fund with Franchisor's prior written approval. If so requested by Franchisor in writing, Franchisee shall submit its payments and reports to the Cooperative Ad Fund directly to Franchisor for distribution to the Cooperative Ad Fund.

13.3.5 Franchisor maintains the right to terminate any Cooperative Ad Fund. A Cooperative Ad Fund shall not be terminated, however, until either: (a) all monies in that Cooperative Ad Fund have been expended for advertising and/or promotional purposes; or (b) Franchisor has transferred the unexpended monies to the System Ad Fund in the event there are no longer any Pinot's Palette Studios operating within the geographic area covered by such Cooperative Ad Fund.

13.4 **Local Advertising.** Franchisee shall comply with the following with respect to "local advertising and promotion" for the Franchised Studio:

13.4.1 Franchisee shall spend on an annual basis such amounts as Franchisor may specify in accordance with Section 13.1 above. Franchisee shall account for such expenditures on a routine basis and shall prepare, in accordance with the schedule and procedures specified by Franchisor from time to time, detailed reports describing the amount of money expended on local advertising and promotion during such previous period. Franchisee shall maintain all such statements, reports and records, and shall submit same to Franchisor as Franchisor may specify in the Manuals or otherwise request of Franchisee. Additionally, at the request of Franchisor, Franchisee shall submit bills, statements, invoices, or other documentation satisfactory to Franchisor to evidence Franchisee's advertising or marketing activities.

13.4.2 As used in this Agreement, the term "**local advertising and promotion**" shall refer to advertising and promotion related directly to the Franchised Studio, and shall, unless otherwise specified, consist only of the direct costs of purchasing advertising materials (including, but not limited to, camera-ready advertising and point of sale materials), media (space or time), promotion, direct out-of-pocket expenses related to costs of advertising and sales promotion (including, but not limited to, advertising agency fees and expenses, cash and "in-kind" promotional payments to landlords, postage,

shipping, telephone, and photocopying), and such other activities and expenses as Franchisor, in its sole discretion, may specify. Franchisor may provide to Franchisee, in the Manuals or otherwise in writing, information specifying the types of advertising and promotional activities and costs which shall not qualify as “local advertising and promotion,” including, without limitation, the value of advertising coupons, and the costs of products provided for free or at a reduced charge for charities or other donations.

13.4.3 Upon written notice to Franchisee, Franchisor may require Franchisee to participate in mandatory promotions as Franchisor may develop and implement from time to time.

13.5 **Grand Opening Advertising.** In addition to the Advertising Obligation, Franchisee shall expend a minimum of between Ten Thousand Dollars (\$10,000) and Fifteen Thousand Dollars (\$15,000) for grand opening advertising and promotional programs in conjunction with the Franchised Studio’s initial grand opening, pursuant to a grand opening marketing plan developed by Franchisor or developed by Franchisee and approved in writing by Franchisor (the “**Grand Opening Advertising Program**”). The Grand Opening Advertising Program shall be executed and completed within ninety (90) days after the Franchised Studio commences operation. Franchisee shall submit to Franchisor, for Franchisor’s prior written approval, a marketing plan and samples of all advertising and promotional material not prepared or previously approved by Franchisor. Franchisor reserves the right to require Franchisee to deposit with Franchisor the funds required under this Section 13.5 to distribute as may be necessary to conduct the Grand Opening Advertising Program.

13.6 **Standards for Advertising.** All advertising, marketing and promotion to be used by Franchisee, the System Ad Fund or any Cooperative Ad Fund shall be in such media and of such type and format as Franchisor may approve, shall be conducted in a dignified manner, and shall conform to such standards and requirements as Franchisor may specify. Franchisee shall not use any marketing or promotional plans or materials that are not provided by Franchisor unless and until Franchisee has submitted the materials to Franchisor, pursuant to the procedures and terms set forth in Section 13.7 herein.

13.7 **Franchisor’s Approval of Proposed Plans and Materials.** If Franchisee desires to use marketing and promotional plans and materials that have not been provided or previously approved by Franchisor, Franchisee shall submit samples of all such marketing and promotional plans and materials to Franchisor (as provided in Section 24 herein) for prior approval (including prices to be charged). If written notice of approval is not received by Franchisee from Franchisor within five (5) business days of the date of receipt by Franchisor of such samples or materials, Franchisor shall be deemed to have not approved them.

13.8 **Directory Listings.** Franchisee shall, at its expense and in addition to its expenditures for local advertising and promotion, obtain listings as required in the Manuals, including on-line directories as Franchisor may designate. Franchisee shall comply with Franchisor’s specifications concerning such listings, including the form and size of such listings, and the number of directories in which such listings shall be placed. Franchisor reserves the right to place such, and subsequently modify or remove, on-line listings and advertisements on behalf of Franchisee. For any listings or advertisements posted by or on behalf of Franchisee, Franchisee shall promptly pay, upon demand by Franchisor, its pro-rata share of the costs. Additionally, these activities may be carried out through the use of the System Ad Fund.

13.9 **Ownership of Advertising Plans and Materials.** Franchisee acknowledges and agrees that any and all copyrights in and to advertising and promotional materials developed by or on behalf of Franchisee which bear the Proprietary Marks shall be the sole property of Franchisor, and Franchisee

agrees to execute such documents (and, if necessary, require its independent contractors to execute such documents) as may be deemed reasonably necessary by Franchisor to give effect to this provision. Any advertising, marketing, promotional, public relations, or sales concepts, plans, programs, activities, or materials proposed or developed by Franchisee for the Franchised Studio or the System and approved by Franchisor may be used by Franchisor and other operators under the System of Franchisor without any compensation to Franchisee.

14. INSURANCE

14.1 Insurance. Franchisee shall procure at its expense and maintain in full force and effect during the term of this Agreement, an insurance policy or policies protecting Franchisee and Franchisor, and their officers, directors, partners and employees against any loss, liability, personal injury, death, or property damage or expense whatsoever arising or occurring upon or in connection with Franchisee's operations and the Franchised Studio, as Franchisor may reasonably require for its own and Franchisee's protection. Franchisor and such of its respective affiliates shall be named additional insured in such policy or policies.

14.2 Coverages. Such policy or policies shall be written by an insurance company satisfactory to Franchisor in accordance with standards and specifications set forth in the Manuals or otherwise in writing; provided, however, that Franchisor shall have the right to designate from time to time, one or more insurance companies as the insurance carrier(s) for Pinot's Palette Studios, and if required by Franchisor, Franchisee shall obtain its insurance coverage from the designated insurance company (or companies). The policy or policies shall include, at a minimum (except different coverages, umbrella coverages, and policy limits as may reasonably be specified for all Franchisees from time to time by Franchisor in the Manuals or otherwise in writing) the following:

14.2.1 Builder's risk insurance that satisfies the standards and specifications set forth by Franchisor in the Manuals or otherwise in writing to cover any period(s) of renovation or construction at the Franchised Studio.

14.2.2 All risk coverage insurance on (i) all personal property covering the Franchised Studio and premises and contents thereof, including, without limitation, all supplies, inventory, fixtures, and equipment, containing a replacement value endorsement in an amount equal to the full replacement value thereof; and (ii) business interruption in an amount no less than One Million Dollars (\$1,000,000) per occurrence.

14.2.3 Worker's compensation and employer's liability insurance as well as such other insurance as may be required by statute or rule of the state in which the Franchised Studio is located and operated. If Franchisee is permitted to and elects not to have worker's compensation insurance for its owners and officers, Franchisee shall maintain coverages for these individuals at all times for work-related injuries.

14.2.4 Comprehensive general liability insurance with limits of at least One Million Dollars (\$1,000,000) per occurrence, and Two Million Dollars (\$2,000,000) general aggregate, and product liability insurance with limits of at least Two Million Dollars (\$2,000,000) general aggregate including the following coverages: personal injury (employee and contractual inclusion deleted); products/completed operation; and tenant's legal liability. All such coverages insuring Franchisor and Franchisee against all claims, suits, obligations, liabilities and damages, including attorneys' fees, based upon or arising out of actual or alleged personal injuries or property damage resulting from, or occurring in the course of, or on or about or otherwise relating to the Franchised Studio. The required coverage

amounts herein may be modified from time to time by Franchisor to reflect inflation or future experience with claims.

14.2.5 Automobile liability insurance, and property damage liability, including owned, non-owned, and hired vehicle coverage, with at least One Million Dollars (\$1,000,000) combined single limit, and One Million Dollars (\$1,000,000) general aggregate limit.

14.2.6 Liquor liability coverage for third party bodily injury and property damage arising out of the sale or distribution of liquor with limits of at least One Million Dollars (\$1,000,000) combined single limit, and One Million Dollars (\$1,000,000) general aggregate limit.

14.2.7 Excess liability coverage over general liability, automobile liability, and employer's liability, with at least Four Million Dollars (\$4,000,000) per occurrence.

14.2.8 Such insurance and types of coverage as may be required by the terms of any lease for the Premises, or as may be required from time to time by Franchisor.

14.2.9 The insurance shall cover the acts or omissions of each and every one of the persons who perform services of whatever nature at the Franchised Studio, and shall protect against all acts of any persons who patronize the Franchised Studio and shall contain a waiver of subrogation against Franchisor. Franchisee shall immediately notify Franchisor, in writing, of any accidents, injury, occurrence or claim that might give rise to a liability or claim against Franchisor or which could materially affect Franchisee's business, and such notice shall be provided no later than the date upon which Franchisee notifies its insurance carrier.

14.3 **Certificates of Insurance.** The insurance afforded by the policy or policies respecting liability shall not be limited in any way by reason of any insurance which may be maintained by Franchisor. Prior to commencing any renovations or construction at the Franchised Studio, Franchisee shall provide Franchisor with a Certificate of Insurance for the builder's risk insurance required under Section 14.2.1. At least thirty (30) days prior to the opening of the Franchised Studio, and thereafter on an annual basis, Franchisee shall provide Franchisor with a Certificate of Insurance showing compliance with the foregoing requirements (except with respect to the builder's risk insurance, which shall have already been in effect pursuant to Section 14.2.1 above). Such certificate shall state that said policy or policies will not be canceled or altered without at least thirty (30) days prior written notice to Franchisor and shall reflect proof of payment of premiums. Maintenance of such insurance and the performance by Franchisee of the obligations under this Paragraph shall not relieve Franchisee of liability under the indemnity provision set forth in this Agreement. Franchisee acknowledges that minimum limits as required above may be modified by Franchisor in its sole discretion from time to time, by written notice to Franchisee.

14.4 **Franchisor's Right to Procure Insurance for Franchisee.** Should Franchisee, for any reason, not procure and maintain such insurance coverage as required by this Agreement, Franchisor shall have the right and authority (without, however, any obligation to do so) immediately to procure such insurance coverage and to charge same to Franchisee, which charges, together with a reasonable fee for expenses incurred by Franchisor in connection with such procurement, shall be payable by Franchisee immediately upon notice.

15. **TRANSFER OF INTEREST**

15.1 **Franchisor's Rights to Transfer.** Franchisor shall have the right, without the need for Franchisee's consent, to transfer or assign this Agreement and all or any part of its rights or obligations

herein to any person or legal entity, provided that any designated assignee of Franchisor shall become solely responsible for all obligations of Franchisor under this Agreement from the date of assignment. Upon any such transfer or assignment, Franchisor shall be under no further obligation hereunder, except for accrued liabilities, if any. If Franchisor transfers or assigns its rights in this Agreement, nothing herein shall be deemed to require Franchisor to remain in the "Pinot's Palette Studio" business or to offer or sell any products or services to Franchisee. In addition, and without limitation to the foregoing, Franchisee expressly affirms and agrees that Franchisor may sell its assets, its Proprietary Marks, or its System; may sell its securities in a public offering or in a private placement; may merge, acquire other corporations, or be acquired by another corporation; and may undertake a refinancing, recapitalization, leveraged buy-out, or other economic or financial restructuring.

15.2 **No Transfers Without Franchisor's Approval.** Franchisee understands and acknowledges that the rights and duties set forth in this Agreement are personal to Franchisee or the Principals of Franchisee, if Franchisee is not an individual, and that Franchisor has granted this franchise in reliance on Franchisee's or Franchisee's Principals' business skill, financial capacity, and personal character. Accordingly:

15.2.1 Franchisee shall not, without the prior written consent of Franchisor, transfer, pledge or otherwise encumber: (a) the rights and/or obligations of Franchisee under this Agreement; or (b) any material asset of Franchisee or the Franchised Studio.

15.2.2 If Franchisee is a corporation or limited liability company, Franchisee shall not, without the prior written consent of Franchisor, issue any voting securities or securities convertible into voting securities, and the recipient of any such securities shall become a Principal under this Agreement, if so approved by Franchisor.

15.2.3 If Franchisee is a partnership or limited partnership, the partners of the partnership shall not, without the prior written consent of Franchisor, admit additional general partners, remove a general partner, or otherwise materially alter the powers of any general partner. Each general partner shall automatically be deemed a Principal under this Agreement.

15.2.4 A Principal shall not, without the prior written consent of Franchisor, transfer, pledge or otherwise encumber any ownership interest of the Principal in Franchisee, as such is identified in Exhibit B.

15.3 **Conditions on Transfer.** Franchisor shall not unreasonably withhold any consent required by Section 15.2 above. However, if the proposed transfer alone or together with other previous, simultaneous, or proposed transfers would: (a) have the effect of changing control of Franchisee; (b) result in the assignment of the rights and obligations of Franchisee under this Agreement; or (c) transfer the ownership interest in all or substantially all of the assets of the Franchised Studio, Franchisor shall have the right to require any or all of the following as conditions of its approval:

15.3.1 All of Franchisee's monetary obligations and all other outstanding obligations to Franchisor, its affiliates, and the approved suppliers of the System have been satisfied in full;

15.3.2 Franchisee shall not be in default under any provision of this Agreement, any other agreement between Franchisee and Franchisor or its affiliate, any approved supplier of the System, or the lessor (or sublessor) of the Premises;

15.3.3 Each transferor (and, if the transferor is other than an individual, the transferor and such owners of beneficial interest in the transferor as Franchisor may request) shall have executed a

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

15.3.4 The transferee of a Principal shall be designated as a Principal and each transferee who is designated a Principal shall enter into a written agreement, in a form satisfactory to Franchisor, agreeing to be bound as a Principal under the terms of this Agreement as long as such person or entity owns any interest in Franchisee. Additionally, the transferee and/or such owners of the transferee as Franchisor may request shall guarantee the performance of the transferee's obligations in writing in a form satisfactory to Franchisor;

15.3.5 The transferee shall demonstrate to Franchisor's satisfaction that the terms of the proposed transfer do not place an unreasonable financial or operational burden on the transferee, and that the transferee (or, if the transferee is other than an individual, such owners of beneficial interest in the transferee as Franchisor may request) meets Franchisor's then-current application qualifications (which may include educational, managerial, socially responsible and business standards, as well as good moral character, business reputation, and credit rating); has the aptitude and ability to operate the Franchised Studio; absence of conflicting interests; and has adequate financial resources and capital to operate the Franchised Studio;

15.3.6 At Franchisor's option, the transferee (and, if the transferee is not an individual, such Principals of the transferee as Franchisor may request) shall execute the form of franchise agreement then being offered to new System franchisees, and such other ancillary agreements required by Franchisor for the business franchised hereunder, which agreements shall supersede this Agreement and its ancillary documents in all respects, and the terms of which may differ from the terms of this Agreement including, without limitation, higher and/or additional fees;

15.3.7 If so requested by Franchisor, the transferee, at its expense, shall upgrade the Franchised Studio, and other equipment to conform to the then-current standards and specifications of new Pinot's Palette Studios then being established in the System, and shall complete the upgrading and other requirements within the time specified by Franchisor.

15.3.8 The transferor shall remain liable for all of the obligations to Franchisor in connection with the Franchised Studio that arose prior to the effective date of the transfer and shall execute any and all instruments reasonably requested by Franchisor to evidence such liability;

15.3.9 The transferee (and, if the transferee is not an individual, such Principals of the transferee as Franchisor may request) and the transferee's manager (if applicable) shall, at the transferee's expense, successfully attend and successfully complete any training programs then in effect for operators and managers upon such terms and conditions as Franchisor may reasonably require;

15.3.10 Franchisee shall pay a transfer fee in an amount equal to fifty percent (50%) of Franchisor's then-current initial franchise fee (however, not to exceed Fifteen Thousand Dollars (\$15,000)) to compensate Franchisor for its expenses incurred in connection with the transfer; and

15.3.11 The transferor(s), at the request of Franchisor, shall agree in writing to comply with the covenants set forth in Section 18 below.

15.4 **Additional Terms.** For any transfer not covered by Section 15.3, each transferee (and, if the transferee is not an individual, such Principals of the transferee as Franchisor may request) shall, in addition to the requirement of obtaining Franchisor's consent as provided in Section 15.2, be subject to

the requirements of Sections 15.3.3 and 15.3.4 above (with respect to execution of releases and personal guarantees).

15.5 **Security Interests.** Neither Franchisee nor any Principal shall grant a security interest in, or otherwise encumber, any of the assets or securities of Franchisee, including the Franchised Studio unless Franchisee satisfies the requirements of Franchisor, which include, without limitation, execution of an agreement by the secured party in which it acknowledges the creditor's obligations under this Section 15, and agrees that in the event of any default by Franchisee under any documents related to the security interest, Franchisor shall have the right and option (but not the obligation) to be substituted as obligor to the secured party and to cure any default of Franchisee, and, in the event Franchisor exercises such option, any acceleration of indebtedness resulting from Franchisee's default shall be void.

15.6 **Right of First Refusal.** If Franchisee or any Principal desires to accept any *bona fide* offer from a third party to purchase Franchisee, any material asset of Franchisee, or any direct or indirect interest in Franchisee, Franchisee or such Principal shall promptly notify Franchisor, and shall provide such information and documentation relating to the offer as Franchisor may require. Franchisor (or Franchisor's affiliate) shall have the right and option, exercisable within thirty (30) days after receipt of the written transfer request and the required information and documentation related to the offer (including any information that Franchisor may reasonably request to supplement or clarify information provided to Franchisor with the written transfer request), to send written notice to the seller that Franchisor (or Franchisor's affiliate) intends to purchase the seller's interest on the same terms and conditions offered by the third party; provided, however, a spouse, domestic partner, parent or child of the seller shall not be considered a third party for purposes of this Section 15.6. If Franchisor (or Franchisor's affiliate) elects to purchase the seller's interest, closing on such purchase shall occur within forty-five (45) days from the date of notice to the seller of the election to purchase by Franchisor (or Franchisor's affiliate), or, if longer, on the same timetable as contained in the *bona fide* offer.

15.6.1 Any material change thereafter in the terms of the offer from the third party or by Franchisee, or a change in the identity of the third party shall constitute a new offer subject to the same rights of first refusal by Franchisor as in the case of the third party's initial offer. Failure of Franchisor to exercise the option afforded by this Section 15.6 shall not constitute a waiver of any other provision of this Agreement, including all of the requirements of this Section 15, with respect to a proposed transfer.

15.6.2 If the consideration, terms, and/or conditions offered by a third party are such that Franchisor (or Franchisor's affiliate) may not reasonably be required to furnish the same consideration, terms, and/or conditions, then Franchisor (or Franchisor's affiliate) may purchase the interest proposed to be sold for the reasonable equivalent in cash. If the parties cannot agree within a reasonable time on the reasonable equivalent in cash of the consideration, terms, and/or conditions offered by the third party, Franchisor shall designate an independent appraiser to make a binding determination. The cost of any such appraisal shall be shared equally by Franchisor and Franchisee. If Franchisor (or Franchisor's affiliate) elects to exercise its right under this Section 15.6, Franchisor (or Franchisor's affiliate) shall have the right to set off all amounts due from Franchisee, and one-half (1/2) of the cost of the appraisal, if any, against any payment to the seller.

15.7 **Death of a Principal.** Upon the death of a Principal, the deceased's executor, administrator, or other personal representative shall transfer the deceased's interest to a third party acceptable to and approved by Franchisor within twelve (12) months after the death.

15.8 **Permanent Disability of Controlling Principal.** Upon the permanent disability of any Principal with a controlling interest in Franchisee, Franchisor shall have the right to require such interest to be transferred to a third party in accordance with the conditions described in this Section 15 within six

(6) months after notice to Franchisee. “**Permanent Disability**” shall mean any physical, emotional, or mental injury, illness, or incapacity that would prevent a person from performing the obligations set forth in this Agreement for at least six (6) consecutive months; and from which recovery within six (6) consecutive months from the date of determination of disability is unlikely. Permanent disability shall be determined by a licensed practicing physician selected by Franchisor upon examination of such person or, if such person refuses to be examined, then such person shall automatically be deemed permanently disabled for the purposes of this Section 15.8 as of the date of refusal. Franchisor shall pay the cost of the required examination.

15.9 **Notice to Franchisor of Death or Permanent Disability.** Upon the death or permanent disability of Franchisee or any Principal of Franchisee, such person or his representative shall promptly notify Franchisor of such death or claim of permanent disability. Any transfer upon death or permanent disability shall be subject to the same terms and conditions as any *inter vivos* transfer.

15.10 **Limited Exceptions.** Notwithstanding anything to the contrary in this Section 15:

15.10.1 Franchisee shall not be required to pay the transfer fee due under Section 15.3.10 above, if the transferee: (a) is a spouse, parent, or direct lineal descendant or sibling of Franchisee or of a Principal of Franchisee (or more than one of such persons), provided that the transferee has been involved in, and is knowledgeable regarding, the operations of the Franchised Studio; (b) is a Principal of Franchisee; or (c); is a transferee under Sections 15.7 or 15.8 above.

15.10.2 If Franchisee is an individual and seeks to transfer this Agreement to a corporation, partnership, or limited liability company formed for the convenience of ownership, the conditions of Sections 15.3.6 (signing a new franchise agreement), 15.3.7 (upgrading the Franchised Studio), and 15.3.10 (transfer fee) shall not apply, and Franchisee may undertake such transfer, provided that: (a) Franchisee owns one hundred percent (100%) of the equity interest in the transferee entity; (b) Franchisee and any other Principal(s) personally guarantee, in a written guaranty satisfactory to Franchisor, the performance of the obligations and covenants of the Franchisee under the Franchise Agreement; (c) Franchisee executes a Transfer of Franchise form as prescribed and approved by Franchisor; (d) such transferee entity is newly organized and its business purpose is confined exclusively to operating the Franchised Studio under this Agreement; and (e) Franchisee and any other Principal(s) execute any and all other ancillary agreements as Franchisor may require.

15.11 **Securities Offerings.** All materials required for any offering of securities or partnership interests in Franchisee by federal or state law shall be submitted to Franchisor by the offeror for review prior to filing with any government agency; and any materials to be used in any exempt offering shall be submitted to Franchisor for review prior to their use. No offering shall imply, by use of the Proprietary Marks or otherwise, that Franchisor is participating in an underwriting, issuance, or offering of securities of either Franchisee or Franchisor; and review by Franchisor of any offering shall be limited solely to the subject of the relationship between Franchisee and Franchisor. At its option, Franchisor may require the offering materials to contain written statements or disclaimers prescribed by Franchisor including, but not limited to, any limitations stated above in this paragraph. Franchisee and the other participants in the offering must fully indemnify Franchisor in connection with the offering. For each proposed offering, Franchisee shall reimburse Franchisor for its actual costs and expenses associated with reviewing the proposed offering materials, including legal and accounting fees. Franchisee shall give Franchisor written notice at least sixty (60) days prior to the date of commencement of any offering or other transaction covered by this Section 15.11. Any such offering shall be subject to prior written consent of Franchisor and right of first refusal as provided in Section 15.6.

15.12 **No Waiver.** The consent of Franchisor to any transfer pursuant to this Section 15 shall not constitute a waiver of any claims it may have against the transferring party, nor shall it be a waiver of the right of Franchisor to demand exact compliance with any of the terms of this Agreement by any transferor or transferee.

15.13 **Bankruptcy.** If Franchisee or any person holding any interest (direct or indirect) in Franchisee becomes a debtor in a proceeding under the U.S. Bankruptcy Code or any similar law in the U.S. or elsewhere, it is the parties' understanding and agreement that any transfer of the ownership of Franchisee, Franchisee's obligations and/or rights hereunder and/or any material assets of Franchisee, shall be subject to all of the terms of this Section 15.

15.14 **No Transfers in Violation of Law.** Notwithstanding anything to the contrary in this Agreement, no transfer shall be made if the transferee, any of its affiliates, or the funding sources for either is a person or entity designated with whom Franchisor, or any of its affiliates, are prohibited by law from transacting business.

16. **DEFAULT AND TERMINATION**

16.1 **Automatic Termination.** Franchisee shall be in default under this Agreement, and all rights granted to Franchisee herein shall automatically terminate without notice to Franchisee, if Franchisee shall become insolvent or make a general assignment for the benefit of creditors; if a petition in bankruptcy is filed by Franchisee or such a petition is filed against and not opposed by Franchisee; if Franchisee is adjudicated a bankrupt or insolvent; if a bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is filed and consented to by Franchisee; if a receiver or other custodian (permanent or temporary) of Franchisee's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; if proceedings for a composition with creditors under any state or federal law should be instituted by or against Franchisee; if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); if Franchisee is dissolved; if execution is levied against Franchisee's business or property; if suit to foreclose any lien or mortgage against the Premises or equipment is instituted against Franchisee and not dismissed within thirty (30) days; or if the real or personal property of the Franchised Studio shall be sold after levy thereupon by any sheriff, marshal, or constable.

16.2 **Termination Upon Notice.** Franchisee shall be deemed to be in default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, without affording Franchisee any opportunity to cure the default, effective immediately by giving written notice to Franchisee (in the manner provided under Section 24 hereof), upon the occurrence of any of the following events:

16.2.1 If Franchisee fails to complete all pre-opening obligations and to open the Franchised Studio within the time limits as provided in Section 5.4 above;

16.2.2 If Franchisee or any of its Principals is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that Franchisor believes is reasonably likely to have an adverse effect on the System, the Proprietary Marks, the goodwill associated therewith, or the interest of Franchisor therein;

16.2.3 If a threat or danger to public health or safety results from the construction, maintenance, or operation of the Franchised Studio;

16.2.4 If Franchisee's action or inaction, at any time, results in the loss of the right to possession of the Premises, or forfeiture of the right to do or transact business in the jurisdiction where the Franchised Studio is located;

16.2.5 If Franchisee or any Principal purports to transfer any rights or obligations under this Agreement or any interest to any third party in a manner that is contrary to the terms of Section 15 hereof;

16.2.6 If Franchisee knowingly maintains false books or records, or knowingly submits any false statements or reports to Franchisor;

16.2.7 If, contrary to the terms of Sections 9 or 10 hereof, Franchisee discloses or divulges the contents of the Manuals or other confidential information provided to Franchisee by Franchisor;

16.2.8 If Franchisee fails to comply with the covenants in Section 18.2 below or fails to timely obtain execution of the covenants required under Section 18.5 and 19.2 below;

16.2.9 If Franchisee misuses or makes any unauthorized use of the Proprietary Marks or any other identifying characteristics of the System, or if Franchisee otherwise operates the Franchised Studio in a manner that materially impairs the reputation or goodwill associated with the System, Proprietary Marks or the rights of Franchisor therein;

16.2.10 If Franchisee, after curing a default pursuant to Sections 16.3 or 16.4 hereof, commits the same default again, whether or not cured after notice.

16.2.11 If Franchisee commits three (3) or more defaults under this Agreement in any twelve (12) month period, whether or not each such default has been cured after notice (this provision in no way limits Section 16.2.10 above);

16.2.12 If Franchisee at any time ceases to operate or otherwise abandons the Franchised Studio for a period of two (2) consecutive days unless such closure is approved in writing by Franchisor, or excused by *force majeure*.

16.2.13 If Franchisee breaches any material provision of this Agreement which breach is not susceptible to cure.

16.3 **Notice and Opportunity to Cure - 7 Days.** Upon the occurrence of any of the following events of default, Franchisor may, at its option, terminate this Agreement by giving written notice of termination (in the manner set forth under Section 24 hereof) stating the nature of the default to Franchisee at least seven (7) days prior to the effective date of termination; provided, however, that Franchisee may avoid termination by immediately initiating a remedy to cure such default, curing it to the satisfaction of Franchisor, and by promptly providing proof thereof to Franchisor within the seven (7) day period. If any such default is not cured within the specified time, or such longer period as applicable law may require, this Agreement shall terminate without further notice to Franchisee, effective immediately upon the expiration of the seven (7) day period or such longer period as applicable law may require.

16.3.1 If Franchisee fails, refuses, or neglects promptly to pay any monies owing to Franchisor or its affiliates when due;

16.3.2 If Franchisee refuses to permit Franchisor to inspect the Premises, or the books, records, or accounts of Franchisee upon demand; or

16.3.3 If Franchisee fails to operate the Franchised Studio during such days and hours specified in the Manuals (this provision in no way limits Section 16.2.12).

16.4 **Notice and Opportunity to Cure - 30 Days.** Except as otherwise provided in Sections 16.1, 16.2 and 16.3 of this Agreement, upon any other default by Franchisee, Franchisor may terminate this Agreement by giving written notice of termination (in the manner set forth under Section 24 hereof) stating the nature of the default to Franchisee at least thirty (30) days prior to the effective date of termination; provided, however, that Franchisee may avoid termination by immediately initiating a remedy to cure such default, curing it to the satisfaction of Franchisor, and by promptly providing proof thereof to Franchisor within the thirty (30) day period. If any such default is not cured within the specified time, or such longer period as applicable law may require, this Agreement shall terminate without further notice to Franchisee, effective immediately upon the expiration of the thirty (30) day period or such longer period as applicable law may require.

16.5 **Cross Defaults.** Any default by Franchisee under this Agreement may be regarded as a default under any other agreement between Franchisor (or any affiliate of Franchisor) and Franchisee (or any affiliate of Franchisee). Any default by Franchisee under any other agreement between Franchisor (or any affiliate of Franchisor) and Franchisee (or any affiliate of Franchisee) may be regarded as a default under this Agreement.

17. **OBLIGATIONS UPON TERMINATION OR EXPIRATION**

Upon termination or expiration of this Agreement, all rights granted hereunder to Franchisee shall terminate, and:

17.1 **Stop Operating.** Franchisee shall immediately cease to operate the Franchised Studio, and shall not thereafter, directly or indirectly, represent to the public or hold itself out as a present or former franchisee of Franchisor in connection with the promotion or operation of any other business.

17.2 **Stop Using the System.** Franchisee shall immediately and permanently cease to use, in any manner whatsoever, any confidential methods, procedures, and techniques associated with the System; the Proprietary Mark "Pinot's Palette" and all other Proprietary Marks and distinctive forms, slogans, signs, symbols, and devices associated with the System. In particular, Franchisee shall cease to use all signs, marketing materials, displays, stationery, forms, products, and any other articles which display the Proprietary Marks, as well as any and all art used in connection with the Franchised Studio.

17.3 **Cancel Assumed Names.** Franchisee shall take such action as may be necessary to cancel any assumed name registration or equivalent registration obtained by Franchisee which contains the mark "Pinot's Palette" or any other Proprietary Marks, and Franchisee shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within five (5) days after termination or expiration of this Agreement.

17.4 **The Premises.** Franchisee shall, at the option of Franchisor, assign to Franchisor any interest which Franchisee has in any lease or sublease for the Premises. In the event Franchisor does not elect to exercise its option to acquire the lease or sublease for the Premises, Franchisee shall make such modifications or alterations to the Premises immediately upon termination or expiration of this Agreement as may be necessary to distinguish the appearance of the Premises from that of a Pinot's Palette Studio under the System, and shall make such specific additional changes thereto as Franchisor

may reasonably request for that purpose. In the event Franchisee fails or refuses to comply with the requirements of this Section 17.4, Franchisor shall have the right to enter upon the Premises, without being guilty of trespass or any other tort, for the purpose of making or causing to be made such changes as may be required, at the expense of Franchisee, which expense Franchisee agrees to pay upon demand. Additionally, if Franchisor does not elect to exercise the option to acquire the lease/sublease, Franchisee shall comply with Section 18.3 below regarding a Competitive Business (as defined in Section 18.2.3 below).

17.5 **Phone Numbers; Directory Listings; Domain Names.** Franchisee shall cease use of all telephone numbers and any domain names, websites, e-mail addresses, and any other identifiers, whether or not authorized by Franchisor, used by Franchisee while operating the Franchised Studio, and shall promptly execute such documents or take such steps necessary to remove reference to the Franchised Studio from all trade or business telephone directories, including “yellow” and “white” pages, or at Franchisor’s request transfer same to Franchisor. Franchisee hereby authorizes Franchisor to instruct issuers of any telephone and internet domain name services, and other providers to transfer any such telephone numbers, domain names, websites, addresses, and any other identifiers to Franchisor upon termination of this Agreement, without need for any further approval from Franchisee. Without limiting the foregoing, Franchisee hereby agrees to execute a Telephone Number Assignment and Power of Attorney form attached to this Agreement as Exhibit E in order to implement this Section 17.5.

17.6 **No Use of Proprietary Marks or Trade Dress in other Businesses.** Franchisee agrees, in the event it continues to operate, or subsequently begins to operate, any other business, not to use any reproduction, counterfeit, copy, or colorable imitation of the Proprietary Marks, either in connection with such other business or the promotion thereof, which, in the sole discretion of Franchisor, is likely to cause confusion, mistake, or deception, or which, in the sole discretion of Franchisor, is likely to dilute the rights of Franchisor in and to the Proprietary Marks. Franchisee further agrees not to utilize any designation of origin, description, or representation (including but not limited to reference to Franchisor, the System, or the Proprietary Marks) which, in the sole discretion of Franchisor, suggests or represents a present or former association or connection with Franchisor, the System, or the Proprietary Marks.

17.7 **Pay Franchisor All Amounts Due.** Franchisee shall promptly pay all sums owing to Franchisor and its affiliates and parent. In the event of termination for any default of Franchisee, such sums shall include, without limitation, all damages, costs, and expenses, including reasonable attorneys’ fees, incurred by Franchisor as a result of the default and termination, which obligation shall give rise to, and remain until paid in full, a lien in favor of Franchisor against any and all of the personal property, furnishings, equipment, signs, fixtures, and inventory owned by Franchisee and on the Premises at the time of default.

17.8 **Return of Manuals and Confidential Information.** Franchisee shall, at its own expense, immediately deliver to Franchisor the Manuals and all other records, computer disks, correspondence, and instructions containing confidential information relating to the operation of the Franchised Studio (and any copies thereof, even if such copies were made in violation of this Agreement), all of which are acknowledged to be the property of Franchisor.

17.9 **Franchisor’s Option to Purchase Certain Assets.** Franchisor shall have the option, to be exercised within thirty (30) days after termination, to purchase from Franchisee any or all of the furnishings, equipment, signs, fixtures, supplies, or inventory of Franchisee related to the operation of the Franchised Studio, at the lesser of Franchisee’s cost or fair market value. The cost for such items shall be determined based upon a five (5) year straight-line depreciation of original costs. For equipment that is five (5) or more years old, the parties agree that fair market value shall be deemed to be ten percent (10%)

of the equipment's original cost. If Franchisor elects to exercise any option to purchase herein provided, it shall have the right to set off all amounts due from Franchisee.

17.10 **Comply with Covenants.** Franchisee and its Principals shall comply with the covenants contained in Section 18.3 of this Agreement.

18. **COVENANTS**

18.1 **Full Time and Best Efforts.** Franchisee covenants that, during the term of this Agreement, except as otherwise approved in writing by Franchisor, Franchisee (or, if Franchisee is not an individual, the Designated Principal) and Franchisee's fully trained General Manager shall devote full time and best efforts to the management and operation of the Franchised Studio.

18.2 **During the Agreement Term.** Franchisee specifically acknowledges that, pursuant to this Agreement, Franchisee will receive valuable, specialized training and confidential information, including information regarding the operational, sales, promotional, and marketing methods and techniques of Franchisor and the System. Franchisee covenants that during the term of this Agreement, except as otherwise approved in writing by Franchisor, Franchisee shall not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person or legal entity:

18.2.1 Divert or attempt to divert any present or prospective business or customer of any Pinot's Palette Studio to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Proprietary Marks and the System;

18.2.2 Employ or seek to employ any person who is at that time employed by Franchisor or by any other franchisee of Franchisor, or otherwise encourage such person to leave his or her employment; or

18.2.3 Own, maintain, operate, engage in, be employed by, provide any assistance to, or have any more than a one percent (1%) interest in (as owner or otherwise) any Competitive Business (as defined below). A "**Competitive Business**" shall be considered a business offering artistic painting classes, along with related products and services, that is the same as or similar to the Franchised Studio. Furthermore, Franchisee acknowledges and agrees that Franchisee shall be considered in default under this Agreement and that this Agreement will be subject to termination as provided in Section 16.2.8 herein, in the event that a person in the immediate family (including spouse, domestic partner, parent or child) of Franchisee (or, if Franchisee is other than an individual, each Principal that is subject to these covenants) engages in a Competitive Business that would violate this Section 18.2.3 if such person was subject to the covenants of this Section 18.2.3.

18.3 **After the Agreement and After a Transfer.** Franchisee covenants that, except as otherwise approved in writing by Franchisor, for a continuous uninterrupted period of two (2) years commencing upon the date of: (a) a transfer permitted under Section 15 of this Agreement; (b) expiration of this Agreement; (c) termination of this Agreement (regardless of the cause for termination); (d) a final order of a duly authorized arbitrator, panel of arbitrators, or a court of competent jurisdiction (after all appeals have been taken) with respect to any of the foregoing or with respect to enforcement of this Section 18.3; or (e) any or all of the foregoing:

18.3.1 Franchisee shall not either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person or legal entity, own, maintain, operate, engage in, be employed by, provide assistance to, or have any interest in (as owner or otherwise) any Competitive Business that is, or

is intended to be, located (i) at the Approved Location for the Franchised Studio, (ii) within a radius of twenty-five (25) miles of the Franchised Studio, or (iii) within a radius of twenty-five (25) miles of any other Pinot's Palette Studio in operation or under construction on the effective date of termination or expiration located anywhere; provided, however, that this provision shall not apply to the operation by Franchisee of any business under the System under a franchise agreement with Franchisor;

18.3.2 Franchisee shall not sublease, assign, or sell Franchisee's interest in any lease, sublease, or ownership of the Premises or assets of the Franchised Studio to a third party for the operation of a Competitive Business, or otherwise arrange or assist in arranging for the operation by a third party of a Competitive Business.

18.4 **Exception for Ownership in Public Entities.** Sections 18.2.3 and 18.3 shall not apply to ownership by Franchisee of a less than five percent (5%) beneficial interest in the outstanding equity securities of any corporation which has securities registered under the Securities Exchange Act of 1934.

18.5 **Personal Covenants.** Franchisee shall obtain and furnish to Franchisor executed covenants similar in substance to those set forth in this Section 18 (including covenants applicable upon the termination of a person's relationship with Franchisee) and the provisions of Sections 10 and 11 of this Agreement (as modified to apply to an individual) from all managers, artists and other personnel employed by Franchisee who have received or will receive training and/or other confidential information. Every covenant required by this Section 18.5 shall be in a form approved by Franchisor, including specific identification of Franchisor as a third-party beneficiary of such covenants with the independent right to enforce them, the current forms of which shall be contained in the Manuals.

18.6 **Covenants as Independent Clauses.** The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section 18 is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Franchisor is a party, Franchisee expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section 18.

18.7 **Franchisor's Right to Reduce Scope of the Covenants.** Franchisee understands and acknowledges that Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Section 18, or any portion thereof, without Franchisee's consent, effective immediately upon receipt by Franchisee of written notice thereof; and Franchisee agrees that it shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section 25 hereof.

18.8 **Covenants Survive Claims.** Franchisee expressly agrees that 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 Franchisor of the covenants in this Section 18; provided, however, any claims Franchisee may have against Franchisor may be brought in a separate proceeding. Franchisee agrees to pay all costs and expenses (including reasonable attorneys' fees) incurred by Franchisor in connection with the enforcement of this Section 18.

18.9 **Injunctive Relief.** Franchisee acknowledges that the foregoing restrictions are reasonable, are not vague or indefinite, and are designed to protect the legitimate business interests of Franchisor and the System, and that in the event of a breach of covenants contained in this Section 18, the damage to Franchisor would be difficult to ascertain and, in addition to other rights and remedies,

Franchisor shall be entitled to seek injunctive and/or other equitable relief against the violation of any said covenants, together with reasonable attorneys' fees and costs.

19. **CORPORATION, LIMITED LIABILITY COMPANY, OR PARTNERSHIP**

19.1 **List of Principals**. If Franchisee is a corporation, limited liability company, or partnership, each Principal of Franchisee, and the ownership interest of each Principal in Franchisee, shall be identified in Exhibit B hereto. Franchisee shall maintain a list of all Principals and immediately furnish Franchisor with an update to the information contained in Exhibit B upon any change, which shall be made only in compliance with Section 15 above. As set forth in Section 8.3, the Designated Principal shall at all times have at least a ten percent (10%) interest in Franchisee.

19.2 **Guaranty, Indemnification, and Acknowledgment**. Each Principal shall execute a guaranty, indemnification, and acknowledgment of Franchisee's covenants and obligations under this Agreement in the form attached hereto as Exhibit C.

19.3 **Corporations and Limited Liability Companies**. If Franchisee or any successor to or assignee of Franchisee is a corporation or a limited liability company, Franchisee shall comply with the following requirements:

19.3.1 Franchisee shall be newly organized and its governing documents shall at all times provide that its activities are confined exclusively to operating the Franchised Studio.

19.3.2 Franchisee shall, upon request of Franchisor, promptly furnish to Franchisor copies of Franchisee's articles of incorporation, bylaws, articles of organization, operating agreement and/or other governing documents, and any amendments thereto, including the resolution of the Board of Directors or members authorizing entry into this Agreement.

19.3.3 Franchisee shall maintain stop-transfer instructions on its records against the transfer of any equity securities of Franchisee; and each stock certificate or issued securities of Franchisee shall conspicuously include upon its face a statement, in a form satisfactory to Franchisor, which references the transfer restrictions imposed by this Agreement; provided, however, that the requirements of this Section 19.3.3 shall not apply to a publicly held corporation.

19.4 **Partnerships and Limited Liability Partnerships**. If Franchisee or any successor to or assignee of Franchisee is a partnership or limited liability partnership, Franchisee shall comply with the following requirements:

19.4.1 Franchisee shall be newly organized and its partnership agreement shall at all times provide that its activities are confined exclusively to operating the Franchised Studio.

19.4.2 Franchisee shall furnish Franchisor with a copy of its partnership agreement as well as such other documents as Franchisor may reasonably request, and any amendments thereto.

19.4.3 The partners of the partnership shall not, without the prior written consent of Franchisor, admit additional general partners, remove a general partner, or otherwise materially alter the powers of any general partner.

20. **TAXES, PERMITS, AND INDEBTEDNESS**

20.1 **Taxes.** Franchisee shall promptly pay when due all taxes levied or assessed, including unemployment and sales taxes, and all accounts and other indebtedness of every kind incurred by Franchisee in the operation of the Franchised Studio. Franchisee shall pay to Franchisor an amount equal to any sales tax, gross receipts tax, or similar tax or assessment (other than income tax) imposed on Franchisor with respect to any payments to Franchisor required under this Agreement, unless the tax is credited against income tax otherwise payable by Franchisor.

20.2 **Dispute About Taxes.** In the event of any *bona fide* dispute as to Franchisee's liability for taxes assessed or other indebtedness, Franchisee may contest the validity or the amount of the tax or indebtedness in accordance with procedures of the taxing authority or applicable law, but in no event shall Franchisee permit a tax sale or seizure by levy or execution or similar writ or warrant, or attachment by a creditor, to occur against the Premises of the Franchised Studio, or any improvements thereon.

20.3 **Compliance with Laws.** Franchisee shall comply with all federal, state, and local laws, rules, and regulations, and shall timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the Franchised Studio, including licenses to do business, fictitious name registrations, sales tax permits, and fire clearances.

21. **INDEPENDENT CONTRACTOR AND INDEMNIFICATION**

21.1 **No Fiduciary Relationship.** Franchisee is an independent contractor. Franchisor and Franchisee are completely separate entities and are not fiduciaries, partners, joint venturers, or agents of the other in any sense and neither shall have the power to bind the other. No act or assistance given by either party to the other pursuant to this Agreement shall be construed to alter the relationship. Franchisee shall be solely responsible for compliance with all federal, state, and local laws, rules and regulations, and for Franchisee's policies, practices, and decisions relating to the operation of the Franchised Studio.

21.2 **Public Notice.** During the term of this Agreement, Franchisee shall hold itself out to the public as an independent contractor operating the Franchised Studio pursuant to a franchise agreement from Franchisor. Franchisee agrees to take such action as may be necessary to do so, including exhibiting a notice of that fact in a conspicuous place at the Premises, the content of which Franchisor reserves the right to specify.

21.3 **No Assumption of Liability.** Nothing in this Agreement authorizes Franchisee to make any contract, agreement, warranty, or representation on the behalf of Franchisor, or to incur any debt or other obligation in the name of Franchisor; and Franchisor shall in no event assume liability for, or be deemed liable hereunder as a result of, any such action; nor shall Franchisor be liable by reason of any act or omission of Franchisee in its operation of the Franchised Studio or for any claim or judgment arising therefrom against Franchisee or Franchisor.

21.4 **Indemnification.** Franchisee shall indemnify and hold Franchisor, Franchisor's owners and affiliates and parent, and their respective officers, directors, and employees (the "**Indemnitees**") harmless against any and all causes of action, claims, losses, costs, expenses, liabilities, litigation, damages or other expenses (including, but not limited to, settlement costs and attorneys' fees) arising directly or indirectly from, as a result of, or in connection with the operation of the Franchised Studio and/or Franchisee's conduct under this Agreement (notwithstanding any claims that the Indemnitees are or were negligent). Franchisee agrees that with respect to any threatened or actual litigation, proceeding or dispute which could directly or indirectly affect any of the Indemnitees, the Indemnitees shall have the right, but not the obligation, in their discretion, to: (i) choose counsel, (ii) direct, manage and/or control the handling of the matter; and (iii) settle on behalf of the Indemnitees, and/or Franchisee, any claim against the Indemnitees. All vouchers, canceled checks, receipts, receipted bills or other evidence of

payments for any such losses, liabilities, costs, damages, charges or expenses of whatsoever nature incurred by any Indemnitee shall be taken as prima facie evidence of Franchisee's obligation hereunder.

22. APPROVALS AND WAIVERS

22.1 Approval Requests. Whenever this Agreement requires the prior authorization, approval or consent of Franchisor, Franchisee shall make a timely written request to Franchisor therefor, and such approval or consent must be obtained in writing.

22.2 Non-waiver. No failure of Franchisor to exercise any power reserved to it hereunder, or to insist upon strict compliance by Franchisee with any obligation or condition hereunder, and no custom or practice of the parties in variance with the terms hereof, shall constitute a waiver of Franchisor's right to demand exact compliance with the terms hereof. Waiver by Franchisor of any particular default by Franchisee shall not be binding unless in writing and executed by the party sought to be charged and shall not affect or impair Franchisor's right with respect to any subsequent default of the same or of a different nature; nor shall any delay, waiver, forbearance, or omission of Franchisor to exercise any power or rights arising out of any breach or default by Franchisee of any of the terms, provisions, or covenants hereof, affect or impair Franchisor's rights nor shall such constitute a waiver by Franchisor of any right hereunder or of the right to declare any subsequent breach or default. Subsequent acceptance by Franchisor of any payment(s) due to it hereunder shall not be deemed to be a waiver by Franchisor of any preceding breach by Franchisee of any terms, covenants or conditions of this Agreement.

23. WARRANTIES OF OPERATOR

23.1 Reliance by Franchisor. Franchisor entered into this Agreement in reliance upon the statements and information submitted to Franchisor by Franchisee in connection with this Agreement. Franchisee represents and warrants that all such statements and information submitted by Franchisee in connection with this Agreement are true, correct and complete in all material respects. Franchisee agrees to promptly advise Franchisor of any material changes in the information or statements submitted.

23.2 Compliance with Laws. Franchisee represents and warrants to Franchisor that neither Franchisee (including, without limitation, any and all of its employees, directors, officers and other representatives), nor any of its affiliates or the funding sources for either is a person or entity designated with whom Franchisor, or any of its affiliates, are prohibited by law from transacting business.

24. NOTICES

Any and all notices required or permitted under this Agreement shall be in writing and shall be personally delivered, sent by registered mail, or by other means which affords the sender evidence of delivery, or of rejected delivery, to the respective parties at the addresses shown on the signature page of this Agreement, unless and until a different address has been designated by written notice to the other party. Any notice by a means which affords the sender evidence of delivery, or rejected delivery, shall be deemed to have been given at the date and time of receipt or rejected delivery.

25. ENTIRE AGREEMENT

Franchisor and Franchisee, and any Principal, each acknowledge and warrant to each other that they wish to have all terms of this business relationship defined solely in and by this written Agreement. Recognizing the costs on both Franchisor and Franchisee which are uncertain, Franchisor and Franchisee each confirm that neither wishes to enter into a business relationship with the other in which any terms or obligations are the subject of alleged oral statements or in which oral statements or non-contract writings

which have been or may in the future be, exchanged between them, serve as the basis for creating rights or obligations different than or supplementary to the rights and obligations set forth herein. Accordingly, Franchisor and Franchisee agree and promise each other that this Agreement supercedes and cancels any prior and/or contemporaneous discussions or writings (whether described as representations, inducements, promises, agreements or any other term), between Franchisor or anyone acting on its behalf and Franchisee or anyone acting on its behalf, which might be taken to constitute agreements, representations, inducements, promises or understandings (or any equivalent to such term) with respect to the rights and obligations of Franchisor and Franchisee or the relationship between them. Franchisor and Franchisee agree and promise each other that they have placed, and will place, no reliance on any such discussions or writings. In accordance with the foregoing, it is understood and acknowledged that this Agreement, the attachments hereto, and the documents referred to herein constitute the entire Agreement between Franchisor and Franchisee concerning the subject matter hereof, and supersede any prior agreements, no other representations having induced Franchisee to execute this Agreement. Except for those permitted to be made unilaterally by Franchisor hereunder, no amendment, change, or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing. Nothing in this Section 25 is intended to disclaim any of the information or representations contained in Franchisor's Franchise Disclosure Document or its attachments or exhibits.

26. SEVERABILITY AND CONSTRUCTION

26.1 Severable Parts. Except as expressly provided to the contrary herein, each portion, section, part, term, and/or provision of this Agreement shall be considered severable; and if, for any reason, any section, part, term, and/or provision herein is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation by a court or agency having valid jurisdiction, such shall not impair the operation of, or have any other effect upon, such other portions, sections, parts, terms, and/or provisions of this Agreement as may remain otherwise intelligible; and the latter shall continue to be given full force and effect and bind the parties hereto; and said invalid portions, sections, parts, terms, and/or provisions shall be deemed not to be a part of this Agreement.

26.2 Terms Surviving this Agreement. Any provision or covenant in this Agreement which expressly or by its nature imposes obligations beyond the expiration, termination or assignment of this Agreement (regardless of cause), shall survive such expiration, termination or assignment.

26.3 No Rights on Third Parties. Except as expressly provided to the contrary herein, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Franchisee, Franchisor, officers, directors, shareholders, agents, and employees of Franchisor, and such successors and assigns of Franchisor as may be contemplated by Section 15 hereof, any rights or remedies under or by reason of this Agreement.

26.4 Full Scope of Terms. Franchisee expressly agrees to be bound by any promise or covenant imposing the maximum duty permitted by law which is subsumed within the terms of any provision hereof, as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions hereof any portion or portions which a court or agency having valid jurisdiction may hold to be unreasonable and unenforceable in an unappealed final decision to which Franchisor is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court or agency order.

26.5 Franchisor's Application of its Rights. Franchisor shall have the right to operate, develop and change the System in any manner that is not specifically precluded by this Agreement. Whenever Franchisor has reserved in this Agreement a right and/or discretion to take or withhold an action, or is deemed to have a right and/or discretion to take or withhold an action, or a right to grant or

decline to grant Franchisee a right to take or omit an action, Franchisor may make its decision or exercise its rights, on the basis of the information readily available to Franchisor, and in its judgment of what is in Franchisor's best interests and/or in the best interests of Franchisor's franchise network, at the time its decision is made, without regard to whether: (i) other reasonable or even arguably preferable alternative decisions could have been made by Franchisor; (ii) the decision or action of Franchisor will promote its financial or other individual interests; (iii) Franchisor's decision or the action it take applies differently to Franchisee and one or more other franchisees or Franchisor's company-owned operations; or (iv) Franchisor's decision or the exercise of its right or discretion is adverse to Franchisee's interests. In the absence of an applicable statute, Franchisor will have no liability to Franchisee for any such decision or action. Franchisor and Franchisee intend that the exercise of Franchisor rights or discretion will not be subject to limitation or review. If applicable law implies a covenant of good faith and fair dealing in this Agreement, Franchisor and Franchisee agree that such covenant shall not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement and that this Agreement grants Franchisor the right to make decisions, take actions and/or refrain from taking actions not inconsistent with Franchisee's rights and obligations hereunder.

27. APPLICABLE LAW AND DISPUTE RESOLUTION

27.1 **Governing Law.** This Agreement takes effect upon its acceptance and execution by Franchisor, and shall be interpreted and construed under the laws of the State of Texas. In the event of any conflict of law, the laws of Texas shall prevail, without regard to, and without giving effect to, the application of Texas conflict of law rules. Nothing in this Section 27.1 is intended by the parties to subject this Agreement to any franchise or similar law, rule, or regulation of the State of Texas or of any other state to which it would not otherwise be subject.

27.2 **Non-Binding Mediation.** Before any party may bring an action in arbitration or in court against the other, the parties must first meet to mediate the dispute (except for controversies, disputes, or claims related to or based on improper use of the Proprietary Marks or Confidential Information). Any such mediation shall be non-binding and shall be conducted by the American Arbitration Association in accordance with its then-current rules for mediation of commercial disputes. All mediation proceedings will be conducted at a suitable location chosen by the mediator, which is within a five (5) mile radius of Franchisor's then current principal place of business, unless we agree otherwise in writing. Notwithstanding anything to the contrary, this Section 27.2 shall not bar either party from obtaining injunctive relief against threatened conduct that will cause it loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions, without having to engage in mediation. Mediation hereunder shall be concluded within forty five (45) days of Franchisee's receipt of the notice specifying the designated mediator or such longer period as may be agreed upon by the parties in writing. All aspects of the mediation process shall be treated as confidential, shall not be disclosed to others, and shall not be offered or admissible in any other proceeding or legal action whatever. Franchisor and Franchisee shall each bear its own costs of mediation, and each shall bear one-half (1/2) the cost of the mediator or mediation service. This Section 27.2 mandating non-binding mediation shall not be applicable to any claim or dispute arising under this Agreement or any other agreement between the parties which relates to the failure to pay fees or other monetary obligation(s) of either party under said agreement(s).

27.3 **Arbitration.** Franchisor and Franchisee agree that, subject to Section 27.2 herein, and except for controversies, disputes, or claims related to or based on improper use of the Proprietary Marks or Confidential Information, all controversies, disputes, or claims between Franchisor and Franchisor's affiliates, and Franchisor's and their respective shareholders, members, officers, directors, agents, and/or employees, and Franchisee (and/or Franchisee's owners, guarantors, affiliates, and/or employees) arising out of or related to:

- (1) this Agreement or any other agreement between Franchisee and Franchisor;
- (2) Franchisor's relationship with Franchisee;
- (3) the validity of this Agreement or any other agreement between Franchisee and Franchisor; or
- (4) any System Standard;

must be submitted for binding arbitration, on demand of either party, to the American Arbitration Association in the United States ("AAA"). The arbitration proceedings will be conducted by one arbitrator and, except as this Section otherwise provides, according to the AAA's then current rules. All proceedings will be conducted at a suitable location chosen by the arbitrator, which is within a five (5) mile radius of Franchisor's then current principal place of business. The arbitrator shall have no authority to select a different hearing locale. All matters relating to arbitration will be governed by the United States Federal Arbitration Act (9 U.S.C. §§ 1 et seq.). Judgment upon the arbitrator's award may be entered in any court of competent jurisdiction.

27.3.1 The arbitrator has the right to award or include in his or her award any relief which he or she deems proper, including, without limitation, money damages (with interest on unpaid amounts from the date due), specific performance, injunctive relief, and attorneys' fees and costs (as allowable under this Agreement or applicable law), provided that the arbitrator may not declare any Proprietary Mark generic or otherwise invalid or, as expressly provided in Section 27.7 below, award any punitive, exemplary or multiple damages against either party.

27.3.2 Franchisor and Franchisee agree to be bound by the provisions of any limitation on the period of time in which claims must be brought under applicable law or this Agreement, whichever expires earlier. Franchisor and Franchisee further agree that, in any arbitration proceeding, each must submit or file any claim which would constitute a compulsory counterclaim (as defined by Rule 13 of the United States Federal Rules of Civil Procedure) within the same proceeding as the claim to which it relates. Any claim which is not submitted or filed as required is forever barred. The arbitrator may not consider any settlement discussions or offers that might have been made by either Franchisee or Franchisor.

27.3.3 Franchisor and Franchisee agree that arbitration will be conducted on an individual, not a class-wide, basis and that an arbitration proceeding between Franchisor and Franchisor's affiliates, and Franchisor's and their respective shareholders, officers, directors, agents, and/or employees, and Franchisee (and/or Franchisee's owners, guarantors, affiliates, and/or employees) may not be consolidated with any other arbitration proceeding between Franchisor and any other person.

27.3.4 Despite Franchisor's and Franchisee's agreement to arbitrate, Franchisor and Franchisee each have the right in a proper case to seek temporary restraining orders and temporary or preliminary injunctive relief from a court of competent jurisdiction; provided, however, that Franchisor and Franchisee must contemporaneously submit Franchisor's dispute for arbitration on the merits as provided in this Section 27.3.

27.3.5 The provisions of this Section are intended to benefit and bind certain third party non-signatories and will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination.

27.4 **Choice of Venue.** To the extent the parties do not resolve a dispute through mediation, arbitration, or otherwise, Franchisee consents and agrees that the proper venue in any such proceeding, claim, action or lawsuit relating to or arising out of this Agreement shall be the courts of the county where Franchisor has its then current principal place of business. Franchisee acknowledges that these courts shall have personal jurisdiction over it and hereby waives any defense it may have on the grounds of improper venue.

27.5 **No Rights Exclusive of Other Rights.** No right or remedy conferred upon or reserved to Franchisor or Franchisee by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy provided herein or permitted by law or equity, but each shall be cumulative of every other right or remedy.

27.6 **WAIVER OF JURY TRIAL.** FRANCHISOR AND FRANCHISEE IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER OF THEM AGAINST THE OTHER, WHETHER A LEGAL ACTION, IN MEDIATION, OR IN ARBITRATION.

27.7 **WAIVER OF PUNITIVE DAMAGES.** FRANCHISOR AND FRANCHISEE HEREBY WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT TO OR CLAIM OF ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER.

27.8 **Limitation.** The parties agree that, except as provided below, no mediation or arbitration proceeding, action or suit (whether by way of claim, counterclaim, cross-complaint, raised as an affirmative defense or otherwise) by either party will lie against the other (nor will any action or suit by Franchisee against any person and/or entity affiliated with Franchisor), whether for damages, rescission, injunctive or any other legal and/or equitable relief, in respect of any alleged breach of this Agreement, or any other claim of any type, unless such party will have commenced such mediation or arbitration proceeding, action or suit before the expiration of the earlier of: (a) One hundred eighty (180) days after the date upon which the state of facts giving rise to the cause of action comes to the attention of, or should reasonably have come to the attention of, such party; or (b) One (1) year after the initial occurrence of any act or omission giving rise to the cause of action, whenever discovered.

27.8.1 Notwithstanding the foregoing limitations, where any federal, state or provincial law provides for a shorter limitation period than above described, whether upon notice or otherwise, such shorter period will govern.

27.8.2 The foregoing limitations may, where brought into effect by Franchisor's failure to commence an action within the time periods specified, operate to exclude Franchisor's right to sue for damages but will in no case, even upon expiration or lapse of the periods specified or referenced above, operate to prevent Franchisor from terminating Franchisee's rights and Franchisor's obligations under this Agreement as provided herein and under applicable law nor prevent Franchisor from obtaining any appropriate court judgment, order or otherwise which enforces and/or is otherwise consistent with such termination.

27.8.3 The foregoing limitations shall not apply to Franchisor's claims arising from or related to: (1) Franchisee's under-reporting of Net Sales; (2) Franchisee's under-payment or non-payment of any amounts owed to Franchisor or any affiliated or otherwise related entity; (3) indemnification by Franchisee; (4) Franchisee's confidentiality, non-competition or other exclusive relationship obligations; and/or (5) Franchisee's unauthorized use of the Proprietary Marks.

27.9 **WAIVER OF RICO.** THE PARTIES HERETO AGREE TO WAIVE, NOW AND FOREVER, ANY AND ALL RIGHTS EITHER MAY HAVE UNDER THE FEDERAL STATUTE KNOWN AS RICO.

27.10 **Injunctive Relief.** Nothing herein contained shall bar the right of Franchisor to obtain injunctive relief against threatened conduct that will cause it loss or damages, including violations of the terms of Sections 9, 10, 11, 15, and 18 under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions.

27.11 **Release of Claims.** By executing this Agreement, Franchisee, on behalf of itself and its heirs, legal representatives, successors and assigns, and each assignee of this Agreement by accepting assignment of the same, hereby forever releases and discharges Franchisor and its members, officers, directors, employees, agents and servants, including Franchisor's subsidiary and affiliated corporations, their respective members, officers, directors, employees, agents and servants, from any and all claims relating to or arising under any franchise agreement or any other agreement between the parties executed prior to the date of this Agreement including, but not limited to, any and all claims, whether presently known or unknown, suspected or unsuspected, arising under the franchise, securities or antitrust laws of the United States or of any state, province or territory thereof.

27.12 **Counterparts; Paragraph Headings; Pronouns.** This Agreement may be executed in any number of counterparts, all of which when taken together shall constitute one and the same instrument. All captions and paragraph headings in this Agreement are intended solely for the convenience of the parties, and none shall be deemed to affect the meaning or construction of any provision hereof. Each pronoun used herein shall be deemed to include the other number of genders.

27.13 **Security Interest.** Franchisee hereby grants to Franchisor a security interest in all of Franchisee's interest in all leasehold improvements, furniture, furnishings, fixtures, equipment, inventory and supplies located at or used in connection with the Franchised Studio, now or hereafter leased or acquired, together with all attachments, accessions, accessories, additions, substitutions and replacements therefore, and all cash and non-cash proceeds derived from insurance or the disposition of such collateral, to secure payment and performance of all debts, liabilities and obligations of any kind, whenever and however incurred, of Franchisee to Franchisor. Franchisee agrees to execute and deliver to Franchisor in a timely manner all financial statements and other documents necessary or desirable to evidence, perfect and continue the priority of such security interests under the Uniform Commercial Code.

27.14 **Attorneys Fees.** In the event Franchisor is required to employ legal counsel or to incur other expense to enforce any obligation of Franchisee hereunder, or to defend against any claim, demand, action or proceeding by reason of Franchisee's failure to perform any obligation imposed upon Franchisee by this Agreement, Franchisor shall be entitled to recover from Franchisee the amount of all reasonable attorneys' fees of such counsel and all other expenses incurred in enforcing such obligation or in defending against such claim, demand, action, or proceeding, whether incurred prior to or in preparation for or contemplation of the filing of such action or thereafter.

28. **ACKNOWLEDGMENTS**

28.1 **FRANCHISEE'S INVESTIGATION OF THE BUSINESS POSSIBILITIES.** FRANCHISEE ACKNOWLEDGES THAT IT HAS CONDUCTED AN INDEPENDENT INVESTIGATION OF THE BUSINESS OF OPERATING A PINOT'S PALETTE STUDIO, AND RECOGNIZES THAT THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT INVOLVES BUSINESS RISKS AND THAT ITS SUCCESS WILL BE LARGELY DEPENDENT UPON THE ABILITY OF FRANCHISEE (OR, IF FRANCHISEE IS A CORPORATION,

PARTNERSHIP OR LIMITED LIABILITY COMPANY, THE ABILITY OF ITS PRINCIPALS) AS (AN) INDEPENDENT BUSINESSPERSON(S). FRANCHISOR EXPRESSLY DISCLAIMS THE MAKING OF, AND FRANCHISEE ACKNOWLEDGES THAT IT HAS NOT RECEIVED, ANY WARRANTY OR GUARANTEE, EXPRESS OR IMPLIED, AS TO THE POTENTIAL VOLUME, PROFITS, OR SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT. FRANCHISEE ACKNOWLEDGES THAT THIS AGREEMENT CONTAINS ALL ORAL AND WRITTEN AGREEMENTS, REPRESENTATIONS AND ARRANGEMENTS BETWEEN THE PARTIES, AND ANY RIGHTS WHICH THE RESPECTIVE PARTIES HERETO MAY HAVE HAD UNDER ANY OTHER PREVIOUS CONTRACT (WHETHER ORAL OR WRITTEN) ARE HEREBY CANCELLED AND TERMINATED, AND NO REPRESENTATIONS OR WARRANTIES ARE MADE OR IMPLIED, EXCEPT AS SPECIFICALLY SET FORTH HEREIN. FRANCHISEE FURTHER ACKNOWLEDGES THAT IT HAS NOT RECEIVED OR RELIED ON ANY REPRESENTATIONS ABOUT THE FRANCHISE BY THE FRANCHISOR, OR ITS OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS, THAT ARE CONTRARY TO THE STATEMENTS MADE IN THE FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENT OR TO THE TERMS AND CONDITIONS CONTAINED HEREIN, AND FURTHER REPRESENTS TO THE FRANCHISOR, AS AN INDUCEMENT TO ENTRY INTO THIS AGREEMENT, THAT FRANCHISEE HAS MADE NO MISREPRESENTATIONS IN OBTAINING THE FRANCHISE.

28.2 **Receipt of FDD and Complete Agreement.** Franchisee acknowledges that it received a complete copy of this Agreement, the attachments hereto, and agreements relating thereto, if any, at least seven (7) calendar days prior to the date on which this Agreement was executed. Franchisee further acknowledges that it received the disclosure document required by the Trade Regulation Rule of the Federal Trade Commission entitled "Disclosure Requirements and Prohibitions Concerning Franchising", otherwise known as the Franchise Disclosure Document (**FDD**), at least fourteen (14) calendar days prior to the date on which this Agreement was executed or any payment by Franchisee for the franchise rights granted under this Agreement. Franchisee further acknowledges that prior to receiving Franchisor's FDD, Franchisor advised Franchisee of the formats in which the FDD is made available, and any conditions necessary for reviewing the FDD in a particular format.

28.3 **Franchisee Read the Agreement and Consulted.** Franchisee acknowledges that it has read and understood Franchisor's FDD and this Agreement, the attachments hereto, and agreements relating thereto, if any, and that Franchisor has accorded Franchisee ample time and opportunity to consult with advisors of Franchisee's own choosing about the potential benefits and risks of entering into this Agreement.

28.4 **Franchisee's Responsibility for Operation of Business.** Although Franchisor retains the right to establish and periodically modify System standards, which Franchisee has agreed to maintain in the operation of the Franchised Studio, Franchisee retains the right and sole responsibility for the day-to-day management and operation of the Franchised Studio and the implementation and maintenance of System standards at the Franchised Studio.

28.5 **No Conflicting Obligations.** Each party represents and warrants to the other that there are no other agreements, court orders, or any other legal obligations that would preclude or in any manner restrict such party from: (a) negotiating and entering into this Agreement; (b) exercising its rights under this Agreement; and/or (c) fulfilling its responsibilities under this Agreement.

28.6 **Different Franchise Offerings to Others.** Franchisee acknowledges and agrees that Franchisor may modify the offer of its franchises to other franchisees in any manner and at any time, which offers and agreements have or may have terms, conditions, and obligations that may differ from the terms, conditions, and obligations in this Agreement.

28.7 **Good Faith.** Franchisor and Franchisee acknowledge that each provision in this Agreement has been negotiated by the parties hereto in good faith and the Agreement shall be deemed to have been drafted by both parties. It is further acknowledged that both parties intend to enforce every provision of this Agreement, including, without limitation, the provisions related to arbitration and choice of venue, regardless of any state law or regulation purporting to void or nullify any such provision.

28.8 **Success Depends on Franchisee.** Franchisee acknowledges that the success of the business venture contemplated under this Agreement is speculative and depends, to a large extent, upon Franchisee's ability as an independent businessperson, its active participation in the daily affairs of the business, market conditions, area competition, availability of product, quality of services provided as well as other factors. Franchisor does not make any representation or warranty express or implied as to the potential success of the business venture contemplated hereby.

28.9 **Patriot Act.** Franchisee represents and warrants that to its actual knowledge: (i) neither Franchisee, nor its officers, directors, managers, members, partners or other individual who manages the affairs of Franchisee, nor any Franchisee affiliate or related party, or any funding source for the Franchised Studio, is identified on the lists of Blocked Persons, Specially Designated Nationals, Specially Designated Terrorists, Specially Designated Global Terrorists, Foreign Terrorists Organizations, and Specially Designated Narcotics Traffickers at the United States Department of Treasury's Office of Foreign Assets Control (OFAC), or the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, commonly known as the "USA Patriot Act," as such lists may be amended from time to time (collectively, "**Blocked Person(s)**"); (ii) neither Franchisee nor any Franchisee affiliate or related party is directly or indirectly owned or controlled by the government of any country that is subject to an embargo imposed by the United States government; (iii) neither Franchisee nor any Franchisee affiliate or related party is acting on behalf of the government of, or is involved in business arrangements or other transactions with, any country that is subject to such an embargo; (iv) neither Franchisee nor any Franchisee affiliate or related party are on the United States Department of Commerce Denied Persons, Entity and Unverified Lists, or the United States Departments of State's Debarred List, as such lists may be amended from time to time (collectively, the "**Lists**"); (v) neither Franchisee nor any Franchisee affiliate or related party, during the term of this Agreement, will be on any of the Lists or identified as a Blocked Person; and (vi) during the term of this Agreement, neither Franchisee nor any Franchisee affiliate or related party will sell products, goods or services to, or otherwise enter into a business arrangement with, any person or entity on any of the Lists or identified as a Blocked Person. Franchisee agrees to notify Franchisor in writing immediately upon the occurrence of any act or event that would render any of these representations incorrect.

28.10 **No Guarantees.** Franchisor expressly disclaims the making of, and Franchisee acknowledges that it has not received nor relied upon, any warranty or guaranty, express or implied, as to the revenues, profits or success of the business venture contemplated by this Agreement.

[SIGNATURE PAGE FOLLOWS]

**PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT
SIGNATURE PAGE**

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Franchise Agreement in duplicate on the day and year first above written.

FRANCHISOR:
PINOT'S PALETTE FRANCHISE LLC

FRANCHISEE:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Address for Notices:

Craig Ceccanti
Pinot's Palette Franchise LLC
10333 Harwin Drive, Suite 580
Houston, Texas 77036
Telephone: (713) 777-5112
Fax: () _____

Address for Notices:

Telephone: _____
Fax: _____
Attn: _____

With copy to:

Wayne P. Bunch, Jr., Esq.
DLA Piper (US)
1000 Louisiana Street
Suite 2800
Houston, Texas 77002
Telephone: (713) 425-8448
Fax: (713) 300-6044

**PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT
EXHIBIT A
DATA SHEET**

1. The Site Selection Area (See Section 1.2) for the Franchised Studio shall be:

2. The Approved Location (See Section 1.3) for the Franchised Studio shall be:

3. The Territory shall be (subject to the terms of the Agreement, including but not limited to Section 1.4 of the Agreement) as follows, and which Territory is reflected on the map attached to this Exhibit A:

4. The initial Franchise Fee shall be \$_____ (See Section 4.1).

5. If this Franchise Agreement is executed pursuant to an Area Development Agreement, the development credit applied to the initial Franchise Fee shall be \$_____ (See Section 4 of Area Development Agreement).

PINOT'S PALETTE FRANCHISE LLC

Initial: _____ Date: _____

FRANCHISEE

Initial: _____ Date: _____

**PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT
EXHIBIT B
LIST OF PRINCIPALS AND DESIGNATED PRINCIPAL**

FRANCHISEE'S PRINCIPALS

The following identifies all of Franchisee's Principals (as defined in Section 6.1 of the Franchise Agreement), including each Principals address and percentage of beneficial interest in Franchisee:

Name of Principal	Address, Telephone, E-mail	Interest (%) with Description
		Total %:

FRANCHISEE'S DESIGNATED PRINCIPAL

The following identifies Franchisee's Designated Principal (as defined in Section 8.3.1 of the Franchise Agreement), including his/her contact information and percentage of beneficial interest in Franchisee:

Name of Designated Principal	Address, Telephone, E-mail	Interest (%) with Description

PINOT'S PALETTE FRANCHISE LLC

Initial: _____

Date: _____

FRANCHISEE

Initial: _____

Date: _____

**PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT
EXHIBIT C
GUARANTY, INDEMNIFICATION, AND ACKNOWLEDGMENT**

As an inducement to Pinot's Palette Franchise LLC ("**Franchisor**") to enter into the Franchise Agreement between Franchisor and _____ ("**Franchisee**"), dated _____, 20____ (the "**Agreement**"), the undersigned, jointly and severally, hereby unconditionally guarantee to Franchisor and Franchisor's successors and assigns that all of Franchisee's covenants and obligations, including, without limitation, monetary obligations, under the Agreement will be punctually paid and performed. This Guaranty, Indemnification, and Acknowledgment (this "**Guaranty**") is an unconditional, irrevocable and absolute guaranty of payment and performance and may not be cancelled, terminated, modified, or amended except by written agreement executed by both parties.

Upon demand by Franchisor, the undersigned each hereby jointly and severally agree to immediately make each payment required of Franchisee under the Agreement and waive any right to require Franchisor to: (a) proceed against Franchisee for any payment required under the Agreement; (b) proceed against or exhaust any security from Franchisee; (c) pursue or exhaust any remedy, including any legal or equitable relief, against Franchisee; or (d) give notice of demand for payment by Franchisee. Without affecting the obligations of the undersigned under this Guaranty, Franchisor may, without notice to the undersigned, extend, modify, or release any indebtedness or obligation of Franchisee, or settle, adjust, or compromise any claims against Franchisee, and the undersigned each hereby jointly and severally waive notice of same and agree to remain and be bound by any and all such amendments and changes to the Agreement.

The undersigned each hereby jointly and severally agree to defend, indemnify and hold Franchisor harmless against any and all losses, damages, liabilities, costs, and expenses (including, but not limited to, reasonable attorney's fees, reasonable costs of financial and other investigation, court costs, and fees and expenses) resulting from, consisting of, or arising out of or in connection with any failure by Franchisee to perform any obligation of Franchisee under the Agreement, any amendment thereto, or any other agreement executed by Franchisee referred to therein.

The undersigned each hereby jointly and severally acknowledge and expressly agree to be personally bound by all of the covenants contained in the Agreement, including, without limitation, those covenants contained in Sections 10, 11, 15, 17, and 18. Signature by the undersigned on this Guaranty constitutes the undersigned's signature on the Agreement related to all covenants. The undersigned assert that he or she has read such covenants, been advised by counsel regarding their effect, and hereby affirmatively agree to them in order to secure the rights granted to Franchisee by Franchisor under the Agreement. The undersigned further acknowledge and agree that this Guaranty does not grant the undersigned any right to use the "Pinot's Palette" marks or system licensed to Franchisee under the Agreement.

This Guaranty shall terminate upon the termination or expiration of the Agreement, except that all obligations and liabilities of the undersigned which arose from events which occurred on or before the effective date of such termination shall remain in full force and effect until satisfied or discharged by the undersigned, and all covenants which by their terms continue in force after the expiration or termination of the Agreement shall remain in force according to their terms. Upon the death of an individual guarantor, the estate of such guarantor shall be bound by this Guaranty, but only for defaults and obligations hereunder existing at the time of death; and the obligations of the other guarantors will continue in full force and effect.

The undersigned represents and warrants to Franchisor that neither the undersigned (including, without limitation, any and all of its employees, directors, officers and other representatives), nor any of its affiliates or the funding sources for either is a person or entity designated with whom Franchisor, or any of its affiliates, are prohibited by law from transacting business.

Any and all notices required or permitted under this Guaranty provision shall be in writing and shall be personally delivered, in the manner provided under Section 24 of the Agreement.

Unless specifically stated otherwise, the terms used in this Guaranty shall have the same meaning as in the Agreement, and shall be interpreted and construed in accordance with Sections 26 and 27 of the Agreement. This Guaranty shall be governed by the dispute resolution provisions of Section 27 of the Agreement, and shall be interpreted and construed under the laws of the State of Texas. In the event of any conflict of law, the laws of the State of Texas shall prevail (without regard to, and without giving effect to, the application of Texas conflict of law rules).

IN WITNESS WHEREOF, the undersigned has executed this Guaranty, Indemnification and Acknowledgement as of the date of the Agreement.

GUARANTOR(S):

Print Name: _____

Print Name: _____

Print Name: _____

Print Name: _____

Print Name: _____

**PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT
EXHIBIT D
AUTHORIZATION AGREEMENT FOR PREARRANGED PAYMENTS**

As part of the "Franchise Agreement" with Pinot's Palette Franchise LLC (the "Franchisor"), the "Franchisee" understands that it is required to submit weekly detailed Sales Reports for processing and payment of Royalty Fees and advertising contributions. The Franchisee also understands that all Royalty Fees, advertising contributions, and all other fees and payments due under the Franchise Agreement will be debited from the bank account listed below on a weekly basis. It is further understood that should the Franchisee fail to submit Sales Reports, the Franchisor, in its sole discretion, will estimate the amount of weekly Royalty Fees and advertising contributions due based on previous weeks or periods and the estimated Royalty Fees and advertising contributions will be debited from the Franchisee's bank account. Excess Royalty Fees and advertising contributions collected due to non-reporting will be credited to the next drafting period once Sales Reports are received less the 5% penalty for late payment plus interest of 1.5% per month, or the maximum rate permitted by law, whichever is less. Sales Reports, Royalty Fees, and advertising contributions are due no later than the third business day after the close of each week and considered late if not received by 5:00 PM on such date.

Royalty Fees and advertising contributions will be processed by Electronic Funds Transfer ("EFT") using the Automated Clearing House ("ACH") method. The EFT/ACH debit will move funds directly from Franchisee's account into certain Franchisor accounts. Debits that result in insufficient funds will result in the late fee penalty plus interest described above, and reimbursement of any fees incurred by Franchisor.

The Franchisee hereby authorizes its bank to pay and charge to its account EFT/ACH debits and drafts drawn by and payable to the order of the Franchisor at the Royalty Fee and advertising contribution rate under the Franchise Agreement, provided there are sufficient collected funds in said account to pay same. This authorization remains in full force and effective until sixty (60) days after the Franchisor has received written notification from the Franchisee of its termination. Should the bank dishonor any draft or EFT/ACH debit with or without cause, the Franchisee releases the bank from any and all liability.

Franchisee: _____
Designated Principal: _____
Address: _____
City, State, and Zip: _____

Please provide two E-mail addresses for Draft Notices

E-mail: _____ E-mail: _____

Please sign the acknowledgement below and return original via mail along with a VOIDED check sent to the attention of: Craig Ceccanti, Pinot's Palette Franchise LLC, 10333 Harwin Drive, Suite 580, Houston, Texas 77036, (713) 777-5112, craig.ceccanti@gmail.com.

Financial Institution Routing Number Account Number

Signature of Authorized Signer: _____ Date: _____

Please Attach Actual VOIDED CHECK

**PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT
EXHIBIT E
TELEPHONE NUMBER ASSIGNMENT AGREEMENT AND POWER OF ATTORNEY**

FOR VALUE RECEIVED, the undersigned ("Franchisee") irrevocably assigns the telephone listing and numbers stated below and any successor, changed or replacement number or numbers effective upon the date of termination of the Franchise Agreement described below to Pinot's Palette Franchise LLC upon the following terms:

1. This assignment is made under the terms of Pinot's Palette Franchise LLC Franchise Agreement dated _____, 20__ authorizing Franchisee to operate a Pinot's Palette Studio (the "Franchise Agreement") between Franchisor and Franchisee, which in part pertains to the telephone listing and numbers the Franchisee uses in the operation of the Franchised Studio covered by the Franchise Agreement.

2. Franchisee retains the limited right to use the telephone listing and numbers only for transactions and advertising under the Franchise Agreement while the Franchise Agreement between Franchisor and Franchisee remains in full force, but upon termination or expiration of the Franchise Agreement, the Franchisee's limited right of use of the telephone listing and numbers also terminates. In this event, Franchisee agrees to immediately discontinue use of all listings and numbers. At Franchisor's request, Franchisee will immediately sign all documents, pay all monies, and take all other actions necessary to transfer the listing and numbers to Franchisor.

3. The telephone numbers and affiliated listings subject to this assignment are:
Main Telephone: _____, Facsimile: _____ and all numbers on the rotary series and all numbers the Franchisee uses in the Franchised Studio in the future.

4. Franchisee shall pay all amounts owed for the use of the telephone numbers and affiliated listing it incurs. On termination or expiration of the Franchise Agreement, Franchisee shall immediately pay all amounts owed for the listing and telephone numbers, whether or not due, including all sums owed under existing contracts for telephone directory advertising.

5. Franchisee appoints Franchisor as its attorney-in-fact to act in Franchisee's place for the purpose of assigning any telephone numbers covered by Paragraph 3 above to Franchisor or Franchisor's designees or transferees. Franchisee grants Franchisor full authority to act in any manner proper or necessary to exercise these powers, including full power of substitution and signing or completion of all documents required or requested by any telephone company to transfer the numbers, and ratifies every act that Franchisor lawfully performs in exercising those powers.

This power of attorney is effective for ten (10) years from the date of expiration, cancellation or termination of Franchisee's rights under the Franchise Agreement for any reason.

Franchisee intends that this power of attorney be coupled with an interest. Franchisee declares this power of attorney to be irrevocable and renounces all right to revoke it or to appoint another person to perform the acts referred to in this instrument. This power of attorney is not affected by the Franchisee's later incapacity. This power is created to secure performance of a duty to Franchisor and is for consideration.

THE PARTIES have caused this Telephone Number Assignment Agreement and Power of Attorney to be duly signed as evidenced by their signatures appearing below. Signed the ____ day of _____, 20____.

FRANCHISOR:
PINOT'S PALETTE FRANCHISE LLC

FRANCHISEE:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

**PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT
EXHIBIT F
MOBILE FRANCHISE ADDENDUM**

THIS ADDENDUM (this "**Addendum**") is made this ____ day of _____, 20__, by and between Pinot's Palette Franchise LLC, a Texas limited liability company ("**Franchisor**") and _____ ("**Franchisee**"), and with reference to the following facts:

A. On _____, 20__, Franchisor and Franchisee entered into a Franchise Agreement (the "**Franchise Agreement**") pursuant to which Franchisee was granted the right to operate a Pinot's Palette Studio.

B. Franchisor and Franchisee desire to enter into this Addendum to modify certain terms of this Franchise Agreement which shall grant Franchisee the additional right to operate a single vehicle Pinot's Palette mobile studio ("**Mobile Studio**") under the following terms and conditions.

NOW, THEREFORE, IT IS AGREED:

1. **INCORPORATION OF RECITALS.**

The recitals set forth in paragraphs A and B above are true and correct and are hereby incorporated by reference into the body of this Addendum.

2. **DEFINITIONS.**

Capitalized terms used but not otherwise defined in this Addendum shall have the same meanings as set forth in the Franchise Agreement.

3. **GRANT.**

Franchisor grants to Franchisee the right, and Franchisee hereby undertakes the obligation, upon the terms and conditions set forth in this Addendum and the Franchise Agreement, to operate a Mobile Studio, utilizing one (1) vehicle ("**Mobile Studio Vehicle**"), offering customers artistic classes, including painting classes, with the opportunity to enjoy food, wine or other beverages, under the name "Pinot's Palette" at customer residences, places of business, or other suitable venues that are off-site from the Franchised Studio ("**Franchised Mobile Studio**"). The Franchised Mobile Studio shall operate within a one hundred (100) mile radius surrounding the Approved Location of the Franchised Studio ("**Mobile Studio Territory**"). It is understood that Franchisee shall be limited to soliciting customers and operating the Franchised Mobile Studio within the Mobile Studio Territory. It is further understood that the Mobile Studio Territory is non-exclusive, and Franchisee may compete directly with other franchisees operating Pinot's Palette Studios and/or Mobile Studios. Franchisee may only operate outside of the Mobile Studio Territory with the express written consent of Franchisor. Franchisee may operate up to a maximum of two (2) Mobile Studio Vehicles in the Mobile Studio Territory, subject to the payment of a Mobile Studio Franchise Fee and the execution of a Franchise Agreement addendum for each Mobile Studio Vehicle, pursuant to Section 7 herein. Except as agreed to by Franchisor, Franchisee shall only operate the Franchised Mobile Studio in connection with, and as a compliment to, the Franchised Studio.

4. **MOBILE STUDIO VEHICLE.**

Prior to commencing operations within the Mobile Studio Territory, Franchisee shall purchase or lease (or have purchased or leased) a Mobile Studio Vehicle. The Mobile Studio Vehicle

shall be of the make and model specified and/or approved by Franchisor, and be fully equipped and affixed with signage in complete compliance with Franchisor's standards and specifications, as set forth in the Manuals or otherwise in writing. Franchisee shall obtain and maintain a suitable place for the parking or garaging of the Mobile Studio Vehicle it utilizes in operation of the Franchised Mobile Studio. Franchisee shall clean and maintain the Mobile Studio Vehicle in accordance with Franchisor's standards to present a professional appearance. Franchisee shall, at its expense, repair and replace decals and signage affixed to the Mobile Studio Vehicle as necessary to maintain the operation of the Franchised Mobile Studio in first class condition and repair and to meet Franchisor's then current specifications, as Franchisor may direct. Franchisee shall repair and replace the Mobile Studio Vehicle, as directed by Franchisor, in Franchisor's sole discretion, as necessary to maintain the operation of the Franchised Mobile Studio in first class condition and repair and to meet Franchisor's then current specifications. Franchisee shall obtain and maintain all permits, licenses and certifications required for the lawful operation of the Mobile Studio Vehicle it operates during the term of this Addendum, and shall certify in writing to Franchisor that all such permits, licenses, and certifications have been obtained.

5. **TERM; RENEWAL; TERMINATION.**

The term of this Addendum shall expire on the same date as the Franchise Agreement, and is subject to the same terms and conditions with respect to the renewal of the Franchise Agreement. Upon each renewal of this Addendum, Franchisee shall remit to Franchisor a renewal fee equal to one half (1/2) of the then-current initial Mobile Studio Franchise Fee.

6. **DUTIES OF FRANCHISOR.**

Franchisor may provide training, periodic advice or offer guidance to Franchisee in the marketing, management, and operation of the Franchised Mobile Studio as Franchisor determines at the time(s) and in the manner determined by Franchisor.

7. **MOBILE STUDIO FRANCHISE FEE.**

In consideration of the execution of this Addendum and Franchisor's granting to Franchisee the right to operate a Franchised Mobile Studio utilizing a single Mobile Studio Vehicle, Franchisee agrees to pay Franchisor an initial franchise fee of _____ Dollars (\$ _____) (the "**Mobile Studio Franchise Fee**"). Payment of the Mobile Studio Franchise Fee shall be deemed fully earned by Franchisor upon receipt thereof and non-refundable in consideration of administrative and other expenses incurred by Franchisor in granting this franchise and for Franchisor's lost or deferred opportunity to franchise others. For purposes of clarification, in the event Franchisee desires to operate a second Mobile Studio Vehicle within the Mobile Studio Territory, it shall be required to execute an additional Franchise Agreement addendum similar in form to this Addendum and pay an additional Mobile Studio Franchise Fee. It is acknowledged and agreed that the terms of such additional addendum may differ from the terms of this Addendum including, without limitation, requirements to pay additional and/or higher fees such as an increased Mobile Studio Franchise Fee.

8. **NET SALES; ROYALTY; ADVERTISING OBLIGATION.**

It is acknowledged and agreed that the term "Net Sales" under the Franchise Agreement shall include all revenue from the sale of all products and services, and all other income of every kind and nature related to, derived from, or originating from the Franchised Mobile Studio, whether at retail or wholesale (whether such sales are permitted or not), whether for cash, check, or credit, and regardless of collection in the case of check or credit. For purposes of clarification, the Royalty Fee and the Advertising Obligation will be calculated in accordance with the Franchise Agreement as a percentage of Net Sales originating from the Franchised Studio and the Franchised Mobile Studio, and paid by Franchisee to Franchisor in accordance with the terms and conditions of the Franchise Agreement.

9. **MOBILE STUDIO GRAND OPENING ADVERTISING.**

In addition to the Advertising Obligation and the Grand Opening Advertising Program for the Franchised Studio, Franchisee shall expend a minimum of between Five Thousand Dollars (\$5,000) and Ten Thousand Dollars (\$10,000) for grand opening advertising and promotional programs in conjunction with the Franchised Mobile Studio's initial grand opening, pursuant to a grand opening marketing plan developed by Franchisor or developed by Franchisee and approved in writing by Franchisor. Such plan for the Franchised Mobile Studio shall be executed and completed within ninety (90) days after the Franchised Mobile Studio commences operation. Franchisee shall submit to Franchisor, for Franchisor's prior written approval, a marketing plan and samples of all advertising and promotional material not prepared or previously approved by Franchisor. Franchisor reserves the right to require Franchisee to deposit with Franchisor the funds required under this Section 9 to distribute as may be necessary to conduct such plan.

10. **CONFORMITY TO STANDARDS.**

Franchisee shall operate the Franchised Mobile Studio in strict conformity with this Addendum, the Franchise Agreement and such standards and specifications as Franchisor may from time to time prescribe in the Manuals or otherwise in writing, and shall refrain from deviating from such standards, specifications, and procedures without the prior written consent of Franchisor. From the date of the opening of the Franchised Mobile Studio, the mandatory specifications, standards and operating procedures prescribed by Franchisor and communicated to Franchisee in writing, shall constitute provisions of this Addendum and the Franchise Agreement as if fully set forth therein. All references herein to this Addendum and the Franchise Agreement shall include the provisions of the Manuals and all such mandatory specifications standards and operating procedures.

11. **TRANSFER.**

The transfer or assignment of all or any part of Franchisees rights or obligations herein to any person or legal entity is subject to the same terms and conditions with respect to the transfer or assignment under the Franchise Agreement; provided, however, in the event of any such transfer or assignment, Franchisee shall pay a transfer fee in an amount equal to fifty percent (50%) of Franchisor's then-current mobile studio franchise fee, not to exceed Three Thousand Seven Hundred Fifty Dollars (\$3,750) per Mobile Studio Vehicle operated by Franchisee.

12. **RATIFICATION OF FRANCHISE AGREEMENT.**

Except as provided herein, the terms and conditions of the Franchise Agreement are extended to the Franchised Mobile Studio and hereby ratified, confirmed and approved.

IN WITNESS WHEREOF, the parties have executed this Addendum on the date first shown above.

FRANCHISOR:
PINOT'S PALETTE FRANCHISE LLC

FRANCHISEE:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

**PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT
EXHIBIT G
LEASE TERMS**

In accordance with Section 5.2 of this Franchise Agreement, Franchisee's lease or sublease for the premises of the Franchised Studio shall contain terms acceptable to Franchisor, which may include (but are not limited to) the following:

1. The initial term of the lease, or initial term together with renewal terms, will be for not fewer than ten (10) years.
2. A provision stating that the lessor consents to Franchisee's use and display of the Proprietary Marks and signage as Franchisor may prescribe from time to time for the Franchised Studio, subject only to the provisions of applicable law.
3. A provision that Franchisee shall have the right to alter, renovate, add, remodel, modify, and/or change the premises and/or other improvements upon the premises as Franchisee may deem desirable, provided that if any such alterations, renovations, additions, modifications, remodeling and/or changes to the premises and/or improvements upon the premises affect the exterior, structural elements or foundation of the premises, Franchisee shall first obtain the consent of the lessor, which consent shall not be unreasonably withheld, conditioned or delayed.
4. A provision that the premises be used solely for the operation of a franchised Pinot's Palette Studio, which is currently: a business offering artistic painting classes, along with related products and services, under the name "Pinot's Palette," all as may be permitted under the relevant Franchise Agreement signed for the Franchised Studio.
5. A provision that requires the lessor to concurrently provide Franchisor with a copy of any written notice of deficiency under the lease sent to Franchisee, and that the lessor will provide Franchisor with written notice specifying deficiencies that Franchisee did not cure.
6. A provision that grants to Franchisor, in its sole discretion, the right (but not obligation) to cure any deficiency under the lease within thirty (30) days after the expiration of the period in which Franchisee had to cure any such default should Franchisee fail to do so.
7. A provision acknowledging that, in the event the Franchise Agreement for the Franchised Studio expires or is terminated: (a) Franchisee is obligated under the Franchise Agreement to take certain steps to de-identify the location as a Pinot's Palette Studio operated by Franchisee; and (b) the lessor will cooperate fully with Franchisor in enforcing such provisions of the Franchise Agreement against the Franchisee, including allowing Franchisor, its employees and agents to enter and remove signs, decor and materials bearing or displaying any Proprietary Marks, designs or logos of Franchisor, provided that the lessor shall not be required to bear any expense thereof.
8. A provision that expressly states that any default under the lease shall constitute a default under the Franchise Agreement, and that the termination of the Franchise Agreement shall constitute a default under the lease.
9. A provision reserving to Franchisor the right, at Franchisor's election, to receive an assignment of the leasehold interest upon termination or expiration of the franchise grant.

10. A provision that expressly requires that, if requested by Franchisor, the lessor of the premises will provide Franchisor all sales and other information the lessor may have related to the operation of the Franchised Studio.

11. Franchisee is restricted from accepting any requirement under the lease that seeks to impose any restrictions (territorial or otherwise) on the development or operation of other Pinot's Palette Studios by Franchisee, Franchisor, or any other person or entity.

12. A provision that the lessor agrees that Franchisee may not assign the lease or sublease all or any part of its occupancy rights thereunder without Franchisor's prior written consent.

13. A provision that the lessor's consent to an assignment of the lease or subletting of the Premises will not be required in connection with an assignment or subletting to Franchisor, or any parent, subsidiary or affiliated corporation of Franchisor or Franchisee, or another operator that has been approved by Franchisor to be the franchisee for the Franchised Studio.

14. A provision that prohibits the lessor from selling or leasing, or allowing the sublease of, space in the building or on the property to any person or entity for a business offering artistic painting classes, along with related products and services. Additionally, the lessor shall not sell and shall prohibit any other tenant or subtenant in the building, or on the property, from engaging in a business offering artistic painting classes, along with related products and services. In the event lessor does not comply with these restrictions, Franchisor will have the right to seek an injunction prohibiting the occupancy by the new competing business or against the existing tenant as the case may be.

**PINOT'S PALETTE FRANCHISE LLC
FRANCHISE AGREEMENT
EXHIBIT H
FRANCHISEE DISCLOSURE ACKNOWLEDGMENT STATEMENT**

As you know, Pinot's Palette Franchise LLC (the "Franchisor") and you are preparing to enter into a franchise agreement (the "Franchise Agreement") for the establishment and operation of a "Pinot's Palette Studio." The purpose of this Questionnaire is to determine whether any statements or promises were made to you by employees or authorized representatives of the Franchisor, or by employees or authorized representatives of a broker acting on behalf of the Franchisor ("Broker") that have not been authorized, or that were not disclosed in the Franchise Disclosure Document or that may be untrue, inaccurate or misleading. The Franchisor, through the use of this document, desires to ascertain (a) that the undersigned, individually and as a representative of any legal entity established to acquire the franchise rights, fully understands and comprehends that the purchase of a franchise is a business decision, complete with its associated risks, and (b) that you are not relying upon any oral statement, representations, promises or assurances during the negotiations for the purchase of the franchise which have not been authorized by Franchisor.

In the event that you are intending to purchase an existing Pinot's Palette Studio from an existing Franchisee, you may have received information from the transferring Franchisee, who is not an employee or representative of the Franchisor. The questions below do not apply to any communications that you had with the transferring Franchisee. Please review each of the following questions and statements carefully and provide honest and complete responses to each.

1. Are you seeking to enter into the Franchise Agreement in connection with a purchase or transfer of an existing Pinot's Palette Studio from an existing Franchisee?

Yes _____ No _____

2. Have you received and personally reviewed the Franchise Agreement, each addendum, and/or related agreement provided to you?

Yes _____ No _____

3. Do you understand all of the information contained in the Franchise Agreement, each addendum, and/or related agreement provided to you?

Yes _____ No _____

If no, what parts of the Franchise Agreement, any Addendum, and/or related agreement do you not understand? (Attach additional pages, if necessary.)

4. Have you received and personally reviewed the Franchisor's Franchise Disclosure Document ("Disclosure Document") that was provided to you?

Yes _____ No _____

5. Did you sign a receipt for the Disclosure Document indicating the date you received it?

Yes _____ No _____

6. Do you understand all of the information contained in the Disclosure Document and any state-specific Addendum to the Disclosure Document?

Yes _____ No _____

If No, what parts of the Disclosure Document and/or Addendum do you not understand? (Attach additional pages, if necessary.)

7. Have you discussed the benefits and risks of establishing and operating a Pinot's Palette Studio with an attorney, accountant, or other professional advisor?

Yes _____ No _____

If No, do you wish to have more time to do so?

Yes _____ No _____

8. Do you understand that the success or failure of your Pinot's Palette Studio will depend in large part upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, location, lease terms, your management capabilities and other economic, and business factors?

Yes _____ No _____

9. Has any employee of a Broker or other person speaking on behalf of the Franchisor made any statement or promise concerning the actual or potential revenues, profits or operating costs of any particular Pinot's Palette Studio operated by the Franchisor or its franchisees (or of any group of such businesses), that is contrary to or different from the information contained in the Disclosure Document?

Yes _____ No _____

10. Has any employee of a Broker or other person speaking on behalf of the Franchisor made any statement or promise regarding the amount of money you may earn in operating a Pinot's Palette Studio that is contrary to or different from the information contained in the Disclosure Document?

Yes _____ No _____

11. Has any employee of a Broker or other person speaking on behalf of the Franchisor made any statement or promise concerning the total amount of revenue a Pinot's Palette Studio will generate, that is contrary to or different from the information contained in the Disclosure Document?

Yes _____ No _____

12. Has any employee of a Broker or other person speaking on behalf of the Franchisor made any statement or promise regarding the costs you may incur in operating a Pinot's Palette Studio that is contrary to or different from the information contained in the Disclosure Document?

Yes _____ No _____

13. Has any employee of a Broker or other person speaking on behalf of the Franchisor made any statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a Pinot's Palette Studio?

Yes _____ No _____

14. Has any employee of a Broker or other person speaking on behalf of the Franchisor made any statement, promise or agreement concerning the advertising, marketing, training, support service or assistance that the Franchisor will furnish to you that is contrary to, or different from, the information contained in the Disclosure Document or franchise agreement?

Yes _____ No _____

15. Have you entered into any binding agreement with the Franchisor concerning the purchase of this franchise prior to today?

Yes _____ No _____

16. Have you paid any money to the Franchisor concerning the purchase of this franchise prior to today?

Yes _____ No _____

17. Have you spoken to any other franchisee(s) of this system before deciding to purchase this franchise? If so, who? _____

If you have answered No to question 8, or Yes to any one of questions 9-16, please provide a full explanation of each answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.) If you have answered Yes to question 8, and No to each of questions 9-16, please leave the following lines blank.

I signed the Franchise Agreement and Addendum (if any) on _____, 20____, and acknowledge that no Agreement or Addendum is effective until signed and dated by the Franchisor.

The name of the sales person or salespersons that handled this franchise sale was:

Please understand that your responses to these questions are important to us and that we will rely on them. By signing this Questionnaire, you are representing that you have responded truthfully to the above questions. In addition, by signing this Questionnaire, you also acknowledge that:

A. You recognize and understand that business risks, which exist in connection with the purchase of any business, make the success or failure of the franchise subject to many variables, including among other things, your skills and abilities, the hours worked by you, competition, interest rates, the economy, inflation, franchise location, operation costs, lease terms and costs and the marketplace. You hereby acknowledge your awareness of and willingness to undertake these business risks.

B. You agree and state that the decision to enter into this business risk is in no manner predicated upon any oral representation, assurances, warranties, guarantees or promises made by Franchisor or any of its officers, employees or agents (including the Broker or any other broker) as to the likelihood of success of the franchise. Except as contained in the Disclosure Document, you acknowledge that you have not received any information from the Franchisor or any of its officers, employees or agents (including the Broker or any other broker) concerning actual, projected or forecasted franchise sales, profits or earnings. If you believe that you have received any information concerning actual, average, projected or forecasted franchise sales, profits or earnings other than those contained in the Disclosure Document, please describe those in the space provided below or write "None".

C. All representations requiring you to assent to a release, estoppel or waiver of liability are not intended to, nor shall they, act as a release, estoppel or waiver of any liability incurred under Maryland Franchise Registration and Disclosure Law.

D. You further acknowledge that the President of the United States of America has issued Executive Order 13224 (the "Executive Order") prohibiting transactions with terrorists and terrorist organizations and that the United States government has adopted, and in the future may adopt, other anti-terrorism measures (the "Anti-Terrorism Measures"). The Franchisor therefore requires certain certifications that the parties with whom it deals are not directly involved in terrorism. For that reason, you hereby certify that neither you nor any of your employees, agents or representatives, nor any other person or entity associated with you, is:

- (i) a person or entity listed in the Annex to the Executive Order;
 - (ii) a person or entity otherwise determined by the Executive Order to have committed acts of terrorism or to pose a significant risk of committing acts of terrorism;
 - (iii) a person or entity who assists, sponsors, or supports terrorists or acts of terrorism;
- or
- (iv) owned or controlled by terrorists or sponsors of terrorism.

You further covenant that neither you nor any of your employees, agents or representatives, nor any other person or entity associated with you, will during the term of the Franchise Agreement become a person or entity described above or otherwise become a target of any Anti-Terrorism Measure.

Acknowledged this _____ day of _____, 20____.

INDIVIDUAL

CORPORATION, LIMITED LIABILITY
COMPANY OR PARTNERSHIP

Signature
Print Name: _____

Print Name of Legal Entity

Signature
Print Name: _____

By: _____
Signature
Print Name: _____
Title: _____

Signature
Print Name: _____

Signature
Print Name: _____

EXHIBIT D
AREA DEVELOPMENT AGREEMENT



PINOT'S PALETTE FRANCHISE LLC

AREA DEVELOPMENT AGREEMENT

AREA DEVELOPER

DEVELOPMENT AREA

EFFECTIVE DATE OF AGREEMENT

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EXHIBIT A – DATA SHEET

EXHIBIT B – LIST OF AREA DEVELOPER’S PRINCIPALS AND DESIGNATED PRINCIPAL

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EXHIBIT D – LEASE TERMS

EXHIBIT E – AREA DEVELOPER CERTIFICATION

AREA DEVELOPMENT AGREEMENT

THIS AREA DEVELOPMENT AGREEMENT (the "Agreement") is made and entered into on this _____ day of _____, 20__ (the "Effective Date"), by and between:

- ◆ Pinot's Palette Franchise LLC, a Texas limited liability company, whose principal place of business 10333 Harwin Drive, Suite 580, Houston, Texas 77036 ("**Franchisor**"); and

- ◆ _____ a [resident of] _____ [corporation organized in] [limited liability company organized in] [select one], having offices at _____

_____ ("**Area Developer**").

BACKGROUND:

A. Franchisor owns a format and system (the "**System**") relating to the establishment and operation of businesses at retail locations that feature and operate under the Proprietary Marks (as defined below) (each a "**Pinot's Palette Studio**"). Pinot's Palette Studios offer customers artistic painting classes with the opportunity to enjoy wine or other beverages, under the name "Pinot's Palette."

B. The distinguishing characteristics of the System include exterior and interior design standards and specifications; uniform standards, specifications, and procedures for operations; training and assistance; and marketing and promotional programs; all of which may be changed, improved, and further developed by Franchisor from time to time.

C. The System is identified by means of certain indicia of origin, emblems, trade names, service marks, logos, and trademarks, including applications and/or registrations therefor, as are now designated and may hereafter be designated by Franchisor in writing for use in connection with the System including the mark "Pinot's Palette" and other related marks (the "**Proprietary Marks**"). The Proprietary Marks are owned by Pinot & Picasso, LLC, a Texas limited liability company, and it has licensed them to Franchisor so that Franchisor may sub-license them to its franchisees.

D. Area Developer desires to obtain certain development rights to open and operate Pinot's Palette Studios under the System and the Proprietary Marks, as well as to receive other assistance provided by Franchisor in connection therewith.

NOW THEREFORE, the parties agree as follows:

1. GRANT

1.1 **Grant and Acceptance.** Franchisor grants development rights to Area Developer, and Area Developer undertakes the obligation, pursuant to the terms and conditions of this Agreement, to develop no less than the number of Pinot's Palette Studios (the "**Franchised Studios**") as set forth in Exhibit A to this Agreement. In this regard, the parties further agree that:

1.1.1 Each Franchised Studio developed hereunder shall be operated pursuant to a separate Pinot's Palette Franchise LLC Franchise Agreement (a "**Franchise Agreement**") that shall be executed as provided in Section 3.4 below.

1.1.2 For each Franchised Studio to be developed under this Agreement, Area Developer shall execute the Franchise Agreement for such Franchised Studio in accordance with the deadlines set forth in the development schedule specified in Paragraph 1 of Exhibit A to this Agreement (the “**Development Schedule**”).

1.1.3 Each Franchised Studio developed hereunder shall be at a specific location, which shall be designated in the Franchise Agreement, that is within in the area described in Paragraph 2 of Exhibit A to this Agreement (the “**Development Area**”).

1.2 **Development Area.** Except as otherwise set forth herein (including, without limitation, the rights retained by Franchisor as described in Section 1.3), during the term of this Agreement, and so long as Area Developer is in compliance with its obligations under this Agreement and all of the Franchise Agreements between Area Developer (including any affiliate of Area Developer), Franchisor shall not establish or operate, or license anyone other than Area Developer to establish or operate, a Pinot’s Palette Studio under the Proprietary Marks and System at any location that is within the Development Area.

1.3 **Franchisor’s Reserved Rights.** Notwithstanding anything to the contrary, Franchisor retains the following rights, among others, on any terms and conditions Franchisor deems advisable, and without granting Area Developer any rights therein:

1.3.1 To own, acquire, establish, and/or operate and license others to establish and operate, Pinot’s Palette Studios under the System at any location outside the Development Area notwithstanding their proximity to the Development Area or their actual or threatened impact on sales or development of any of the Franchised Studios;

1.3.2 To own, acquire, establish and/or operate, and license others to establish and operate, businesses under proprietary marks other than the Proprietary Marks, whether such businesses are similar or different from Pinot’s Palette Studios, at any location within or outside the Development Area, notwithstanding their proximity to the Development Area or their actual or threatened impact on sales or development of any of the Franchised Studios;

1.3.3 To own, acquire, establish, and/or operate and license others to establish and operate mobile Pinot’s Palette Studios offering customers artistic classes, including painting classes, with the opportunity to enjoy food, wine or other beverages, under the Proprietary Marks at customer residences, places of business, or other suitable venues that are off-site from any of the Franchised Studios at any location within or outside the Development Area, notwithstanding their proximity to the Development Area or their actual or threatened impact on sales or development of any of the Franchised Studios; and

1.3.4 To (i) acquire one or more retail businesses that are the same as, or similar to, Pinot’s Palette Studios then operating under the System (each an “**Acquired Business**”), which may be at any location within or outside the Development Area notwithstanding their proximity to the Development Area or their actual or threatened impact on sales or development of any of the Franchised Studios, and to (ii) operate and/or license others to operate any Acquired Business under its existing name or as a Pinot’s Palette Studio under the System, subject to the following conditions that apply to each Acquired Business located within the Development Area:

1.3.4.1 Except as provided in Section 1.3.4.2 below, and provided that Area Developer is in compliance with this Agreement and any other agreement with Franchisor, Franchisor shall offer to Area Developer the option to purchase and operate, as a Pinot’s Palette

Studio, an Acquired Business that is purchased by Franchisor for operation by Franchisor or its affiliates or parent. In such event, Franchisor shall provide Area Developer with written notice of Franchisor's purchase of the Acquired Business(es), the terms and conditions applicable to the Area Developer's option to purchase such Acquired Business(es), and such other information that Franchisor deems necessary to include in the notice. The terms and conditions offered to Area Developer shall include, without limitation, the following: (a) the purchase price will be based on Franchisor's purchase price for such Acquired Business, and if the Acquired Business was part of an Acquired System (as defined below in Section 1.3.4.2), then Area Developer's purchase price for such Acquired Business shall be determined using a ratio equal to the sales during the prior year of such Acquired Business as compared to the total sales in such prior year of all Acquired Businesses purchased by Franchisor in the same transaction; and (b) the requirement that Area Developer enter into Franchisor's then-current form of System franchise agreement for the Acquired Business, provided that Area Developer shall not be required to pay an initial franchise fee for an Acquired Business. If Area Developer does not elect to purchase, or fails to complete the purchase of, an Acquired Business, Franchisor shall have the right to operate itself, or through its affiliates or parent or third party licensees or franchisees, the Acquired Business under any trade name or trademarks including the Proprietary Marks.

1.3.4.2 If an Acquired Business is part of a system of retail businesses that Franchisor acquires (an "**Acquired System**"), Area Developer shall have no right to purchase, and Franchisor shall not be obligated to offer Area Developer any option to purchase, any Acquired Business that is operated by a licensee or franchisee under the Acquired System. Franchisor may license such unit to be operated under any trade name or trademarks including the Proprietary Marks, and may also license to the licensee or franchisee additional units of the Acquired System that the licensee or franchisee has the right to develop and operate within the Development Area.

1.4 **No Rights to Use the System.** This Agreement is not a Franchise Agreement, and does not grant to Area Developer any right to use the Proprietary Marks or the System or to sell or distribute any Products. Area Developer's rights to use the Proprietary Marks and System will be granted solely under the terms of the Franchise Agreement.

2. **TERM**

Unless sooner terminated in accordance with the provisions of this Agreement, this Agreement shall commence on the date hereof and shall expire on the earlier of (i) the date the final Franchise Agreement is executed by Area Developer in accordance with the required minimum cumulative number of Franchise Agreements to be executed for Franchised Studios to be located in the Development Area as set forth in the Development Schedule, as shown in Paragraph 1 of Exhibit A; or (ii) the final date set forth in the Development Schedule, as shown in Paragraph 1 of Exhibit A (the "**Expiration Date**").

3. **DEVELOPMENT OBLIGATIONS**

3.1 **Time is of the Essence.** Recognizing that time is of the essence, Area Developer shall comply strictly with the Development Schedule. Area Developer acknowledges and agrees that the Development Schedule requires that Area Developer have executed and delivered to Franchisor Franchise Agreements for a cumulative number of Franchised Studios by the end of the time periods specified in Exhibit A.

3.2 **Identifying and Securing Sites.** Area Developer shall be solely responsible for identifying, submitting for Franchisor's approval, and securing specific sites for each Franchised Studio. The following terms and conditions shall apply to each Franchised Studio to be developed hereunder:

3.2.1 Area Developer shall submit to Franchisor, in a form specified by Franchisor, a completed site approval package, which shall include; (i) a site approval form prescribed by Franchisor; (ii) a trade area and site marketing research analysis (prepared by a company approved in advance by Franchisor); (iii) an option contract, letter of intent, or other evidence satisfactory to Franchisor which describes Area Developer's favorable prospects for obtaining such site; (iv) photographs of the site; (v) demographic statistics; and (vi) such other information or materials as Franchisor may reasonably require (collectively, the "SAP"). Franchisor shall have twenty (20) business days after receipt of the SAP from Area Developer to approve or disapprove, in its sole discretion, the proposed site for the Franchised Studio. In the event Franchisor does not approve a proposed site by written notice to Area Developer within said twenty (20) business days, such site shall be deemed disapproved by Franchisor. No site shall be deemed approved unless it has been expressly approved in writing by Franchisor.

3.2.2 Following Franchisor's approval of a proposed site, Area Developer shall use its best efforts to secure such site, either through a lease/sublease that is acceptable to Franchisor, as provided in Section 3.3 below, or a binding purchase agreement, and shall do so within sixty (60) business days of approval of the site by Franchisor. Area Developer shall immediately notify Franchisor of the execution of the approved lease or binding purchase agreement. The site approved and secured pursuant to this Agreement shall be specified as the "Approved Location" under the Franchise Agreement executed pursuant Section 3.4 below.

3.2.3 Area Developer hereby acknowledges and agrees that approval by Franchisor of a site does not constitute an assurance, representation, or warranty of any kind, express or implied, as to the suitability of the site for the Franchised Studio or for any other purpose. Approval by Franchisor of the site indicates only that Franchisor believes the site complies with acceptable minimum criteria established by Franchisor solely for its purposes as of the time of the evaluation. Both Area Developer and Franchisor acknowledge that application of criteria that have been effective with respect to other sites and premises may not be predictive of potential for all sites and that, subsequent to approval by Franchisor of a site, demographic and/or economic factors, such as competition from other similar businesses, included in or excluded from criteria used by Franchisor could change, thereby altering the potential of a site. Such factors are unpredictable and are beyond the control of Franchisor. Franchisor shall not be responsible for the failure of a site approved by Franchisor to meet Area Developer's expectations as to revenue or operational criteria.

3.3 **Lease Terms.** For each Franchised Studio to be developed hereunder, if Area Developer will occupy the premises from which the Franchised Studio will be operated under a lease or sublease, Area Developer shall, prior to execution of such lease, submit the lease to Franchisor for its review and approval; provided, however, if pre-submission to Franchisor is not possible, then Area Developer may sign the lease only on the condition, agreed to in writing by the lessor, that the lease shall become null and void if Franchisor does not approve such lease. Franchisor's approval of the lease or sublease may be conditioned upon the inclusion of such provisions as Franchisor may reasonably require, including, without limitation, the terms and conditions set forth by Franchisor in the Manuals or otherwise in writing from time to time, a current list of which is included in Exhibit D to this Agreement.

3.4 **Franchise Agreements.** With respect to the Franchise Agreements to be executed for the Franchised Studios to be developed pursuant to this Agreement, the following terms and conditions shall apply:

3.4.1 The Franchise Agreement for the first Franchised Studio to be developed under this Agreement shall be executed simultaneously with the execution of this Agreement.

3.4.2 The Franchise Agreement for each subsequent Franchised Studio to be developed under this Agreement shall be Franchisor's then-current form of Franchise Agreement, the terms of which may differ from the terms of the Franchise Agreement executed simultaneously with this Agreement including, without limitation, higher and/or additional fees; provided, however, so long as Area Developer is in compliance with this Agreement, the initial franchise fee (as set forth in Section 4.3 below) and the royalty fee shall each be the same as set forth in the first Franchise Agreement executed simultaneously with this Agreement.

3.4.3 Franchisor shall permit one or more Franchise Agreements to be executed by entities other than Area Developer; provided that (a) each such franchisee entity is controlled by, or under common control with, Area Developer, and (b) the Area Developer and all Principals (as defined in Section 9.1 below) of Area Developer requested by Franchisor execute guarantees, guarantying to Franchisor the timely payment and performance of franchisee's obligations under the Franchise Agreement.

3.4.4 Provided that Area Developer is in compliance with this Agreement, within ten (10) days after Area Developer locates and secures a site pursuant to Sections 3.2 and 3.3 above, Area Developer (or an affiliate of Area Developer pursuant to Section 3.4.3 above) shall execute the Franchise Agreement for such Franchised Studio, as provided in this Section 3.4. Failure to timely execute a Franchise Agreement as required by this Section 3.4 will constitute a default under this Agreement. Area Developer shall thereafter comply with all pre-opening and opening requirements set forth in the Franchise Agreement relating to the Franchised Studio.

3.5 **Force Majeure Events.** Area Developer shall not be responsible for non-performance or delay in performance occasioned by a "force majeure," which means an act of God, war, civil disturbance, act of terrorism, government action, fire, flood, accident, hurricane, earthquake, or other calamity, strike or other labor dispute, or any other cause beyond the reasonable control of Area Developer; provided, however, force majeure shall not include Area Developer's lack of adequate financing. If any delay occurs, any applicable time period hereunder shall be automatically extended for a period equal to the time lost; provided, however, that Area Developer shall make reasonable efforts to correct the reason for such delay and give Franchisor prompt written notice of any such delay.

4. **DEVELOPMENT FEE AND INITIAL FRANCHISE FEE**

4.1 **Area Development Fee.** In consideration of the development rights granted herein, upon execution of this Agreement, Area Developer shall pay an area development fee ("**Area Development Fee**") that is equal to Twelve Thousand Five Hundred Dollars (\$12,500) multiplied by the number of Franchised Studios to be developed and opened within the Development Area during the term of this Agreement and in accordance with the Development Schedule, the total amount of such Area Development Fee is specified in Paragraph 3 of Exhibit A. Receipt of the Area Development Fee is hereby acknowledged. The Area Developer expressly acknowledges and agrees that the Area Development Fee is fully earned and nonrefundable in consideration of administrative and other expenses incurred by Franchisor and for the development opportunities lost or deferred as a result of the rights granted herein to Area Developer, even if Area Developer does not enter into any Franchise Agreements pursuant to this Agreement.

4.2 **Credit Towards Franchise Fee.** If Area Developer is in compliance with its obligations under this Agreement and any other agreement with Franchisor, then upon execution of each Franchise

Agreement executed pursuant to the Development Schedule, Franchisor will credit towards the Franchise Fee (as set forth in Section 4.3 below) for said Franchise Agreement, the sum of Twelve Thousand Five Hundred Dollars (\$12,500). In no circumstances will Franchisor grant credits in excess of the total Area Development Fee paid by Area Developer, as set forth in Paragraph 3 of Exhibit A.

4.3 **Franchise Fees.** Notwithstanding anything to the contrary in any of the Franchise Agreements, the initial franchise fee (the “**Franchise Fee**”) that shall be paid by Area Developer for each Franchised Studio to be developed pursuant to the Development Schedule shall be an amount equal to Twenty-Five Thousand Dollars (\$25,000), which shall be paid in full upon execution of each such Franchise Agreement, less any credit that may be applied pursuant to Section 4.2.

5. **DUTIES OF THE PARTIES**

5.1 **Franchisor’s Assistance.** Franchisor shall furnish to Area Developer the following:

5.1.1 Site selection guidelines, including Franchisor’s minimum standards for Pinot’s Palette Studio sites and sources regarding demographic information, and such site selection counseling and assistance as Franchisor may deem advisable.

5.1.2 Such on-site evaluation as Franchisor deems advisable in response to Area Developer’s request for site approval for each Franchised Studio; provided, however, that Franchisor shall not provide on-site evaluation for any proposed site prior to the receipt of a SAP for such site prepared by Area Developer pursuant to Section 3.2.

5.2 **Designated Principal.** If Area Developer is other than an individual, Area Developer shall designate, subject to Franchisor’s reasonable approval, one Principal (as defined in Section 9.1) who is both an individual person and owns at least a ten percent (10%) of Area Developer, and who shall be responsible for general oversight and management of the development of the Franchised Studios under this Agreement and the operations of all such Franchised Studios open and in operation on behalf of Area Developer (the “**Designated Principal**”). Area Developer acknowledges and agrees that Franchisor shall have the right to rely upon the Designated Principal to have been given, by Area Developer, the responsibility and decision-making authority regarding the Area Developer’s business and operation. In the event the person designated as the Designated Principal becomes incapacitated, leaves the employ of Area Developer, transfers his/her interest in Area Developer, or otherwise ceases to supervise the development of the Franchised Studios, Area Developer shall promptly designate a new Designated Principal, subject to Franchisor’s reasonable approval.

5.3 **Records and Reports to Franchisor.** Area Developer shall, at Area Developer’s expense, comply with the following requirements to prepare and submit to Franchisor the following reports, financial statements and other data, which shall be prepared in the form and using the standard statements and chart of accounts as Franchisor may prescribe from time to time:

5.3.1 No later than the twentieth (20th) day of each calendar month, Area Developer shall have prepared a profit and loss statement reflecting all Area Developer’s operations during the last preceding calendar month, for each Franchised Studio. Area Developer shall prepare profit and loss statements on an accrual basis and in accordance with generally accepted accounting principles. Area Developer shall submit such statements to Franchisor at such times as Franchisor may designate or as Franchisor may otherwise request.

5.3.2 On April 15th of the year following the end of Area Developer’s fiscal year, a complete annual financial statement (prepared according to generally accepted accounting

principles), on a compilation basis, and if required by Franchisor, such statements shall be prepared by an independent certified public accountant.

5.3.3 Such other forms, reports, records, information, and data as Franchisor may reasonably designate.

5.4 **Maintaining Records.** Area Developer shall maintain during the term of this Agreement, and shall preserve for at least seven (7) years from the dates of their preparation, and shall make available to Franchisor at Franchisor's request and at Area Developer's expense, full, complete, and accurate books, records, and accounts in accordance with generally accepted accounting principles.

5.5 **Area Developer to Provide Training.** Area Developer agrees that, notwithstanding any thing to the contrary in any Franchise Agreement, Area Developer shall be responsible for conducting the initial training of all required trainees (including, without limitation, the owners and management personnel) for the fourth (4th) and any subsequent Franchised Studios developed under this Agreement, in accordance with the requirements and conditions as Franchisor may from time to time establish for the initial training. By no later than the time Area Developer is seeking Franchisor's approval to develop the fourth (4th) Franchised Studio under this Agreement, Area Developer shall be have completed to Franchisor's satisfaction all requirements and conditions necessary to obtain Franchisor's approval for Area Developer to conduct such training.

6. **DEFAULT AND TERMINATION**

6.1 **Automatic Termination.** Area Developer shall be deemed to be in default under this Agreement, and all rights granted herein shall automatically terminate without notice to Area Developer, if Area Developer becomes insolvent or makes a general assignment for the benefit of creditors; if a petition in bankruptcy is filed by Area Developer or such a petition is filed against and not opposed by Area Developer; if Area Developer is adjudicated a bankrupt or insolvent; if a bill in equity or other proceeding for the appointment of a receiver of Area Developer or other custodian for Area Developer's business or assets is filed and consented to by Area Developer; if a receiver or other custodian (permanent or temporary) of Area Developer's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; if proceedings for a composition with creditors under any state or federal law should be instituted by or against Area Developer; if final judgment remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); if Area Developer is dissolved; if execution is levied against any asset of Area Developer or Area Developer's Franchised Studios; if suit to foreclose any lien or mortgage against any asset of Area Developer or Area Developer's Franchised Studios is instituted against Area Developer and not dismissed within sixty (60) days; or if any asset of Area Developer's or any Franchised Studio of Area Developer's shall be sold after levy thereupon by any sheriff, marshal, or constable.

6.2 **Termination Upon Notice.** Area Developer shall be deemed to be in default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder or take any of the actions described in Section 6.5 below, without affording Area Developer any opportunity to cure the default, effective immediately upon the provision of notice to Area Developer (in the manner provided under Section 10 hereof), upon the occurrence of any of the following events of default:

6.2.1 If the Franchise Agreement for any Franchised Studio operated by Area Developer (or an entity affiliated with Area Developer) is terminated.

6.2.2 If Area Developer or any Principal is convicted of a felony, a crime involving moral turpitude, or any other crime or action that Franchisor believes is reasonably likely to have an

adverse effect on the System, the Proprietary Marks, the goodwill associated therewith, or Franchisor's interest therein.

6.2.3 If Area Developer or any Principal purports to transfer any rights or obligations under this Agreement or any the assets of Area Developer in a manner that is contrary to the terms of Section 7 of this Agreement.

6.3 **Notice and Opportunity to Cure – For a Missed Deadline.** Failure by Area Developer to meet a deadline under the Development Schedule (a “**Missed Deadline**”) shall constitute a default under this Agreement. Franchisor shall, for one (1) Missed Deadline, provide Area Developer with a reasonable opportunity to cure such default by notifying Area Developer in writing of a new date for the Missed Deadline (without change to any other deadline in the Development Schedule). If Area Developer fails to comply with the Development Schedule by such new deadline, and/or upon the occurrence of another Missed Deadline, Franchisor, in its discretion, may terminate this Agreement and all rights granted hereunder without affording Area Developer any further opportunity to cure the default, effective immediately upon the delivery of written notice to Area Developer (in the manner set forth in Section 10 of this Agreement); or Franchisor, in its discretion, may elect, in lieu of terminating this Agreement, to take any of the actions described in Section 6.5 below.

6.4 **Notice and Opportunity to Cure Other Defaults.** Except as otherwise provided in Sections 6.1, 6.2, and 6.3 above, if Area Developer fails to comply with any material term and condition of this Agreement, such action shall constitute a default under this Agreement and, upon the occurrence of any such default, Franchisor may terminate this Agreement by giving written notice of termination stating the nature of such default to Area Developer at least thirty (30) days prior to the effective date of termination; provided, however, that Area Developer may avoid termination by curing the default to Franchisor's satisfaction, and by promptly providing proof thereof to Franchisor within the 30-day period. If any such default is not cured within the specified time, or such longer period as applicable law may require, this Agreement and all rights granted hereunder (including but not limited to, the right to develop new Franchised Studios) will terminate without further notice to Area Developer effective immediately upon the expiration of the thirty (30) day period or such longer period as applicable law may require.

6.5 **Franchisor's Other Options Upon Default.** Franchisor, in its discretion, may elect, in lieu of terminating this Agreement, to use other remedial measures for Area Developer's breach of this Agreement, which include, but are not limited to: (i) termination of the credit towards Franchise Fees granted in Section 4.2 hereof; (ii) loss of the limited exclusivity, or reduction in the scope of protections, granted to Area Developer under Section 1.2 herein for the Development Area; (iii) reduction in the scope of the Development Area; (iv) reduction in the number of Franchised Studios to be developed by Area Developer; and/or (v) Franchisor's retention of all area development fees paid, or owed, by Area Developer. If Franchisor exercises said right, Franchisor shall not have waived its right to, in the case of future defaults, exercise all other rights and invoke all other provisions that are provided in law and/or set out under this Agreement.

6.6 **No Further Rights.** Upon termination or expiration of this Agreement, Area Developer shall have no right to establish or operate any Pinot's Palette Studio for which a Franchise Agreement has not been executed by Franchisor at the time of termination or expiration. Franchisor's remedies for Area Developer's breach of this Agreement shall include, without limitation, Area Developer's loss of its right to develop additional Franchised Studios under this Agreement, and Franchisor's retention of all area development fees paid or owed by Area Developer. Upon termination or expiration, Franchisor shall be entitled to establish, and to franchise others to establish, Pinot's Palette Studios in the Development Area, except as may be otherwise provided under any Franchise Agreement which has been executed between Franchisor and Area Developer or Area Developer's affiliates (as permitted under Section 3.4.3 above).

7. TRANSFER OF INTEREST

7.1 **Franchisor's Rights to Transfer.** Franchisor shall have the right, without the need for Area Developer's consent, to transfer or assign this Agreement and all or any part of its rights or obligations herein to any person or legal entity, provided that any designated assignee of Franchisor shall become solely responsible for all obligations of Franchisor under this Agreement from the date of assignment. In addition, and without limitation to the foregoing, Area Developer expressly affirms and agrees that Franchisor may sell its assets, its Proprietary Marks, or its System; may sell its securities in a public offering or in a private placement; may merge, acquire other corporations, or be acquired by another corporation; and may undertake a refinancing, recapitalization, leveraged buy-out, or other economic or financial restructuring.

7.2 **No Transfers Without Franchisor's Approval.** Area Developer understands and acknowledges that Franchisor has granted the rights hereunder in reliance on the business skill, financial capacity, and personal character of Area Developer or the Principals of Area Developer if Area Developer is not an individual. Accordingly, neither Area Developer nor any Principal shall sell, assign, transfer, pledge or otherwise encumber any direct or indirect interest in the Area Developer (including any direct or indirect interest in a corporate or partnership Area Developer), the rights or obligations of Area Developer under this Agreement, or any material asset of the Area Developer's business, without the prior written consent of Franchisor, which shall be subject to Sections 7.3 and 7.4 below and to all of the conditions and requirements for transfers set forth in the Franchise Agreement executed simultaneously with this Agreement that Franchisor deems applicable to a proposed transfer under this Agreement.

7.3 **Simultaneous Transfers.** Area Developer understands and acknowledges that any consent to a transfer of this Agreement shall, unless waived, be conditioned on, among other factors, the requirement that the proposed transfer of this Agreement is to be made in conjunction with a simultaneous transfer of all Franchise Agreements executed pursuant to this Agreement to the same approved transferee.

7.4 **Transfer Fee.** At the request of Franchisor, Area Developer shall pay a transfer fee of an amount equal to Ten Thousand Dollars (\$10,000) for each Franchised Studio that remains to be developed and opened in order to satisfy the Development Schedule, but not less than fifty percent (50%) of the Area Development Fee paid. Additionally, for any Franchise Agreements executed pursuant to this Agreement that are transferred, the transfer fee due under such Franchise Agreement(s) shall be paid to Franchisor pursuant to the terms of such Franchise Agreement(s).

7.5 **Transfer to Entity Formed for by Area Developer.** Notwithstanding anything to the contrary in this Section 7, if Area Developer is an individual and seeks to transfer this Agreement to a corporation, partnership, or limited liability company formed for the convenience of ownership, the conditions of Sections 7.4 shall not apply, and Area Developer may undertake such transfer, provided that: (a) Area Developer owns one hundred percent (100%) of the equity interest in the transferee entity; (b) Area Developer and any other Principal(s) personally guarantee, in a written guaranty satisfactory to Franchisor, the performance of the obligations of the Area Developer under this Agreement; (c) Area Developer executes a Transfer of Franchise form as prescribed and approved by Franchisor; (d) such transferee entity is newly organized and its business purpose is confined exclusively to developing and operating the Franchised Studios; and (e) Area Developer and any other Principal(s) execute any and all other ancillary agreements as Franchisor may require.

8. COVENANTS

8.1 **Confidential Information.** Area Developer shall at all times preserve in confidence any and all materials and information furnished or disclosed to Area Developer by Franchisor, and shall disclose such information or materials only to such of Area Developer's employees or agents who must have access to it in connection with their employment. Area Developer shall not at any time, during the term of this Agreement or thereafter, without Franchisor's prior written consent, copy, duplicate, record, or otherwise reproduce such materials or information, in whole or in part, nor otherwise make the same available to any unauthorized person.

8.2 **During the Term.** Area Developer specifically acknowledges that, pursuant to this Agreement, Area Developer will receive valuable specialized training and confidential information, which may include, without limitation, information regarding the operational, sales, advertising and promotional methods and techniques of Franchisor and the System. Area Developer covenants that during the term of this Agreement, except as otherwise approved in writing by Franchisor, Area Developer shall not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, persons, partnership, or corporation:

8.2.1 Divert or attempt to divert any business or customer of any Pinot's Palette Studio or of any unit under the System to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Proprietary Marks or the System.

8.2.2 Unless released in writing by the employer, employ or seek to employ any person who is at that time employed by Franchisor or by any other franchisee or area developer of Franchisor, or otherwise directly or indirectly induce such person to leave his or her employment.

8.2.3 Own, maintain, operate, engage in, be employed by, provide any assistance to, or have any more than a one percent (1%) interest in (as owner or otherwise) any Competitive Business (as defined below). A "**Competitive Business**" shall be considered a business offering artistic painting classes, along with related products and services, that is the same as or similar to the Franchised Studio. Furthermore, Area Developer acknowledges and agrees that Area Developer shall be considered in default under this Agreement and that this Agreement will be subject to immediate termination as provided in Section 6.2 herein, in the event that a person in the immediate family (including spouse, domestic partner, parent or child) of Area Developer (or, if Area Developer is other than an individual, each Principal that is subject to these covenants) engages in a Competitive Business that would violate this Section 8.2.3 if such person was subject to the covenants of this Section 8.2.3.

8.3 **After the Agreement and After a Transfer.** Area Developer covenants that, except as otherwise approved in writing by Franchisor, for a continuous uninterrupted period of two (2) years from the date of (a) a transfer permitted under Section 7 above; (b) expiration of this Agreement; (c) termination of this Agreement (regardless of the cause for termination); (d) a final order of a duly authorized arbitrator, panel of arbitrators, or a court of competent jurisdiction (after all appeals have been taken) with respect to any of the foregoing or with respect to enforcement of this Section 8.3; or (e) any or all of the foregoing, Area Developer shall not either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, partnership, corporation, or other entity, own, maintain, operate, engage in, be employed by, or have any interest in any Competitive Business, which is, or is intended to be, located (i) within the Development Area (other than those Franchised Studios provided for in the Development Schedule), or (ii) within a radius of twenty-five (25) miles of any other Pinot's Palette Studio in operation or under construction on the effective date of termination or expiration located anywhere. Provided, however, that this provision shall not apply to the operation by Area Developer of any business under the System under a franchise agreement with Franchisor.

8.4 **Exception for Ownership in Public Entities.** Sections 8.2 and 8.3 hereof shall not apply to ownership by Area Developer of less than a five percent (5%) beneficial interest in the outstanding equity securities of any publicly held corporation. As used in this Agreement, the term “**publicly held corporation**” refers to a corporation which has outstanding securities that have been registered under the federal Securities Exchange Act of 1934.

8.5 **Personal Covenants.** At the request of Franchisor, Area Developer shall obtain and furnish to Franchisor executed covenants similar in substance to those set forth in this Section 8 (including covenants applicable upon the termination of a person’s relationship with Area Developer) and the provisions of Sections 6 and 7 of this Agreement (as modified to apply to an individual) from all managers and other personnel employed by Area Developer who have received or will receive training and/or other confidential information, or who are or may be involved in the operation or development of the Franchised Studios. Every covenant required by this Section 8.5 shall be in a form approved by Franchisor, including specific identification of Franchisor as a third-party beneficiary of such covenants with the independent right to enforce them.

8.6 **Covenants as Independent Clauses.** The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section 8 is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Franchisor is a party, Area Developer expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section 8.

8.7 **Franchisor’s Right to Reduce Scope of the Covenants.** Area Developer understands and acknowledges that Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in Sections 8.2 and 8.3 in this Agreement, or any portion thereof, without Area Developer’s consent, effective immediately upon receipt by Area Developer of written notice thereof; and Area Developer agrees that it shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section 15 hereof.

8.8 **Covenants Survive Claims.** Area Developer expressly agrees that 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 Franchisor of the covenants in this Section 8. Area Developer agrees to pay all costs and expenses (including reasonable attorneys’ fees) incurred by Franchisor in connection with the enforcement of this Section 8.

8.9 **Compliance with Laws.** Area Developer represents and warrants to Franchisor that neither Area Developer (including, without limitation, any and all of its employees, directors, officers and other representatives) nor any of its affiliates or the funding sources for either is a person or entity designated with whom Franchisor, or any of its affiliates, are prohibited by law from transacting business.

9. **CORPORATION, LIMITED LIABILITY COMPANY, OR PARTNERSHIP**

9.1 **List of Principals.** If Area Developer is a corporation, limited liability company, or partnership, each owner of beneficial interest in Area Developer (each a “**Principal**”), and the interest of each Principal in Area Developer, shall be identified in Exhibit B to the Agreement. Area Developer shall maintain a list of all Principals and immediately furnish Franchisor with an update to the information contained in Exhibit B upon any change, which shall be made only in compliance with Section 7 above. As set forth in Section 5.2 above, the Designated Principal shall at all times have at least a ten percent (10%) interest in Area Developer.

9.2 **Guaranty, Indemnification, and Acknowledgment.** Each Principal shall execute a guaranty, indemnification, and acknowledgment of Area Developer's covenants and obligations under this Agreement in the form attached hereto as Exhibit C.

9.3 **Corporations and Limited Liability Companies.** If Area Developer is a corporation or limited liability company, Area Developer shall comply with the following requirements:

9.3.1 Area Developer shall be newly organized and its governing documents shall at all times provide that its activities are confined exclusively to developing and operating the Franchised Studios.

9.3.2 Area Developer shall, upon request of Franchisor, promptly furnish to Franchisor copies of Area Developer's articles of incorporation, bylaws, articles of organization, operating agreement and/or other governing documents, and any amendments thereto, including the resolution of the Board of Directors or members authorizing entry into this Agreement.

9.3.3 Area Developer shall maintain stop-transfer instructions against the transfer on its records of any equity securities; and each stock certificate or issued securities of Area Developer shall conspicuously include upon its face a statement, in a form satisfactory to Franchisor, which references the transfer restrictions imposed by this Agreement; provided, however, that the requirements of this Section 9.3.3 shall not apply to a publicly held corporation.

9.4 **Partnerships and Limited Liability Partnerships.** If Area Developer or any successor to or assignee of Area Developer is a partnership or limited liability partnership, Area Developer shall comply with the following requirements:

9.4.1 Area Developer shall be newly organized and its partnership agreement shall at all times provide that its activities are confined exclusively to developing and operating the Franchised Studios.

9.4.2 Area Developer shall furnish Franchisor with a copy of its partnership agreement as well as such other documents as Franchisor may reasonably request, and any amendments thereto.

9.4.3 The partners of the partnership shall not, without the prior written consent of Franchisor, admit additional general partners, remove a general partner, or otherwise materially alter the powers of any general partner.

10. **NOTICES**

Any and all notices required or permitted under this Agreement shall be in writing and shall be personally delivered, sent by registered mail, or by other means which affords the sender evidence of delivery, or of rejected delivery, to the respective parties at the addresses shown on the signature page of this Agreement, unless and until a different address has been designated by written notice to the other party. Any notice by a means which affords the sender evidence of delivery, or rejected delivery, shall be deemed to have been given at the date and time of receipt or rejected delivery.

11. **PERMITS AND COMPLIANCE WITH THE LAWS**

11.1 **Compliance with Laws.** Area Developer shall comply with all federal, state, and local laws, rules and regulations, and shall timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the business contemplated under this Agreement.

11.2 **Notice of Actions.** Area Developer shall notify Franchisor in writing within five (5) days of the receipt of any demand letter, commencement of any action, suit, or proceeding, and of the issuance of any order, writ, injunction, award, or decree of any court, agency or other governmental instrumentality, which may adversely affect the operation or financial condition of Area Developer and/or any Franchised Studio established under this Agreement.

12. **INDEPENDENT CONTRACTOR AND INDEMNIFICATION**

12.1 **No Fiduciary Relationship.** Area Developer is an independent contractor. Franchisor and Area Developer are completely separate entities and are not fiduciaries, partners, joint venturers, or agents of the other in any sense and neither shall have the power to bind the other. No act or assistance given by either party to the other pursuant to this Agreement shall be construed to alter the relationship.

12.2 **Public Notice.** During the term of this Agreement, Area Developer shall hold itself out to the public as an independent contractor operating the business pursuant to an area development agreement with Franchisor. Area Developer agrees to take such action as may be necessary to do so, including, without limitation, exhibiting a notice of the fact in a conspicuous place in Area Developer's offices, the content of which Franchisor reserves the right to specify.

12.3 **No Assumption of Liability.** Nothing in this Agreement authorizes Area Developer to make any contract, agreement, warranty, or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name; and that Franchisor shall in no event assume liability for, or be deemed liable hereunder as a result of, any such action; nor shall Franchisor be liable by reason of any act or omission of Area Developer in Area Developer's operations hereunder, or for any claim or judgment arising therefrom against Area Developer or Franchisor.

12.4 **Indemnification.** Area Developer shall indemnify and hold Franchisor, Franchisor's owners and affiliates and parent, and their respective officers, directors, and employees (the "Indemnitees") harmless against any and all causes of action, claims, losses, costs, expenses, liabilities, litigation, damages or other expenses (including, but not limited to, settlement costs and attorneys' fees) arising directly or indirectly from, as a result of, or in connection with Area Developer's operation of the business contemplated hereunder (notwithstanding any claims that the Indemnitees are or were negligent). Area Developer agrees that with respect to any threatened or actual litigation, proceeding or dispute which could directly or indirectly affect any of the Indemnitees, the Indemnitees shall have the right, but not the obligation, in their discretion, to: (i) choose counsel, (ii) direct, manage and/or control the handling of the matter; and (iii) settle on behalf of the Indemnitees, and/or Area Developer, any claim against the Indemnitees. All vouchers, canceled checks, receipts, receipted bills or other evidence of payments for any such losses, liabilities, costs, damages, charges or expenses of whatsoever nature incurred by any Indemnitee shall be taken as prima facie evidence of Area Developer's obligation hereunder.

13. **APPROVALS AND WAIVERS**

13.1 **Approval Requests.** Whenever this Agreement requires the prior approval or consent of Franchisor, Area Developer shall make a timely written request to Franchisor therefor, and such approval or consent shall be in writing. Franchisor shall respond to Area Developer's timely requests in a reasonably timely and prompt manner.

13.2 **Non-waiver.** No failure of Franchisor to exercise any power reserved to it hereunder, or to insist upon strict compliance by Area Developer with any obligation or condition hereunder, and no custom or practice of the parties in variance with the terms hereof, shall constitute a waiver of

Franchisor's right to demand exact compliance with the terms hereof. Waiver by Franchisor of any particular default by Area Developer shall not be binding unless in writing and executed by the party sought to be charged and shall not affect or impair Franchisor's right with respect to any subsequent default of the same or of a different nature; nor shall any delay, waiver, forbearance, or omission of Franchisor to exercise any power or rights arising out of any breach or default by Area Developer of any of the terms, provisions, or covenants hereof, affect or impair Franchisor's rights nor shall such constitute a waiver by Franchisor of any right hereunder or of the right to declare any subsequent breach or default. Subsequent acceptance by Franchisor of any payment(s) due to it hereunder shall not be deemed to be a waiver by Franchisor of any preceding breach by Area Developer of any terms, covenants or conditions of this Agreement.

14. **SEVERABILITY AND CONSTRUCTION**

14.1 **Severable Parts**. Except as expressly provided to the contrary herein, each portion, section, part, term, and/or provision of this Agreement shall be considered severable; and if, for any reason, any section, part, term, and/or provision herein is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation by a court or agency having valid jurisdiction, such shall not impair the operation of, or have any other effect upon, such other portions, sections, parts, terms, and/or provisions of this Agreement as may remain otherwise intelligible; and the latter shall continue to be given full force and effect and bind the parties hereto; and said invalid portions, sections, parts, terms, and/or provisions shall be deemed not to be a part of this Agreement.

14.2 **Terms Surviving this Agreement**. Any provision or covenant in this Agreement which expressly or by its nature imposes obligations beyond the expiration, termination or assignment of this Agreement (regardless of cause for termination), shall survive such expiration, termination.

14.3 **No Rights on Third Parties**. Except as expressly provided to the contrary herein, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Area Developer, Franchisor, officers, directors, shareholders, agents, and employees of Franchisor, and such successors and assigns of Franchisor as may be contemplated by Section 15 hereof, any rights or remedies under or by reason of this Agreement.

14.4 **Full Scope of Terms**. Area Developer expressly agrees to be bound by any promise or covenant imposing the maximum duty permitted by law which is subsumed within the terms of any provision hereof, as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions hereof any portion or portions which a court or agency having valid jurisdiction may hold to be unreasonable and unenforceable in an unappealed final decision to which Franchisor is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court or agency order.

14.5 **Franchisor's Application of its Rights**. Franchisor shall have the right to operate, develop and change the System in any manner that is not specifically precluded by this Agreement. Whenever Franchisor has reserved in this Agreement a right to take or withhold an action, or are deemed to have a right and/or discretion to take or withhold an action, or to grant or decline to grant Area Developer a right to take or omit an action, except as otherwise expressly and specifically provided in this Agreement, Franchisor may make its decision or exercise its rights, on the basis of the information readily available to Franchisor, and its judgment of what is in its best interests and/or in the best interests of the Franchisor's franchise network, at the time its decision is made, without regard to whether: (i) other reasonable or even arguably preferable alternative decisions could have been made by Franchisor; (ii) the decision or action of Franchisor will promote its financial or other individual interest; (iii) Franchisor's decision or the action it take applies differently to Area Developer and one or more other franchisees or

Franchisor's company-owned operations; or (iv) Franchisor's decision or the exercise of its right or discretion is adverse to Area Developer's interests. In the absence of an applicable statute, Franchisor will have no liability to Area Developer for any such decision or action. Franchisor and Area Developer intend that the exercise of Franchisor rights or discretion will not be subject to limitation or review. If applicable law implies a covenant of good faith and fair dealing in this Agreement, Franchisor and Area Developer agree that such covenant shall not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement and that this Agreement grants Franchisor the right to make decisions, take actions and/or refrain from taking actions not inconsistent with Area Developer's rights and obligations hereunder.

14.6 **Captions Only for Convenience**. All captions in this Agreement are intended solely for the convenience of the parties, and none shall be deemed to affect the meaning or construction of any provision hereof.

15. **ENTIRE AGREEMENT**

Franchisor and Area Developer, and any Principal, each acknowledge and warrant to each other that they wish to have all terms of this business relationship defined solely in and by this written Agreement. Recognizing the costs on both Franchisor and Area Developer which are uncertain, Franchisor and Area Developer, each confirm that neither wishes to enter into a business relationship with the other in which any terms or obligations are the subject of alleged oral statements or in which oral statements or non-contract writings which have been or may in the future be, exchanged between them, serve as the basis for creating rights or obligations different than or supplementary to the rights and obligations set forth herein. Accordingly, Franchisor and Area Developer agree and promise each other that this Agreement supercedes and cancels any prior and/or contemporaneous discussions or writings (whether described as representations, inducements, promises, agreements or any other term), between Franchisor or anyone acting on its behalf and Area Developer or anyone acting on its behalf, which might be taken to constitute agreements, representations, inducements, promises or understandings (or any equivalent to such term) with respect to the rights and obligations of Franchisor and Area Developer or the relationship between them. Franchisor and Area Developer agree and promise each other that they have placed, and will place, no reliance on any such discussions or writings. In accordance with the foregoing, it is understood and acknowledged that this Agreement, the attachments hereto, and the documents referred to herein constitute the entire Agreement between Franchisor and Area Developer concerning the subject matter hereof, and supersede any prior agreements, no other representations having induced Area Developer to execute this Agreement. Except for those permitted to be made unilaterally by Franchisor hereunder, no amendment, change, or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing. Nothing in Section 15 is intended to disclaim any of the information contained in Franchisor's Franchise Disclosure Document or its attachments or exhibits.

16. **APPLICABLE LAW AND DISPUTE RESOLUTION**

16.1 **Governing Law**. This Agreement takes effect upon its acceptance and execution by Franchisor, and shall be interpreted and construed under the laws of the State of Texas. In the event of any conflict of law, the laws of Texas shall prevail, without regard to, and without giving effect to, the application of Texas conflict of law rules. Nothing in this Section 16.1 is intended by the parties to subject this Agreement to any franchise or similar law, rule, or regulation of the State of Texas or of any other state to which it would not otherwise be subject.

16.2 **Non-Binding Mediation**. Before any party may bring an action in arbitration or in court against the other, the parties must first meet to mediate the dispute (except as otherwise provided below).

Any such mediation shall be non-binding and shall be conducted by the American Arbitration Association in accordance with its then-current rules for mediation of commercial disputes. All mediation proceedings will be conducted at a suitable location chosen by the mediator, which is within a five (5) mile radius of Franchisor's then current principal place of business, unless we agree otherwise in writing. Notwithstanding anything to the contrary, this Section 16.2 shall not bar either party from obtaining injunctive relief against threatened conduct that will cause it loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions, without having to engage in mediation. Mediation hereunder shall be concluded within forty five (45) days of Area Developer's receipt of the notice specifying the designated mediator or such longer period as may be agreed upon by the parties in writing. All aspects of the mediation process shall be treated as confidential, shall not be disclosed to others, and shall not be offered or admissible in any other proceeding or legal action whatever. Franchisor and Area Developer shall each bear its own costs of mediation, and each shall bear one-half (½) the cost of the mediator or mediation service. This Section 16.2 mandating non-binding mediation shall not be applicable to any claim or dispute arising under this Agreement or any other agreement between the parties which relates to the failure to pay fees or other monetary obligation(s) of either party under said agreement(s).

16.3 **Arbitration.** Franchisor and Area Developer agree that, except for controversies, disputes, or claims related to or based on improper use of the Proprietary Marks or Confidential Information, all controversies, disputes, or claims between Franchisor and Area Developer's affiliates, and Franchisor's and their respective shareholders, members, officers, directors, agents, and/or employees, and Area Developer (and/or Area Developer's owners, guarantors, affiliates, and/or employees) arising out of or related to:

- (1) this Agreement or any other agreement between Area Developer and Franchisor;
- (2) Franchisor's relationship with Area Developer;
- (3) the validity of this Agreement or any other agreement between Area Developer and Franchisor; or
- (4) any System Standard;

must be submitted for binding arbitration, on demand of either party, to the American Arbitration Association in the United States ("AAA"). The arbitration proceedings will be conducted by one arbitrator and, except as this Section otherwise provides, according to the AAA's then current rules. All proceedings will be conducted at a suitable location chosen by the arbitrator which is within a five (5) mile radius of Franchisor's then current principal place of business. The arbitrator shall have no authority to select a different hearing locale. All matters relating to arbitration will be governed by the United States Federal Arbitration Act (9 U.S.C. §§ 1 et seq.). Judgment upon the arbitrator's award may be entered in any court of competent jurisdiction.

16.3.1 The arbitrator has the right to award or include in his or her award any relief which he or she deems proper, including, without limitation, money damages (with interest on unpaid amounts from the date due), specific performance, injunctive relief, and attorneys' fees and costs (as allowable under this Agreement or applicable law), provided that the arbitrator may not declare any Proprietary Mark generic or otherwise invalid or, as expressly provided in Section 16.9 below, award any punitive, exemplary or multiple damages against either party.

16.3.2 Franchisor and Area Developer agree to be bound by the provisions of any limitation on the period of time in which claims must be brought under applicable law or this

Agreement, whichever expires earlier. Franchisor and Area Developer further agrees that, in any arbitration proceeding, each must submit or file any claim which would constitute a compulsory counterclaim (as defined by Rule 13 of the United States Federal Rules of Civil Procedure) within the same proceeding as the claim to which it relates. Any claim which is not submitted or filed as required is forever barred. The arbitrator may not consider any settlement discussions or offers that might have been made by either Area Developer or Franchisor.

16.3.3 Franchisor and Area Developer agree that arbitration will be conducted on an individual, not a class-wide, basis and that an arbitration proceeding between Franchisor and Franchisor's affiliates and parent, and their respective shareholders, officers, directors, agents, and employees, and Area Developer (including owners, guarantors, affiliates, and employees) may not be consolidated with any other arbitration proceeding between Franchisor and any other person.

16.3.4 Despite Franchisor's and Area Developer's agreement to arbitrate, Franchisor and Area Developer each have the right in a proper case to seek temporary restraining orders and temporary or preliminary injunctive relief from a court of competent jurisdiction; provided, however, that Franchisor and Area Developer must contemporaneously submit Franchisor's dispute for arbitration on the merits as provided in this Section.

16.3.5 The provisions of this Section are intended to benefit and bind certain third party non-signatories and will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination.

16.4 **Choice of Venue.** To the extent the parties do not resolve a dispute through mediation, arbitration, or otherwise, Franchisee consents and agrees that the proper venue in any such proceeding, claim, action or lawsuit relating to or arising out of this Agreement shall be the courts of the county where Franchisor has its then current principal place of business. Franchisee acknowledges that these courts shall have personal jurisdiction over it and hereby waives any defense it may have on the grounds of improper venue.

16.5 **No Rights Exclusive of Other Rights.** No right or remedy conferred upon or reserved to Franchisor or Area Developer by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy provided herein or permitted by law or equity, but each shall be cumulative of every other right or remedy.

16.6 **WAIVER OF JURY TRIAL.** FRANCHISOR AND AREA DEVELOPER IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER PARTY HERETO AGAINST THE OTHER.

16.7 **Limitation.** Any and all claims and actions arising out of or relating to this Agreement and/or the relationship of Area Developer and Franchisor, brought by either party hereto against the other, whether in mediation, in arbitration or in court, shall be commenced within one (1) year from the occurrence of the facts giving rise to such claim or action, or such claim or action shall be forever barred.

16.8 **WAIVER OF RICO.** THE PARTIES HERETO AGREE TO WAIVE, NOW AND FOREVER, ANY AND ALL RIGHTS EITHER MAY HAVE UNDER THE FEDERAL STATUTE KNOWN AS RICO.

16.9 **WAIVER OF PUNITIVE DAMAGES.** FRANCHISOR AND AREA DEVELOPER HEREBY WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT TO OR CLAIM OF ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER.

16.10 **Release of Claims.** By executing this Agreement, Area Developer, on behalf of itself and its heirs, legal representatives, successors and assigns, and each assignee of this Agreement by accepting assignment of the same, hereby forever releases and discharges Franchisor and its members, officers, directors, employees, agents and servants, including Franchisor's subsidiary and affiliated corporations, their respective members, officers, directors, employees, agents and servants, from any and all claims relating to or arising under any franchise agreement or any other agreement between the parties executed prior to the date of this Agreement including, but not limited to, any and all claims, whether presently known or unknown, suspected or unsuspected, arising under the franchise, securities or antitrust laws of the United States or of any state, province or territory thereof.

16.11 **Injunctive Relief.** Nothing herein contained shall bar the right of Franchisor to obtain injunctive relief against threatened conduct that will cause it loss or damages under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions.

16.12 **Counterparts; Paragraph Headings; Pronouns.** This Agreement may be executed in any number of counterparts, all of which when taken together shall constitute one and the same instrument. All captions and paragraph headings in this Agreement are intended solely for the convenience of the parties, and none shall be deemed to affect the meaning or construction of any provision hereof. Each pronoun used herein shall be deemed to include the other number of genders.

16.13 **Attorneys Fees.** In the event Franchisor is required to employ legal counsel or to incur other expense to enforce any obligation of Franchisee hereunder, or to defend against any claim, demand, action or proceeding by reason of Area Developer's failure to perform any obligation imposed upon Area Developer by this Agreement, Franchisor shall be entitled to recover from Area Developer the amount of all reasonable attorneys' fees of such counsel and all other expenses incurred in enforcing such obligation or in defending against such claim, demand, action, or proceeding, whether incurred prior to or in preparation for or contemplation of the filing of such action or thereafter.

17. **ACKNOWLEDGMENTS**

17.1 **AREA DEVELOPER'S INVESTIGATION OF THE BUSINESS POSSIBILITIES.** AREA DEVELOPER ACKNOWLEDGES THAT IT HAS CONDUCTED AN INDEPENDENT INVESTIGATION OF THE BUSINESS OF DEVELOPING AND OPERATING A PINOT'S PALETTE STUDIOS, AND RECOGNIZES THAT THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT INVOLVES BUSINESS RISKS AND THAT ITS SUCCESS WILL BE LARGELY DEPENDENT UPON THE ABILITY OF AREA DEVELOPER (OR, IF AREA DEVELOPER IS A CORPORATION, PARTNERSHIP OR LIMITED LIABILITY COMPANY, THE ABILITY OF ITS PRINCIPALS) AS (AN) INDEPENDENT BUSINESSPERSON(S). FRANCHISOR EXPRESSLY DISCLAIMS THE MAKING OF, AND AREA DEVELOPER ACKNOWLEDGES THAT IT HAS NOT RECEIVED, ANY WARRANTY OR GUARANTEE, EXPRESS OR IMPLIED, AS TO THE POTENTIAL VOLUME, PROFITS, OR SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT. AREA DEVELOPER ACKNOWLEDGES THAT THIS AGREEMENT CONTAINS ALL ORAL AND WRITTEN AGREEMENTS, REPRESENTATIONS AND ARRANGEMENTS BETWEEN THE PARTIES, AND ANY RIGHTS WHICH THE RESPECTIVE PARTIES HERETO MAY HAVE HAD UNDER ANY OTHER PREVIOUS CONTRACT (WHETHER ORAL OR WRITTEN) ARE HEREBY CANCELLED AND TERMINATED, AND NO REPRESENTATIONS OR WARRANTIES ARE MADE OR IMPLIED,

EXCEPT AS SPECIFICALLY SET FORTH HEREIN. AREA DEVELOPER FURTHER ACKNOWLEDGES THAT IT HAS NOT RECEIVED OR RELIED ON ANY REPRESENTATIONS ABOUT THE FRANCHISE BY THE FRANCHISOR, OR ITS OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS, THAT ARE CONTRARY TO THE STATEMENTS MADE IN THE FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENT OR TO THE TERMS AND CONDITIONS CONTAINED HEREIN, AND FURTHER REPRESENTS TO THE FRANCHISOR, AS AN INDUCEMENT TO ENTRY INTO THIS AGREEMENT, THAT AREA DEVELOPER HAS MADE NO MISREPRESENTATIONS IN OBTAINING THE FRANCHISE.

17.2 **Receipt of FDD and Complete Agreement.** Area Developer acknowledges that it received a complete copy of this Agreement, the attachments hereto, and agreements relating thereto, if any, at least seven (7) calendar days prior to the date on which this Agreement was executed. Area Developer further acknowledges that it received the disclosure document required by the Trade Regulation Rule of the Federal Trade Commission entitled "Disclosure Requirements and Prohibitions Concerning Franchising", otherwise known as the Franchise Disclosure Document (**FDD**), at least fourteen (14) calendar days prior to the date on which this Agreement was executed or any payment by Area Developer for the rights granted under this Agreement. Area Developer further acknowledges that prior to receiving Franchisor's FDD, Franchisor advised Area Developer of the formats in which the FDD is made available, and any conditions necessary for reviewing the FDD in a particular format.

17.3 **Area Developer Read the Agreement and Consulted.** Area Developer acknowledges that it has read and understood Franchisor's FDD and this Agreement, the attachments hereto, and agreements relating thereto, if any, and that Franchisor has accorded Area Developer ample time and opportunity to consult with advisors of Area Developer's own choosing about the potential benefits and risks of entering into this Agreement.

17.4 **No Conflicting Obligations.** Each party represents and warrants to the others that there are no other agreements, court orders, or any other legal obligations that would preclude or in any manner restrict such party from: (a) negotiating and entering into this Agreement; (b) exercising its rights under this Agreement; and/or (c) fulfilling its responsibilities under this Agreement.

17.5 **Patriot Act.** Area Developer represents and warrants that to its actual knowledge: (i) neither Area Developer, nor its officers, directors, managers, members, partners or other individual who manages the affairs of Area Developer, nor any Area Developer affiliate or related party, or any funding source for any Franchised Studio, is identified on the lists of Blocked Persons, Specially Designated Nationals, Specially Designated Terrorists, Specially Designated Global Terrorists, Foreign Terrorists Organizations, and Specially Designated Narcotics Traffickers at the United States Department of Treasury's Office of Foreign Assets Control (OFAC), or the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, commonly known as the "USA Patriot Act," as such lists may be amended from time to time (collectively, "**Blocked Person(s)**"); (ii) neither Area Developer nor any Area Developer affiliate or related party is directly or indirectly owned or controlled by the government of any country that is subject to an embargo imposed by the United States government; (iii) neither Area Developer nor any Area Developer affiliate or related party is acting on behalf of the government of, or is involved in business arrangements or other transactions with, any country that is subject to such an embargo; (iv) neither Area Developer nor any Area Developer affiliate or related party are on the United States Department of Commerce Denied Persons, Entity and Unverified Lists, or the United States Department of State's Debarred List, as such lists may be amended from time to time (collectively, the "**Lists**"); (v) neither Area Developer nor any Area Developer affiliate or related party, during the term of this Agreement, will be on any of the Lists or identified as a Blocked Person; and (vi) during the term of this Agreement, neither Area Developer nor any Area Developer affiliate or related party will sell products, goods or services to, or otherwise enter

into a business arrangement with, any person or entity on any of the Lists or identified as a Blocked Person. Area Developer agrees to notify Franchisor in writing immediately upon the occurrence of any act or event that would render any of these representations incorrect.

[SIGNATURE PAGE FOLLOWS]

**PINOT'S PALETTE FRANCHISE LLC
AREA DEVELOPMENT AGREEMENT
SIGNATURE PAGE**

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Area Development Agreement in duplicate on the day and year first above written.

FRANCHISOR:
PINOT'S PALETTE FRANCHISE LLC

AREA DEVELOPER:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Address for Notices:

Craig Ceccanti
Pinot's Palette Franchise LLC
10333 Harwin Drive, Suite 580
Houston, Texas 77036
Telephone: (713) 777-5112
Fax: () _____

Address for Notices:

Telephone: _____
Fax: _____
Attn: _____

With copy to:

Wayne P. Bunch, Jr., Esq.
DLA Piper (US)
1000 Louisiana Street
Suite 2800
Houston, Texas 77002
Telephone: (713) 425-8448
Fax: (713) 300-6044

**PINOT'S PALETTE FRANCHISE LLC
 AREA DEVELOPMENT AGREEMENT
 EXHIBIT A
 DATA SHEET**

1. **Development Schedule** (see Section 1.1): Area Developer shall execute Franchise Agreements for the development and operation of five (5) Franchised Studios, within the Development Area in accordance with the following Development Schedule:

Studio Number	Open & Operating On or Before This Date	Payment Made	Balance Due Per Franchised Studio	Due Date
1			-0-	Paid in full
2				Due with ten (10) days after location is secured through lease or purchase.
3				Due with ten (10) days after location is secured through lease or purchase.
4				Due with ten (10) days after location is secured through lease or purchase.
5				Due with ten (10) days after location is secured through lease or purchase.

The Expiration Date of this Agreement, as defined in Section 2, shall be the earlier of (i) the date the final Franchise Agreement is executed by Area Developer in accordance with the required minimum cumulative number of Franchise Agreements to be executed for Franchised Studios to be located in the Development Area as set forth in the Development Schedule above; or (ii) the final date set forth in the Development Schedule above.

2. **Development Area** (see Section 1.1): The Development Area shall be defined as the following:

3. **Area Development Fee** (see Section 4.1): In accordance with the total number of Franchised Studios to be developed and opened within the Development Area, the total Area Development Fee shall be \$_____.

PINOT'S PALETTE FRANCHISE LLC

AREA DEVELOPER

Initial: _____ Date: _____

Initial: _____ Date: _____

**PINOT'S PALETTE FRANCHISE LLC
 AREA DEVELOPMENT AGREEMENT
 EXHIBIT B
 LIST OF PRINCIPALS & DESIGNATED PRINCIPAL**

The following identifies all of Area Developer's Principals (as defined in Section 9.1 of the Area Development Agreement):

Name of Principal	Address, Telephone, E-mail	Interest (%) with Description
		Total %:

AREA DEVELOPER'S DESIGNATED PRINCIPAL

The following identifies Area Developer's Designated Principal (as defined in Section 5.2 of the Area Development Agreement):

Name of Designated Principal	Address, Telephone, E-mail	Interest (%) with Description

PINOT'S PALETTE FRANCHISE LLC

AREA DEVELOPER

Initial: _____ Date: _____

Initial: _____ Date: _____

**PINOT'S PALETTE FRANCHISE LLC
AREA DEVELOPMENT AGREEMENT
EXHIBIT C
GUARANTEE, INDEMNIFICATION, AND ACKNOWLEDGMENT**

As an inducement to Pinot's Palette Franchise LLC ("**Franchisor**") to enter into the Area Development Agreement between Franchisor and _____ ("**Area Developer**"), dated _____, 20____ (the "**Agreement**"), the undersigned, jointly and severally, hereby guarantee to Franchisor and Franchisor's successors and assigns that all of Area Developer's covenants and obligations, including, without limitation, monetary obligations, under the Agreement will be punctually paid and performed. This Guarantee, Indemnification, and Acknowledgment (this "**Guarantee**") is an unconditional, irrevocable and absolute guaranty of payment and performance and may not be cancelled, terminated, modified, or amended except by written agreement executed by both parties.

Upon demand by Franchisor, the undersigned each hereby jointly and severally agree to immediately make each payment required of Area Developer under the Agreement and waive any right to require Franchisor to: (a) proceed against Area Developer for any payment required under the Agreement; (b) proceed against or exhaust any security from Area Developer; (c) pursue or exhaust any remedy, including any legal or equitable relief, against Area Developer; or (d) give notice of demand for payment by Area Developer. Without affecting the obligations of the undersigned under this Guarantee, Franchisor may, without notice to the undersigned, extend, modify, or release any indebtedness or obligation of Area Developer, or settle, adjust, or compromise any claims against Area Developer, and the undersigned each hereby jointly and severally waive notice of same and agree to remain and be bound by any and all such amendments and changes to the Agreement.

The undersigned each hereby jointly and severally agree to defend, indemnify and hold Franchisor harmless against any and all losses, damages, liabilities, costs, and expenses (including, but not limited to, reasonable attorneys' fees, reasonable costs of financial and other investigation, court costs, and fees and expenses) resulting from, consisting of, or arising out of or in connection with any failure by Area Developer to perform any obligation of Area Developer under the Agreement, any amendment thereto, or any other agreement executed by Area Developer referred to therein.

The undersigned each hereby jointly and severally acknowledge and expressly agree to be personally bound by all of the covenants contained in the Agreement, including, without limitation, those covenants contained in Sections 7 and 8. Signature by the undersigned on this Guaranty constitutes the undersigned's signature on the Agreement related to all covenants. The undersigned assert that he or she has read such covenants, been advised by counsel regarding their effect, and hereby affirmatively agree to them in order to secure the rights granted to Area Developer by Franchisor under the Agreement. The undersigned further acknowledge and agree that this Guarantee does not grant the undersigned any right to use the "Pinot's Palette" marks or system licensed to Franchisee under the Agreement.

This Guarantee shall terminate upon the termination or expiration of the Agreement, except that all obligations and liabilities of the undersigned which arose from events which occurred on or before the effective date of such termination shall remain in full force and effect until satisfied or discharged by the undersigned, and all covenants which by their terms continue in force after the expiration or termination of the Agreement shall remain in force according to their terms. Upon the death of an individual guarantor, the estate of such guarantor shall be bound by this Guarantee, but only for defaults and obligations hereunder existing at the time of death; and the obligations of the other guarantors will continue in full force and effect.

The undersigned represents and warrants to Franchisor that neither the undersigned (including, without limitation, any and all of its employees, directors, officers and other representatives), nor any of its affiliates or the funding sources for either is a person or entity designated with whom Franchisor, or any of its affiliates, are prohibited by law from transacting business.

Any and all notices required or permitted under this guarantee provision shall be in writing and shall be personally delivered, in the manner provided under Section 10 of this Agreement.

Unless specifically stated otherwise, the terms used in this Guarantee shall have the same meaning as in the Agreement, and shall be interpreted and construed in accordance with the Agreement. This Guarantee shall be governed by the dispute resolution provisions of Section 16 of the Agreement, and shall be interpreted and construed under the laws of the State of Texas. In the event of any conflict of law, the laws of the State of Texas shall prevail (without regard to, and without giving effect to, the application of Texas conflict of law rules).

IN WITNESS WHEREOF, the undersigned has executed this Guarantee, Indemnification and Acknowledgement as of the date of the Agreement.

GUARANTOR(S):

Print Name: _____

Print Name: _____

Print Name: _____

Print Name: _____

Print Name: _____

**PINOT'S PALETTE FRANCHISE LLC
AREA DEVELOPMENT AGREEMENT
EXHIBIT D
LEASE TERMS**

In accordance with Section 3.3 of this Area Development Agreement, Area Developer's lease or sublease for the premises of each of the Franchised Studios shall contain terms acceptable to Franchisor, which may include (but are not limited to) the following:

1. The initial term of the lease, or initial term together with renewal terms, will be for not fewer than ten (10) years.
2. A provision stating that the lessor consents to Area Developer's use and display of the Proprietary Marks and signage as Franchisor may prescribe from time to time for the Franchised Studio, subject only to the provisions of applicable law.
3. A provision that Area Developer shall have the right to alter, renovate, add, remodel, modify, and/or change the premises and/or other improvements upon the premises as Area Developer may deem desirable, provided that if any such alterations, renovations, additions, modifications, remodeling and/or changes to the premises and/or improvements upon the premises affect the exterior, structural elements or foundation of the premises, Area Developer shall first obtain the consent of the lessor, which consent shall not be unreasonably withheld, conditioned or delayed.
4. A provision that the premises be used solely for the operation of a franchised Pinot's Palette Studio, which is currently: a business offering artistic painting classes, along with related products and services, under the name "Pinot's Palette," all as may be permitted under the relevant Franchise Agreement signed for the Franchised Studio.
5. A provision that requires the lessor to concurrently provide Franchisor with a copy of any written notice of deficiency under the lease sent to Area Developer, and that the lessor will provide Franchisor with written notice specifying deficiencies that Area Developer did not cure.
6. A provision that grants to Franchisor, in its sole discretion, the right (but not obligation) to cure any deficiency under the lease within thirty (30) days after the expiration of the period in which Area Developer had to cure any such default should Area Developer fail to do so.
7. A provision acknowledging that, in the event the Franchise Agreement for the Franchised Studio expires or is terminated: (a) Area Developer is obligated under the Franchise Agreement to take certain steps to de-identify the location as a Pinot's Palette Studio operated by Area Developer; and (b) the lessor will cooperate fully with Franchisor in enforcing such provisions of the Franchise Agreement against the Area Developer, including allowing Franchisor, its employees and agents to enter and remove signs, decor and materials bearing or displaying any Proprietary Marks, designs or logos of Franchisor, provided that the lessor shall not be required to bear any expense thereof.
8. A provision that expressly states that any default under the lease shall constitute a default under the Franchise Agreement, and that the termination of the Franchise Agreement shall constitute a default under the lease.
9. A provision reserving to Franchisor the right, at Franchisor's election, to receive an assignment of the leasehold interest upon termination or expiration of the franchise grant.

10. A provision that expressly requires that, if requested by Franchisor, the lessor of the premises will provide Franchisor all sales and other information the lessor may have related to the operation of the Franchised Studio.

11. Area Developer is restricted from accepting any requirement under the lease that seeks to impose any restrictions (territorial or otherwise) on the development or operation of other Pinot's Palette Studios by Area Developer, Franchisor, or any other person or entity.

12. A provision that the lessor agrees that Area Developer may not assign the lease or sublease all or any part of its occupancy rights thereunder without Franchisor's prior written consent.

13. A provision that the lessor's consent to an assignment of the lease or subletting of the Premises will not be required in connection with an assignment or subletting to Franchisor, or any parent, subsidiary or affiliated or parent corporation of Franchisor or Area Developer, or another operator that has been approved by Franchisor to be the franchisee for the Franchised Studio.

14. A provision that prohibits the lessor from selling or leasing, or allowing the sublease of, space in the building or on the property to any person or entity for a business offering artistic painting classes, along with related products and services. Additionally, the lessor shall not sell and shall prohibit any other tenant or subtenant in the building, or on the property, from engaging in a business offering artistic painting classes, along with related products and services. In the event lessor does not comply with these restrictions, Franchisor will have the right to seek an injunction prohibiting the occupancy by the new competing business or against the existing tenant as the case may be.

**PINOT'S PALETTE FRANCHISE LLC
AREA DEVELOPMENT AGREEMENT
EXHIBIT E
AREA DEVELOPER CERTIFICATION**

The undersigned, personally and as an officer(s), member(s) or partner(s) of Area Developer, as applicable, does hereby certify that he/she has conducted an independent investigation of the business contemplated by this Area Development Agreement and the Pinot's Palette Franchise LLC Franchise Agreement, and that the decision to execute the Area Development Agreement was based entirely upon the independent investigation by the undersigned; and the undersigned further certifies that he/she has not relied upon, in any way, any claims regarding potential sales, income, or earnings to be derived from the business contemplated by the Franchise Agreement and Area Development Agreement, and has not relied upon any claims regarding past or current sales, income or earnings of Franchisor or its affiliate or parent operated Pinot's Palette Studios that is contrary to or different from the information contained in Franchisor's Franchise Disclosure Document. The undersigned further certifies that he/she understands the risks involved in this investment and Pinot's Palette Franchise LLC makes no representation or guaranty, explicit or implied, that the Area Developer will be successful or will recoup his/her investment.

IN WITNESS WHEREOF, the undersigned have signed and delivered this Certificate this ____ day of _____, 20__.

AREA DEVELOPER

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Each of the undersigned Principals own a beneficial interest in Area Developer and has read the Area Development Agreement, agree to be individually bound by all obligations of Area Developer hereunder and certify the foregoing:

By: _____
Name: _____

By: _____
Name: _____

By: _____
Name: _____

By: _____
Name: _____

By: _____
Name: _____

By: _____
Name: _____

EXHIBIT E
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- SECTION 2. CORPORATE INFORMATION- Pages 1
- SECTION 3. OPENING ROADMAP- Pages 2
- SECTION 4. JUMP START CHECKLIST – Pages 1
- SECTION 5. MISSION, VALUES, AND GOALS – Pages 2
- SECTION 6. ADMINISTRATION – Pages 14
- SECTION 7. OPERATIONS – Pages 1
- SECTION 8. TECHNOLOGY – Pages 1
- SECTION 9. MARKETING – Pages 6
- SECTION 10. SITE SELECTION – Pages 4
- SECTION 11. BUILD OUT PREPARATION – Pages 1
- SECTION 12. CONCLUSION – Pages 1

OPERATIONS MANUAL VOLUME 1

INTRODUCTION – Pages 11

- SECTION 1. CORPORATE INFORMATION – Pages 8
- SECTION 2. FRANCHISE PRE-OPENING ACTIVITIES- Pages 30
- SECTION 3. PURCHASING SUPPLIES – Pages 3
PRE-OPENING INVENTORY LIST (SEE EXCEL DOCUMENT FOR MORE
DETAILS) – Pages 15
- SECTION 4. ADMINISTRATIVE MANAGEMENT – Pages 23
- SECTION 5. YOUR EMPLOYEES- Pages 33
- SECTION 6. EMPLOYEE TRAINING – Pages 12
- SECTION 7: CONTRACTOR / ARTIST TRAINING – Pages 16
- SECTION 8. MARKETING – Pages 26
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- SECTION 1. PINOT'S PALETTE FRANCHISE SERVICES AND PRODUCTS - Pages 2
- SECTION 2. OPERATIONS – Pages 23
- SECTION 3. INVENTORY MANAGEMENT: PURCHASING, RECEIVING, AND STORAGE – Pages 7
- SECTION 4. CLEANING AND EQUIPMENT MAINTENANCE – Pages 4
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- SECTION 7. CONCLUSION – Pages 2

EXHIBIT F
LIST OF FRANCHISEES AND AREA DEVELOPERS

Franchisees

Franchisee	Address	City	State	Zip	Phone
ABM Legacy Enterprise, Inc.	11525 Cantrell Rd	Little Rock	AR	72212	501-588-1661
Samantha Bordelon-Karim and Soral Karim	10625 N. Tatum Blvd, Ste D142	Phoenix	AZ	85028	480-696-7220
Create Palette, LLC	410 Sycamore Valley Rd West	Danville	CA	94526	925-743-9900
Sewell Family Enterprises, Inc.	25850 McBean Parkway	Valencia	CA	91355	661-260-0846
Artbar, LLC	2479 Park Avenue	Tustin	CA	92782	714-400-9016
Corks & Canvas Inc.	8752 Via Media Way	Elk Grove	CA	95624	916-248-1641
Commit West, LLC	415 2nd St.	Coronado	CA	92118	619-675-0058
TKC Associates, LLC	159 W. Mountain Ave	Fort Collins	CO	80524	970-214-5208
Schnurr Thing, LLC	3420 West 32nd Ave	Denver	CO	80211	720-663-1278
Paint It Up, Inc.	1572 Central Avenue	St. Petersburg	FL	33705	727-821-3700
JBL Pinot Pinellas Inc.	3150 Tampa Rd., Unit 17A	Oldsmar	FL	34677	727-789-7000
Blue Sapphire Studios LLC	2451 Cumberland Pkwy., #3488	Atlanta	GA	30339	404-477-7858
Shubhra's Art-Ventures LLC	11720 Medlock Bridge Road Suite 175	Johns Creek	GA	30097	770-783-1783
DSM PP1, LLC	900 42nd St.	Des Moines	IA	50312	515-277-7651
Kerry Bowman	6300 Pawnee Ln.	Asbury	IA	52002	563-564-8381
TWO PAINTED LADIES, LLC	175 W. Jackson, Suite 123	Naperville	IL	60540	331-457-5440
MMSOKO LLC	2011 Tower Drive	Glenview	IL	60026	847-730-5972
VINEART, INC	5235 W. 116th Place	Leawood	KS	66211	913-451-7466
Vincart II, INC	6943 Tomahawk Blvd.	Kansas City	KS	66208	913-451-7466
NOE PINOT LOUISVILLE, LLC	291 N. Hubbards Lane	Louisville	KY	40207	502-409-4572
Outside the Lines, LLC	3851 Mall Rd, Suite 110	Lexington	KY	40503	859-221-3375
PNEAUXLAF LLC	2811 Johnston St.	Lafayette	LA	70503	337-232-1533
Reshma Art Palette, LLC	7A Meriam St.	Lexington	MA	02420	781-862-3200
Thumper's Splatter, LLC	230 E. Auburn	Rochester Hills	MI	48307	248-249-5377
PALETTES OF FUN, LLC	1641 Clarkson Road	Chesterfield	MO	63017	636-778-2111
YOLO U.S. LLC	2000 South Blvd, #250	Charlotte	NC	28203	704-371-4484
Carole's Transitions of the Triangle, LLC	10410 Moncreiffe Road Suite 101	Raleigh	NC	27617	919-391-0258
Carlee's Palette, LLC	351 Bloomfield Ave	Montclair	NJ	07042	973-744-7500
Ohio Canvas, Inc.	2826 Miamisburg-Centerville Rd.	Dayton	OH	45459	937-266-0280
HUMBLE BEGINNINGS, LLC	1621 East 15th Street	Tulsa	OK	74120	918-794-7333
HUMBLE BEGINNINGS, LLC	300 Riverwalk Terrace, #160	Jenks	OK	74037	918-518-5433

Barath Enterprises, LLC	149 Shad Hollow Rd.	Monaca	PA	15061	724-987-8321
KKB PALETTE, LLC	5040 Sanderlin Ave., #111	Memphis	TN	38117	901-761-0012
CALLIOPE STUDIOS, LLC	3005 South Lamar Blvd. Suite B106	Austin	TX	78704	512-326-2746
Cellar Creations, LLC	16170 City Walk	Sugar Land	TX	77479	713-893-0923
FOCL PARTNERS LLC	7959 Broadway, #402	San Antonio	TX	78209	210-832-8004
Lakewood Palette, LLC	6465 E. Mockingbird Lane Suite 430	Dallas	TX	75214	214-827-4668
MEM Consolidated, LLC	3091 College Park Drive, #123	The Woodlands	TX	77384	936-321-2787
Pinot Noor's Studio, LLC	1800 Texas Ave S, Suite H	College Station	TX	77840	979-696-4300
The Severed Ear, LLC	322 E Southeast Loop 323, #156	Tyler	TX	75701	903-561-2773
TRE FIGLIE STUDIOS, LLC	124 Prairie Road	Fairview	TX	75069	972-363-0614
Uncorked Artists, LLC	2910 Commercial Center Blvd Suite 102	Katy	TX	77494	281-769-2961
Cleansed Palette, LLC	13435 N Highway 183, Suite 306	Austin	TX	78750	512-249-9672
Pour Art, LLC	6940 Joyce Way	Dallas	TX	75225	214-984-8895
Larson-Youndblood Enterprises LLC	10873 Dixon Branch	Dallas	TX	75218	612-418-0511
Jacy Casey & Jeff Hansen	32 W 2nd Ave, Suite 100	Spokane	WA	99201	509-290-5098

Area Developers

Area Developers	Address	City	State	Zip	Phone
Maple Cookie, LLC	2200 Atlantic Street, #109	Stamford	CT	06902	203-588-9893
People-R-People, Inc.	20 Ellis Street	Staten Island	NY	10307	718-554-4203
Art of Life Studio One, LLC	2086 Badlands Dr.	Brandon	FL	33511	813-618-3064
Toad's Palette, LLC	2575 South 171st Court	Omaha	NE	68130	402-884-1236
Memories in the Making, LLC	2260 Village Walk Dr., Ste 104	Las Vegas	NV	89052	702-917-5404

EXHIBIT G
LIST OF FRANCHISEES AND AREA DEVELOPERS WHO HAVE LEFT THE SYSTEM

None.

EXHIBIT H
FINANCIAL STATEMENTS

PINOT'S PALETTE FRANCHISE, LLC
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

PINOT'S PALETTE FRANCHISE, LLC
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2012

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Statements of Cash Flows	6
Notes to Financial Statements	7

David P. Chaney, CPA

A Professional Corporation
5151 Katy Freeway
Suite 311
Houston, TX 77007
713-868-1174

INDEPENDENT AUDITOR'S REPORT

To the Members:
Pinot's Palette Franchise, LLC

Report on the Financial Statements

I have audited the accompanying financial statements of Pinot's Palette Franchise, LLC. (the "Company") which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations and members' capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

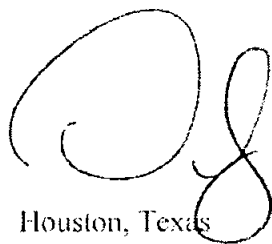
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pinot's Palette Franchise, LLC, as of December 31, 2013 and 2012, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

 CPA
Houston, Texas
March 31, 2014

PINOT'S PALETTE FRANCHISE, LLC
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash	\$ 304,580	\$ 133,713
Accounts receivable	35,451	3,901
Notes receivable, current portion	-	15,000
Prepaid supplies	-	17,729
TOTAL CURRENT ASSETS	340,031	170,343
LONG TERM ASSETS		
Security deposit	366	366
TOTAL ASSETS	\$ 340,397	\$ 170,709

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 15,051	\$ 17,556
Credit card payable	29,639	20,710
Accrued liabilities	8,031	9,980
Gift cards payable	216,270	12,843
Deferred revenue	337,500	-
Line of credit	25,000	-
TOTAL CURRENT LIABILITIES	631,491	61,089
MEMBERS' EQUITY		
Managing members'	(291,094)	109,620
TOTAL MEMBERS' EQUITY	(291,094)	109,620
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 340,397	\$ 170,709

See accompanying notes and auditor's report.

PINOT'S PALETTE FRANCHISE, LLC
STATEMENTS OF INCOME AND MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

REVENUES	<u>2013</u>	<u>2012</u>
Franchise sales	\$ 455,000	\$ 495,000
Royalties	241,954	50,680
Marketing	51,183	13,546
Merchandise sales	390,653	125,255
Training	44,426	13,292
Other sales	22,196	6,681
TOTAL REVENUES	<u>1,205,412</u>	<u>704,454</u>
COST OF GOODS SOLD	<u>325,052</u>	<u>156,396</u>
GROSS PROFIT	880,360	548,058
EXPENSES		
OPERATING EXPENSES		
Advertising	283,383	209,345
Bank charges	197	658
Commissions	114,440	108,590
Computer	5,621	4,704
Consulting	-	2,659
Employee benefits	19,371	-
Legal and professional fees	50,558	30,167
Management fees	-	98,000
Meals and entertainment	19,323	9,160
Office	13,922	13,275
Payroll	418,604	-
Payroll taxes	39,977	-
Rents	26,750	8,395
Rebates	-	(5,293)
Technology	45,666	8,252
Telephone	8,285	1,371
Training	1,727	1,524
Travel	95,939	47,334
TOTAL OPERATING EXPENSES	<u>1,143,763</u>	<u>538,141</u>
INCOME FROM OPERATIONS	(263,403)	9,917
Interest income	658	-
Interest expense	(2,969)	-
NET INCOME	(265,714)	9,917
MEMBERS' EQUITY, beginning of period	<u>109,620</u>	<u>29,702</u>
Member contributions/(distributions)	(135,000)	70,001
MEMBERS' EQUITY, end of period	<u>\$ (291,094)</u>	<u>\$ 109,620</u>

See accompanying notes and auditor's report.

PINOT'S PALETTE FRANCHISE, LLC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2013</u>	<u>2012</u>
Net income/(loss)	\$(265,714)	\$ 9,917
Adjustments to reconcile excess of revenues over expenses to net cash provided/(used) by operating activities:		
Decrease (increase) in:		
Accounts receivable	(31,550)	(3,901)
Prepaid supplies	17,729	(6,473)
Increase (decrease) in:		
Accounts payable	(2,506)	16,556
Credit card payable	8,929	9,901
Accrued liabilities	(1,948)	22,823
Gift cards payable	203,427	-
Deferred revenue	337,500	-
Due to sister company	-	(2,609)
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>265,867</u>	<u>46,214</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Notes receivable	15,000	(15,000)
Line of credit	25,000	-
Members' contributions	-	70,001
Members' distributions	(135,000)	-
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	<u>(95,000)</u>	<u>55,001</u>
 NET INCREASE/(DECREASE) IN CASH	<u>170,867</u>	<u>101,215</u>
 CASH AT BEGINNING OF PERIOD	<u>133,713</u>	<u>32,498</u>
 CASH AT END OF PERIOD	<u>\$ 304,580</u>	<u>\$ 133,713</u>
 SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ 2,969	\$ -

See accompanying notes and auditor's report.

**PINOT'S PALETTE FRANCHISE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Pinot's Palette Franchise, LLC (the Company) is a registered limited liability company organized under the laws of the state of Texas. It was organized May 5, 2010 in Houston, Texas. The Company markets and operates franchise agreements for the "Pinot's Palette" themed art studio.

Estimates

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

Income Taxes

The Company is treated as a "S" corporation for federal income tax purposes. Consequently, federal income taxes are not payable by or provided for by the Company. The members are taxed individually on their share of the Company's earnings. State income taxes are accrued and expensed as incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company places its temporary cash investments with banks that are FDIC insured. As of December 31, 2013 and 2012, there were no deposits that were uninsured.

Accounts receivable

Accounts receivable consist of franchisee balances for royalties, merchandise and ancillary services. As of December 31, 2013 and 2012, management believes all receivables to be collectable. Therefore, no allowance for doubtful accounts has been established.

**PINOT'S PALETTE FRANCHISE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Revenue recognition

The Company recognizes franchise sales and area development sales revenue for the sale of individual franchised locations and area wide development agreements when all initial services have been performed. Transaction fee revenue is recognized monthly when sales reports are submitted by the franchisees.

NOTE 2 – CREDIT CARD PAYABLE

As of December 31, 2013 and 2012, the Company has a credit card with a commercial bank with no preset credit limit. The line of credit is due in full each month and has no stated interest rate or credit limit.

NOTE 3 – NOTE RECEIVABLE

Note receivable as of December 31, 2012 consisted of the following:

\$15,000 note receivable executed December 2012 to a franchisee in monthly instalments of \$1,304.83 until December 2013. Interest is payable monthly at 8%. The note is secured by the personal assets of the franchisee.	<u>\$15,000</u>
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------

Interest income for the year ended December 31, 2013, was \$658

NOTE 4 – RELATED PARTY TRANSACTIONS

The Company shares an office facility with a related party company. During the year ended December 31, 2012, personnel from this related party performed all of the functions of the company. For the year ended December 31, 2012, there was a charge from this related party of \$98,000 for these personnel costs. As of December 31, 2012, there was a payable due to this related party of \$6,605.

NOTE 5 – SYSTEM ADVERTISING FUND

The Company collects an advertising royalty from its franchisees. These contributions are accounted for separately to fund a franchise wide marketing program. Contributions to this fund are not the asset of the Company and are not included in revenue. Marketing expenditures from this fund are not shown as an expense item of the Company. For the years ended December 31, 2013 and 2012, advertising royalties were \$66,292 and \$10,379, respectively. Marketing expenses in excess of the cumulative fund balance are shown as a current period expense. As of December 31, 2013 and 2012, there was \$-0- in the system advertising fund.

**PINOT'S PALETTE FRANCHISE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 6 – DEFERRED REVENUE

The Company defers revenue from the sales of franchise and area development agreements if they are received before all opening services have been completed. As of December 31, 2013 and 2012, this totaled \$337,500 and \$-0-, respectively.

NOTE 7 – LINE OF CREDIT

As of December 31, 2013, the Company has a revolving credit agreement with a commercial bank. The line of credit provides for cash advances for operating expenditures up to a maximum outstanding balance of \$200,000 with interest accruing at the prime interest rate plus 1%. The line is secured by accounts receivable. As of December 31, 2013, the outstanding balance was \$25,000. The interest rate at December 31, 2013 was 5%.

NOTE 8 – GIFT CARDS PAYABLE

The Company offers, on a franchise wide basis, gift cards which can be used for class credits at any franchise location. When a gift card is sold, it is treated as deferred revenue. As of December 31, 2013 and 2012, the outstanding balance of unused gift cards was \$216,270 and \$12,843, respectively. On a periodic basis, a breakage estimate is applied against the balance for the estimated unused gift cards. For the years ended December 31, 2013 and 2012, no breakage was realized.

PINOT'S PALETTE FRANCHISE, LLC
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

PINOT'S PALETTE FRANCHISE, LLC
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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DAVID P. CHANEY, CPA

A Professional Corporation
807 West 9th Street
Houston, TX 77007
713-868-1174

INDEPENDENT AUDITOR'S REPORT

To the Members:
Pinot's Palette Franchise, LLC

Report on the Financial Statements

I have audited the accompanying financial statements of Pinot's Palette Franchise, LLC, (the "Company") which comprise the balance sheet as of December 31, 2012 and 2011, and the related statements of operations and members' capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pinot's Palette Franchise, LLC, as of December 31, 2012 and 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Houston, Texas
March 1, 2013

PINOT'S PALETTE FRANCHISE, LLC
BALANCE SHEET
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash	\$ 133,713	\$ 32,498
Accounts receivable	3,901	-
Notes receivable, current portion	15,000	-
Prepaid supplies	17,729	11,256
TOTAL CURRENT ASSETS	170,343	43,754
LONG TERM ASSETS		
Security deposit	366	366
TOTAL ASSETS	\$ 170,709	\$ 44,120

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 17,556	\$ 1,000
Credit card payable	20,710	10,809
Accrued liabilities	22,823	-
Due to sister company	-	2,609
TOTAL CURRENT LIABILITIES	61,089	14,418
MEMBERS' EQUITY		
Managing members'	109,620	29,702
TOTAL MEMBERS' EQUITY	109,620	29,702
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 170,709	\$ 44,120

See accompanying notes and auditor's report.

PINOT'S PALETTE FRANCHISE, LLC
STATEMENT OF INCOME AND MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

REVENUES

	2012	2011
Franchise sales	\$ 495,000	\$75,000
Royalties	50,680	12,439
Marketing	10,379	2,488
Merchandise sales	125,255	7,621
Other sales	33,519	-
TOTAL REVENUES	714,833	97,548

COST OF GOODS SOLD

	156,396	2,223
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GROSS PROFIT

	558,437	95,325
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EXPENSES

OPERATING EXPENSES

Advertising	328,314	21,300
Bank charges	658	595
Computer	12,956	2,463
Consulting	2,659	29,876
Filing fees	-	675
Legal and professional fees	30,167	8,389
Management fees	98,000	6,600
Meals and entertainment	9,160	1,762
Miscellaneous	-	4,518
Office	13,275	914
Rents	8,395	1,330
Rebates	(5,293)	-
Repairs	-	155
Telephone	1,371	1,974
Training	1,524	-
Travel	47,334	894
TOTAL OPERATING EXPENSES	548,520	81,445

INCOME FROM OPERATIONS

	9,917	13,880
--	-------	--------

MEMBERS' EQUITY, beginning of period

	29,702	25,822
--	--------	--------

Member contributions/(distributions)

	70,001	(10,000)
--	--------	----------

MEMBERS' EQUITY, end of period

	\$ 109,620	\$29,702
--	-------------------	-----------------

See accompanying notes and auditor's report.

PINOT'S PALETTE FRANCHISE, LLC
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2012</u>	<u>2011</u>
Net income/(loss)	\$ 9,917	\$ 13,880
Adjustments to reconcile excess of revenues over expenses to net cash provided/(used) by operating activities:		
Decrease (increase) in:		
Accounts receivable	(3,901)	-
Prepaid supplies	(6,473)	(11,256)
Security deposits	-	(366)
Increase (decrease) in:		
Accounts payable	16,556	1,000
Credit card payable	9,901	10,809
Accrued liabilities	22,823	-
Due to sister company	(2,609)	2,609
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>46,214</u>	<u>16,676</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Notes receivable	(15,000)	-
Members' contributions	70,001	-
Members' distributions	-	(10,000)
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	<u>55,001</u>	<u>(10,000)</u>
 NET INCREASE/(DECREASE) IN CASH	<u>101,215</u>	<u>6,676</u>
 CASH AT BEGINNING OF PERIOD	<u>32,498</u>	<u>25,822</u>
 CASH AT END OF PERIOD	<u>\$ 133,713</u>	<u>\$ 32,498</u>

See accompanying notes and auditor's report.

**PINOT'S PALETTE FRANCHISE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Pinot's Palette Franchise, LLC (the Company) is a registered limited liability company organized under the laws of the state of Texas. It was organized May 5, 2010 in Houston, Texas. The Company markets and operates franchise agreements for the "Pinot's Palette" themed art studio.

Estimates

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

Income Taxes

The Company is treated as a "S" corporation for federal income tax purposes. Consequently, federal income taxes are not payable by or provided for by the Company. The members are taxed individually on their share of the Company's earnings. State income taxes are accrued and expensed as incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Start Up Costs

The Company expenses as current period charges all start up related expenses. This includes legal fees for drafting a franchisee prospectus.

Revenue recognition

The Company recognizes franchise fee revenue for the sale of individual franchised locations when all initial services have been performed. Transaction fee revenue is recognized monthly when sales reports are submitted by the franchisees. Initial franchise fees recognized for the years ended December 31, 2012 and 2011 were \$495,000 and \$75,000, respectfully.

**PINOT'S PALETTE FRANCHISE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 2 – CREDIT CARD PAYABLE

As of December 31, 2012 and 2011, the Company has a credit card with a commercial bank with no preset credit limit. The line of credit is due in full each month and has no stated interest rate.

NOTE 3 – CONCENTRATION OF BUSINESS

The Company's revenue is derived from the sale of franchise rights, royalties from franchisees and sales of miscellaneous merchandise to franchisees. For the year ended December 31, 2011, the Company sold three new franchises which accounted for 76.9% of revenue.

NOTE 4 – NOTE RECEIVABLE

Note receivable consists of the following:

\$15,000 note receivable executed December 2012 to a franchisee in monthly installments of \$1,304.83 until December 2013. Interest is payable monthly at 8%. The note is secured by the personal assets of the franchisee. \$15,000

Principal maturities of the note receivable are as follows:

Year Ending	
<u>December 31,</u>	
2013	15,000

Interest income for the years ended December 31, 2012 and 2011, was \$-0-.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Company shares an office facility with a related party company and personnel from this related party perform all of the functions of the company. For the years ended December 31, 2012 and 2011, there was a charge from this related party of \$98,000 and \$6,600, respectively to pay for these personnel costs. As of December 31, 2012 and 2011, there was a payable due to this related party of \$6,605 and \$2,609, respectively.

RECEIPT

(YOUR COPY)

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 Pinot's Palette Franchise LLC offers you a franchise, we 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.

New York State Law requires a franchisor to provide the franchise Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If Pinot's Palette Franchise LLC does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580 and the appropriate state agency listed on Exhibit A.

The name, principal business address and telephone number of each franchise seller offering the franchise is as follows: Craig Ceccanti and Charles Willis, Pinot's Palette Franchise LLC, 10333 Harwin Drive, Suite 580, Houston, Texas 77036, (713) 777-5112; and _____

The issuance date of this Disclosure Document is: April 16, 2014.

See Exhibit A for our registered agents authorized to receive service of process.

I have received a Disclosure Document dated April 16, 2014 that included the following Exhibits:

- Exhibit A – State Administrators/Agents for Service of Process
- Exhibit B – State Specific Addendum
- Exhibit C – Franchise Agreement
- Exhibit D – Area Development Agreement
- Exhibit E – Table of Contents of Confidential Operations Manual
- Exhibit F – List of Franchisees and Area Developers
- Exhibit G – List of Franchisees and Area Developers Who Have Left the System
- Exhibit H – Financial Statements

Date

Prospective Franchisee

Printed Name

PLEASE KEEP THIS COPY FOR YOUR RECORDS.

RECEIPT

(OUR COPY)

This Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

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- Exhibit H – Financial Statements

Date

Prospective Franchisee

Printed Name

PLEASE SIGN THIS COPY OF THE RECEIPT, DATE YOUR SIGNATURE, AND RETURN IT TO CRAIG CECCANTI, PINOT'S PALETTE FRANCHISE LLC, 10333 HARWIN DRIVE, SUITE 580, HOUSTON, TEXAS 77036.