

THE BAR METHOD[®]

FRANCHISE DISCLOSURE DOCUMENT

THE BAR METHOD FRANCHISING, INC.

a California Corporation

3717 Buchanan Street, Suite 200

San Francisco, California 94123

(415) 624-3631

katielisa.donohue@barmethod.com

www.barmethod.com

This Disclosure Document describes a franchise for a *Bar Method* exercise studio which uses bar-based exercises that are designed to reshape and elongate muscles while maintaining an intense pace that burns fat and increases stamina. *Bar Method* studios may also provide other services, such as massage and childcare, as well as selling fitness apparel and other items.

The total investment necessary to begin operation of a Bar Method studio is from \$146,000.00 to \$785,500.00 including a franchise fee of \$40,000, \$50,000 for studios located in Manhattan, that must be paid to the franchisor.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact ~~Katie Muehlenkamp~~ Lisa Donohue at the above address.

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

Issuance date: March 15, 2013

STATE EFFECTIVE DATES

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<u>State</u>	<u>Effective Date</u>
California	April 17, 2013
Indiana	November 9, 2012 <u>2013</u>
Illinois	Pending <u>April 26, 2013</u>
Maryland	We use a separate Franchise Disclosure Document for Maryland
Minnesota	May 31, 2013
Michigan	May 23, 2012
New York	Pending <u>July 25, 2013</u>
Virginia	October 11 <u>September 25, 2012</u> <u>2013</u>
Washington	August 31 <u>September 16, 2012</u> <u>2013</u>
Wisconsin	April 16, 2013

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2009 Mr. Doud was the Chief Executive Officer of Tara Associates, Inc., a management consulting firm located in San Francisco, California.

Katie Muehlenkamp - Franchise Development Manager

Lisa A. Donohue - Director of Franchise Marketing, Sales & Operations

Ms. ~~Muehlenkamp~~**Donohue** joined us as ~~Franchise Integration Coordinator in May 2011.~~ She ~~assumed in September 2013 in~~ her present position ~~in August, 2012.~~ From January, 2010~~February, 2013,~~ until she joined us she was a Consultant with ~~Barbary Coast Consulting, a public affairs advocacy and public relations firm, located~~**The Bar Method Franchising, Inc., Ms Donohue was an independent consultant** in San Francisco, California. From November~~September, 2009~~**September, 2012,** until January~~to February, 2010~~**February, 2013,** she was ~~the~~ Director of Government Relations with Zumbbox, Inc., a firm that delivers digital postal mail, located in Los Angeles~~Events for Bright Business Media in Sausalito,~~ California. From March~~June, 2007~~**June, 2012,** until ~~September, 2012,~~ Ms Donohue was **Director of Business Development & Client Relations for QURE Healthcare in San Rafael, California.** From October, 2009~~2008,~~ until ~~May, 2012,~~ she was an aide to the Assessor Recorder of the City and County of San Francisco~~Regional Contract Manager for Pacific Pulmonary Services in Novato, California.~~

ITEM 3 LITIGATION

Illinois v. The Bar Method Franchising, Inc. and The Bar Method, Inc. (No. 2009CH 0125, Seventh Judicial Circuit of Illinois, filed February 9, 2009). In this action brought by the Illinois Attorney General, it was alleged that the "license agreement" entered into by an Illinois resident and The Bar Method, Inc. that was assigned to us in January, 2008 constituted a franchise that was not registered as required by the Illinois Franchise Disclosure Act nor was a franchise disclosure document provided to the licensee as required by that statute. On February 9, 2009, the same day as the Compliant in the matter was filed, there was entered in that action a Final Judgment and Consent Decree in which we and The Bar Method, Inc., while not admitting any liability for any of the violations alleged by the Illinois Attorney General, agreed to the entry of a permanent injunction prohibiting us and The Bar Method, Inc. from offering or selling franchises in Illinois without being registered as a franchisor or failing to provide the franchise disclosure document to residents of Illinois as required by the Illinois Franchise Disclosure Act. We also agreed to offer rescission of the license agreement to our Illinois licensee and to the payment of penalties and costs to the state of Illinois in the amount of \$5,000.00. The offer of rescission was not accepted by the Illinois licensee and its License Agreement continues in effect.

In the Matter of the Investigation by Andrew Cuomo, Attorney General of the State of New York, of The Bar Method, Inc. and Carl Diehl (Assurance No. 08-108). In this matter, The Bar Method, Inc. and Mr. Diehl, as its Vice President, entered into an Assurance of Discontinuance ("AOD") dated April 2, 2009, in which they, without admitting any violation of the law, agreed to offer rescission of a License Agreement entered into by The Bar Method, Inc. in New York without The Bar Method, Inc. being registered to sell franchises in that state. As part of the AOD, The Bar Method, Inc. and Mr. Diehl agreed to comply with the provisions of the New York Franchises Act and not to sell franchises in New York without a current registration. The Bar Method, Inc. also paid to the State of New York the sum of \$2,500.00. The offer of rescission was not accepted by the New York licensee and she continues to operate her studio under the License Agreement.

Other than these actions, no litigation is required to be disclosed in this Item.

Workers Comp.	3,000	3,500	4,000	4,500	5,000	5,500	6,000	6,500	7
Supplies	12,000	13,000	14,000	15,000	16,000	17,000	18,000	19,000	8
Marketing	4,000	4,600	5,200	5,800	6,400	7,000	7,600	8,200	
Miscellaneous	36,000	37,000	38,000	39,000	40,000	41,000	42,000	43,000	9
<u>Total Expenses</u>	<u>241,600</u>	<u>274,050</u>	<u>307,400</u>	<u>340,300</u>	<u>375,000</u>	<u>409,700</u>	<u>445,300</u>	<u>481,800</u>	
<u>Profit/Loss</u>	<u>(1,600)</u>	<u>950</u>	<u>12,600</u>	<u>19,700</u>	<u>45,000</u>	<u>70,300</u>	<u>104,700</u>	<u>148,200</u>	10

Notes:

The pro forma operating statements are a forecast of the franchisee's future financial performance. **Your individual financial results may differ from the results stated in the financial performance representation.**

1. 4—These sales figures represent revenue only from Bar Method classes. They assume average revenue per client visit of \$20 based on a price point that varies from \$16 per class (i.e. discounted cost for prepaying for 30 classes) to \$35 per class for a single class. These pricing assumptions are valid for most North American urban markets. There are some suburban and rural markets where prices would have to be lower and a few markets where prices could be higher. These statements assume 20,000 client visits for high volume studios, 15,000 client visits for medium volume studios, and 12,000 client visits for low volume in the first year increasing to 50,000 client visits for high volume studios, 39,500 client visits for medium volume studios, and 31,500 client visits in the 8th year of operation. The sales figures are based on an average price per class of \$20.
2. All examples assume a 3,000 square foot studio at a rent of \$8,000 per month rising to a little more \$11,000 per month over 8 years including triple net charges. In some markets, rent could be as low as \$3,500 per month. In major urban markets rent can be more than \$15,000 per month.
3. Labor costs include both teachers and receptionists but do not include childcare workers, if needed. These examples make no allowance for owner's compensation apart from the studio's profit. It is assumed that in the first year a studio will offer approximately 130 classes a month and that the owner will teach about half of those classes. It is assumed that teachers will be employed to teach about 65 classes per month at a total cost of approximately \$2,000 per month, including payroll taxes and benefits and part-time receptionist staff will cost approximately \$3,000 per month. After 8 years, the studio should offer about 300 classes per month and average labor cost per class will increase to approximately \$40 per class. The cost of reception staff will also increase as volume increases as shown in the above estimates. Labor costs in some areas, such as in major urban areas, will be higher while in other areas they may be lower.
4. Credit card fees are estimated as 3% of gross sales and include all incidental credit card processing charges. The estimates may be a little high.
5. Royalties are based on 5.6% of gross sales.
6. Utilities include the cost of electricity and telephones only. Some studios may have to pay for heating and cooling and possibly water and sewer usage as well.
7. Workers compensation costs vary with state law.

8. Supplies include bathroom supplies, grooming supplies, cleaning supplies, office supplies and towels and socks, if provided.
9. "Miscellaneous" expenses include such items as attorneys' and accountants' fees, maintenance and equipment replacement costs and local taxes and fees. No allowance has been made for any regional or national advertising association contributions since neither type of organization is in existence at this time.

A studio "matures" in about 8 to 10 years. At that time profits tend to flatten out unless prices can be increased. However, spending on exercise tends to be discretionary so there may be resistance to price increases.

Other than for this financial performance representation, we do not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive other financial performance information or projections of your future income, you should report it to our management by contacting ~~Katie Muehlenkamp~~ Lisa Donodue at 3717 Buchanan Street, Suite 200, San Francisco, California 94123, (415) 624-3631, the Federal Trade Commission and the appropriate state regulatory agencies.

ITEM 20 OUTLETS AND FRANCHISEE INFORMATION

The following tables show the status of our franchised studios as well as those of the licensees whose agreements were assigned to us in January, 2008. All information is as of December 31, 2012.

Table No. 1
Systemwide Outlet Summary
For years 2010 to 2012

Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised	2010	23	35	+12
	2011	35	53	+18
	2012	53	66	+13
Company-Owned	2010	1	1	0
	2011	1	1	0
	2012	1	1	0
Total Outlets	2010	24	36	+12
	2011	36	54	+18
	2012	54	67	+13

Bryant Street, LLC
Catherine Wendel & Lis Settimi,
Chicago, IL
Catherine@barmethod.com
Lis@barmethod.com

Taller Bar LLC
Hoddy Potter
Kansas City, KS
hoddy@barmethod.com

Boston BarreBelles, LLC
McKenzie Howarth & Sarah Kuzniar
Hingham, MA
mckenzie@barmethod.com
sarah@barmethod.com

District Barre Inc
Kate Arnold
Bethesda, MD
Katea@barmethod.com

North Potomac Barre, LLC
Jennifer Menconi & Jennifer Gawronski
North Potomac, MD
jennifer.gawronski@barmethod.com
jenn.menconi@barmethod.com

Fit Life, LLC
Amy Duffey & Kristin Kelleher
New York City, NY
amy@barmethod.com
kristin@barmethod.com

ITEM 21 FINANCIAL STATEMENTS

Attached as Exhibit A are our audited financial statements as of December 31, 2012 the end of our last fiscal year, along with certain comparative information for 2010 and 2011. Also enclosed is a set of our unaudited interim financial statements for the period from January 1, 2013, to ~~June~~ September 30, 2013.

ITEM 22 CONTRACTS

Attached as Exhibit C is our Franchise Agreement and its exhibits. Exhibit D to this disclosure document is our Nondisclosure and Confidentiality Agreement. Exhibit E is the Acknowledgment at Closing which you must review and sign at the time you sign the Franchise Agreement. The exhibits to our Franchise Agreement include our Addendum to Lease Agreement, Mutual General Release and Continuing Guaranty.

ITEM 23 RECEIPT

The last pages of this disclosure document consist of a detachable document acknowledging receipt of this disclosure document that you must sign and return to us. You should retain a copy of this receipt for your records.

11:58 AM
 11/21/13
 Accrual Basis

The Bar Method Franchising Inc.
Balance Sheet
 As of September 30, 2013

	Sep 30, 13
ASSETS	
Current Assets	
Checking/Savings	
1000 - Total Cash	116,834.31
Total Checking/Savings	116,834.31
Accounts Receivable	
1100 - Accounts Receivable	127,708.11
Total Accounts Receivable	127,708.11
Other Current Assets	
1200 - Prepaid Expenses	45,198.75
1300 - InterCompany Loans	-366,640.44
Total Other Current Assets	-321,441.69
Total Current Assets	-76,899.27
Fixed Assets	
1800 - Furniture, Computers and LHI	24,508.99
Total Fixed Assets	24,508.99
Other Assets	
1900 - Other Assets	553,438.46
Total Other Assets	553,438.46
TOTAL ASSETS	501,048.18
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities:	
Accounts Payable	
2000 - Accounts Payable	72,894.67
Total Accounts Payable	72,894.67
Credit Cards	
2400 - American Express	13,778.99
Total Credit Cards	13,778.99
Other Current Liabilities	
2100 - Accrued Expenses	49,712.37
2200 - Deferred Revenue	6,000.00
2300 - Short Term Loans	125,718.50
Total Other Current Liabilities	181,430.87
Total Current Liabilities	268,104.53
Long Term Liabilities	
2500 - Long Term Loans	185,021.20
Total Long Term Liabilities	185,021.20
Total Liabilities	453,125.73
Equity	
3010 - Common Stock	30,000.00
3020 - Paid In Capital	162,673.00
3500 - Retained Earnings	-24,580.49
Net Income	-120,170.06
Total Equity	47,922.45
TOTAL LIABILITIES & EQUITY	501,048.18

11:57 AM

11/21/13

Accrual Basis

The Bar Method Franchising Inc.

Profit & Loss

January through September 2013

	<u>Jan - Sep 13</u>
Ordinary Income/Expense	
Income	
4000 · Revenue	1,378,587.96
4900 · Sales Refunds	-500.00
Total Income	<u>1,378,087.96</u>
Cost of Goods Sold	
50000 · Cost of Goods Sold	281,354.55
Total COGS	<u>281,354.55</u>
Gross Profit	1,096,733.41
Expense	
6010 · Advertising and Public Relation	41,121.70
6015 · Bank Service Charges	5,874.70
6030 · Credit Card Processing Fees	6,612.41
6050 · Convention Expenses	5,125.00
6060 · Computer Expense	36,528.45
6070 · Dues and Subscriptions	5,193.45
6080 · Insurance General	7,591.13
6090 · Licenses and Permits	3,547.90
6095 · Music	1,437.65
6100 · Office Supplies and Expense	16,568.61
6110 · Payroll and Benefits	587,597.78
6120 · Postage and Delivery	12,914.17
6130 · Professional Fees	138,773.36
6150 · Repair & Maintenance	10,237.50
6160 · Rent	24,680.60
6170 · Taxes General	5,494.69
6180 · Telephone	557.10
6200 · Travel & Entertainment	65,678.80
6220 · Training Materials	27,160.01
6230 · Utilities	83.33
6240 · Bad Debt Expense	1,491.91
Total Expense	<u>1,004,270.25</u>
Net Ordinary Income	92,463.16
Other Income/Expense	
Other Income	
9150 · Interest Income	44.25
Total Other Income	44.25
Other Expense	
9100 · Amortization Expense	30,393.54
9110 · Depreciation Expense	2,219.40
9160 · Interest Expense	7,532.34
9170 · Legal Settlements	164,090.17
9180 · Taxes - Federal Income	5,565.01
9190 · Taxes - State Income	2,877.01
Total Other Expense	<u>212,677.47</u>
Net Other Income	-212,633.22
Net Income	<u>-120,170.06</u>

11:58 AM

11/21/13

The Bar Method Franchising Inc.
Statement of Cash Flows
January through September 2013

Jan - Sep 13

OPERATING ACTIVITIES	
Net Income	-120,170.06
Adjustments to reconcile Net Income to net cash provided by operations:	
1100 · Accounts Receivable	-63,621.38
1200 · Prepaid Expenses	-45,198.75
1300 · InterCompany Loans:1310 · InterCompany - International	280,046.90
1300 · InterCompany Loans:1330 · InterCompany - Media	66,932.11
1300 · InterCompany Loans:1340 · InterCompany - Studio	-63,040.93
2000 · Accounts Payable	33,765.88
2400 · American Express	13,778.99
2100 · Accrued Expenses:2110 · Accrued Interest	-1,248.82
2100 · Accrued Expenses:2120 · Accrued Payroll Taxes	1,096.66
2100 · Accrued Expenses:2130 · Accrued Vacation	-1,123.59
2100 · Accrued Expenses:2140 · Accrued Wages	26,686.13
2190 · Income taxes payable - Federal	-10,684.00
2200 · Deferred Revenue	6,000.00
2300 · Short Term Loans:2320 · Loan - Bank of America	2,751.86
Net cash provided by Operating Activities	128,218.18
INVESTING ACTIVITIES	
1800 · Furniture, Computers and LHI:1820 · Computer Equipment & Website	-13,775.95
1800 · Furniture, Computers and LHI:1830 · Accum Dep - Furniture and Equip	2,099.97
1900 · Other Assets:1955 · Acc. Amortization-License Terr.	30,393.54
Net cash provided by Investing Activities	18,717.55
FINANCING ACTIVITIES	
2500 · Long Term Loans:2520 · Loan - Bank of America	-83,968.26
3500 · Retained Earnings	-6,111.67
Net cash provided by Financing Activities	-90,079.93
Net cash increase for period	56,855.80
Cash at beginning of period	59,978.51
Cash at end of period	116,834.31

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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 C for information about the franchisor or about franchising in your state.

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

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

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY MEDIATION AND LITIGATION ONLY IN CALIFORNIA. OUT-OF-STATE MEDIATION AND LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO MEDIATE AND LITIGATE WITH US IN CALIFORNIA THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT STATES THAT CALIFORNIA LAW GOVERNS THE AGREEMENT AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

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Exhibits

- A. Financial Statements**
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- C. Franchise Agreement**
- D. Nondisclosure and Confidentiality Agreement**
- E. Acknowledgment at Closing**

ITEM 1 THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language in this disclosure document, words such as “we”, “us” and “our”, refer to The Bar Method Franchising, Inc., the franchisor of *The Bar Method* studios. Words such as “you” and “your” refer to the purchaser of a *The Bar Method* franchise. While the name of our studios is “*The Bar Method*” we often refer to them in this Franchise Disclosure Document as “*Bar Method* studios”.

We are a corporation that was formed in California on February 16, 2010. We are the successor to The Bar Method Franchising Company, LLC, a California limited liability company, that was formed on January 16, 2008 to offer franchises for *Bar Method* studios. Our principal business address is 3717 Buchanan Street, Suite 200, San Francisco, California 94123. Our telephone number is (415) 624-3631. The address of The Bar Method Franchising Company, LLC, was 161 Prospect Avenue, Sausalito, CA 94930 from its formation until it was converted to the corporate form. The Bar Method Franchising Company, LLC offered franchises for *Bar Method* studios from May 1, 2008, until that entity was converted to a corporation on February 16, 2010.

We do business exclusively under the name *The Bar Method*. The names and addresses of our agents for service of process in certain states are listed on the State-Specific Addendum to this disclosure document.

Franchising *Bar Method* studios is our only business. We have never operated a *Bar Method* studio.

We are a wholly-owned subsidiary of Bar Method International, Inc., a Delaware corporation whose principal business address is also 3717 Buchanan Street, Suite 200, San Francisco, California 94123. That entity also owns our affiliates Bar Method Media, Inc., a California corporation, and The Bar Method, Inc., a Connecticut corporation, which also share our principal business address.

We are licensed to use the name *The Bar Method* and *The Bar Method* system by Bar Method Media, Inc., which we refer to in this document as “our licensor”. Bar Method Media, Inc. was assigned those rights on December 23, 2011, by The Bar Method, Inc., which has operated a *Bar Method* studio at 3333 Fillmore Street in San Francisco, California since 2001. On January 16, 2008, The Bar Method, Inc. licensed our predecessor, The Bar Method Franchising Company, LLC, to franchise *Bar Method* studios. Under the License Agreement, which has an initial term of 20 years and continues to renew without further action of the parties for renewal terms of 10 years each, we, as successor to The Bar Method Franchising Company, LLC, have the right to franchise *Bar Method* studios in all areas of the world. The License Agreement between us and The Bar Method, Inc. was assigned to Bar Method Media, Inc. on January 11, 2012. In addition to owning the *Bar Method* intellectual property, is the producer and marketer of *The Bar Method* DVDs and other media. We have no predecessors except for The Bar Method Franchising Company, LLC and The Bar Method, Inc. See Item 13 below for more details about our License Agreement.

The Bar Method, Inc. offered licenses for *Bar Method* studios from June, 2003 until October, 2007. Those license agreements were assigned to us in January, 2008. Some states consider the license agreements to be franchise agreements. We have complied with directions from those states to make our license agreements comply with the franchise laws of those states as described in Item 3 below.

We have not offered franchises in any other lines of business. Other than for the operation of its *Bar Method* studio in San Francisco and its granting the licenses described above, The Bar Method, Inc. has not engaged in or franchised any other lines of business.

We franchise *Bar Method* studios, exercise facilities that use *The Bar Method* exercise system. *The Bar Method* system is designed to create a uniquely lean, firm, sculpted body by reshaping and elongating muscles while maintaining an intense pace that burns fat and increases stamina. *Bar Method* studios provide hour-long classes composed of eight or nine strengthening exercises followed by stretches. The strength work combines holding positions that use the body's own weight with small, controlled moves that increase range of motion and stamina. Stretching is focused on the hips, chest and lower back to improve posture and body alignment. Students begin the class with free weights and push-ups, move to the ballet bar to work their legs and abdominals and finish on mats for more core work and stretching. In addition to fitness classes, *Bar Method* studios often provide other services, such as massage and childcare, as well as selling fitness apparel and other items.

In many states, health clubs and similar facilities are subject to various health and safety laws and rules pertaining to the terms of any contract that is required to be signed by members of the club, including the refundability of membership dues and so forth as well as certifications that must be maintained by fitness studio staff. You should check your state and local laws to see whether any of these laws may apply to your studio. You also will need to comply with federal, state and local laws and regulations that govern businesses in general.

Bar Method studios appeal primarily to women between the ages of 25 and 65, although men and women of different age groups participate in the program. The business of *Bar Method* studios is not seasonal.

Bar Method studios compete with other fitness facilities, some of which may be situated in the area in which your studio will be located. The physical fitness market is well developed and includes traditional facilities such as health clubs, gymnasiums, yoga classes, pilates studios and specialized fitness facilities but is growing with facilities using new concepts and training techniques.

ITEM 2 BUSINESS EXPERIENCE

Burr Leonard – Chief Executive Officer, President, Secretary and Director

Ms. Leonard became our President and a Director upon our formation. She has been President of The Bar Method, Inc. since its formation in November, 2000 and has been President of Bar Method Media, Inc. since its formation in December, 2008. She was a member of our predecessor The Bar Method Franchising Company, LLC from its formation until it was converted to the corporate form. She is the principal instructor of *The Bar Method* technique at The Bar Method, Inc.'s studio in San Francisco.

Michael Doud – Chief Operating Officer and Chief Financial Officer

Mr. Doud became our Chief Operating Officer in May, 2010. From January 1, 2009 until October 15, 2010 he was a Manager in the Program Management Office of Kaiser Permanente, a health maintenance organization, in Oakland, California. From June 1, 1996 until December 31,

2009 Mr. Doud was the Chief Executive Officer of Tara Associates, Inc., a management consulting firm located in San Francisco, California.

Lisa A. Donohue - Director of Franchise Marketing, Sales & Operations

Ms. Donohue joined us in September 2013 in her present position. From February, 2013, until she joined The Bar Method Franchising, Inc., Ms Donohue was an independent consultant in San Francisco, California. From September, 2012, to February, 2013, she was the Director of Events for Bright Business Media in Sausalito, California. From June, 2012, until September, 2012, Ms Donohue was Director of Business Development & Client Relations for QURE Healthcare in San Rafael, California. From October, 2008, until May, 2012, she was Regional Contract Manager for Pacific Pulmonary Services in Novato, California.

ITEM 3 LITIGATION

Illinois v. The Bar Method Franchising, Inc. and The Bar Method, Inc. (No. 2009CH 0125, Seventh Judicial Circuit of Illinois, filed February 9, 2009). In this action brought by the Illinois Attorney General, it was alleged that the "license agreement" entered into by an Illinois resident and The Bar Method, Inc. that was assigned to us in January, 2008 constituted a franchise that was not registered as required by the Illinois Franchise Disclosure Act nor was a franchise disclosure document provided to the licensee as required by that statute. On February 9, 2009, the same day as the Complaint in the matter was filed, there was entered in that action a Final Judgment and Consent Decree in which we and The Bar Method, Inc., while not admitting any liability for any of the violations alleged by the Illinois Attorney General, agreed to the entry of a permanent injunction prohibiting us and The Bar Method, Inc. from offering or selling franchises in Illinois without being registered as a franchisor or failing to provide the franchise disclosure document to residents of Illinois as required by the Illinois Franchise Disclosure Act. We also agreed to offer rescission of the license agreement to our Illinois licensee and to the payment of penalties and costs to the state of Illinois in the amount of \$5,000.00. The offer of rescission was not accepted by the Illinois licensee and its License Agreement continues in effect.

In the Matter of the Investigation by Andrew Cuomo, Attorney General of the State of New York, of The Bar Method, Inc. and Carl Diehl (Assurance No. 08-108). In this matter, The Bar Method, Inc. and Mr. Diehl, as its Vice President, entered into an Assurance of Discontinuance ("AOD") dated April 2, 2009, in which they, without admitting any violation of the law, agreed to offer rescission of a License Agreement entered into by The Bar Method, Inc. in New York without The Bar Method, Inc. being registered to sell franchises in that state. As part of the AOD, The Bar Method, Inc. and Mr. Diehl agreed to comply with the provisions of the New York Franchises Act and not to sell franchises in New York without a current registration. The Bar Method, Inc. also paid to the State of New York the sum of \$2,500.00. The offer of rescission was not accepted by the New York licensee and she continues to operate her studio under the License Agreement.

Other than these actions, no litigation is required to be disclosed in this Item.

ITEM 4 BANKRUPTCY

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

ITEM 5 INITIAL FEES

Except for studios to be located in Manhattan and as described below, the initial franchise fee for a *Bar Method* studio is \$40,000.00. For studios to be located in Manhattan, the initial franchise fee is \$50,000.00. As discussed in Item 12 below, you are normally assigned a protected territory once your location is determined. Once you are a *Bar Method* franchisee, if you are awarded the right to open an additional *Bar Method* studio within your protected territory, the franchise fee for each such studio will be \$30,000.00 except in Manhattan where the fee will be \$37,500.00.

You may request that we grant you an option to open one additional *Bar Method* studio in the "Option Area" listed on Exhibit A to your Franchise Agreement. If we agree to do so, you must pay us an option fee of \$5,000.00 at the time you sign your Franchise Agreement. You must open the additional studio within 12 months from the opening of your first studio. If you do not do so, you have the right to extend the option period for an additional 12 months by paying us an additional \$10,000.00 at least 30 days prior to the expiration of the initial 12-month option period. No further extensions of the option rights will be granted. If you do open the additional studio, the rights and duties of the parties will be governed by the Franchise Agreement in effect at the time you give us notice that you are going forward with the opening of the studio and we comply with any applicable disclosure laws that may apply to the transaction. The franchise fee for the new studio will be 2/3 of the franchise fee we are charging for new studio franchises at the time. The amounts that you have paid us for the option rights will be credited to the franchise fee. There are certain conditions under which we can refuse to allow you to open the studio covered by the option. They are specified in Section 2.01(g) of the Franchise Agreement. If we deny you the right to open the additional studio, we will refund all option fees you have paid us.

If you are granted the right to open another *Bar Method* studio outside of your protected territory, including within any area where you are granted an option, right of first refusal or similar rights, the full undiscounted franchise fee called for in the Franchise Agreement covering that location must be paid.

You must pay one-half of the required franchise fee when you sign this Agreement. The balance of the fee is payable at least 2 weeks before you or any member of an entity that owns this franchise is scheduled to commence our training course. If you, or all of the members of an entity that will own the studio covered by the Franchise Agreement have already been trained, such as where you own another *Bar Method* studio or were a certified teacher at another *Bar Method* studio, the balance of the franchise fee must be paid before you sign your studio lease or other occupancy document.

If the Franchise Agreement is terminated for any reason before you start training or sign your lease, we will refund all but \$2,500.00 of your franchise fee plus any out of pocket expenses we have incurred in connection with assisting you with finding a location for your *Bar Method* studio. Once you or any members of any entity that owns this franchise have begun training, the franchise fee becomes nonrefundable. If you or the members of an entity that owns the franchise have already been trained, the foregoing amount is refundable if the Franchise Agreement is terminated before you sign your lease.

As discussed in Item 12 below and in Section 5 of your Franchise Agreement, if, within a reasonable time after we approve your studio location, we cannot agree on a protected territory in connection with that location—the area in which we agree not to open or franchise another bar-

based exercise studio, and your lease has not been signed or training has not begun, as described above, we can terminate your Franchise Agreement and refund your initial franchise fee payments less \$2,500.00, plus our reasonable out of pocket costs as described above, which we can retain for our efforts in connection with your the franchise.

ITEM 6 OTHER FEES

Type of fee	Amount	Due Date	Remarks
Monthly Royalty	6% of your gross receipts	10th day of the month following the month on which the fee is based	"Gross receipts" means the proceeds from all of your sales and services.
New Teacher Training Fee (See Note 1)	Not to exceed \$4,000	As we require	This is for us providing our total training course for a new teacher after we have completed the training of the first 4 members of your teaching staff. All owners of over 20% of any entity that owns your studio must be trained and certified.
Travel and Living Expenses	In the amount incurred	As we require	You must reimburse us for the travel and living expenses of our representatives in connection with various services we perform such as if we agree to perform part of our training course at your studio rather than at a site we specify, if we provide on-site pre-opening assistance and if we visit your studio to conduct teacher training after it is in operation.
Teacher Evaluation Fee (See Note 1)	Not to exceed \$300 for each teacher evaluated plus our evaluator's travel and living expenses.	As we require	We plan to evaluate each of your teachers each year. Teachers who do not achieve a satisfactory evaluation score will be re-evaluated after retraining.
Extra Visit Fee (See Note 1)	\$300 per day plus our out of pocket expenses	As we require	This fee is only payable if we have agreed to assist you with your opening, you notify us that your studio is ready for opening and it is not, preventing our representative from completing his or her duties upon opening or having to return later.

Type of fee	Amount	Due Date	Remarks
Visit Reimbursement	Reimbursement of our out of pocket expenses	As we require	Payable in connection with visits we make to your studio after you open. You need only pay this fee once in any 12-month period.
Special Visit Fee (See Note 1)	\$300 per day plus reimbursement of our out of pocket expenses	As we require	Only payable if we agree to a special visit by our representatives over and above those we normally provide.
National Advertising Fund (See Note 3)	Up to 3% of your gross receipts	When royalty payment due	This fee is only payable if and when we form a national advertising program.
Local Advertising (See Note 1)	The greater of \$100 or 1% of your gross receipts	Monthly	You spend this amount directly on the advertising of your studio.
Regional Advertising Fund (See Note 3)	Up to 2% of your gross receipts	As required	This fee is only payable if and when we form an advertising program in the region where your studio is located. The amount you pay to this fund can be offset against your location advertising requirement.
Renewal Fee (See Note 1)	\$10,000	Upon signing your renewal Franchise Agreement	We do not provide additional services to you in connection with the renewal of your franchise even though a new Franchise Agreement is signed.
Meeting Fee	As we reasonably determine	As we determine	We have the right to charge reasonable fees for attendance at our national or regional meetings and training seminars.
Internet Maintenance, Smart Phone Application and Excess Usage Fees	As we reasonably determine	As we determine	We can charge a reasonable fee for maintaining and updating our Internet site and any "Smart Phone" or similar applications we develop in addition to amounts we may charge for excess usage of our Internet site.
Relocation and Expansion Reimbursement	Reimbursement of our costs	As we require	Only payable if we incur costs, including for the time of our employees, in connection with the relocation of your studio or its expansion.

Type of fee	Amount	Due Date	Remarks
Transfer Application Fee (See Note 1)	\$500	Upon submitting franchise transfer application	This fee will be credited to the Transfer Fee if the transfer is approved.
Transfer Fee	50% of our franchise fee at the time you transfer your studio; if transfer is to an existing <i>The Bar Method</i> franchisee, the fee is 25% of the then-current franchise fee	Upon approval of the transfer	Payable upon the transfer of 50% or more of the interests in the franchise. If more than one <i>Bar Method</i> studio is being transferred to the same transferee at the same time, the fee is equal to 50% of our then-current franchise fee for the first studio and 25% of that fee for each additional studio being transferred.
Late Charge	1½% of overdue amount	As we require	A late charge is only payable on past due amounts
Audit Fee	Cost of audit, including costs and time of our employees, accountants and others	Upon payment of amounts due	Only payable if we audit your records and find that you have intentionally underreported your gross receipts, underreported them in excess of 3% for any month or have not provided the financial reports required by your Franchise Agreement.

- Notes:**
1. This fee is subject to adjustment by any increase in the Consumer Price Index between the date of the Franchise Agreement and the date on which the event giving rise to the fee occurs.
 2. Unless otherwise indicated, all of the foregoing fees and charges are payable to us, are uniformly imposed and are not refundable.
 3. Some of our older Franchise Agreements do not contain this requirement and, as such, the studio owners with those agreements may not pay in to the fund.

ITEM 7 ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Initial Franchise Fee (See Note 1)	Outside of Manhattan the initial franchise fee is \$40,000 for your first franchise and \$30,000 if you open an additional	Installments	Unless modified by the State-Specific Addendum to this disclosure document, one-half is payable when you sign your Franchise Agreement with the	Us

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
	studio within your protected territory. For studios located in Manhattan the initial fee is \$50,000 for your first studio and \$37,500 for each additional studio in your protected territory.		balance due at least 2 weeks before training is to begin, If you have already been trained, the balance is due when you sign your lease.	
Option Fee (See Note 1a)	0 to \$15,000	Lump Sum	Upon signing Franchise Agreement	Us
Architects, Designers and Engineers	\$5,000 to \$30,000	As required by supplier	As required by supplier	Architects, designers and engineers
Leasehold Improvements	\$50,000 to \$500,000	Lump Sum or Progress Payments	As needed	Contractors
Furniture, Fixtures & Equipment (See Note 2)	\$25,000 to \$60,000	As Incurred	Before opening	Suppliers
Signs (See Note 2)	\$1,000 to \$15,000	Lump Sum	As required by supplier	Sign companies
Rent (See Note 3)	\$1.25 to \$4.50 per square foot per month	Lump Sum	Monthly	Landlord
Preopening Deposits and Prepaid Expenses	\$3,000 to \$30,000	As Incurred	As required	Utility company, government agencies, insurance companies, attorney, accountant, etc.
Computer System and Software (See Note 4)	\$2,000 to \$3,000	As Incurred	Usually 50% upon ordering the system with the balance payable 30 days after delivery of the equipment and software	Suppliers
Initial Inventory	\$0 to \$1,500	Lump Sum	As required by supplier	Suppliers of resale merchandise

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Employee Salaries and Their Travel and Living Expenses While Training	\$2,500 to \$11,000	As Incurred	As required by providers	Your employees
Preopening Advertising and Grand Opening Promotion	\$500 to \$20,000	As Incurred	As required by suppliers	Direct mail providers, newspapers, etc.
Living Expenses for Owners While Training in San Francisco	\$2,000 to \$5,000	As Incurred	As Incurred	Airlines, hotels, restaurants ground transportation, etc.
Additional Funds, first 3 months (See Note 5)	\$15,000 to \$45,000	As Incurred	As Incurred	Employees, Suppliers, Lessor, etc.
TOTAL (Not including rent or lease deposits) (See Note 6)	\$146,000 to \$785,500.00			

Notes:

1. The initial franchise fee payments are partially refundable as described in Item 5 above.
 - 1a. The option fee is only payable if you wish to have the option to open an additional studio within an area designed in your Franchise Agreement. The option fee is \$5,000.00 with an additional \$10,000.00 payable if you wish to extend the option period. See Section 5 above for more details.
2. If you lease these items, your initial outlay will be less but your overall payments may be higher.
3. *Bar Method* studios occupy approximately 1,500 to 4,000 square feet of space, larger spaces being justified in more highly populated areas that have appropriate demographics. Rental amounts can vary depending upon the area in which the studio is located, its size, the condition of the premises, the landlord's contribution to your leasehold improvements and other factors. You probably will also have to pay the landlord a first and last month's rent deposit and possibly a lease security deposit at the time of signing the lease. This estimate assumes you will not purchase the premises.
4. You must acquire an approved computer system that will allow you to keep your records using approved software and one that will enable us to exchange information regarding your business. See Item 11 for information on your computer system.

5. This estimate is for initial and ongoing expenses during your first 3 months of operation. Items covered include payroll, rent, telephone, utilities, advertising, employee training and miscellaneous ongoing expenses. An initial reserve for working capital is needed since new businesses often are not profitable during the early days of their operation. There is no assurance your cash requirements will not exceed our estimate. As such, you may need additional money during this start-up phase or thereafter. Your costs will depend on factors such as how well you follow our system, your management skills and business acumen, local economic conditions and the membership level reached during your initial period operation. In estimating these numbers, we relied on the experience of our personnel in operating *Bar Method* studios, those it licensed and on *Bar Method* studios that we franchise.
6. We do not offer financing to our franchisees for any of the foregoing expenses. None of the fees paid to us are refundable except as expressly stated in Item 5 above. Typically, amounts paid to third parties will not be refundable unless otherwise agreed with the concerned supplier.

ITEM 8 RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

We must approve your location prior to its being leased or otherwise acquired. At the appropriate time, we will provide you with our requirements and specifications for your furniture, equipment and certain supplies. You are required to follow these specifications. We can modify our specifications and requirements periodically in our discretion. We and our affiliates can be specified as a supplier or the only supplier, of any or all of these items. If we are so specified, we or our affiliates will derive revenue from your purchases. While your furniture, fixtures, equipment and certain other items must meet our specifications, as of the date of this disclosure document, we have no suppliers from whom you must purchase these items except for stretching straps, , mat covers, foam covers and other items that bear our logo which you must purchase from us or our affiliates. Our affiliate, Bar Method Media, Inc. sold the items listed above to our franchisees in the amount of \$26,368.00 during 2012 which was approximately 2% of its total revenue.

Our affiliate, Bar Method Media, Inc., is a supplier of instructional *Bar Method* videos but, unless otherwise directed, you are not required to purchase those videos. Our sole shareholder, Bar Method International, Inc. also owns Bar Method Media, Inc.

We derive revenue from the items you purchase from us and our affiliates derive revenue from the items you purchase from them. We estimate that items you are required to purchase from us and our affiliates will amount to less than 5% of all purchases and leases you will make in establishing your studio and 2% of your ongoing purchases and leases in the operation of your studio.

At the time of this disclosure document, we require you to use the on-line print shop printforless.com for printing material bearing our names or marks, such as stationery and business cards. We have made our required styles and formats for printed material known to them and have obtained what we consider to be a favorable price for such items from that company. We do not derive any income or other benefit from your purchases from printforless.com.

You must acquire and use the computer hardware and software that we specify or otherwise approve. You must purchase a computer system adequate for the operation of your studio. We do not specify the computer system you must purchase but we must approve the system you propose to acquire. We currently require you to use MindBody® software for online class scheduling, studio service reservations, processing client credit and debit card payments, keeping your business records and generating business reports among other things. See Item 11

below for more information of the computer system and software you must purchase for the operation of your studio.

We will provide specifications for the products and services that must meet our requirements to any reputable supplier. However, if our specifications involve any of our trade secrets, confidential information or proprietary property, we have discretion whether to provide that information to any supplier and, if we do, under what conditions.

You can only sell or otherwise provide items we have approved. At the date of this disclosure document, you cannot sell any vitamins, supplements or other nutritional products or food items from you studio. You cannot do anything that would tend to associate *The Bar Method* with any such products, including providing recommendations to your customers concerning such items or access to providers of the goods.

If we have designated a supplier for any product or service you are required to purchase and you want to use a supplier that we have not yet approved, you must give us written notice of the identity and address of the supplier and the product or service you want to acquire from that supplier. We can request samples of those items to use in evaluating your request. After we receive all of the information we require concerning the supplier and its goods or services, we will either approve or disapprove of the supplier normally within 30 days. The criteria we use for approval of suppliers include the supplier's ability to provide products or services meeting our specifications, the supplier's reliability with respect to the quality of its products or services, the supplier's agreement to conform to our specifications and to give us permission to make periodic inspections to insure continued conformity with our specifications and the number of existing approved suppliers for the goods or services in question. We can withdraw our approval of suppliers at any time.

We do not require suppliers to pay us for testing or approving their merchandise or services. If any supplier gives us an advertising allowance or similar payment, we will use those funds only for advertising and promotional purposes.

We have no purchasing or distribution cooperatives. We will attempt to negotiate with those suppliers that are used by a number of our studios so that we can get the best possible prices for their products although we cannot promise that we can accomplish that result.

We do not provide additional benefits to *The Bar Method* franchisees who purchase particular products or services or patronize particular suppliers.

We can designate the minimum types and amounts of insurance you must carry. As of the date of this disclosure document the Franchise Agreement requires the following insurance coverage:

Commercial General Liability for bodily injury including employers' non-owned auto liability on an exercise studio form	\$2,000,000
Personal Property "All Risk" comprehensive protection on replacement cost basis	Replacement Value
Workers' Compensation	As Required by law

ITEM 9 FRANCHISEE'S OBLIGATIONS

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

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

Obligation	Section in Agreement	Disclosure Document Item
x. Dispute resolution	Section 18	Item 17

ITEM 10 FINANCING

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

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

Except as listed below, The Bar Method Franchising, Inc., is not required to provide you with any assistance.

Pre-Opening Obligations

- 1) We do not provide a site for you. We will consult with you on the general criteria for your studio location. We must approve your proposed location before you can lease or otherwise acquire its use. Our review of your proposed site normally will not take over 30 days. After our review, we will notify you of our approval or disapproval of the site. If we disapprove of the site we will advise you of the steps you can take, if any, to make the site acceptable to us. Among the criteria we use in determining whether to approve your site are the physical characteristics of the location, the shopping center or other area in which it is located, the demographics of the area, its proximity of other *Bar Method* studios and the protected territories granted to them and its proximity to competitors. We also can disapprove a proposed location if, in our reasonable judgment, granting you the right to open a studio at that location will have the potential to interfere with the orderly development of other *Bar Method* studios in that area or in contiguous regions even if your proposed location is in your designated area. You agree in the Franchise Agreement to use your best efforts to obtain a lease for your site promptly. Unless your prospective landlord desires to use some other procedure, you must prepare a letter of intent to be signed by your landlord and obtain our approval of its terms before you may give it to the lessor or negotiate the terms of your lease. If you have not obtained a signed lease for your site within 120 days after you have signed your Franchise Agreement, unless, in our reasonable judgment, you are using due diligence in your attempt to obtain a lease, we can terminate your Franchise Agreement. If we terminate your Franchise Agreement for that reason, we will refund your franchise fee, less \$2,500.00 plus our reasonable out of pocket costs, which we can retain as consideration for our efforts to date, unless you have begun training in which case the franchise fee is not refundable. (Franchise Agreement Sections 5.02 to 5.08)

- 2) At our option, we can give you our thoughts on the proposed lease terms for your site. Before we will authorize you to sign your lease, you must provide us with written evidence that you have available sufficient funds to complete the construction, equipping, fixturing and otherwise preparing your studio for opening. You can do this by showing us the source of your own funds and those that are irrevocably committed to you for this purpose. You agree that we are

authorized to contact all funding sources to verify the information you provide. You must also use your best efforts to have the lessor of your premises sign our Addendum to Lease Agreement which gives us certain rights should you default under your lease. (Franchise Agreement Section 5.06)

- 3) We provide you with our studio design requirements for your architect's or designer's use in planning your space. It is your responsibility to adapt our construction specifications to your space and to local ordinances and building codes and to obtain required building permits. (Franchise Agreement Section 6.01)
- 4) We will consult with your architect, space planner, designer, contractors and subcontractors regarding the construction, decorating and equipping your studio. We must review and approve your plans and specifications before your contractor begins construction. (Franchise Agreement Section 6.01).
- 5) We have the right to conduct a final inspection of your studio to determine whether it complies with our approved plans, specifications and other requirements. (Franchise Agreement Section 6.09)
- 6) We provide you with assistance in procuring approved equipment, furniture, fixtures, signs, opening inventory and supplies by providing the names of approved suppliers and selling certain items to you directly. (Franchise Agreement Section 6.10)
- 7) At your request, or if we so elect, we may be able to send a representative to your location to assist you with the opening of your studio and to provide additional on-site training for you and your staff just prior to your opening. (Franchise Agreement Section 6.17).
- 8) We provide training in our system for 2 teachers. If you have not already been trained and certified as a *Bar Method* teacher, you, and all of the people who own more than 20% of your studio, must be one of the trainees. (Franchise Agreement Sections 7.01 through 7.09).
- 9) We provide you with our manuals to use in connection with the design and construction of your studio, your training and the operation of your studio. (Franchise Agreement Section 8.01).

We provide all of the foregoing services for your first *Bar Method* studio. We can reduce the services we provide for your second and subsequent studios since at that time you will have experience in building and opening a studio.

Time to Open

It typically takes between 1 to 3 months after you sign your Franchise Agreement to find a location for your studio, although it could take longer. It usually takes between 3 and 9 months after you sign your Franchise Agreement to open your studio for business, depending on the time it takes to secure a lease, obtain any needed financing, make tenant improvements, equip, decorate and complete the construction of your studio, complete training, hire and train staff and other

factors. Your studio must be open for business within 9 months from the date of your Franchise Agreement. If it is not, we can terminate your Franchise Agreement unless, in our reasonable judgment, you are using due diligence to construct and open your studio and the delay is beyond your reasonable control, for example as a result of unusual engineering or construction problems or if there are delays caused by fire, flood, earthquake or similar events. If that is the case, we will extend the 9-month period for a reasonable time. Delays caused by your inability to perform your financial obligations are not considered to be beyond your control for this purpose.

Obligations During Operation

- 1) We allow you continuing use of our manuals and the information on our intranet which includes various operations and marketing/public relations information as well as various templates, policies, programs, and the like. (Franchise Agreement Sections 8.01 and 8.25)
- 2) We provide you with one or more email addresses and a sub-domain address for your studio on our web site as well as a Facebook template with which you can build your *Bar Method* Facebook page. (Franchise Agreement Section 8.25)
- 3) We will consult with you on marketing and public relations matters including your use of the Internet and social media. (Franchise Agreement Sections 8.25 and 10.01)
- 4) We will conduct periodic teacher evaluations (Franchise Agreement Sections 7.17 through 7.19)
- 5) We can provide additional training, meetings and conferences in our discretion. (Franchise Agreement Section 7.20).
- 6) We have staff members available to consult with you by telephone or email during our normal business hours concerning the operation of your studio. (Franchise Agreement Section 8.26).
- 7) We can send a representative to your studio to consult with you on the operation and performance of your studio at such times and with such frequency as we determine. (Franchise Agreement Section 8.27).
- 8) For an extra cost and with our agreement, we will send a representative to your studio at your request to consult with you on studio operations. (Franchise Agreement Section 8.28).

Advertising Program

As of the date of this Franchise Disclosure Document, we do not have national, regional or local advertising or public relations fund to which you must contribute or an advertising cooperative to which you must belong. However, we have the right to start one. If we do, you agree to contribute to that fund in an amount that we require that will not exceed 3% of your gross receipts. Our company-owned studios will contribute to that fund in a like amount. Studios with older Franchise Agreements may not have to contribute to the fund unless they agree to voluntarily do so. We will administer the fund to promote the *Bar Method* system. The fund will not be used to solicit

the sale of franchises. The money paid in to the fund will be segregated from our other funds and be used only for the purposes of the advertising fund. The annual financial statements of the fund do not have to be audited but they will be made available to participants in the fund. We will not be obligated to spend the money from the advertising fund in any particular area or within any particular time period. Money not spent during one year will carry over to the next year. (Franchise Agreement Section 10.02 through 10.05)

We also have the right to form regional advertising associations or programs in addition to the advertising fund described above. If we do so in the region where your studio is located, you agree to participate in the activities of the association or the concerned program. You also agree to pay toward that association or those programs an amount that we require that will not exceed 2% of your gross receipts. This payment would be in addition to any payments you are required to make to the advertising fund described above. (Franchise Agreement Section 10.07)

You are required to spend monthly at least 1% of your gross revenues or \$100.00, whichever is greater, on the advertising and promotion of your studio on a local basis. If we form a regional advertising association, the amount you pay toward the activities of that association can be offset against these amounts.

We do not have, but may form, a council composed of franchisees to advise us on advertising and public relations policies and programs. We have no obligation to do advertising or public relations for your *Bar Method* studio or *The Bar Method* system and we impose no advertising or public relations requirements on our studios. (Franchise Agreement Section 10.06)

If you propose to do any advertising or public relations promotion for your studio, including that you propose to publish on the Internet or by any other electronic or alternative means, you must submit your proposal to us for approval prior to its use. We have 15 business days from our receipt of those items to approve the proposal. We can extend this time period if we need more information from you concerning the proposed activity. (Franchise Agreement Section 10.01)

At our direction, your exclusive presence on the Internet and on or in any other electronic or alternative media can only be on or through our Internet site or on or in such other media as we may specify. You must follow all of our policies and procedures concerning your use of the Internet, other electronic media and any other means or media whether or not it is specified in the Franchise Agreement and whether the media now exists or may be developed in the future, including your use of the Internet in connection with your advertising, promotions, marketing or other activities. Without our prior written consent, you may not use any of the assets we license to you, our names or marks or any names or marks confusingly similar to them, in connection with any use you make of the Internet or other media. (Franchise Agreement Section 8.25)

Your use of the Internet and other media, whether by means of our Internet site or otherwise, must take place in the manner and have the design, content and appearance that we periodically specify or otherwise approve. If you are allowed to have your own Internet site, or other media, that uses our names or marks, we will have control over the content, appearance, design and all other aspects of the site or media use. We will have unrestricted access to all of your Internet and other media sites and you must inform us of their existence, location, addresses and other attributes.

If we allow you to have your own Internet site or if you have any other electronic or media presence, you may not use or authorize the use of, any means of referring to your site,

such as by meta tags, links or similar reference devices without our prior written consent. In addition, your site or presence must not refer to or show the site of another, such as by the use of frames, without our prior written consent.

Computer System

You must acquire and use the computer hardware and software that we specify or otherwise approve. We currently use MindBody® software for online class scheduling, studio service reservations, processing client credit and debit card payments, keeping your business records, and generating business reports among other things. The cost of this software depends on the number of teachers whose activities are scheduled using this program. As of the date of this disclosure document, if you have 1-5 teachers there is a monthly hosting cost of \$70.00. For 6-12 teachers there is a \$90.00 per month hosting fee. There is an additional credit card processing fee equal to 2% of the amount processed. These amounts are subject to change. We estimate that the initial cost of the minimum computer hardware and internal software needed for the operation of your studio will be between \$2,000.00 and \$3,000.00. We have the right to change or add to the third-party data services providers with which you will be required to do business.

We have the right to access the information on your computer and that of the third-party provider or providers to the extent it pertains to the operation of your *Bar Method* studio. Therefore, your system must allow data communication between your studio workstations and our central computer. (Franchise Agreement Section 8.24)

We reserve the right to update and modify our computer system and software requirements. You must comply with these new requirements. We will give you a reasonable time to amortize the cost of your current system and software before we require you to acquire a new computer system or software. There are no contractual limitations on the frequency and cost involved in the upgrading, updating or modifying of your hardware or software. (Franchise Agreement Section 8.24)

Manuals

You can review our various manuals at our offices prior to signing your Franchise Agreement. You must sign the Nondisclosure and Confidentiality Agreement attached as Exhibit D to this disclosure document before you will be allowed to review our manuals.

Training

TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location (See Below)
Teaching <i>Bar Method</i> classes	52	0	San Francisco or where we may determine.
General Business Operations, Scheduling, Record Keeping and Reporting	Up to 15	0	At your home or studio
Totals:	Up to 67	0	

The times in this chart are estimates only. If you have business or fitness training experience, the number of hours of training may be less. We normally conduct our training classes quarterly as needed. You will use our Teachers' Manual and various other instructional materials in your training. Our training course and related information is discussed in Section 7 of the Franchise Agreement.

All those who own more 20% of the entity that owns your studio and this franchise must be trained by us and must be certified *Bar Method* teachers. He or she and at least one other teacher must complete our training program to our reasonable satisfaction and be certified prior to the opening of your first *Bar Method* studio. However, it is usually necessary to have at least 4 trained and certified teachers to conduct a sufficient number of classes at your studio. Therefore, while we do not require it, we recommend that you bring at least 3 other teachers with you to training. You and your initial teaching staff must attend our training at the same time unless we agree otherwise.

If you are already a certified *Bar Method* teacher, we recommend that you audit the entire training course taken by your teachers. We can require you to audit the training of your teachers or such part of it as we decide is appropriate. Auditing training if you are a certified teacher will not count as one of the 2 initial trainings we provide at no extra cost.

Most of your initial training will be at the studio of The Bar Method, Inc. in San Francisco, California, unless we specify or agree that some of your training will be at another location. If you request and we agree to perform additional training at your studio location, you must pay the salaries, benefits, travel costs, lodging and other travel-related expenses of the trainers. If we elect to visit your studio prior to its opening, additional training may be provided at that time. You must reimburse us for the travel and living costs of the representative or representatives who visit your studio to provide this preopening assistance.

You will typically begin your initial training approximately 90 to 180 days prior to the opening of your studio. We will schedule your training at a time that is mutually convenient. The exercise technique training will be conducted by Burr Leonard or another certified *Bar Method* trainer. Ms. Leonard has been teaching barre-based exercise classes and operating the studios of The Bar Method, Inc. and its predecessor since 1992.

Business subjects will be taught by means of telecommunications, video or other remote method once you return to your home. These subjects are taught by members of our staff familiar with the operation of a *Bar Method* studio.

All those who own more than 20% of the entity that owns your studio and this franchise must be trained by us and must be certified as a *Bar Method* teacher at least 1 month prior to the opening of your studio. He or she and at least one other teacher must complete our training program to our reasonable satisfaction and be certified prior to the opening of your first *Bar Method* studio. However, it is usually necessary to have at least 4 trained and certified teachers to conduct a sufficient number of classes at your studio. Therefore, while we do not require it, we recommend that you bring at least 3 other teachers with you to training. You and your initial teaching staff must attend our training at the same time unless we agree otherwise.

We can reject any trainee, including trainees who are owners of your studio, for any reason prior to their being certified as *Bar Method* teachers. Instead to rejecting the teacher, we can require, as a condition of keeping them, that you pay for their additional training by a certified *Bar Method* teacher trainer or coach.

Once your trainees have completed their classroom training, they must complete 90 hours of practice teaching to be certified as a *Bar Method* teacher. The practice teaching is done once they return home at an appropriate location you select. Our staff normally does not attend or participate in this practice teaching. Our teaching manual provides the details of the post-training protocol that must be followed once your classroom training is completed and the time within which it must be started and completed. We have certified various *Bar Method* coaches you can employ directly to assist you with your practice teaching. If they are available, you may also be able to employ one of our teacher trainers to assist you with your practice teaching. You will be responsible for the compensation of any coaches and trainers you hire as well as their expenses.

We do not charge for the initial training of your studio's first 2 teachers but you are responsible for your and their travel and related expenses as well as the salaries, benefits and expenses of the teachers you have attend our training course. An additional charge is made for training additional teachers, including if that is necessary because one of your original teachers does not complete our training course or fails to complete it to our reasonable satisfaction.

All of those who teach *Bar Method* classes must be certified by us prior to undertaking their teaching activities.

Your studio must be under the overall supervision of a certified *Bar Method* teacher who is the owner of more than 20% of the entity that owns your studio. This person, and the other *Bar Method* teachers you employ, must teach the minimum number of classes specified in your Franchise Agreement.

You and anyone else who attends our training course must complete the course to our satisfaction. If you do not complete our training course in a satisfactory manner, we can require another person who owns more than 20% of the entity that owns the franchise to attend and complete our training course to our satisfaction and to supervise the operation of your *Bar Method* studio and you must reduce your ownership of the studio to less than 20%. If neither you nor a subsequent equity owner completes our training course to our satisfaction at the times we require, we can terminate the Franchise Agreement and retain the entire initial franchise fee

and all other sums paid to us to the date of the termination. All of those who own more than 20% of the equity in your studio, the supervisor of your studio and all other teachers, must complete the periodic recertification described above. If your supervisor does not complete the recertification in the manner we require, he or she can no longer teach *Bar Method* classes nor supervise the operation of your studio.

Only certified *Bar Method* teacher trainers are authorized to train *Bar Method* teachers. Therefore, only if you are a certified *Bar Method* teacher trainer can you train your own teachers and then only by following the procedure described in your Franchise Agreement.

Since the competence of *Bar Method* teachers is essential to the success of your studio and the entire *The Bar Method* system, in an effort to maintain the quality of the *Bar Method* teaching staff, you and each of your teachers are evaluated each year by a certified *Bar Method* evaluator. Those not earning the minimum evaluation certification score must bring their skills up to the minimum level within 2 months and receive a passing score on their next evaluation or they will be de-certified and will not be allowed to teach at any *Bar Method* studio until they are successfully recertified. To assist you or a teacher in meeting the minimum evaluation certification score, you may hire a certified *Bar Method* coach to provide additional training, attend, or send the concerned teacher to attend, a *Bar Method* training class we provide or coach the teacher yourself. If you want to attend, or send a teacher to attend, our training course, we charge an additional fee for that training. If you wish to hire a certified *Bar Method* coach, you negotiate the terms of the coaching package directly with the coach since the coaches do not perform this activity as our employees. We can require that you or your teachers attend our training course if that is necessary because you or any of your teachers are inadequately trained. That fee is also discussed in Item 6 above.

If we sponsor refresher courses, conventions, seminars, programs or other meetings for owners of *Bar Method* studios or for their employees, you must attend and have the appropriate employees attend, those meetings, but we will not require attendance by each owner at more than one of these meetings in any 12-month period. In addition, if we sponsor any regional training programs or other meetings in the region in which your *Bar Method* studio is located, you are required to attend these meetings and to send to these meetings those of your employees we designate but we will not require attendance at more than one of these meetings in any 3-month period. You must pay your own expenses and those of your employees for travel, lodging, salaries, benefits and the other costs incurred in attending these events. We can charge reasonable fees for your and your employees' attendance at any of these meetings. (Franchise Agreement Section 7.20)

ITEM 12 TERRITORY

Your Franchise Agreement will specify the location of your *Bar Method* studio. When we approve the location for your studio, we must mutually agree on a protected territory within which we and our affiliates will not open a company-owned or franchised studio whose principal program is providing bar-based exercise classes. If we cannot agree on a protected territory, we can terminate your Franchise Agreement. We and our affiliates can own, operate or franchise any other type of business in your territory under any name or mark, other than the names and marks licensed to you by the Franchise Agreement.

The grant of a protected territory does not permit you to open any additional *Bar Method* studios, or to relocate your studio, in that territory. Protected territories granted to *The Bar Method*

franchisees or reserved for studios we operate or those operated by The Bar Method, Inc. or any other entities with whom we may become affiliated may overlap.

Excluded from the restrictions provided to you by the grant of a protected territory are any exercise studios or other facilities owned, operated, and/or franchised by any person or entity with whom or which we merge, by whom or which we are acquired or which we acquire or otherwise become affiliated after the effective date of your Franchise Agreement. However, none of the studios opened or operated by that person or entity will operate under *The Bar Method* name within your territory.

If you request a protected territory, we must mutually agree to the boundaries of that territory as a condition of continuing our franchise relationship. We normally base our decision on whether to approve a protected territory on the population and demographics of the market within that area. Protected territories usually contain approximately 10,000 women between the ages of 25 and 65 with a minimum household income of \$100,000.00. We will occasionally approve a territory with less than these characteristics if you can convince us that the approval of such a territory is justified. The location of your studio does not limit the area from which your customers can be obtained. As such, you may solicit and accept customers from outside your territory and we, our affiliates and other *Bar Method* studio owners can solicit and accept customers from within your protected territory.

You are allowed to provide services and sell products bearing *The Bar Method* name and marks only from your studio and only at retail. We, The Bar Method, Inc., our licensor and our other affiliates have the exclusive right to sell *The Bar Method* merchandise at wholesale, including to retail outlets not affiliated with *The Bar Method* system, by means of catalogs, by electronic means, including over the Internet, and by other methods of distribution, even if those sales are made to outlets or customers located in your protected territory. You are not entitled to any compensation if we, The Bar Method, Inc., our licensor or our affiliates make such sales within your protected territory.

We have the right to establish, solicit and manage a national accounts program that may serve businesses within your territory. You must participate in that program in the manner provided in our manuals and other directives.

If a business, government, education or other larger entity located within your protected territory desires to have *The Bar Method* classes conducted in or in affiliation with, their facilities, such as for the employees of a company, we will offer you the opportunity to conduct these classes if, in our reasonable judgment, you and your teachers can conduct the classes with competence and without it having a detrimental effect on the operation of your studio. If we determine that you do not have the capacity or if you indicate that you do not want to conduct the required classes for the requesting entity, we, The Bar Method, Inc. or affiliates can conduct the classes, either directly, through another *The Bar Method* franchisee or otherwise. If The Bar Method, Inc., we, our other affiliates, another *The Bar Method* franchisee or someone else we sanction, conducts these classes within your protected territory, we will pay you 3% of the gross receipts obtained from conducting the classes. These payments will be made within 15 days of when we, The Bar Method, Inc. or our affiliate receives payment for the classes or when we receive the royalty on those receipts from the franchisee or payment from the other person or entity, that conducts the classes.

You may relocate your studio only with our written approval, the signing a mutual general release of all claims, signing a new Franchise Agreement covering that location and reimbursing us

for any expenses we incur in connection with the relocation, including a reasonable amount for the time of our employees.

The continuation of your protected territory is not conditioned upon your achievement of a certain sales volume. We cannot modify your protected territory during the term of your Franchise Agreement without your consent.

ITEM 13 TRADEMARKS

On January 1, 2008, The Bar Method, Inc. registered the words "The Bar Method" as a service mark on the Principal Register of the United States Patent and Trademark Office under Registration Number 3361568. The mark had previously been registered on the Supplemental Register of the United States Patent and Trademark Office under Registration Number 2679225 and was registered on January 21, 2003. The mark was assigned to Bar Method Media, Inc. on December 23, 2011. On January 29, 2013, Bar Method Media, Inc. was also granted a service mark registration on the Principal Register of the United States Patent and Trademark Office for the words "the bar method" with its bar design. That registration bears Registration Number 4281521.

All required affidavits required to keep our licensor's trademarks in effect have been filed.

To the best of our knowledge there are no currently effective material determinations of the United States Patent and Trademark Office, trademark trial and appeal board, the trademark administrator of any state or any court involving our service mark or any pending infringement, opposition, cancellation or pending material litigation involving the mark.

We are allowed to use the names, marks and symbols for the operation and franchising of *Bar Method* studios throughout the world under a License Agreement dated January 1, 2008, which was originally with The Bar Method, Inc. The License Agreement was assigned to the new owner of the mark, Bar Method Media, Inc. on January 11, 2012. Our License Agreement has an initial term of 20 years and continues to renew without further action of the parties for renewal terms of 10 years each at the expiration of the initial term. However, if, following the initial term and on the anniversary date of each renewal, we must have at least 5 franchisees using the *Bar Method* name or our licensor has the right to terminate the License Agreement upon 6 months prior written notice. If we have at least 5 franchisees using the name by the expiration of that notice period, the License Agreement shall not terminate but shall continue for the renewal term. If the License Agreement terminates because we failed to have the required number of franchisees operating, we can no longer offer or sell franchises for *Bar Method* studios. However, as long as we abide by the other provisions of our License Agreement, we and our franchisees can continue to use the licensed marks and system and we can continue to perform our duties under our existing Franchise Agreements.

Except for our License Agreement, there are no agreements currently in effect which significantly limit our rights to use or license the use of the names, marks or symbols used by Bar Method studios in any manner material to your franchise.

Even though we license you to use the "The Bar Method" name, you are not allowed to use that name or any similar name, in the name of the partnership, limited liability company, corporation or other business entity that owns your studio or in the name of any other business or entity in which you have an interest.

We may license you periodically to use other names, marks or symbols in connection with the operation and promotion of your studio. You must use those names, marks or symbols at your expense. You cannot use any names, marks or symbols to identify or promote your studio other than those we specify.

If for any reason we decide to change our principal names, marks or symbols, you agree to use our new names, marks or symbols and to discontinue using the names, marks or symbols we direct you to stop using. If we require you to stop using any of the names, marks or symbols we license to you, we will reimburse you for your reasonable out of pocket costs in replacing items which bear the affected names, marks or symbols as long as you comply with our directives concerning their use and disposition.

If your use of any of the names, marks or symbols we license to you is ever challenged or if you discover a possible infringing use by a third party, you must notify us of that challenge or infringement immediately. It is up to us what action to take, if any, concerning the challenge or infringing use, as well as concerning any legal or administrative action concerning the names, marks or symbols that are used in connection with Bar Method studios. We will pay all fees and costs in any action resulting from a challenge by third parties to the use of our names, marks or symbols. We also will pay any damages for which you are held liable in any infringement or unfair competition action by a third party as long as you have used the licensed names, marks and symbols as required by your Franchise Agreement and have notified us promptly of the claim. You agree in the Franchise Agreement to cooperate with us in handling any proceedings involving the licensed names, marks or symbols.

You agree in the Franchise Agreement not to apply for registration of any of the licensed names, marks or symbols or to contest their ownership. You also agree not to assist anyone else in doing so.

ITEM 14 PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We do not own any patents or copyright registrations that are material to the franchise.

We have an unregistered copyright on our manuals. The contents of our manuals and our other confidential information are our proprietary property. You are not permitted to use our confidential information except in connection with the operation of your *Bar Method* studio and as permitted in your Franchise Agreement.

Your employees must sign confidentiality and noncompetition agreements in the form we require in order to protect our proprietary and confidential information.

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

We have found that a studio has the best chance of success when people with a material stake in its operation control and supervise its daily conduct. As such, we require that everyone owning more than 20% of a *Bar Method* studio must be a certified *Bar Method* teacher and must successfully complete our periodic recertification requirements. He or she must personally teach classes at the studio at least 6 classes each week, averaged over each 3-month period unless the individual is pregnant, it is within the fourth month after giving birth or he or she has a serious injury or other temporary material condition that prevents meeting this requirement. Each studio

must be under the overall management supervision of a person owning more than 20% of the entity which is the franchisee under the Franchise Agreement.

If the studio is owned by more than one person, whether as a partnership or in the form of a corporation, limited liability company or some other entity, the owners must appoint one person as their "Managing Agent". The Managing Agent must be the owner of more than 20% of the entity and must comply with the certification and teaching requirements described above. The Managing Agent must have the authority to speak for the entity and have the power to legally bind the entity in its dealings with us. If the Managing Agent no longer qualifies for that position, you must promptly appoint a successor Managing Agent.

Your employees, and anyone else to whom we authorize you to show our confidential information, must sign noncompetition and nondisclosure agreements in which they promise not to disclose or misuse any of our confidential or proprietary information.

All owners of the franchise must sign a guaranty of the obligations of any entity that owns the franchise. As such, they will be bound individually by the financial, nondisclosure and noncompetition covenants in the Franchise Agreement.

ITEM 16 RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer all of the products and services that we require from your *Bar Method* studio. You are prohibited from offering or selling any products or services we do not authorize. For example, at the date of this disclosure document *Bar Method* studios are not permitted to sell vitamins, supplements or other nutritional products or food items, other than bottled water.

You cannot use your studio premises for any purpose other than the operation of your *Bar Method* studio. We can add to, delete or otherwise modify the products and services we require you to provide from your *Bar Method* studio.

Except as discussed in Item 12 above, you are not limited in the clients to whom you may sell your services.

ITEM 17 RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

This table lists important provisions of the Franchise Agreement. You should read these provisions in the Franchise Agreement attached to this disclosure document.

Provision	Section in Franchise Agreement	Summary
a. Length of the franchise term	4.01	The initial term of the Franchise Agreement is 10 years.
b. Renewal or extension of the term	4.02	The franchise can be renewed for 1 additional 10-year term subject to the conditions listed in c. below.

Provision	Section in Franchise Agreement	Summary
c. Requirements for franchisee to renew or extend	4.02 – 4.04	You must not be in default under the Franchise Agreement. You must give us at least 6 months written notice of your desire to renew and sign our then-current Franchise Agreement which may contain terms that are materially different from those in your current contract. You must not have received 2 or more notices of default over any 3-year period. You must pay our renewal fee and update your studios. You must sign a mutual general release of all claims which will include us, our licensor, our affiliates and our and their agents.
d. Termination by franchisee	16.06	If we have violated the Franchise Agreement and not cured the default within 20 days after notice plus any additional period reasonably required for the cure, you have all remedies available to you under law.
e. Termination by franchisor without cause	Not applicable	We can only terminate the Franchise Agreement for the reasons stated in the agreement.
f. Termination by franchisor with cause	16.01 – 16.04	We can terminate the Franchise Agreement under the circumstances described below. Defaults under other agreements with us are also defaults under the Franchise Agreement.
g. "Cause" defined - curable defaults	16.01 - 16.04	We can terminate the Franchise Agreement if you do not cure the following defaults within the time periods specified: if you do not pay us or any of our affiliates any amounts due within 10 days of notice; if any other violation of the Franchise Agreement is not cured within 20 days after notice. If more than 20 days is reasonably required to cure the default you will have additional time within which to cure the default; if you do not relocate your studio within 120 days after the end of your lease if the lease unless the lease was terminated because of your default. We can also terminate your Franchise Agreement if you do not meet the ongoing capital and profitability requirements set forth in the Franchise Agreement within the time periods described in that agreement.
h. "Cause" defined - non-curable defaults	16.01 & 16.02	The following events will allow us to terminate the Franchise Agreement without giving you notice or an opportunity to cure the default: if you do not submit your proposed locations, execute a lease for your first studio, obtain any needed financing or develop and open your first studio within the time periods specified in the Franchise Agreement; if you are declared bankrupt or insolvent or make an assignment for the benefit of creditors; if you or an owner of your studio have made any material misrepresentations related to the acquisition of the; if you or an owner of your studio engages in conduct reflecting adversely on your studio of <i>The Bar Method</i> system; if you fail to comply with any law or regulation relevant to your business within the time allowed by law; if you or an owner of your studio is convicted of or pleads guilty to no

Provision	Section in Franchise Agreement	Summary
		<p>contest to, any felony or any criminal misconduct that is relevant to your business; if your business or the assets of the business are seized by a creditor or lienholder; if we make a reasonable determination that your business presents a danger to the public; if you intentionally underreport your gross receipts or do so in the amount of 10% or more in any reporting period; if you abandon the business; if you are given 2 or more notices of valid defaults under your Franchise Agreement within any 12-month period even if you cure the defaults; if anyone required to complete our training course does not do so; if you or any owner of the franchise attempts to transfer your franchise or your assets other than as allowed by the Franchise Agreement; if the interest of a deceased or legally incompetent owner is not transferred as specified in the Franchise Agreement; if you default under your lease and lose your right to occupy your studio; if you make any unauthorized disclosure of our confidential information; if any other agreement between us or between you and any of our affiliates, is terminated because of your default; or if you violate the in-term noncompetition covenants of the Franchise Agreement.</p>
i. Franchisee's obligations on termination/non-renewal	16.07 – 16.12	<p>Upon the expiration or termination of the Franchise Agreement you must: bring all accounts with us and our affiliates current; remove and stop using our names, marks and signs; change the appearance of your studios so that they do not resemble our format; return our manuals and material; change your telephone number and transfer your old telephone number to us; transfer your Internet address and web site, if any, to us; cancel your fictitious business name; notify suppliers, customers and creditors you are no longer in <i>The Bar Method</i> system; and comply with the post-term noncompetition and nondisclosure provisions of the Franchise Agreement. We have the option to purchase your business assets and take over the lease of your studio on the termination or expiration of your Franchise Agreement.</p>
j. Assignment of contract by franchisor	15.20	<p>We can assign our interest in the Franchise Agreement or any of our rights under it, as long as the transfer will not materially interfere with your benefits under the Franchise Agreement.</p>
k. "Transfer" by franchisee - definition	15.01	<p>Any voluntary or involuntary direct or indirect transfer, assignment, sale, gift or other disposition of any interest in the franchise, the assets of the studio or a change in ownership of any entity that owns any interest in the franchise. Any transfer by operation of law, such as in a divorce proceeding or upon the death, is also considered a transfer.</p>
l. Franchisor approval of transfer by franchisee	15.02 & 15.03	<p>We must approve your marketing plan and any proposed transfer or it will be ineffective and a violation of the Franchise Agreement.</p>

Provision	Section in Franchise Agreement	Summary
m. Conditions for franchisor approval of a transfer	15.03 – 15.11	Your proposed transferee must meet our then-current qualifications. We must approve the terms of the transfer transaction. If you own more than one studio, you must transfer all of your studios unless we agree otherwise. You and your transferee must sign the transfer documents and agree to the terms we require. You must submit our application and transfer fee. You must sign a mutual general release of all claims that will include us, our licensor and our affiliates. Your transferee must complete our training course to our satisfaction and must sign our then-current Franchise Agreement.
n. Franchisor's right of first refusal to acquire franchisee's business	15.12 & 15.13	You must provide us with the terms of the proposed transfer. We have 20 days after your notice to elect to purchase your business those terms, except we can elect to pay cash in place of any noncash consideration and do not have to comply with any terms not related to your <i>Bar Method</i> business.
o. Franchisor's option to purchase franchisee's business	16.08 – 16.11	When your Franchise Agreement ends we can purchase some or all of the physical assets of your business for their fair market value. If we cannot agree on the purchase price, the Franchise Agreement contains provisions by which the purchase price will be determined by one or more independent appraisers. We can also have you assign your lease to us.
p. Death or disability of franchisee	15.14 – 15.18	Your interest in the franchise or the assets of your business can be transferred upon your death or legal incapacity within 6 months of the concerned event. The transfer must comply with all prerequisites to transfer in your Franchise Agreement.
q. Non-competition covenants during the term of the franchise	17.01	During the term of your Franchise Agreement neither you nor anyone who has any ownership interest in an entity that owns any interest in the franchise can own or be involved with, any business that provides fitness or exercise services.
r. Non-competition covenants after the franchise is terminated or expires	17.04	For 2 years after the termination, expiration or transfer of your Franchise Agreement, neither you nor anyone who owns an interest in an entity that had any interest in the franchise can directly or indirectly own, engage in or be involved with any business that provides fitness or exercise services within your territory or within a 5 mile radius of your territory, whichever area is larger.
s. Modification of the agreement	19.01 & 19.02	The Franchise Agreement only can be modified by a written agreement signed by the parties. We can modify our manuals and other aspects of <i>Bar Method</i> studios and you are required to comply with those changes.
t. Integration/merger clauses	31.01 – 31.08	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to applicable state law). No other representations or promises will be binding. Nothing in the Franchise Agreement or in any other related written agreement is intended to disclaim representations made in the franchise disclosure document.

Provision	Section in Franchise Agreement	Summary
u. Dispute resolution by arbitration or mediation	18.01 - 18.04	Any controversy or claim must be submitted to mediation before a legal action is filed. The Franchise Agreement does not contain an arbitration clause
v. Choice of forum	18.03	Subject to any limitations or requirements of applicable state law, any mediation or judicial action must be in San Francisco, California.
w. Choice of law	26.01 & 26.02	Subject to any limitations or requirements of applicable state law, the Franchise Agreement is governed by California law except for the noncompetition provisions which are governed by the law of the state where your studio is located. If your studio is not located in California, certain other provisions of California law will not apply.

Also see the State-Specific Addendum to this Franchise Disclosure Document and the Franchise Agreement for additional terms that may apply in your state.

ITEM 18 PUBLIC FIGURES

No public figure is involved in the promotion of our franchise or in the management of our company.

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 pro forma operating statements are based on, but not a historical representation of, the operations of The Bar Method, Inc.'s *Bar Method* studio and studios of our licensees and franchisees that have been open for more than 12 months. **These figures are only estimates of what we think you may earn. Your individual results may differ. There is no assurance that you will earn as much.**

The assumptions on which the pro forma operating statements are based are set forth in the notes to those statements. Written substantiation of the data used in preparing the pro forma operating statements will be made available to you upon reasonable request.

Pro Forma Operating Statement for High Volume Studio

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Notes</u>
Sales	<u>400,000</u>	<u>460,000</u>	<u>520,000</u>	<u>610,000</u>	<u>700,000</u>	<u>800,000</u>	<u>925,000</u>	<u>1,000,00</u>	1
Expenses:									
Rent	96,000	102,000	108,000	114,000	120,000	126,000	132,000	138,000	2
Labor	60,000	80,000	100,000	120,000	140,000	160,000	180,000	200,000	3
Credit Card Fees	12,000	13,800	15,600	18,300	21,000	24,000	27,750	30,000	4
Royalties	24,000	27,600	31,200	36,600	42,000	48,000	55,500	60,000	5
Utilities	6,000	6,100	6,200	6,300	6,400	6,500	6,600	6,700	6
Liability Ins.	1,500	1,550	1,600	1,650	1,700	1,750	1,800	1,850	
Property Ins.	1,500	1,550	1,600	1,650	1,700	1,750	1,800	1,850	
Workers Comp.	3,000	3,500	4,000	4,500	5,000	5,500	6,000	6,500	7
Supplies	12,000	13,000	14,000	15,000	16,000	17,000	18,000	19,000	8
Marketing	4,000	4,600	5,200	5,800	6,400	7,000	7,600	8,200	
Miscellaneous	36,000	37,000	38,000	39,000	40,000	41,000	42,000	43,000	9
Total Expenses	<u>256,000</u>	<u>290,700</u>	<u>325,400</u>	<u>362,800</u>	<u>400,200</u>	<u>438,500</u>	<u>479,050</u>	<u>515,100</u>	
Profit	<u>144,000</u>	<u>169,300</u>	<u>194,600</u>	<u>247,200</u>	<u>299,800</u>	<u>361,500</u>	<u>445,950</u>	<u>484,900</u>	10

Pro Forma Operating Statement for Medium Volume Studio

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Notes</u>
Sales	300,000	345,000	390,000	450,000	530,000	600,000	690,000	790,000	1
Expenses:									
Rent	96,000	102,000	108,000	114,000	120,000	126,000	132,000	138,000	2
Labor	60,000	80,000	100,000	120,000	140,000	160,000	180,000	200,000	3
Credit Card Fees	9,000	10,350	11,700	13,500	15,900	18,000	20,700	23,700	4
Royalties	18,000	20,700	23,400	27,000	31,800	36,000	41,400	47,400	5
Utilities	6,000	6,100	6,200	6,300	6,400	6,500	6,600	6,700	6
Liability Ins.	1,500	1,550	1,600	1,650	1,700	1,750	1,800	1,850	
Property Ins.	1,500	1,550	1,600	1,650	1,700	1,750	1,800	1,850	
Workers Comp.	3,000	3,500	4,000	4,500	5,000	5,500	6,000	6,500	7
Supplies	12,000	13,000	14,000	15,000	16,000	17,000	18,000	19,000	8
Marketing	4,000	4,600	5,200	5,800	6,400	7,000	7,600	8,200	
Miscellaneous	36,000	37,000	38,000	39,000	40,000	41,000	42,000	43,000	9
Total Expenses	<u>247,000</u>	<u>280,350</u>	<u>313,700</u>	<u>348,400</u>	<u>384,900</u>	<u>420,500</u>	<u>457,900</u>	<u>496,200</u>	10
Profit	<u>53,000</u>	<u>64,650</u>	<u>76,300</u>	<u>101,600</u>	<u>145,100</u>	<u>179,500</u>	<u>232,100</u>	<u>293,800</u>	

Pro Forma Operating Statement for Low Volume Studio

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Notes</u>
Sales	<u>240,000</u>	<u>275,000</u>	<u>320,000</u>	<u>360,000</u>	<u>420,000</u>	<u>480,000</u>	<u>550,000</u>	<u>630,000</u>	1
Expenses:									
Rent	96,000	102,000	108,000	114,000	120,000	126,000	132,000	138,000	2
Labor	60,000	80,000	100,000	120,000	140,000	160,000	180,000	200,000	3
Credit Card Fees	7,200	8,250	9,600	10,800	12,600	14,400	16,500	18,900	4
Royalties	14,400	16,500	19,200	21,600	25,200	28,800	33,000	37,800	5
Utilities	6,000	6,100	6,200	6,300	6,400	6,500	6,600	6,700	6
Liability Ins.	1,500	1,550	1,600	1,650	1,700	1,750	1,800	1,850	
Property Ins.	1,500	1,550	1,600	1,650	1,700	1,750	1,800	1,850	
Workers Comp.	3,000	3,500	4,000	4,500	5,000	5,500	6,000	6,500	7
Supplies	12,000	13,000	14,000	15,000	16,000	17,000	18,000	19,000	8
Marketing	4,000	4,600	5,200	5,800	6,400	7,000	7,600	8,200	
Miscellaneous	36,000	37,000	38,000	39,000	40,000	41,000	42,000	43,000	9
Total Expenses	<u>241,600</u>	<u>274,050</u>	<u>307,400</u>	<u>340,300</u>	<u>375,000</u>	<u>409,700</u>	<u>445,300</u>	<u>481,800</u>	
Profit/Loss	<u>(1,600)</u>	<u>950</u>	<u>12,600</u>	<u>19,700</u>	<u>45,000</u>	<u>70,300</u>	<u>104,700</u>	<u>148,200</u>	10

Notes:

The pro forma operating statements are a forecast of the franchisee's future financial performance. **Your individual financial results may differ from the results stated in the financial performance representation.**

1. These sales figures represent revenue only from Bar Method classes. They assume average revenue per client visit of \$20 based on a price point that varies from \$16 per class (i.e. discounted cost for prepaying for 30 classes) to \$35 per class for a single class. These pricing assumptions are valid for most North American urban markets. There are some suburban and rural markets where prices would have to be lower and a few markets where prices could be higher. These statements assume 20,000 client visits for high volume studios, 15,000 client visits for medium volume studios, and 12,000 client visits for low volume in the first year increasing to 50,000 client visits for high volume studios, 39,500 client visits for medium volume studios, and 31,500 client visits in the 8th year of operation. The sales figures are based on an average price per class of \$20.

2. All examples assume a 3,000 square foot studio at a rent of \$8,000 per month rising to a little more \$11,000 per month over 8 years including triple net charges. In some markets, rent could be as low as \$3,500 per month. In major urban markets rent can be more than \$15,000 per month.
3. Labor costs include both teachers and receptionists but do not include childcare workers, if needed. These examples make no allowance for owner's compensation apart from the studio's profit. It is assumed that in the first year a studio will offer approximately 130 classes a month and that the owner will teach about half of those classes. It is assumed that teachers will be employed to teach about 65 classes per month at a total cost of approximately \$2,000 per month, including payroll taxes and benefits and part-time receptionist staff will cost approximately \$3,000 per month. After 8 years, the studio should offer about 300 classes per month and average labor cost per class will increase to approximately \$40 per class. The cost of reception staff will also increase as volume increases as shown in the above estimates. Labor costs in some areas, such as in major urban areas, will be higher while in other areas they may be lower.
4. Credit card fees are estimated as 3% of gross sales and include all incidental credit card processing charges. The estimates may be a little high.
5. Royalties are based on 6% of gross sales.
6. Utilities include the cost of electricity and telephones only. Some studios may have to pay for heating and cooling and possibly water and sewer usage as well.
7. Workers compensation costs vary with state law.
8. Supplies include bathroom supplies, grooming supplies, cleaning supplies, office supplies and towels and socks, if provided.
9. "Miscellaneous" expenses include such items as attorneys' and accountants' fees, maintenance and equipment replacement costs and local taxes and fees. No allowance has been made for any regional or national advertising association contributions since neither type of organization is in existence at this time.

A studio "matures" in about 8 to 10 years. At that time profits tend to flatten out unless prices can be increased. However, spending on exercise tends to be discretionary so there may be resistance to price increases.

Other than for this financial performance representation, we do not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive other financial performance information or projections of your future income, you should report it to our management by contacting Lisa Donodue at 3717 Buchanan Street, Suite 200, San Francisco, California 94123, (415) 624-3631, the Federal Trade Commission and the appropriate state regulatory agencies.

ITEM 20 OUTLETS AND FRANCHISEE INFORMATION

The following tables show the status of our franchised studios as well as those of the licensees whose agreements were assigned to us in January, 2008. All information is as of December 31, 2012.

Table No. 1
Systemwide Outlet Summary
For years 2010 to 2012

Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised	2010	23	35	+12
	2011	35	53	+18
	2012	53	66	+13
Company-Owned	2010	1	1	0
	2011	1	1	0
	2012	1	1	0
Total Outlets	2010	24	36	+12
	2011	36	54	+18
	2012	54	67	+13

Table No. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For Years 2010 to 2012

Column 1 States	Column 2 Year	Column 3 Number of Transfers
All	2010	0
	2011	0
	2012	1
Total	2010	0
	2011	0
	2012	1

Table No. 3
Status of Franchised and Licensed Outlets
For years 2010 to 2012

Column 1 State	Column 2 Year	Column 3 Outlets at Start of Year	Column 4 Outlets Opened	Column 5 Termination s	Column 6 Non- Renewals	Column 7 Reacquired by Franchisor	Column 8 Ceased Operations- Other Reason	Column 9 Outlets at End of Year
California	2010	14	4	0	0	0	0	18
	2011	18	7	0	0	0	0	25
	2012	25	2	0	0	0	0	27
Colorado	2010	1	0	0	0	0	0	1
	2011	1	1	0	0	0	0	2
	2012	2	0	0	0	0	0	2
Connecticut	2010	1	0	0	1	0	0	0
	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
Florida	2010	0	1	0	0	0	0	1
	2011	1	1	0	0	0	0	2
	2012	2	0	0	0	0	0	2
Georgia	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
	2012	0	1	0	0	0	0	1
Kansas	2010	0	0	0	0	0	0	0
	2011	0	1	0	0	0	0	1
	2012	1	0	0	0	0	0	1
Illinois	2010	3	0	0	0	0	0	3
	2011	3	0	0	0	0	0	3
	2012	3	2	0	0	0	0	5
Louisiana	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
	2012	0	2	0	0	0	0	2

Column 1 State	Column 2 Year	Column 3 Outlets at Start of Year	Column 4 Outlets Opened	Column 5 Termination s	Column 6 Non- Renewals	Column 7 Reacquired by Franchisor	Column 8 Ceased Operations- Other Reason	Column 9 Outlets at End of Year
Massachusetts	2010	0	0	0	0	0	0	0
	2011	0	1	0	0	0	0	1
	2012	1	0	0	0	0	0	1
Missouri	2010	0	1	0	0	0	0	1
	2011	1	0	0	0	0	0	1
	2012	1	1	0	0	0	0	2
New Jersey	2010	3	2	0	0	0	0	5
	2011	5	1	0	0	0	0	6
	2012	6	2	0	0	0	0	8
New York	2010	2	1	0	0	0	0	3
	2011	3	0	0	0	0	0	3
	2012	3	0	0	0	0	0	3
Oregon	2010	0	1	0	0	0	0	1
	2011	1	0	0	0	0	0	1
	2012	1	0	0	0	0	0	1
Texas	2010	0	1	0	0	0	0	1
	2011	1	2	0	0	0	0	3
	2012	3	1	0	0	0	0	4
Tennessee	2010	0	0	0	0	0	0	0
	2011	0	1	0	0	0	0	1
	2012	1	0	0	0	0	0	1
Utah	2010	0	0	0	0	0	0	0
	2011	0	1	0	0	0	0	1
	2012	1	0	0	0	0	0	1

Column 1 State	Column 2 Year	Column 3 Outlets at Start of Year	Column 4 Outlets Opened	Column 5 Termination s	Column 6 Non- Renewals	Column 7 Reacquired by Franchisor	Column 8 Ceased Operations- Other Reason	Column 9 Outlets at End of Year
Washington	2010	1	0	0	0	0	0	1
	2011	1	1	0	0	0	0	2
	2012	2	1	0	0	0	0	3
Washington D.C.	2010	0	0	0	0	0	0	0
	2011	0	1	0	0	0	0	1
	2012	1	0	0	0	0	0	1
TOTALS	2010	24	11	0	1	0	0	34
	2011	34	18	0	0	0	0	52
	2012	52	12	0	0	0	0	64

Table 4
Status of Company-Owned Outlets
For years 2010 to 2012

Column 1 State	Column 2 Year	Column 3 Outlets at Start of the Year	Column 4 Outlets Opened	Column 5 Reacquired from Franchisees	Column 6 Outlets Closed	Column 7 Outlets Sold to Franchisees	Column 8 Outlets at End of the Year
California	2010	1	0	0	0	0	1
	2011	1	0	0	0	0	1
	2012	1	0	0	0	0	1
Totals	2010	1	0	0	0	0	1
	2011	1	0	0	0	0	1
	2012	1	0	0	0	0	1

Note: This outlet is owned by our affiliate The Bar Method, Inc.

Table No. 5
Projected Openings As Of December 31, 2012

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Total Projected Outlets in Next Fiscal Year	Projected New Company-Owned Outlet in the Next Fiscal Year
California	2	3	5	0
Connecticut	0	1	1	0
Florida	2	0	2	0
Illinois	1	0	1	0
Indiana	0	1	1	0
Kansas	1	0	1	0
Maryland	2	0	2	0
Massachusetts	1	1	2	0
New Jersey	0	2	2	0
New York	1	1	2	0
Texas	0	1	1	0
Utah	0	1	1	0
Virginia	0	1	1	0
TOTALS	10	12	22	1

None of our franchisees has signed a confidentiality clause during our last 4 fiscal years.

There are two franchisees who have left the system during our last fiscal year or who have not communicated with us in the last 10 weeks.

Meghann Markham
415.990.5131
Portland, OR Co-Owner - transferred her ownership to co-partner

Jane Culliford
914.462.7828
jane.depalo@gmail.com
Rye Brook, NY owner – transferred her ownership to a new owner

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

Following is a list of our current licensees and franchisees that have studios open.

California

Bar Method West Valley LLC
Jodi Conroy
28878 Roadside Drive
Agoura Hills, CA 91301
agourahills@barmethod.com
818.571.5226

CCCC Bar LLC
Catherine Eggleston
2659 Gateway Road
Carlsbad, CA 92009
carlsbad@barmethod.com
760.683.5098

Barre Body, Inc.
Cindy Root
Bon Air Shopping Center, Suite 208
Greenbrae, CA 94904
marin@barmethod.com
415.461.4461

Graceful Synergy LLC
Andrea Davis & Joanna West
6695 E. Pacific Coast Highway
Long Beach, CA 90803
longbeach@barmethod.com
562.596.0203

Bar Method Brentwood
Mimi & Mark Fleischman
13050 San Vicente Blvd.
Los Angeles, CA
brentwood@barmethod.com
310.899.1109

Marina Del Rey Fitness Inc.
Jenny Lind, Raissa Gerona & Vera Tam
13400 W. Washington Blvd. Suite 201
Marina Del Rey, CA 90292
marinadelrey@barmethod.com
310.301.6500

The Dance Collaborative Inc.
Joey Decker
2422 W. Victory Blvd.
Burbank, CA 91506
burbank@barmethod.com
818.842.0842

Encino Fitness LLC
Katelin Chesna & Emily Beason
17227 Vantura Blvd
Encino, CA 91316
encino@barmethod.com
818.995.2995

Bar Method Hermosa LLC
Millie Katic
1221 Hermosa Avenue, Suite 200
Hermosa Beach, CA 90254
hermosa@barmethod.com
310.376.3444

Rich Lace, LLC
Jennifer Lacy & Kelsy Riach
2829 Sunset Blvd
Los Angeles CA 90026
silverlake@barmethod.com
213.413.3539

Rich Lace, LLC
Jennifer Lacey & Kelsey Riach
2829 West Sunset Blvd.
Los Angeles, CA 90026
silverlake@barmethod.com
213.413.3539

Bar Body LLC
Jessica Duwe & Whitney Bania
7772 E. Coast Hwy.
Newport Coast, CA 92657
newportbeach@barmethod.com
949.715.2199

High Street, LLC
Laura Stein & Noreen Dante
Palo Alto, CA
paloaalto@barmethod.com
650.329.8875

Bar Method Hermosa LLC
Millie Katic
429 Silver Spur Road Ste 2E
Rolling Hills Estates CA 90274
palosverdes@barmethod.com
310.376.3444

NoCo Bar, Inc.
Jessica Bowman
1240 India St. #1107
San Diego CA 92101
solanabeach@barmethod.com
858.847.3312

South Bay Barre, LLC
Leslie Searson & Stephanie Cho
3986 Rivermark Parkway
Santa Clara, CA 95054
santaclara@barmethod.com
408.588.1135

High Street, LLC
Laura Stein & Noreen Dante
128 DeAnza Blvd.
San Mateo, CA 94402
infosm@barmethod.com
650.573.3330

Bar Method West Valley LLC
Jodi Conroy
761 Chapala Street
Santa Barbara CA
santabarbara@barmethod.com
805.845.9380

L.AVECK, LLC
Kate Kuo & Liz Gayed
32 Mills Place
Pasadena CA 91105
pasadena@barmethod.com
626.844.7888

CODA Bar, Inc
Courtney McCurdy
12156 Carmel Mountain Road, Suite 308
San Diego CA 92128
carmelmountain@barmethod.com
858.487.4117

Boobaki Corp
Allison McCurdy
4111 Vermont Street
San Diego, California 92103
sandiego@barmethod.com
720.323.6775

H2 Element, LLC
Heather Thompson and Hannah Blue
Embarcadero Center III
San Francisco, CA 94101
downtownsf@barmethod.com
415.956.0446

Barre Belies, LLC
Audrey Mao & Chelsea Glavinovich
3211 Crow Canyon Place, Suites C & D
San Ramon, California 94583
sanramon@barmethod.com
925.830.8825

Bar Body LLC
Jessica Duwe & Whitney Bania
631 East 1st Street
Tustin, CA 92780
tustin@barmethod.com
714.730.2207

Barre Belles, LLC
Audrey Mao & Chelsea Glavinovich
1946A Mt. Diablo Road
Walnut Creek, CA 04596
walnutcreek@barmethod.com
925.933.1946

Bar Method of L.A.
Mimi & Mark Fleischman
1950 Sawtelle Blvd.
West Los Angeles, CA 90025
barmethodla@aol.com
310.481.0005

Sugar Mountain LLC
Leslie Rosenberg
WaterStreet Plaza
311 Steele Street, 2nd Floor
Denver CO 80206
denver@barmethod.com
303.443.9191

Bar Method Central Florida, LLC
Karen Moreno
Winter Park Village □
480 North Orlando Avenue, Suite 132
Winter Park, FL 32789
winterpark@barmethod.com
407.539.0099

Illinois

Bryant Street, LLC
Catherine Wendel & Lis Settimi
3144 Sheffield Street
Chicago, IL 60657
Chicago@barmethod.com
773.935.2150

Bar Method West Hollywood
Mimi & Mark Fleischman
8416 West Third Street
West Hollywood, CA 90048
barmethodla@aol.com
323.651.2226

Colorado

Sugar Mountain LLC
Leslie Rosenberg
WaterStreet Plaza
2425 Canyon Boulevard,
Boulder, CO 80304
boulder@barmethod.com
303.443.9191

Florida

SMD Ventures LLC
Sherri DiMarco
5734 Sunset Drive, 2nd Floor
South Miami, FL 33143
Miami@barmethod.com
305.668.7738

Georgia

BAMM Fitness LLC
Melissa White & Ashley Watt
1289 Johnson Ferry Rd. Suite 440
Marietta, GA 30068
Atlanta-eastcobb@barmethod.com
770.578.4655

Bryant Street, LLC
Catherine Wendel & Lis Settimi
180 North Wacker Drive (at Lake)
312.332.9150
loop@barmethod.com
312.332.9150

Bryant Street, LLC
Catherine Wendel, Lis Settimi, & Stephanie
Quay
1271 N. Milwaukee Ave.
Chicago IL 60622
wickerpark@barmethod.com
773.384.3150

Kaligriff LLC
Emma Jordan & Stephanie Griffin
55 S. Main Street, Suite 211
Naperville, IL 60540
naperville@barmethod.com
630.544.3431

Louisiana
Rice Village LLC
Jean Chou
8645 Bluebonnet Blvd., Ste. C
Baton Rouge, LA 70810
batonrouge@barmethod.com
225.663.2992

Massachusetts
Boston BarreBelles, LLC
McKenzie Howarth & Sarah Kuzniar
234 Clarendon Street,
Boston, MA 02116
boston@barmethod.com
617.236.4455

Body By Bar LLC
Jessica Prasse
1048 Town & Country Crossing
Town and Country MO 63017
stlouis@barmethod.com
636.527.9797

The Mountain Lakes Bar, LLC
Jennifer Curtis
135 Hawkins Place
Boonton, NJ 07005
mountainlakes@barmethod.com
973.263.BAR9

Bryant Street, LLC
Catherine Wendel & Lis Settimi
1770 First Street, Suite 201
Highland Park, IL 60035
hp@barmethod.com
847.432.9150

Kansas
Tall Bar LLC
Hoddy Potter
5215 W 116th Place
Leawood, Kansas, 66211
leawood@barmethod.com
913.339.9348

Southern Bar LLC
Tiffany Naumann
5217 Pinnacle Pkwy
Covington, LA 70433
covington@barmethod.com
985.871.1131

Missouri
Body By Bar LLC
Jessica Prasse
#27 The Boulevard
Richmond Hights, MO 63117
Stlouis-brentwood@barmethod.com
314.721.9797

New Jersey
Liremacc Partners LLC
Gina Williams & Melissa Ramsey
80 Morristown Rd., Route 202
Bernardsville, NJ
bernardsville@barmethod.com
908.766.4433

Barflies, LLC
Shirley Morris
525 N. Dean Street,
Englewood, NJ
englewood@barmethod.com
201.567.6006

The Montclair Method, LLC
Shannon Price & Kelly Lezynski
493 Bloomfield Avenue
Montclair, NJ 07042
Montclair@barmethod.com
973.783.1227

Chriseetal, LLC
Chrissy Valerio
232 Rutledge Drive
Red Bank, NJ 07701
shrewsbury@barmethod.com
732.796.1183

Bar Method of Summit, LLC
Angie Comiteau & Jen Hedrick
86 Summit Avenue
Summit, NJ 07901
summit@barmethod.com
908.522.1550

Foxes in Socks LLC
Michele Rowe & Molly Mulholland
205 S. Service Road
Roslyn Heights NY 11576
roslyn@barmethod.com
516.484.0200

Oregon
DBMovement LLC
Denise Burchard
904 NW Hoyt Street
Portland, OR 97209
portland@barmethod.com
503.954.3811

Texas
The Austin Method, LLC
Laura Lee Kozusko
1611 W. 5th Street, #125
Austin, TX 78703
austin@barmethod.com
512.391.092

AJ Bar LLC
Amy Snyder & Jennifer Tigie
Princeton Commerce Center
29 Emmons Drive, Suite F-50
Princeton NJ 08540
Princeton@barmethod.com
609.356.0244

Carolyn Norden
580 N. Maple Avenue
Ridgewood, NJ 07450
ridgewood@barmethod.com
201.444.0300

New York
Fit Life, LLC
Amy Duffey & Kristin Kelleher
155 Spring Street,
New York, NY
soho@barmethod.com
212.431.5720

SBG Group LLC
Sara Giller
32 Rye Ridge Plaza
Rye Brook, NY 10573
ryebrook@barmethod.com
914.207.7798

Tennessee
Carrie Smith
4301 Harding Road, Suite D
Nashville, TN 37205
Nashville@barmethod.com
615.783.1512

Dallas Barre LLC
Lisa Hennings
5560 West Lovers Lane
Dallas, TX 75209
dallas-parkcities@barmethod.com
214.357.4444

Goodyra Productions LLC
Rachel Good
1533 1/2 Arlington Ave #A
Houston TX 77008
houston-montrose@barmethod.com
281.974.4065

Barre Bliss, LLC
Marin Van Vleck
4017 Preston Road, Suite 521
Plano, TX 75093
plano@barmethod.com
972.403.0503

Utah

Six Goodies, LLC
Carrie Goodwin
1057 East 2100 South □
Salt Lake City, Utah 84106
saltlakecity@barmethod.com
801.485.4227

Washington

Raising the Barre, LLC
Bev & Luke Currier, Maika Manning
551 166th Ave. NE #D240
Redmond, WA 98052
seattle-eastside@barmethod.com
425.556.5163

Raising the Barre- 2 LLC
Bev & Luke Currier, Maika Manning 124
Westlake Ave N
Seattle, WA 98109
seattle-eastside@barmethod.com
206.467.5249

Three Barre Belles, LLC
Kerrienne Thronson
2023 East 29th
Spokane WA 99203
spokane@barmethod.com
509.534.3000

Washington D.C.

District Barre Inc
Kate Arnold
750 9th Street NW
Washington DC 20001
dc@barmethod.com
202.347.7999

Following is a list of franchisees who have a signed Franchise Agreements but who as of the end of 2012 have not yet opened their studios. Also listed are the areas in which they have the right to open their studios.

HH Bar, LLC
Helen Liu
Berkeley, CA
Helen@barmethod.com

Barre Belles, LLC
Audrey Mao & Chelsea Glavinovich
Oakland, CA
Audrey@barmethod.com
Chelsea@barmethod.com

Bar Studio Orlando, LLC
Cayce Hurley & Karen Moreno
Dr. Phillips, FL
cayce@barmethod.com
Karen@barmethod.com

Bar Fitness Tampa LLC
Jeanette DePuy
jeanette@barmethod.com
Tampa, FL
Jeanette@barmethod.com

Bryant Street, LLC
Catherine Wendel & Lis Settimi,
Chicago, IL
Catherine@barmethod.com
Lis@barmethod.com

Taller Bar LLC
Hoddy Potter
Kansas City, KS
hoddy@barmethod.com

Boston BarreBelles, LLC
McKenzie Howarth & Sarah Kuzniar
Hingham, MA
mckenzie@barmethod.com
sarah@barmethod.com

District Barre Inc
Kate Arnold
Bethesda, MD
Katea@barmethod.com

North Potomac Barre, LLC
Jennifer Menconi & Jennifer Gawronski
North Potomac, MD
jennifer.gawronski@barmethod.com
jenn.menconi@barmethod.com

Fit Life, LLC
Amy Duffey & Kristin Kelleher
New York City, NY
amy@barmethod.com
kristin@barmethod.com

ITEM 21 FINANCIAL STATEMENTS

Attached as Exhibit A are our audited financial statements as of December 31, 2012 the end of our last fiscal year, along with certain comparative information for 2010 and 2011. Also enclosed is a set of our unaudited interim financial statements for the period from January 1, 2013, to September 30, 2013.

ITEM 22 CONTRACTS

Attached as Exhibit C is our Franchise Agreement and its exhibits. Exhibit D to this disclosure document is our Nondisclosure and Confidentiality Agreement. Exhibit E is the Acknowledgment at Closing which you must review and sign at the time you sign the Franchise Agreement. The exhibits to our Franchise Agreement include our Addendum to Lease Agreement, Mutual General Release and Continuing Guaranty.

ITEM 23 RECEIPT

The last pages of this disclosure document consist of a detachable document acknowledging receipt of this disclosure document that you must sign and return to us. You should retain a copy of this receipt for your records.

**STATE-SPECIFIC ADDENDUM TO
THE BAR METHOD FRANCHISE DISCLOSURE DOCUMENT**

The following provisions are applicable to franchises in the state of California:

1. *California Business and Professions Code* Sections 20000 through 20043 provide rights to a franchisee concerning termination or nonrenewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

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

3. The Franchise Agreement contains covenants not to compete that extend beyond the termination of the franchise. These provisions may not be enforceable under California law.

4. OUR WEBSITE, www.barmethod.com, HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT www.dbo.ca.gov.

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

Our agent for service of process in California is Burr Leonard, 3717 Buchanan Street, Suite 200, San Francisco, CA 94123.

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 FRANCHISE DISCLOSURE DOCUMENT.

IF THE BAR METHOD FRANCHISING, INC. DOES NOT DELIVER THIS FRANCHISE DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT or A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT ANY OF ITS OFFICES.

The following provisions are applicable to franchises in the state of Hawaii:

Our registered agent for service of process in Hawaii is Securities Commissioner of the State of Hawaii, Department of Commerce and Consumer Affairs, Business Registration Division, Securities Compliance Branch, 335 Merchant Street, Room 203, Honolulu, HI 96813.

Replace the fourth paragraph of the RECEIPT with the following:

IF THE BAR METHOD FRANCHISING, INC. DOES NOT DELIVER THIS DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE HAWAII DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, 335 MERCHANT STREET, ROOM 203, HONOLULU, HAWAII 96813.

The following provisions are applicable to franchises in the state of Illinois:

1. Our agent for service of process in Illinois is the Illinois Attorney General, 500 South Second Street, Springfield, Illinois 62706.
2. In item v. of the chart set forth in Item 17, add the following: "but litigation must be in Illinois."
3. In item v. of the chart set forth in Item 17, add the following: "Illinois law applies to the Franchise Agreement."
4. Add the following paragraph to the RECEIPT: The Bar Method Franchising, Inc. authorizes the Illinois Attorney General to receive service of process for The Bar Method Franchising, Inc. in the state of Illinois.

IF THE BAR METHOD FRANCHISING, INC. DOES NOT DELIVER THIS FRANCHISE DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT or A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE ILLINOIS ATTORNEY GENERAL'S OFFICE, 500 SOUTH SECOND STREET, SPRINGFIELD, ILLINOIS 62706 WHICH ADMINISTERS AND ENFORCES THE ILLINOIS FRANCHISE DISCLOSURE ACT.

The following provisions are applicable to franchises in the state of Michigan:

NOTICE APPLICABLE TO FRANCHISES IN MICHIGAN

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

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising or other commercial symbol in the same area subsequent to the expiration

of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.

(e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.

(f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

(g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

(i) reasonable qualifications or standards.

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

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

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

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

The fact that there is a notice of this offering on file with the attorney general does not constitute approval, recommendation or endorsement by the attorney general.

Any questions regarding this notice should be directed to: State of Michigan, Department of Attorney General, Consumer Protection Division, 670 Law Building, Lansing, Michigan 48913, telephone number (517) 373-7117.

The following provisions are applicable to franchises in the state of Minnesota:

1. In Minnesota your initial franchise fee should be made payable to U.S. Bank. If made payable to us, we will immediately endorse your check over to U.S. Bank. U.S. Bank, 60 Livingston Avenue, Code EP-MN-WS3C, St. Paul, MN 55107-2292, will hold your fee in escrow until we have performed the initial services for you required by the Franchise Agreement and you have opened your studio for business. At that time you agree to advise the Minnesota Commissioner of Commerce that we have fulfilled our initial obligations to you under your

Franchise Agreement and authorize the Commissioner to approve the release of the escrowed funds to us.

2. With respect to franchises governed by Minnesota law, the franchisor will comply with Minn. Stats Sec. 80C.14, Subds. 3, 4, and 5 which require, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the franchise agreement and that consent to the transfer of the franchise will not be unreasonably withheld.

3. Minnesota Rule 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.

Our registered agent for service of process in Minnesota is the Commissioner of Commerce Minnesota Department of Commerce 85 7th Place East, Suite 500 St. Paul, MN 55101.

IF THE BAR METHOD FRANCHISING, INC. DOES NOT DELIVER THIS FRANCHISE DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE MINNESOTA DEPARTMENT OF COMMERCE, 85 7th PLACE EAST, SUITE 500 ST. PAUL, MN 55101

The following provisions are applicable to franchises in the state of New York:

1. No person identified in item 2 or an affiliate offering franchises under the franchisor's principal trademark:

(a). Has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices or comparable civil or misdemeanor allegations. In addition, include pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations. If so, disclose the names of the parties, the forum, nature and current status of the pending action. Franchisor may include a summary opinion of counsel concerning the action if the attorney's consent to the use of the summary opinion is included as part of this Disclosure Document.

(b). Has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten-year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud or securities law, fraud, embezzlement, fraudulent conversion or misappropriation of property or unfair or deceptive practices or comparable allegations. If so, disclose the names of the parties, the forum and date of conviction or date judgment was entered; penalty or damages assessed and/or terms of settlement.

(c). 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 and Exchange Act of 1934, 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 is subject to any currently effective order of any national securities exchange, as defined in the Securities and Exchange Act of 1934, 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, without limitation, actions affecting a license as a real estate broker or sales agent. If so, disclose the name of the person; the public agency, association or exchange, the public agency, association or exchange; the court or other forum; a summary of the allegations or facts found by the agency, association, exchange or court; and the date, nature, terms and conditions of the order or decree.

2. Neither we, our affiliates, our predecessors officers or general partners during the 10-year period immediately before the date of the Disclosure Document; (a) filed as 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 the franchisor held this position in the company or partnership. If so, disclose the name of the person and/or company that was the debtor under the Bankruptcy Code, the date of the action and the material facts.

3. As described in Item 5 of the disclosure document, the initial franchise is \$50,000.00 for studios located in Manhattan.

4. The following is added to Item 17.d.: You may terminate the Franchise Agreement on any grounds available by law.

5. The following is added to Item 17.j.: However, no assignment will be made except to an assignee who in our good faith judgment is willing and financially able to assume our obligations under the Franchise Agreement.

6. The following is added to Item 17.w.:The foregoing choice of law is not a waiver of any rights you have under Article 33 of the General Business law of the state of New York.

4. Provisions in the Franchise Agreement requiring a franchisee to execute a general release of claims may not be enforceable under Article 33 of the General Business Law of New York and the regulations issued under it and are amended accordingly to the extent required by law.

5. Under Article 33 of the New York State General Business Law, a provision in the Franchise Agreement restricting jurisdiction or venue to a forum outside of New York or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this law.

Our agent for service of process in New York is the New York Secretary of State, 41 State Street, Albany, New York 12231-0001.

IF THE BAR METHOD FRANCHISING, INC. DOES NOT DELIVER THIS DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT or A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE NEW YORK DEPARTMENT OF LAW, 120 BROADWAY, 23RD FLOOR, NEW YORK, NEW YORK 10271.

The following provisions are applicable to franchises in the state of Virginia:

Our agent for service of process in the state of Virginia is the Clerk of the State Corporation Commission, 1300 East Main Street, 1st Floor, Richmond, Virginia 23219.

IF THE BAR METHOD FRANCHISING, INC. DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT or A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE VIRGINIA STATE CORPORATION COMMISSION, DIVISION OF SECURITIES AND RETAIL FRANCHISING, 1300 EAST MAIN STREET, 9TH FLOOR, RICHMOND, VA 23219.

The following provisions are applicable to franchisees in Washington:

1. Wherever a release or waiver of rights is specified in the Franchise Agreement, the release or waiver will not release or waive any of your rights under the Washington Franchise Investment Protection Act except when executed pursuant to the negotiated settlement of a bona fide dispute you may have after the Franchise Agreement has taken effect where the person giving the release is represented by independent legal counsel.

2. Any fees we may charge in the event of the transfer or assignment of the Franchise Agreement will reflect our reasonable estimated or actual costs and expenses in effecting the transfer.

3. To the extent required by a valid enforceable statute, any arbitration involving a Washington franchise will be in Washington, unless the parties to the arbitration mutually agree that the arbitration can be held elsewhere or the arbitrator determines at the time of arbitration that the arbitration should be held elsewhere.

4. Nothing in the Franchise Agreement shall prevent the application of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW where its jurisdictional requirements are met.

Our agent for service of process in Washington is the Washington Director of Financial Institutions, P. O. Box 9033, Olympia, Washington 98507-9033.

IF THE BAR METHOD FRANCHISING, INC.. DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT or A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE WASHINGTON DIRECTOR OF FINANCIAL INSTITUTIONS, P.O. BOX 9033, OLYMPIA, WASHINGTON 98507-9033.

The following provisions are applicable to franchises in the state of Wisconsin:

1. The Wisconsin Fair Dealership Law applies to most franchise agreements in Wisconsin and prohibits termination, cancellation, nonrenewal, or substantial change in the competitive circumstances of a dealership agreement without good cause. The Law further provides that 90 days' prior written notice of the proposed termination must be given to the dealer. The dealer has 60 days to cure the deficiency and, if the deficiency is cured, the notice is void.

Our agent for service of process in Wisconsin is the Wisconsin Division of Securities, 345 West Washington Avenue, 4th Floor, Madison, WI 53703.

IF THE BAR METHOD FRANCHISING, INC. DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE WISCONSIN DIVISION OF SECURITIES, 345 WEST WASHINGTON AVENUE, 4TH FLOOR, MADISON, WI 53703.

EXHIBIT A

To The Bar Method

Franchise Disclosure Document

FINANCIAL STATEMENTS

The interim financial statements included in this Exhibit have been prepared without audit. Prospective franchisees are advised that no independent Certified Public Accountant has audited these figures or expressed an opinion with regard to their content or form.

11:58 AM
 11/21/13
 Accrual Basis

The Bar Method Franchising Inc.
Balance Sheet
 As of September 30, 2013

	Sep 30, 13
ASSETS	
Current Assets	
Checking/Savings	
1000 · Total Cash	116,834.31
Total Checking/Savings	116,834.31
Accounts Receivable	
1100 · Accounts Receivable	127,708.11
Total Accounts Receivable	127,708.11
Other Current Assets	
1200 · Prepaid Expenses	45,198.75
1300 · InterCompany Loans	-366,640.44
Total Other Current Assets	-321,441.69
Total Current Assets	76,899.27
Fixed Assets	
1800 · Furniture, Computers and LHI	24,508.99
Total Fixed Assets	24,508.99
Other Assets	
1900 · Other Assets	553,438.46
Total Other Assets	553,438.46
TOTAL ASSETS	501,048.18
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2000 · Accounts Payable	72,894.67
Total Accounts Payable	72,894.67
Credit Cards	
2400 · American Express	13,778.99
Total Credit Cards	13,778.99
Other Current Liabilities	
2100 · Accrued Expenses	49,712.37
2200 · Deferred Revenue	6,000.00
2300 · Short Term Loans	125,718.50
Total Other Current Liabilities	181,430.87
Total Current Liabilities	268,104.53
Long Term Liabilities	
2500 · Long Term Loans	185,021.20
Total Long Term Liabilities	185,021.20
Total Liabilities	453,125.73
Equity	
3010 · Common Stock	30,000.00
3020 · Paid In Capital	162,673.00
3500 · Retained Earnings	-24,580.49
Net Income	-120,170.06
Total Equity	47,922.45
TOTAL LIABILITIES & EQUITY	501,048.18

11:57 AM
 11/21/13
 Accrual Basis

The Bar Method Franchising Inc.
Profit & Loss
 January through September 2013 *

	<u>Jan - Sep 13</u>
Ordinary Income/Expense	
Income	
4000 · Revenue	1,378,587.96
4900 · Sales Refunds	-500.00
Total Income	<u>1,378,087.96</u>
Cost of Goods Sold	
50000 · Cost of Goods Sold	281,354.55
Total COGS	<u>281,354.55</u>
Gross Profit	1,096,733.41
Expense	
6010 · Advertising and Public Relation	41,121.70
6015 · Bank Service Charges	5,874.70
6030 · Credit Card Processing Fees	6,612.41
6050 · Convention Expenses	5,125.00
6060 · Computer Expense	36,528.45
6070 · Dues and Subscriptions	5,193.45
6080 · Insurance General	7,591.13
6090 · Licenses and Permits	3,547.90
6095 · Music	1,437.65
6100 · Office Supplies and Expense	16,568.61
6110 · Payroll and Benefits	587,597.78
6120 · Postage and Delivery	12,914.17
6130 · Professional Fees	138,773.36
6150 · Repair & Maintenance	10,237.50
6160 · Rent	24,680.60
6170 · Taxes General	5,494.69
6180 · Telephone	557.10
6200 · Travel & Entertainment	65,678.80
6220 · Training Materials	27,160.01
6230 · Utilities	83.33
6240 · Bad Debt Expense	1,491.91
Total Expense	<u>1,004,270.25</u>
Net Ordinary Income	92,463.16
Other Income/Expense	
Other Income	
9150 · Interest Income	44.25
Total Other Income	<u>44.25</u>
Other Expense	
9100 · Amortization Expense	30,393.54
9110 · Depreciation Expense	2,219.40
9160 · Interest Expense	7,532.34
9170 · Legal Settlements	164,090.17
9180 · Taxes - Federal Income	5,565.01
9190 · Taxes - State Income	2,877.01
Total Other Expense	<u>212,677.47</u>
Net Other Income	-212,633.22
Net Income	<u>-120,170.06</u>

The Bar Method Franchising Inc.
Statement of Cash Flows
 January through September 2013

Jan - Sep 13

OPERATING ACTIVITIES	-120,170.06
Net Income	-120,170.06
Adjustments to reconcile Net Income to net cash provided by operations:	
1100 · Accounts Receivable	-63,621.36
1200 · Prepaid Expenses	-45,198.75
1300 · InterCompany Loans:1310 · InterCompany - International	280,046.90
1300 · InterCompany Loans:1330 · InterCompany - Media	66,932.11
1300 · InterCompany Loans:1340 · InterCompany - Studio	-63,040.93
2000 · Accounts Payable	33,765.88
2400 · American Express	13,778.99
2100 · Accrued Expenses:2110 · Accrued Interest	-1,248.82
2100 · Accrued Expenses:2120 · Accrued Payroll Taxes	1,096.66
2100 · Accrued Expenses:2130 · Accrued Vacation	-1,123.59
2100 · Accrued Expenses:2140 · Accrued Wages	26,686.13
2190 · Income taxes payable - Federal	-10,684.00
2200 · Deferred Revenue	6,000.00
2300 · Short Term Loans:2320 · Loan - Bank of America	2,751.86
	<u>128,218.18</u>
Net cash provided by Operating Activities	
INVESTING ACTIVITIES	-13,775.96
1800 · Furniture, Computers and LHI:1820 · Computer Equipment & Website	-13,775.96
1800 · Furniture, Computers and LHI:1830 · Accum Dep - Furniture and Equip	2,099.97
1900 · Other Assets:1955 · Acc. Amortization-License Terr.	30,393.54
	<u>18,717.55</u>
Net cash provided by Investing Activities	
FINANCING ACTIVITIES	-83,968.26
2500 · Long Term Loans:2520 · Loan - Bank of America	-83,968.26
3500 · Retained Earnings	-6,111.67
	<u>-90,079.93</u>
Net cash provided by Financing Activities	
Net cash increase for period	56,855.80
Cash at beginning of period	59,978.51
Cash at end of period	<u>116,834.31</u>



Solutions Outside the Box

To the Board of Directors
The Bar Method Franchising Inc.
San Francisco, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of The Bar Method Franchising Inc. as of December 31, 2012, and the related statements of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of The Bar Method Franchising Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior years' summarized comparative information has been derived from The Bar Method Franchising Inc.'s December 31, 2011 and 2010 financial statements and, in our reports dated January 31, 2012 and March 1, 2011, respectively; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bar Method Franchising Inc. as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Ken Mierzwinski, CPA

Ken Mierzwinski, CPA
KPM Accounting & Management Solutions
San Francisco, California

March 25, 2013

KPM Accounting & Management Solutions
580 California Street, 16th Floor San Francisco, CA 94104
Telephone 415.819.6718 • www.kpmcpas.com

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
BALANCE SHEET
DECEMBER 31, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 65,833	\$ 180,077
Accounts receivable - trade	64,865	44,033
Due from parent company	<u>4,030</u>	<u>-</u>
Total current assets	134,728	224,110
Fixed Assets, net of accumulated depreciation of \$1,167 - (Note 3)	12,833	-
Other Assets:		
Intangible asset, net of accumulated amortization of \$37,148 - (Note 4)	579,982	-
Deposits	<u>3,850</u>	<u>3,850</u>
Total assets	<u>\$ 731,393</u>	<u>\$ 227,960</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable - trade	\$ 39,129	\$ 9,260
Accrued expenses	22,833	3,837
Income taxes payable - (Note 6)	10,684	-
Due to affiliate - (Note 7)	86,732	53,733
Notes payable, current portion - (Note 5)	<u>122,205</u>	<u>-</u>
Total current liabilities	281,583	66,830
Long-term liabilities:		
Notes payable, net of current portion - (Note 5)	<u>269,751</u>	<u>-</u>
Total liabilities	551,334	66,830
Stockholders' equity:		
Common stock, no par value, 30,000 shares authorized, 30,000 shares issued and outstanding	30,000	30,000
Additional paid-in capital	162,673	171,418
Retained earnings	<u>(12,614)</u>	<u>(40,288)</u>
Total stockholders' equity	<u>180,059</u>	<u>161,130</u>
Total liabilities and stockholders' equity	<u>\$ 731,393</u>	<u>\$ 227,960</u>

See accompanying notes to financial statements.

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2012
(With Comparative Totals for 2011 and 2010)

	2012	2011	2010
Income:			
Franchise fee income	\$ 409,952	\$ 486,470	\$ 293,500
Royalty income	704,759	345,335	212,843
Training	149,362	109,503	17,305
Territory fee	27,000	-	-
Teaching at other studios	24,846	-	-
Teacher certification	15,716	10,469	20,650
I-Phone app	11,470	-	-
Travel reimbursements	3,330	10,822	-
Convention income	9,125	6,050	-
Coaching income	7,848	-	-
Miscellaneous	12,764	7,095	1,160
Total income	<u>1,376,172</u>	<u>975,744</u>	<u>545,458</u>
Operating Expenses:			
Advertising	37,262	18,477	4,170
Amortization and depreciation	38,315	2,000	3,877
Bank charges	9,186	635	1,216
Building maintenance and cleaning	2,275	1,686	2,174
Coaching	1,350	2,128	-
Computer internet - tech support	11,243	4,162	17,223
Conventions	24,051	4,986	6,090
Dues and subscriptions	997	404	1,658
Employee benefits	-	630	989
Evaluations	37,967	11,503	300
Franchisee finder's fee	-	20,000	5,000
Insurance	54,491	20,854	3,647
Interest	15,533	-	-
Licenses and permits	13,765	2,697	-
Meals and entertainment	3,690	-	2,485
Miscellaneous	462	1,918	738
Parking	232	200	625
Payroll	485,774	352,138	192,893
Payroll taxes	111,259	39,087	12,123
Payroll fees	3,838	3,201	2,395
Postage and delivery	15,306	3,698	2,610
Printing and reproduction	13,862	68	4,094
Professional fees	129,685	115,307	76,936
PR/Marketing	8,967	5,624	31,619
Reimbursement	333	2,272	5,048
Rent	50,984	42,796	12,062
Supplies	9,732	409	12,829
Taxes	5,457	2,012	810
Teacher training	105,159	59,573	33,304
Telephone	5,684	5,263	2,248
Travel	107,998	112,135	55,173
Utilities	400	50	107
Website	5,485	10,240	-
Total operating expenses	<u>1,310,742</u>	<u>846,153</u>	<u>494,443</u>
Operating income/(loss)	65,430	129,591	51,015
Other Income/(Expense):			
Other income/(expense)	2,164	-	-
Interest income	14	-	728
Income before income tax expense	<u>67,608</u>	<u>129,591</u>	<u>51,743</u>
Provision for income taxes	<u>10,684</u>	<u>-</u>	<u>-</u>
Net Income	<u><u>56,924</u></u>	<u><u>129,591</u></u>	<u><u>51,743</u></u>

See accompanying notes and accountants' report.

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2012
(With Comparative Totals for 2011 and 2010)

	Number of Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2009	-	\$ -	\$ 71,000	\$ (95,225)	\$ (24,225)
Distributions	-	-	-	(89,577)	(89,577)
Capital contribution	-	-	129,418	-	129,418
Net income	-	-	-	51,743	51,743
Balance at December 31, 2010	-	-	200,418	(133,059)	67,359
Common stock issuance	1,000	1,000	-	-	1,000
Distributions	-	-	-	(34,960)	(34,960)
Intercompany reclassification	-	-	-	32,074	32,074
Net income	-	-	-	129,591	129,591
Balance at December 31, 2011	1,000	1,000	200,418	(6,354)	195,064
Prior period adjustment	29,000	29,000	(29,000)	(33,934)	(33,934)
Balance at December 31, 2011 - restated	30,000	30,000	171,418	(40,288)	161,130
Additional paid-in capital adjustment	-	-	(8,745)	-	(8,745)
Distributions	-	-	-	(29,250)	(29,250)
Net income	-	-	-	56,924	56,924
Balance at December 31, 2012	<u>30,000</u>	<u>30,000</u>	<u>162,673</u>	<u>(12,614)</u>	<u>\$ 180,059</u>

See accompanying notes to financial statements.

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012
(With Comparative Totals for 2011 and 2010)

	2012	2011	2010
Cash flows from operating activities:			
Net income	\$ 56,924	\$ 129,591	\$ 51,743
Adjustments to reconcile to cash provided by (used for) operating activities:			
Amortization and Depreciation	38,315	2,000	3,877
Interest retained in certificates of deposit	-	-	489
(Increase)/decrease in assets:			
Accounts receivable	(20,829)	(23,498)	(9,101)
Due from - related party	(4,030)	-	74,977
Deposits	-	(3,850)	-
Increase/(decrease) in liabilities:			
Accounts payable	29,869	1,236	1,066
Accrued liabilities	18,996	3,837	-
Income tax payable	10,684	-	-
Due to - related party	(5,000)	(28,676)	(159,290)
Net cash (used for)/provided by operating activities	<u>124,929</u>	<u>80,640</u>	<u>(36,239)</u>
Cash flows from investing activities:			
Intangible asset	(617,130)	-	-
Certificate of deposit - maturity	-	63,976	-
Purchase of equipment and computer software	(14,000)	-	(120)
Net cash (used for)/provided by investing activities	<u>(631,130)</u>	<u>63,976</u>	<u>(120)</u>
Cash flows from financing activities:			
Note payable issuance	500,000	-	-
Principal payments on note payable	(108,043)	-	-
Capital contributions	-	32,074	129,418
Purchase common stock	-	(1,000)	-
Distributions	-	(34,960)	(89,577)
Net cash (used for)/provided by financing activities	<u>391,957</u>	<u>(3,886)</u>	<u>39,841</u>
Net increase/(decrease) in cash and cash equivalents	(114,244)	140,730	3,482
Cash and cash equivalents, beginning of year	<u>180,077</u>	<u>39,347</u>	<u>35,865</u>
Cash and cash equivalents, end of year	<u>\$ 65,833</u>	<u>\$ 180,077</u>	<u>\$ 39,347</u>

See accompanying notes to financial statements.

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

(1) DESCRIPTION OF OPERATIONS

Bar Method Franchising Company, LLC was formed on January 16, 2008 as a Limited Liability Company. The specific business purposes and activities of BMFI consist of franchising Bar Method exercise studios and supporting existing Bar Method licensees.

In 2010 Bar Method Franchising Company, LLC elected and was granted status to be treated as an S-Corporation in the State of California. Bar Method Franchising Company, LLC now operates under the name "The Bar Method Franchising Inc.," (BMFI).

As of August 2012, through an Acquisitive Type A Reorganization, BMFI became a subsidiary of parent "Bar Method International, Inc." (BMII). BMFI along with The Bar Method, Inc., a Connecticut corporation ("*Bar Method Connecticut*"), and Bar Method Media, Inc., a California corporation ("*Bar Method Media, Inc.*") became subsidiaries of Bar Method International Inc. (collectively the "Company"),

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

For purposes of the statement of cash flows, BMFI considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. BMFI maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits of \$250,000. BMFI had no uninsured balances at December 31, 2012.

(b) Accounts Receivable

Accounts receivable balances consist of monies due from franchisee's for royalty fees. The royalties are based on a franchisee's gross sales. Accounts receivable totaled \$64,864 and \$44,033 as of December 31, 2012 and 2011, respectively.

(c) Fixed Assets

Fixed Assets are stated at cost. BMFI capitalizes assets with a cost greater than \$500 and a life expectancy of more than one year. Expenses for maintenance and repairs are charged directly to operating expense. Depreciation is computed on the straight-line method over the following estimated useful lives.

Website Design and Development	3 years
Furniture and Computer Equipment	5 - 7 years

Depreciation expense charged to operations was \$1,167 and \$2,000 for the years ended December 31, 2012 and 2011, respectively.

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(d) Fair Value Measurements

BMFI adopted FASB ASC 820, Fair Value Measurements and Disclosures, for assets and liabilities measured at fair value on a recurring basis. The codification established a common definition for fair value to be applied to existing generally accepted accounting principles that requires the use of fair value measurements, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements.

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, FASB ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

- Level 1—Observable inputs such as quoted market prices in active markets for identical assets or liabilities
- Level 2—Observable market-based inputs or unobservable inputs that are corroborated by market data
- Level 3—Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions

All receivables and payables that are not short-term in nature are considered as level 3 and have been recorded at their present value using a discount rate of 10%. The carrying values of other assets, liabilities and deferrals that are short-term in nature approximate fair value.

(e) Franchise Revenue

Initial fees related to sales of franchises are recognized as revenue upon substantial performance by the BMFI of all material conditions relating to the initial fee. The licensee pays continuing franchise royalties based on a defined percentage of gross monthly revenues from exercise classes. The royalties are due by the tenth day of the following month and are recognized when earned. Initial franchise fees and royalties for 2012 totaled \$409,952 and \$704,759, respectively. In 2011 the initial franchise fees and royalties totaled \$486,470 and \$345,335, respectively.

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(f) Income Taxes

The Company accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company was treated as an S-Corporation during the period of January 1 through July 31, 2012. The Company elected to revert back to a C-Corporation as of August 1, 2012. The Company has no provision or liability for the period reported as an S-Corporation. The Company is reporting a tax liability for the period of August 1, 2012 through December 31, 2012.

Uncertain Tax Provisions:

Accounting guidance issued by the Financial Accounting Standards Board (FASB) prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company did not have unrecognized tax benefits as of December 31, 2012 and does not expect this to change significantly over the next twelve months. The Company will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2012, the Company has not accrued interest or penalties related to uncertain tax positions.

(g) Advertising

Advertising costs are expensed as incurred. Advertising expenses for 2012, 2011 and 2010 totaled \$33,074, \$18,477 and \$4,170, respectively.

(h) Estimates

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

(i) Reclassifications

Certain amounts for the years ended December 31, 2011 and 2010 have been reclassified in the comparative financial statements to be comparable to the presentation for the year ended December 31, 2012. These reclassifications had no effect on net income.

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

(3) FIXED ASSETS

Fixed assets at December 31, 2012 and 2011 consist of the following:

	2012	2011
Website design and development	\$ 14,000	\$ -
Furniture and computer equipment	8,833	8,833
	22,833	8,833
Less: Accumulated depreciation	(10,000)	(8,833)
	\$ 12,833	\$ -

(4) INTANGIBLE ASSETS

On December 28, 2011 Mark Fleischman and Mimi Fleischman (“Sellers”) and owners of B.M. Management Services, Inc. (“BMMS”) entered into a stock purchasing agreement with Bar Method Franchising, Inc. (“BMFI”) referred to as the (“Buyer”). On January 1, 2012 BMFI purchased 100% of BMMS (2,000 shares of stock) for the total price of Six Hundred Twelve Thousand Five Hundred Dollars (\$612,500). The purchase gives BMFI territory rights and use of The Bar Method trademarks, trade names and trade dress in specific districts in Southern California. BMFI has also entered into a “Covenant Not to Compete for a period of five years. The total cost \$612,500 (\$617,130 plus additional legal fees of \$4,630 incurred by the Company) has been capitalized as an IRS Section 197 intangible asset and is being amortized over 15 years.

	2012	2011
Intangible property and trademarks	\$ 617,130	\$ -
Less: Accumulated amortization	(37,148)	(-)
	\$ 579,982	\$ -

Future amortization expense during the next five years ending December 31, is as follows:

2013	\$ 41,142
2014	41,142
2015	41,142
2016	41,142
2017	41,142
Thereafter	374,272
Total	\$ 579,982

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

(5) NOTES PAYABLE

Bank of America \$500,000 note payable with an interest rate of 3.7%. Principal and interest payable in monthly installments of \$11,234.20; the note is due January 3, 2016 and is secured by equipment, inventory and receivables of BMFI, BMMI and BMI.

Bank of America note payable	\$ 391,956
Less: Current portion	(122,205)
Long-term portion	\$ 269,751

Principal payments during the next 4 years are as follows:

2013	\$ 122,205
2014	126,869
2015	131,711
2016	11,171
Total	\$ 579,982

(6) INCOME TAXES

Income tax expense consists of the following for the year ended December 31, 2012:

Current tax expense	\$ 15,641
Deferred tax expense	-
Total income tax expense	\$ 15,641

The reconciliation between the Company's effective tax rate and the statutory tax rate is as follows:

Income tax expense at federal statutory rate	\$ 10,902
State and local income taxes net of federal	4,739
Permanent differences	-
Temporary differences	-
Total income tax expense	\$ 15,641

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

(7) RELATED PARTY TRANSACTIONS

Due to affiliates

Operating expenses paid by affiliates at December 31, 2012. The expenses totaled \$25,000 paid by "Bar Method Media Inc." (BMMI) and \$61,732 paid by "Bar Method Inc." (BMI).

(8) COMMITMENTS

BMFI leases two office spaces on an annual basis in the amounts of \$3,100 and \$2,850, respectively. The current lease expires January 31, 2013. A new lease beginning February 1, 2013 and expiring October 31, 2015, calls for monthly rental payments of \$3,153 and \$2,898. Total rent expense for the years ended December 31, 2012 and 2011 was \$50,700 and \$42,500, respectively.

The minimum future lease payments under the new lease are as follows:

2013	\$ 72,511
2014	72,612
2015	60,510

(9) FRANCHISE ARRANGEMENTS

The BMFI charges an initial franchise fee. The fees generally start at \$30,000 but vary depending on the agreement and whether or not the franchise is a second franchise for the owner. The terms of the agreements are as follows:

- \$1,000 paid upon signing of franchise agreement, which is for the right to find a location for The Bar Method Studio in a designated area.
- Within 10-days after approval of location one-half of the franchise fee balance is due.
- The remaining balance of the franchise fee is due on the date on which training is scheduled to begin or on the date the training actually begins.

Under the terms of its standard franchise agreement, The Bar Method Franchising, Inc. agrees to provide certain services for the initial franchise fee. These include, instruction in methods of operations, approving the choice of studio location, providing specifications and layouts for the studio, providing initial training, providing on-site consultation and approving a start-up marketing program.

The term of the franchise agreement is 10 years with renewal and extension options available at the discretion of the BMFI.

THE BAR METHOD FRANCHISING INC.
(A California C-Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

(10) PRIOR PERIOD ADJUSTMENTS

Certain errors resulting in a misstatement of the 2011 stockholders' equity account were discovered by management during 2012. Accordingly, adjustments totaling \$33,934 were recorded to restate the stockholders' equity account as of the beginning of the year.

Stockholders' equity	
Beginning balance at 12/31/2011, as previously stated	\$ 195,064
Net adjustments to intercompany accounts (affects retained earnings and due to accounts)	<u>(33,934)</u>
Ending balance at 12/31/2011, restated	<u>\$ 161,130</u>

(11) SUBSEQUENT EVENTS

BMFI has evaluated subsequent events through March 25, 2013, the date which the financial statements were available to be issued. No subsequent events were identified that required accrual or disclosure in the financial statements.

EXHIBIT B

To The Bar Method

Franchise Disclosure Document

STATE FRANCHISE LAW ADMINISTRATORS

State Franchise Law Administrators

California:

Department of Business Oversight
One Sansome Street, Suite 600
San Francisco, CA 94104

320 West 4th Street, Suite 750
Los Angeles, CA 90013-1105

1515 K Street, Suite 200
Sacramento, CA 95814-4052

1350 Front Street, Room 2034
San Diego, CA 92101

Telephone: (866) ASK-CORP

Hawaii:

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

Illinois:

Studio of the Attorney General
500 South Second Street
Springfield, IL 62706

Indiana:

Indiana Securities Division
Secretary of State
302 West Washington Street, Room E-111
Indianapolis, IN 46204

Maryland:

Office of the Attorney General
Division of Securities
200 St. Paul Place, 20th Floor
Baltimore, MD 21202

Michigan:

Consumer Protection Division
Antitrust and Franchise Unit
Michigan Department of Attorney General
670 Law Building
Lansing, MI 48913

Minnesota:

Minnesota Department of Commerce
85 7th Place East, Suite 500
St. Paul, MN 55101

New York:

New York State Department of Law
Bureau of Investor Protection and Securities
120 Broadway, 23rd Floor
New York, NY 10271

North Dakota:

Studio of Securities Commissioner
600 East Boulevard, 5th Floor
Bismarck, ND 58505

Rhode Island:

Division of Securities
233 Richmond Street, Suite 232
Providence, RI 02903

South Dakota:

Department of Commerce and Regulation
Division of Securities
445 East Capital Avenue
Pierre, SD 57501-3185

Virginia:

State Corporation Commission
Division of Securities and
Retail Franchising
1300 East Main Street, 9th Floor
Richmond, VA 23219

Washington:

Department of Financial Institutions
Securities Division
150 Israel Road SW
Tumwater, WA 98501

Wisconsin:

State of Wisconsin
Studio of the Commissioner of Securities
345 West Washington Avenue, 4th Floor
Madison, WI 53703

EXHIBIT C

**To The Bar Method
Franchise Disclosure Document**

FRANCHISE AGREEMENT

The Bar Method[®]

Franchise Agreement

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EXHIBITS

- A. Location and Protected Territory**
- B. Addendum to Lease Agreement**
- C. Mutual General Release**
- D. Continuing Guaranty**

The Bar Method[®]

FRANCHISE AGREEMENT

This Agreement is entered into on _____ by _____, a(n) _____, whose address is _____, identified in this Agreement by words such as "you" and "your" and *The Bar Method* Franchising, Inc., a California corporation, whose address is 3717 Buchanan Street, Suite 200, San Francisco, California 94123, identified in this Agreement by words such as "we", "us" and "our". The signatories to this Agreement are collectively referred to as "the parties".

A. We have been licensed by Bar Method Media, Inc. a California corporation, referred to in this Agreement as "our licensor", to franchise third parties to operate *Bar Method* studios. *Bar Method* studios provide bar-based exercise classes using proprietary and nonproprietary techniques, procedures, formats, practices and other information and material designed to provide fitness training in an attractive atmosphere. *Bar Method* studios operate in accordance with substantially uniform standards in order to create and maintain a unique and high quality image and appeal. In order to maintain and increase the goodwill and public acceptance of *Bar Method* studios, those to whom we license *The Bar Method* name and format must uphold the high standards and adhere to the requirements, practices and procedures that we establish from time to time.

B. You have applied for a franchise to own and operate a *Bar Method* studio (sometimes referred to in this Agreement as "the studio", "your studio", "your *Bar Method* studio" and similar terms). We have agreed to grant you a nonexclusive license to operate a *Bar Method* studio on the terms and conditions and based only upon the representations and promises in this Agreement and in the Franchise Disclosure Document which accompanied it.

C. You warrant to us that you have set forth fully and truthfully all information we have requested in your application, financial disclosure forms and all other written and oral communications between us. You warrant that all persons or entities that will have an ownership interest in your studio and in any entity that will own an interest in this franchise and/or your studio have been disclosed to us in writing and have provided all of the information that we have requested. You agree to cause this Agreement or the Continuing Guaranty to be signed by all of the owners of any entity owning this franchise and any persons or entities that own a material portion of the assets used in the operation of your studio. You agree that we need not recognize the ownership interest of anyone not signing this Agreement or the Continuing Guaranty appearing as Exhibit D to this Agreement.

D. You represent to us that you have investigated the region in which you desire to open your studio and have found no use of the name *The Bar Method* or any similar trade name or other commercial identification in that area. This is important since if there is a business using that name or one similar to it, we may not be able to use the name *The Bar Method* in that area.

E. You acknowledge that we or anyone purporting to act for us, have not made any promises or representations concerning The Bar Method, the sales volumes that are likely to be experienced by your studio, the profits you are likely to make in your studio, the likelihood of success of your studio or any other matter in connection with this franchise or your studio other than those promises and representations that are set forth in this Agreement, in any signed amendments or exhibits to this Agreement or in the Franchise Disclosure Document that accompanied this Agreement. If any such promises or representations have been made, you are instructed to make sure that they are set forth in writing in this Agreement or in an amendment or exhibit to this Agreement that is signed by both of us. In granting you this franchise, we are relying on you to see that all promises and representations on which you are relying are in writing, are signed by both of us and are made a part of or are attached to, this Agreement.

F. The following terms have the following meanings in this Agreement:

(1) "Licensed assets" refers to all of the trademarks, trade names, service marks, logotypes, other commercial symbols, operating procedures, formats, trade dress, training techniques, equipment specifications, trade secrets, trade practices, copyrights, patents, supplier lists, customer lists, manuals, forms, advertising and promotional material and practices, merchandising methods, communications, training material, goodwill and all other items, tangible and intangible, we license you to use under this Agreement.

(2) "This franchise" and "your studio" refer to the business operated pursuant to this Agreement as well as to the property used in the operation of your studio.

(2) "This Agreement" refers to this Franchise Agreement, the rights granted by this Agreement and any amendments, alterations, additions, exhibits and addenda to this Agreement, but only those that are signed by the parties.

(3) "Our manual" means any manual or manuals, whatever named and however presented, that describe the manner of operating *Bar Method* studios, the teaching techniques employed in the studios, the forms and formats to be used in your studio, our operating, reporting, marketing, and other business aspects of *Bar Method* studios, and so forth.

(4) "Days" means calendar days unless the term "business days" is specified. The term "business days" means all days except Saturday, Sunday and legal holidays in the state in which your studio is located.

(5) "Our affiliates" means any entity owning us, one that we own, or one that is under common control with us.

(6) "*The Bar Method* system" refers both to our fitness program and to the studios bearing the *Bar Method* name.

(7) "You" refers to all of the people who sign this Agreement, the owners of any entity that owns any interest in this Agreement and all of those who sign our Continuing

Guaranty to the extent that this Agreement, directly or by implication, imposes any duties on those persons or entities.

(8) "Lease" refers to any lease, sublease, deed or other document that gives you the right to occupy your studio premises.

G. When this Agreement refers to teachers, coaches, evaluators, workshop leaders and any others who are "certified" it means those that we formally authorize to perform the functions for which they are certified.

H. Unless otherwise indicated, whenever a dollar amount is specified in this Agreement, that amount is subject to adjustment by any increase in the Consumer Price Index as described in Section 21 below.

In consideration for the mutual promises set forth in this Agreement and based on the above facts, representations, warranties and purposes, as well as for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged and with the intent to be legally bound, the parties agree as follows:

1. INCORPORATION OF RECITALS.

1.01 The representations, facts, promises, warranties, recitals and statements set forth above are true and are incorporated into this Agreement by reference.

2. GRANT OF FRANCHISE.

This section contains the grant of franchise rights to operate a Bar Method studio and certain limitations on that grant.

2.01 (a) We hereby grant you a franchise to own and operate a single *Bar Method* studio in accordance with the provisions and for the term specified in this Agreement. You agree to use the licensed assets only as allowed by this Agreement.

(b) At your request you may be granted an option to open one additional *Bar Method* studio located within the geographic area described in Exhibit A to this Agreement ("your Option Area"). Your right to open the additional studio is subject to subsection (g) below. The additional studio must be opened within the first 12 months after the opening of your first studio. If you wish to have this option right, you agree to pay us an option fee of \$5,000.00 upon the execution this Agreement. If you are granted such an option and you have not exercised it during the specified 12-month period, you may extend the option period for an additional 12 months upon the payment to us of \$10,000.00 at least 30 days prior to the expiration of the initial option period. No additional extensions of the option period will be granted.

(c) The then-current Franchise Agreement will govern your rights and duties regarding the additional studio. However, the initial franchise fee for the new studio will be 2/3 of the initial franchise fee set forth in that Agreement. The amounts you paid us pursuant to subsection (b) above will be credited to that fee.

(d) If you wish to exercise the foregoing option, you must give us written notice of your desire to open an additional Bar Method studio in your option area within the designated option period and must, within 30 days after our receipt of that notice, enter into our then-current form of Franchise Agreement and pay the initial franchise fee specified above.

(e) If you have paid us any option fees and we deny you the right to open an additional studio in your option area, we will refund you in full the option fee(s) you have paid to us.

(f) If the option is exercised, we agree not to grant any other person or entity a Bar Method franchise in the above-described area, nor will we establish a company-owned Bar Method studio in that area, during the two-year period described above.

(g) Your ability to exercise the foregoing option is dependent on your being in good standing and not in default under your Franchise Agreement at the time you exercise the option and during the period between that time and the date you execute the Franchise Agreement covering the additional studio. We can decline to allow you to exercise the option if you are in default under your current Franchise Agreement, have been late with your payments to us more than once during the option period, have received a notice of default under your current Franchise Agreement whether or not that default was cured as required in the notice, or, in our reasonable judgment, our relationship has deteriorated in any significant manner prior to your exercise of the option on account of your failure to adhere to the requirements of your current Franchise Agreement, our policies or our other directives or you have not cooperated with our personnel in the conduct of their duties.”

2.02 You acknowledge that we, our licensor and our affiliates have the sole right to use and to permit others to use, the licensed assets except as limited by this Agreement. You agree that you have no rights in or to any of the licensed assets other than the rights granted to you by this Agreement.

2.03 You agree not to use the name *The Bar Method* or any names similar to it in the name of any partnership, corporation, limited liability company or other entity, that you own or form, whether to own and operate your studio or in connection with any other activity.

2.04 No goodwill associated with *The Bar Method* system or with any of the licensed assets will inure in any way to any person who or entity which owns or is otherwise involved with this franchise. You agree that all goodwill connected with the licensed assets, our names and marks and *The Bar Method* system belongs exclusively to our licensor and to us and will so in the future.

2.05 You do not have the right to grant a sub-franchise under this Agreement or to franchise, license or permit anyone else to use any of the licensed assets except as set forth in this Agreement. You agree not to use this Agreement as security for a loan or otherwise encumber this franchise without our prior written consent, which consent we can grant or withhold in our sole and absolute discretion.

2.06 Each owner of an equity interest of a franchise must own that interest as their own separate property and not as common property or community property with a spouse or domestic

partner unless the spouse or domestic partner, or their equivalent, sign the Consent of Spouse/Domestic Partner form that follows the signature page of this Agreement. We can require your spouse or domestic partner to sign a guarantee of your obligations under this Agreement if in our judgment your separate assets are inadequate to qualify you as a franchisee.

2.07 No one, whether they own or claim an interest in this franchise, may participate in the operation of the *Bar Method* studio covered by this Agreement unless they qualify for their position in the manner required by this Agreement.

2.08 *You acknowledge that we have advised you to obtain the advice of competent legal counsel when reviewing this Agreement and any other contracts you propose to enter so that you will understand fully your rights and obligations under this Agreement and such other contracts.*

3. INITIAL FEE.

This section discusses the initial fees you pay for the franchise and the refundability of those fees.

A. Initial Franchise Fee

3.01 (a) The initial franchise fee for a *Bar Method* studio is \$40,000.00 except for studios to be located in Manhattan where the initial franchise fee for a studio is \$50,000.00. Upon signing this Agreement you agree to pay us one-half the balance of the franchise fee if you have not yet been scheduled for our franchisee training course.

(b) If you or any member of an entity that will own this franchise wishes to be scheduled for our training course, the balance of the initial franchise fee must be paid at least 2 weeks before the commencement of the scheduled franchisee training to be attended.

(c) If you or all of the members of an entity that will own this franchise have already been trained, you must pay one-half of the franchise fee when you sign this Agreement and the balance when your lease is signed.

B. Refundability of Initial Franchise Fee

3.02 (a) If you have paid one-half of the initial franchise fee and this Agreement is terminated before you start franchisee training, we will refund your franchise fee payment to you less \$2,500.00 plus any reasonable out of pocket expenses we have incurred in connection with assisting you with your site selection, including any travel and living costs we have expended in visiting your proposed location or locations. Once your franchisee training has begun, the entire franchise fee becomes non-refundable.

(b) If you or any members of any entity that owns this franchise have already been trained and this Agreement is terminated before you sign the lease for your studio, we will refund your franchise fee payment to you less \$2,500.00 plus any reasonable out of pocket expenses we have incurred in connection with assisting you with your site selection s described

above. Once you have signed the lease for your studio, the entire franchise fee is non-refundable.

C. Fee for Additional Studios

3.03 (a) Since an owner's time and attention is vital to the success of a *Bar Method* studio, if you wish to open an additional studio or studios beyond the right for a single studio granted in this Agreement, you, or any entity that owns this franchise, must take on an additional owner who will own at least 20% or more of the equity in the entity that owns and operates each additional studio. While not required, we recommend that the person who operates each studio own at least 50% of that studio or in the entity that owns that studio.

(b) A *Bar Method* franchisee will not normally be granted the right to open more than 3 studios. To open an additional studio, you must apply on our then-current application form and pay the fee listed below. We can grant or deny your request for an additional studio in our sole and absolute discretion.

(c) If you are granted the right to open an additional studio within your protected territory, you must sign our then-current Franchise Agreement and pay an initial franchise fee of \$30,000, except for studios to be located in Manhattan where the initial franchise fee will be \$37,500. As noted in Recital H at the beginning of this Agreement, these amounts are subject to adjustment by any increase in the Consumer Price Index as described in Section 21 below.

(d) If you are granted the right to open an additional studio outside of your protected territory, including within any area in which you have a written option from us to open another studio or an area in which you have a written right of first refusal, you must sign our then-current Franchise Agreement and pay the initial franchise fee called for by that agreement.

3.04 There is no additional franchise fee for franchises that expand their studio without changing its location. However, you agree to reimburse us for any costs and expenses we incur, including for the time of our employees, in connection with the expansion.

4. TERM OF THE FRANCHISE AND RENEWAL OPTIONS.

This section discusses the initial term of the franchise and your ability to extend the franchise after its conclusion.

4.01 The initial term of this Agreement is 10 years beginning on the date of this Agreement. If the term of your lease is for 10 years and it begins not more than one year after the date of this Agreement, the term of this Agreement will be extended not more than one year so that it will expire on the date that your lease is due to expire.

4.02 (a) This franchise is renewable after the expiration of the initial term for 1 additional period of 10 years. If you want to renew your franchise, you must give us notice in writing of that desire not less than 6 months nor more than 12 months prior to the scheduled expiration date of the initial term.

(b) If you are in default under this Agreement at the time you give us notice of your intent to renew your franchise or at the time the renewal term is to begin, we can refuse to renew your franchise. If you have been given 2 or more notices of default concerning the violation of material terms of this Agreement over the course of any 3-year period, even if those violations were cured as allowed by this Agreement, we can decline to renew your franchise.

4.03 (a) As a condition of our approving the renewal of this franchise, you agree that we can require you to sign the form of Franchise Agreement we are using for renewal *Bar Method* franchises at the time the renewal is to take effect. If no new franchises are then being offered, the form of Franchise Agreement that will be used will be that we specify at the time.

(b) After we receive written notice of your desire to renew this franchise, we will send you the form of Franchise Agreement that will govern the renewal term. We will send you that agreement at least 60 days before the expiration of the initial term. You must agree to sign the required form of Franchise Agreement within 60 days of your receipt of that agreement or you will be deemed to have withdrawn your request to renew your *Bar Method* franchise and, thus, to have agreed to allow the franchise to terminate at the expiration of the initial term.

(c) Rather than paying the initial franchise fee specified in the Franchise Agreement you sign in connection with the renewal of your franchise, you will be required to pay us a renewal fee of \$10,000.00 as adjusted by any increase in the Consumer Price Index as described in Section 21 below.

(d) Even though a new Franchise Agreement is signed on renewal, we will not provide the initial services that may be described in, and there will be no renewal rights under, that agreement.

(e) As a condition of renewal you must provide evidence that you have obtained the right to occupy your studio location for a term at least equal to the renewal term.

(f) As a condition of renewal, you will have to sign a mutual general release that will cover all claims against us, our licensor and our affiliates and our and their officers, directors, members, employees, agents, so that we do not start the renewal term with unresolved issues between us. The form of Mutual General Release we are using as of the date of this Agreement appears as Exhibit C.

4.04 (a) As a condition of the renewal of this franchise you agree that we can require you to update your equipment, expand your line of goods and/or services, refurbish your studio and update your studio signage, to the extent and in the manner we reasonably require in order to bring your studio up to the standards of *Bar Method* studios opened closest in time to your renewal period. We agree to notify you of those requirements and the time within which they are to be accomplished, at the time we provide you with a copy of the Franchise Agreement to be used for your renewal term. By signing the new Franchise Agreement, you agree to comply with our requirements within the time periods we specify. You agree to pay us a reasonable sum in addition to the renewal fee to compensate us for any additional costs we incur in connection with the refurbishing of your studio, including for the time of our staff spent in connection with that project.

5. LOCATION AND PROTECTED TERRITORY.

This section discusses the manner in which a location for your studio is selected and leased or otherwise acquired as well as information on any protected territory granted in connection with your location. The section also discusses the relocation of your studio if you want to change its location.

5.01 We will consult with you regarding the general criteria for your studio location so that you will know what type of location to look for. However, we have no responsibility to find a location for you. It is your responsibility to find a location acceptable to us for your studio within the required time period.

5.02 Sometimes protected territories granted in connection with the studios of other franchisees or withheld from development in connection with studios that are owned by our licensor or those that we own may overlap the area in which you have the right to look for a site. If such a protected territory has been granted to another franchisee or otherwise withheld from development before you find a location we approve, you will not be able to locate your studio within that protected territory, even though it is partially in your designated area.

5.03 (a) When you find a prospective location, you must provide us with details about the site. To assist us in deciding whether to approve the location, you must provide us with the information we request at the time, including population and demographic data concerning the area within at least 3 mile radius of the site, the identity of other fitness facilities in the same shopping center, mall, complex or area where your studio is proposed to be located, the nature of the residential, commercial and office development in the area and so forth. In addition, such things as traffic patterns, the layout of the proposed space, the visibility and accessibility of the proposed location, as well as the other physical attributes of the site and similar data must be provided to us if reasonably obtainable. If you are in a shopping center or other multitenant development, you must provide us with a layout of the shopping center or development with the location of your proposed studio indicated. If we request additional information for our evaluation of the proposed site, you agree to use your best efforts to provide the requested information to us promptly. All costs in connection with obtaining information on the site and supplying it to us are strictly your responsibility.

(b) While we are not obligated to do so, we can visit and inspect your proposed location or locations before we decide to approve your site.

5.04 If we approve the proposed location for your *Bar Method* studio we will notify you promptly of that approval. If we do not approve the site, we will notify you promptly of our objections and the steps you can take, if any, to make the site acceptable to us.

5.05 We can disapprove a proposed location if in our reasonable judgment granting you the right to open a studio at that location will have the potential to interfere with the orderly development of other *Bar Method* studios in that area or in contiguous regions even if your proposed location is in your designated area. We can also refuse to approve a proposed location if in our judgment it is too close to a competitor, does not meet our criteria or for any other reason.

5.06 (a) You agree to use your best efforts to obtain a lease for your site promptly. If you have not obtained a signed lease for your site within 120 days after you sign this Agreement, we can terminate this Agreement unless, in our reasonable judgment, you are using due diligence in your attempt to obtain a lease. If we terminate this Agreement for that reason, we will refund your franchise fee, less \$2,500.00 plus the reasonable out of pocket expenses we have incurred in connection with your site, including travel and lodging costs incurred for visits to your proposed location or locations, which we can retain as consideration for our efforts to date. However, if you have begun franchisee training, the franchise fee is not refundable. See Section 3.02 above for other circumstances under which a portion of the franchise fee may or may not be refundable.

(b) Once we approve your proposed site, and unless the lessor prefers to use a different procedure, you agree to prepare a letter of intent to be signed by your prospective landlord setting forth the provisions of the lease called for in our manuals or other directives, including the term of the size and location of the space, the rent, including common area maintenance charges, including your contribution to the landlord's insurance, taxes, advertising and so forth, the rent escalation provisions, the improvements to be provided by the landlord and other key terms. You must provide this letter of intent to us for our approval before you provide it to your prospective landlord or negotiate any of the terms with the landlord. If the landlord prefers to make a proposal to you, you agree to forward that proposal to us for comment and approval before you respond to the landlord.

(c) We must approve the lease form and terms in writing before you may enter into the lease. At our option, we can provide you with our comments on the terms of your proposed lease. We are not responsible for any errors or omissions we may make in our comments on the lease, or, if we assist you in negotiating the terms of the lease, in our negotiation of the lease terms. We strongly advise you to obtain the advice of competent legal counsel when reviewing the lease to understand your rights and obligations.

(d) Before we will authorize you to sign your lease, you agree to provide us with written evidence that you have available sufficient funds to complete the construction, equipping, fixturing and otherwise preparing your studio for opening. You can do this by showing us the source of your own funds and those that are irrevocably committed to you for this purpose. You agree that we are authorized to contact all funding sources to verify the information you provide.

(e) You agree to use your best efforts to have the lessor of your premises sign our Addendum to Lease Agreement which is Exhibit B to this Agreement. You agree to this that Addendum as well when the lessor and we sign it.

(f) Neither by approving your site or your lease do we guarantee or warrant in any way that the site or lease terms are reasonable or adequate for your needs or purposes. Our requirements, reviews, approvals and assistance are for our own purposes and are not a representation or warranty guaranteeing your success at the location or under the terms of the lease.

(g) You agree to provide us with a copy of your fully-executed lease within 5 days of its execution.

5.07 Your studio must be open for business within 9 months from the date of this Agreement. If it is not, we can terminate this Agreement, unless, in our reasonable judgment, you are using due diligence to construct and open your studio and the delay is beyond your reasonable control, such as any unusual engineering or construction problems or if there are delays caused by fire, flood, earthquake or similar events. If that is the case, we will extend the 9-month period for a reasonable time. Delays caused by your inability to perform your financial obligations will not be deemed to be beyond your control for this purpose.

5.08 (a) As part of our site approval process, we must mutually agree on any protected territory to be granted to you. We base the boundaries of your protected territory on the population within those borders and the nature of the market in that area. Our agreement on a protected territory within a reasonable time, if any protected territory is to be granted in connection with the approval of your location, is a condition to the continuation of this Agreement. If within a reasonable time we cannot agree on a protected territory or agree that there will be no protected territory, we can terminate this Agreement and refund the initial franchise fee you have paid us, less \$2,500.00, plus our reasonable out of pocket expenses as described above, which we can retain as consideration for granting you the franchise. However, if you have begun franchisee training or, if you have already been trained and signed a lease for your proposed studio, the amounts you have paid are not refundable.

(b) If and when we have mutually agreed on a protected territory for your studio, we both will execute Exhibit A to this Agreement that will contain the address of the approved site and a description of your protected territory. Until this process is accomplished, but not before, you are not authorized to enter into a lease for your studio location. If for any reason you execute your lease prior to Exhibit A being executed by both of us and we elect not to terminate this Agreement as a result, your studio will be deemed not to have been granted any protected territory.

(c) The franchise awarded by this Agreement is only for the location described on Exhibit A and does not permit you to use the licensed assets at any other location or for any other purpose.

(d) While this Agreement is in effect, we agree not to locate a company-owned or franchised exercise studio that employs as a principal feature bar-based exercise classes within your protected territory, except under the circumstances described below.

(e) Excluded from the restriction set forth in subsection (d) above are any units owned, operated, and/or franchised by any person or entity with whom or which we may merge, by whom or which we are acquired, which we acquire or with whom or which we otherwise become affiliated after the date of this Agreement. However, we agree that none of those facilities will own, operate or franchise any exercise studios using *The Bar Method* names or marks.

(f) Also excluded from the restriction described in subsection (d) are health clubs, fitness studios and other facilities that we may open or in which we operate that use different trademarks or service marks and which principally use training techniques different from those employed in *Bar Method* studios.

5.09 (a) Your protected territory may overlap those granted to other *Bar Method* franchisees or those of studios we own or those that are owned by our licensor or affiliates. This overlap will create a buffer zone in which neither you, another franchisee nor we or any of our affiliates can open a *Bar Method* studio without your, or their, consent.

(b) Designation of the protected territory does not grant or imply any marketing or clientele exclusivity within that area nor does it give you the right to open any additional studios, or to relocate your studio, within that territory without our prior consent and subject to any requirements we may impose at the time as conditions to that approval.

(c) You cannot allow another *The Bar Method* franchisee to open a studio in your protected territory without our prior consent. In requesting that consent, you must provide us with whatever information we request concerning the transaction, including the price, if any, you are charging, or other consideration you require, for granting the other franchisee the right to open a studio in your protected territory. We can grant or deny your request to allow another *The Bar Method* studio in your protected territory in our sole and absolute discretion.

5.10 (a) Nothing in this Agreement, including granting you a protected territory, prevents us, our licensor, our affiliates or others whom we or they authorize, from marketing goods bearing *The Bar Method* names or marks or names or marks similar or related to the name *The Bar Method* or any other products to independent retail outlets, at wholesale, by means of catalogs, by mail order, by electronic means, including over the Internet, whether within your protected territory or elsewhere. These goods may be the same as or may be different from, goods you carry in your studio. You will not be entitled to any compensation or other benefits because of sales made as a result of these activities even if those sales affect your business.

(b) Nothing in this Agreement prevents us, our licensor, our affiliates, and/or others whom we or they authorize, from providing services as long as they are not materially similar to those provided by the standard *Bar Method* studio, whether under *The Bar Method* names or marks or under other names or marks and whether within your protected territory or elsewhere. You will not be entitled to any compensation or other benefit as a result of those activities even if they affect your sales.

5.11 Except as provided elsewhere in this Agreement, entering into this Agreement does not grant you the right to open any additional *Bar Method* studios nor does it give you any rights of first refusal to open any studios whether within your protected territory or elsewhere.

5.12 (a) You can relocate your studio only with our prior written consent. As a condition of giving you our consent, you must sign a mutual general release that will cover all claims against us, our licensor and our affiliates and our and their officers, directors, members, employees and agents. You must also sign the Franchise Agreement we are using for new *The Bar Method* franchises at the time of the relocation. If we are not offering new *The Bar Method* franchises at the time of your relocation, we will provide you with the Franchise Agreement we propose to use in connection with your relocation when we give you our consent to the relocation.

(b) The site, lease, design, construction, decoration, equipping and every other aspect of your relocated *Bar Method* studio must be accomplished in accordance with the requirements that exist for new *Bar Method* studios at the time of your relocation.

(c) You must reimburse us for the costs we incur in connection with the relocation of your studio including any travel and living costs we have expended in visiting your proposed location or location as well as a reasonable amount for the time of our employees.

5.13 Except as otherwise provided, we can grant or withhold the consents and approvals described in this Section 5 in our sole and absolute discretion, except for the relocation of your franchised studio in the shopping center or other commercial development in which it is presently located. In that case, we agree not to unreasonably withhold our consent.

6. DESIGN, CONSTRUCTION AND THE OPENING OF YOUR STUDIO AND THE STUDIO'S MAINTENANCE AND REPAIR

This section discusses the development of your studio, its maintenance and our opening assistance.

6.01 (a) Once we have approved your location and on or before the signing of your lease, we will give you the specifications with which your studio must comply, including our sign criteria and the specifications for the number, height and placement of all bars, barres, mirrors and similar fixtures of your studio as well as the names of suppliers for approved items for use in your studio where we have identified an approved supplier for those items. You agree to comply with our requirements and specifications concerning the construction and equipping of your studio. If our requirements and specifications are not met, you agree that we can delay the opening of your studio in order to require that the studio be brought into compliance with our requirements and specifications.

(b) Since it is very important that your studio's design, construction and appearance conform to our requirements, you agree to have your architect, space planner, interior designer, contractors, subcontractors and any others involved in the design, construction, equipping, decorating and finishing of your studio, as well as any others we designate, thoroughly review and agree to comply with our build-out manual. You also agree to have those involved with the design and construction of your studio engage in an initial consultation with us prior to beginning their work so that we can attempt to make sure they are aware of our requirements and the consequences of not complying with them. You also agree to make sure they consult us before making any changes in the design, construction, installation and other requirements we specify.

(c) You agree to send us a copy of the preliminary plans and specifications for your studio as soon as your architect or designer completes them. Before your architect or other designer may start drafting the final plans and specification, we must approve the preliminary plan. You agree to send us a copy of the final plans and specifications for your studio as soon as your architect or designer completes them. Before you may start the construction or remodeling of your studio, we must approve your final plans and specifications.

(d) If the shopping center or other facility in which your studio is located requires your signs to meet criteria other than those we have provided, you agree to submit that criteria to us and not to order your signs until we have approved their appearance, materials and design. We must approve all of the signs that you propose to use at any time on, in or in connection with your *Bar Method* studio.

6.02 (a) You can employ the contractor or contractors you choose although they must be licensed to perform the activities for which they are employed.

(b) You must require that the contractors you hire maintain adequate insurance covering liability, property damage and workers' compensation, as well as the other insurance normally carried by licensed contractors in the area in which your studio will be located.

(c) Unless we agree otherwise, your contractors must be required to provide you with a performance and completion bond in an amount sufficient to insure the completion of the construction for which they have been hired. We can require that we, and those we specify, be named as additional insureds under your contractors' insurance policies and bonds.

6.03 You agree to purchase and use all of the signs, trade fixtures, equipment, computers, software and interior decoration items required by your plans and specifications and our equipment and décor requirements. You also agree to purchase all of the other items we indicate as being required for your studio.

6.04 We will be available by telephone and email during our normal business hours to consult with you and your contractors regarding the construction of your studio. However, it is your responsibility to see that your studio is designed, built, equipped, decorated, stocked and opened without delay in accordance with the plans and specifications that we have approved as well as with the requirements of our manual and other directives.

6.05 If you want to change anything significant in the plans and specifications that we have approved or designated as a requirement in our build-out manual, we must approve those changes in writing before the changes can be undertaken. This includes any changes you propose to make while your studio is under construction.

6.06 Since the details of our studio layout, designs and specifications are proprietary, if this franchise is terminated for any reason after you send us any plans and specifications for your studio, all of those plans and/or specifications become our property without us having to pay you for them.

6.07 We assume no responsibility for the work of independent contractors whether we employ them or whether you employ them.

6.08 Our right to review and approve your plans and specifications, our right to require your contractors to carry insurance and bonds and any other action or inaction we may take or not take in connection with the design, construction, equipping, decorating and preparation of your studio are done solely for our own purposes and do not guarantee that your plans and specifications are suitable or adequate, that the design and plans meet local codes or other

requirements, that your contractor or contractors are competent, reliable or otherwise able adequately to perform the tasks for which they have been hired or that the insurance policies and bonds that your contractors carry are sufficient to protect you from any loss or costs. Nothing we do or do not do, in connection with the location, construction, preparation and opening of your studio, guarantees your success.

6.09 (a) While we are not required to do so, we have the right to inspect the construction activity at your location at any time. You agree to cooperate and have your contractors cooperate with our representatives in the performance of these inspections.

(b) In order to allow us to schedule a final inspection of your studio, you agree to provide us with 30 days prior notice of the date on which the improvements to your studio will be complete. You agree to provide us with weekly updates thereafter, correcting the completion date as necessary. You also agree to notify us of the exact date on which your studio walls will be closed in so that we may make arrangements, if we wish, to consult with the mirror and bar suppliers to make sure they understand our requirements concerning the measurements and installation of those items.

(c) If we notify you that we plan to perform a final inspection of your studio, you agree not to open your studio for business until we have satisfactorily completed that inspection. If the final inspection discloses defects that must be corrected, you agree to correct the defects in the manner we indicate prior to opening for business or within the time period we otherwise specify.

(d) If we inspect your site, our inspections are for our own purposes and are not designed to protect you or to guarantee that the construction is adequate, in accordance with the approved plans and specifications or is in compliance with local codes or other requirements.

6.10 (a) We must approve the suppliers of the furniture, fixtures, decor, equipment and other items you propose to use in your studio both before and after you open for business. We can designate the manufacturers, model and/or style numbers of the furniture, fixtures, décor and equipment you must use in your studio or we can designate such items by specifying the materials, features, capabilities, qualities and other attributes of the items. You agree to order as your opening inventory all of the merchandise we specify in the amounts we designate. We or our affiliates may be approved suppliers or the only suppliers of some of these items including, at the date of this Agreement, straps, balls, mat covers, foam covers and other items that bear our logo.

(b) If you order merchandise that has not been approved by us, you agree that we have the right to require you to remove all such merchandise from your studio immediately.

6.11 (a) You agree promptly to pay all of the designers, engineers, contractors, suppliers and others who you employ in the design, construction, fixturing, decorating, improving and supplying of your studio except to the extent that there is a bona fide dispute between you and any such supplier, provider or contractor. If there is a dispute, you agree to use your best efforts to resolve the dispute promptly and fairly.

(b) Those who provide services and materials for the construction of your studio normally have liens for payment against your property. Therefore, you must require your contractor to collect lien releases from all sub-contractors, and to provide one itself, before your studio is open for business. You agree to provide us with copies of the releases if we request them from you.

6.12 Once your studio has opened for business, you cannot change anything significant in the interior or on the exterior of the studio or in its appearance without our prior written consent. This prohibition includes the use of any fixtures or equipment different from, or in addition to, those we have approved.

6.13 It is your responsibility to maintain and repair your studio and keep the interior, exterior, immediately surrounding areas, carpet, wall treatments, paint, windows, signs, trade fixtures, equipment, décor, furnishings and all other tangible property used in your studio in the highest condition of cleanliness, repair and appearance. You agree to replace promptly anything that you cannot maintain in the highest state of repair and appearance.

6.14 We must approve all alterations to your studio prior to the changes being undertaken.

6.15 In addition to your maintenance and repair responsibilities, in our discretion, we can have you remodel, refurbish, redecorate and otherwise modify your studio to bring it up to the standards of new *Bar Method* facilities at least once during the initial term of this Agreement. We agree not to exercise this right before the fifth year of the term of this Agreement. We agree that the cost of any changes that we require you make under this section that are beyond the scope of our original specifications or requirements will not exceed \$5,000.00 as adjusted by any increase in the Consumer Price Index as described in Section 21 below.

6.16 (a) We have the right to change the design and appearance of *Bar Method* studios, their format, color scheme, trade dress, signage, equipment, furnishings, commercial symbols, decor, products, services and all other aspects of *Bar Method* studios at any time in our reasonable business judgment in order to meet competition, to attempt to enhance the business of *Bar Method* studios or to improve their appearance.

(b) If we determine in our reasonable judgment that one or more changes to your studio is necessary for you to remain competitive, you agree to comply at your expense with the changes we specify within the time periods we designate which will be at least one year from our giving you notice of the required changes. However, we agree that none of these changes will require you to perform any major remodeling or redecoration of your studio before your fifth year of operation as described in Section 6.16 above.

6.17 (a) Leading up to the opening of your studio, we will make ourselves available to you by telephone and/or email during normal business hours to answer questions and provide support related to the set-up of your studio

(b) If you want us to provide you with one of our staff members to support you immediately prior to the opening of your studio, you must notify us of the planned opening date

of your studio at least 30 days prior to the opening so that if we have someone available to travel to your studio, we can schedule the member or members of our staff who will assist you with the opening of your studio. If we are able to provide a staff person for support at your studio site, you will be responsible for all the reasonable travel expenses to your studio and the daily living expenses of that person while on site. When our representative arrives at your studio and the length of time he or she will stay is strictly within our discretion. If we do not have someone available to travel to your studio, we will provide telephone support instead of support in person.

(c) If your studio has not completed all of the items in our Final Inspection Checklist (to be provided to you prior to the final inspection), when our representative arrives to perform a final inspection, and for that reason he or she cannot perform the functions for which he or she was sent, you agree to pay the added lodging and subsistence costs of our representative as well as paying us a fee for each day that our representative is prevented from completing the functions for which he or she was sent to your studio. The fee that we will charge will not exceed \$300.00 per day as adjusted by any increase in the Consumer Price Index as described in Section 21 below. A deposit against this fee must be paid when we request it or we can recall our representative and charge you for the cost of sending our representative back to your studio when it is ready.

(d) If your studio is not ready when our representative or representatives arrives, as an alternative to keeping our representative in your area, we can recall our representative until we are satisfied that your studio is ready to open. If we do that, you agree to pay for the costs of sending our representative back to your studio in addition to paying us the fee described in subsection (c) for each day our representative spends traveling to and from your studio.

7. OWNER AND TEACHER TRAINING.

A key to your success will be the competence, appearance and personality of your exercise class teachers. This section describes the teaching requirements for studio owners and all teachers, the training process, the approval process for trainees, teacher certification, teacher management requirements, the teacher evaluation process and ongoing training programs and visits.

A. Teaching Requirements for Studio Owners

7.01 (a) All of those who own 20% or more of any entity that owns this franchise must go through our franchisee approval process and be trained and certified as *Bar Method* teachers. If any person subsequent to the signing of this Franchise Agreement wishes to join that entity and will own 20% or more of the entity, that person must go through our approval process and, if they have not previously been trained and certified, must agree to be trained and certified as a *Bar Method* teacher prior to executing any documents making them an owner of the entity. Before they begin training, they must sign our non-competition and non-disclosure agreements.

(b) If you or a member of any entity owning this franchise is decertified as a *Bar Method* teacher for any reason, you or they must be recertified within 6 months of losing certification. If an individual owner does not complete his or her recertification within that period, we can terminate this Agreement. If an owner of any entity that owns this franchise is

not recertified within the required time period, they must reduce their ownership in the entity to less than 20%.

(c) We will also provide you with training in studio business operations. The duration of this training will vary, in our discretion, depending on your experience. This training will be provided principally by telecommunications, video, manual or other means. You, and all owners of over 20% of any entity that owns this franchise, are required to complete this training and successfully complete any testing or other evaluation we require.

7.02 All persons owning more than 20% of any entity owning this franchise must teach at least 6 *Bar Method* classes per week on a regular basis unless they are on pregnancy or other medical leave or are on short vacations during that period. If such an individual owns a 20% or more interest in more than one *Bar Method* studio, the 6 class requirement is satisfied by their total time teaching and does not require 6 classes to be taught at each such studio. If they teach fewer than the required number of classes averaged over any 3-month period, unless they are on pregnancy or medical leave, they will be considered decertified and must not teach any further *Bar Method* classes until recertified by us. We can change the number of classes they are required to teach in our discretion.

7.03 (a) You must operate your studio with the minimum number of certified teachers that we specify. Before you open your studio you must have at least 2 trained and certified teachers, one of whom must be you, or, if this franchise is owned by an entity, an owner of more than 20% of that entity. If any of your teachers whom we require to be certified before the opening of your studio does not complete our training course in a reasonably satisfactory manner, you agree not to employ that person as a teacher in your studio and to send another trainee to our training course at your expense, including paying our additional training fee if applicable. If you do not, or, if this franchise is owned by an entity, a person owning more than 20% of the entity does not, complete our training course to our reasonable satisfaction by the time we require, we can terminate this Agreement and retain the entire initial fee and all other sums paid to us at the date of the termination.

(b) If an owner of more than 20% of any entity that owns this franchise does not complete our training course to our reasonable satisfaction or for some other reason is not certified as a *Bar Method* teacher, he or she must reduce their ownership interest in the entity to less than 20% of the outstanding ownership interests within 60 days of when we notify the entity of their failure to qualify as a *Bar Method* teacher.

(c) You, and if this franchise is owned by an entity all owners of more than 20% of the interests in the entity, must be certified as *Bar Method* teachers within 7 months of the date of this Agreement. You and your other teacher or other teachers who are required to be certified when you open must be certified at least 1 month prior to the opening of your studio. We will use reasonable efforts to help you and your teachers become certified.

B. Teaching Requirements for Non-Owner Teachers

7.04 (a) In order to maintain and improve the teaching skills of all *Bar Method* teachers in your studio, it is imperative that your teachers teach a minimum number of *Bar Method*

classes. Therefore, all of your non-owner teachers must each teach a minimum of 4 *Bar Method* classes per week at your studio or studios, averaged over a 3-month period, unless they are on pregnancy or other medical leave or are on short vacations during that period. If any of your teachers teach fewer than the required number of classes averaged over any 3-month period, unless excused for the foregoing reasons, that teacher will be considered decertified and must not teach any further *Bar Method* classes until recertified by us.

C. Training Process

7.05 (a) Included in your initial franchise fee is the cost of training a total of 2 teachers. This total includes the training the people owning over 20% of the interests in any entity owning this franchise. You are responsible for the travel and living expenses of your trainees and their salaries, benefits and the like. We do not pay your trainees for attending our training course or conducting any practice teaching we require.

(b) Unless we otherwise require, you need not be retrained if you have already been trained and certified by us, although we do require you to audit at least the first 5 days of one of the specialized franchisee training courses that we offer up to 4 times year in San Francisco before you open your studio. We recommend, and may require, that you audit the training sessions in which you have teachers being trained. If you are already a certified *Bar Method* teacher, your auditing of our training course does not count against the 2 teacher trainings we provide at no additional cost. We do not charge you for auditing this training but you must bear your own travel and living costs.

(c) Since most *Bar Method* studios require a minimum of 4 certified teachers to conduct a sufficient number of weekly classes, by the 12th month of operation you must have at least 4 trained and certified teachers providing *Bar Method* classes at your studio. If your studio does not have at least 4 certified teachers by the end of your first 12th month of operation, you are required to send the difference between 4 and the number of certified teachers you do have to our first available training following the end of the 12-month period. If you fail to do this, you will be charged for all additional training at our standard training rate.

(d) After we train your initial 2 teachers, including owners, or if you do not send your additional teachers to training within in the time period described subsection (c) above, we can charge you an additional training fee for training the additional teachers. Our teacher training fee will not exceed \$4,000.00 per trainee and must be paid at the time we require prior to the beginning of the applicable training course. This amount is subject to adjustment by any increase in the Consumer Price Index as described in Section 21 below.

(e) Once a trainee actually begins the training course, it will count as one of your 2 included trainings even if the trainee drops out, does not successfully complete our training course or fails to be certified as a *Bar Method* teacher. Similarly, if our training fee is paid in connection with training a teacher, that fee is not refundable if the trainee drops out, does not successfully complete our training course or fails to be certified as a *Bar Method* teacher.

7.06 (a) Our initial franchisee training course consists of approximately 52 hours of classroom training. Following completion of that training, the trainee must complete 90 hours of

practice teaching before he or she can be certified as a *Bar Method* teacher. Each training session accepts up to 10 trainees. In addition to the training course conducted in San Francisco, we have *Bar Method* training courses at various locations around the country. We will attempt to schedule your training course, and those of your teachers, at the location you request.

(b) To prepare for the opening of your studio, following our training course and certification of the trainees as *Bar Method* teachers, your teachers, including you, or if this franchise is owned by an entity those owning more than 20% of the entity, must spend not less than 3 nor more than 6 months after their initial training following the *Bar Method* post-training protocol described in the *Bar Method* teaching manual. This consists primarily of conducting practice classes offered to small numbers of students free of charge.

(c) Before you open your studio, but after your initial training is complete, you may hire one of our certified *Bar Method* coaches to visit your practice studio and provide additional coaching at your expense. Also, subject to their availability, you may also have our trainers come to your practice studio to oversee your practice teaching. If you do so, you must compensate them for their salaries, benefits, travel, lodging and other travel-related expenses.

7.07 (a) All of your teachers must be trained by a certified *Bar Method* teacher trainer. You are not permitted to train your own teachers unless you are a certified *Bar Method* teacher trainer. All teacher training, even if done by you or other members of your staff, must be coordinated through us.

(b) If you are a certified *Bar Method* teacher trainer and you propose to train or re-train one or more of your own teachers or prospective teachers, you must notify us of the time and place of your proposed training course. We will notify other *Bar Method* studio owners of your plans. You agree that other *Bar Method* studio owners may send teachers or prospective teachers to your training course. We will coordinate all such training with the other studio owners and charge them our teacher training fee. We will pay you 2/3 of that fee once it becomes nonrefundable and will retain 1/3 of that fee for our coordination efforts. You agree to pay us an amount equal to 1/3 of our teacher training fee for each of your own trainees. You agree not to accept trainees from another *Bar Method* studio without our approval and our collection of the teacher training fee. All training and retraining you do must be in accordance with our teacher training manual and other directives.

(c) Whether before or after the opening of your studio, if more than one *Bar Method* studio sends teachers to attend a training session taking place at another *Bar Method* studio for which we provide the trainers, the travel and living costs of the trainers will be divided proportionately among the studios participating in the training sessions based on the number of trainees each studio sends.

C. Approval Process for Trainees

7.08 We can reject any of your proposed teachers, including those who own an interest in this franchise, for any reason at any time prior to their certification. Since our decision to reject one or more of your proposed teachers may be subjective, we do not have to provide you

with an explanation of why we reject them. In lieu of rejecting your teachers, we can require that your proposed teachers can be further trained to our satisfaction at your expense.

D. Certification Process

7.09 (a) All teachers, including you or any of the owners of any entity that owns this franchise, who conduct *Bar Method* classes or provide any type of teacher training must be certified by us as teachers or teacher trainers before they conduct those activities, whether they have been trained by us or by any others we approve. Allowing classes to be taught or training to be conducted by teachers we have not certified for those activities is grounds for the termination of this Agreement.

(b) You agree not to add anyone to any public teaching schedules until after we have certified them as *Bar Method* teachers.

(c) If you, any owners of any entity that owns this franchise or any of your teachers has been decertified for any reason, they must recertified by us before they are allowed to resume teaching classes.

(d) We may conduct our certification process in person or, at our direction, by live or recorded video. If we request that you provide a video of you or any of your teachers performing the tasks we require for your, or their, certification, you agree to provide the video to us at the time and manner we require and at your expense.

E. Teacher Management Requirements

7.10 (a) If applicable law requires some or all of your teachers or other employees to have and maintain any individual licenses or certifications for the conduct of their activities, you agree to make sure that those licenses or certifications are obtained and maintained by the concerned employees.

(b) You agree to comply with all applicable laws concerning the employment of your teachers, including paying them while they are in training, wherever that training is located, and while they are working at your studio, including paying at least the required minimum wage and providing appropriate working conditions. You should seek competent legal advice before classifying any of your teachers, or others who work for you, as independent contractors since the penalties for misclassification under federal and state law may be significant.

7.11 You agree to require your teachers, and any others we specify, to execute a noncompetition and confidentiality agreement in the form we require prior to their commencing their employment.

7.12 (a) You agree to notify us of the identity of each of your proposed teachers and to provide us information on their experience, background, education and training promptly upon their being hired. At our request, you agree to inform us of the identity, experience, background, education and training of the other personnel you employ in connection with your studio.

(b) Throughout the term of this Agreement, you agree to provide us with an accurate roster of your active teachers and to maintain it on an up-to-date basis. You agree to advise us promptly when any of your teachers stops working at your studio and when you add any new teachers to your staff. If a teacher stops teaching at your studio, you agree to inform us promptly of whether that teacher is going to teach at another *Bar Method* studio and, if so, which one. Unless we direct otherwise, if they are not going to teach at another *Bar Method* studio, you agree to collect their *Bar Method* manuals and other nonpublic materials and return those items to us at your expense or certify to us that that material has been destroyed.

7.13 You agree that you will observe an entire class of each and every one of your teachers at least once a month. In this regard, you agree to follow our teacher evaluation guidelines and make notes of your observations, give feedback to the teacher, make notes of the feedback given and share those notes with us if we request them. You also agree to designate one or more of your teachers to observe at least once a month each of the persons owning more than 20% of any entity owning this franchise as they teach an entire class and make notes on their observations, give the teacher feedback, make notes of the feedback and share those notes with us if we request them.

7.14 Once you have opened for business, if, in our judgment, any of your teachers is not trained adequately to perform their duties, if you are a certified Bar Method teacher trainer, you may retrain that teacher yourself. If you are not a certified teacher trainer or, if you are and do not want to retrain your own teacher, you agree promptly to hire a certified Bar Method coach or teacher trainer to retrain them or, at our direction, send them to the additional training we specify. You agree to be responsible for all the costs and expenses of your teachers in connection with their re-training, including their salaries, benefits and travel-related costs. If we provide the retraining, you must pay us our additional training fee as discussed in Section 7.05(d) above.

7.15 You agree not to offer more classes than can be competently provided by your certified teachers.

7.16 By having the right to train certain of your personnel, we do not waive any rights we may have to enforce the provisions of this Agreement because of the actions or inactions of the employees we trained or have the right to train, whether the actions or inactions occur before or after such training.

F. Evaluation Process

7.17 (a) Because the skill and aptitude of *Bar Method* teachers is a key element of the Bar Method system, we plan to send a certified *Bar Method* evaluator to your studio to evaluate you and your teachers at such times as we determine in an effort to make sure your certified teachers are maintaining these required skills and abilities. We retain the right to conduct the evaluations at the times we choose, and your teachers, including yourself, must make their best efforts to be available for evaluation at those times. If for any reason one or more teachers who need to be evaluated are not able to be present when our evaluator is at your studio, we may conduct their evaluations by live or recorded video. Accordingly, If we request that you provide us with a video of you or any of your teachers performing a *Bar Method* class

so that we can perform our evaluation of you or them, you agree to provide the video to us at the time and manner we require and at your expense.

(b) Those who do not achieve a minimum acceptable score on an evaluation, determined by our evaluator, will be reevaluated within 2 months. During that time, you must coach the teacher, or hire a certified *Bar Method* coach or, if we agree, send the teacher to us for additional coaching. We must agree on the nature and duration of the coaching if you want us to coach the teacher as well as the fee we will charge for that additional service. In any event, the teacher must receive a minimum of 10 hours of coaching in order to regain his or her skills prior to the reevaluation. If the teacher fails to obtain a minimum acceptable score on the reevaluation, the teacher will be decertified and cannot teach any *Bar Method* classes until he or she is recertified. Recertification will normally not occur until the teacher attends and successfully completes our teacher training course. You must pay your teacher's salary, benefits, travel and lodging expenses in connection with the additional coaching.

7.18 We can charge an evaluation fee of up to \$300.00 per teacher evaluated as adjusted by any increase in the Consumer Price Index as described in Section 21 below. You will also be responsible for the reasonable travel and living costs we incur in connection with the evaluator visiting your studio.

7.19 We have the right, in our discretion, to visit your studio periodically to conduct additional training for you and your teachers. You agree to pay our travel and living expenses in connection with these visits. These visits will not occur more often than once during each 12 month period without your prior consent.

G. Ongoing Training Programs and Visits

7.20 (a) We may offer system-wide refresher courses, seminars, conventions, meetings and similar programs for *The Bar Method* franchisees. If we do so, you, and each of the persons owning over 20% of any entity owning this franchise, agree to attend at least one such event during any 12-month period unless you, or they, have, in our reasonable judgment, provided an adequate reason for not being able to attend.

(b) In addition to the foregoing, if we sponsor regional training seminars or other meetings of any nature for *The Bar Method* franchisees and/or their employees in the region in which your studio is located, you agree to attend such events or to send to those sessions the person or persons we designate, but not more often than one such event during any 3-month period unless you have, in our reasonable judgment, provided an adequate excuse for not being able to attend.

(c) All of your expenses in connection with attending these meetings, sessions, events and programs and the salaries, benefits and expenses of your employees, are your responsibility.

(d) We reserve the right to charge reasonable fees for attendance at the above-described meetings, sessions, events and programs. You agree to pay those amounts at the time and in the manner we require.

H. Miscellaneous

7.21 You agree not to allow anyone, including your customers and staff, to use the rooms used for classes or the equipment in your studio except under the supervision of a certified *Bar Method* teacher.

8. OPERATING REQUIREMENTS.

This section discusses, among other things, our respective duties to each other once your studio is open for business.

A. Method of Operation, Our Manuals and Protection of our Trade Secrets and Goodwill

8.01 (a) You agree to follow all of the systems, procedures, practices, techniques, supply requirements, formats and the like, and meet the operating standards that we periodically specify for the operation of your studio. These requirements are set forth in this Agreement, our manuals and in the notices, bulletins and other communications we periodically send you. We will provide you with our manuals and other material prior to the opening of your studio.

(b) We have the right to make additions, deletions, modifications, and/or other changes to our manual, materials, confidential information, systems, techniques, sources, supplies and other aspects of *The Bar Method* system and to specify additional, different or other requirements for you to follow. You agree to follow these changes at the times and in the manner we specify. We agree that without your consent, the changes that we specify will not unreasonably increase your obligations, including your financial obligations, during the term of this Agreement.

(c) Much of the material that we provide or arrange to have provided to you contains our trade secrets and other proprietary information, including our exercise and teaching techniques, sources of supply, equipment specifications, operating procedures, marketing and advertising plans, financial information and so forth. You agree not to disclose our confidential or proprietary information to unauthorized third persons. You also agree to use your best efforts to prevent unauthorized disclosure by your employees, agents and others over whom you have control. In addition to the agreements to be signed by your teachers, as described in Section 7.11 above, you agree to require all of your other employees to sign a non-disclosure and/or confidentiality agreement in a form acceptable to us prior to their commencing their employment. You further agree to keep those non-disclosure and/or confidentiality agreements current and enforceable at all times.

(d) You acknowledge that improper use or disclosure of our confidential or proprietary information will cause us irreparable injury. We can seek a temporary restraining order and a preliminary and permanent injunction against such improper use or disclosure in addition to seeking damages and other relief because of the unauthorized use or disclosure of this information.

(e) You agree to employ the security measures that we specify from time to time for the protection of our trade secrets, confidential information and proprietary material.

(f) You agree to use our confidential information only in connection with establishing and operating your studio. If you make improper disclosure or use of our proprietary information, we can terminate this Agreement without giving you an opportunity to cure the default.

8.02 (a) In order to maintain and enhance the goodwill associated with *Bar Method* studios and brand name, you agree to cooperate with us and with our other *Bar Method* studio owners, especially those in the region in which your studio is located, by maintaining the quality of teaching *Bar Method* classes, sharing teachers, participating in regional marketing and promotional activities, holding and/or attending regional conferences and master classes and similar activities.

(b) You agree to cooperate with us in all matters related to this franchise, your *Bar Method* studio and our mutual performance under this Agreement. You agree not to inhibit us in the performance of our duties under this Agreement whether in the design, construction, opening and operation of your studio, or otherwise.

(c) You agree not to disparage the *Bar Method* brand, method, training, goods, services, us or other *Bar Method* studio operators, owners or teachers. If you do so, we can terminate this Agreement immediately.

(d) If you are in an area in which you share or may share clients with another *Bar Method* studio, you agree to make a good faith effort to negotiate an inter-studio compact that allows clients who purchase a package of classes at one studio to take classes at the other studios in the area by drawing on the course package purchased from any of the other studios in the compact. The compact should establish reimbursement rates and any limitations on participation.

(e) You agree to use your best efforts to develop and maintain a good working relationship with the other *Bar Method* franchisees in your area, including by sharing teachers, holding common master classes and workshops and engaging in common promotional activities. You also agree to meet with us and the other studio owner(s) if there is a conflict between you and any owners of other *Bar Method* studios.

(f) In order to promote goodwill among all studio owners, you agree to allow all other *Bar Method* studio owners to take classes at your studio free of charge as long as their participation will not displace clients of yours who have paid to take those classes.

8.03 (a) After the termination or expiration of this Agreement, you agree not to use or disclose our confidential information or proprietary material for any purpose except as we may authorize or direct in writing.

(b) When this Agreement ends and at any other time we so require, you agree to return to us promptly all copies of our manual, updates, confidential, trade secret, proprietary material and any music collections that you obtained from or through us. You also agree to erase any electronic versions of this material that you may have on your computer or other electronic equipment.

(c) You agree not to copy or otherwise duplicate our manual, updates, confidential, trade secret, proprietary material and music collections except as we direct, authorize or approve in writing.

B. What You May Provide at Your Studio

8.04 (a) You can use your *Bar Method* studio only for providing the services and selling the merchandise we approve and, then, only in the manner we specify. You and those you employ must teach *The Bar Method* classes exactly as specified in our teaching manual. You agree not to add any exercises, stretches, choreography or positions that are not in *The Bar Method* teaching manual. You agree not to leave out any exercises, stretches, choreography or positions that our teaching manual requires you to include.

(b) You agree not to teach or otherwise provide any form of exercise or techniques that are not specified in our teaching manual, yoga, pilates, spinning and dance without our prior written consent, which we may grant or withhold in our sole and absolute discretion.

(c) You are authorized to provide approved services and sell approved merchandise only to retail customers and only from your studio. You agree not to provide any services or carry or sell any goods other than those we specify or otherwise approve in advance in writing. If given, those specifications and approvals can be altered or withdrawn at any time.

(d) You agree not to market any goods or services related to your *Bar Method* business through independent retail outlets, at wholesale, by means of catalogs, by mail order, by electronic means, including over the Internet or by other alternative means. Nothing in the foregoing will prohibit you from obtaining customers over the Internet provided your Internet presence and content comply with the requirements of this Agreement.

(e) Unless we direct otherwise, you agree not to sell vitamins, supplements, other nutritional products or food items, other than bottled water, at your studio. You may not take any action that would tend to associate *The Bar Method* with any nutritional products or food items, including providing recommendations of or access to a provider of these goods without our express consent.

8.06 Without our written consent, no business, other than the business franchised by this Agreement, can be located in your *Bar Method* studio. Only with our consent can you operate your studio inside the business premises of someone else.

8.07 (a) We and persons or entities affiliated with us or licensed by us, our licensor or our affiliates, may create private-labeled merchandise bearing *The Bar Method* trademarks or related names and/or marks. If you are allowed to sell that merchandise, you agree to do so only from your studio, only at retail, and, if we so specify, only to the customers to whom you provide your services, but in any event only in the manner we specify. You must purchase, carry, sell and use in your studio the minimum quantity of such private-labeled merchandise we may reasonably require.

(b) You can purchase items bearing our names, trademarks, service marks, logotypes and other commercial symbols only from suppliers we have approved, including your stationery, business cards, forms, and the like. In our discretion, we can reserve to ourselves, our licensor, and/or our affiliates the right to manufacture and/or to supply you with these items. If we sell these items to you, we will do so at our bona fide wholesale prices.

8.08 (a) To the extent allowed by applicable law, you agree to follow any guidelines or directives we periodically issue concerning the prices you charge for the goods and services you provide at your studio. If we do not require you to charge any specific prices or minimum or maximum prices, you can determine the prices you charge for your services and for any goods you may sell from your studio.

(b) Since it is unlawful for studio owners to agree among themselves on the prices they will charge for their goods and services, you agree not to discuss the prices you charge for your goods and services with other studio owners. We will consult with you and make recommendations concerning your prices at your request.

(c) You agree to accept the payment methods we specify in our manual and other directives. We can change the approved methods of payment from time to time.

(d) You agree to use the credit card processing service, merchant services provider or other third-party business services we require for the operation of your studio.

C. Your Customers

8.09 Except as provided elsewhere in this Agreement, you, our other franchisees, our licensor, our affiliates and we are not prohibited from soliciting prospective customers wherever they live or work. As such, you are not prevented from soliciting customers who live or work inside the protected territories granted to other *The Bar Method* franchisees or territories held for our licensor, our affiliates or us. Similarly, other *The Bar Method* franchisees, our licensor, our affiliates and we are not prohibited from soliciting customers who live or work within your protected territory. You are not entitled to any compensation, allowance, payment or other consideration on account of any customers who live or work within your protected territory who become customers of *The Bar Method* owned by others and you need not compensate anyone for customers of your studio who live or work within the protected territories of others.

8.10 (a) A “national or regional account” is an arrangement we may make with larger businesses or other entities in which we agree to set or discount service or customer fees, however denominated, at *Bar Method* studios for those affiliated with the designed business or entity. We can solicit national or regional accounts from businesses and other entities whether their offices are located within your protected territory or elsewhere. If we establish a national or regional accounts program, you agree to honor the price or discount we periodically establish for these accounts.

(b) If we establish a “national card”, gift card or similar program, whatever named, under which a customer can purchase a package of classes that can be taken at any *The Bar Method* studio, you agree to participate in that, or any similar, program in accordance with the operating procedures and compensation rates we specify.

D. Special Events

8.11 (a) If you have the opportunity to provide *The Bar Method* merchandise or services at special events in your protected territory, such as fairs, exhibitions, charity events, conventions, shows and the like, you agree to notify us of the opportunity immediately. You must also advise us whether you want to participate in the event. If you want to participate in the event, you agree to do so and to follow our requirements in that regard. If you do not want to participate in the special event, we or any person or entity we designate, can do so even though the event is in your protected territory.

(b) If you do not participate in the special event and we, our licensor, our affiliate or a person or entity we designate, does so, you will not be entitled to any compensation because of that participation or otherwise.

E. Studio Operation

8.12 (a) As discussed above, each studio owner's attention to his or her studio is usually essential to its success. Therefore, your studio must be under the overall management supervision of a person owning at least 20% of any entity that is the franchisee under this Agreement. That person must devote full-time to the operation of the studio.

(b) You agree to use your best efforts to produce the maximum volume of business from your studio in a manner consistent with the terms of this Agreement and to devote an amount of time to your studio adequate for this purpose.

(c) If we make recommendations with respect to the operation of your studio, you agree to follow those recommendations within the time periods we specify. This includes increasing the number of classes you offer and the times at which those classes are offered.

8.13 If we send you surveys or questionnaires you agree to respond fully within the time period we specify.

8.14 It is very important for you to maintain adequate working capital throughout the term of this Agreement. You agree to maintain an unencumbered cash balance of at least \$20,000.00 that is available for the operation of your studio averaged over a running 3 month period. This amount is subject to adjustment by any increase in the Consumer Price Index as described in Section 21 below. If you have a studio with high overhead, you agree to maintain funds in excess of that amount if, under the circumstances, the increased amount is reasonable.

8.15 (a) You agree to hire and satisfactorily train a sufficient number of employees to handle adequately the volume of business of your studio and to provide consistent, courteous and capable service to your customers.

(b) You agree to use your best efforts to insure that your personnel maintain such standards of appearance, cleanliness and demeanor that we specify but in any event standards that will enhance the conduct and image of your studio and *The Bar Method* system.

(c) You can set your own hours and days of operation. However, if, in our reasonable business judgment, your minimum hours and/or days of operation are not commercially reasonable, we can specify the hours and days of operation your studio must be open and you agree to follow our directions in this regard.

8.16 (a) You agree to follow our specifications regarding, or otherwise to obtain our prior written approval of, the type, style, decoration and characteristics of all uniforms, packaging and other items used in connection with, or sold or provided to customers of, your studio, whether or not such items bear *The Bar Method* names or marks.

(b) No vending machines, newspaper or magazine racks, games, rides, amusement devices, juke boxes, pay telephones or similar devices, whether or not coin operated, nor any music, music system or other entertainment systems or activities can be used in your studio without our prior consent.

8.17 To enhance the image of your studio and to make it consistent with other *Bar Method* studios, you must play the specific music mix that we specify for use in your classes. All other studio music may only be of a type that we approve. We can specify the volume at which the music used in your classes and in your studio are played.

8.18 If we establish any buying cooperatives, you agree to participate in the activities of those entities and make the purchases through the cooperatives at the times and in the manner we periodically specify.

8.19 (a) If we notify you at any time of defects, deficiencies or unsatisfactory conditions in the appearance, operation, practices or activities of your studio, you agree to correct the concerned circumstances promptly in the manner we specify.

(b) You agree that we can contact your customers in order to deal with complaints, obtain their comments on your services or for any other reason. We can employ "secret shoppers" or their equivalent, to observe and report on the services performed and the goods provided by your studio.

8.20 (a) You agree to operate your studio and conduct all of the activities related to in compliance with all laws, statutes, ordinances, rules, regulations, governmental orders and the like, including those that are related to employment, labor, health, safety, the environment and hazardous or toxic materials, whether those laws, statutes, ordinances, rules, regulations, orders and the like, now exist or are enacted or issued at a later time. You agree to be responsible for the consequences of any noncompliance both during the term of this Agreement, any extensions or renewals of this franchise and thereafter.

(b) You agree to obtain and maintain at your expense all licenses and permits necessary for the operation of your studio and any other activities you undertake pursuant to this Agreement, including the fees required by the owners' of the copyrights in the music you play at your studio.

8.21 You agree to comply with the orders, regulations, rules and directives of government officials in the conduct of their official duties as they pertain to the operation and

conduct of your studio. You agree to notify us immediately of any significant orders or directives you receive from such officials, the reasons for them and the corrective action you have taken or plan to take.

8.22 You are solely responsible for all taxes, liens, assessments, costs, expenses, debts, salaries, benefits, accounts, liabilities, charges, duties, imposts, fees, damages and any and all other liabilities, outlays and obligations of every kind involving the payment of money or performance of any other nature incurred in or resulting in any way from, the operation of or otherwise related to your studio.

8.23 We have the right to establish one or more franchisee advisory councils to consult with us on matters of mutual interest. If we establish such a council, we have the right to determine its rules. You agree to follow those rules and, if we so request, participate in the activities of that council in the manner and to the extent we require.

F. Computer Systems and Software

8.24 (a) You agree to record all of your receipts, expenses, merchandise orders, invoices, customer lists, client billing and revenue, class and employee schedules and all other business information promptly in the computer system, and using software, we specify or otherwise approve. We can require you to change your computer system and the accounting, business operations, customer service and other software you use at any time. However, we agree to give you a reasonable time to amortize the costs of the system and software then in use prior to requiring you to replace your system or software.

(b) You agree that our representatives will be allowed on-site access to your computer and. You also agree that we can remotely access your computer and the information and reports it contains and that you will not interfere with our ability to access your system, information and reports. You agree to purchase, install and maintain any equipment and software necessary for us to remotely access your computer system and the information it contains.

(c) You must schedule your classes and class participants using the software we periodically specify. If and when we direct, you must use our central computer system or the scheduling service we specify for that purpose.

(d) The customer lists you compile during the term of this Agreement belong to us. On a quarterly basis, you must forward to us copies of your current customer listings. During the term of this Agreement and following its expiration or termination, these customer lists are to be considered our trade secrets. As such, you must not to divulge the names, addresses, telephone numbers and other details of your customers to any person or entity we have not previously authorized in writing.

(e) If you use third-party customer services software or a third-party service for any of your operations, scheduling, account processing or otherwise, you agree to give us any passwords you use, as well as anything else we may need to remotely and in person access the information contained in the databases of that software or service.

G. Web Sites, Use of the Internet and Alternative Media

8.25 (a) You agree to follow all of our policies and procedures concerning your use of the Internet, social media, other electronic media and any other means or media whether or not it is specified in this Agreement and whether the media now exists or may be developed in the future, including its use in connection with your advertising, promotions, marketing or other activities. Without our prior written consent, you agree not to use any of the licensed assets, our names or marks or any names or marks confusingly similar to them, in connection with any use you make of the Internet or other media.

(b) At our direction, your exclusive presence on the Internet and on or in any other electronic or alternative media can only be on or through our Internet site or on or in such other media as we specify. You agree to pay our web supervisor or our designated consultant directly for adding your content to our web site or your associated web page.

(c) We will provide a sub-domain name for the *Bar Method* studio(s) you open. This sub-domain name will be of our choosing so that it will not conflict with any other of our studio site names. Your use of *Bar Method*-branded Internet site(s) and *Bar Method*-branded social media sites, must take place in the manner and have the design, content and appearance that we periodically specify or otherwise approve. You agree that we have complete control over the content, appearance, design and all other aspects of the site we provide you. You agree that we will have unrestricted access to all of your Internet, social media and other alternative media sites and you agree to inform us of their existence, location, addresses and so forth.

(d) We will provide *Bar Method* Facebook template by which you can build your *Bar Method* studio Facebook page. You agree to use only this Facebook template to build your *Bar Method* Facebook page. You also agree that we may require you to periodically change the design, content and appearance of this page. These requirements will also apply to any other social media, including business-related media such as LinkedIn, whether it now exists or is developed at a later time. You agree not to change the template we provide to you without our prior consent.

(e) Once you have paid your initial franchise fee in full we will provide a *Bar Method* email address at "barmethod.com" for each of the owners of over 20% of any entity owning your studio. At the time we decide, we will provide you with an email address for your studio. At your request, we may, in our sole and absolute discretion, provide additional email addresses for employees of, or others associated with, your studio. All electronic communication by studio owners related to their *Bar Method* businesses must be by means of their *Bar Method* email address.

(f) Once you have paid your initial franchise fee in full we will give each of the owners of over 20% of the equity in any entity that owns the franchise access to our Intranet which contains our proprietary information such as our manuals, bulletins, forms, logotypes, templates, publicity photos and so forth. Each such owner agrees to use strictly in the manner we specify any intranet, extranet or the like that we maintain for the internal use of our franchisees or their employees for information, reporting, training, testing and other purposes. You further agree not to inform any third person, other than those we may authorize in writing,

how to access or derive information from our intranet, extranet or other nonpublic sites. The manner of accessing and obtaining information from these sites, as well as the information contained on these sites, are our trade secrets and are subject to the provisions regarding trade secrets and proprietary information set forth elsewhere in this Agreement.

(g) You agree to pay a pro-rated portion for maintaining, updating or altering any mobile applications (apps) that are developed allowing *Bar Method* clients to purchase *Bar Method* classes, view schedules, sign up for, cancel and/or be informed of your *Bar Method* studio classes, and the like.

(h) We can charge you a reasonable fee for the maintenance of our Internet, intranet and/or extranet sites or other alternative media, if they are used for your benefit or are available for your use. If your use of our sites or such other alternative media exceeds that which we provide as a matter of course and we agree to that use, we can charge you a reasonable fee for the additional usage.

(i) Upon the expiration or termination of this Agreement any sites, domain names and all other identifying names, marks, symbols and other means of identification that you may have used in connection with your studio will become our property and must be transferred to us in the same manner as your telephone listing as described in Section 16 below.

H. The Operational Assistance We Provide

8.26 If you request our assistance or advice at any time in connection with the operation of your studio, one of our representatives will respond to you by telephone or email during our normal weekday business hours.

8.27 (a) We can send a representative or representatives to visit your studio at such times as we may determine in our sole and absolute discretion. We need not inform you in advance of these visits. However, if we give you notice of a visit and so request, you agree to be present during the visit and cooperate fully with our representative. You agree to use your best efforts also to have such other persons as we may request to be present during these visits.

(b) You agree to make available to our representatives during their visits and at such other times as we may reasonably request, the information, reports, accounts, books, records, orders, receipts, bank statements, comment forms, letters and any other information we request. All visits by our personnel will be during your normal business hours and will take place at your studio unless we both agree otherwise. You agree that our representatives will have the right to photograph your studio, make video and audio recordings, speak to its customers and employees, copy your records, take inventory, and conduct such other activities as our representative may see fit. We agree that our representatives will use reasonable efforts not to disrupt your operation during their visits. You agree to direct all of your employees to cooperate fully with our representatives during their visits.

(c) You agree to give our representatives full access to your computer system and other business machines, to the information contained in them, including any required passwords needed for access that information, and to the reports produced by them, to the extent that

information pertains to the operation of your studio. You agree to allow our representatives to make and take copies of your studio records during their visits.

(d) You agree to reimburse us for the reasonable out-of-pocket costs we incur in connection with our visits to your studio, up to a maximum of 4 visits per 12-month period.

8.28 If you request a special visit to your studio by one of our representatives, we can condition the visit on the prepayment and/or reimbursement of the travel and other expenses of our representative as well as a per diem of \$300.00 per day for each day our representative is traveling to and is present at your studio. The per diem amount is subject to adjustment by any increase in the Consumer Price Index between the date of this Agreement and the date of the visit as discussed in Section 21 below.

I. Appointment of Managing Agent

8.29 (a) If this franchise is owned by a partnership, corporation, limited liability company or other entity, you agree to designate a person to be the principal agent of the entity. This is the person who will deal with us in connection with your franchise, your studio and your compliance with this Agreement. This person is referred to in this Agreement as "your managing agent". You warrant to us that your managing agent will have the authority to speak for and bind the franchisee entity in all matters pertaining to this Agreement and your studio. You further warrant to us that we can rely on this authority until we are notified in writing of any change in your managing agent or his or her authority.

(b) Your managing agent and any person by whom your managing agent is replaced, must attend such training at the time, for the duration and at the location or locations we specify and must complete that training to our reasonable satisfaction as a condition of the continuation of this franchise.

(c) Your managing agent cannot be a person who was the principal operator of a *Bar Method* studio that had its Franchise Agreement terminated because of a default or any other person to whom we have reasonable cause to object.

(d) If for any reason your managing agent cannot continue to serve, you must appoint a new managing agent promptly. The new managing agent will be subject to the provisions of this section and to all of the other terms of this Agreement in the same manner as your prior managing agent.

J. Ownership and Implementation of New Ideas

8.30 (a) Except as otherwise limited by law, all inventions, discoveries and ideas that you, your employees or agents develop in connection with *Bar Method* studios are our property. It is solely within our complete and absolute discretion whether to authorize the use and/or dissemination of the invention, discovery or idea, and, if we do so, the manner of that use. You agree not to implement any invention, discovery or idea until we authorize you to do so in writing.

(b) If you or anyone affiliated with you develops any inventions, discoveries or ideas related to *Bar Method* studios or any concepts, processes, modifications, practices, techniques, procedures, products or merchandise related your studio or *The Bar Method* technique, you agree to advise us promptly in writing of the invention, discovery or idea. No compensation will be due and payable to you or to any person or entity affiliated with you on account of any invention, discovery or idea developed by you or by that person or entity whether or not we use, disseminate, authorize or otherwise employ the invention, discovery, and/or idea.

K. Consents Required by This Section

8.31 Except as provided elsewhere in this Section 8, all of the approvals and specifications called for in this section can be given or withheld in our sole and absolute discretion.

9. ONGOING FEES

This section discusses the continuing fee you pay us for the grant of the franchise and continuing use of the licensed assets.

9.01 (a) In consideration for the grant of this franchise, for the assistance provided in connection with establishing your studio and for the continuing right to use the licensed assets, you agree to pay us a monthly fee in amount equal to 6% of your gross receipts, which payments we refer to in this Agreement as your "royalties". Your royalties begin to accrue from the day you first open your studio for business or receive payments from customers, whichever occurs first. You agree to pay your royalties to us by the 10th day of each month based on your gross receipts for the previous month. You agree to make these payments to us using the method of payment we periodically specify.

(b) At the time payment of your royalty is due, you agree to send to us in the form and manner we specify, a report of your monthly gross receipts, advertising expenditures and the other information we may require from time to time. You must certify to us that these reports are complete, true and correct no matter how or by whom they are prepared.

9.02 As used in this Agreement, the term "gross receipts" means the proceeds from all of your sales and services from whatever source received, whether in cash or on credit. Credit transactions are considered made when the transaction giving rise to the extension of credit occurs and not when or if, payment is made or when title passes to goods sold. Credit card and other credit transactions result in "gross receipts" in the full amount of customers' purchases without any allowance for bad debts, uncollectible accounts or credit card fees and charges. "Gross receipts" shall not include any of the following:

(a) The selling price of any merchandise or services to the extent you grant a credit, discount, refund or similar allowance as a result of a return by or settlement with, a customer. An exchange of merchandise or services shall not be deducted from "gross receipts" except to the extent of any accompanying credit, discount, refund or other allowance;

(b) Merchandise returned to its source for credit or other allowance;

(c) Amounts received or credited for claims of loss or damage to merchandise or studio assets;

(d) Sales, use or other taxes determined and/or imposed on the sale of merchandise or services by a governmental entity but only to the extent that such taxes are added to the selling price of the merchandise or services and are separately stated to and collected from customers;

(e) Sales of trade fixtures, equipment or similar property not constituting merchandise of the studio.

9.03 All exemptions allowed by subsection 9.02 shall be separately stated and shown on your reports of gross receipts.

9.04 (a) We have the right to audit your books and records at any reasonable time at your studio. If the audit reveals an intentional underreporting of gross receipts, an understatement of gross receipts for any month in excess of 3%, or if the audit is necessary because you have failed to comply with the financial reporting requirements of this Agreement, you agree immediately to pay, in addition to any other amounts that are due, the costs of the audit including the costs and expenses of our employees, accountants or any others for or with whom we have incurred costs in connection with the audit.

(b) If we discover any intentional underreporting of gross receipts or an underreporting of gross receipts in excess of 10% in any monthly reporting period, whether or not intentional, we have the right to terminate this Agreement in addition to having all other rights and remedies allowed to us by this Agreement and by applicable law.

10. ADVERTISING AND PROMOTION

This section talks about the advertising and promotion of your studio and our right to establish an Advertising Fund.

10.01 (a) All advertising, promotional and other marketing activities that you undertake must be in good taste, must display a high degree of consistency throughout *The Bar Method* system and must reflect favorably on *Bar Method* services, merchandise and way of doing business. Therefore, unless we agree otherwise in writing, you agree to submit to us prior to use all of your proposed advertising, promotion and public relations plans and material, including advertising, promotion and public relations activities you propose to engage in by means of the Internet or by other electronic or alternative means. When you submit your material you should include a description of how you propose to use the material or program, by what media it will be published or the way in which it will be used, the amounts proposed to be spent on each program and any additional information we may request. We will have 15 business days after you submit this material to approve or disapprove the submitted items. We can extend this approval period for a reasonable time following the receipt of the requested information if we require additional information concerning your material, plans, programs, activities, and/or events.

(b) For the protection of our trademarks and service marks, we have complete and absolute discretion when deciding whether to approve your advertising, promotion and public relations material, plans, programs and activities and/or to require you to stop using any material, programs or activities, even if we have approved them previously.

(c) You agree to use the email distribution service and the email templates we specify if you conduct email advertising, promotion or public relations activities.

(d) During our normal business hours we agree to use our reasonable efforts to consult with you regarding the marketing of your studio, including use of social media for public relations purposes.

(e) You agree to expend at least 1% of your gross revenues or \$100.00, whichever is greater, on the local advertising and promotion of your studio. You agree to show these expenses on the profit and loss statements you submit to us as described in Section 11.04 below. If we form a regional advertising association that includes your studio, the amount you pay to that association can be offset against the foregoing amounts.

10.02 As of the date of this Agreement we do not have a cooperative advertising program. If we initiate any such a program, in addition to your royalty payment, you agree to send us at the same time and in the same manner as your royalty payment, a monthly contribution to our advertising program fund in the amount we specify, which will not exceed 3% of your monthly gross receipts. We can periodically change the amount we require you to contribute to that program but in no event will your contribution exceed 3% of your gross receipts. In this Agreement, we refer to the cooperative advertising program fund as "the Advertising Fund".

10.03 (a) When formed, we will keep the Advertising Fund apart from our other accounts. We will send you a report of the receipts and expenditures of the Advertising Fund annually.

(b) If we own and operate any *Bar Method* studios, we agree to have those studios contribute to the Advertising Fund on the same basis as you do.

10.04 (a) We will use the Advertising Fund for the development, production, execution, direction, review, analysis and administration of advertising, promotional and public relations activities designed to benefit *The Bar Method* system on a regional or national basis. We have complete and absolute discretion over how and when sums from the Advertising Fund are spent and what items are charged to it. However, we agree to use the Advertising Fund only for the planning, production, execution, placement, publishing, broadcasting and analysis of advertising, promotion and public relations materials and programs, including point of purchase materials, brochures, display materials, market research and analysis, the employment of advertising and promotion staff and agencies, the purchasing of media time and space, the planning, production and execution of promotion or public relations events, the review and analysis of those activities and for related purposes.

(b) We can use the Advertising Fund for national, regional and/or local advertising, promotion and public relations activities at our discretion.

(c) We are not obligated to spend the receipts of the Advertising Fund in any particular region, even if a disproportionate amount comes from a particular area, nor within any particular time period.

10.05 We can charge the Advertising Fund for the time, overhead, and expenses of our employees to the extent that they work on advertising, promotion or public relations activities designed to enhance the image or sales of *Bar Method* studios. Alternatively, we can charge the Advertising Fund up to 10% of the amounts collected by the fund to cover our overhead and expenses as they relate to advertising, promotion, and public relations matters designed to enhance the business of *Bar Method* studios.

10.06 We have the right to establish national and regional advertising councils to advise us on our national and regional advertising, promotion and public relations programs. If we establish such a council, or such councils, we have the right to determine its, or their, rules. You agree to follow those rules and, if we so request, to participate in the activities of those councils in the manner and to the extent we require.

10.07 (a) In our discretion, we can establish regional advertising associations and/or programs in addition to the activities of the Advertising Fund. If we do so, you agree to pay toward such programs and associations the amounts we indicate, which amounts will not exceed 2% of your gross receipts. Payments to a regional advertising program and/or association will be in addition to the payments you are required to make to the Advertising Fund.

(b) We agree that any *Bar Method* studios that we own and operate within the concerned region will contribute a like percentage of their gross receipts to these programs and/or associations.

10.08 We will have the right to terminate the Advertising Fund, or to turn its functions over to an outside agency, at any time after its inception. If we terminate the Advertising Fund and do not replace it with a similar entity, we can have you use the money you would otherwise contribute to the fund for local or regional advertising, promotion or public relations purposes. If we turn the functions of the Advertising Fund over to an outside agency, we can require you to pay that agency the amounts you would otherwise contribute to the Advertising Fund. Even if we have an advertising agency perform some or all of the functions of the Advertising Fund, we will still have the right to approve any advertising, promotion and public relations material and activities suggested by the agency.

10.09 If we or any advertising cooperative to which you belong conducts any advertising or promotion involving discount coupons, you agree to accept the coupons and participate in the promotion in the manner required unless we agree otherwise.

10.10 (a) You agree to display at the locations and in the manner we specify, all posters, point of purchase materials, displays, placards and similar display items we provide to you, including franchise inquiry cards, customer comment forms and the like.

(b) At our direction you agree to purchase from sources we designate reasonable quantities of such advertising and promotional items for use in and by your studio. We or our affiliates may be the supplier of some or all of these items.

10.11 Unless we direct otherwise, if we or any advertising cooperative to which you belong conduct advertising in which prices for services or goods are indicated, you are not required to charge the specified prices. However, if you are given the option and elect not to charge the indicated prices, we or the concerned cooperative do not have to list your studio in the advertisement.

10.12 If we receive any payments from manufacturers or suppliers as advertising or promotional allowances, or their equivalent, as a result of purchases you make from them, those amounts will be used only for the purpose of advertising and/or promoting *The Bar Method* system. We have absolute discretion how, for what, when and where these payments will be used.

11. ACCOUNTING, REPORTS, TRADE ACCOUNTS AND LATE FEES.

This section discusses the reports you are to provide to us, among other things.

11.01 You agree to keep and maintain accurate books, records, accounts, tax returns and all related back-up material pertaining to the operation of your studio. You agree to maintain that material at your studio unless we otherwise approve. You agree to retain all of your business records and related back-up material for at least as long as required by law or 3 years following the end of the year to which the items pertain, whichever period is longer. You agree to make this material available to our representatives at the times and locations we reasonably require.

11.02 If we so direct, all of your books and records must be kept in accordance with our requirements and using the chart of accounts and accounting software that we specify.

11.03 (a) In addition to your monthly sales report, you agree to provide to us with the reports on your operations and other data on your studio that we specify from time to time. We can require that this data be transmitted to us via telephone, electronically or by such other method and at such times we periodically require.

(b) You agree that we can require your suppliers to provide us with the reports we request, including reports of your purchases from them.

(c) If your studio is owned by an entity, at our request you agree to provide us with copies of the formal records of the entity such as articles of incorporation, shareholders' agreements, by laws, limited liability company certificate or articles of organization, operating agreements, partnership agreements, and so forth. At our request, you will obtain a certificate of good standing, or its equivalent, from the state agency in which your organizational documents are filed.

11.04 (a) You must send us at your expense a quarterly income (profit and loss) statement in the form we prescribe by the 15th day of the month following the end of the quarter to which the statement pertains. You also must provide us with a current balance sheet every 6 months. You are to submit the balance sheet at the time you provide us with the income statement for the quarter then ended.

(b) You must provide us an annual balance sheet and income (profit and loss) statement within 30 days after the end of your fiscal year.

(c) At our request, you agree to send us copies of your federal and state income tax returns to the extent those returns pertain to the operation of your studio.

11.05 If you have repeatedly underreported your gross receipts or failed to provide the financial statements or reports required by this Agreement, we can require that your financial statements be prepared by an independent certified public accountant. If we require that an independent certified public accountant prepare your financial statements, we will indicate on what basis those statements have to be presented, such as on a compilation, review or audited basis. We can change these requirements whenever we feel that it is necessary in order to get timely and accurate financial statements from you.

11.06 You agree to maintain your trade accounts on a current basis, both with us, our licensor and our affiliates, as well as with your contractors, suppliers or with others from whom you obtain goods and/or services. In the event of a dispute with a supplier, you agree to attempt in good faith to resolve the dispute promptly and in an equitable manner.

11.07 (a) All amounts that you owe us that are past due will be subject to a late charge in the amount of 1½% per month. If the amount of this late charge not allowed by applicable law, the late charge will be equal to the highest lawful rate on loans between businesses in the state whose law governs this Agreement.

(b) Neither because we impose nor because you pay a late charge does that payment waive or otherwise affect any right or remedy that we have under this Agreement or under law except as may be set forth elsewhere in this Agreement.

12. INSURANCE AND DAMAGE OR DESTRUCTION OF YOUR STUDIO

This section discusses the insurance you are required to carry and the repair of your studio if it is damaged.

12.01 (a) Before you begin the construction of your studio, you agree to procure and while this Agreement is in effect maintain, commercial general liability insurance on the form we approve. Your insurance must cover your premises and operations, contractual liability, property damage and personal injury liability in the minimum amount of \$2,000,000.00 for each occurrence. This coverage may be obtained with a combined single limit for bodily injury and property damage and must be on a form insurance contact designed for an exercise studio. You must also obtain and maintain automobile liability insurance, including coverage for all owned, hired and non-owned vehicles used for business purposes in the minimum amount of \$1,000,000.00 combined single limit for each accident.

(b) Your liability insurance policies must be written on an "occurrence" and not on a "claims made" basis.

12.02 You also agree to obtain and maintain throughout the term of this Agreement insurance on your leasehold improvements, furniture, fixtures, equipment, décor and the other

physical assets of your studio, including fire and extended coverage insurance on a replacement cost basis, in amounts adequate to reconstruct, redecorate, resupply and reopen your studio in the event of a covered loss.

12.03 Your insurance policies must comply with the following requirements:

(a) Your insurance carrier must have and maintain a Best rating of at least "A-7" or its equivalent.

(b) Your insurance policies must not contain a coinsurance clause.

(c) The deductible portion of any claim or loss under any of your insurance policies cannot exceed \$5,000.00 without our prior written consent.

(d) Your insurance policies must be written as primary policies regardless of whatever other policies you carry or those carried by us, our licensor or our affiliates.

12.04 (a) In addition to the insurance coverage described above, you agree to carry such other and additional insurance as may be required by the lease of your studio premises and that required by your lender or equipment lessor, if any. You also must carry workers' compensation and employer's liability insurance as required by law with coverage beginning as soon as you hire your first employees. Employer's liability insurance shall be obtained in an amount of not less than \$1,000,000.00 per accident for bodily injury by accident and \$1,000,000.00 per employee for bodily injury by disease and with a \$1,000,000.00 policy limit by disease.

(b) If this franchise is owned by an entity, you may want to consider purchasing life insurance on each of the principal owners of that entity with the other owners as beneficiaries so that in the event of the death of an owner, the other owners can purchase the rights of the deceased owner.

12.05 We have the right to require from time to time that you carry different limits and/or different types of insurance coverage if we believe it is necessary or prudent in our reasonable judgment. You must comply with our requirements promptly upon receipt of written notice of those requirements.

12.06 You acknowledge that the limits on your insurance policies do not limit your liability to us under the indemnification obligations of Section 13 or your other obligations under, this Agreement.

12.07 (a) You agree at your expense to name us, our licensor and our affiliates and our and their officers, directors, shareholders, members and employees as additional insureds on each of your policies of liability insurance, including your general liability, vehicle liability and any umbrella liability policies you carry as long as that can be done at no more than minimal cost to you.

(b) We can designate other entities and/or persons to be named as additional insureds on your insurance policies from time to time and you agree to include those persons and entities on the policies at your expense.

(c) You agree to have your insurance carriers provide to each additional insured a certificate of insurance evidencing the required coverage.

(d) All of your insurance policies must specify that the insurance carrier will give 30 days prior written notice to each additional insured under that policy if the policy in which such persons or entities are named is to be canceled or not renewed.

(e) You agree to provide us with copies of those of your insurance policies that we request, including a buy/sell agreement, if one exists.

12.08 (a) If during the term of this Agreement all or part of your studio is damaged or destroyed by fire or other casualty, then, except as provided in below, you must repair, restore or rebuild your studio to the extent allowed by and in compliance with, the terms of your lease and applicable law.

(b) If you are allowed to rebuild your studio under the terms of your lease and by applicable law, the term of this Agreement will be extended for a period of time equal to the time your studio was closed due to the damage or destruction but not in excess of 12 months from the date of the damage or destruction.

(c) All of the proceeds of any property insurance payable on account of the damage or destruction must be used to pay for restoring your studio. The restoration of your studio must comply with our standards at the time of your restoration for the construction of new *Bar Method* studios.

(d) Except if prevented by circumstances beyond your reasonable control, you agree to begin the restoration of your studio within 90 days after the damage or destruction occurs and to proceed with the reconstruction and reopening of your studio with due diligence. The term "circumstances beyond your reasonable control" does not include your financial inability to proceed unless that inability is caused by a delay in the receipt of your insurance proceeds.

12.09 If during the term of this Agreement your studio is totally destroyed or is damaged by an event that is excluded or not covered by your insurance policy and the damage is in excess of 50% of its replacement cost or if the cost of repairing and restoring your studio is in excess of 110% of the proceeds of your insurance coverage, you have the option to terminate this Agreement by giving us written notice of your election to terminate within 60 days after the damage or destruction. However, if your insurance coverage is less than you are required to carry under this Agreement, the foregoing option to terminate this Agreement will not apply and you will be required to rebuild and restore your studio unless the destruction is total.

12.10 (a) If your studio or the premises in which it is located is taken in an eminent domain, condemnation, compulsory acquisition or similar proceeding for any public or quasi-public use or purpose or is sold under the threat of any of those actions and if it is not feasible or prudent in our reasonable opinion to use the remaining portion for the operation of your studio, this Agreement will terminate as of the date of the taking. In the event that this Agreement is terminated for that reason, you agree to pay us out of the compensation you receive as restitution for the taking or from the proceeds of the sale, an amount equal to the payments required by

Section 9.01 above for the 12 months immediately preceding the date of the termination of this Agreement or the actual time your studio was open if it was open for less than 12 months.

(b) If the taking is only partial and the remaining portion of the premises and of your studio is sufficient in our reasonable judgment to continue the operation of your studio, you agree promptly to restore your studio to a condition adequate for the conduct of your studio's business, subject to the consents and approvals you are required to obtain from us as in specified in Section 6 above.

13. RELATIONSHIP OF THE PARTIES; INDEMNIFICATION.

This section discusses the legal nature of our relationship and our obligations to each other should a third-party claim arise from the operation of your studio.

13.01 As used in this Section 13, "we", "us" and "our" also mean our licensor, our affiliates and our and their officers, directors, shareholders, members, employees and agents.

13.02 In all matters related to this Agreement, your studio and your *The Bar Method* franchise you are an independent contractor. Nothing in this Agreement, in the relationship created by it or elsewhere, constitutes either of us as agents of or partners or joint venturers with, each other.

13.03 Neither you nor we are liable for the debts, liabilities, taxes, duties, obligations, defaults, compliance, intentional acts, negligence, errors or omissions of the other. None of your employees shall be deemed to be our employees and none of our employees shall be deemed to be your employees for any purpose.

13.04 The parties agree not to hold themselves out as other than franchisee and franchisor. Each party agrees to indemnify the other against any liability, cost or expense, including attorneys' fees, incurred by the other as a result of any finding or result to the contrary caused by the actions or inactions of the indemnifying party.

13.05 You agree to post, display, include and otherwise promptly use and maintain all signs and/or notices we specify and any that are required by applicable law, indicating the status of the parties and our relationship, including notices on stationery, business cards, signs, in advertising, promotional and public relations material and so forth.

13.06 You agree to defend, indemnify and hold us harmless from and against any and all losses, liabilities, damages, costs and expenses, including attorneys' fees, caused or alleged to be caused, by in whole or in part, directly or indirectly or in any way pertaining to, the operations, sales, policies, procedures, practices, actions, hiring practices, employment practices, employer or employee conduct, personnel policies or any other activities of your studio including your intentional acts and negligence and those of your agents, officers, directors, partners, shareholders, members, owners, employees or any others with whose conduct you are chargeable. However, we shall be responsible for and will indemnify you against, any loss, costs or damage to the extent it results from your compliance with our written policies, procedures and directives but only as long as you have fully complied with our requirements at the times and in the manner we require.

13.07 The indemnity provisions of this Agreement are not limited by the insurance requirements of Section 12 above or by any other provisions of this Agreement.

13.08 You further agree to indemnify and hold us harmless from and against all losses, damages, costs and expenses, including attorneys' fees, arising from or in any way connected to the representations you make in this Agreement and/or resulting from or connected with your performance or lack of performance under this Agreement.

13.09 We will notify you if we become aware of a claim or potential claim against which you have indemnified us. You agree to defend us against the claim at your expense with counsel of your choosing. However, in the event that the claim is of a nature that it can affect more than one *Bar Method* studio, we can take over the defense of the matter with counsel of our choosing but you will still be responsible for the costs of the defense, including attorneys' fees.

13.10 If you are defending us in any action, you agree not to settle the matter until we approve the terms of the settlement. You cannot commit us to making any expenditure or taking or withholding any action as a part of any settlement without our prior written consent.

13.11 If you become aware of any actual or potential claim against which we have indemnified you, you agree to notify us promptly of the details of the matter. You agree to cooperate with us, our attorneys and our investigators and those of our insurance carriers, in connection with the investigation and defense of any such claim.

14. USE AND PROTECTION OF OUR TRADEMARKS AND OTHER INTELLECTUAL PROPERTY.

This section discusses your use of our trademarks and proprietary property and their defense.

14.01 While we may license you to use one or more additional names or marks in the future, we presently only license you to use the trademark "*The Bar Method*". All of the trademarks, trade names, service marks, logotypes, symbols, designs, patents, copyrights and all other proprietary property licensed to you under this Agreement, as well as that that may be licensed to you in the future, all of which is collectively referred to in this Section 14 as "our intellectual property", must be used strictly in compliance with the terms and conditions of this Agreement, our manual and in accordance with all of our other directives.

14.02 You are licensed to use only that portion of our intellectual property that we specify in writing from time to time even if it is are less than all that we own or otherwise have the right to use.

14.03 You acknowledge that your use of our intellectual property is nonexclusive and that we, our licensor and our affiliates can use and can license others to use, the intellectual property licensed to you in any manner and at any place except as may be limited by this Agreement.

14.04 We have sole discretion as to what action to take, if any, regarding any claim or challenge concerning our intellectual property. In the event you become aware of any claim of

infringement resulting from or other challenge to, your use of any of our intellectual property, you agree to notify us immediately of the facts concerning the claim or challenge.

14.05 In the event of any legal, administrative or other action concerning the enforcement or defense of our rights in our intellectual property, we agree to bear the legal fees and court costs incurred in the handling of the matter. We will have sole discretion concerning and control over each and every legal, administrative and other action of any type concerning our intellectual property. You agree to join as a party to any such action or to allow the action to be brought solely in your name but only when, as and if we require.

14.06 We agree to pay all damages for which you are held liable in any proceeding involving your right to use our intellectual property but only on the condition that you have used our intellectual property in strict accordance with this Agreement, our manual and our other directives, have promptly notified us of any claim against or challenge to your use of our intellectual property. You agree to cooperate with us in the handling of any proceeding concerning our intellectual property.

14.07 (a) If it becomes advisable at any time in our sole discretion to modify or discontinue the use of any marks, names, and/or any other part of our intellectual property, you agree to comply with our directives in that regard at the time and in the manner we indicate.

(b) In the event we require you to modify or discontinue the use of any part of our intellectual property, our sole obligation will be to reimburse you for your reasonable out of pocket costs in connection with that compliance, but only to the extent that those costs are for the replacement of tangible items and provided that your compliance is in accordance with our directives, such as in the liquidation of existing supplies of distinctively marked materials, the disposition of signs, the replacement of advertising and promotion material and so forth. We will not be obligated to reimburse you for the replacement of any items bearing our names or marks as long as you have been given a reasonable time to use up items that are used in connection with the operation of your *Bar Method* studio or to amortize the cost of items that are not capable of such use.

14.08 We have the right to require you to use one or more additional trademarks, service marks, logotypes, and/or other commercial symbols in connection with the operation of your studio. In that event, you agree to bear the cost of using the additional items in accordance with our directives.

14.09 You agree to make no application for registration or other protection of any of our intellectual property or anything similar to that property, without our prior written consent and then only on the terms and conditions we specify. You agree to take no action that will interfere with our intellectual property, our rights in it or its use by us, our licensor, our affiliates and by those we or they authorize. You agree not to contest the validity or ownership of any of our intellectual property or to assist anyone else in doing so.

14.10 (a) You agree to show all of the symbols and display all of the legends we require indicating that any mark, name, logotype or symbol is a trademark, service mark, copyright or is

otherwise subject to protection under the law and is owned by us, our licensor, and/or by our affiliates.

(b) If we so direct, you agree to give the notices, file the forms and to take any other action we reasonably require in connection with your use of our intellectual property.

14.11 You agree to report to us promptly if you discover any use of our trademarks, trade names or any confusingly similar names or marks by other than us, our affiliates or our franchisees, including any names or marks using the word "bar" or "barre" so that we can investigate possible infringements of our rights.

15. TRANSFER OF THE FRANCHISE AND OUR RIGHT OF FIRST REFUSAL.

This section concerns the prerequisites to a transfer of the franchise or ownership in any entity that owns it as well as the transfer procedures that are to be followed. In the following provisions, anyone with any interest in this franchise, as well as anyone with any interest in any entity with an interest in this franchise, is referred to as "you" even though there may be more than one person involved.

15.01 When we refer to a "transfer" we also mean any whole or partial assignment, sale or other disposition of any interest in this Agreement, any entity with an interest in this franchise or the physical assets of your studio, whether it occurs voluntarily or involuntarily. "Transfer" also means the transfer, issuance or reacquisition of any shares or other interest in or the merger, acquisition, consolidation or other restructuring or recapitalization of, any entity that owns an interest in this franchise. "Transfer" also includes the transfer or change in ownership of a principal portion of the physical assets used in connection with the operation of your studio.

A. Approval of Your Proposed Transferee and the Transfer Transaction

15.02 (a) You agree to notify us before you take any action to market your studio or transfer some or all of your rights in this Agreement. You should provide us at that time with your plan for marketing your studio including the means and method you plan to employ in that regard.

(b) Before you undertake any marketing of your studio you must provide us with copies of any advertisements and marketing material you propose to use in that effort and, prior to their use, must obtain our approval of your advertisements and marketing material, which consent we will not unreasonably withhold. The foregoing includes advertisements and notices you plan to place on the Internet or distribute by means of any other method of communication. If you plan to use a business broker to market your studio, you agree to provide us promptly with the broker's contact information and make sure the broker is aware of the requirements of this Section 15.

15.03 (a) You can finalize a proposed transfer only when you receive our written approval of the prospective transferee and the transfer transaction, which approval will not be unreasonably withheld or delayed, and following our decision not to purchase the interest proposed to be transferred under our right of first refusal, as described below. Any transfer that

we do not approve in advance in writing is not binding on us and is grounds for the termination of this Agreement.

(b) Since often when a studio is owned by an entity with more than one owner of 20% or more of the entity, each of the owners brings a different set of skills to the business, skills which in our opinion may be necessary to the success of the business. Therefore, if this franchise is owned by an entity and one or more of the owners of 20% or more of that entity transfers their interest or interests in the entity to the other owner or owners, we reserve the right to require the remaining owner or owners to add one or more new owners of over 20% of the entity to make up for the skills lost by the departing owner or owners. The new owner or owners must be approved by us within 6 months of the transfer or transfers by those who leave the entity. Failure to acquire a new owner or owners if required will constitute a default under this Agreement.

(c) Before you close any transfer transaction, you and the transferee must sign the transfer documents we require. You agree to perform the duties, follow the transfer procedures and provide us with the documents we require to complete the transfer.

15.04 (a) We can condition our approval of the transfer on your agreement to any terms we feel are necessary to insure that the transferee performs his or her duties under the Franchise Agreement that is signed in connection with the transfer. These terms can include our requiring you to subordinate any debt that you take back on the transfer and to defer receipt of any other payments due to you from the transferee, to the transferee's faithful performance of the duties called for in his or her Franchise Agreement.

(b) We can request that you guarantee the obligations of the transferee under the transferee's new Franchise Agreement. You can decline to provide us with this guarantee but we can consider the absence of such an undertaking in deciding whether to approve the transfer.

(c) Before you complete the transfer, you agree to sign a mutual general release that will cover all claims against us, our licensor and our affiliates.

15.05 (a) In determining whether the proposed transferee is acceptable, we will consider, among other things, our then-current standards for new *Bar Method* franchisees including the net worth, creditworthiness, background, education, training, personality, aptitude, reputation and business experience of the proposed transferee.

(b) The transferee must submit an application in the form we require and must comply with our evaluation and approval requirements and procedures. Until we receive all of the information we reasonably require concerning the proposed transferee and the transfer transaction, we need not take any action concerning the transfer.

15.06 (a) We can disapprove a proposed transfer if, in our reasonable opinion, the sales price to be paid by the transferee or the other terms of the transaction are such that the chances of the transferee's successful operation of the franchised business are jeopardized.

(b) This provision is solely for our protection and is not intended to provide any assurance to the prospective transferee that our approval of the transfer in any way guarantees

the transferee's success. You agree not to suggest anything to the contrary to anyone including the prospective transferee.

(c) Since you may disagree with our decision under this provision, you waive any claims that our refusal to approve the transfer of your franchise for the above reasons is an unreasonable interference with your prospective advantage, is an interference with your contractual relations or otherwise gives you or the proposed transferee any kind of claim. We would not review the application of the proposed transferee if you did not agree to this waiver.

B. Application and Transfer Fees

15.07 (a) At the time the application for your proposed transferee is submitted, you agree to pay us a nonrefundable application fee in the amount of \$500.00. This fee is to compensate us for reviewing the application and further evaluating your proposed transferee and the transaction. If we approve the transferee and the transaction, we will apply the application fee to the transfer fee described below.

(b) If you own one studio, as a condition of our approving any transfer that results in the cumulative transfer of over 50% of the interest of the original owner or the original owners of any entity that owns that studio, to someone who is not then a *Bar Method* franchise, you agree to pay us a transfer fee equal to 50% of the initial fee we are charging to new *Bar Method* franchisees at the time of the transfer. If no new franchises are being offered at the time of the transfer, the transfer fee will be based on the initial fee that was being charged to new *Bar Method* franchises at the time we stopped granting new franchises, adjusted by any increase in the Consumer Price Index as described in Section 21 below.

(c) If the transferee is an existing *Bar Method* franchisee, rather than being 50% of the then-current initial fee, the transfer fee will be equal to 25% of that fee.

(d) If more than one *Bar Method* studio is being transferred to the same transferee at the same time and as part of the same transaction, the transfer fee will equal 50% of our then-current initial fee for the first studio being transferred and 25% of our then-current initial fee for each of the additional studios being transferred if the transferee is not then a *The Bar Method* franchisee or 25% of our then-current fee for each of the studios being transferred if the transferee is an existing *Bar Method* franchisee at the time of the transfer. If no new franchises are being offered at the time of the transfer, the transfer fee will be based on the initial fee that was being charged to new *Bar Method* franchises at the time we stopped granting new franchises, adjusted by any increase in the Consumer Price Index as described in Section 21 below.

(e) Following the payment of the application fee, \$5,000.00 of the transfer fee is payable before your transferee begins training. The balance of the transfer fee is due at the closing of the transfer transaction.

(f) If the person to whom the interest or assets is to be transferred has completed all necessary training, is a certified *Bar Method* teacher and has been active in the operation of the studio, we will not charge an application fee and will consider a reduction in the transfer fee. However, all of the other conditions concerning a transfer set forth in this Section 15 will apply.

(g) Anyone that will own 20% or more of any entity that is the subject of the transfer must apply, complete our evaluation process and be approved by us prior to the transfer. This includes anyone who had an interest in that entity of less than 20% prior to the transfer.

C. Updating the Franchise Agreement on Transfer

15.08 If any transfer transaction results in the cumulative transfer of over 50% of the ownership of the original owner of this franchise or the original owner or owners of any entity that owns an interest in this franchise, as a condition of our approving the proposed transfer, we can require the transferee(s) or the concerned entity to sign the form of Franchise Agreement we are using for new *Bar Method* franchisees at the time of the transfer. Even though a new Franchise Agreement may be signed, we will not charge a new initial franchise fee and the term of the new agreement will be the term remaining on this Agreement.

D. Training the Transferee

15.09 (a) We can require the transferee to complete our training course or the parts of it we designate, to our reasonable satisfaction as a condition of our approval of the transfer. Unless we agree otherwise, the transferee must satisfactorily complete our teachers' training and be certified as a *Bar Method* teacher as a condition of the transfer. If the transferee is required to undertake our training course and does not complete it to our reasonable satisfaction, you may not complete the transfer.

(b) If the proposed transferee begins but does not complete our training course to our reasonable satisfaction, there will be no refund of the application or transfer fees. We can retain these fees as consideration for our efforts in connection with evaluation of the proposed transferee and our other activities concerning the proposed transfer.

(c) If we allow the transfer to take place before the proposed transferee completes our training course, you agree to operate the studio for the transferee while he or she is attending training. If the transferee does not complete our training course to our reasonable satisfaction, you must retake the ownership of the studio and cancel the transfer.

E. Transfer to Wholly-Owned Entity or Among Existing Owners

15.10 (a) If this Agreement is owned by an individual or partnership, the owner can transfer this Agreement to a corporation, limited liability company or other entity wholly-owned by those who owned the franchise before the transfer. This type of transfer will not require our approval, the payment of the application and transfer fees or the signing of a new Franchise Agreement, nor will it give us the right to exercise our right of first refusal. You must transfer the assets of your studio to that entity at or before the time of the transfer.

(b) If a transfer results in the change in your managing agent, the provisions of this Agreement concerning the appointment of a successor managing agent will apply.

15.11 Those owning the entity to which this Agreement is transferred agree:

(a) They will own the transferee entity in the same proportion as they currently own the franchise.

(b) They are personally responsible for the entity's performance of the terms of this Agreement and any other agreements between us.

(c) They will notify us before the transfer so that we can send whatever forms we require to be signed reflecting these obligations and before the completion of the transfer they will sign the documents we require concerning the transfer, including personal continuing guarantees of the obligations of the new entity.

(d) The share or ownership certificates of the entity will contain a notice that there are restrictions on the transfer of the ownership interest that are contained in Section 15 of this Agreement.

(e) The failure of the owners of the entity to sign the documents we require will not affect their personal liability for the obligations of the entity to which this Agreement is transferred.

F. Our Right of First Refusal

15.12 (a) When there is a proposed transfer, you agree to notify us of its terms and conditions. You agree to tell us what interest is proposed to be transferred, the purchase price or other consideration that is to be received, any credit or financing terms that are being offered by the proposed transferor, the date the proposed transfer is to close and all other pertinent information concerning the transaction. In addition, you agree to send us a copy of any contract, agreement, memorandum of sale, deposit receipt, letter of intent or the like, concerning the proposed transfer as soon as it is signed. You also agree to inform us of any changes in the terms of the proposed transfer prior to its completion.

(b) After we receive all of the information and documents that we need concerning the proposed transfer, we will have 20 days within which to advise you whether we want to have the interest proposed to be transferred assigned to us on the same terms and conditions. However, we have the right to substitute equivalent cash for any noncash consideration that has been accepted and do not have to comply with any terms not related to your *Bar Method* business.

(c) If we decide to purchase the interest proposed to be transferred, the transferor must cooperate with us to complete the transfer as agreed. We can extend the date for the completion of the transfer for up to 30 days beyond the date originally scheduled for the closing in order to allow the completion of the transaction in a manner more convenient to us.

(d) After we notify you that we have decided not to purchase the concerned interest or following the time within which we could have exercised our right of first refusal, if there are any significant changes in the terms of the proposed transfer, you agree to notify us of those changes in writing. We then will have 15 days after we receive that notice within which to decide whether to purchase the interest on the revised terms and conditions.

(e) If the proposed transfer is not completed for any reason within 90 days after we decide not to purchase the interest proposed to be transferred or 90 days after the expiration of the time within which we could have exercised our right of first refusal, a new right of first refusal begins as to that transaction as well as to any subsequent proposed transfers.

(f) If the proposed transfer involves more than 50% of the ownership of this franchise or of any entity that owns an interest in this franchise and we want to purchase the interests being transferred, we have the right to require those who would hold the resulting minority interests to transfer their interests to us at a price proportionate to the price we are paying for the majority interest that we are buying. We will purchase the minority interest at the time and in the manner that we complete the purchase of the majority interest.

15.13 If we decide not to purchase the interest proposed to be transferred, the transfer can be completed on the terms and conditions proposed but only after we have approved the transferee, the terms of the transfer and all of the other transfer requirements of this Section 15 have been satisfied.

G. Transfer on Death, Legal Incapacity or Divorce

15.14 Your interest in this franchise is transferable by will or by intestate succession upon your death. Also transferable by will or by intestate succession is any interest you may have in any entity that owns an interest in this franchise.

15.15 If you are determined by a court of competent jurisdiction to be legally incompetent, your court-appointed guardian can transfer this franchise or the concerned interest.

15.16 A transfer because of death or legal incompetence is subject to all of the conditions and requirements concerning transfers described in this Section 15. As such, we must approve the potential transferee and the transfer transaction and, if the appropriate conditions apply, the transferee must satisfactorily complete our training course, the application and transfer fees described above are payable, the transferee must sign an updated Franchise Agreement and our right of first refusal applies.

15.17 If we do not approve a potential transferee who would otherwise take this franchise or your interest in any entity owning an interest in this franchise under a will or by intestate succession, your estate can sell this franchise or the concerned interest to a transferee acceptable to us within 6 months after the appointment of your executor, administrator or other personal representative. If an approved transfer of this franchise is not completed within the 6-month period, we have the right to terminate this Agreement.

15.18 During any period following the death or incapacity of the owner, your studio must be operated as this Agreement requires. This compliance is not excused or reduced because of your death or incapacity. If, in our reasonable judgment, the studio is not being operated in compliance with this Agreement, we may, but are not obligated to, take over the operation of the studio and operate it at your expense or the expense of your estate until such time as it is transferred as required by this Section 15. We agree that we will only operate the studio for a 90 day period unless we extend that period for not to exceed one year in our reasonable discretion.

We agree to periodically discuss the status of the studio with the remaining owners and your estate.

15.19 If a court of competent jurisdiction orders you to transfer all or any part of your interest in this Agreement, in any entity which owns an interest in this franchise or in a substantial portion of the assets used in your studio to your spouse, domestic partner or their equivalent, that order will constitute a proposed transfer of this Agreement and will cause the transfer to be subject to all of the terms and conditions concerning transfers described in this Section 15.

H. Transfer of Our Rights in This Agreement

15.20 We can transfer our rights in this Agreement in whole or in part without your consent. However, we agree that any such transfer will not interfere in a material manner with your receipt of the benefits granted to you by this Agreement.

16. DEFAULTS, CURES, TERMINATION AND REMEDIES.

This section discusses the termination of this Agreement because of a default and our remedies if that should occur.

A. Termination Without an Opportunity to Cure the Default

16.01 We can terminate this Agreement without giving you notice or an opportunity to correct the concerned default under any of the following circumstances:

(a) If you or an entity with any interest in this franchise is declared bankrupt or judicially determined to be insolvent, if all or a substantial part of your studio assets or property or that of the concerned entity is assigned to or for the benefit of any creditor or creditors or if you or the concerned entity admits an inability to pay debts as they become due;

(b) If we mutually agree in writing to terminate this Agreement;

(c) If you or if the owner of an interest in an entity that owns any interest in this franchise has made a material misrepresentation relating to the acquisition of this franchise or if you or any such owner engages in conduct that reflects upon the operation and/or reputation of your studio or *The Bar Method* system in a materially adverse manner;

(d) If you fail to comply, within the time period allowed to cure the noncompliance, with any material federal, state or local law or regulation applicable to the operation of your studio following notice of the violation;

(e) If during any 12-month period you receive 2 or more notices of valid defaults under material provisions of this Agreement whether or not the defaults are cured within the time periods allowed in those notices;

(f) If your studio or a material portion of your studio property is seized, taken over or foreclosed by a government official in the exercise of his or her duties or is seized, taken over or foreclosed anyone who has a final judgment against you or against an entity that owns any interest in this franchise or if a final judgment against you remains unsatisfied for over 30 days after entry;

(g) If a levy of execution has been made upon this Agreement or on any of the rights granted by it or on a material portion of your studio property and the levy is not discharged within 5 days of being issued;

(h) If you or any partner, officer, director, shareholder, member or owner, of an entity that owns any interest in this franchise pleads guilty or no contest to or is convicted of, a felony of any type or any criminal misconduct that is relevant to or reflects adversely upon your studio or *The Bar Method* system;

(i) If you fail to pay any fees, charges or other amounts due to us, our licensor or to our affiliates when they are due but in any event within 10 days after receiving notice that those fees or other amounts are overdue;

(j) If we make a reasonable determination that continued operation of your studio will result in an imminent danger to public health or safety;

(k) If anyone who is required by the terms of this Agreement to complete our training course fails to complete that course at the time and in the manner required by this Agreement;

(l) If you intentionally underreport your gross receipts in any amount for any period or if you underreport your gross receipts in excess of 10% in any reporting period whether or not such underreporting is intentional;

(m) If you or any partner, shareholder, member or owner of an entity that owns any interest in this franchise attempts or purports to sell, transfer, assign or otherwise dispose of all or any part of this Agreement, his or her interest in the entity or any material portion of the property used in connection with your studio, except as allowed by this Agreement or if you or any such person attempts or claims to have granted a subfranchise, license, assignment, authorization or otherwise to have permitted any third person or entity the right to use or participate in any way the rights, assets, business or property licensed to you under this Agreement or that you use in connection with this Agreement or your studio, except as allowed by this Agreement;

(n) If you abandon your studio by failing to operate it for 5 consecutive days during which you are required by this Agreement to keep the studio in operation or if you fail to operate it for any lesser period after which under the facts and circumstances it is not unreasonable for us to conclude that you do not intend to continue its operation unless that failure is caused by fire, flood, earthquake or other similar cause beyond your control, but not including your inability to operate the business, whether financial or otherwise or if you at any

time expresses an unwillingness or inability to go forward with any of your obligations under this Agreement;

(o) If the transfer or sale of the rights of a deceased or incompetent person who has any interest in this franchise or in an entity that owns any such interest, is not accomplished within the time periods and in the manner required by this Agreement;

(p) If you lose your right to occupy your studio premises because you default under your lease or other occupancy document; or

(q) If you disclose or use any of our trade secrets, intellectual property or other proprietary information except as permitted by this Agreement.

16.02 (a) In addition to the grounds for immediate termination set forth above, we can terminate this Agreement immediately if you violate any other material term of this Agreement, any other agreement between us or any agreement between you, our licensor, and/or any of our affiliates, including any other Franchise Agreement between us and that violation is not cured within the time period allowed by the concerned agreement.

(b) If this Agreement grants you the right to open more than one *Bar Method* studio and you do not comply with your studio-opening schedule, you will lose the right to open any studios that have not been opened in accordance with that schedule and those that are actively under construction at the time your development rights are terminated. You can continue to own and operate the studios you have opened and those that were actively under construction when your expansion rights ended. You will not be entitled to the refund of any fees paid on account of studios you lose the right to open since those amounts are consideration for our granting you development rights and holding the territory for you during the period that you were in compliance with your studio-opening schedule.

B. Defaults Which You Can Cure

16.03 (a) If you have committed a violation of this Agreement and that violation does not result in the immediate termination of this Agreement, correction of the default must be accomplished to our reasonable satisfaction within 20 days after you are given written notice describing the condition that constitutes the violation and the corrective action that must be taken to cure the default, if any corrective action is possible. If the default is of such a nature that more than 20 days are reasonably required to cure the default, you will be given such additional time as may in our judgment be reasonably necessary to cure the default as long as the corrective action is started within the initial 20 day period following notice and is pursued diligently to completion.

(b) We will not terminate this Agreement if the term of your lease expires or if your right to possession of your studio premises is otherwise lost without you being at fault as long as you relocate and reopen your studio at a location and under occupancy terms we find acceptable within 120 days from the date on which your prior lease terminated. The provisions of Section 5 above as well as the other provisions of this Agreement apply to the relocation of

your studio including reimbursing us for our expenses in connection with the relocation of your studio.

(c) We can terminate this Agreement if you do not meet the studio profitability goals set forth in Section 8.13 above within the time period specified in subsection 8.14(b).

16.04 If we elect not to enforce any of the immediate termination provisions of Sections 16.01 or 16.02 or if any of those terms are not enforceable under applicable law, the provisions of Section 16.03 will apply to the concerned default or defaults.

16.05 If a default is not cured within any time period allowed for the correction of the default, the termination of this Agreement will occur without further notice as of the expiration of the time allowed to cure the default unless the notice of default we send you specifies otherwise.

C. Defaults by Us

16.06 If you maintain that we are in violation of a material term of this Agreement, you agree to give us written notice of the claimed default. We will have 20 days after receipt of that notice, plus such additional time as is reasonably necessary, within which to correct the default. If we do not cure the claimed default within the designated time period, you can pursue all rights allowed to you under applicable law.

D. Duties Following the Expiration or Termination of This Agreement

16.07 (a) Upon the termination of this Agreement for any reason including its expiration at the end of its term, you must without delay:

(i) bring all accounts with us, our licensor and our affiliates current;

(ii) stop using our trade names, trademarks, service marks, logotypes, commercial symbols, designs, patents, copyrighted items, confidential information, trade secrets, proprietary material and information and other intellectual property;

(iii) discontinue the use of any color schemes, decorations, displays, décor, advertising and promotional material and other things that are distinctive to *The Bar Method* system. In this regard, you agree to remove at your own cost and expense all distinctive decorative material, change the look of your facility and discontinue using any equipment of a special and distinctive design or nature that is reasonably associated with *The Bar Method* system.

(iv) return to us our manual and all other material obtained from or through us.

(v) obtain a new telephone listing and telephone number and, at our election, assign your previous telephone listing and telephone number, as well as all Internet-related items described in Section 8.22(c) above, to us in the manner we specify;

(vi) cancel any fictitious business name and equivalent registrations or listings indicating that you are or were affiliated with *The Bar Method* system;

(vii) notify all of your suppliers, customers, utilities, landlords, creditors and concerned others that you are no longer affiliated with *The Bar Method* system; and

(viii) within 10 days remove from your premises all signs and other items bearing our names or marks and dispose of them at your expense in the manner we direct unless we purchase them from you as described in Section 16.09 below.

(b) You also agree that you will not identify yourself, any present or future business in which you may have an interest or an entity that owned any interest in this franchise in advertising, public relations material and programs, in biographical material or otherwise, including over the Internet and in alternative media as having been associated with *The Bar Method* system. This provision will not prevent you from responding to inquiries about your employment history but, rather, is intended to prevent you from indicating to the public your former affiliation with *The Bar Method* system.

E. Our Right to Purchase Your Studio Assets When This Agreement Ends

16.08 Upon the termination of this Agreement for any reason, including its expiration at the end of its term, we have the option to purchase from you any merchandise, packaging and other items bearing our names and/or marks or that is otherwise distinctive to *The Bar Method* system whether that material is on hand or on order. The purchase will be made at your cost unless the condition of the items lowers their value in which case we will pay you the lesser of your cost or the fair market value of the items. You agree to pack and ship to us at your expense all items we indicate that we will purchase.

16.09 (a) When this Agreement ends, we have the right to purchase from you any items of equipment, decor, furniture, fixtures and any or all of the other tangible property used in the operation of your studio. If we so choose, you agree to sell us your entire Bar Method studio. However, excluded from this purchase option is any real property that you own that is used in your business.

(b) We will pay you the fair market value of the physical assets we purchase from you. Fair market value will be determined as of the date this Agreement came to an end without any allowance for any claimed going business value, goodwill or any other intangible assets of the studio and without consideration of the studio being or having been a *Bar Method* studio.

(c) We will notify you whether we will purchase some or all of the assets of your studio during the period from 60 days before to 30 days after the termination, cancellation, expiration or nonrenewal of this Agreement. If we give you this notice, you agree to meet with us promptly to try to agree on the fair market value of the assets we propose to purchase.

(d) If we cannot agree on the fair market value of the assets we propose to purchase within 30 days after we give you notice of our desire to purchase those assets, we each must appoint a professional appraiser of business assets who will separately determine the fair market value of the concerned assets. The appraisers will be instructed to make and deliver their appraisals to us both within 20 days of their appointment. If we cannot agree on the fair market value of the concerned assets within 10 days of the delivery of the appraisals, the two appraisers will be instructed to appoint a third party arbitrator who will be instructed to pick within 20 days after his or her appointment which of the appraisals he or she deems to be closest to the fair market value of the concerned assets and that value shall then be the purchase price of the assets. The arbitrator can hold such hearings as he or she may determine to assist in arriving at a decision. Each of us will bear the cost of our own appraiser and shall divide equally the cost of the third party arbitrator. If either of us refuses to appoint an appraiser within the required time period, the determination of fair market value by the single appointed appraiser shall be the purchase price.

(e) Once the fair market value of the assets we propose to purchase has been determined, either by agreement or as set forth in subsection (d) above, we each agree to enter into a standard purchase and sale of assets agreement within 10 days after the purchase price has been determined. If we have not entered into a purchase and sale of assets agreement within 20 days after the purchase price is determined, we can determine the terms of the agreement. Unless we mutually agree otherwise, we will have the right to allocate the purchase price among the assets we purchase and will pay any resulting sales tax on the transaction. We will divide equally any escrow fees and any costs related to searching for liens and encumbrances on the assets we are purchasing including those on the real property on which your studio is located if we are taking over your location. You will be responsible for compliance with the Bulk Sale law to the extent it applies to the transaction and will bear the costs of that compliance. Each side will bear its own attorneys' fees in the transaction.

(f) Transfer of the assets we purchase will occur not later than 10 days after the purchase and sale agreement is completed or upon completion of the required process under any applicable Bulk Sale law, whichever is later.

(g) Unless we otherwise agree in writing, our election to purchase some or all of the assets of your studio and the purchase procedure set forth above will not extend the term of this Agreement, will not waive or cure any default that has resulted in the termination of this Agreement, nor will it extend any period within which you have had the opportunity to correct any condition of default.

16.10 If we elect to purchase any or all of the physical assets of your studio as described in Section 16.09 above, we will pay you the purchase price for those assets in cash at the closing of the transaction, less any amounts you owe us, our licensor and any of our affiliates and less any of your indebtedness that we assume as part of the purchase price.

16.11 (a) When this Agreement ends, we have the option to have you assign your lease or other document giving you the right to occupy your studio premises to us. If we exercise this option, you will not be entitled to any compensation on account of the transfer.

(b) If we take over your location, you agree promptly to bring the studio premises into full compliance with the requirements of the lease or other occupancy document and with all laws, statutes, ordinances, rules, regulations, orders and the like, applicable to the premises. You also agree to bring all accounts with the lessor or other grantor current as of the date on which we take over the premises.

(c) If we assume your lease, you agree to indemnify us against all losses and costs attributable to the period that you occupied or were permitted to occupy, the premises. Following our taking possession of the premises, we agree to indemnify you against all losses and costs attributable to the period of our possession of the premises except to the extent that any of those losses or costs are the result of any of your actions or inactions during or attributable to, your period of occupancy.

(d) If we are notified by the lessor or other grantor at any time after we take over the lease that you have overpaid any costs or expenses attributable to your period of occupancy, we will refund those amounts to you to the extent that we have gained the benefit of those overpayments, such as by receiving credits against future payments we are required to make under the lease. To the extent you have underpaid any costs or expenses attributable to your period of occupancy, you agree to pay us those amounts promptly upon being notified of them.

16.12 (a) In addition to the remedies set forth above, in the event of your default under this Agreement, we will have all other remedies available to us at law or in equity.

(b) Neither of us will be entitled to punitive or exemplary damages against the other.

(c) Any claim either of us may have against the other will expire one year from the date the claim arises unless through the exercise of reasonable diligence the complaining party could not have learned of the claim, in which case the one year period of limitations will begin when the complaining party learns of the claim or through the use of reasonable diligence could have learned of the claim.

16.13 Upon the termination, nonrenewal or expiration of this Agreement for any reason, no payment is due to you on account of any goodwill, going business value, equity or other intangible asset claimed to have resulted from your operation or ownership of the studio or otherwise. Any creation or increase in the value of any goodwill associated with the trademarks, service marks, logotypes, symbols and any other intellectual property we have licensed to you that you claim resulted from your operation of the studio belongs to us and you hereby assign that increase to us without cost.

16.14 All of the provisions of this Agreement that apply by their terms or by implication following the termination or expiration of this Agreement will survive that termination or expiration.

17. COVENANTS NOT TO COMPETE.

This section contains limitations on your engaging in a similar business during the term of this Agreement and after it ends.

17.01 You and those with any interest in this franchise or in an entity with any interest in this franchise, agree that during the term of this Agreement and any extensions or renewals of this Agreement, you and they will not have any ownership interest in, provide any information to or participate in any capacity or at any location in a fitness or exercise business other than your *Bar Method* studio or studios.

17.02 You and those with any interest in this franchise or in an entity with any interest in this franchise, also agree that at no time either during the term of this Agreement, any extensions or renewals of this Agreement or at any other time will he, she, it, they or any of them or those over whom they have control, make any unauthorized disclosure or use of our trade secrets, intellectual property, confidential information or other proprietary material including the contents of our manual, the passwords granting access to and the nonpublic contents of our Internet and intranet sites, our directives, our advertising and promotion plans, our financial information or any other confidential information obtained from or through us at any time whether by virtue of the franchise relationship or otherwise.

17.03 Nothing in this Section 17 prevents any of the persons or entities subject to this Agreement from entering into additional Franchise Agreements or other agreements with us, our licensor and our affiliates although you acknowledge that we and they have no obligation to enter into those agreements with you by virtue of having entered into this Agreement.

17.04 (a) Since you and those with an interest in any entity owning an interest in this franchise will have obtained valuable information concerning the operation of *Bar Method* studios and our system, following the transfer by any such person and/or entity of his, her or its interest in this franchise or the concerned entity as well as upon the termination or expiration of this Agreement, you and the concerned person or entity agree not to engage in any capacity, whether as an owner, employee, agent, consultant or otherwise, in any fitness or exercise business for a period of 2 years from the date on which this Agreement expires or terminates or on which the concerned transfer occurs. This prohibition will be effective within the protected territory assigned to your *Bar Method* studio or within 5 miles of your *Bar Method* studio whichever area is larger. The foregoing prohibition includes any fitness or exercise component of a health, medical or other facility of any type.

(b) You and those with any interest in this franchise or in any entity with an interest in this franchise, agree not teach or otherwise participate in the operation of your former studio or studios following the termination, expiration or transfer of this Agreement without our prior consent.

17.05 You agree not to solicit any of our employees, those of our licensor or our affiliates or those of another *Bar Method* franchisee to leave his or her employment during the term of this Agreement, any renewals or extensions of this Agreement and within 2 years after this Agreement ends, without the prior written consent of their current employer.

17.06 The foregoing covenants to the extent they apply following the termination, expiration or transfer of this Agreement or following the transfer of any interest in any entity that has an interest in this Agreement shall survive the termination, expiration or transfer of this Agreement or the concerned interest and they shall apply regardless of whether this Agreement was terminated by lapse of time, by the default of either party or for any other reason.

17.07 If a court or arbitration tribunal determines that the foregoing covenants cannot be enforced as written in the jurisdiction in which your studio is located, the court or arbitration tribunal is hereby authorized to alter the terms of the covenants to the extent required to permit the covenants to be enforced to the greatest extent possible in the concerned jurisdiction.

18. DISPUTE RESOLUTION.

This section discusses how we must proceed in the event of a dispute between us.

18.01 (a) In the event of any controversy or claim between us arising out of or related to, this Agreement, its inducement, its execution or a claimed breach and we cannot resolve the dispute between us, we both agree to refer the matter to mediation in San Francisco, California, to and under the mediation rules of, the dispute resolution firm JAMS. The mediation will be limited to one day. The costs of the mediation service will be shared equally between us.

(b) Each party to the mediation proceeding will bear his, her or its own costs and expenses in the matter, including their own attorneys' fees.

18.02 Nothing in this Section 18 or elsewhere in this Agreement will prevent either of us, without prior resort to the mediation procedure set forth above, from seeking a temporary restraining order and an injunction to prevent or remedy any irreparable injury or damage, including, on our part, to our trademarks, trade names, service marks, logotypes, commercial symbols, goodwill, trade secrets, and/or other of our intellectual or proprietary property and/or *The Bar Method* system.

18.03 The parties agree that the venue of any legal action involving this Agreement or any of the transactions concerning it, its inducement, execution, interpretation or breach, shall be in San Francisco, California. We both agree to be subject to the jurisdiction of the courts located in San Francisco, California.

18.04 In the event an action is filed by either of us against the other concerning the inducement, execution, breach, compliance under or enforcement of this Agreement, the court, or if arbitration is later agreed to the arbitrator(s), may designate one or more of the parties as the "prevailing party". If the court or arbitrator does so, the court or arbitrator(s) shall award the prevailing party its reasonable attorneys' fees, expert witnesses' fees and court costs in the matter and, in the case of an arbitration award, reimbursement of the prevailing party's share of the costs imposed by the arbitration administrator and the arbitrator(s).

19. MODIFICATION OF THIS AGREEMENT.

This section discusses how this Agreement can be changed and changes to our system we can make in our discretion.

19.01 This Agreement can be modified only by a written agreement signed by the parties.

19.02 We can modify our manual, our operating procedures and all other aspects of *The Bar Method* system, whether those procedures or changes now exist or are developed at a later time. You agree to adhere to those changes at the times and in the ways we require, subject to the limitations contained in this Agreement. We agree that any revisions made to our manual, operating procedures and other aspects of your studio will not materially increase your economic and other obligations except as permitted by this Agreement.

20. NOTICES AND APPROVALS.

This section provides how notices, approvals and consents are given and transmitted.

20.01 (a) In order to be effective, all notices, approvals and consents required by this Agreement or related to it must be in writing. Unless either of us otherwise notifies the other in writing, notices, approvals and consents can be transmitted to either party electronically as long as the method of electronic communication creates a record that can be retained, retrieved and reviewed by the recipient and can be directly reproduced in paper form through an automated process.

(b) Notices, approvals and consent shall be deemed to have been received by the addressee at the earlier of when delivered to the addressee, when an acknowledgment of receipt is signed by the addressee or a duly authorized agent of addressee, the earlier of the day after the day sent to the addressee by facsimile transmission at a telephone number or by electronic mail when sent to an address provided by the addressee or when receipt of such a transmission is acknowledged by the addressee, the next weekday after deposit with a recognized overnight express delivery service or 4 days after deposit in the United States mail, when sent by certified mail with postage prepaid and properly addressed as set forth below.

20.0 For purposes of notices, approvals, consents, payments, receipts or other communications, the parties designate the addresses listed at the beginning of this Agreement.

20.03 Any party to this Agreement can change his, her or its address by giving written notice of the change to the other party as provided above.

21. CONSUMER PRICE INDEX ADJUSTMENT.

This section provides for the index to be used when a section of this Agreement requires an adjustment based on the Consumer Price Index.

21.01 Whenever in this Agreement any charge, fee or other payment is to be adjusted by the Consumer Price Index, that adjustment will be based upon any increase between the date of

this Agreement or such other time as may be set forth in the provision of this Agreement requiring the adjustment and the date on which the concerned payment is due in the Consumer Price Index for All Urban Consumers (base year 1982-84=100) for San Francisco-Oakland-San Jose, California, published by the United States Department of Labor, Bureau of Labor Statistics, most immediately preceding the concerned dates.

21.02 In no case will any adjustment occurring by virtue of this Section 21 result in the charge, fee or other payment that is subject to adjustment being revised below the original amount of the concerned charge, fee or other payment.

21.03 If the Index designated in Section 21.01 above is changed so that the base year differs from that in effect on the date of this Agreement, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics. If the Index is discontinued or revised during the term and any extensions or renewals of this Agreement, any other government index or computation by which it is replaced shall be used in order to obtain substantially the same result as would have been obtained had the Index not been discontinued or revised.

22. HEIRS, SUCCESSORS AND ASSIGNS.

This section makes this Agreement binding on the parties' successors in interest.

22.01 This Agreement is binding upon and inures to the benefit of the parties and their heirs, successors, representatives and assigns except to the extent, only on the conditions and in the manner more specifically set forth elsewhere in this Agreement, including the transfer requirements of Section 15 above.

23. WAIVERS.

This section limits the way either of us can waive the terms of this Agreement.

23.01 The failure by either of us to enforce any right we may have or to declare a default by the other party shall not be deemed to be a waiver or abandonment of that right or default unless the concerned right and/or default is waived by a written document signed by the party who is waiving the right or default.

23.02 The waiver of any right or default in one instance shall not be a continuing waiver of the concerned right or default or a waiver of the concerned right or default or any other right or default, in any other instance.

23.03 The acceptance of money or other performance by either party shall not constitute a waiver of any right or default other than the one to which that payment or performance pertains and then only to the extent of the payment or performance accepted by the other party.

24. SEVERABILITY.

This section discusses what happens if any part of this Agreement is invalid under the law.

24.01 The invalidity or unenforceability of any portion of this Agreement shall not affect the validity of any other portion of this Agreement and unless the substantial performance of this Agreement taken as a whole is prevented by the invalidity or unenforceability this Agreement shall remain in full force and effect.

24.02 The invalidity or unenforceability of any portion of this Agreement in any jurisdiction shall not invalidate that portion or any other portion, in any other jurisdiction.

25. COVENANT OF FURTHER ASSURANCES.

This section deals with any additional documents that are necessary to carry out this Agreement and responses to inquiries from our accountants and others.

25.01 Whenever in our sole judgment it is advisable to execute any additional documents we feel are necessary or desirable to carry out the purposes of this Agreement, you agree to execute those documents promptly as long as that they do not substantially alter your rights or increase your duties under this Agreement.

25.02 You agree to respond promptly and accurately to all inquiries from our accountants, auditors, attorneys, lenders and others we authorize concerning the status of this Agreement, the status and amounts of any accounts between us, and/or any other matters pertaining to the rights and obligations of the parties to this Agreement.

26. GOVERNING LAW.

This section specifies which laws will be used to interpret and enforce the terms of this Agreement.

26.01 (a) This Agreement and its interpretation shall be governed by the laws of the state of California, except for the noncompetition provisions of Section 17 which shall be governed by the laws of the state where your studio is located.

(b) Even though California law has been selected for the interpretation of this Agreement, if your studio is not located in California California's choice of law and conflicts of law rules will not apply. You also agree that the California Franchise Investment Law, *California Corporations Code* Sections 31000 and following, the California Franchise Relations Act, *California Business and Professions Code* Sections 20000 and following, as well as the other substantive statutory law of California dealing with anything other than the interpretation of contracts, whether it now exists or is enacted at a later time, will not apply unless its jurisdictional requirements are met independently and not merely because of the reference to California law in this Agreement.

26.02 If a court of competent jurisdiction determines that some or all of this Agreement must be governed by the laws of a state other than the state or states described in subsection

26.01(a) above, then the laws of that other state will govern the interpretation of this Agreement to the extent required by that court.

26.03 If applicable law requires there to be terms other than or in addition to the terms contained in this Agreement, then the required terms will be considered to be a part of this Agreement but only to the extent necessary to prevent the invalidity of this Agreement or any of its provisions or to prevent the imposition of any civil or criminal penalties or liability.

26.04 To the extent permitted by the laws of the state whose laws govern this Agreement, you waive any provisions of law or regulations that render any portion of this Agreement altered, invalid or unenforceable in any respect.

27. NO THIRD PARTY CLAIMS

This section makes clear that only the parties to this Agreement are bound by its terms and that you are not a beneficiary under any other agreements we may enter into except as indicated.

27.01 The parties agree that by entering this Agreement they intend to confer no benefit or right on any person or entity not a party to this Agreement. The parties further agree that no third party shall have any right to claim any benefit or right as a third party beneficiary under any provision of this Agreement.

27.02 You are not entitled to claim any rights or benefits, including those of a third party beneficiary, under any contract, understanding or agreement between us and any other person or entity unless that contract, understanding or agreement specifically refers to you by name or to a class to which you belong and specifically grants rights or benefits to you or to the concerned class.

28. MISCELLANEOUS.

This section contains various provisions concerning the legal capacity of the people who sign this Agreement as well as other provisions.

28.01 Time is of the essence in this Agreement.

28.02 (a) Where a partnership, corporation, limited liability company or other entity is a party to this Agreement, the person or persons signing this Agreement on behalf of the concerned entity warrant to us that he, she or they have the requisite authority to sign this Agreement and that the entity has been duly organized, is validly existing, is qualified and is in good standing in the jurisdiction in which it was formed and, if necessary as a condition of doing business there, in the jurisdiction where your *Bar Method* studio will be located.

(b) At our request, each of the persons signing this Agreement on behalf of an entity agrees promptly to provide us with a certified copy of a resolution or other authorization from the concerned entity authorizing the execution of this Agreement and naming the partners, officers, members or agents who are authorized to sign this Agreement on behalf of the entity.

28.03 No fees, charges, royalties, advertising fees or other payments made to us are refundable in whole or in part except as may be otherwise set forth in this Agreement.

28.04 This Agreement may be executed in one or more counterparts but all of those copies will constitute only one agreement.

28.05 As used in this Agreement the male or female gender includes the other and the neuter. In this Agreement, the singular includes the plural and the plural includes the singular, as appropriate.

28.06 If two or more persons, corporations, partnerships, limited liability companies or other entities or any combination of them sign this Agreement, the liability of each is joint and several.

29. ACCORD AND SATISFACTION.

This section concerns payments of less than the full amount due.

29.01 Payments you make, payments made by anyone for your account and payments to our affiliates in an amount less than the full amount due shall be considered payments on account regardless of any endorsement to the contrary contained on any of those payments or in any oral or written communication sent in connection with the payments.

29.02 Neither by endorsing or accepting a check, nor by accepting any amount other than the full amount due are we or our affiliates bound by a claim that the endorsement or acceptance was an accord and satisfaction for less than the full amount due.

29.03 Payments made to us or our affiliates shall be applied first to any administration charges, late charges and/or interest owing and then to the earliest of the principal amounts due unless your agreement with our licensor or our affiliates specifies that the payment is to be applied otherwise.

29.04 Acceptance of any payment to us or to our affiliates will not prejudice or be deemed to be a waiver of any of our rights or those of our affiliates to require full payment and performance of all of your duties and obligations under this Agreement or any other agreement under to which the concerned obligation arose.

30. OUR RIGHT TO ACT.

This section authorizes us to perform obligations for you and describes the consequences of our doing so.

30.01 If you fail to perform any duty or obligation required under this Agreement, we have the right but not the obligation to perform that duty or obligation for your account, on your behalf, and/or in your name. If we elect to do so, you agree immediately to pay us all costs and expenses we incur in that performance.

30.02 All sums required to be paid to us pursuant to Section 30.01 that are not immediately paid will be subject to the late charge set forth in Section 11.07(a) of this Agreement.

30.03 No performance we undertake on your behalf pursuant to Section 30.01 will constitute a waiver or release of any claims we may have against you because of your failure to perform the concerned duty or obligation.

31. ENTIRE AGREEMENT.

This section makes clear that all of our understandings and agreements are contained in this document, except as noted.

31.01 This Agreement and the disclosure document that accompanied it contains the entire understanding between us and encompasses all representations on which we both have relied.

31.02 This Agreement supersedes all negotiations, agreements, representations, promises, commitments, inducements, assurances, conditions and covenants between us whether direct, indirect or implied and whether oral or written.

31.03 You acknowledge that we have made no promises that are not contained in this Agreement or in a signed addendum, amendment or exhibit to this Agreement or in the disclosure document that accompanied this Agreement including promises or representations concerning your potential for success, the profitability of your studio or any further or additional rights you may claim to have.

31.04 You acknowledge that we have advised you that there can be no guarantee or assurance of sales levels, profitability or success in your studio and that your management ability and dedication to your studio is crucial to your success.

31.05 We both agree that this Agreement is intended to be the entire integration of all of our understandings of every type concerning the matters contained in and/or related to the subject matter of this Agreement whether those understandings arose before or contemporaneously with the execution of this Agreement.

31.06 We both agree that no other agreements, representations, negotiations, understandings, promises, commitments, inducements, assurances, terms, conditions or covenants of any kind or nature exist between us except as specifically set forth in this Agreement or in the disclosure document that accompanied this Agreement whether pertaining to this Agreement or to any future, further or additional rights of the parties or otherwise. To the extent that there may be any agreements, representations, negotiations, understandings, promises, commitments, inducements, assurances, terms, conditions, covenants or the like, not contained in this Agreement or in the disclosure document that accompanied this Agreement, we both agree that they are waived.

31.07 Neither of us shall be deemed to have waived or impaired any right, power or option reserved to us in this Agreement, including the right to demand exact compliance with

every term, condition and covenant in this Agreement or to declare any breach of this Agreement to be a default and to terminate this Agreement prior to the expiration of its term, because of any custom or practice between us or between us and any other person or entity at variance with the terms of this Agreement.

31.08 YOU ACKNOWLEDGE THAT WE HAVE ADVISED YOU THAT YOU MUST INSURE THAT ALL PROMISES AND REPRESENTATIONS FOR PRESENT AND FUTURE RESULTS AND RIGHTS, WHETHER ABSOLUTE OR CONTINGENT, ARE CONTAINED IN THIS AGREEMENT OR THEY MAY BE FOREVER LOST.

IN WITNESS WHEREOF, the parties execute this Agreement as of the date and year first above written.

The Bar Method Franchising, Inc.
a California corporation

By: _____

Name: _____

Title: _____

Consent of Spouse/Domestic Partner

I have read the Franchise Agreement dated _____ between The Bar Method Franchising, Inc., a California corporation, and _____ (“the Franchise Agreement”) and that I am familiar with its contents. My spouse/domestic partner (referred to collectively herein as “my spouse”), _____, or any entity of which my spouse is an owner, is the franchisee under that agreement. I agree that the Franchise Agreement and all other documents signed by my spouse and/or the entity of which my spouse is an owner shall bind me and any interest which I may have in the Franchise Agreement, the franchise granted by that agreement, the assets of *The Bar Method* studio to be owned by my spouse or the entity of which my spouse is a member. I consent to my spouse’s signature on these documents and approve the provisions of the Franchise Agreement and any other documents my spouse may sign in connection with *The Bar Method* franchise in which my spouse or the entity in which my spouse has an interest owns. I agree that my spousal or marital interest is subject to the provisions of the Franchise Agreement and any other such agreements. I will take no action at any time to hinder operation of the Franchise Agreement or my spouse’s/the entity’s *The Bar Method* franchise or studio.

I sign this Consent on behalf of myself as well as my heirs, legatees and assigns.

Dated: _____

Printed

Name

**STATE-SPECIFIC ADDENDUM TO
THE BAR METHOD FRANCHISE AGREEMENT**

The following provisions are applicable to franchisees in Illinois:

1. Where the jurisdictional requirements are met, the Illinois Franchise Disclosure Act applies to this Agreement. To the extent that this Agreement conflicts with that Act, the provisions of the Act will control and no waiver of the Act shall be effective.
2. Where the jurisdictional requirements are met, the jurisdiction and venue of any legal action will be in Illinois.
3. Where the jurisdictional requirements are met, the laws of the state of Illinois will govern this Agreement and its interpretation.
4. The Illinois Franchise Disclosure Act provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that Act or any other law of the State of Illinois is void. This shall not prevent any person from entering into a settlement agreement or executing a general release regarding a potential or actual lawsuit filed under any of the provisions of the Act, nor shall it prevent the arbitration of any claim pursuant to the provisions of Title 9 of the United States Code.

The Following provisions are applicable to franchisees in Minnesota:

1. In Minnesota your initial franchise fee should be made payable to U.S. Bank. If made payable to us, we will immediately endorse your check over to U.S. Bank. U.S. Bank, 60 Livingston Avenue, Code EP-MN-WS3C, St. Paul, MN 55107-2292, will hold your fee in escrow until we have performed the initial services for you required by the Franchise Agreement and you have opened your studio for business. At that time you agree to advise the Minnesota Commissioner of Commerce that we have fulfilled our initial obligations to you under your Franchise Agreement and authorize the Commissioner to approve the release of the escrowed funds to us.
2. With respect to franchises governed by Minnesota law, the franchisor will comply with Minn. Stats Sec. 80C.14, Subds. 3, 4, and 5 which require, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the franchise agreement and that consent to the transfer of the franchise will not be unreasonably withheld.
3. Minnesota Rule 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.

The following provisions are applicable to franchisees in Washington:

1. Wherever a release or waiver of rights is specified in the Franchise Agreement, the release or waiver will not release or waive any of your rights under the Washington Franchise Investment Protection Act except when executed pursuant to the negotiated settlement of a bona

fide dispute you may have after the Franchise Agreement has taken effect where the person giving the release is represented by independent legal counsel.

2. Any fees we may charge in the event of the transfer or assignment of the Franchise Agreement will reflect our reasonable estimated or actual costs and expenses in effecting the transfer.

3. To the extent required by a valid enforceable statute, any arbitration involving a Washington franchise will be in Washington, unless the parties to the arbitration mutually agree that the arbitration can be held elsewhere or the arbitrator determines at the time of arbitration that the arbitration should be held elsewhere.

4. Nothing in the Franchise Agreement shall prevent the application of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW where its jurisdictional requirements are met.

EXHIBIT A

to The Bar Method Franchise Agreement

Location, Protected Territory and Option Area

Immediately upon its execution by the parties, this Exhibit A becomes a part of the Franchise Agreement dated _____, between THE BAR METHOD FRANCHISING, INC. and _____.

We both agree that the location for your *Bar Method* studio is:

The protected territory granted in connection with this studio is described as follows:

If you are being granted an option to open an additional studio pursuant to Section 2.01 of the Franchise Agreement, the Option Area is described as follows:

This EXHIBIT A is signed on _____.

THE BAR METHOD FRANCHISING, INC.

Signature

By _____
Its _____

Typed or Printed Name

The Bar Method
6632.000/647144.3

Franchise Agreement
041513

Exhibit B to *The Bar Method* Franchise Agreement

ADDENDUM TO LEASE AGREEMENT

This Agreement is made on _____, 20____, by and between _____, referred to herein as "Lessor", _____, referred to herein as "Lessee", and The Bar Method Franchising, Inc. whose address is 3717 Buchanan Street, Suite 200, San Francisco, California 94123, referred to herein as "Franchisor".

Lessor and Lessee have entered into a Lease Agreement dated _____, ("the lease") so that a *Bar Method* studio can be opened and operated at _____ ("the premises") pursuant to a Franchise Agreement with Franchisor. As partial consideration for Franchisor approving the location and lease for the premises, the parties hereto have agreed to enter in to this Addendum.

1. (a) In the event that Lessor claims that Lessee is in default under any provision of the lease, Lessor agrees to notify Franchisor in writing of the claimed default and the time within which Lessee can cure the default prior to the default resulting in the termination of the lease.

1(b) Lessor agrees not to declare a breach of the lease until the expiration of a reasonable period of time, considering the nature of the claimed default, after Franchisor receives from Lessor written notice of Lessee's failure to cure the claimed default. Lessor agrees to allow Franchisor an additional reasonable period of time, which shall not be less than 15 days, within which to cure the default, if Franchisor elects to do so.

2. Both Lessee and Lessor agree that at the times Franchisor so requests, Lessor will provide to Franchisor copies of all sales reports and any other information Lessor may possess regarding the premises and the operation of Lessee's business at the premises.

3. (a) If Lessee's Franchise Agreement with Franchisor expires or is terminated for any reason, Lessor agrees that upon the election of Franchisor the lease shall be deemed assigned to Franchisor, or to such other entity as may be specified by Franchisor, upon written notice to Lessor. Notwithstanding any other provisions of the lease, upon the giving of such notice from Franchisor to Lessor, no additional consent of Lessor or any payment on account of the assignment to Lessor will be required to perfect the assignment to Franchisor or to the designated entity.

(b) The parties hereto agree that upon Franchisor's election to have the lease assumed, whether by Franchisor or by a designated person or entity, Lessee will be solely responsible for full performance of the terms of the lease until the effective date of the assumption of the lease and that the person or entity to whom or which the lease is assigned will be solely responsible for full performance of the lease after that date.

(c) Lessor agrees that Franchisor, or the person or entity who or which assumes the lease, will not be responsible for the performance of any duties or responsibilities, including any payments, arising during, becoming due during, or attributable to the period of Lessee's tenancy under the lease.

(d) It is agreed that neither Lessor, Franchisor nor any person or entity to whom or which the lease is assigned, will be obligated to Lessee in any way because of the assignment of the lease pursuant to the terms of this Addendum, or otherwise.

EXECUTED as of the date first written above.

LESSOR

LESSEE

FRANCHISOR

The Bar Method Franchising, Inc.

By _____

Its _____

EXHIBIT C to *The Bar Method* Franchise Agreement

MUTUAL GENERAL RELEASE

This Mutual General Release ("this Release") is made on _____,
by _____,
hereinafter referred to as "Franchisee" and The Bar Method Franchising, Inc., a California corporation, hereinafter referred to as "Franchisor".

This Release is made with reference to the following facts:

A. Franchisor, or its predecessor The Bar Method Franchising Company, LLC, and Franchisee entered into a Franchise Agreement dated _____, hereinafter referred to as "the Franchise Agreement".

B. The Franchise Agreement is for a *Bar Method* studio located at _____

C. As a condition of the renewal or transfer of the Franchise Agreement or pursuant to another agreement between the parties, the parties desire to enter into this Release.

D. If a party to this Release has claims it wishes to pursue, it should not sign this Release.

NOW, THEREFORE, in consideration for the mutual release of claims by the parties and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and with the intent to be legally bound, the parties hereto agree as follows:

1. The facts set forth above are true.

2. Except for the obligations undertaken by the parties in this Release, by signing this Release each party hereto forever releases, forgives and discharges the other party, its licensors and affiliates and their officers, directors, shareholders, members, employees, agents and others with whose conduct it is chargeable ("the Released Parties") from any and all liability of any kind and nature whether arising out of the Franchise Agreement, its inducement, execution and performance, the franchise relationship between Franchisee and Franchisor or otherwise, including, but , any and all claims, demands, rights of action, causes of action and liability caused by errors, omissions, intentional acts and negligence, of any kind or character whatsoever, which a party may now have or claim to have against the other party. The parties understand and agree that this release covers all claims of every kind and nature, past and present, known and unknown, suspected and unsuspected, except for claims arising pursuant to obligations undertaken under this Release. Franchisee expressly waives any and all rights or claims under Section 1542 of the *California Civil Code*, which states:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

3. If any legal action or other action or proceeding, is brought for the enforcement of this Release or because of a dispute, breach, default or misrepresentation in connection with any of the duties, obligations, covenants, representations, warranties, performance, promises or provisions of this Release, the party prevailing in that action or proceeding shall be entitled to recover its reasonable attorneys' fees and all other costs incurred in that action or proceeding in addition to any other relief to which that party may be entitled.

4. The parties each warrant and represent they have full power and authority to enter into this Release. Each of the parties warrants to the other that no third party has any interest or right in any claim, potential claim, right of action or cause of action covered by this Release and the consent of no third party is required for the effectiveness of this Release.

5. It is agreed that the agreements and undertakings contained in this Release shall be binding upon the parties and also upon their heirs, successors, representatives and assigns.

6. Unless prohibited by any applicable law, this Release shall be construed and governed by the laws of the state of California. This Release does not release any claims the forgiveness of which is specifically prohibited by any applicable law.

7. Should any provision of this Release be found to be invalid or unenforceable under any law which may be found to govern this Release, such invalidity or unenforceability shall not affect the validity or enforceability of any other portion of this Release and, unless substantial performance of this Release taken as a whole is prevented thereby, this Release shall remain in full force and effect.

8. This Release contains the entire understanding and agreement of the parties pertaining to the subject matter hereof and supersedes all prior and contemporaneous negotiations, inducements, assurances, conditions, agreements, contracts, representations, promises, commitments, covenants and understandings between them whether direct or implied and whether oral or written.

IN WITNESS WHEREOF, this Release has been duly executed it as of the date first written above.

The Bar Method Franchising, Inc.

By _____

By _____

Its _____

Its _____

Exhibit D to *The Bar Method Franchise Agreement*

CONTINUING GUARANTY

(To be used to guarantee the obligations of a corporate, limited liability company or other entity that owns the franchise or to guarantee the obligations of a franchisee other than the guarantor)

_____ (hereinafter referred to as "Guarantor") whose address is _____, as a material inducement to and in consideration for THE BAR METHOD FRANCHISING, INC. (hereinafter referred to as "Franchisor") entering into a Franchise Agreement ("the Agreement") with _____, (hereinafter referred to as "Franchisee"), dated _____, unconditionally guarantees and promises to and for the benefit of Franchisor that Franchisee will perform faithfully and completely all of the provisions, obligations and duties that Franchisee has agreed to perform under the Agreement and/or any other obligations undertaken or to be undertaken by Franchisee in favor of Franchisor or Franchisor's parent, subsidiary or affiliated corporation, corporations, individuals or other entities. Guarantor also agrees that he or she is bound by the confidentiality and noncompetition provisions of the Franchise Agreement to the same extent as Franchisee as well as the other provisions of the Franchise Agreement in which the signers of this Guaranty are indicated as being bound.

If Guarantor is more than one person, Guarantor's obligations are joint and several. Guarantor's obligations are also independent of Franchisee's obligations. A separate action may be brought or prosecuted against any Guarantor whether or not the action is brought or prosecuted against any other Guarantor or against Franchisee or any or all of them or whether any other Guarantor or Franchisee is or are joined in the action.

Guarantor waives the benefit of any statute of limitations or other provision of law which in any way affects or limits Guarantor's liability under this Guaranty.

The provisions of the Agreement or other obligation involving Franchisee may be changed between Franchisor or the other concerned party or entity and Franchisee at any time and in any manner, either by written or oral agreement, by operation of law, by course of conduct or otherwise, without the consent of or notice to Guarantor. This Guaranty shall continue to guarantee the performance of Franchisee under the Agreement and/or other obligation as so modified without further agreement or act of Guarantor being required.

Assignment by Franchisee or by Franchisor of the Agreement or other obligation as permitted in that Agreement or the other obligation shall not affect this Guaranty and the obligations of Guarantor hereunder shall carry over to the transferee of either party to the Agreement or other obligation.

This Guaranty shall not be affected nor the obligations of Guarantor hereunder limited in any way by Franchisor's delay in enforcement or failure to enforce any of its rights under the Franchise Agreement, other guaranteed obligation or under this Guaranty.

If Franchisee commits a breach of the Agreement or other guaranteed obligation, Franchisor can proceed immediately against Guarantor or Franchisee or both or Franchisor can enforce against Guarantor or Franchisee or both, any rights which it has under the Agreement, other obligation or

pursuant to applicable law or both. If the Agreement or other obligation terminates, Franchisor can enforce any rights it has following such termination against Guarantor, Franchisee or both, without giving prior notice to Guarantor, Franchisee or either, and/or without making demand on Guarantor, Franchisee or either.

Guarantor waives the right to require Franchisor to proceed against Franchisee before proceeding against Guarantor, to proceed against or exhaust any security that Franchisor holds from Franchisee, Guarantor or any other source, and/or to pursue any other remedy available to Franchisor prior to proceeding against Guarantor, Franchisee or either. Guarantor further waives any defense available to Guarantor, Franchisee or either, by reason of any disability of Franchisee and further waives any other defense based on the termination or limitation of Franchisee's liability by reason of any cause, event, term or condition including any defense or limitation available by operation of law.

Until all of Franchisee's obligations to Franchisor have been satisfied and discharged in full, Guarantor waives any right of subrogation against Franchisee. Guarantor waives any right it may have to enforce any remedies that Franchisor may now have against Franchisee or may have at a later time. Guarantor further waives all presentments, protests, demands of any type, notices of any type, including notices of protest, notices of dishonor and notices of acceptance of this Guaranty. Guarantor waives the foregoing as to present and/or future obligations and specifically waives any and all notices of the existence, creation or incurring of any new or additional obligations of Franchisee to Franchisor.

If Franchisor is required in its discretion to enforce Guarantor's obligations under this Guaranty by legal proceedings, and/or by the employment of an attorney or takes any other or additional collection or other action to enforce its rights hereunder, Guarantor agrees to pay to Franchisor all costs incurred by Franchisor in such proceedings, action, and/or employment, including court costs, costs of suit and attorneys' fees.

This Guaranty shall be binding upon Guarantor and each and all of them if more than one and upon his, her, its or their, successors, representatives and assigns.

Executed at _____, on _____.

Signature

Signature

Signature

EXHIBIT D
To The Bar Method
Franchise Disclosure Document

NONDISCLOSURE AND CONFIDENTIALITY AGREEMENT

NONDISCLOSURE AND CONFIDENTIALITY AGREEMENT

The Bar Method Franchising, Inc., a California corporation, is willing to disclose to you certain data, including trade secret material and proprietary information, relating to the site selection, leasing, design, construction, operations and similar information, including allowing you to examine its manuals and other materials concerning *Bar Method* studio for your use in evaluating the purchase of a *Bar Method* franchise.

Your signature below is your agreement on behalf of yourself and any organization or entity with which you are or may become associated to hold all such information in confidence, not to disclose the information to others and not to use the information for any purpose, whether commercial or noncommercial or for the developing or improving of any business or any other enterprise, without the prior written consent of The Bar Method Franchising, Inc.. You agree that all of the information disclosed to you is the property of The Bar Method Franchising, Inc. and its licensor and that its unauthorized disclosure will cause The Bar Method Franchising, Inc. and its licensor irreparable injury.

This Agreement is effective from the date written below and is effective as long as there are any *Bar Method* studios in operation, unless The Bar Method Franchising, Inc. and its licensor agree in writing that your obligations under this Agreement can be terminated sooner or until you become a *Bar Method* franchisee. If you become a *Bar Method* franchisee your nondisclosure and confidentiality obligations will be contained in your Franchise Agreement.

EXECUTED at San Francisco, California, on _____,

Signature

Signature

ACKNOWLEDGMENT OF REVIEW

I/We hereby acknowledge that I/we reviewed the above-described manuals to my/our satisfaction

on _____, 20____.

EXHIBIT E

**To The Bar Method
Franchise Disclosure Document**

ACKNOWLEDGMENT AT CLOSING

ACKNOWLEDGMENT AT CLOSING

In this document "Franchisee" means _____

and "Franchisor" means THE BAR METHOD FRANCHISING, INC..

The execution of documents for the awarding of a *Bar Method* franchise to Franchisee finalizes a process in which Franchisee reviews a great deal of information provided by the Franchisor and others. Much of this information has a significant impact upon the transaction. The information considered by Franchisee serves as the basis upon which Franchisee makes a decision whether to purchase a *Bar Method* franchise.

Franchisee wishes to enter into a Franchise Agreement with Franchisor for a *Bar Method* studio to be located at _____.

In order to induce Franchisor to enter into the concerned agreement, Franchisee acknowledges that the following statements with regard to the documents, data and other material described below are true and are an accurate reflection of the transaction with Franchisor. If they are not, Franchisee is instructed to insert the correct information where appropriate and to initial and to have Franchisor initial, the changes.

(1) Franchisee received the Franchise Disclosure Document for prospective franchisees required by the state in which Franchisee resides and/or will have his or her *Bar Method* studio at the first meeting between the parties where the offer of a franchise was discussed. Franchisee has had possession of that Franchise Disclosure Document at least 14 calendar days prior to the execution of any documents or the transfer of any funds.

(2) Franchisee received and reviewed all completed contract documents at least 7 calendar days prior to the execution of those documents.

(3) Franchisee acknowledges that the success or failure of Franchisee's *Bar Method* studio depends primarily upon Franchisee's business ability, the quality and quantity of the effort put forth by Franchisee and upon Franchisee's compliance with the manuals, requirements, instructions and directives of Franchisor.

(4) Franchisee acknowledges that neither Franchisor nor anyone purporting to act for Franchisor has made any promises or representations concerning Franchisee's *Bar Method* studio, the sales volumes that will be produced by Franchisee's studio, the profits to be made in the studio, the likelihood of success of the franchised business or any other matter in connection with the proposed franchise or the franchised business other than those which are set forth in the disclosure document, the Franchise Agreement and any other signed amendments between Franchisee and Franchisor and in any signed exhibits to them. If any such promises have been made, Franchisee is instructed to make sure that they are set

forth in writing in the Franchise Agreement or in an amendment or exhibit thereto. Franchisor in granting this franchise is relying on Franchisee to see that all such matters are reduced to writing, are signed by Franchisee and Franchisor and are attached to the Franchise Agreement. If they are not, Franchisee hereby waives any such representation, warranty and promise and agrees that Franchisee will not be able to rely in any way on them and that Franchisor will not be bound by them.

Nothing in this Acknowledgment at Closing will alter the law of the state whose law governs this transaction.

IN WITNESS WHEREOF Franchisee has executed this Acknowledgment on

FRANCHISEE

Franchisor acknowledges Franchisee's representations and commitments stated above and based on those assurances, among other things, Franchisor agrees to award Franchisee a *Bar Method* franchise.

FRANCHISOR

THE BAR METHOD FRANCHISING, INC.

By _____

Its _____

RECEIPT

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

If The Bar Method Franchising, Inc. offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

In New York, we must provide you with this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the Franchise Agreement or other agreement or the payment of any consideration that relates to the franchise relationship.

If The Bar Method Franchising, Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and your state agency.

The franchise seller or sellers with whom you have dealt in connection with this franchise offer is/are:

(name, principal business address and telephone number).

The issuance date of this disclosure document is March 15, 2013. The effective dates of this document in certain states are listed on the State-Specific Addendum to this disclosure document as are the franchisor's registered agents for service of process in those states.

I received a disclosure document dated March 15, 2013 that included the following exhibits:

- A. Financial Statements
- B. State Franchise Law Administrators
- C. Franchise Agreement
- D. Nondisclosure and Confidentiality Agreement
- E. Acknowledgment at Closing

Dated: _____

By: _____
(Signature)

(Print your name)

You may return the signed receipt by signing, dating and mailing it to The Bar Method Franchising, Inc. at 3717 Buchanan Street, Suite 200, San Francisco, California 94123 or by faxing a copy of the signed and dated receipt to The Bar Method Franchising, Inc. at 415-796-3599.

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