FRANCHISE DISCLOSURE DOCUMENT

Flip Flop Shops, LLC
a California limited liability company
7524 Old Auburn Road,
Citrus Heights, California 95610
916-726-4413
flipflopshops.com
facebook.com/flipflopshops
instagram.com/flipflopshops
linkedin.com/company/flip-flop-shops

Flip Flop Shops franchises operate retail shops specializing in the sale of flip flops, sandals, casual footwear, and related footwear and beach lifestyle accessories.

The total investment necessary to begin operation of a Flip Flop Shops Shop ranges from $150,000 to $374,500. This includes $30,000 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 Devin Knott at 7524 Old Auburn Road, Citrus Heights, California 95610, and 916-726-4413.

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 to an advisor, like a lawyer or an accountant.

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

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

Date of Issuance: April 22, 2024

How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibits C and D.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit A includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Flip Flop Shop business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be Flip Flop Shop franchisee?	Item 20 or Exhibits C and D lists current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Attachment A - List of State Administrators.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

Special Risks to Consider About *This* Franchise

Certain states require that the following risk(s) be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in the State of California. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in California than in your own state.

2. **Spousal Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the franchise agreement even though your spouse has no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.

Certain states may require other risks to be highlighted. Check the "State Specific Addenda" (if any) to see whether your state requires other risks to be highlighted.

ADDENDUM TO FLIP FLOP SHOPS, LLC FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF MICHIGAN

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

(A) a prohibition on the right of a franchisee to join an association of franchisees.

(b) a requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives 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) the failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.

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

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

(iv) the failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the 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.

If the franchisee has any questions regarding this notice, those questions should be directed to the Michigan Department of Attorney General, Consumer Protection Division, Attn.: Franchise, 670 Law Building, Lansing, Michigan 48913, telephone: (517) 373-7117.

FLIP FLOP SHOPS, LLC FRANCHISE DISCLOSURE DOCUMENT

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ITEM 1

THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

The Franchisor, Its Parent, Predecessors, and Affiliates

The Franchisor is Flip Flop Shops, LLC, referred to in this disclosure document as "we," "us" or "our." We refer to the person interested in buying a franchise as "you" or "your." If you are a corporation, partnership, limited liability company or other entity, certain provisions of the Franchise Agreement will apply to your owners. These will be addressed in this disclosure document where appropriate.

We were organized as a California Limited Liability Company as of May 22, 2018. Our principal business address is 7524 Old Auburn Road, Citrus Heights, California 95610.

Our parent is Bearpaw Holdings, LLC, ("Bearpaw"). Bearpaw is a California limited liability company that was formed on July 25, 2016, and it shares our principal business address.

We do business under our corporate name and under the name the "Flip Flop Shops."

We sell franchises for retail Shops that specialize in the sale of flip flops and sandals and related footwear and accessories (the "Flip Flop Shops Shops" or "Shops"). Flip Flop Shops Shops do business under the name "Flip Flop Shops" and other trademarks identified in Item 13 (the "Marks"). Neither we nor our affiliates operate any Flip Flop Shops Shops.

Our predecessor, Flip Flop Shops Franchise Company, whose principal place of business was 5990 Sepulveda Blvd, Suite 600, Sherman Oaks, CA 91411, began to offer franchises on October 9, 2007. Franchisor acquired certain assets of Flip Flop Shops Franchise Company in a transaction which closed on June 4, 2018, and thereby succeeded to certain existing master franchise arrangements with qualified applicants for the development of Flip Flop Shops Shops in various jurisdictions outside the continental United States, including South Africa, Canada, various Caribbean jurisdictions (including Puerto Rico and the U.S. Virgin Islands) Spain and India. Other than the above, we are not engaged in any other businesses and have never offered franchises in any other lines of business. Bearpaw Holdings, LLC and its affiliates sell apparel products, including footwear, through various distribution channels, but neither Bearpaw nor its affiliates have offered franchises in any line of business.

Except as described above, we have no predecessors or affiliates that have offered franchises for this business or any other lines of business.

Agent for Service of Process

Our agents for service of process in the states which require franchise registration are listed in Attachment B. Unless otherwise listed in Attachment B, our agent for service of process is John Richey, Esq. of Richey Law Group PC, whose principal place of business is 915 Highland Pointe Dr., Suite 250, Roseville CA, 95678.

The Franchise

We offer qualified applicant's franchises for Flip Flop Shops Shops that operate under the Flip Flop Shops System (the "System"). The System includes distinctive exterior and interior design, decor, and color scheme; furnishings; uniform standards, specifications, policies and procedures for operations; quality and uniformity of the products and services offered; procedures for inventory, management and financial

control; training and assistance; record keeping and reporting; and advertising and promotional programs, all of which may be changed, improved, and further developed by us periodically. You must operate your Flip Flop Shops Shop under the Marks and use other trade names, service marks, trademarks, logos, and other symbols we designate (or may later designate) in writing for use in the System.

The Franchise Agreement (Exhibit B to this disclosure document) gives you the right to establish and operate 1 Shop at a specified location. The location of the Shop will be in the non-exclusive Designated Area described in the Franchise Agreement. The size of the Designated Area will vary depending on local market conditions and other factors. The Designated Area will be determined before you sign the Franchise Agreement.

We may require your current and future Principals (as defined in the Franchise Agreement) to sign a Guaranty and Assumption Agreement ("Guaranty"), guaranteeing your performance and binding themselves individually to certain provisions of the Franchise Agreement, including the covenants against competition and disclosure of confidential information, restrictions on transfer and dispute resolution procedures. Those of your Principals who are not required to sign the Guaranty will each sign a Confidentiality Agreement and Ancillary Covenants Not to Compete, with Principal's undertakings, in the form attached to the Franchise Agreement.

Competition

The market for footwear, including flip flops and sandals and related accessories, is well-established and highly competitive. There is active price competition among general and specialty shops that sell flip flops and sandals and similar footwear, as well as competition for management personnel and for premier commercial real estate sites suitable for retail shops. You must expect to compete with other shops offering flip flops, sandals, footwear, and related accessories, including department shops and footwear shops (including shops that sell surfing equipment). Competitors may be locally-owned or large regional or national chains. The retail footwear business is also affected by changes in the seasons, consumer taste, demographics, traffic patterns and economic conditions.

Industry Specific Regulation

The sale of retail merchandise to consumers is subject to legal requirements, and you should obtain assistance in evaluating and complying with applicable federal, state and local laws, rules and regulations. However, some jurisdictions may have other laws, rules and regulations that have particular applicability to retail footwear shops. You should consider these laws and regulations when evaluating your purchase of a franchise.

ITEM 2

BUSINESS EXPERIENCE

Thomas A. Romeo: Managing Member & CEO

Mr. Romeo has served as CEO and Managing Member of Flip Flop Shops, LLC since May 22, 2018 to Present. Prior to the acquisition of certain assets of Flip Flop Shops Franchise Company effective June 4, 2018 to Present, Mr. Romeo served as, and continues to serve as, the President and Chief Executive Officer of Romeo & Juliette Inc. a Citrus Heights, California, footwear manufacturer.

Colby Rodriguez: President

Mr. Rodriguez has been the President of Romeo & Juliette, Inc and Flip Flop Shops, LLC since October 2023. From January 2022 to October 2023 he served as the Vice President of Marketing for Romeo & Juliette, Inc and Flip Flop Shops, LLC. Mr. Rodriguez first joined Romeo & Juliette, Inc in January 2021 as the Director of Marketing. Mr. Rodriguez worked at Hey Dude Shoes as the Director of Marketing and Ecommerce Operations from January 2020 to December 2020, after starting as Director of Marketing in January 2019.

David Kimbrough: Director of Franchising

Mr. Kimbrough has served as the Director of Franchising at Flip Flop Shops, LLC from February 2024. Prior to joining Flip Flop Shops, LLC, Mr. Kimbrough worked for Global Franchise Group & FAT Brands, Inc. as Franchising for Pretzelmaker from August 2019 until August 2023. He worked at Hot Dog on A Stick as the Director of Franchise Support from November 2017 to August 2019.

Steve Schultz: Director of Operations

Mr. Schultz began with Flip Flop Shops, LLC effective as of October 1, 2018 to Present. Prior to joining Flip Flop Shops, Steve Schultz was employed as District Manager for Famous Footwear in Sacramento, California from October 1998 to October 2018.

ITEM 3

LITIGATION

Government Actions

In the Matter of The Commissioner of the Department of Financial Protection and Innovation of the State of California v. Flip Flop Shops, LLC (Sacramento, California) July 2023.

This matter involves allegations made by the Department of Financial Protection and Innovation (DFPI) that Flip Flop Shops, LLC failed to properly disclose in its 2018 to 2022 Franchise Disclosure Documents the existence of the Vupico matter (referenced infra) involving its predecessor in interest, Flip Flop Shops Franchise Company LLC, and the existence of the Flopz, LLC and All Team Sports & Apparel, LLC matters (referenced infra) in its 2022 application for registration with the DFPI. The DFPI, therefore, concluded that Flip Flop Shops, LLC sold ten franchise locations in California while not properly registered

from 2018 to 2022. Flip Flop Shops, LLC entered into a consent order with the DFPI to settle the matter wherein Flip Flop Shops, LLC agreed to pay a penalty of $52,5000 to the State of California, agreed to desist and refrain from violating California franchise investment laws, including to refrain from omitting material facts or statements in disclosures and applications made to the DFPI, to undertake 8 hours of remedial franchise investment law training, and to send affected franchisees notices of violation. Flip Flop Shops, LLC has paid the penalty in full, has completed the 8 hours of remedial training, has filed a Notice of Violation with the DFPI related to this matter, and is complying with the consent order in all other regards. This matter is closed.

Litigation Against Predecessors

Vupico USA INC v. Flip Flop Shops Franchise Company, LLC, No. 37-2016-00020530-CU-NP-CTL (Superior Court of California, County of San Diego, CA) filed June 17, 2016.

Flip Flop Shops predecessor in interest, Flip Flop Shops Franchise Company, LLC required franchisees to hire real estate brokers and legal service providers approved by the Flip Flop Shops Franchise. Vupico USA INC hired the approved real estate brokers and legal service providers to negotiate a lease in San Diego, CA. The real estate brokers and legal services providers were not licensed to practice in California. Vupico, in reliance on advice given by the real estate brokers and legal services providers entered into a lease for a Flip Flop Shops retail location. Vupico thereafter decided to terminate its franchise agreement and sued Flip Flop Shops Franchise companies for fraudulent inducement, unfair business practices, fraud, breach of fiduciary duty, negligence, among other things. A judgement was entered against Flip Flop Shops Company, LLC and other defendants on August 26, 2020, in the amount of $429,581.12.

Thomas A. Romeo Litigation

Deckers Outdoor Corporation v. Romeo and Juliette, Inc. et al, No. 2:15-cv-02812-TJH-PLA (United States District Court, Central District of California) filed April 16, 2015.

On April 16, 2015, Deckers Outdoor Corporation, a Delaware corporation (Deckers) filed a suit against Romeo & Juliette, Inc and Thomas A. Romeo, an individual listed in Item 2, for patent infringement, breach of contract, and unfair competition related to two styles of footwear produced by Romeo & Juliette, Inc. The case went to trial, and a jury returned a verdict on April 16, 2018, in favor of Deckers. The jury found that Romeo & Juliette, Inc. and Thomas A. Romeo were jointly and severally liable to Deckers in an amount of $5,250,838. The court issued a permanent injunction enjoining Romeo & Juliette, Inc. and Thomas A. Romeo from engaging in any actions amounting to an infringement of Deckers' two patents at issue in the case and that they refrain from engaging in unfair practices. Romeo & Juliette, Inc. and Thomas A. Romeo appealed on September 18, 2018 (*United States Court of Appeals for The Federal Circuit, No. 18-2386*). After Romeo & Juliette, Inc. and Thomas A. Romeo filed their appeal, Deckers and Romeo and Juliette, Inc. settled the case out of court. The appeal was dismissed on January 1, 2019.

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

ITEM 4

BANKRUPTCY

No bankruptcy is required to be disclosed in this Item.

ITEM 5

INITIAL FEES

Initial Franchise Fee

When you sign the Franchise Agreement, you must pay us an initial franchise fee of $25,000 ($25,000 if the Franchise Agreement is the second or subsequent Flip Flop Shops Franchise Agreement to be signed at the same time as at least 1 other Flip Flop Shops Franchise Agreement). The initial franchise fee is not refundable and is imposed uniformly on all franchisees.

New Shop Opening Training Fee

Under the Franchise Agreement, if you are opening your first Flip Flop Shops Shop or we otherwise determine that new Shop opening training assistance is necessary, you agree to pay us a "New Shop Opening Training Fee" of $5,000. You will pay the New Shop Opening Training Fee when you sign the Franchise Agreement or at another time we direct before Shop opening. We will use the New Shop Opening Training Fee to offset the costs and expenses related to providing on site opening assistance at your Shop. The New Shop Opening Training Fee is not refundable for any reason.

ITEM 6

OTHER FEES

Type of Fee[(1)]	Amount	Due Date	Remarks
Royalty Fee	5% of Gross Sales.	Thursday of each week for the preceding week.	See Note 2 for the definition of Gross Sales. We require you to pay the royalty fee by electronic funds transfer. If you are in default of our operational standards, we may, as an alternative remedy to termination, increase the royalty fee to 10% of Gross Sales and charge you an additional $250 per week until you rectify the deficiencies.
Brand Building Fund contribution	1% of Gross Sales	Same as royalty fee.	See Note 2 for the definition of Gross Sales. Currently, 1% of your Gross Sales must be contributed to the Brand Building Fund. We require you to pay contributions to the Brand Building Fund by electronic funds transfer. We recommend that you spend at least 2% of Gross Sales on local marketing, but we do not require you to do so.

Merchandise for Resale	Reasonable cost.	On demand.	We may provide to you at a reasonable cost certain collateral merchandise for resale that identifies the system (for example, caps and t-shirts). If we make such merchandise available, we may require you to purchase quantities sufficient to meet customer demand. (See Item 8)
Interest	18% per year or the maximum lawful rate.	On demand.	We may charge interest on all overdue amounts.
Late Fee	$100 for each late payment.	On demand.	We may charge you a late fee for each late payment in addition to any interest that accrues.
Additional On-Site Evaluations	Reasonable fee, plus costs and expenses associated with the additional on-site evaluations.	When billed.	If we (or our representative) provide more than 2 on-site evaluations of any Shop site or this is not your first Shop, we may require you to pay us a reasonable fee and reimburse us for our reasonable costs and expenses for conducting those on-site evaluations.

Type of Fee[(1)]	Amount	Due Date	Remarks
Conferences	Reasonable fee, plus your costs and expenses to attend.	When billed.	We may require you to attend our annual franchisee conference and pay a reasonable fee. You must also pay for the costs and expenses (including travel and lodging costs) for your representatives to attend our franchisee conferences.
Additional Training	At our option, a per diem rate currently ranging from $250 to $500, based on our costs of providing the training.	Before additional training.	You must also pay the expenses of your personnel attending training. Training will also be required for a replacement or successor Operating Principal or Lead Manager.
On-site Remedial Training	The then-current per diem fee for remedial training, plus costs. Our current per diem rate is $250.	When billed.	If you ask or if we believe it is appropriate, we will (subject to availability) provide trained representatives to conduct on-site remedial training at your Shop.
Transfer Fee	An amount equal to one-half of the then-current initial franchise fee.	With transfer application.	There is no fee if an individual or partnership transfers rights to a corporation controlled by the same interest holders, however you must reimburse us for all costs (including attorneys' fees) associated reviewing and processing the transfer documents.
Renewal Fee	An amount equal to one-half of the then-current initial franchise fee.	Signing of renewal franchise agreement.	You must give us at least 6 months' and not more than 9 months' notice to renew and meet other renewal conditions.
Inspection and Testing	Cost of inspection, if applicable, and cost of test.	When billed.	Before approving a supplier, we may require you to pay the cost of testing the supplier's products and inspecting its facilities.

Type of Fee[(1)]	Amount	Due Date	Remarks
Indemnification	Varies according to loss.	On demand.	You must indemnify us when certain of your actions result in loss to us.
Insurance Fee	Will vary depending on your location and insurer	On demand.	If you fail to maintain the required insurance, we may (but need not) obtain it for you. If we do, we will charge you a fee, plus our expenses.
Audit Fee	Cost of audit.	When billed.	Payable if an audit shows you have understated any amount owed to us by 3% or more.
Enforcement Costs	Will vary.	As incurred.	You must pay our costs of enforcement (including attorney's fees and costs) if you do not comply with the Franchise Agreement.

Notes:

(1) All fees and expenses described above are non-refundable and, unless otherwise indicated, are imposed uniformly by, and are payable to, us. Unless we have noted differently, we may increase these amounts based on changes in market conditions, our cost of providing services and future policy changes, but we have no present plans to increase any fees.

(2) Gross Sales is the total selling price of all services and products and all income of every other kind and nature related to your Flip Flop Shops Shop, including, the amount of all sales transactions, delivery receipts, service income and any other receipts that we designate periodically, whether for cash or credit and regardless of collection in the case of credit, and whether received from in-Shop sales or sales outside of the Shop premises. Gross Sales excludes (i) promotional allowances or rebates paid to you in connection with your purchase of products or supplies and (ii) sales, use, merchants' or other taxes measured on the basis of the Gross Sales of your Shop imposed by governmental authorities directly on sales or use and collected from customers, provided that the taxes are added to the selling price of your goods and services and are in fact paid by you to the appropriate governmental authorities. Cash refunded and credits given to customers shall be deducted in computing Gross Sales if the amounts of such cash, credit or receivables represent sums previously included in Gross Sales on which royalties or Brand Building Fund contributions were paid. We may periodically authorize certain other items to be excluded from Gross Sales, but we may revoke this authorization at any time. Proceeds from the sale of coupons, gift cards, gift certificates or vouchers will not be included in Gross Sales when the coupons, gift cards, gift certificates or vouchers are sold. Instead, the retail price of products purchased with coupons, gift cards, gift certificates or vouchers will be included in Gross Sales during the week in which the coupon, gift card, gift certificate or voucher is redeemed.

ITEM 7

ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Standard Flip Flop Shops Shop

Type of Expenditure	Amount Low - High	Method of Payment	When Due	To Whom Payment is to be Made
Initial Fee (1)	$25,000	Lump Sum	On signing of Franchise Agreement	Us
New Shop Opening Training Fee	$5,000	Lump Sum	On signing of Franchise Agreement	Us
Rent for First 3 Months (2)	$10,000 to $45,000	As incurred	As incurred	Landlord
Security Deposit (2)	$3,500 to $15,000	As incurred	As incurred	Landlord
Leasehold Improvements (2)	$20,000 to $50,000	As incurred	As incurred	Landlord or Contractor
Signage (3)	$3,000 to $15,000	As incurred	As incurred	Landlord or Contractor
Furniture, Fixtures, and Equipment (3)	$3,000 to $15,000	As incurred	As incurred	Suppliers
Initial Training Expenses (4)	$1,500 to $3,000, plus employee wages (if any).	As incurred	As incurred	Employees and Suppliers
Point of Sale and Computer Hardware and Software (5)	$3,000 to $4,000	As incurred	As incurred	Suppliers
Initial Inventory/Supplies (6)	$70,000 to $130,000	As incurred	As incurred	Vendors
Professional Services (7)	$2,500 to $5,000	As incurred	As incurred	Accountants, Lawyers, Real Estate Brokers etc.
Promotional Expenses (8)	$2,500 to $5,000	As incurred	As incurred	Suppliers
Insurance (9)	$1,000 to $2,500	As incurred	As incurred	Insurance Broker
Additional Funds – 3 Months (10)	$0 to $55,000	As incurred	As incurred	Other suppliers and your employees
TOTAL	**$150,000 to $374,500**			

Notes:

(1) If you are signing more than 1 Franchise Agreement at the same time, the initial franchise fee for the second and subsequent Franchise Agreements signed at the same time will be $25,000.

(2) Flip Flop Shops Shops are typically located in commercially zoned retail centers. Due to the cost of land acquisition and new construction, the premises for Flip Flop Shops Shops are normally leased. These amounts assume that you will lease the premises for the Shop and do not include costs of land acquisition and construction of a building. The leasehold improvements estimate is based on the cost of adapting our prototypical architectural and design plans (including professional fees for the design professional that we designate (see Item 8)) to a facility containing approximately 800 to 1,200 square feet. The leasehold improvement ranges will be affected by various factors like the location of the Shop and local market conditions. The estimates assume that the landlord will provide connections to adequate electrical, gas, water and sewage service. Your actual costs may or may not include site preparation and finish-out costs, depending on the arrangements you negotiate with your landlord. If your landlord contributes to the cost of finish-out, total leasehold improvement costs could be reduced. These costs are our best estimate based on commercial leasing and remodeling/finish-out rates our franchisees have experienced with their Flip Flop Shops Shops. These estimates may vary substantially based on your ability to negotiate with your landlord and your financial strength, as well as on local commercial leasing and labor rates and other local conditions.

(3) These amounts include the cost of the furniture, fixtures, equipment, décor items, and exterior signage required for your Flip Flop Shops Shop, including the interior 4ft and 8ft slat wall brand buildout sections you must purchase and have installed in your Flip Flop Shops Shop. (See Item 8)

(4) We provide initial training to your initial Operating Principal and Lead Manager (if applicable) at no additional charge. You must pay all expenses you or your employees incur in the initial training program, like travel, lodging, meals and wages. Your costs will vary depending upon the number of employees trained and your selection of salary levels, lodging and dining facilities, and the mode and distance of transportation. Your cost for wages will vary substantially depending on whether your Operating Principal receives wages and whether your Operating Principal serves as a Lead Manager or you hire separate individuals to fill those positions. (See Item 11)

(5) This amount includes the cost of point of sale and computer hardware and software that you must use in the operation of your Flip Flop Shops Shop. (See Item 11)

(6) We estimate that this range will cover the cost of your initial inventory of flip flops and sandals and other inventory. Your costs will vary depending on various factors, including the size of your Shop, the time of the year in which your Shop opens, your initial sales projections, and the population density in the area of your Shop.

(7) This estimate is for the cost to establish an entity to hold the franchise and review the franchise documentation and for professional services related to acquiring and reviewing a lease for the Shop premises. Some real estate brokers may require you to pay a fee for assistance in locating a site for the Shop in lieu of, or in addition to, the standard commission the real estate brokers receive. The high end of the estimate also includes the estimated fee to engage a real estate broker assist you in locating a site for the Shop. The cost of professional services can vary widely.

(8) You must carry out a grand opening promotion for the Shop in compliance with our written

specifications. We must approve all advertising items, methods and media.

(9) This amount represents an estimate of the down payment on your annual insurance premiums. You must obtain the insurance coverage described in the Franchise Agreement. We must be named as an additional insured on these policies. Your cost of insurance may vary depending on the insurer, the location of your Shop, your claims history, and other factors.

(10) You will need additional funds during the start-up phase of your business to pay employees, purchase supplies and pay other expenses. We estimate the start-up phase to be 3 months from the date you open for business. These amounts do not include any estimates for debt service. You must also pay the royalty and other related fees described in Item 6 of this disclosure document. These figures are estimates. Your actual costs will depend on factors like your management skills, experience and business acumen. You should base your estimated start-up expenses on the anticipated costs in your market and consider whether you will need additional cash reserves. We relied on 5 years' experience of franchise Shops to compile these estimates. You should review these figures carefully with your business advisor.

Unless otherwise stated above, these estimates are subject to increases based on changes in market conditions, our cost of providing services and future policy changes. At the present time, we have no plans to increase payments we control.

We do not offer any financing for your initial franchise fee or any portion of your initial investment. Unless otherwise stated, the amounts described above are not refundable.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Required Purchases

You generally have no obligation to purchase or lease from us, our affiliates, or other designated third-party suppliers any of the products, services, supplies, fixtures, equipment (including computer hardware and software and electronic cash register systems), inventory or real estate used in establishing or operating the Shop. However, there are some exceptions, as follows:

System Merchandise

We have the right to make available to you for resale in the Shop merchandise identifying the System. This may include Flip Flop Shops memorabilia, like caps and T-shirts. If we make this type of merchandise available, we may require you to purchase it from a supplier we designate in amounts necessary to meet your customer demand.

Point of Sale System and Credit Card Processing

You must purchase the RICS point of sale system software and related hardware and services and credit card processing services from a source we designate.

Interior Decor System

You must purchase from our designated supplier an interior branded 4ft by 8ft slat wall system (which includes wall and freestanding displays, checkout counter, artwork and other interior décor

components we require) meeting our requirements that is customized for your Flip Flop Shops Shop, and you must engage our designated supplier to install such interior decor system/modules. Our current designated supplier for select branded and Tilden graphics. Our current designated supplier for slat wall is Wall-Rite Solutions, LLC.

Air Scenting System

You have the option to install an air scenting system that meets our requirements, and you must obtain service for the air scenting system from our designated supplier, which is currently Air Aroma.

Music Licensing

You must install a music licensing service that meets our requirements, and you must obtain a service for the music licensing from our designated supplier, which is currently Cloud Cover.

Shopping Bags

You must purchase FFS branded shopping bags that meet our requirements, and you must purchase the FFS branded shopping bags from our designated supplier,

Inventory

We will provide you with an Approved Inventory List containing the inventory items (including the brand and style of each item) approved by us for sale and which you must stock in your Flip Flop Shops Shop. We will update the Approved Inventory List periodically and provide you with the updated list. We will, in our discretion, determine the brands and styles of flip flops and sandals and related footwear and accessories included on the Approved Inventory List. We may also require you to maintain certain percentages of particular brand(s) and/or style(s) as part of the inventory that is displayed in the Shop. We will provide you with written advice and recommendations with respect to inventory orders, but, subject to the foregoing, you must decide the quantity, colors and sizes of the items ordered for your Shop.

You must order items from the Approved Inventory List from the suppliers we approve on terms agreed upon by the supplier and you. You place the purchase order directly to the supplier in accordance with the Manual or other written directives. You must place "pre-book" orders for the inventory items on the Approved Inventory List on or before the deadlines set by each manufacturer or distributor for pre-book orders. You must promptly pay the manufacturers or supplier's invoices in accordance with their terms. Suppliers may require you to pre-pay for your inventory. We do not guarantee the availability of any of the items on the Approved Inventory List or that your Shop will be able to carry any particular brand of footwear, apparel, or other product.

You may stock additional styles of footwear which are not included on the Approved Inventory List if those additional styles are of one of the brands listed on the then-current Approved Inventory List. If you want to offer other brands or inventory items that are not on the Approved Inventory List, you must submit to us a written request for approval in writing. We will approve or disapprove your request within 20 days from the date we receive your request. We may approve or disapprove your request in our discretion. We do not disclose our criteria for approving requests to our franchisees. Generally speaking, however, we will evaluate a request for approval and make our decision based on whether the proposed item meets our standards and specifications and other criteria including quality, style, image and price. We do not charge you a fee for making our decision.

Insurance

You must obtain and maintain insurance policies protecting you and us and various related parties against any demand or claim with respect to personal injury, death or property damage, or any loss, liability or expense related to or connected with the operation of the Flip Flop Shops Shop. These policies must be written by a responsible insurance carrier or carriers rated "A" or better by the A.M. Best Company, Inc. and that are acceptable to us. At a minimum, you must carry (i) comprehensive general liability insurance, including broad form contractual liability, broad form property damage, personal injury, advertising injury, completed operations, products liability and fire damage coverage in the amount of $1,000,000, combined single limit per occurrence, $2,000,000 general aggregate, or any greater amounts as your lessor may require; (ii) "All Risks" coverage for the full cost of replacement of the Shop premises and all other property in which we may have an interest with agreed amount endorsement for the premises naming us as loss payee; (iii) automobile liability coverage, including coverage of owned, non-owned and hired vehicles, with coverage in amounts not less than $1,000,000 combined single limit; (iv) an "umbrella" policy providing excess coverage with limits of not less than $1,000,000 which must be excess of the general liability and automobile coverages; (v) business interruption insurance covering at least 12 months' loss of profits and necessary continuing expenses for interruptions caused by any occurrence; (vi) worker's compensation insurance in amounts provided by applicable law or, if permissible under applicable law, any legally appropriate alternative providing substantially similar compensation for injured workers satisfactory to us, provided that you (a) maintain an excess indemnity or "umbrella" policy covering employer's liability and/or a medical/disability policy covering medical expenses for on-the-job accidents, which policy or policies shall be written by a responsible carrier meeting the requirements set forth above and which shall contain such coverage amounts as you and we shall mutually agree upon and (b) conduct and maintain a risk management and safety program for your employees as you and we mutually agree is appropriate; (vii) employment practices liability insurance in a minimum amount of $1,000,000 per occurrence and in the aggregate; and (viii) any other insurance required by your landlord or the state or locality in which your Shop is situated.

Approved Suppliers

In addition to the above, we may designate in the Manual or otherwise in writing certain products or services which must be purchased exclusively from suppliers (including manufacturers, distributors and other sources) which we have approved, in which case you must obtain these items from those suppliers. Approved suppliers are those who demonstrate the ability to meet our then-current standards and specifications for inventory, fixtures, furnishings, equipment and other products or services used or offered for sale at the Shops and who possess adequate quality controls and the capacity to supply your needs promptly and reliably, whom we have approved in writing and whom we have not later disapproved. Our approval of a supplier indicates that such supplier meets our then-current minimum standards, but our approval of any supplier does not constitute a representation, promise, warranty or guarantee, express or implied, by us that the supplier has met all, or any particular, legal or other requirement that may be applicable to such supplier. We may change the number of approved suppliers at any time and may designate ourselves, an affiliate, or a third party as the exclusive source for any particular product or service. We may profit from your purchases from approved suppliers, and we and/or our affiliates may receive payments, fees, commissions or reimbursements from such suppliers in respect of your purchases.

Neither we nor our affiliates are currently approved suppliers of inventory items for our franchisees, but we may, in our sole discretion, require supplies and items to be purchased exclusively from us or our affiliates or from approved suppliers or distributors.

If you wish to purchase, lease or use any products, services, inventory or other items from an unapproved supplier, you or your supplier must submit to us a written request for approval or request that the unapproved supplier itself do so together with such information as we request and information required to be provided by the Manuals (which may include reasonable financial, operational and economic information regarding the unapproved suppliers business, services and products). You must not purchase or lease the item from the supplier until and unless, and only for so long as, we have approved the supplier in writing. We have the right to require you or such supplier to submit information, specifications and samples to us to enable us to determine whether the item complies with our standards and specifications and that the supplier meets our criteria. We also have the right to inspect the supplier's facilities, and to have samples from the supplier delivered to us or to an independent laboratory we designate for testing. We may condition our approval of a supplier on requirements relating to product quality, prices, consistency, reliability, financial compatibility, labor relations, client relations, frequency of delivery, concentration of purchases, standards of service (including prompt attention to complaints) or other criteria. We may re-inspect the facilities and products of any approved supplier and may revoke our approval upon the supplier's failure to continue to meet any of our then-current criteria. If we revoke our approval of any supplier, you must promptly discontinue use of that supplier. You must reimburse us for the costs that we incur in the supplier approval process. We are not required to approve any particular supplier, and we are not required to notify you of our approval or disapproval within any specified period of time. You may purchase products and services for which we have not identified approved suppliers from any supplier if such products and services meet our specifications. However, if brand requirements have been identified, you must purchase and use only approved brands, which may change from time to time. Our specifications for products and criteria for supplier approval are generally issued through written communications and are available to franchisees and approved suppliers.

Except for Thomas A. Romeo, who concurrently owns Romeo & Juliette, Inc. and Bearpaw Holdings, LLC, none of our officers owns an interest in any privately-held suppliers, or a material interest in any publicly-held suppliers, of the Flip Flop Shops franchise system. From time to time, our officers may own non-material interests in publicly-held companies that may be suppliers to our franchise system.

Purchases According to Specifications

You must comply with all of our standards and specifications relating to the purchase of all inventory, fixtures, furnishings, equipment (including computer hardware and software) and other products and services used or offered for sale at each Shop. We formulate our standards and specifications based on a variety of factors, including our former affiliates' experience in operating company-owned Shops. In addition, the following must comply with our specifications:

Site Selection and Construction

You must locate a site for the Shop that satisfies our site selection requirements. You must hire, at your expense, an architect or engineer to adapt our prototypical architectural and design plans as needed for the construction or remodeling of your Shop and provide them to us before you provide them to the landlord and any applicable government authorities. You must obtain our consent to your initial plans and any deviation from the approved plans will require our further consent.

Vehicles

Any vehicle you use in the operation of the Shop must meet our image and standards. You must place the signs and other decor items we require on the vehicle and keep it clean and in good working order

at all times. You cannot permit anyone to operate the vehicle who is under 18 years old or who does not have a valid driver's license in the state in which the Shop is located. You must require each vehicle operator to comply with all laws, regulations and rules of the road and use due care and caution in operating and maintaining the vehicle.

Purchasing Arrangements

We had no revenue from the sale of products or services to franchisees prior to the acquisition of certain assets of Flip Flop Shops Franchising Company effective June 4, 2018. Neither we nor our affiliates receive payments from any designated sources because of transactions with franchisees.

We intend to negotiate certain purchase arrangements (including price terms) for the purchase of certain items with suppliers for the benefit of franchisees. In doing so, we will seek to promote the overall interests of our franchise system and our interests as the franchisor. We or our affiliates may receive rebates from approved or designated sources. If we receive rebates based on franchisee purchases, we intend to always contribute those rebates to the Brand Building Fund or otherwise use those rebates for the benefit of franchisees or the Flip Flop Shops franchise system as a whole. We do not provide material benefits to franchisees based upon their use of designated or approved suppliers. There are currently no purchasing or distribution cooperatives for the System.

Your obligations to purchase or lease goods, services, supplies, fixtures, equipment, inventory, and computer hardware and software from us or our designee, from suppliers we approve, or under our specifications are all considered "required purchases." We describe these obligations in detail in the preceding sections of this Item 8. The magnitude of required purchases in relation to all purchases you make to establish and operate the Shop is difficult to determine due to the highly variable nature of expenditures necessary to establish and operate the Shop as described in Item 7. We estimate that your total initial required purchases will be about 95% of the cost of your initial purchases or leases. We estimate your required purchases for the operation of the Shop will be 95% or more of your annual purchases or leases. The majority of these required purchases will be from third parties under our specifications.

ITEM 9

FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Agreement	Disclosure Document Item
a. Site selection and acquisition/lease	Section 2 of the Franchise Agreement	Items 8 and 11
b. Pre-opening purchases/leases	Sections 2, 7, 8 and 12 of Franchise Agreement	Items 5, 6, 7, 8 and 11
c. Site development and other pre-opening requirements	Section 2 of Franchise Agreement	Items 1, 7, 8 and 11

d. Initial and ongoing training	Section 7.M. of Franchise Agreement	Items 6, 7 and 11
e. Opening	Sections 2, 8.D. and Attachment C of Franchise Agreement	Items 7 and 11
f. Fees	Sections 4 and 8 of Franchise Agreement	Items 5 and 6
g. Compliance with standards and policies/Manuals	Sections 2, 3, 6, 7, 8, 9, 10, 11 and 12 of Franchise Agreement	Items 8, 11, 14 and 16
h. Trademarks and proprietary information	Sections 9 and 10 and Attachment B of Franchise Agreement	Items 11, 13 and 14
i. Restrictions on products/services offered	Section 6 of Franchise Agreement	Items 8 and 16
j. Warranty and customer service requirements	Section 7 of Franchise Agreement	Item 16
k. Territorial development and sales quotas	Not Applicable	Not Applicable
l. Ongoing product/service purchases	Sections 7 and 8 of Franchise Agreement	Items 8, 11 and 16
m. Maintenance, appearance and remodeling requirements	Sections 3 and 7 of Franchise Agreement	Item 8
n. Insurance	Section 12 of Franchise Agreement	Items 6, 7, 8 and 11
o. Advertising	Section 8 of Franchise Agreement	Items 6, 8 and 11
p. Indemnification	Section 15 of Franchise Agreement	Item 6
q. Owner's participation/ management/staffing	Sections 6 and 7 of Franchise Agreement	Items 1, 11 and 15
r. Records and reports	Sections 4, 8 and 11 of Franchise Agreement	Item 11
s. Inspections and audits	Sections 2, 9 and 11 of Franchise Agreement	Items 6 and 11
t. Transfer	Section 14 of Franchise Agreement	Items 6, 12 and 17
u. Renewal or extension of rights	Section 3 of Franchise Agreement	Items 6, 12 and 17
v. Post-termination obligations	Section 28 of Franchise Agreement	Item 17

w. Noncompetition covenants	Section 10 and Attachment B of Franchise Agreement	Item 17
x. Dispute resolution	Section 19.G. of Franchise Agreement	Item 17

ITEM 10

FINANCING

We do not offer direct or indirect financing. We do not guarantee your note, lease, or obligation.

ITEM 11

FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING.

Except as listed below, Flip Flop Shops LLC is not required to provide you with any assistance.

Pre-Opening Obligations. Before you open your Shop, we will:

1. Provide you a copy of our written site selection guidelines and give you the site selection assistance we believe to be necessary (Franchise Agreement, Section 5.A.).

2. Review your proposed site for compliance with our site selection guidelines and accept or not accept the site and your proposed lease or contract of sale within 30 days after receiving your site information (Franchise Agreement, Section 5.B.).

You must submit site information to us before acquiring the site (Franchise Agreement, Section 2.B.).

With the assistance of a licensed real estate broker, you must identify and secure a site for your Flip Flop Shops Shop in the Designated Area. We recommend that you engage a licensed real estate lawyer to review your lease agreement and otherwise advise you on real estate matters. You must obtain our approval of the site as meeting our standards. You cannot place a Flip Flop Shops Shop at a site we have not first accepted in writing. Your failure to obtain a site that we approve within the time periods required by the Franchise Agreement is a default under the Franchise Agreement for which we may terminate (Franchise Agreement, Section 17.C.).

When you identify a proposed site, you must submit to us in writing a description of the site, evidence that the site satisfies our site selection guidelines, a copy of the proposed lease (which incorporates a rider in substantially the form of Attachment G to the Franchise Agreement) or contract of sale for the site, and any other information we may require. We have 30 days after we receive this information to review and accept or not accept the proposed site and lease or contract of sale. In reviewing your proposed site, we consider various factors, including the condition of the site, the location of the site, population, and other demographic factors. If we accept multiple sites, you must provide us with written notice of the specific site that you intend to acquire for the Shop within 10 days of our acceptance of the sites. The site selection factors considered by us in deciding whether or not to object to the proposed site may include the following: (a) demographics; (b) traffic patterns; (c) visibility; (d) business mix; (e) ability to reflect image to be portrayed by Flip Flop Shops Shops; and (f) adequacy of signs and image.

Promptly following our acceptance of the site for the Shop, but in no event more than 270 days, after the Franchise Agreement is signed, you must acquire the site by purchase or lease, at your expense. You must provide us with a copy of the signed lease or contract of sale within 10 days of its signing (Franchise Agreement, Section 2.C.).

3. Provide you with access to our prototypical design plans and specifications for a Flip Flop Shops Shop (Franchise Agreement, Section 5.C.).

4. Provide you with access to 1 set of our Manuals, either in paper or electronic form (Franchise Agreement, Section 5.D.).

5. Provide you with an Approved Inventory List and a list of approved suppliers (Franchise Agreement, Sections 5.I. and 5.J.).

6. Conduct an initial training program (Franchise Agreement, Sections 5.L. and 7.L.).

7. Give you a least 2 days of on-site opening assistance, subject (as to scheduling) to the availability of our personnel (Franchise Agreement, Section 5.M.).

Typical Length of Time Before You Open Your Shop.

The typical length of time between the signing of the Franchise Agreement and the opening of your business is approximately 6 to 12 months. Factors that may affect this period may include whether you have a site selected when you sign the Franchise Agreement, your ability to obtain a site, prepare a site survey, arrange leasing and financing, make leasehold improvements, install fixtures, equipment, and signs, decorate the Shop, meet local requirements, obtain inventory, and similar factors.

You must open your Shop and commence business within 365 days after signing the Franchise Agreement (Franchise Agreement, Section 2.C.). If you fail to begin operations within the stated time, we may unilaterally terminate the Franchise Agreement (Franchise Agreement, Section 17.C.(4)), or we may, in our sole discretion, offer to enter into a mutual termination and release agreement ("MTA") with you. If we offer to enter into an MTA with you, we will agree in the MTA that if, within 365 days following the effective date of the MTA, you obtain our approval for a new Shop Location and enter into a new franchise agreement with us for that Location, you will not be required to pay an initial franchise fee under the new franchise agreement. In addition, you must provide us periodic construction reports in the form we designate from the date you begin construction until the date you open the Shop.

Continuing Obligations. During the operation of your Shop, we will:

1. Conduct periodic evaluations of your operations (Franchise Agreement, Section 5.F.).

2. Give you any advice and written materials we may develop on the techniques of managing and operating Flip Flop Shops Shops (Franchise Agreement, Section 5.H.).

3. At our discretion, make available to you at a reasonable cost any merchandise we develop or approve for resale (Franchise Agreement, Section 5.K.).

4. Give you an updated Approved Inventory List and a list of approved suppliers as we deem appropriate (Franchise Agreement, Sections 5.I. and 5.J.).

5. Provide additional training programs and seminars at our option and remedial training upon request if we deem it to be necessary (Franchise Agreement, Sections 5.N. and 7.M.).

6. Provide you with access to our proprietary software programs (if any) as may be developed by us or on our behalf for use in the System. We reserve the right to charge a reasonable license fee (Franchise Agreement, Section 5.E.).

7. Establish and administer a brand building fund and provide any advertising and promotional materials we develop for use by franchisees (Franchise Agreement, Sections 5.G. and Article 8).

Advertising

You must participate in all advertising and sales promotion programs that we may authorize or develop for Flip Flop Shops Shops (Franchise Agreement, Section 8.A.(2)).

You must participate in, and comply with the requirements of, any gift card, gift certificate, customer loyalty or retention programs that we implement for all or part of the Flip Flop Shop franchise system and sign the forms and take the other action we require for you to participate in these programs. (Franchise Agreement, Section 8.A.(1)).

Currently, we recommend that you spend at least 2% of your Gross Sales on local marketing, but we do not require you to do so. We have established a system-wide brand building fund ("Brand Building Fund") to which all franchisees will be required to contribute a percentage of their Gross Sales on a weekly basis. Currently, we require you to contribute 1% of your Gross Sales to the Brand Building Fund. We may, from time to time, increase or decrease the amount you must contribute to the Brand Building Fund (Franchise Agreement, Section 8.C.). However, we will not require you to contribute more than a total of 2% of your Gross Sales to the Brand Building Fund during the term of your Agreement. We will use the Brand Building Fund to develop, prepare, produce and administer advertising for the System on a regional and/or national basis.

All advertising and promotions you place in any medium must be conducted professionally and must conform to our standards and requirements, as described in Item 8 (Franchise Agreement, Section 8.E.). We must approve all advertising and promotional plans and materials before you use them if we have not prepared them or previously approved them during the 12 months preceding the date of their proposed use. You must submit any unapproved plans and materials to us, and we will approve or disapprove them within 20 days after we receive them. You must not use the plans or materials until we have approved them, and you must promptly discontinue using any advertising or promotional plans or materials, whether or not we have previously approved them, if we notify you to do so.

We administer the Brand Building Fund. We will direct all advertising programs, including the creative concepts, materials and media used in the programs. We may use the Brand Building Fund to satisfy the costs of maintaining, administering, directing, preparing and producing advertising. This includes the cost associated with developing, maintaining and updating our website, of preparing and producing television, radio, magazine and newspaper advertising campaigns; direct mail and outdoor billboard advertising; public relations activities; endorsement costs; employing advertising agencies, including external marketing consultants; and costs of our personnel and other departmental costs for advertising that we administer or prepare internally. We are not required to make expenditures for you that are equivalent or proportionate to your Brand Building Fund contribution or to ensure that any particular franchisee benefits directly or pro rata from the placement of advertising, nor are we required to spend any amount on advertising in any particular franchisee's Protected Area. We do not contribute to the Fund any

amounts for company-owned Shops. Currently, no portion of the Brand Building Fund is used for advertising that is principally a solicitation for the sale of franchises. However, a portion of the Brand Building Fund may be spent on the development and maintenance of our website, which may contain information relating to franchise opportunities for Flip Flop Shops Shops.

We anticipate that Brand Building Fund advertising will be conducted primarily through electronic or print media on a regional or national basis. We intend to have the majority of our advertising for the Brand Building Fund prepared by an outside advertising firm. We presently do not have an advertising council.

We will not use your Brand Building Fund contributions to defray any of our operating expenses, except for any reasonable administrative costs and overhead that we may incur in administering or directing the Brand Building Fund. We will prepare an annual statement of the Brand Building Fund's operations and will make it available to you if you request it from us in writing. We are not required to, and presently do not, have the Brand Building Fund statements audited.

The following is a percentage breakdown of the use of the Brand Building Fund for our 2023 fiscal year:

PR Services	40%
Ecommerce	25%
Social Media	20%
POP	15%
	100%

Although the Brand Building Fund is intended to be perpetual, we may terminate it at any time. We will not terminate the Brand Building Fund, however, until all money in the Brand Building Fund has been spent for advertising or promotional purposes or returned to the contributors on the basis of their respective contributions (Franchise Agreement, Section 8.C.). Brand Building Fund contributions that are not spent in the year in which they are collected will be carried over to succeeding years.

You are not required to participate in any local or regional advertising cooperatives.

Computer and Electronic Cash Register Systems

You must use only the point-of-sale cash registers and computer systems and equipment that we prescribe for Flip Flop Shops Shops ("Computer System") and you must promptly adhere to our requirements. Requirements may include hardware components, a dedicated telephone, a high-speed broad band Internet connection at our then-current bit speed and bandwidth specifications, modems, printers, and other computer-related accessories and peripheral equipment. We may require you to add to your Computer System memory, ports, and other accessories or peripheral equipment or additional, new, or substitute software, replace or upgrade your Computer System (software and hardware) and other computers, and enter into maintenance agreements for the Computer System. There is no contractual limitation on the frequency or cost of these obligations. Neither we, our affiliates, nor any third parties are required to provide ongoing maintenance, repairs, upgrades, or updates to your computer system.

Currently, you must install and run the RICS point-of-sale software. You must also install and

maintain one (1) point-of-sale terminal that is capable of running the RICS software. The RICS software is used to compile and manage Shop sales information. You must purchase this software and the related point of sale hardware from a supplier we designate and enter into the end user license agreement and other services agreements such supplier(s) requires. We estimate that the cost of the computer and point-of-sale system will be approximately $2,000 to $3,000 depending on the size of your Shop. The software license fee is currently $199/month plus a $499 start-up fee.

You must install any other hardware or software for the operation of the Shop that we may require in the future, including any enhancements, additions, substitutions, modifications, and upgrades. Specifically, we may require that you install and maintain systems that permit us to independently access and retrieve electronically any information Shops in your computer systems, including information concerning your Shop's Gross Sales, at the times and in the manner that we may specify periodically. There is no contractual limitation on the frequency or cost of these obligations. We may also require you to license from us, or others we designate, any computer software we develop or acquire for use by Flip Flop Shops Shops.

Confidential Operations Manuals

After you sign the Franchise Agreement and when you are being initially trained, we will provide you with access to a copy of our Manuals either in electronic or paper form. A copy of the table of contents of the Manuals is attached as Exhibit E. We consider the contents of the Manuals to be proprietary, and you must treat them as confidential.

Training

Before the opening date of your Shop, your Operating Principal and Lead Manager (if applicable) must have attended and completed to our satisfaction our initial management training program (Franchise Agreement, Section 7.M.).

Currently, the initial training is conducted on-site at your shop's location. We provide instructors and training materials at no charge.

The initial training program is administered and directed by Steve Shultz. Mr. Schultz began with Flip Flop Shops, LLC effective as of the October 1, 2018. Prior to joining Flip Flop Shops, Steve Schultz spent 20 years with Famous Footwear and that 25 years with K-Mart. Mr. Schultz is responsible for all global training aspects and on-going support for the System.

The initial training program is offered as needed during the year depending on the number of new franchisees entering the System, the number of other personnel needing training, and the scheduled opening of new Flip Flop Shops Shops. Initial training generally lasts approximately 7 days. The subjects covered and other information relevant to our initial training program are described below.

TRAINING PROGRAM

Column 1 **Subject**	Column 2 **Hours of Classroom Training**	Column 3 **Hours of On-The-Job Training**	Column 4 **Location**
Customer Service, Sales, Employee Management, and Shop Operations	0	21	On-site (Franchised Location)
Buying, Inventory Management, and Merchandising	0	21	On-site (Franchised Location)
Administration / General Business	0	21	On-site (Franchised Location)
POS	0	21	Remote with RICS and On-site
TOTAL	**0**	**84**	

The materials used in training include the Manuals as well as other presentation materials, including PowerPoint presentations and handouts. Our initial training program is subject to change without notice to reflect updates in the materials, methods and manuals and changes in personnel. The subjects taught and the time periods allocated for each subject may vary based on the experience of the trainees.

We may require your Operating Principal and Lead Manager (if applicable) to attend additional training programs and seminars. We have the right to charge a reasonable fee for these additional training programs and seminars. You must pay all expenses you or your personnel incur in any training program or seminar, including the cost of travel, lodging, meals and wages (Franchise Agreement, Section 7.M.).

Insurance

You must obtain and maintain insurance policies protecting you and us and various related parties against any demand or claim with respect to personal injury, death or property damage, or any loss, liability or expense related to or connected with the operation of the Flip Flop Shops Shop. These policies must be written by a responsible insurance carrier or carriers rated "A" or better by the A.M. Best Company, Inc. and that are acceptable to us. At a minimum, you must carry (i) comprehensive general liability insurance, including broad form contractual liability, broad form property damage, personal injury, advertising injury, completed operations, products liability and fire damage coverage in the amount of $1,000,000, combined single limit per occurrence, $2,000,000 general aggregate, or any greater amounts as your lessor may require; (ii) "All Risks" coverage for the full cost of replacement of the Shop premises and all other property in which we may have an interest with agreed amount endorsement for the premises naming us as loss payee; (iii) automobile liability coverage, including coverage of owned, non-owned and hired vehicles, with coverage in amounts not less than $1,000,000 combined single limit; (iv) an "umbrella" policy providing excess coverage with limits of not less than $1,000,000 which must be excess of the general

liability and automobile coverages; (v) business interruption insurance covering at least 12 months' loss of profits and necessary continuing expenses for interruptions caused by any occurrence; (vi) worker's compensation insurance in amounts provided by applicable law or, if permissible under applicable law, any legally appropriate alternative providing substantially similar compensation for injured workers satisfactory to us, provided that you (a) maintain an excess indemnity or "umbrella" policy covering employer's liability and/or a medical/disability policy covering medical expenses for on-the-job accidents, which policy or policies shall be written by a responsible carrier meeting the requirements set forth above and which shall contain such coverage amounts as you and we shall mutually agree upon and (b) conduct and maintain a risk management and safety program for your employees as you and we mutually agree is appropriate; (vii) employment practices liability insurance in a minimum amount of $1,000,000 per occurrence and in the aggregate; and (viii) any other insurance required by your landlord or the state or locality in which your Shop is situated.

ITEM 12

TERRITORY

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

The Franchise Agreement gives you the right to operate a Flip Flop Shops Shop at a site we accept as meeting our site selection guidelines (the "Location"). You must select the site for your Shop from within the non-exclusive Designated Area identified in the Franchise Agreement.

There is no minimum area that will comprise your Designated Area. However, we will determine the Designated Area and insert it in the Franchise Agreement before you sign the Franchise Agreement. The Designated Area will exclude any existing or future Protected Area of another Flip Flop Shops franchisee that is or may be within the Designated Area.

If you are in compliance with the Franchise Agreement and any other agreement you have with us or our affiliates, we and our affiliates will not establish or authorize anyone except you to establish a Flip Flop Shops Shop in the geographic area identified in Attachment C of the Franchise Agreement (the "Protected Area") during the term of the Franchise Agreement. The Protected Area will be at least a 1-mile radius around the Location; however, the determination of the actual shape and size of your Protected Area is based on an analysis of various factors, including, population density, income level and the number of households and businesses in the area.

Continuation of your Protected Area does not depend on the achievement of a certain sales volume, market penetration or other contingency. There are no circumstances that would permit us to modify your territorial rights during the term of the Franchise Agreement, but we may modify your Protected Area upon renewal. You do not receive the right to acquire additional franchises within or outside of your Protected Area unless you sign another Franchise Agreement with us.

You must operate the Shop only at the "Location" set forth in Attachment C to the Franchise Agreement. You cannot relocate the Shop without our consent, which we may grant or withhold in our sole discretion. Our decision to grant or withhold our consent to your relocation will be influenced by various factors, including the demographics, traffic patterns, visibility, economic conditions, and business mix of the proposed new location. If you lose possession of the Location through no fault of your own, you must apply to us within 30 days for our approval to relocate your Shop. You must relocate to another site in the

Protected Area. You may not actively solicit or accept business from consumers located outside your Protected Area through any method of distribution, including alternative channels such as the Internet, catalog sales, telemarketing, or other direct marketing.

We retain all other rights. Among other things, this means we can:

(i) Develop and establish other business systems using the Marks, or other names or marks, and grant licenses to use those systems without providing any rights to you;

(ii) Advertise and promote the System in the Protected Area;

(iii) Operate, and license others to operate, Flip Flop Shops Shops at any location outside the Protected Area and in any Reserved Area. A "Reserved Area" includes any amusement park, theme park, sports stadium or arena, casino, airport, train station, hospital, larger retail Shop in which a "Shop-in-Shop" may be placed, school, hotel, office building or military base; and

(iv) Within and outside the Protected Area, offer and sell, and authorize others to offer and sell, any similar or dissimilar products and services, (under the Marks or under other names or marks) through any channel or by any method of distribution (including the Internet, catalog sales, telemarketing, or other direct marketing) other than a Flip Flop Shops Shop, on any terms and conditions we deem appropriate, without compensation to you. However, we will offer the current Franchisee operating a shop within these areas, right of first refusal within the Protected Area.

Bearpaw Holdings, LLC, owns multiple apparel brands, including footwear, which are sold through multiple distribution channels, and we have no control over these arrangements. You may compete with these other brands. You will not have any rights to use these other brands or their associated marks, and the resolution of any conflicts regarding territory, customers, support, or related matters will be solely within our business judgment. We share our principal business address, offices and training facilities with Bearpaw Holdings, LLC.

You may only use the Internet to advertise on our website in compliance with the Franchise Agreement.

ITEM 13

TRADEMARKS

The Franchise Agreement gives you a license to operate a Flip Flop Shops Shop under the mark "Flip Flop Shop" and to use any future Marks we authorize.

The following Marks were acquired by Flip Flop Shops, LLC effective June 4, 2018, and the change in ownership has been registered with the U. S. Patent and Trademark Office (PTO) Flip Flop Shops, LLC intends to renew the registrations and to file all appropriate affidavits at the appropriate times required by law.

MARK	REGISTER	REGISTRATION NUMBER	REGISTRATION DATE
FLIP FLOP SHOPS & Design (in color)*	Principal	3,540,298	December 2, 2008

FREE YOUR TOES	Principal	3,615,051	May 5, 2009
LIVE...WORK...PLAY WITH YOUR TOES EXPOSED!	Principal	3,586,190	March 10, 2009
WARM YOUR TOES	Principal	4,122,640	April 3, 2012
FLIP FLOPS SHOP AND SHOES	Pending	97753807	Jan 13, 2023

*Shown on Cover Page

There is no presently effective determination of the PTO, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court, nor any pending infringement, opposition, or cancellation proceeding, nor any pending material litigation involving any of the Marks which are relevant to their ownership, use or licensing.

We know of no superior prior rights or infringing use that could materially affect your use of the Mark. In resolving issues raised by South Cone, Inc. ("South Cone") related to the Marks, Flip Flop Shops Franchising Company agreed to register and use the Flip Flop Shops logo trademark (the "Logo") only with its circular shape and orange and blue coloring, to use the Logo only in connection with retail Shop services, and not use the Logo without the words "Flip Flop Shops" as a stand-alone mark. Flip Flop Shops, LLC is the successor to Flip Flop Shops Franchising Company with respect to this agreement with South Cone. We know of no agreements currently in effect which significantly limit our rights to use or license the use of the Mark in any manner material to the franchise.

We are not obligated to protect your rights to use the Marks or to protect you against claims of infringement or unfair competition. We are not obligated to participate in your defense and/or indemnify you for expenses or damages if you are party to an administrative or judicial proceeding involving the Marks if the proceeding is resolved unfavorable to you.

You must immediately notify us of any infringement of the Marks or of any challenge to the use of any of the Marks or claim by any person of any rights in any of the Marks. You and your Principals must agree not to communicate with any person other than us, any designated affiliate and our or their counsel about any infringement, challenge or claim. We or our affiliates have sole discretion to take any action we deem appropriate and the right to exclusively control any litigation, or PTO (or other) proceeding, from any infringement, challenge or claim concerning any of the Marks. You must sign all instruments and documents and give us any assistance that, in our counsel's opinion, may be necessary or advisable to protect and maintain our interests or those of our affiliates in any litigation or proceeding or to otherwise protect and maintain our or their interest in the Marks.

You may not use any of the Marks as part of your corporate or other name. You must also follow our instructions for identifying yourself as a franchisee and for filing and maintaining the requisite trade name or fictitious name registrations. You must sign any documents we or our counsel determine are necessary to obtain protection for the Marks or to maintain their continued validity and enforceability. Neither you nor your Principals may take any action that would prejudice or interfere with the validity of our rights with respect to the Marks and may not contest the validity of our interest in the Marks or assist

others to do so.

We have the right to substitute different trade names, service marks, trademarks and indicia of origin for the Marks if the Marks can no longer be used, or if we determine, in our sole discretion, that the substitution will be beneficial to the System. If we do, we may require you to discontinue or modify your use of any Mark or use one or more additional or substitute Marks at your expense.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We do not own any patents, and do not have any pending patent applications, that are material to the franchise. We do claim copyright protection and proprietary rights in the original materials used in the System, including our Manuals, bulletins, correspondence and communications with our franchisees, training, advertising and promotional materials, and other written materials relating to the operation of Flip Flop Shops Shops and the System.

There is no presently effective determination of the U.S. Copyright Office (Library of Congress) or any court affecting our copyrights. There is no currently effective agreement that limits our right to use and/or license our copyrights. We are not obligated by the Franchise Agreement, or otherwise, to protect any rights you have to use the copyrights. We have no actual knowledge of any infringements that could materially affect the ownership, use or licensing of the copyrights.

We treat all of this information as trade secrets, and you must treat any of this information we communicate to you confidentially. You and your Principals must agree not to communicate or use our confidential information for the benefit of anyone else during and after the term of the Franchise Agreement. You and your Principals must also agree not to use our confidential information at all after the Franchise Agreement terminates or expires. You and your Principals can give this confidential information only to your employees who need it to operate your Flip Flop Shops Shop. You must have your Lead Manager and Shop Managers and any of your other personnel who have received or will have access to our confidential information, sign similar covenants.

If you or your Principals develop any new concept, process or improvement in the operation or promotion of your Flip Flop Shops Shop, you must promptly notify us and give us all necessary information about the new process or improvement, without compensation. You and your Principals agree that any of these concepts, processes or improvements will become our property, and we may use or disclose them to other franchisees, as we determine appropriate.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

You must designate an "Operating Principal" under the Franchise Agreement. Your Operating Principal is the main individual directly responsible for the on-premises supervision of your business. If you are an individual, you will be the Operating Principal. If you are not an individual, you must designate someone who meets our requirements and whom we approve to be your Operating Principal. Your Operating Principal must have and maintain at least 10% ownership interest in you. Your Operating Principal will sign the Guaranty. The person or entity signing the Franchise Agreement is the "Franchisee." In this disclosure document, the terms "Principals" and "Operating Principal" and "you" and "your" include

the Franchisee under the Franchise Agreement unless we have noted otherwise.

Unless a Lead Manager is appointed, as discussed below, your Operating Principal must devote his or her full time and best efforts to the supervision of your operations under the Franchise Agreement and may not engage in any other business. He or she must satisfy our training requirements and our other standards and must guaranty your performance under the Franchise Agreement. Your Operating Principal will be individually, jointly and severally bound by all of your obligations and the obligations of the Operating Principal and a Principal under the Franchise Agreement.

You may, at your option and subject to our written consent, designate a Lead Manager to supervise your operations under the Franchise Agreement. The Lead Manager must be the same person for all Shops that you or your affiliate operates. Even if we permit you to designate a Lead Manager to supervise your operations under the Franchise Agreement, your Operating Principal remains ultimately responsible for the Lead Manager's performance. The Lead Manager must devote his or her full time and best efforts to the supervision of your operations under the Franchise Agreement.

You must notify us promptly if your Operating Principal or Lead Manager cannot continue to serve or no longer qualifies as an Operating Principal or a Lead Manager. You will have 30 days from the date of the notice (or from any date that we independently determine the Operating Principal or Lead Manager no longer meets our standards) to take corrective action. During that 30-day period, you must provide for interim management of your operations in compliance with the Franchise Agreement.

At least 45 days before the Shop opens for business, you must designate at least 1 Shop Manager. Your Shop Managers must satisfy our educational and business criteria and must be acceptable to us. The Shop Managers are responsible for the daily operation and management of the Shop, and must devote their full time and best efforts to the business. One of the Shop Managers may, but need not be, the Operating Principal or Lead Manager.

At our request, you must have your Lead Manager, Shop Managers and any other personnel who will have access to our training, sign covenants not to compete and must maintain the confidentiality of information they have access to through their relationship with you. These covenants will be in substantially the form of Attachment B to the Franchise Agreement. Those of your Principals who are not signing the Guaranty also must sign these covenants. If you are an individual, your spouse must sign a personal guaranty, making your spouse jointly and severally liable for your obligations. We have the right, in our sole discretion, to decrease the period of time or geographic scope of the noncompetition covenants or eliminate the noncompetition covenant altogether for any person who must sign an agreement described in this paragraph.

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

All products you use or sell at the Shop must conform to our standards and specifications. These are described in our Manuals and other writings, including the Approved Inventory List. You must not deviate from our standards and specifications unless we first give you our written consent. You must also comply with all applicable laws and regulations and secure all appropriate governmental approvals for the Shop.

You must offer and sell all inventory items, products and services we require, including those on the Approved Inventory List. You must sell only the inventory items, products and services that we have

expressly approved in writing. You must stop selling any inventory items, products or services that we disapprove in writing. We may change the types of inventory items, products and services we require franchisees to offer and sell at any time in our discretion. You must display all inventory items in the manner described in our Manuals or other written instructions. You must not use or offer nonconforming items, unless we first give you our written consent. You must not sell inventory or services outside of the premises of your Shop unless we consent in writing. The inventory and services to be offered at your Shop may be supplemented, improved or otherwise modified by us periodically. You must open and operate the Shop during the hours we specify in the Manual or otherwise in writing.

We do not guarantee the availability of any of the items on the Approved Inventory List or that your Shop will be able to carry any particular brand of footwear, apparel, or other product.

We reserve the right, to the fullest extent allowed by applicable law, to establish maximum, minimum or other pricing requirements with respect to the prices you may charge for products or services.

We may make available to you and may require you to purchase from us for resale to your customers certain merchandise, like Flip Flop Shops memorabilia, in amounts necessary to meet your customer demand.

You may not advertise, promote, post or list information relating to the Shop on the Internet (through the creation of a website or otherwise), unless we decide to include information about your Shop on our Website. You will not use the Marks as part of any domain name, web address or e-mail address.

Although you are only granted the right to operate a Flip Flop Shops Shop at the Location, you must use the method, manner and style of distribution that we may in the future prescribe in writing, in the Manuals or otherwise. You must comply with the terms of any distribution program and sign any documents or instruments that we require.

We do not impose any other restrictions in the Franchise Agreement or otherwise on the goods or services that you may offer or on sell or the customers to whom you may offer or sell.

ITEM 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

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

Provision	Section in franchise or other agreement	Summary
a. Length of the franchise term for a Standard Shop	Section 3. A.	10-year initial term.
b. Renewal or extension of the term	Section 3. B.	2 consecutive 5-year periods.
c. Requirements for franchisee to renew or extend	Section 3. B.	Your renewal right permits you to remain as a franchisee after the initial term of your franchise agreement expires. However, to remain a franchisee, you must meet all required conditions to renewal, including signing our then-current form of franchise agreement, which may be materially different than the form attached to this disclosure document. Other conditions include: you must give written notice; you must update required items; you are not in default; you must pay all money owed; you must retain right to Location; you must pay us a renewal fee; you must sign general release (See Exhibit F); you must comply with then-current qualifications and training requirements.

Provision	Section in franchise or other agreement	Summary
d. Termination by franchisee	Not Applicable	Not Applicable
e. Termination by franchisor without cause	Not Applicable	Not Applicable
f. Termination by franchisor with "cause"	Section 17.	We may terminate on your default.
g. "Cause" defined – curable defaults	Section 17. D.	For any default except those specified as non-curable you have 30 days to cure (5 days for failure to submit a required report or pay monies; 24 hours for misuse of the Marks; 7 days if you fail to obtain the required insurance coverages; 10 days if you fail to comply with the noncompetition covenants; 10 days if you fail to pay any amount due and owing any creditor).

Provision	Section in franchise or other agreement	Summary
h. "Cause" defined – non-curable defaults	Sections 17.B. and 17. C.	Insolvency; general assignment for benefit of creditors; bankruptcy; receivership; final judgment remains unsatisfied for 30 days or more; dissolution; execution of levy or sale after levy; foreclosure proceedings not dismissed within 30 days; operation of Shop at location that we have not accepted; failure to obtain acceptance of proposed site or acquire Location, to construct or remodel in accordance with prototypical plans, to begin business within the required time period; abandonment or forfeiture of right to do business; conviction of certain crimes; threat to public health or safety; unauthorized transfer; failure to comply with certain confidentiality covenants; false records or submission of false reports; breach of any covenants or false representations or material misstatements or omissions; failure to comply with quality assurance program; understatement of Gross Sales or other amounts by more than 5% or understatement by more than 3% 2 times within any 12 month period; default of any other franchise agreement; repeated defaults whether or not cured. A provision in the Franchise Agreement which terminates the Franchise Agreement upon your bankruptcy may not be enforceable under Title 11, United States Code Section 101.

Provision	Section in franchise or other agreement	Summary
i. Franchisee's obligations on termination/nonrenewal	Section 18.	Stop operating your Shop and using the System's confidential methods, procedures, techniques and marks; cancel any registration containing the Marks; pay amounts due and our damages and enforcement costs; comply with confidentiality and non-competition covenants; return all Manuals and other proprietary materials; at our option, sell or assign us your rights in business telephone numbers, advertising and promotional materials, furnishings equipment, and the premises.
j. Assignment of contract by franchisor	Section 14. A.	We may transfer our rights without restriction.
k. "Transfer" by franchisee – defined	Sections 14. B.	You must not transfer any direct or indirect interest in you, the Franchise Agreement or the assets of the franchised business without our consent.
l. Franchisor's approval of transfer by franchisee	Section 14. B.	We must consent and you must meet conditions before transferring.
m. Conditions for franchisor's approval of transfer	Section 14. B.	Pay all amounts due; not be in default; sign a general release (See Exhibit F); pay transfer fee; have the Shop open for business and operating; and remain liable for pre-transfer obligations. Transferee must meet our criteria, complete required training, guaranty obligations; enter into then-current franchise agreement and upgrade the Shop.
n. Franchisor's right of first refusal to acquire franchisee's business	Section 14. D.	On 30 days written notice, we have the option to purchase an interest being transferred on the same terms and conditions offered by a third party.

Provision	Section in franchise or other agreement	Summary
o. Franchisor's option to purchase franchisee's business	Sections 18.A.(8) and (9) and 18. B.	Upon termination or expiration, we have the option to purchase your advertising materials bearing the Marks at your cost. We have the option to purchase the furnishings, equipment, signs, fixtures, supplies, materials, inventory and other assets, at fair market value (except for products manufactured by us or our affiliates, which may be purchased for the amount paid by you, excluding delivery and late fees), and, if you own the land were the Shop is located, we have the option to lease the land (and any building on the land used for the operation of the Shop), for fair market value. We have the option to have the lease for the premises of the Shop assigned to us.
p. Death or disability of franchisee	Section 15. E.	On death or permanent disability of you or a Principal the person's interest must be transferred to someone we approve within 6 months.
q. Non-competition covenants during the term of the franchise	Section 10.C.(1).	You may not operate or have an interest in a business which is similar to the franchised business.
r. Non-competition covenants after the franchise is terminated or expires	Section 10.C.(2).	For 2 years you may not divert any of your business or customers to a competitor or have an interest in any business that is similar to the franchised business at the Location, within the Protected Area, or within a 15-mile radius of the location of any Flip Flop Shops Shop then in existence or under construction.
s. Modification of the agreement	Sections 10.A. and 19. B.	Except for changes we can make unilaterally, changes require mutual agreement. You must comply with the Manuals as amended.

Provision	Section in franchise or other agreement	Summary
t. Integration/merger clause	Section 19. B.	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to state law). Any representations or promises made outside the disclosure document and franchise agreement may not be enforceable. We may not disclaim representations made in the disclosure document.
u. Dispute resolution by arbitration or mediation	Section 19. G.	Claims, controversies or disputes from or relating to the Franchise Agreement must be mediated, except actions based on the Marks or confidential information.
v. Choice of forum	Sections 19.G. and 19. H.	Unless contrary to applicable state law: Mediation in Sacramento, California, except actions based on the Marks or confidential information; venue for any other proceeding is Sacramento County or the federal district court for the Eastern District of California (subject to state law). In addition to the provisions noted in this chart, the Franchise Agreement contains a number of provisions that may affect your legal rights, including a waiver of the right to a jury trial, a waiver of punitive or exemplary damages and limitations on when claims may be raised (See Franchise Agreement, Article 19). We recommend that you carefully review all of these provisions, and all of the contracts listed in Item 22, with a lawyer.
w. Choice of law	Section 19. I.	Subject to applicable state law, the Franchise Agreement will be interpreted and construed under California law, except for California choice of law rules (subject to state law) and except for the provisions respecting non-competition, which are governed by local law where the breach occurs.

ITEM 18

PUBLIC FIGURES

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

ITEM 19

FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and 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 performance at a particular location or under particular circumstances.

As of December 31, 2023, there were approximately 63 shops being operated by independent, franchised licensees, of those 63 shops, 55were domestic. Approximately 49 of those 55 domestic Flip Flop Shops Units being operated by Franchisees had been open for at least one full calendar year as of December 31, 2023, and had been operated by franchisees during the entire year. The 49 domestic Flip Flop Shops that had been open for at least one full calendar year as of December 31, 2023, and their annual sales volumes are the subject of these Financial Performance Representations and discussed below.

In 2023, of the 49 domestic Franchise Shops open for at least one full calendar year, 48 Franchised Shops are located on common retails spaces such as malls, strip malls, etc. The median annual sales volume of domestic Franchise Shops located on malls and strip malls that were open at least one full calendar year as of December 31, 2023, was $369,194 and the average annual sales volume was $442,880 with 19 of the 48, or 38.8%, that did as well or better than $442,880 in annual sales. The highest and lowest annual sales volume for these mall and strip malls Flip Flop Shops locations open for at least one full calendar year in 2023 were $1,604,454 and $42,832, respectively. Approximately 30.6% of these locations had annual sales volumes less than $250,000; approximately 40.8% had annual sales volumes between $250,00 and $500,000; approximately 14.3% had annual sales volumes between $500,000 and $750,000; and approximately 14.3% had annual sales volumes in excess of $750,000 and above.

In 2023, of the 49 domestic Franchise Shop open for at least one full calendar year, 1 Franchised Shop is located on a hotel/casino. The median monthly sales volume of this domestic Franchise Shop located on a hotel/casino that was open at least one full calendar year as of December 31, 2023, was $71,674 and the average monthly sales volume was $69,725. The highest and lowest monthly sales volume for this hotel/casino Flip Flop Shops location open for at least one full calendar year in 2023 was $113,678 in July and $40,942 in January, respectively. The total annual sales volume for this location was $836,698.

During the calendar year ending December 31, 2023, 13 domestic Franchise Shops located on common retail spaces such as malls and strip malls permanently closed, of which 5 had been open for less than 12 months, and 0 domestic Franchise Shops located in hotel/casino spaces permanently closed. 7 stores opened during the reporting period ending December 31, 2023.

This portion of the financial performance representation includes information relating to annual and monthly sales volumes for the periods of January 1, 2023, to December 31, 2023 for the 49 franchised Flip Flop Shops Stores in the United States (including Stores in U.S. territories) that operated during the entire Reporting Period and were open and operating as of December 31, 2023. Information for Stores outside of the 50 United States and Canada is not included in this Item 19.

This financial performance representation reflects only revenue of the Franchise Shops and does not reflect any costs of sales, operating expenses, and other costs or expenses that you will incur in operating the Store, including the royalty fees and advertising contribution that you must pay under the terms of the Franchise Agreement. This financial performance representation also does not include debt service or equipment lease costs that may be incurred in the operation of a Flip Flop Shops Store. In addition, this financial performance representation does not include any information about the federal income taxes payable on any net income derived from the operation of the Store or state or local net income or gross profits taxes that may be applicable in the jurisdiction in which your Store is located.

Some Flip Flop Shops Shops have sold this amount. Your individual results may differ. There is no assurance that you will sell as much.

You should use this information only as a reference to conduct your own analysis of the franchise opportunity in consultation with your financial, business, legal and tax advisers.

Individual Franchisees are likely to experience annual sales volume variations. A Flip Flop Shops Franchise physical location within any particular geographic area, a Flip Flop Shops Franchise Shop physical location among different geographical areas of the country, the operational skills and the management methods employed by a Franchisee may significantly affect the sales realized in any given operation.

Other than the preceding financial performance representation, Flip Flop Shops, LLC does 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 any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Steve Shultz, c/o Flip Flop Shops, LLC, 7524 Old Auburn Road, Citrus Heights, California 95610; 916-726-4413, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20

OUTLETS AND FRANCHISEE INFORMATION

Table No.1

Systemwide Outlet Summary
For years 2021 to 2023

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	2021	47	49	+2
	2022	49	55	+6
	2023	55	49	-6
Company-Owned	2021	0	0	0
	2022	0	0	0
	2023	0	0	0
Total Outlets	2021	47	49	+2
	2022	49	55	+6
	2023	55	49	-6

Table No. 2

Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years 2021 to 2023

Column 1 State	Column 2 Year	Column 3 Number of Transfers
California	2021	1
	2022	0
	2023	1
Hawaii	2021	0
	2022	0
	2023	1
North Carolina	2021	1
	2022	0
	2023	1
Total	2021	2
	2022	0
	2023	3

Table No. 3

Status of Franchised Outlets
For years 2021 to 2023

Col. 1 State	Col. 2 Year	Col. 3 Outlets at Start of Year	Col. 4 Outlets Opened	Col. 5 Termina-tions	Col. 6 Non-Renewals	Col. 7 Reacquired by Franchisor	Col. 8 Ceased Operations - Other Reasons	Col. 9 Outlets at End of the Year
Arizona	2021	2	0	0	0	0	0	2
	2022	2	1	1	0	0	0	2
	2023	2	0	0	0	0	0	2
California	2021	11	2	1	0	0	0	12
	2022	12	1	1	0	0	0	12
	2023	12	1	4	0	0	0	9
Colorado	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Delaware	2021	1	0	1	0	0	0	1
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Florida	2021	16	10	7	0	0	0	19
	2022	19	8	5	0	0	1	21
	2023	21	5	5	0	0	0	21
Georgia	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Hawaii	2021	3	0	0	0	0	0	3
	2022	3	4	0	0	0	0	7
	2023	7	0	0	0	0	1	5
Nevada	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
New Mexico	2021	1	0	0	0	0	0	1
	2022	1	0	1	0	0	0	0
	2023	0	0	0	0	0	0	0
North Carolina	2021	3	0	0	0	0	0	3
	2022	3	0	0	0	0	0	3
	2023	3	1	0	0	0	0	4

Col. 1 State	Col. 2 Year	Col. 3 Outlets at Start of Year	Col. 4 Outlets Opened	Col. 5 Termina-tions	Col. 6 Non-Renewals	Col. 7 Reacquired by Franchisor	Col. 8 Ceased Operations - Other Reasons	Col. 9 Outlets at End of the Year
Ohio	2021	1	0	1	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Pennsylvania	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	1	0	0	0	0
South Carolina	2021	2	0	0	0	0	0	2
	2022	2	0	1	0	0	0	1
	2023	1	0	0	0	0	0	1
Texas	2021	1	2	0	0	0	1	2
	2022	2	2	0	0	0	0	4
	2023	4	0	2	0	0	0	2
Virginia	2021	2	0	1	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Totals	2021	47	14	11	0	0	1	49
	2022	49	16	9	0	0	1	55
	2023	55	7	12	0	0	1	49

Table No. 4

Status of Company-Owned Outlets
For years 2021 to 2023

Col. 1 State	Col. 2 Year	Col. 3 Outlets at Start of Year	Col. 4 Outlets Opened	Col. 5 Outlets Reacquired From Franchisee	Col. 6 Outlets Closed	Col. 7 Outlets Sold to Franchisee	Col. 8 Outlets at End of Year
All States	2021	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2023	0	0	0	0	0	0
TOTALS	2021	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2023	0	0	0	0	0	0

Table No. 5

Projected Openings as of December 31, 2023

Column 1 State	Column 2 Franchise Agreements Signed But Outlet Not Opened	Column 3 Projected New Franchised Outlet In The Next Fiscal Year	Column 4 Projected New Company-Owned Outlet In the Next Fiscal Year
Colorado	1	0	0
Florida	5	0	0
TOTAL	6	0	0

The name, business address, and business telephone number of each current franchisee as of December 31, 2023, are listed on Exhibit C.

The name, city and state, and current business telephone number (or, if unknown, the last known home telephone number) of every franchisee who has had a shop terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during the most recently completed fiscal year or has not communicated with us within 10 weeks of the date of issuance of this disclosure document are listed on Exhibit D.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system. Under certain circumstances, we may offer franchisees an opportunity to earn a referral fee in connection with a mutual termination.

As of the date of this disclosure document, we are not offering outlets we control that were previously owned by a franchisee. If we begin to offer any such outlet, specific information about the outlet will be provided to you in a supplement to this disclosure document.

During the last three fiscal years, in some instances, current and former franchisees signed provisions restricting their ability to speak openly about their experience with the Flip Flop Shops system. You may wish to speak with current and former franchisees but be aware that not all such franchisees will be able to communicate with you.

As of the date of this disclosure document, no independent trademark-specific franchisee organizations have asked to be included in this disclosure document and there are no franchisee organizations sponsored or endorsed by us.

ITEM 21

FINANCIAL STATEMENTS

Attached as Exhibit A is the audited Balance Sheet, Statement of Income and Member's Equity and Statement of Cash Flows of Flip Flop Shops, LLC as of December 31, 2023, prepared by and published with the consent of Fineman West & Company, Los Angeles, California.

ITEM 22

CONTRACTS

Attached to this disclosure document are the following contracts and their attachments:

1. Franchise Agreement (with attachments).

2. Form of General Release (Exhibit F).

ITEM 23

RECEIPTS

Attached as the last 2 pages of this disclosure document are duplicate Receipts to be signed by you. Keep one for your records and return the other one to us.

Date of Issuance April 22, 2024

EXHIBIT A

FINANCIAL STATEMENTS

FLIP FLOP SHOPS, LLC.

AUDITED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2023

Beyond the Numbers

FINEMAN | WEST
& COMPANY

May 17, 2024

To Whom It May Concern:

Fineman West & Company LLP has audited the Financial Statements of Flip Flop Shops, LLC as of December 31, 2023 and December 31, 2022 and for each of the 3 years in the period ended December 31, 2023. This is to confirm that Fineman West & Company LLP authorizes the inclusion of our audit report dated August 15, 2023 on these Financial Statements in the Franchise Disclosure Document of Flip Flop Shops, LLC dated May 7, 2024.

Fineman West & Co LLP

Fineman West & Company, LLP
Los Angeles, California

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FLIP FLOP SHOPS, LLC.

(A WHOLLY OWNED SUBSIDIARY OF BEARPAW HOLDINGS, LLC)

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2023 AND 2022

FINEMAN WEST & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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FINEMAN WEST & COMPANY

INDEPENDENT AUDITORS' REPORT

To the Member
Flip Flop Shops, LLC.

Opinion

We have audited the accompanying financial statements of Flip Flop Shops, LLC., which comprise the balance sheets as of December 31, 2023 and 2022 and the related statements of operations and member's equity, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Flip Flop Shops, LLC. as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under these standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Flip Flop Shops, LLC. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Flip Flop Shops, LLC.'s ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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Auditors' Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Flip Flop Shops, LLC.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Flip Flop Shops, LLC.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Fineman West & Co. LLP

Los Angeles, California
May 7, 2024

FLIP FLOP SHOPS, LLC.
(A WHOLLY OWNED SUBSIDIARY OF BEARPAW HOLDINGS, LLC)
BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	$ 449,023	$ 1,102,002
Short-term investments	508,201	-
Accounts receivable, net	29,675	12,040
Franchise fees receivable, net	114,552	122,481
Due from related parties	316,133	-
Other current assets	14,250	24,939
Total Current Assets	1,431,834	1,261,462
DUE FROM RELATED PARTIES	589,983	190,000
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	77,777	124,444
INTANGIBLE ASSETS, at cost, less accumulated amortization	1,843,789	2,261,251
	$ 3,943,383	$ 3,837,157
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Accrued expenses and other current liabilities	$ 112,487	$ 130,874
Due to related party	-	4,918
Gift card fund obligations	133,244	140,816
Economic injury disaster loan payable, current portion	3,202	-
Auto loan payable, current portion	20,739	19,732
Deferred franchise fees, current portion	102,500	67,975
Total Current Liabilities	372,172	364,315
NOTE PAYABLE, MEMBER	2,118,000	2,118,000
ECONOMIC INJURY DISASTER LOAN PAYABLE	146,798	154,900
AUTO LOAN PAYABLE, net of current portion	91,592	112,127
DEFERRED FRANCHISE FEES, net of current portion	1,111,954	743,175
CONTINGENCIES		
MEMBER'S EQUITY	102,867	344,640
	$ 3,943,383	$ 3,837,157

See accompanying independent auditors' report
and notes to financial statements

FLIP FLOP SHOPS, LLC.
(A WHOLLY OWNED SUBSIDIARY OF BEARPAW HOLDINGS, LLC)
STATEMENTS OF OPERATIONS AND MEMBER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 and 2021

	2023	2022	2021
REVENUE			
Royalty fees	$ 1,231,063	$ 1,307,425	$ 1,108,761
Franchise fees	272,125	137,989	47,150
Total Revenue	1,503,188	1,445,414	1,155,911
OPERATING EXPENSES			
Payroll	328,940	451,630	313,189
General and administrative	309,569	278,548	217,105
Depreciation and amortization	464,129	433,018	418,163
Selling and marketing	287,768	198,097	125,321
Total Operating Expenses	1,390,406	1,361,293	1,073,778
OPERATING INCOME	112,782	84,121	82,133
OTHER INCOME (EXPENSE)			
Other (expense) income	(60,111)	1,500	-
Paycheck Protection Program loan forgiveness	-	-	94,732
Interest income	9,500	4,750	-
Interest expense	(111,874)	(101,968)	(100,625)
Total Other Expense, Net	(162,485)	(95,718)	(5,893)
NET (LOSS) INCOME	(49,703)	(11,597)	76,240
MEMBER'S EQUITY, beginning	344,640	478,737	482,491
DISTRIBUTIONS	(192,070)	(122,500)	(79,994)
MEMBER'S EQUITY, ending	$ 102,867	$ 344,640	$ 478,737

See accompanying independent auditors' report
and notes to financial statements

FLIP FLOP SHOPS, LLC.
(A WHOLLY OWNED SUBSIDIARY OF BEARPAW HOLDINGS, LLC)
STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 and 2021

	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (49,703)	$ (11,597)	$ 76,240
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	46,667	15,556	701
Amortization	417,462	417,462	417,462
Accounts payable write-off	(9,188)	-	-
Paycheck Protection Program loan forgiveness	-	-	(94,732)
Changes in assets and liabilities			
Accounts receivable	(17,635)	23,275	(163)
Franchise fees receivable	7,929	6,840	148,200
Other current assets	10,689	693	(10,248)
Accrued expenses and other current liabilities	(9,199)	(83,711)	(10,682)
Deferred franchise fees	403,304	150,000	103,350
Gift card fund obligations	(7,572)	22,052	(2,712)
Total Adjustments	842,457	552,167	551,176
Net Cash Provided by Operating Activities	792,754	540,570	627,416
CASH FLOWS USED IN INVESTING ACTIVITIES			
Increase in short-term investments	(508,201)	-	-
Property and equipment acquired	-	(8,141)	-
Net Cash Used in Investing Activities	(508,201)	(8,141)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in due from related parties	(399,983)	(190,000)	-
Increase (decrease) in due to related party	(321,051)	3,889	(71,708)
Payment on economic injury disaster loan	(4,900)	-	-
Payment of auto loan	(19,528)	-	-
Distributions to member	(192,070)	(122,500)	(79,994)
Net Cash Used in Financing Activities	(937,532)	(308,611)	(151,702)
NET (DECREASE) INCREASE IN CASH	(652,979)	223,818	475,714
CASH, beginning	1,102,002	878,184	402,470
CASH, ending	$ 449,023	$ 1,102,002	$ 878,184
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 204,573	$ 194,667	$ 124,643
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
During the year, the Company had the following transaction:			
Acquisition of property and equipment and auto loan payable incurred	$ -	$ 131,859	$ -

See accompanying independent auditors' report
and notes to financial statements

1 - ORGANIZATION AND NATURE OF OPERATIONS

Flip Flop Shops, LLC. (the "Company") was formed on May 11, 2018 in the state of California and is a wholly owned subsidiary of Bearpaw Holdings, LLC, a California limited liability company. The Company is engaged in offering and selling franchises throughout the United States and internationally for the operation of franchised stores focused on high-end flip flops and sandals, casual footwear, and related accessories. As of December 31, 2023 and 2022, there are 62 and 68 operating franchises, respectively, in the following areas:

	2023	2022
United States	50	58
Canada	7	6
Puerto Rico	2	2
Caribbean Netherlands	2	1
Curaçao	1	1

As of December 31, 2023 and 2022 there were 79 and 87 active franchise agreements, respectively, including 3 active master franchise agreements which are located in the following areas:

Canada
Caribbean
Dominican Republic

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America **("U.S. GAAP").**

Revenue Recognition and Deferred Revenue

The Company's revenue consists of franchise fees and royalties collected from stores operated by franchisees, as well as an initial amount paid for the right to own and operate a franchise location.

FASB ASC 606, *Revenue from Contracts with Customers* **("**ASC 606**")** provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services.

Royalties from individual franchisees are based upon a contractual royalty rate of each **franchisee's retail sales and are recognized as royalty revenues in the year the retail sale**s occur.

In order to ensure that franchisees are appropriately reporting and calculating royalties owed to the Company, all franchise agreements include audit rights that allow the Company to validate the amount of royalties paid. Any revenue resulting from these audits, or other audits, is recognized in the financial statements in the reporting year the audit is concluded.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition and Deferred Revenue (Continued)

Initial franchise fees, renewal franchise fees, and Master franchise fees all relate to the single performance obligation of granting the right to own and operate a franchise location over the term of the agreement and are not refundable. Accordingly, all franchise fees are deferred and amortized on a straight-line basis over the term of the franchise agreement, which is 5 or 10 years. If the franchise agreement ceases operations, total deferred revenue will be recognized as revenue.

Short-term Investments

Short-term investments are investments in mutual funds which are carried at fair value and the subsequent changes in fair values are generally recorded in the statements of operations and **member's** equity as component of investment gains (losses). There was no change in fair value as of December 31, 2023.

Accounts Receivable

Accounts receivable consist of amounts management expects to collect from franchisees for royalties, net of any allowance for credit losses. The Company maintains an allowance for credit losses for accounts receivable using an expected loss model that requires the use of forward-looking information to calculate credit loss estimate. The expected loss methodology is developed through consideration of factors including, but not limited to, historical collection experience, current franchisees credit ratings, franchisees concentrations, current and future economic and market conditions and age for the receivable. The Company reviews and adjusts the allowance for credit losses on a quarterly basis. Accounts receivable balances are written off against the allowance when the Company determines that the balances are not recoverable.

As of December 31, 2023 and 2022, the Company had no allowance for credit losses as none is considered necessary. No bad debt expenses were recognized for the years ending December 31, 2023, 2022 and 2021.

Franchise Fees Receivable

Franchise fees receivable consist of amounts management expects to collect from franchisees for franchise fees, net of any allowance for credit losses. The Company maintains an allowance for credit losses for franchise fees receivable using an expected loss model that requires the use of forward-looking information to calculate credit loss estimate. The expected loss methodology is developed through consideration of factors including, but not limited to, historical collection experience, current franchisees credit ratings, franchisees concentrations, current and future economic and market conditions and age for the receivable. The Company reviews and adjusts the allowance for credit losses on a quarterly basis. Franchise fees receivable balances are written off against the allowance when the Company determines that the balances are not recoverable.

As of December 31, 2023 and 2022, the Company has an allowance for credit losses of $20,000 and $27,500, respectively. No bad debt expenses were recognized for the years ending December 31, 2023, 2022 and 2021.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used. The most significant estimates are related to the allowance for doubtful accounts and continuing value of intangible assets.

Property and Equipment

Property and equipment are stated at cost. Depreciation is generally provided by the straight-line method over the estimated useful life of the related asset, which is 3 years. For the years ended December 31, 2023, 2022 and 2021 depreciation expense amounted to $46,667, $15,556, and $701, respectively.

Intangible Assets

Intangible assets consist of trademarks, franchise agreements, and domain names which were acquired when the Company was organized. Intangible assets that have definite useful lives are capitalized and amortized on a straight-line basis over 10 years. There were no indefinite-lived assets as of December 31, 2023 and 2022. The intangible assets are tested for impairment whenever events or changes in circumstances indicate that their carrying value may not be fully recoverable. An impairment loss is recognized in the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the greater of its fair value less selling costs or its value in use. **In management's opinion, as of** December 31, 2023 and 2022, there were no events or changes in circumstances that indicated impairment of the intangible assets.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist primarily of cash, accounts receivable and short-term investments. From time to time, the Company may hold cash balances in excess of the Federal Deposit Insurance Corporation insured limit. However, as the Company places its excess cash in reputable banking institutions, management believes the risk of loss to be minimal, and no losses have been experienced on such balances.

Concentration of credit risk with respect to accounts receivable is limited, as the Company mitigates potential losses by performing credit evaluations of its franchisees.

Limited Liability Company

As a limited liability company, the Company is not a taxpaying entity for federal or state income **tax purposes. Accordingly, the Company's taxable income or loss is allocated to the member.** Therefore, no provision or liability for income taxes has been included in the accompanying financial statements. The Company expects to pay the necessary distributions to the member for estimated income taxes based upon taxable income.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising and Marketing Expenses

Advertising and marketing expenses are charged to operating expenses in the year incurred. For the years ended December 31, 2023, 2022 and 2021, advertising and marketing expenses amounted to $37,220, $51,264 and $2,070, respectively.

Recent Accounting Pronouncements Adopted

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as **the current expected credit loss ("CECL") methodology. The Company adopted CECL using the** modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposure. The adoption of this guidance did not have a material impact to the **Company's financial statements.**

3 - FAIR VALUE MEASUREMENT

The Company follows the fair value measurement and disclosure requirements of Accounting **Standards Codification ("ASC") 820** *Fair Value Measurement*. ASC 820 defines fair value as the exchange price that would be received for the assets or paid to transfer a liability in the principal or most advantageous market for the asset or liability.

The Company uses a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The three-level hierarchy prioritizes within the measurement of fair value, the use of market-based information over entity specific information. Fair value focuses on an exit price and is defined 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. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The three-level hierarchy for fair value measurements is defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology which are significant to the fair value measurement and are unobservable.

An investment's categorization within the fair value hierarchy is based upon the lowest level of **input that is significant to the fair value measurement. All of the Company's investments are** classified as Level 1 investments.

3 - FAIR VALUE MEASUREMENT (CONTINUED)

As of December 31, 2023, the short-term investments measured at fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	Total
Mutual funds – treasury obligations	$ 499,977	$ -	$ -	$ 499,977
Mutual funds – money market funds	8,224	-	-	8,224
Total short-term investments, at fair value	$ 508,201	$ -	$ -	$ 508,201

4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2023	2022
Automotive	$ 140,000	$ 140,000
Computers	5,044	5,044
	145,044	145,044
Less: accumulated depreciation	(67,267)	(20,600)
	$ 77,777	$ 124,444

5 - INTANGIBLE ASSETS

Intangible assets consist of the following:

	2023	2022
Franchise agreements	$ 1,247,000	$ 1,247,000
Trademarks	2,320,115	2,320,115
Domain names	607,500	607,500
	4,174,615	4,174,615
Less: accumulated amortization	(2,330,826)	(1,913,364)
	$ 1,843,789	$ 2,261,251

6 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	2023	2022
Bonus and retirement plan	$ 46,733	$ 35,632
Commission	30,000	12,500
Credit card	22,238	50,412
Payroll	9,629	12,804
Professional fees	3,887	4,681
Other	-	14,845
	$ 112,487	$ 130,874

7 - SBA ECONOMIC INJURY DISASTER LOAN

In July 2020, the Company received a loan of $154,900 from the Economic Injury Disaster Loans and Advance Program instituted by the Small Business Administration **("SBA")**. The loan is **secured by the Company's assets**, and bears interest at 3.75% per annum. Payments on the loan begin 3 years from the date of issuance and the note matures in 30 years.

The SBA economic injury disaster loan as of December 31, 2023 and principal payments over the next five years are as follows:

2024	$ 3,202
2025	3,324
2026	3,452
2027	3,582
2028	3,717
Thereafter	132,723
	$ 150,000

8 - AUTO LOAN PAYABLE

Auto loan payable is due to a financial institution, calls for monthly payments in the amount of $1,067 through August 2028, and bears interest at 5.99% per annum. The auto loan is secured by the underlying automobile.

The auto loan payable as of December 31, 2023 and principal payments over the next five years are as follows:

2024	$ 20,739
2025	22,016
2026	23,372
2027	24,811
2028	21,393
	$ 112,331

9 - NOTE PAYABLE, MEMBER

The note payable, member is unsecured, bears interest at 5% per annum, and is payable in May 2028. Interest expense for the years ended December 31, 2023, 2022 and 2021 amounted to $100,625, $100,625, and $100,625, respectively.

10 - CONTINGENCIES

Pending or Threatened Litigation

The Company may be involved in, from time to time, in various legal cases arising in the normal course of business. The Company does not believe, based on its current knowledge, that any of the current legal matters are likely to have a material adverse impact on its financial position, results of operations or cash flows.

11 - RELATED PARTY TRANSACTIONS

Due from related parties (Current)

The due from related parties current consists of the following balances:

Due from related party	$ 216,133
Due from member	100,000
	$ 316,133

The amounts due from related parties current are unsecured, non-interest bearing and due on demand.

Due from related parties (Long-Term)

The due from related parties long-term consists of the following balances:

Advances	$ 399,983
Loan receivable	190,000
	$ 589,983

Loan receivable of $190,000 was provided to a related party through common ownership and is unsecured, bears interest at 5% per annum, and matures on December 31, 2025. Collection of interest will start on July 1, 2023 until December 31, 2025. Principal will be collected at maturity date. Interest income for the years ended December 31, 2023, 2022 and 2021 amounted to $9,500, $4,750, and $0, respectively.

The remaining due from related parties balance represent advances to another related party through common ownership for working capital and are non-interest bearing and have no set terms of repayments.

11 - RELATED PARTY TRANSACTIONS (CONTINUED)

Due to related party

The amount due to related party represents advances received for operating expenses. The amounts are non-interest bearing and are due on demand. The entity is related to the Company through common ownership.

Lease and 401(k) Plan

The Company is operating from the premises of the related party at no charge. The Company's employees participate in a 401(k) plan that is provided by the same related party. Employees with a minimum of six months of service are eligible for the Plan. Under the plan, the Company will **match contributions up to 3% of the employee's eligible wages during the period. For the years** ended December 31, 2023, 2022 and 2021, employer contributions amounted to $17,576, $27,076 and $3,307, respectively.

12 - MANAGEMENT PLANS

As of December 31, 2023, the Company has incurred net loss of approximately $50,000. In order to improve its operating performance and return to a profitable level of operations, the Company is looking to increase total revenue by expanding to international markets and to take actions to reduce its overhead expenses and improving operating efficiency, among others. Management believes that these actions can contribute towards achieving profitability going forward; alleviating liquidity concerns and meeting strategic objectives.

13 - COVID-19 PANDEMIC

The COVID-19 pandemic has waned, but economic uncertainties caused by the pandemic **remain, which are likely to have negative impacts on the Company's operating results and** financial conditions. The Company continues to monitor its impact as consumer purchasing activities **and the Company's supply chain management capabilities** may have been negatively impacted.

14 - SUBSEQUENT EVENTS

Management has performed an analysis of activities and transactions subsequent to December 31, 2023, to determine the need for any adjustments to, and/or disclosure within, the financial statements for the year then ended. Management has performed its analysis through May 7, 2024, the date on which the financial statements were available to be issued.

FINEMAN WEST & COMPANY

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Member
Flip Flop Shops, LLC.

Our audits of the financial statements of Flip Flop Shops, LLC. for each of the three years in the period ended December 31, 2023 were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information on page 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Fineman West & Co. LLP

Los Angeles, California
May 7, 2024

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Los Angeles, CA 90017
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FLIP FLOP SHOPS, LLC.
(A WHOLLY OWNED SUBSIDIARY OF BEARPAW HOLDINGS, LLC)
DETAILED SCHEDULES OF SELLING AND MARKETING AND GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 and 2021

	2023		2022		2021	
SELLING AND MARKETING						
Advertising	$ 37,220	3.0 %	$ 51,264	3.9 %	$ 2,070	0.2 %
Travel expenses	24,717	2.0	42,582	3.3	32,822	3.0
Meals and entertainment	6,584	0.5	13,751	1.1	5,914	0.5
Trade show expense	11,897	1.0	-	-	331	-
Commission	207,350	16.8	90,500	6.9	84,184	7.6
	$ 287,768	23.3	$ 198,097	15.2	$ 125,321	11.3
GENERAL AND ADMINISTRATIVE						
Legal fees	$ 175,647	14.3	$ 131,767	10.1	$ 94,064	8.5
Insurance	8,465	0.7	13,610	1.0	12,909	1.2
Dues and subscriptions	30,880	2.5	12,306	0.9	51,758	4.7
Consulting fees	28,098	2.3	35,230	2.7	16,808	1.5
Computer expenses	20,199	1.6	18,462	1.4	14,225	1.3
Retirement plan	17,576	1.4	27,076	2.1	3,307	0.3
Taxes and licenses	14,086	1.1	19,791	1.5	12,121	1.1
Telephone	7,115	0.6	5,452	0.4	5,700	0.5
Office expenses	6,211	0.5	13,463	1.0	1,260	0.1
Bank fees	994	0.1	1,052	0.1	1,373	0.1
Employment agency	298	-	-	-	724	0.1
Outside services	-	-	339	-	2,545	0.2
Foreign currency loss	-	-	-	-	311	-
	$ 309,569	25.1	$ 278,548	21.2	$ 217,105	19.6

See accompanying independent auditors' report
on supplementary information

EXHIBIT B

FRANCHISE AGREEMENT

(INCLUDING STATE-SPECIFIC AMENDMENTS)

FLIP FLOP SHOPS, LLC

FRANCHISE AGREEMENT

FOR

Name of Franchisee

Street Address

City State Zip

(_____) _____
Area Code Telephone

FRANCHISED LOCATION:

Street Address

City State Zip

(_____) _____
Area Code Telephone

No. _____

SHOP NO.: _____
CONTRACT DATE: _____
OPEN DATE: _____
CONTROL #: _____

Form dated 2024
Franchise Disclosure Document: April 22, 2024

FLIP FLOP SHOPS, LLC

FRANCHISE AGREEMENT

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ATTACHMENTS

Attachment A	Principals' Guaranty and Assumption Agreement
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Attachment F	Definitions
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FLIP FLOP SHOPS, LLC

FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (the "Agreement") is made and entered into by and between Flip Flop Shops, LLC a California limited liability company ("Franchisor") and _____ ("Franchisee") to be effective as of the ___ day of_____, 20_, (the "Effective Date," which is the date on which Franchisor executes this Agreement). Certain initially capitalized terms used frequently in this Agreement are defined in Attachment F hereto.

RECITALS:

Franchisor has the right to use and license the use of a system (the "System") for the establishment and operation of retail Shops that specialize in the sale of flip flop shoes and related footwear and accessories under the Marks (defined below) ("Flip Flop Shops Shop" or "Shop").

The distinguishing characteristics of the System include, without limitation, distinctive exterior and interior design, decor, color scheme, and furnishings; uniform standards, specifications, policies and procedures for operations; quality and uniformity of the products and services offered; procedures for inventory, management and financial control; training and assistance; and advertising and promotional programs, all of which may be changed, improved, and further developed by Franchisor from time to time.

The System is identified by certain trade names, service marks, trademarks, logos, emblems and indicia of origin, and such other trade names, service marks, trademarks, logos, emblems and indicia of origin as are now designated, and may hereafter be designated by Franchisor in writing, for use in connection with the System (the "Marks").

Franchisee wishes to obtain a franchise to establish and operate a Flip Flop Shops Shop using the Marks and the System at the Location identified on Attachment C.

Franchisor is willing to grant Franchisee a franchise to do so upon the terms and conditions set forth in this Agreement in reliance on Franchisee's application and Franchisee's representations made in this Agreement.

NOW, THEREFORE, the parties, in consideration of the mutual undertakings and commitments set forth herein, the receipt and sufficiency of which are hereby acknowledged, agree as follows:

1. GRANT

A. Grant of Rights. Franchisor hereby grants Franchisee the right and license, and Franchisee hereby accepts the right and obligation, to establish and operate a Shop in accordance with this Agreement under the Marks and the System at the Location described in Attachment C to this Agreement.

B. Protected Area. Upon Franchisee's acquisition of the Location for the Shop, Franchisor will insert the address of the Location and a description of a Protected Area surrounding the Location in Attachment C. As long as Franchisee is in full compliance with this Agreement and any other agreement between Franchisee and Franchisor or its affiliates, then except as otherwise expressly provided in this Agreement (including Section 1.C. of this Agreement), neither Franchisor nor any affiliate of Franchisor

will establish, or authorize any person or entity other than Franchisee to establish, a Flip Flop Shops Shop in the Protected Area during the term of this Agreement.

C. Reserved Rights. The rights granted to Franchisee under this Agreement are nonexclusive, and Franchisor and its affiliates have and retain all rights within and outside the Protected Area except those expressly granted to Franchisee. Accordingly, Franchisor, its affiliates, and any other authorized person or entity shall have the right, among others, (i) within and outside the Protected Area to develop and establish other business systems (including systems that distribute products or services similar to those offered at Flip Flop Shops Shops) using the Marks, or other names or marks, and to grant licenses to use those systems without providing any rights to Franchisee, (ii) to advertise and promote the System and the Shops in the Protected Area, (iii) to operate, and license others to operate, Flip Flop Shops Shops at any location outside the Protected Area and in any Reserved Area, including locations that are adjacent to or surrounded by the Protected Area, and (iv) except for the restriction set forth in Section 1.B. against the establishment of another Flip Flop Shops Shop in the Protected Area during the term hereof, to engage, directly or indirectly, at wholesale, retail or otherwise, in the production, distribution, license and sale of any and all footwear, apparel, and related accessories or other services and products, under the Marks, or under other names or marks, within and outside the Protected Area, through any method of distribution, including, but not limited to, mail order catalogs and the Internet regardless of the proximity to, or the competitive impact on, Franchisee's Flip Flop Shops Shop.

D. Relocation. Franchisee shall not relocate the Flip Flop Shops Shop without Franchisor's express prior written consent. If Franchisee is unable to continue the operation of the Flip Flop Shops Shop at the Location because of the occurrence of an event of Force Majeure (or for other reasons not constituting an event of default under this Agreement), Franchisee may request Franchisor's consent to relocate the Shop to another location in the Protected Area. If Franchisor grants Franchisee the right to relocate the Shop, then Franchisee shall comply with such reasonable site selection and construction procedures as Franchisor may require.

2. SITE SELECTION, PLANS, CONSTRUCTION AND OPENING DATE

A. Designated Area. Franchisee assumes all cost, liability, expense and responsibility for locating (including any costs and expenses associated with engaging Franchisor's designated real estate broker), obtaining and developing a site for the Shop within the geographic area described in Attachment C ("Designated Area"). Franchisee acknowledges and agrees that the Franchisee acquires no rights in and to the Designated Area, other than the right to select a site for the Shop from within its boundaries, and, without limitation of the foregoing, Franchisee has no exclusivity rights in the Designated Area. Franchisee further acknowledges and agrees that the Designated Area excludes any existing Protected Area of another Flip Flop Shops franchisee within the Designated Area and any Protected Area of another Flip Flop Shops franchisee which may be designated after the execution of the Franchise Agreement and is within the Designated Area.

B. Site Approval. Before acquiring a site for the Shop, Franchisee shall submit to Franchisor, in the form specified by Franchisor, a description of the site, evidence satisfactory to Franchisor demonstrating that the site satisfies Franchisor's site selection guidelines, and such other information and materials as Franchisor may reasonably require, including, but not limited to, copies of a proposed lease (which incorporates a rider in substantially the form attached hereto as Attachment G) or a contract of sale for the site. Franchisor shall have thirty (30) days after receiving Franchisee's site information to accept or not accept, in Franchisor's sole discretion, the proposed site as the location for the Shop. No site may be used for a Flip Flop Shops Shop unless it is first approved in writing by Franchisor, and Franchisee shall not make any binding commitment with respect to a site for the Shop unless the site is first approved in writing by Franchisor. If Franchisor approves multiple sites for the Shop, Franchisee shall notify Franchisor in writing within ten (10) days of the date of such approval of

the site that Franchisee intends to acquire for the Shop. Franchisee acknowledges that Franchisor's acceptance of a prospective site and the rendering of assistance in the selection of a site does not constitute a representation, promise, warranty or guarantee, express or implied, by Franchisor that the Shop operated at that site will be profitable or otherwise successful. Additionally, Franchisor's approval of a lease does not mean that the economic terms of the lease are favorable; it means only that the lease contains the lease terms that Franchisor requires.

C. Site Acquisition. Promptly following Franchisor's acceptance of the site for the Shop, but in no event no later than two hundred seventy (270) days after the execution of the Franchise Agreement, Franchisee shall acquire the site by purchase or lease, at Franchisee's expense. Franchisee shall furnish to Franchisor a copy of the executed lease or contract of sale within ten (10) days after execution.

D. Contractual Designation of Site. After Franchisor accepts the site and Franchisee acquires the site pursuant to this Agreement, the address of the site shall be entered on Attachment C to the Franchise Agreement as the Location and the Designated Area will be of no further force or effect.

E. Licenses; Permits. Franchisee shall be responsible for obtaining all zoning classifications and clearances which may be required by any laws, ordinances, regulations, or restrictive covenants relating to the construction and operation of the Shop at the Location. Before beginning construction of the Shop, Franchisee shall (i) obtain all approvals, clearances, permits, licenses and certifications required for the lawful construction or remodeling and operation of the Shop, and (ii) certify in writing to Franchisor that they have been obtained. At Franchisor's request, Franchisee shall provide to Franchisor copies of all such approvals, clearances, permits, licenses and certifications. Franchisee shall further certify in writing to Franchisor that the insurance coverage specified in Section 12 of this Agreement is in full force and effect.

F. Construction and Finish Out. Franchisee shall obtain, at its expense, any architectural, engineering, design, construction and other services it deems necessary for the construction of the Flip Flop Shops Shop.

(1) Franchisee shall adapt Franchisor's prototypical architectural and design plans and specifications for a Flip Flop Shops Shop as necessary for the completion of the Site-Work for the Shop licensed under this Agreement and shall submit such adapted plans to Franchisor for review prior to submission of such plans to the landlord for its review and prior to submission of the plans to governmental authorities for permitting purposes. Franchisor will notify Franchisee of any objections to the plans within fifteen (15) days of receiving such plans. If Franchisor fails to notify Franchisee of an objection to the plans within such fifteen (15) day period, Franchisee may use the plans. If Franchisor objects to the plans, it shall provide Franchisee with a reasonably detailed list of the changes needed to make the plans consistent with System standards. Franchisor shall notify Franchisee within fifteen (15) days of receiving revised plans incorporating such changes, whether the revised plans are acceptable. If Franchisor fails to notify Franchisee of any objection within such fifteen (15) day period, Franchisee may use the revised plans. Franchisee acknowledges that Franchisor's review of such plans is only for purposes of determining compliance with System standards, and that acceptance of such plans by Franchisor does not constitute a representation, warranty, or guarantee, express or implied, by Franchisor that such plans are accurate or free of error concerning their structural application. Franchisor shall not be responsible for architecture or engineering, or for code, zoning, or other requirements of the laws, ordinances or regulations of any federal, state, local, or municipal governmental body, including, without limitation, any requirement relating to accessibility by disabled persons or others, nor shall Franchisor be responsible for any errors, omissions, or discrepancies of any nature in the plans.

(2) Franchisee shall promptly commence and diligently pursue construction of the Shop. Commencement of construction is defined as the time at which any Site Work is initiated. During construction, Franchisee shall complete all exterior and interior preparations for the Shop, including installation of equipment, fixtures, furnishings and signs, pursuant to the plans and specifications approved by Franchisor. During construction, Franchisee shall provide Franchisor with such periodic progress reports as Franchisor may reasonably request, including, but not limited to, digital photographs of the Shop premises and the surrounding area. In addition, Franchisor may make such on-site inspections as it may deem reasonably necessary to evaluate such progress. Franchisee shall notify Franchisor of the scheduled date for completion of construction no later than twenty-one (21) days prior to such date. Within a reasonable time after the date construction is completed, Franchisor shall, at its option, conduct an inspection of the completed Shop. Additionally, within a reasonable time after the date construction is completed, Franchisee will provide to Franchisor copies of the final bills and invoices for architectural, construction, and signage costs incurred by Franchisee in connection with the build-out of the Shop.

G. Opening Date. Franchisee shall open the Shop and commence business within three hundred sixty five days (365) days after the execution of this Agreement, unless Franchisee obtains a written extension of such time period from Franchisor, but Franchisee shall not open the Shop for business without the written authorization of Franchisor, which authorization shall be conditioned upon Franchisee's strict compliance with this Agreement, including, but not limited to, those obligations described in Section 6 of this Agreement. If Franchisee fails to comply with any of its obligations under this Agreement, Franchisor shall have the right to prohibit Franchisee from opening. Franchisee's failure to open the Shop in compliance with these provisions shall be deemed a material event of default under this Agreement.

3. TERM AND RENEWAL

A. Term. Unless sooner terminated as provided in this Agreement, the term of this Agreement will begin on the Effective Date and will continue until ten (10) years from the Opening Date for a Standard Shop

B. Renewal. Franchisee may, at its option, renew its rights under this Agreement for two (2) additional consecutive terms of five (5) years each, subject to any or all of the following conditions which must, at Franchisor's option, be met prior to and at the time of renewal:

(1) Franchisee shall give Franchisor written notice of Franchisee's election to renew not less than six (6) months nor more than nine (9) months before the end of the initial term and renewal term, as applicable;

(2) Franchisee shall refurbish, repair or replace, at Franchisee's cost and expense, all equipment, electronic cash register systems, computer systems, signs, interior and exterior decor items, fixtures, furnishings, supplies and other products and materials required for the operation of the Shop as Franchisor may reasonably require and shall otherwise upgrade the Shop to reflect the then-current standards and image of the System;

(3) Franchisee shall not be in default of any provision of this Agreement, any amendment hereof or successor hereto; neither Franchisee nor its affiliates shall be in default of any other agreement with Franchisor or any of its affiliates; and Franchisee and its affiliates shall have substantially and timely complied with the terms and conditions of such agreements during the respective terms thereof;

(4) Franchisee shall have timely satisfied all monetary obligations owed to Franchisor and its affiliates under this Agreement and any other agreement between Franchisee or any of its affiliates and Franchisor or any of its affiliates;

(5) Franchisee shall present evidence satisfactory to Franchisor that Franchisee has the right to remain in possession of the premises of the Shop during the renewal term or obtain Franchisor's consent to a new site for the Shop;

(6) Franchisee shall execute Franchisor's then-current form of renewal franchise agreement, which agreement shall supersede this Agreement in all respects, and the terms of which may differ from the terms of this Agreement, including, without limitation, a higher royalty fee and advertising contribution or expenditure requirement;

(7) Franchisee shall pay to Franchisor a renewal fee equal to one-half (1/2) of the then-current initial franchise fee.

(8) Franchisee and its Principals shall execute a general release of any and all claims against Franchisor, its affiliates, and their respective officers, directors, shareholders, partners, members, agents, representatives, independent contractors, servants and employees, past and present, in their corporate and individual capacities, including, without limitation, claims arising under this Agreement or under federal, state or local laws, rules, regulations or orders; and

(9) Franchisee shall comply with Franchisor's then-current qualification and training requirements.

4. FEES

A. Initial Franchise Fee. Franchisee shall pay Franchisor an initial franchise fee, which shall be deemed fully earned and nonrefundable upon receipt by Franchisor, according to the following:

(1) If this Agreement is not executed contemporaneously with at least one (1) additional Flip Flop Shops Franchise Agreement, or if this Agreement is the first of at least two (2) or more Flip Flop Shops Franchise Agreements to be executed contemporaneously, Franchisee shall pay Franchisor an initial franchise fee of Twenty-Five Thousand Dollars ($25,000) upon the execution of this Agreement.

(2) If this Agreement is the second (2nd) or subsequent Flip Flop Shops Franchise Agreement to be executed contemporaneously with at least one (1) additional Flip Flop Shops Franchise Agreement, Franchisee shall pay Franchisor an initial franchise fee of Twenty-Five Thousand Dollars ($25,000) upon the execution of this Agreement.

B. Royalty Fee. During the term of this Agreement, Franchisee shall pay to Franchisor a continuing weekly royalty fee in an amount equal to five percent (5%) of the Shop's Gross Sales. Such royalty fee shall be due and payable each week based on the Shop's Gross Sales for the immediately preceding week and shall be paid by Franchisee to Franchisor via electronic funds transfer, or any other means reasonably specified by Franchisor, so that it is received by Franchisor on or before Wednesday of the following week, provided such day is a Business Day. If the date on which a royalty payment would otherwise be due is not a Business Day, then payment shall be due on the next Business Day. For purposes of this Section 4.B., the Shop's first week of operation shall begin on the Opening Date and shall end on the following Sunday and each subsequent week shall begin on Monday and conclude on the following Sunday. On or before Tuesday or each week, Franchisee shall provide a Gross Sales Report to Franchisor for Gross Sales accruing during the immediately preceding week. Notwithstanding the foregoing, if Franchisee is in default of this Agreement for failure to meet operational standards, we may, as an alternative remedy to termination, increase the royalty fee to ten percent (10%) of Gross Sales and charge you an additional Two Hundred Fifty Dollars ($250) each week until you rectify the deficiencies.

C. Past Due Amounts; Acceptance and Application of Payments.

(1) In addition to the initial franchise fee and monthly royalty, Franchisee shall pay when due all other fees or amounts described in this Agreement. Time is of the essence for all payments to be made by Franchisee to Franchisor. Any payment not actually received by Franchisor on or before the due date shall be deemed overdue. All unpaid obligations under this Agreement shall bear interest from the date due until paid at the lesser of eighteen (18%) percent per annum, or the maximum rate allowed by applicable law. No provision of this Agreement shall require the payment or permit the collection of interest in excess of the maximum rate allowed by applicable law. If for any reason interest in excess of the maximum rate allowed by applicable law shall be deemed charged, required or permitted, any such excess shall be applied as a payment to reduce any other amounts which may be due and owing hereunder, and if no such amounts are due and owing hereunder, then such excess shall be repaid to the party making the payment. Franchisor may also charge Franchisee a late fee in the amount of One Hundred Dollars ($100) for each late payment in addition to the interest payable pursuant to this Section 4.C(1).

(2) Acceptance by Franchisor of any payments due subsequent to the due date shall not be deemed to be a waiver by Franchisor of any preceding breach by Franchisee or the Principals of any terms, provisions, covenants or conditions of this Agreement.

(3) Franchisor shall have the right to apply any payment it receives from Franchisee to any amounts Franchisee owes Franchisor or its affiliates under this Agreement or any other agreement between them, even if Franchisee has designated the payment for another purpose or account. Franchisor may accept any check or payment in any amount from Franchisee without prejudice to Franchisor's right to recover the balance of the amount due or to pursue any other right or remedy. No endorsement or statement on any check or payment or in any letter accompanying any check or payment or elsewhere shall constitute or be considered as an accord or satisfaction.

(4) Franchisee shall have no right to withhold any payments due Franchisor on account of Franchisor's breach or alleged breach of this Agreement, and no right to offset any amount due Franchisor against any obligation that Franchisor may owe to Franchisee.

D. Electronic Funds Transfer. At Franchisor's request, Franchisee shall execute Attachment E to this Agreement and all other documents necessary to permit Franchisor to withdraw funds from Franchisee's designated bank account by electronic funds transfer ("EFT") in the amount of the royalty fee in Section 4.B., the advertising contribution described in Section 8.C., and any other amounts due under this Agreement at the time such amounts become due and payable under the terms of this Agreement. Any fee calculated by reference to Gross Sales shall be based on the information obtained by Franchisor pursuant to Section 11.B. of this Agreement or the Gross Sales Report. If the Gross Sales Report has not been received within the time period required by this Agreement, then Franchisor may process an EFT for the subject month based on the most recent Gross Sales Report provided to Franchisor by Franchisee; provided, that if a Gross Sales Report for the subject month is subsequently received and reflects (i) that the actual amount of the fee due was more than the amount of the EFT, then Franchisor shall be entitled to withdraw additional funds through EFT from Franchisee's designated bank account for the difference; or (ii) that the actual amount of the fee due was less than the amount of the EFT, then Franchisor shall credit the excess amount to the payment of Franchisee's future obligations. Should any EFT not be honored by Franchisee's bank for any reason, Franchisee agrees that it shall be responsible for that payment and any service charge. If any payments are not received when due, interest may be charged in accordance with Section 4.C. Upon written notice to Franchisee, Franchisor may designate another method of payment.

5. FRANCHISOR'S OBLIGATIONS

Franchisor agrees to provide, or cause the following services to be provided to Franchisee:

A. Site Selection Assistance. Franchisor's written site selection guidelines and such site selection assistance as Franchisor deems advisable.

B. On-Site Selection Evaluation. Such on-site evaluation as Franchisor may deem necessary on its own initiative or in response to Franchisee's reasonable request for site selection assistance; provided, that Franchisor shall not provide an on-site evaluation for any proposed site prior to receiving all required information and materials prepared and submitted pursuant to Section 2.B., above and, in Franchisor's discretion, prior to receiving such information for multiple proposed sites. Franchisor will provide up to two (2) on-site evaluations for the Shop if this is the first (1st) Flip Flop Shops Shop developed by Franchisee or its affiliate at no additional charge to Franchisee. If more than two (2) on-site evaluations are deemed appropriate by Franchisor, or are requested by Franchisee, for selecting a site for the first (1st) Flip Flop Shops Shop developed by Franchisee or its affiliates, then Franchisor may require Franchisee to pay Franchisor a reasonable fee for performing each such additional site evaluation and to pay or reimburse Franchisor for the amount of the reasonable expenses, including, without limitation, the cost of travel, lodging, and meals, incurred by Franchisor in conducting such on-site evaluation(s). If this is the second (2nd) and subsequent Flip Flop Shops Shop developed by Franchisee or its affiliates, Franchisor may require Franchisee to pay Franchisor a reasonable fee for any on-site evaluation and to pay or reimburse Franchisor's reasonable expenses incurred in conducting any on-site evaluation(s).

C. Prototype Plans. Access to a set of prototypical architectural and design plans and specifications for a Flip Flop Shops Shop.

D. Manuals. Beginning during the initial training program, access to one (1) set of the Manuals, either in paper or electronic form.

E. Software Programs. For a reasonable fee, any Software Programs that Franchisor acquires or develops for use in the System; provided, that Franchisor is under no obligation to develop or acquire such Software Programs.

F. Inspections. Inspections of the Shop and evaluations of the products sold and services rendered therein from time to time as reasonably determined by Franchisor.

G. Advertising. Administration of a brand building fund in accordance with Section 8, as well as the provision of certain advertising and promotional materials developed by Franchisor from time to time for use in marketing and conducting advertising for System Shops.

H. Operational Advice. Advice and written materials concerning techniques for managing and operating Flip Flop Shops Shops, including new developments and improvements in System equipment and System products.

I. Approved Brands List. Publication of the Approved Brand List

J. Approved Suppliers. From time to time as the Franchisor deems appropriate to update the list of approved suppliers.

K. Collateral Merchandise; Equipment. From time to time in Franchisor's discretion and at a reasonable cost, certain merchandise identifying the System, such as caps, t-shirts and other System memorabilia, in sufficient amounts to meet customer demand.

L. Training. An initial training program for Franchisee's Operating Principal and Lead Manager (if applicable), and additional training programs in accordance with Section 7.M. With Franchisor's prior written consent and subject to its then-current certification procedures, Franchisor may authorize Franchisee to implement a training program for the employees of the Shops developed pursuant to this Agreement in accordance with Franchisor's then-current standards.

M. Opening Assistance. Such on-site pre-opening and opening assistance as Franchisor reasonably deems necessary but in no event less than two (4) days of such assistance.

N. Remedial Training. Upon Franchisee's reasonable request or if Franchisor shall determine it to be necessary during the term of this Agreement, on-site remedial training; provided, that remedial training shall be conducted subject to the availability of Franchisor's personnel, and provided further, that Franchisor may require Franchisee to pay the per diem fee then being charged for on-site remedial training, and pay or reimburse Franchisor for the expenses incurred by its representatives, including the costs of travel, lodging, meals, and wages.

O. Franchisor's Obligations. Franchisee acknowledges that it is relying solely on Flip Flop Shops, LLC, and not on any affiliated entities or parent companies related to Flip Flop Shops, LLC, with regard to Franchisor's financial and other obligations under this Agreement, and no employee or other person speaking on behalf of, or otherwise representing, Flip Flop Shops, LLC, has made any statement or promise to the effect that any affiliated entities or parent companies guarantee Franchisor's performance or financially back Franchisor.

6. FRANCHISEE'S AGREEMENTS, REPRESENTATIONS, WARRANTIES AND COVENANTS

A. Disclosure and Franchisee's Investigation of this Franchise.

(1) Franchisee acknowledges having received a complete copy of this Agreement and all related attachments and exhibits and a complete copy of Franchisor's franchise disclosure document required by the Federal Trade Commission's Franchise Trade Regulation Rule (16 C.F.R. Part 436) within the time period required by applicable law before Franchisee executed this Agreement or paid any consideration to Franchisor. Franchisee acknowledges that it did not rely on any promises, representations or agreements about the Flip Flop Shops System or the franchise not expressly contained in this Agreement or Franchisor's franchise disclosure document in making its decision to sign this Agreement. Franchisee acknowledges that Franchisor and its representatives have not made any promises, representations or agreements, oral or written, except as expressly contained in this Agreement and the franchise disclosure document. Franchisee further acknowledges that Franchisee has read this Agreement and Franchisor's franchise disclosure document and that Franchisee understands the terms of this Agreement and accepts them as being reasonably necessary for Franchisor to maintain the uniformity of Flip Flop Shops Shops and to protect the goodwill of the Marks and the integrity of the System.

(2) Franchisee has conducted an independent investigation of the business contemplated by this Agreement and recognizes that an investment in a Flip Flop Shops Shop involves business risks; that Franchisee's success is largely dependent on Franchisee's abilities and efforts; and that the nature of Flip Flop Shops Shops may change over time. **Franchisee has not received or relied on any guaranty or assurance, express or implied, as to the revenues, profits or success of the business contemplated by this Agreement.**

(3) Franchisee understands and agrees that Franchisor may operate and change the System and Franchisor's business in any manner that is not expressly and specifically prohibited by this Agreement. Without limitation of the foregoing, Franchisee acknowledges that the inventory and services

to be offered by Franchisee at the Shop may be supplemented, improved or otherwise modified from time to time by Franchisor.

(4) Whenever Franchisor has expressly reserved in this Agreement, or is deemed to have, a right and/or discretion to take or withhold an action, or to grant or decline to grant Franchisee a right to take or withhold an action, then except as otherwise expressly and specifically provided in this Agreement, Franchisor may make its decision or exercise its right and/or discretion on the basis of Franchisor's judgment of what is in Franchisor's best interests, including, without limitation, Franchisor's judgment of what is in the best interests of Franchisor's franchise network, at the time Franchisor's decision is made or Franchisor's right or discretion is exercised, without regard to whether: (i) other reasonable alternative decisions or actions could have been made by Franchisor; (ii) Franchisor's decision or the action Franchisor takes promotes its financial or other individual interest; (iii) Franchisor's decision or the action Franchisor takes applies differently to Franchisee and one or more other franchisees or Franchisor's company-owed operations; or (iv) Franchisor's decision or the exercise of Franchisor's right or discretion is adverse to Franchisee's interests. In the absence of an applicable statute, Franchisor will have no liability to Franchisee for any such decision or action. Franchisor and Franchisee intend that the exercise of Franchisor's right or discretion will not be subject to limitation or review. If applicable law implies a covenant of good faith and fair dealing in this Agreement, Franchisor and Franchisee agree that such covenant shall not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement and that this Agreement grants Franchisor the right to make decisions, take actions and/or refrain from taking actions not inconsistent with Franchisee's rights and obligations hereunder.

B. Organization. If Franchisee is a corporation, partnership, limited liability company or other legal entity:

(1) Franchisee is duly organized and validly existing under the laws of the state of its formation;

(2) Franchisee is duly qualified and is authorized to do business in each jurisdiction in which its business activities or the nature of the properties owned by it require such qualification;

(3) Franchisee's corporate charter or written partnership or limited liability company agreement shall at all times provide that the activities of Franchisee are confined exclusively to the operation of Flip Flop Shops Shops;

(4) The execution of this Agreement and the performance of the transactions contemplated hereby are within Franchisee's corporate power, if Franchisee is a corporation, or if Franchisee is a partnership or a limited liability company, are permitted under Franchisee's written partnership or limited liability company agreement and have been duly authorized by Franchisee; and

(5) Franchisee has provided to Franchisor prior to the execution of this Agreement, and will from time to time during the term of this Agreement at Franchisor's request provide to Franchisor, copies of Franchisee's articles of incorporation and bylaws or, as applicable, Franchisee's written partnership or limited liability company agreement, other governing documents, any amendments to them, resolutions authorizing Franchisee's entry into and performance of this Agreement, and any certificates, buy-sell agreements or other documents restricting the sale or transfer of Franchisee's stock or other ownership interests and any other documents that Franchisor may reasonably request.

C. Ownership.

(1) If Franchisee is a corporation, partnership, limited liability company or other legal entity, the ownership interests in Franchisee are accurately and completely described in Attachment D. If Franchisee is a corporation, Franchisee shall maintain at all times a current list of all owners of record and all beneficial owners of any class of voting securities in Franchisee or, if Franchisee is a partnership, limited liability company or other form of legal entity, Franchisee shall maintain at all times a current list of all owners of an interest in the partnership, limited liability company or other entity. Franchisee shall make its list of owners available to Franchisor upon request.

(2) If Franchisee is a corporation, Franchisee shall maintain stop-transfer instructions against the transfer on its records of any of its equity securities and each stock certificate representing stock of the corporation shall have conspicuously endorsed upon it a statement in a form satisfactory to Franchisor that it is held subject to all restrictions imposed upon assignments by this Agreement. If Franchisee is a partnership or limited liability company, its written partnership or limited liability company agreement shall provide that ownership of an interest in the partnership or limited liability company is held subject to all restrictions imposed upon assignments by this Agreement.

D. Financial Matters.

(1) Franchisee has provided Franchisor with the most recent financial statements of Franchisee. Such financial statements present fairly the financial position of Franchisee as of the dates indicated therein and the results of its operations and its cash flow for the years then ended. Each of the financial statements are certified as true and correct and have been prepared in conformity with generally accepted accounting principles and, except as expressly described in the applicable notes, applied on a consistent basis. There are no material liabilities, adverse claims, commitments or obligations of any nature, whether accrued, unliquidated, absolute, contingent or otherwise, which are not reflected as liabilities on the financial statements.

(2) The Principals that Franchisor designates shall jointly and severally guarantee the performance of Franchisee's obligations under this Agreement pursuant to the terms and conditions of the Principal's Guaranty and Assumption Agreement at Attachment A hereto, and shall otherwise bind themselves to the terms of this Agreement as stated herein.

(3) Franchisee shall provide Franchisor with any and all loan or other documents regarding the financing of its Shop that Franchisor may request.

(4) Franchisee shall maintain at all times during the term of this Agreement sufficient working capital to fulfill its obligations under this Agreement.

E. Legal Compliance. In addition to complying with Franchisee's obligations under this Agreement, Franchisee agrees to comply with all applicable federal, state and local laws, rules, regulations, ordinances and orders. Such laws, rules, regulations, ordinances and orders vary from jurisdiction to jurisdiction and may be amended or implemented or interpreted in a different manner from time to time. It is Franchisee's sole responsibility to apprise itself of the existence and requirements of all such laws, rules, regulations, ordinances and orders, and to adhere to them at all times during the term of this Agreement. Without limiting the foregoing, Franchisee certifies that neither Franchisee nor any of Franchisee's Principals, employees or anyone associated with Franchisee is listed in connection with any Anti-Terrorism Law (including, but not limited to, the Annex to Executive Order 13224 (The Annex is available at (http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx), and Franchisee agrees not to hire or have any dealings with a person so listed. Franchisee further certifies that Franchisee has no knowledge or information that, if generally known, would result in Franchisee,

Franchisee's Principals, employees, or anyone associated with Franchisee being so listed. Franchisee agrees to comply with and/or assist Franchisor to the fullest extent possible in Franchisor's efforts to comply with the Anti-Terrorism Laws and, in connection with such compliance, Franchisee represents and warrants that none of Franchisee's property or interests are subject to being "blocked" under any of the Anti-Terrorism Laws and that Franchisee and Franchisee's Principals are not otherwise in violation of any of the Anti-Terrorism Laws. Franchisee is solely responsible for ascertaining what actions it must take to comply with all Anti-Terrorism Laws, and Franchisee specifically acknowledges and agrees that its indemnification responsibilities as provided in this Agreement pertain to its obligations under this Section 6.E. Any misrepresentation by Franchisee under this Section or any violation of the Anti- Terrorism Laws by Franchisee, its owners, or employees shall constitute grounds for immediate termination of this Agreement and any other agreement Franchisee has entered into with Franchisor or one of its affiliates.

F. Powers of Attorney. Franchisee hereby appoints Franchisor its true and lawful attorney-in-fact, with full power and authority to (i) assign to Franchisor upon the termination or expiration of this Agreement (a) all rights to the telephone numbers of the Shop, any related Yellow Pages trademark listings, and all rights to any Website listings or services, search engines or systems, and any other business listings related to the Shop and (b) at Franchisor's option, Franchisee's interest in any lease for the premises of the Shop and any equipment used in the operation of the Shop; and (ii) obtain any and all returns and reports related to the Shop that Franchisee files with any local, state or federal taxing authority. Such powers of attorney shall survive the expiration or termination of this Agreement and Franchisee shall execute such forms and documents as Franchisor deems necessary to appoint Franchisor its true and lawful attorney-in-fact with full power and authority for the foregoing purposes.

G. No Competing Interests. Franchisee warrants and represents that neither Franchisee nor any of its affiliates or Principals own, operate or have any financial or beneficial interest in any business that is the same as or similar to a Flip Flop Shops Shop (including, without limitation, any retail facility which primarily offers and sells flip flop shoes and related footwear and accessories).

H. Continuing Obligations. Franchisee and Franchisee's Principals make the foregoing representations, warranties and covenants understanding that such representations, warranties and covenants are continuing obligations. Franchisee agrees to cooperate with Franchisor to verify Franchisee's and Franchisee's Principals' continuing compliance with such representations, warranties and covenants. Any failure to comply with these representations, warranties and covenants will constitute a material event of default under this Agreement.

7. SHOP OPERATIONS

A. Standards Compliance. While Franchisee acknowledges the importance of maintaining uniformity among all of the Flip Flop Shops Shops and the importance of complying with all of Franchisor's standards and specifications relating to the operation of the Flip Flop Shops Shops, Franchisee further acknowledges and agrees that local conditions or other special circumstances may warrant a deviation from such Standards, specifications, policies, or procedures and Franchisor may, in its sole discretion, allow or deny such deviation. To protect the reputation and goodwill of Franchisor and to maintain the high standards of operation under the Marks, Franchisee shall conduct its business in accordance with the Manuals, other written directives which Franchisor may issue to Franchisee from time to time, and any other manuals and materials created or approved for use in the operation of Flip Flop Shops Shops.

B. Maintenance of Flip Flop Shops Shop. Franchisee shall maintain the Flip Flop Shops Shop in a high degree of sanitation and repair, and shall make such additions, alterations, repairs and replacements as may be required for that purpose, including, without limitation, such periodic repainting

or replacement of signs, furnishings, décor, and equipment (including, but not limited to, point of sale or computer systems) as Franchisor may reasonably direct. Franchisee also shall obtain, at Franchisee's cost and expense, any new or additional equipment, fixtures, supplies and other products and materials which Franchisor may reasonably require for Franchisee to offer and sell new services or products from the Flip Flop Shops Shop or to provide such services or products by alternative means. Except as may be expressly provided in the Manuals, no alterations, improvements or changes of any kind in design, equipment, signs, interior or exterior decor items, fixtures or furnishings shall be made in or about the Shop without Franchisor's prior written approval.

C. Upgrade of Shop. Upon Franchisor's request, Franchisee shall make such improvements to the Shop to conform it to Franchisor's then-current standards and specifications. Without limitation of the foregoing, Franchisee agrees that it will make any capital improvements required by this Section 7.C. if requested by Franchisor on or after the third (3rd) anniversary of the Opening Date, or at such other time during the term of this Agreement that a majority of the Flip Flop Shops Shops then operated by Franchisor or its affiliates have made or are utilizing best efforts to make such improvements.

D. Sourcing. Franchisee shall comply with all of Franchisor's standards and specifications relating to the purchase of all inventory, fixtures, furnishings, equipment (including computer hardware and software) and other products and services used or offered for sale at each Shop. Franchisor may designate in the Manuals or otherwise in writing certain products or services which must be purchased exclusively from suppliers (including manufacturers, distributors and other sources) which have been approved by Franchisor, in which case Franchisee must obtain these products and services from those approved suppliers. In approving suppliers, Franchisor may require that they demonstrate to Franchisor's satisfaction the ability to meet Franchisor's then-current standards and specifications for inventory, fixtures, furnishings, equipment and other products or services used or offered for sale at Flip Flop Shops Shops and who possess adequate quality controls and capacity to supply Franchisee's needs and distribute promptly and reliably over an extended period of time; and who have been approved in writing by Franchisor prior to any purchases by Franchisee from any such supplier and who have not thereafter been disapproved by Franchisor. Franchisor's approval of a supplier indicates only that Franchisor has determined that such supplier meets Franchisor's then-current minimum standards, but Franchisee acknowledges that Franchisor's approval of any supplier does not constitute a representation, promise, warranty or guarantee, express or implied, by Franchisor with respect to the products sold or services rendered by such supplier or that the supplier has obtained or maintained all necessary licenses, permits or other qualifications required by applicable law or met all, or any other particular, legal or other requirement that may be applicable to such supplier. Franchisee acknowledges and agrees that (i) Franchisor may change the number of approved suppliers or distributors at any time and may designate itself, an affiliate, or a third party as the exclusive source for any particular product or service; and (ii) Franchisor may profit from Franchisee's purchases from approved suppliers, or distributors, and Franchisor and/or its affiliates may receive payments, fees, commissions or reimbursements from such suppliers or distributors in respect of Franchisee's purchases. If Franchisee desires to purchase, lease or use any products, services or other items from an unapproved supplier, Franchisee shall submit to Franchisor a written request for such approval, or shall request the supplier itself to do so together with such information as may be requested by Franchisor or required to be provided pursuant to the Manuals (which may include reasonable financial, operational and economic information regarding its business, services and its product). Franchisee shall not purchase or lease from any supplier until and unless, and only for so long as, such supplier has been approved in writing by Franchisor. Franchisor shall have the right to require that such supplier demonstrate that, in Franchisor's sole determination that such supplier meets Franchisor's then-current standards and specifications, permit Franchisor or its representatives to inspect the supplier's facilities, and deliver samples at no charge, either to Franchisor or to an independent laboratory designated by Franchisor for testing. A charge, not to exceed the cost of the inspections and of the testing (including Franchisor's administrative costs attributable to both), shall be paid by Franchisee or the supplier. Franchisor reserves the right, at its option, to re-inspect from time to time the facilities

and products of any such approved supplier and to revoke its approval upon the supplier's failure to continue to meet any of Franchisor's then-current standards and specifications. Nothing in the foregoing shall be construed to require Franchisor to approve any particular supplier. Franchisee's failure to comply with the provisions of this Section 7.D. shall be deemed a material breach under this Agreement. Franchisee may purchase from any supplier products and services for which Franchisor has not identified approved suppliers, if such items and services meet our specifications. These specifications may include brand requirements. If brand requirements have been identified, you must purchase and use only approved brands, which may change from time to time.

E. Inventory

(1) Franchisor will provide Franchisee with an Approved Inventory List containing the inventory items (including the brand and style of each item) approved by Franchisor for sale in Flip Flop Shop Shops. Franchisee must stock all items on the Approved Inventory List in the Shop. Franchisor will update the Approved Inventory List periodically and provide Franchisee with the updated list. Franchisor will, in its discretion, determine the brands and styles of flip flop shoes and related footwear and accessories included on the Approved Inventory List. Franchisor may also require Franchisee to maintain certain percentages of particular brand(s) and/or styles(s) as part of the inventory that is displayed in the Shop. Franchisor will provide Franchisee with written advice and recommendations with respect to inventory orders, but subject to the foregoing, Franchisee shall be solely responsible for determining the quantity, colors and sizes of the items ordered for the Shop. Franchisee must submit its inventory orders directly to the manufacturer or supplier at such times and in the manner as may be established by Franchisor in the Manual or other written directives, including placing "pre-book" orders on or before the deadlines set by each manufacturer or distributor for pre-book orders. Franchisee shall promptly pay the invoices with respect to all inventory in accordance with their terms. Franchisee shall establish its own credit and payment arrangements with manufacturers and suppliers. Franchisee acknowledges that the terms of such credit and payment arrangements will depend on various factors, including Franchisee's credit history, and that such terms may differ from the terms that Franchisor or its affiliates may have with such manufacturers and suppliers for company-owned Flip Flop Shops Shops. Franchisor does not guarantee the availability of any of the items on the Approved Inventory List.

(2) All inventory shall be displayed, sold and delivered according to the specifications contained in the Manual or as otherwise directed by Franchisor. Franchisee shall make no sales of inventory or services outside of the premises of Franchisee's Shop unless Franchisor otherwise consents in writing.

(3) Franchisee may stock additional styles of footwear in the Shop which are not included on the Approved Inventory List if those additional styles are of one of the brands listed on the then-current Approved Inventory List. If Franchisee desires to offer any other brand or inventory items not on the Approved Inventory List, Franchisee shall submit to Franchisor a written request for approval in writing. Franchisor's approval of such items may be granted or withheld in Franchisor's sole discretion.

F. Operational Requirements. Franchisee shall operate the Shop in full conformity with Franchisor's methods, standards and specifications as set forth in the Manuals and as from time to time otherwise prescribed in writing. Without limitation of the foregoing, Franchisee agrees:

(1) To sell or offer for sale all inventory items, products and services required by Franchisor utilizing the method, manner and style of distribution prescribed by Franchisor.

(2) To sell and offer for sale only the inventory items, products and services that have been expressly approved for sale in writing by Franchisor; to discontinue selling and offering for

sale any inventory items, products or services and any method, manner or style of distribution which Franchisor may, in its sole discretion, disapprove in writing at any time; and to refrain from deviating from Franchisor's standards and specifications without Franchisor's prior written consent.

(3) To purchase or lease and install, at Franchisee's expense, all fixtures, furnishings, equipment (including the Computer Systems), decor items, signs, and related items that Franchisor may reasonably direct from time to time in the Manuals or otherwise in writing; and to refrain from installing or permitting to be installed on or about the Shop premises, without Franchisor's prior written consent, any fixtures, furnishings, equipment, decor items, signs, video or other games, vending machines or other items not previously approved as meeting Franchisor's standards and specifications, as set forth in the Manuals.

(4) To grant Franchisor and its agents the right to enter the Shop for the purpose of conducting inspections; to cooperate with Franchisor's representatives in such inspections by rendering such assistance as they may reasonably request; and, upon notice from Franchisor or its agents and without limiting Franchisor's other rights under this Agreement, to take such steps as may be necessary to correct promptly any deficiencies detected during an inspection. Should Franchisee, for any reason, fail to correct such deficiencies within a reasonable time, as determined by Franchisor, Franchisor shall have the right and authority (without, however, any obligation to do so) to correct such deficiencies and charge Franchisee a reasonable fee for Franchisor's expenses in so taking the corrective action (including, without limitation, any necessary reinspection). Any such fee is payable by Franchisee immediately upon demand.

(5) To maintain a competent, courteous, conscientious, sales-oriented trained staff and to take any and all steps as are necessary to ensure that its employees preserve good customer relations and comply with any dress code Franchisor may prescribe.

G. Computer Systems. Franchisee agrees to use the Computer System that Franchisor specifies from time to time for use in the operation of the Shop. Franchisee acknowledges that Franchisor may modify the specifications, components, accessories, or peripheral equipment of any such Computer System from time to time. As part of the Computer System, Franchisor may require Franchisee to obtain specified computer hardware and/or software, including, without limitation, a license to use Software Programs developed by Franchisor or others. Changes to the Computer System specifications may require Franchisee to incur costs to purchase, lease, and/or license new or modified computer hardware and/or software and to obtain service and support for the Computer System during the term of this Agreement. Franchisee acknowledges that Franchisor cannot estimate the future costs of the Computer System (or additions or modifications thereto) and that the cost to Franchisee of obtaining the Computer System (including software licenses and/or support services) or additions or modification thereto may not be fully amortizable over the remaining term of this Agreement. Nonetheless, Franchisee agrees to incur such costs. Within sixty (60) days after Franchisee receives notice from Franchisor, Franchisee agrees to obtain the components of the Computer System that Franchisor requires. Franchisee further acknowledges and agrees that Franchisor has the right to charge a reasonable systems fee for any software or systems modifications and enhancements specifically made for Franchisor that are licensed to Franchisee and other maintenance and support services that Franchisor or its affiliate may furnish to Franchisee.

Franchisee acknowledge and agrees that protection of customer privacy and credit card information is necessary to protect the goodwill of businesses operating under the Marks and System. Accordingly, Franchisee agrees that it will cause its Flip Flop Shops business to meet or exceed, at all times, all applicable security standards developed by the Payment Card Industry Data Security Standards ("**PCI DSS**") council, or its successor, and other regulations and industry standards applicable to the protection of customer privacy and credit card information, including but not limited to the Fair and Accurate Credit Transaction Act ("**FACTA**") and all other successor or additional laws, and all other data

security requirements we prescribe. Franchisee is solely responsible for educating itself as to these regulations and standards and for achieving and maintaining applicable compliance certifications.

H. Internet Website. Franchisee agrees to install and maintain all hardware and software needed to access the Internet at the bit speed and bandwidth specifications Franchisor requires from time to time. **Franchisee further agrees that Franchisee will not establish any website or other listing on the Internet except as provided herein and will not use any of the Marks as part of any domain name, web address, or e-mail address.**

(1) Without Franchisor's prior written approval, which Franchisor may give or withhold in Franchisor's sole discretion, Franchisee may not develop, create, generate, own, or otherwise use any computer and/or electronic media (including but not limited to the Internet, bulletin boards, social networking sites (e.g., Facebook), and news groups) in connection with the Shop. If Franchisor grants approval for Franchisee's use of an Internet website, Franchisee acknowledges that the form, content and appearance of any Internet website Franchisee uses must comply with the System standards and must be approved by Franchisor in writing before being used. Accordingly, Franchisee agrees that Franchisee have no authority to, and Franchisee will not, establish any website that creates any association with the Marks or the System, or post any advertisements or material on the Internet that depict or display the Marks or suggest an association with the System, without Franchisor's express prior written consent. Without limitation of the foregoing, if Franchisor requires, any Internet website created by or for Franchisee must contain a hypertext link to Franchisor's Internet website in the form Franchisor requires, and no other hypertext links to third party Internet websites unless previously approved in writing by Franchisor. Notwithstanding Franchisor's approval of a website, Franchisor reserves the right to revoke Franchisor's approval at any time that the website fails to continue to meet Franchisor's standards, and Franchisee agrees that upon such revocation, Franchisee will immediately discontinue use of the website.

(2) Franchisee agrees that Franchisee has no authority to, and Franchisee will not, register any domain name in any class or category that uses or creates any association with the Marks (including any abbreviation, acronym, phonetic variation or visual variation of the Marks) or the System without Franchisor's express prior written consent. Franchisee must obtain Franchisor's written approval for Franchisee's domain name prior to use. Franchisee's domain name must be registered in Franchisor's name and licensed to Franchisee by Franchisor. On termination or expiration of this Agreement, the license of the domain name to Franchisee will automatically terminate and Franchisee agrees to undertake all such actions that Franchisor requires to disassociate itself with the domain name.

(3) Franchisor may establish an Internet website that provides information about the System and the products and services offered by Flip Flop Shops Shops. If Franchisor establishes an Internet website, Franchisor will have sole discretion and control over the website, including timing, design, contents and continuation. Franchisor may include at the website interior pages containing information about Franchisor's franchisees' Flip Flop Shops Shops and may require Franchisee to prepare all or a portion of the page for Franchisee's Shop, at Franchisee's expense, using a template that Franchisor provides, with all such information subject to Franchisor's approval prior to posting. Franchisor may use Brand Building Fund monies to establish and maintain the website.

(4) Franchisor also has the sole right (but no obligation) to develop an Intranet through which Franchisor and Franchisor's franchisees can communicate by e-mail or similar electronic means. If Franchisor develops an Intranet, Franchisee agrees to participate in strict compliance with Franchisor's standards, protocols and restrictions, including, without limitation, standards, protocols and restrictions relating to the encryption of confidential information and prohibitions against the transmission of libelous, derogatory or defamatory statements. Franchisor may, in Franchisor's sole discretion, charge a reasonable fee for Intranet usage, which Franchisee agrees to pay in accordance with Franchisor's invoice.

I. Customer Complaints; Other Incidents. Franchisee shall process and handle all consumer complaints connected with or relating to the Shop and shall promptly notify Franchisor of all: (i) claims exceeding One Thousand Dollars ($1,000), (ii) any other material claims against or losses suffered by Franchisee, and (iii) all Crisis Management Events. Upon the occurrence of a Crisis Management Event, Franchisee agrees to immediately inform Franchisor's authorized representative (as identified in the Manuals) of such event and to cooperate fully with Franchisor and with the appropriate authorities with respect to the investigation of the Crisis Management Event. In an effort to mitigate possible damages to the Marks and System, Franchisee must cooperate fully with Franchisor with respect to managing statements and other responses to the Crisis Management Event. "**Crisis Management Event**" means any event that occurs at or about the Shop premises or in connection with the operation of Franchisee's Flip Flop Shops Shop that has or may cause harm or injury to customers or employees, such as, contagious diseases, natural disasters, terrorist acts, shootings or other acts of violence, data breaches, real or threatened, or any other circumstance which may materially and adversely affect the System or the goodwill symbolized by the Marks. Franchisee shall maintain any communications with governmental authorities affecting the Shop during the term of this Agreement and for one (1) year after the expiration or earlier termination hereof.

J. Vehicles. Any vehicle used by Franchisee in connection with the operation of the Shop shall meet Franchisor's image and other standards. Franchisee shall place such signs and decor items on the vehicle as Franchisor requires and shall at all times keep the vehicle clean and in good working order. Franchisee shall not permit anyone to operate a vehicle used in connection with the Shop who is under the age of eighteen (18) years or who does not possess a valid driver's license issued by state in which the Shop is located. Franchisee shall require each person who operates a vehicle used in connection with Shop operations to comply with all applicable laws, regulations and rules of the road and to use due care and caution in the operation and maintenance of the vehicles. Except as stated herein, Franchisor does not exercise any control over any motor vehicle used by Franchisee.

K. Operating Principal; Lead Manager. Upon the execution of this Agreement, Franchisee shall designate, and shall retain at all times during the term of this Agreement, an individual to serve as Franchisee's Operating Principal. If Franchisee is an individual, Franchisee shall perform all obligations of the Operating Principal. The Operating Principal for all Flip Flop Shops Shops operated by Franchisee and, if applicable, Franchisee's affiliates, shall be the same person.

(1) The Operating Principal shall maintain a direct or indirect ownership interest of not less than ten percent (10%) in Franchisee. Except as may otherwise be provided in this Agreement, the Operating Principal's interest in Franchisee shall be and remain free of any pledge, mortgage, hypothecation, lien, charge, encumbrance, voting agreement, proxy, security interest or purchase right or options. The Operating Principal shall execute this Agreement as a Principal, and shall be individually, jointly and severally, bound by all obligations of Franchisee, the Operating Principal and a Principal hereunder.

(2) Notwithstanding Section 7.K.(1), Franchisee may, at its option and subject to Franchisor's written consent, designate a Lead Manager to supervise the operation of Franchisee's Flip Flop Shops Shop; provided, that (i) the Lead Manager for all Flip Flop Shops Shops operated by Franchisee and, if applicable, Franchisee's affiliates, shall be the same person, and (ii) Franchisee and its Operating Principal shall remain fully responsible for Lead Manager's performance. The Lead Manager shall execute the Confidentiality Agreement and Ancillary Covenants Not to Compete attached as Attachment B to this Agreement.

(3) Unless a Lead Manager is designated pursuant to Section 7.K.(2), Franchisee's Operating Principal shall devote full time and best efforts to the supervision of the Flip Flop Shops Shops operated by Franchisee and, if applicable, Franchisee's affiliates, and, without Franchisor's written

consent, shall not engage in any other business. The foregoing provision shall not apply if a Lead Manager is designated, provided, the Lead Manager shall devote his or her full time and best efforts to the supervision and operation of the Flip Flop Shops Shop business conducted by Franchisee and, if applicable, Franchisee's affiliates.

(4) The Operating Principal and any Lead Manager shall meet Franchisor's qualifications, as set forth in this Agreement, the Manuals, or otherwise in writing and, without limitation, shall be empowered with full authority to act for and on behalf of Franchisee.

Franchisee must promptly notify Franchisor if the Operating Principal cannot continue to serve in that capacity or no longer qualifies as such, and must take corrective action within thirty (30) days thereafter. During such thirty (30) day period, Franchisee must provide for interim management of its operations in accordance with this Agreement. Any failure to comply with this Section 7.K. will be a material breach of this Agreement.

L. Shop Managers. Not later than forty-five (45) days before the Opening Date, Franchisee shall designate, and shall retain at all times during the term of this Agreement the number of Shop Managers necessary to direct the day-to-day operation and management of the Shop. One (1) of the Shop Managers may, but need not, be the Operating Principal or Lead Manager; provided that any Operating Principal or Lead Manager that also serves as a Shop Manager, may only serve as a Shop Manager for one (1) Flip Flop Shops Shop. The Shop Managers shall:

(1) Meet Franchisor's qualifications, as set forth in this Agreement, the Manuals, or otherwise in writing; and

(2) Devote full time and best efforts to the day-to-day operation and management of the Shop and shall not engage in any other business activity without Franchisor's prior written consent.

M. Training. Franchisee's Operating Principal and, if applicable, Lead Manager shall successfully complete Franchisor's management training program prior to the Opening Date. Any successor or replacement Operating Principal or Lead Manager shall successfully complete Franchisor's management training program within a reasonable time after such persons are designated. Such persons, and any other personnel of Franchisee whom Franchisor may designate, shall attend and complete any additional training that Franchisor may from time to time require. Training shall be conducted at locations designated by Franchisor.

(1) Initial management training for Franchisee's Operating Principal and Lead Manager is provided at no additional charge; however, Franchisor reserves the right to charge a reasonable fee for training successor or replacement personnel and for any additional training programs. Franchisee shall be responsible for any and all expenses incurred in connection with any initial or additional training, including, without limitation, the costs of travel, lodging, meals and wages incurred by Franchisee, its Operating Principal or Lead Manager.

(2) If any Operating Principal or Lead Manager fails, in Franchisor's sole judgment, to satisfactorily complete Franchisor's management training program, and Franchisee fails to cure such default within forty-five (45) days following written notice from Franchisor, Franchisor may terminate this Agreement.

N. Days and Hours of Operation. Franchisee must open and operate the Shop during the days and hours Franchisor specifies in the Manual or otherwise in writing.

O. Pricing. To the fullest extent permitted by applicable law, Franchisor reserves the right to establish maximum, minimum or other pricing requirements with respect to the prices Franchisee may charge for products or services.

8. ADVERTISING AND RELATED FEES

A. Promotional Programs.

(1) Franchisee shall participate in, and comply with the requirements of, any gift card, gift certificate, customer loyalty or retention programs that Franchisor implements for all or part of the Flip Flop Shops franchise system and shall sign the forms and take the other action that Franchisor requires in order for Franchisee to participate in such programs.

(2) Franchisor may, from time to time, in its sole discretion, develop and administer advertising and sales promotion programs designed to promote all Flip Flop Shops Shops operating under the System or those Flip Flop Shops Shops operating in a certain region. Franchisee shall participate in all such advertising and sales promotion programs in accordance with the terms and conditions established by Franchisor. The standards and specifications established by Franchisor for such programs, including, without limitation, the type, quantity, timing, placement and choice of media, market areas and advertising agencies, shall be final and binding upon Franchisee.

B. Local Advertising. Franchisor recommends, but does not require, Franchisee to spend at least two percent (2%) of the Shop's Gross Sales on local advertising throughout the term of this Agreement.

C. Brand Building Fund. Franchisor has established a Brand Building Fund for the System. Throughout the term of this Agreement, Franchisee must contribute up to two percent (2%) of the Shop's Gross Sales to the Brand Building Fund. Initially, Franchisee shall contribute one percent (1%) of the Shop's Gross Sales to the Brand Building Fund. Franchisor may increase Franchisee's required contribution amount from time to time in its sole discretion upon 30 days' prior notice to Franchisee; provided, however, that Franchisee will not be required to contribute more than one percent (1%) of the Shop's Gross Sales to the Brand Building Fund.

D. Such contributions shall be paid via EFT at the time and in the manner that royalty payments are due under Sections 4.B. and 4.D. Franchisor or its designee will administer the Fund as follows:

(1) Franchisor will direct all programs financed by the Fund, with sole discretion over the creative concepts, materials and endorsements, and the geographic, market and media placement and allocation thereof. Franchisee agrees that the Fund may be used to pay the costs of preparing and producing video, audio and written advertising materials; administering national, regional and multi-regional advertising programs, including, without limitation, purchasing direct mail and other media advertising and employing advertising, promotion and marketing agencies; the cost of developing and maintaining an internet website; and supporting public relations, endorsement arrangements, market research and other advertising, promotion and marketing activities.

(2) The Fund will be accounted for separately from Franchisor's other funds and will not be used to defray any of Franchisor's general operating expenses, except for such reasonable salaries, administrative costs, travel expenses and overhead as Franchisor may incur in activities related to the administration of the Fund and its programs, including, without limitation, conducting market research; preparing advertising, promotion and marketing materials; and collecting and accounting for contributions to the Fund. Franchisor may spend, on behalf of the Fund, in any fiscal year an amount greater or less than the aggregate contribution of all Flip Flop Shops Shops to the Fund in that year, and the Fund may borrow

from Franchisor or others to cover deficits or invest any surplus for future use. All interest earned on monies contributed to the Fund will be used to pay advertising costs before other assets of the Fund are expended. Franchisor will prepare an annual statement of monies collected and costs incurred by the Fund and furnish the statement to Franchisee upon written request. Franchisor have the right to cause the Fund to be incorporated or operated through a separate entity at such time as Franchisor deems appropriate, and such successor entity will have all of the rights and duties specified herein.

(3) Franchisee acknowledges that the Fund is intended to maximize recognition of the Marks and patronage of Flip Flop Shops Shops. Although Franchisor will endeavor to utilize the Fund to develop advertising and marketing materials and programs and to place advertising that will benefit all Flip Flop Shops Shops, Franchisor undertakes no obligation to ensure that expenditures by the Fund in or affecting any geographic area are proportionate or equivalent to the contributions to the Fund by Flip Flop Shops Shops operating in that geographic area or that any Flip Flop Shops Shop will benefit directly or in proportion to its contribution to the Fund from the development of advertising and marketing materials or the placement of advertising. Franchisor may use a portion of the monies contained in the Fund to establish regional marketing funds and/or to establish and maintain a website for Flip Flop Shops Shops. Except as expressly provided in this Section, Franchisor assumes no direct or indirect liability or obligation to Franchisee with respect to collecting amounts due to, or maintaining, directing or administering, the Fund.

(4) Franchisor reserves the right, upon thirty (30) days' prior written notice to Franchisee, to defer, reduce or suspend contributions to (and, if suspended, deferred or reduced, to reinstate such contributions) and to suspend operations of, the Fund for one or more periods of any length and to terminate (and, if terminated, to reinstate) the Fund. If the Fund is terminated, all unspent monies on the date of termination will be distributed to the contributors to the Fund in proportion to their respective contributions to the Fund during the preceding twelve (12) month period.

E. Grand Opening. Franchisee shall carry out a grand opening promotion for the Shop in accordance with Franchisor's standards, including, without limitation, those related to the type and size of the grand opening promotion. Franchisor must approve all advertising items, methods and media Franchisee uses in connection with such grand opening promotion in accordance with Section 8.E. Franchisee shall submit one or more expenditure reports to Franchisor, accurately reflecting Franchisee's grand opening expenditures. Amounts paid for the initial grand opening promotion will not be credited toward any other obligation of Franchisee under this Section 8.

F. Advertising Approvals. All advertising and promotion by Franchisee in any medium shall be conducted in a dignified manner and shall conform to Franchisor's standards and specifications. Franchisee shall obtain Franchisor's approval of all advertising and promotional plans and materials, including, without limitation, those placed on the Internet pursuant to Section 7.H., prior to use if such plans and materials have not been prepared or previously approved by Franchisor during the twelve (12) month period immediately preceding their proposed use. Franchisee shall submit any unapproved plans and materials to Franchisor, and Franchisor shall approve or disapprove such plans and materials within twenty (20) days after receiving them. If Franchisor does not respond to Franchisee's request for approval within such twenty (20)-day period, the materials or plans shall be deemed approved by Franchisor. Franchisee shall not use any unapproved plans or materials until they have been approved or deemed approved by Franchisor, and shall promptly discontinue use of any advertising or promotional plans or materials, whether or not previously approved or deemed approved, upon notice from Franchisor.

9. MARKS

A. Right to Use the Marks. Franchisor grants Franchisee the right to use the Marks during the term of this Agreement in accordance with this Agreement and Franchisor's standards and specifications.

B. Agreements Regarding the Marks. Franchisee expressly acknowledges that:

(1) As between Franchisor and Franchisee, Franchisor is the owner of all right, title and interest in and to the Marks and the goodwill associated with and symbolized by them.

(2) Neither Franchisee nor any Principal shall take any action that would prejudice or interfere with the rights of Franchisor or its affiliates in and to the Marks. Nothing in this Agreement shall give Franchisee any right, title, or interest in or to any of the Marks, except the right to use the Marks in accordance with the terms and conditions of this Agreement.

(3) Any and all goodwill arising from Franchisee's use of the Marks shall inure solely and exclusively to the benefit of Franchisor or its affiliates, and upon expiration or termination of this Agreement and the license granted herein, no monetary amount shall be attributable to any goodwill associated with Franchisee's use of the Marks.

(4) Franchisee shall not contest, or assist others to contest, the validity, or the interest, of Franchisor or its affiliates in the Marks.

(5) Any unauthorized use of the Marks shall constitute an infringement of Franchisor's or its affiliates' rights in the Marks and a material event of default under this Agreement. Franchisee shall provide Franchisor with all assignments, affidavits, documents, information and assistance related to the Marks that Franchisor or its affiliates reasonably request, including all such instruments necessary to register, maintain, enforce and fully vest the rights of Franchisor or its affiliates in the Marks.

(6) Franchisor shall have the right to substitute different trade names, trademarks, service marks, logos and commercial symbols for the current Marks to use in identifying the System and the Flip Flop Shops Shops operating under the System if the current Marks no longer can be used, or if Franchisor, in its sole discretion, determines that substitution of different marks will be beneficial to the System. In such event, Franchisor may require Franchisee, at Franchisee's expense, to discontinue or modify Franchisee's use of any of the Marks or to use one or more additional or substitute marks.

(7) Franchisee shall, in its business cards, use the Marks only in obvious conjunction with the words, "An Independent Flip Flop Shops Shop Franchisee."

C. Use of the Marks. Franchisee further agrees that Franchisee shall:

(1) Operate and advertise the Shop only under the name "Flip Flop Shops," without prefix or suffix, unless otherwise authorized or required by Franchisor. Franchisee shall not use the Marks as part of its corporate or other legal name.

(2) Identify itself as the owner of the Shop in conjunction with any use of the Marks, including, but not limited to, uses on invoices, order forms, receipts and contracts, and shall display a notice in such content and form and at such conspicuous locations on the premises of the Shop or on any vehicle used in the operation of the Shop as Franchisor may designate in writing.

(3) Not use the Marks to incur any obligation or indebtedness on behalf of Franchisor.

(4) Comply with Franchisor's instructions in filing and maintaining the requisite trade name or fictitious name registrations, and execute any documents deemed necessary by Franchisor or its counsel to obtain protection of the Marks or to maintain their continued validity and enforceability.

(5) Franchisee shall not use the Marks or any abbreviation or other name associated with Franchisor or the System as part of any e-mail address, domain name, or other identification of Franchisee in any electronic medium. Franchisee agrees not to transmit or cause any other party to transmit advertisements or solicitations by e-mail or other electronic media without first obtaining Franchisor's written consent as to the content of such e-mail advertisements or solicitations as well as Franchisee's plan for transmitting such advertisements. In addition, Franchisee shall be solely responsible for compliance with any laws pertaining to sending e-mails including but not limited to the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (the "CAN-SPAM Act of 2003").

D. Infringement. Franchisee shall notify Franchisor immediately of any apparent infringement of or challenge to Franchisee's use of any Mark and of any claim by any person of any rights in any Mark. Franchisee and the Principals shall not communicate with any person other than Franchisor, its affiliates, their counsel, and Franchisee's counsel in connection with any such apparent infringement, challenge or claim. Franchisor shall have complete discretion to take any action it deems appropriate in connection with any infringement of, or challenge or claim to, any Mark and the right to control exclusively, or to delegate control of, any settlement, litigation, Patent and Trademark Office or other proceeding arising out of any such alleged infringement, challenge or claim or otherwise relating to any Mark. Franchisee agrees to execute all such instruments and documents, render such assistance, and do such acts or things as may, in the opinion of Franchisor, reasonably be necessary or advisable to protect and maintain the interests of Franchisor or any affiliate in the Marks.

10. CONFIDENTIALITY AND NONCOMPETITION COVENANTS

A. Manuals. The Manuals shall be provided to Franchisee in either paper or electronic form. The Manuals are Franchisor's property and any print copies (if permitted or made available by Franchisor) shall be returned to Franchisor when this Agreement expires or is terminated for any reason. Franchisee and the Principals shall at all times treat the Manuals, and the information contained therein, as confidential and shall maintain such information as secret and confidential in accordance with this Section 10. Franchisee and the Principals shall not at any time copy, duplicate, record or otherwise reproduce the Manuals, in whole or in part, or otherwise make the same available to any unauthorized person. Franchisee shall make the Manuals available only to those of Franchisee's employees who must have access to them in order to operate the Shop. Franchisee shall, at all times, keep and maintain any print copies of the Manuals (permitted or made available by Franchisor) in a secure place at the Shop. Franchisor has the right to add to or modify the Manuals from time to time to, among other reasons, change operating procedures, maintain the goodwill associated with the Marks, and enable the System to remain competitive. Franchisee shall comply with the terms of all additions and modifications to the Manuals and shall keep the Manuals current. If there is a dispute about the contents of the Manuals, the terms of the master copy at Franchisor's offices shall control. The entire contents of the Manuals, and Franchisor's mandatory specifications, procedures and rules prescribed from time to time, shall constitute provisions of this Agreement as if they were set forth herein.

B. Nondisclosure of Confidential Information. Franchisor will disclose to Franchisee those parts of Franchisor's Confidential Information Franchisor deems necessary or advisable from time to time for the establishment and operation of the Shop. Franchisee agrees that Franchisee and Franchisee's Principals will not acquire any interest in the Confidential Information, other than the right to use the Confidential Information disclosed to Franchisee in operating the Shop during the term of this Agreement, and that the use or duplication of any Confidential Information in any other business would constitute an unfair method of competition. Franchisee agrees to disclose the Confidential Information to Franchisee's Principals and employees only to the extent reasonably necessary for the operation of the Shop pursuant to this Agreement. Franchisor's Confidential Information is proprietary, includes trade secrets owned by Franchisor and its affiliates, and is disclosed to Franchisee solely on the condition that Franchisee agrees, and Franchisee does hereby agree, that Franchisee: (i) will not use the Confidential

Information in any other business or capacity; (ii) will maintain the confidentiality of the Confidential Information during and after the term of this Agreement; (iii) will not make unauthorized copies of any portion of the Confidential Information; and (iv) will adopt and implement all reasonable procedures that Franchisor prescribes from time to time to prevent the unauthorized use or disclosure of the Confidential Information, including, without limitation, restrictions on disclosure of the Confidential Information to Shop personnel and others. These covenants shall survive the expiration, termination or transfer of this Agreement or any interest herein and shall be perpetually binding upon Franchisee and each of the Principals.

C. Noncompetition Covenants. Franchisee and the Principals specifically acknowledge that, pursuant to this Agreement, they will receive access to valuable training, trade secrets and Confidential Information which are beyond their present skills and experience, including, without limitation, information regarding operational, sales, promotional and marketing methods and techniques of the System. Franchisee and the Principals further acknowledge that such specialized training, trade secrets and confidential information provide a competitive advantage, and that gaining access thereto is a primary reason for entering into this Agreement. In consideration therefor, Franchisee and the Principals covenant as follows:

(1) With respect to Franchisee, during the term of this Agreement (or with respect to each of the Principals, for so long as such person satisfies the definition of "Principal" under this Agreement), except as otherwise approved in writing by Franchisor, neither Franchisee nor any of the Principals shall, directly or indirectly, for themselves or through, on behalf of or in conjunction with any other person, persons, partnership, corporation, limited liability company, or other entity or association:

(a) Directly or indirectly divert, or attempt to divert, any business or customer of the franchised business to any competitor, or do or perform any other act injurious or prejudicial to the goodwill associated with the Marks and the System.

(b) Except with respect to Flip Flop Shops Shops operated under valid agreements with Franchisor, own, maintain, operate, engage in, or have any financial or beneficial interest in, advise, assist or make loans to, any business that is the same as or similar to a Flip Flop Shops Shop (including, without limitation, any retail facility which primarily offers and sells flip flop shoes and related footwear and accessories) and which is located within the United States, its territories or commonwealths, or any other country, province, state or geographic area in which Franchisor has used, sought registration of or registered the Marks or similar marks or operates or licenses others to operate a business under the Marks or similar marks.

(2) With respect to Franchisee, for a continuous uninterrupted period commencing upon the expiration, termination, or transfer of all of Franchisee's interest in, this Agreement (or, with respect to each of the Principals, commencing upon the earlier of (i) the expiration or termination of, or transfer of all of Franchisee's interest in, this Agreement or (ii) the time such individual or entity ceases to satisfy the definition of "Principal" under this Agreement) and continuing for two (2) years thereafter, except as otherwise approved in writing by Franchisor, neither Franchisee, nor any of the Principals shall, directly or indirectly, for themselves, or through, on behalf of or in conjunction with any other person, persons, partnership, corporation, limited liability company or other entity or association:

(a) Directly or indirectly divert, or attempt to divert, any business or customer of the franchised business to any competitor, or do or perform any other act injurious or prejudicial to the goodwill associated with the Marks and the System.

(b) Except with respect to Flip Flop Shops Shops operated under valid agreements with Franchisor, own, maintain, operate, engage in, or have any financial or beneficial interest

in, advise, assist or make loans to, any business that is the same as or similar to a Flip Flop Shops Shop (including, without limitation, any retail facility which primarily offers flip flop shoes and related footwear and accessories) and which is, or is intended to be, located (i) at the Location, (ii) within the Protected Area, or (iii) within a fifteen (15)-mile radius of the location of any Flip Flop Shops Shop then in existence or under construction.

(3) Franchisee agrees that each of the foregoing covenants contain reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or Franchisor's other business interests. Each covenant shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section 10.C. is held unreasonable or unenforceable by a court having valid jurisdiction in an unappealed final decision to which Franchisor is a party, Franchisee and Franchisee's Principals expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section 10.C. The obligations set forth in this Section 10. will be tolled for any period of non-compliance.

(a) Franchisee and Franchisee's Principals acknowledge that Franchisor will have the right, in Franchisor's sole discretion, to reduce the scope of any covenant set forth in this Section 10.C. without Franchisee's or Franchisee's Principals' consent, effective immediately upon notice to Franchisee; and Franchisee and Franchisee's Principals agree to promptly comply with any covenant as modified.

(b) Franchisee and Franchisee's Principals expressly agree that the existence of any claims Franchisee or they may have against Franchisor, whether arising under this Agreement or otherwise, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Section 10.C.

D. Improvements. If Franchisee, Franchisee's employees, or Principals develop any new concept, process or improvement in the operation or promotion of a Flip Flop Shops Shop (an "Improvement"), Franchisee agrees to promptly notify Franchisor and provide Franchisor with all necessary related information, without compensation. Any such Improvement shall become Franchisor's sole property and Franchisor shall be the sole owner of all related patents, patent applications, and other intellectual property rights. Franchisee and Franchisee's Principals hereby assign to Franchisor any rights Franchisee or they may have or acquire in the Improvements, including the right to modify the Improvement, and waive and/or release all rights of restraint and moral rights therein and thereto. Franchisee and Franchisee's Principals agree to assist Franchisor in obtaining and enforcing the intellectual property rights to any such Improvement in any and all countries and further agree to execute and provide Franchisor with all necessary documentation for obtaining and enforcing such rights. Franchisee and Franchisee's Principals hereby irrevocably designate and appoint Franchisor as Franchisee's and their agent and attorney-in-fact to execute and file any such documentation and to do all other lawful acts to further the prosecution and issuance of patents or other intellectual property right related to any such Improvement. In the event that the foregoing provisions of this Section 10.D. are found to be invalid or otherwise unenforceable, Franchisee and Franchisee's Principals hereby grant to Franchisor a worldwide, perpetual, non-exclusive, fully-paid license to use and sublicense the use of the Improvement to the extent such use or sublicense would, absent this Agreement, directly or indirectly infringe Franchisee's or their rights therein.

E. Injunctive Relief. Franchisee and Franchisee's Principals acknowledge that any failure to comply with the requirements of this Article 10. shall constitute a material event of default under this Agreement and further acknowledge that such a violation would result in irreparable injury to Franchisor for which no adequate remedy at law may be available. Franchisee and Franchisee's Principals

accordingly consent to the issuance of an injunction prohibiting any conduct by Franchisee or Franchisee's Principals in violation of the terms of this Article 10., without the requirement that Franchisor post a bond. Franchisee and Franchisee's Principals agree to pay all court costs and reasonable attorneys' fees and costs that Franchisor incurs in connection with the enforcement of this Article 10., including all costs and expenses for obtaining specific performance, or an injunction against the violation, of the requirements of this Article, or any part of it.

F. Execution of Covenants by Franchisee's Principals and Management. Franchisee agrees to require and obtain the execution of covenants similar to those set forth in Sections 10.B. and C. from all of Franchisee's Principals not signing the Principals' Guaranty and Assumption Agreement, from all Lead Managers, and, at Franchisor's request, any Shop Managers or other of Franchisee's personnel. These covenants must be substantially in the form set forth in Attachment B; however, Franchisor reserves the right, in Franchisor's sole discretion, to decrease the scope of the noncompetition covenant set forth in Attachment B or eliminate such noncompetition covenant altogether for any person that is required to execute such agreement.

11. BOOKS AND RECORDS

A. Maintenance Requirement. Franchisee shall maintain during the term of this Agreement, in accordance with generally accepted accounting principles and in the form and manner prescribed by Franchisor from time to time in the Manuals, and shall preserve for at least five (5) years from the date of preparation, full, complete and accurate books, records and accounts of the Shop, including, but not limited to, sales slips, coupons, purchase orders, payroll records, check stubs, bank statements, sales tax records and returns, cash receipts and disbursements, journals and ledgers.

B. Reporting. In addition to the remittance reports required by Sections 4 and 8 hereof, Franchisee shall comply with the following reporting obligations:

(1) Franchisee shall, at Franchisee's expense, submit to Franchisor, in the form prescribed by Franchisor, Franchisee's monthly and quarterly balance sheets and profit and loss statements (which may be unaudited) within ten (10) days after the end of each month and quarter, as applicable, during the term hereof. Each such statement shall be signed by Franchisee's treasurer, chief financial officer or comparable officer attesting that it is true, complete and correct.

(2) Franchisee shall, at its expense, submit to Franchisor, within ninety (90) days after the end of each fiscal year, Franchisee's complete annual financial statement (which may be unaudited), including a balance sheet, profit and loss statement, and statement of cash flows, prepared in accordance with generally accepted accounting principles by an independent certified public accountant satisfactory to Franchisor and showing the results of Franchisee's operations of Franchisee during such fiscal year. All such unaudited annual financial statements shall be signed by Franchisee's treasurer, chief financial officer or comparable officer attesting that they are true, complete and correct. Franchisor has the right to request, for any reason, financial statements that have been audited by an independent certified public accountant.

(3) Franchisee shall, at its expense, submit to Franchisor (i) copies of Franchisee's federal income tax returns (including any extension requests) not later than five (5) days after filing and (ii) copies of Franchisee's state sales tax returns within five (5) days after the end of each calendar quarter. If the Shop is in a state which does not impose a sales tax, Franchisee shall submit a copy of its state income tax return (including any extension requests) not later than five (5) days after filing.

(4) Franchisee also shall submit to Franchisor such other forms, reports, records, information and data as Franchisor may reasonably designate, in the form and at the times and places reasonably required by Franchisor.

C. Audits. Franchisor or its designees shall have the right at all reasonable times to review, audit, examine and copy the books and records of Franchisee at the Shop. If any required royalty or other required payments to Franchisor are delinquent, or if an audit should reveal that such payments have been understated in any report to Franchisor, then Franchisee shall immediately pay to Franchisor the amount overdue or understated upon demand with interest determined in accordance with Section 4.C. If an audit discloses an understatement in any report of three percent (3%) or more, Franchisee shall, in addition, reimburse Franchisor for all costs and expenses connected with the audit (including, without limitation, reasonable accounting and attorneys' fees and costs). These remedies shall be in addition to any other remedies Franchisor may have at law or in equity.

D. No Waiver. Franchisor's receipt or acceptance of any of the statements furnished or amounts paid to Franchisor (or the cashing of any check or processing of any electronic fund transfer) shall not preclude Franchisor from questioning the correctness thereof at any time, and, in the event that any errors are discovered in such statements or payments, Franchisee shall immediately correct the error and make the appropriate payment to Franchisor.

E. Authorization to Release Information. Franchisee hereby authorizes (and agrees to execute any other documents deemed necessary to effect such authorization) all banks, financial institutions, businesses, suppliers, manufacturers, contractors, vendors and other persons or entities with whom Franchisee does business to disclose to Franchisor any financial information in their possession relating to Franchisee or the Shop which Franchisor may request. Franchisee authorizes Franchisor to disclose data from Franchisee's reports if Franchisor determines, in its sole discretion, that such disclosure is necessary or advisable, which disclosure may include disclosure to prospective or existing franchisees or other third parties.

12. INSURANCE

A. Insurance Coverage Requirements. Not later than sixty (60) days prior to the Opening Date, Franchisee shall procure and shall maintain in full force and effect at all times during the term of this Agreement, at Franchisee's expense, an insurance policy or policies protecting Franchisee, Franchisor, its affiliates, successors and assigns, and the officers, directors, shareholders, partners, members, agents, representatives, independent contractors and employees of each of them against any demand or claim with respect to personal injury, death or property damage, or any loss, liability or expense whatsoever arising or occurring at or in connection with the operation of the Shop. Such policy or policies shall be written by a responsible carrier or carriers rated "A" or better by the A.M. Best Company, Inc. and otherwise reasonably acceptable to Franchisor and shall include, at a minimum (except as additional coverages and higher policy limits may reasonably be specified by Franchisor from time to time in writing), the following:

(1) Comprehensive General Liability Insurance, including broad form contractual liability, broad form property damage, personal injury, advertising injury, completed operations, products liability and fire damage coverage, in the amount of One Million Dollars ($1,000,000) combined single limit per occurrence, Two Million Dollars ($2,000,000) general aggregate.

(2) "All Risks" coverage for the full cost of replacement of the Shop premises and all other property in which Franchisor may have an interest with agreed amount endorsement for the premises naming Franchisor as a loss payee.

(3) Automobile liability coverage, including coverage of owned, non-owned and hired vehicles, with coverage in amounts not less than One Million Dollars ($1,000,000) combined single limit.

(4) An "umbrella" policy providing excess coverage with limits of not less than One Million Dollars ($1,000,000) which must be excess to the general liability and automobile liability coverage required herein.

(5) Business interruption insurance covering at least twelve (12) months' loss of profits and necessary continuing expenses for interruptions caused by any occurrence covered by the insurance referred to in (1) and (2) above and Franchisee's royalty and Brand Building Fund contribution calculated on the basis of the Gross Sales used as the basis for calculation of the business interruption insurance award. Such business interruption insurance shall be written on an all risks form, either as an endorsement to the policies described in (1) and (2) above or on a separate policy.

(6) Worker's compensation insurance in amounts provided by applicable law or, if permissible under applicable law, any legally appropriate alternative providing substantially similar compensation for injured workers satisfactory to Franchisor, provided that Franchisee (i) maintains an excess indemnity or "umbrella" policy covering employer's liability and/or a medical/disability policy covering medical expenses for on-the-job accidents, which policy or policies shall be written by a responsible carrier meeting the requirements set forth above and which shall contain such coverage amounts as Franchisee and Franchisor shall mutually agree upon and (ii) conducts and maintains a risk management and safety program for its employees. Such policies shall also include a waiver of subrogation in favor of Franchisor and its affiliates, and the officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each of them.

(7) Employment practices liability insurance in a minimum amount of $1,000,000 per occurrence and in the aggregate.

(8) Such other insurance as may be required by the landlord of the premises at, and by the state or locality in, which the Shop is located.

B. Deductibles; Waiver of Subrogation. Franchisee may elect to have reasonable deductibles in connection with the coverage required under Sections 12.A(1)-(8) hereof. Such policies shall also include a waiver of subrogation in favor of Franchisor, its affiliates and the officers, directors, shareholders, partners, members, agents, representatives, independent contractors, servants and employees of each of them.

C. Builder's Risk Insurance. In connection with any construction, renovation, refurbishment or remodeling of the Shop, Franchisee shall maintain Builder's Risks/Installation insurance and performance and completion bonds in forms and amounts, and written by a carrier or carriers, reasonably satisfactory to Franchisor.

D. No Limitation of Other Obligations. Franchisee's obligation to obtain and maintain the foregoing policies in the amounts specified shall not be limited in any way by reason of any insurance which may be maintained by Franchisor, nor shall Franchisee's performance of that obligation relieve it of liability under the indemnity provisions set forth in Section 15 of this Agreement.

E. Additional Insured Designation. All insurance policies required hereunder, with the exception of workers' compensation, shall name Franchisor and its affiliates, and the officers, directors, shareholders, partners, members, agents, representatives, independent contractors, servants and employees of each of them, as additional insureds, and shall expressly provide that their interest shall not

be affected by Franchisee's breach of any policy provisions. All public liability and property damage policies shall contain a provision that Franchisor and its affiliates, and the officers, directors, shareholders, partners, members, agents, representatives, independent contractors, servants and employees of each of them, although named as insureds, shall nevertheless be entitled to recover under such policies on any loss occasioned to them by reason of the negligence of Franchisee or its servants, agents or employees.

F. Certificates of Insurance. Upon execution of this Agreement, and thereafter thirty (30) days prior to the expiration of any policy required hereunder, Franchisee shall deliver to Franchisor certificates of insurance evidencing the existence and continuation of proper coverage with limits not less than those required hereunder. In addition, if requested by Franchisor, Franchisee shall deliver to Franchisor a copy of the insurance policy or policies required hereunder. All insurance policies required hereunder shall expressly provide that no less than thirty (30) days' prior written notice shall be given to Franchisor in the event of a material alteration to or cancellation of the policies.

G. Remedies. Should Franchisee fail to procure or maintain the insurance required by this Agreement, Franchisor shall have the right and authority (without, however, any obligation to do so) to procure such insurance and to charge the cost of such insurance to Franchisee, together with a reasonable fee for Franchisor's expenses in so acting. Such amounts shall be payable by Franchisee immediately upon notice. The foregoing remedies shall be in addition to any other remedies Franchisor may have at law or in equity.

13. DEBTS AND TAXES

A. Payment of Taxes and Other Obligations. Franchisee shall promptly pay when due all Taxes, levied or assessed and all accounts and other indebtedness of every kind incurred by Franchisee in the conduct of the franchised business. Without limiting the provisions of Section 15, Franchisee shall be solely liable for the payment of all Taxes and shall indemnify Franchisor for the full amount of all such Taxes and for any liability (including penalties, interest and expenses) arising from or concerning the payment of Taxes, whether or not correctly or legally assessed.

B. No Deduction. Each payment to be made to Franchisor hereunder shall be made free and clear and without deduction for any Taxes.

C. Disputed Liability. In the event of any bona fide dispute as to Franchisee's liability for Taxes or other indebtedness, Franchisee may contest the validity or the amount of the Tax or indebtedness in accordance with the procedures of the taxing authority or applicable law. However, in no event shall Franchisee permit a tax sale or seizure by levy of execution or similar writ or warrant or attachment by a creditor, to occur against the assets of the franchised business or any improvements thereon.

D. Credit Standing. Franchisee recognizes that the failure to make payments or repeated delays in making prompt payments to suppliers will result in a loss of credit rating or standing which will be detrimental to the goodwill associated with the Marks and the System. Except for payments which are disputed by Franchisee in good faith, Franchisee agrees to promptly pay when due all amounts owed by Franchisee to Franchisor, its affiliates, and other suppliers.

E. Notice of Adverse Orders. Franchisee shall notify Franchisor in writing within five (5) days of the commencement of any action, suit or proceeding and of the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality, which may adversely affect the operation or financial condition of the franchised business.

14. TRANSFER

A. By Franchisor. Franchisor shall have the right to transfer or assign this Agreement and all or any part of its rights or obligations herein to any person or legal entity without Franchisee's consent, and upon such transfer or assignment, the transferee or assignee shall be solely responsible for all Franchisor's obligations arising hereunder subsequent to the transfer or assignment. Without limitation of the foregoing, Franchisor may sell its assets to a third party; may offer its securities privately or publicly; may merge with or, acquire other corporations, or may be acquired by another corporation; may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring.

B. By Franchisee and Principals. Franchisee understands and acknowledges that the rights and duties set forth in this Agreement are personal to Franchisee, and that Franchisor has granted rights under this Agreement in reliance on the business skill, financial capacity and personal character of Franchisee and the Principals. Accordingly, neither Franchisee nor any Principal, nor any successor or assign of Franchisee or any Principal, shall sell, assign, transfer, convey, give away, pledge, mortgage or otherwise dispose of or encumber any direct or indirect interest in this Agreement, in the Shop or in Franchisee without the prior written consent of Franchisor. Any purported assignment or transfer, by operation of law or otherwise, made in violation of this Agreement shall be null and void and shall constitute a material breach under this Agreement. If Franchisee wishes to transfer all or part of its interest in the Shop or this Agreement, or if Franchisee or a Principal wishes to transfer any ownership interest in Franchisee, transferor and the proposed transferee shall apply to Franchisor for its consent. Franchisor shall not unreasonably withhold its consent to a transfer of any interest in Franchisee, in the Shop or in this Agreement but may require any or all of the following as conditions of its consent:

(1) All accrued monetary obligations of Franchisee and its affiliates to Franchisor and its affiliates arising under this Agreement, or any other agreement, shall have been satisfied in a timely manner, and Franchisee shall have satisfied all trade accounts and other debts of whatever nature or kind;

(2) Franchisee and its affiliates shall not be in default of this Agreement, or any other agreement with Franchisor or its affiliates, and shall have substantially and timely complied with all the terms and conditions of such agreements during their respective terms;

(3) The transferor and its principals, if applicable, shall have executed a general release, in a form satisfactory to Franchisor, of any and all claims, against Franchisor and its affiliates, their respective officers, directors, shareholders, partners, members, agents, representatives, independent contractors, servants and employees, past and present, in their corporate and individual capacities, including, without limitation, claims arising under this Agreement and any other agreement with Franchisor or its affiliates, and under federal, state or local laws, rules, and regulations or orders;

(4) The transferee shall demonstrate to Franchisor's satisfaction that it meets Franchisor's then-current qualifications, and, at the transferee's expense, its operating principal, lead manager, and any other personnel required by Franchisor shall complete any training programs then in effect for Flip Flop Shops Shops upon such terms and conditions as Franchisor may reasonably require;

(5) The transferee shall, at its expense and within the time period reasonably required by Franchisor, renovate, modernize and otherwise upgrade the Shop and, if applicable, any Shop vehicles to conform to the then-current System image, standards and specifications;

(6) The transferee shall enter into a written agreement, in a form satisfactory to Franchisor, assuming full, unconditional, joint and several, liability for, and agreeing to perform from the date of the transfer, all obligations, covenants and agreements of Franchisee under this Agreement. If the

transferee is a corporation, partnership, limited liability company or other entity, those of transferee's principals who are designated as principals, also shall execute such agreement and guarantee the performance thereof;

(7) The transferee shall execute Franchisor's then-current form of franchise agreement for a term ending on the expiration date of this Agreement (including any renewal terms provided by this Agreement). The new franchise agreement shall supersede this Agreement in all respects and its terms may differ from the terms of this Agreement, including higher fees, but the transferee shall not be required to pay an initial franchise fee. If the transferee is a corporation, partnership, limited liability company or other entity, those of transferee's principals who are designated as principals, also shall execute such agreement and guarantee the performance thereof;

(8) The transferor shall remain liable for all of its obligations to Franchisor under this Agreement incurred prior to the effective date of the transfer and shall execute any and all instruments reasonably requested by Franchisor to evidence such liability;

(9) Franchisee shall pay Franchisor a transfer fee in an amount equal to one-half (1/2) of the then-current initial franchise fee that Franchisor generally charges to new Flip Flop Shops franchisees;

(10) The Shop shall be open for business and operating at the time of the transfer;

(11) If transferee is a corporation, partnership, limited liability company or other entity, the transferee shall make all of the representations, warranties and covenants in Section 6 as Franchisor may request, and shall provide evidence satisfactory to Franchisor that such representations, warranties and covenants are true and correct as of the date of the transfer; and

(12) If the transfer relates to the grant a security interest in any of Franchisee's assets, Franchisor may require the secured party to agree that, in the event of any default by Franchisee under any documents related to the security interest, Franchisor shall have the right and option (but no obligation) to be substituted as obligor to the secured party and to cure any default of Franchisee.

C. Transfer for Convenience of Ownership. If the proposed transfer is to a corporation or other entity formed solely for the convenience of ownership, Franchisor's consent may be conditioned upon any of the requirements in Section 14.B., except that Sections 14.B. (4), (5), and (7) shall not apply and the transfer fee under Section 14.B.(9) shall be an amount equal to the costs and expenses (including attorneys' fees) that Franchisor incurs in reviewing and documenting the transfer. In any transfer for the convenience of ownership, Franchisee shall be the owner of all the voting stock or ownership interests in the new entity, or, if Franchisee is more than one individual, each individual shall have the same proportionate ownership interest in the new entity as he or she had in Franchisee prior to the transfer.

D. Right of First Refusal. If Franchisee or a Principal wishes to transfer any interest in this Agreement, the Shop, or Franchisee, pursuant to any bona fide offer received from a third party to purchase such interest, then such proposed seller shall promptly notify Franchisor in writing of the offer, and shall provide such information and documentation relating to the offer as Franchisor may require. Franchisor shall have the right and option, exercisable within thirty (30) days after receipt of such written notification and copies of all required documentation describing the terms of the offer, to send written notice to the seller that Franchisor intends to purchase the seller's interest on the terms and conditions offered by the third party. If Franchisor elects to purchase the seller's interest, closing shall occur on or before sixty (60) days from the later of the date of Franchisor's notice to seller of its election to purchase and the date Franchisor receives all necessary permits and approvals, or any other date agreed by the parties in writing. If the third party offer provides for payment of consideration other than cash,

Franchisor may elect to purchase seller's interest for the reasonable cash equivalent. If the parties cannot agree within a reasonable time on the reasonable cash equivalent, then that amount shall be determined by two (2) appraisers. Each party shall select one (1) appraiser and the average of the appraisers' determinations shall be binding. Each party shall bear its own legal and other costs and shall share the appraisal fees equally. If Franchisor exercises its right of first refusal, it shall have the right to set off all appraisal fees and other amounts due from Franchisee to Franchisor or any of its affiliates. A material change in the terms of any offer prior to closing shall constitute a new offer subject to the same right of first refusal as an initial offer. Franchisor's failure to exercise the option afforded by this Section 14.D. shall not constitute a waiver of any other provision of this Agreement, including all of the requirements of Section 14.B. Failure to comply with this Section 14.D. shall constitute a material event of default under this Agreement.

E. Death or Permanent Disability. Franchisee or its representative shall promptly notify Franchisor of any death or claim of permanent disability subject to this Section 14.E. Any transfer upon death or permanent disability shall be subject to the following conditions, as well as to the conditions described in Section 14.B. for any inter vivos transfer.

(1) Upon the death of Franchisee (if Franchisee is a natural person) or any Principal who is a natural person (the "Deceased"), the executor, administrator or other personal representative of the Deceased shall transfer such interest to a third party approved by Franchisor within six (6) months after the date of death. If no personal representative is designated or appointed or no probate proceedings are instituted with respect to the estate of the Deceased, then the distributee of such interest must be approved by Franchisor. If the distributee is not approved by Franchisor, then the distributee shall transfer such interest to a third party approved by Franchisor within six (6) months after the death of the Deceased.

(2) Upon the permanent disability of Franchisee (if Franchisee is a natural person) or any Principal who is a natural person, Franchisor may, in its sole discretion, require such interest to be transferred to a third party in accordance with the conditions described in this Section 14 within six (6) months after notice to Franchisee. "Permanent disability" shall mean any physical, emotional or mental injury, illness or incapacity which would prevent a person from performing the obligations set forth in this Agreement or in the guaranty made part of this Agreement for at least ninety (90) consecutive days and from which condition recovery within ninety (90) days from the date of determination of disability is unlikely. Permanent disability shall be determined by a licensed practicing physician selected by Franchisor, upon examination of the person; or if the person refuses to submit to an examination, then such person automatically shall be deemed permanently disabled as of the date of such refusal for the purpose of this Section 14.E. The costs of any examination required by this Section shall be paid by Franchisor.

F. Securities Offerings. Interests in Franchisee shall not be offered to the public by private or public offering without Franchisor's prior written consent, which shall not be unreasonably withheld. As a condition of its consent, Franchisor may, in its sole discretion, require that, immediately after such offering, Franchisee and the Principals retain a Controlling Interest in Franchisee. Franchisee shall give Franchisor written notice at least thirty (30) days prior to the commencement of any offering covered by this Section 14.F. All offering materials shall be submitted to Franchisor for review prior to being filed with any governmental agency or distributed for use. Franchisor's review of the offering materials shall be limited solely to the subject of the relationship between Franchisee and Franchisor. No offering shall imply that Franchisor is participating in an underwriting, issuance or offering of securities. Franchisor may require the offering materials to contain a written statement prescribed by Franchisor concerning the relationship of Franchisee and Franchisor. Franchisee, its Principals and the other participants in the offering must fully indemnify Franchisor, its affiliates, their respective officers, directors, shareholders,

partners, members, agents, representatives, independent contractors, servants and employees, past and present, in connection with the offering.

G. No Waiver. Franchisor's consent to the transfer of any interest described in this Section 14 shall not constitute a waiver of any claims which Franchisor may have against the transferring party, nor shall it be deemed a waiver of Franchisor's right to demand transferee's exact compliance with any of the terms of this Agreement.

H. New or Successor Principals. If, after the execution of this Agreement, any person ceases to qualify as one of the Franchisee's Principals or if any individual succeeds to or otherwise comes to occupy a position which, upon designation by Franchisor, would qualify him as one of Franchisee's Principals, Franchisee shall comply with the provisions of this Article 14. with respect to any such change and shall notify Franchisor within ten (10) days after any such change. In addition, Franchisee shall cause such person to execute all documents and instruments (including, as applicable, the Principal's Guaranty and Assumption Agreement or the Confidentiality and Ancillary Covenants Not To Compete) as Franchisor may require others in such positions to execute.

15. INDEMNIFICATION

Franchisee agrees to indemnify, defend and hold harmless Franchisor, Franchisor's affiliates, and their respective shareholders, directors, officers, employees, agents, successors and assignees (the "Indemnified Parties") against, and to reimburse any one or more of the Indemnified Parties for, any and all claims, and liabilities directly or indirectly arising out of the operation of the Shop, Franchisee's employer/employee relationships, or Franchisee's breach of this Agreement, without limitation and without regard to the cause or causes thereof or the negligence (whether such negligence be sole, joint or concurrent, or active or passive) or strict liability of Franchisor or any other party or parties in connection therewith, including, without limitation, the other Indemnified Parties. Notwithstanding the foregoing, this indemnity shall not apply to any liability arising from Franchisor's gross negligence or willful misconduct, except to the extent that joint liability is involved, in which event the indemnification provided herein shall extend to any finding of comparative or contributory negligence attributable to Franchisee, Franchisee's Principals, officers, directors, employees, independent contractors or affiliates. For purposes of this indemnification, "claims" includes all obligations, damages (actual, consequential, exemplary or other) and costs reasonably incurred in the defense of any claim against any of the Indemnified Parties, including, without limitation, accountants', arbitrators', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other expenses of litigation, arbitration or alternative dispute resolution and travel and living expenses. Franchisor has the right to defend any such claim against Franchisee. This indemnity will continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement. Under no circumstances will Franchisor or any other Indemnified Party be required to seek recovery from any insurer or other third party, or otherwise to mitigate Franchisor's, their or Franchisee's losses and expenses, in order to maintain and recover fully a claim against Franchisee. Franchisee agrees that a failure to pursue such recovery or mitigate a loss will in no way reduce or alter the amounts Franchisor or another Indemnified Party may recover from Franchisee. The terms of this Article 15. shall survive the termination, expiration or transfer of this Agreement or any interest herein.

16. RELATIONSHIP OF THE PARTIES

A. Independent Contractor Relationship. Franchisee agrees that the relationship created by this Agreement is not a fiduciary, special, or any other similar relationship, but rather is an arm's-length business relationship, and Franchisor owes Franchisee no duties except as expressly provided in this Agreement. Franchisee shall be an independent contractor, and nothing in this Agreement is intended to constitute either party an agent, legal representative, subsidiary, joint venturer, partner, employee, joint

employer or servant of the other for any purpose. During the term of this Agreement, Franchisee shall hold itself out to the public as an independent contractor conducting its Shop operations pursuant to the rights granted by Franchisor, including but not limited to posting a sign in the Shop that states that the Shop is "independently owned and operated by [entity name]." Additionally, all employees hired by or working for Franchisee will be Franchisee's or Franchisee's affiliate's employees and will not, for any purpose, be deemed employees of Franchisor or subject to Franchisor's control. Franchisor has no authority to hire, fire, promote, or demote any of Franchisee's employees or take any disciplinary action whatsoever against any of them. Franchisee must communicate to all employees that Franchisee, not Franchisor, is their employer; and Franchisee must ensure that no payroll checks or other employment- related documents (such as job applications and W-2s) contain or reference the Marks or Franchisor's name. Each of the parties will file its own tax, regulatory, and payroll reports with respect to its respective employees and operations, saving and indemnifying the other party hereto of and from any liability of any nature whatsoever by virtue thereof.

B. No Authority. Nothing in this Agreement authorizes Franchisee or any of the Principals to make any contract, agreement, warranty or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name, and Franchisor shall in no event assume liability for, or be deemed liable under this Agreement as a result of, any such action, or for any act or omission of Franchisee or any of the Principals or any claim or judgment arising therefrom.

17. TERMINATION

A. Default and Termination. Franchisee acknowledges that each of Franchisee's obligations described in this Agreement is a material and essential obligation; that nonperformance of such obligations will adversely and substantially affect the Franchisor and the System; and that the exercise by Franchisor of the rights and remedies set forth herein is appropriate and reasonable.

B. Automatic Termination. Franchisee shall be deemed to be in default under this Agreement, and all rights granted herein shall automatically terminate without notice to Franchisee, if Franchisee shall become insolvent or makes a general assignment for the benefit of creditors; or if Franchisee files a voluntary petition under any section or chapter of federal bankruptcy law or under any similar law or statute of the United States or any state thereof, or if an involuntary petition is filed with respect to Franchisee under any such laws and is not dismissed within 60 days after it is filed; or if Franchisee admits in writing its inability to pay its debts when due; or if Franchisee is adjudicated as bankrupt or insolvent in proceedings filed against Franchisee under any section or chapter of federal bankruptcy laws or under any similar law or statute of the United States or any state; or if a bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is filed and consented to by Franchisee; or if a receiver or other custodian (permanent or temporary) of Franchisee's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; or if proceedings for a composition with creditors under any state or federal law should be instituted by or against Franchisee; or if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); or if Franchisee is dissolved; or if execution is levied against Franchisee's business or property; or if a judicial or non-judicial action to foreclose any lien or mortgage against the Shop premises or equipment is instituted against Franchisee and is not dismissed or settled by the earlier of (i) thirty (30) days from commencement or (ii) consummation of such sale; or if the real or personal property of Franchisee's Shop shall be sold after levy thereupon by any sheriff, marshal or constable.

C. Termination on Notice; No Cure. Franchisee shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, without affording Franchisee any opportunity to cure the default, effective immediately upon notice to Franchisee, upon the occurrence of any of the following events:

(1) If Franchisee operates the Shop or sells any products or services authorized by Franchisor for sale at the Shop at a location which has not been approved by Franchisor;

(2) If Franchisee fails to obtain Franchisor's approval of a proposed site or fails to acquire a Location for the Shop within the time and manner specified in this Agreement.

(3) If Franchisee fails to construct or remodel the Shop in accordance with Franchisor's prototypical plans, as adapted in accordance with Section 2.

(4) If Franchisee fails to open the Shop for business within the period specified in Section 2.G. of this Agreement.

(5) If Franchisee at any time ceases to operate or otherwise abandons the Shop, or loses the right to possess the premises, or otherwise forfeits the right to do or transact business in the jurisdiction where the Shop is located; provided, that this provision shall not apply in the event of a Force Majeure, if Franchisee applies within thirty (30) days after such event for Franchisor's approval to relocate or reconstruct the Shop and Franchisee diligently pursues such reconstruction or relocation. Franchisor's approval may not be unreasonably withheld but may be conditioned upon the payment of an agreed minimum fee to Franchisor during the period in which the Shop is not in operation.

(6) If Franchisee or any of the Principals is convicted of, or has entered a plea of nolo contendere to, a felony, a crime involving moral turpitude, or any other crime or offense that Franchisor believes is reasonably likely to have an adverse effect on the System, the Marks, the goodwill associated therewith, or Franchisor's interests therein.

(7) If a threat or danger to public health or safety results from the construction or operation of the Shop.

(8) If Franchisee or any of the Principals purports to transfer any rights or obligations under this Agreement or any interest in Franchisee or the Shop to any third party without Franchisor's prior written consent or without offering Franchisor a right of first refusal contrary to the terms of Section 14, or if a transfer upon death or permanent disability is not made in accordance with Section 14.

(9) If, contrary to the terms of Section 10.B., Franchisee or any of the Principals discloses or divulges any Confidential Information.

(10) If Franchisee knowingly maintains false books or records, or submits any false reports to Franchisor.

(11) If Franchisee breaches in any material respect any of the covenants, or has falsely made any of the representations or warranties, set forth in Section 6, or if Franchisee makes any material misstatement or omission in the application for this franchise or in any other information provided to Franchisor.

(12) If Franchisee fails to comply with Franchisor's quality assurance program and fails to cure any default thereunder within the applicable cure period.

(13) If Franchisee submits any report to Franchisor which understates Franchisee's Gross Sales or Royalty Fees by more than five percent (5%) or Franchisee under-reports such Gross Sales or Royalty Fees by more than three percent (3%) two (2) times within any twelve (12) month period.

(14) If Franchisee or any affiliate of Franchisee is in default of any other franchise agreement with Franchisor and fails to cure such default within the applicable cure period, if any.

(15) If Franchisee or any of the Principals repeatedly commits a material event of default under this Agreement, whether or not such defaults are of the same or different nature and whether or not such defaults have been cured by Franchisee after notice by Franchisor.

D. Termination on Notice; Opportunity to Cure. Except as provided in Sections 17.B. and 17.C. of this Agreement, upon any default by Franchisee which is capable of being cured, Franchisor may terminate this Agreement by giving Franchisee written notice of termination stating the nature of the default and the time period within which the default must be cured. Franchisee may avoid termination by immediately initiating a remedy to cure such default and curing it to Franchisor's satisfaction within the time period set forth below or any longer period that applicable law may require ("cure period"). If any such default is not cured within the cure period, this Agreement shall terminate without further notice to Franchisee effective immediately upon the expiration of the cure period. Defaults which are susceptible of cure hereunder may include, but are not limited to, the following:

(1) If Franchisee fails to procure and maintain the insurance policies required by Section 12 and fails to cure such default within seven (7) days following notice from Franchisor.

(2) If Franchisee misuses or makes any unauthorized use of the Marks or otherwise materially impairs the goodwill associated therewith or Franchisor's rights therein and fails to cure such default within twenty-four (24) hours following notice from Franchisor.

(3) If Franchisee fails to obtain the execution of the confidentiality and related covenants as required under Sections 10.B. or 10.C. of this Agreement within ten (10) days after being requested to do so by Franchisor and fails to cure such default within thirty (30) days following notice from Franchisor.

(4) If Franchisee or any of its affiliates fails, refuses, or neglects promptly to pay any monies owed to Franchisor or any of its affiliates, when due under this Agreement or any other agreement, or fails to submit the financial or other information required by Franchisor under this Agreement, and does not cure such default within five (5) days following notice from Franchisor.

(5) If Franchisee fails to pay when due any fee, expense, charge, or other amount due and owing to any creditor of Franchisee and does not cure within ten (10) days following notice from Franchisor.

(6) If Franchisee or any of the Principals fails to comply with the restrictions against competition set forth in Section 10.C. of this Agreement and fails to cure such default within ten (10) days following notice from Franchisor.

(7) If Franchisee fails to maintain or observe any of the standards, specifications or procedures (which includes, without limitation, maintaining the required minimum inventory quantities and purchasing the requisite inventory items from the Approved Inventory List), prescribed by Franchisor in this Agreement or otherwise in writing, and fails to cure such default within thirty (30) days following notice from Franchisor.

(8) If Franchisee fails to comply with any other requirement imposed by this Agreement, or fails to carry out the terms of this Agreement in good faith and fails to cure such default within thirty (30) days following notice from Franchisor.

(9) If Franchisee fails to designate a qualified replacement Operating Principal or Lead Manager within thirty (30) days after any initial or successor Operating Principal or Lead Manager ceases to serve.

18. POST-TERMINATION

A. Franchisee's Obligations Upon Termination. Upon termination or expiration of this Agreement, all rights granted hereunder to Franchisee shall terminate, and Franchisee shall:

(1) Immediately cease to operate the Shop under this Agreement, and shall not thereafter, directly or indirectly, represent to the public or hold itself out as a present or former franchisee of Franchisor.

(2) Immediately and permanently cease to use, in any manner whatsoever, any Confidential Information, methods, procedures, and techniques associated with the System and the Marks. Without limitation of the foregoing, Franchisee shall cease to use all signs, advertising materials, displays, stationery, forms and any other items which display the Marks.

(3) Take such action as may be necessary to cancel any assumed name or equivalent registration which contains "Flip Flop Shops" or any other Mark, and furnish Franchisor with satisfactory evidence of compliance within five (5) days after termination or expiration of this Agreement.

(4) Not use any reproduction, counterfeit, copy or colorable imitation of the Marks, in connection with any other business, which is likely to cause confusion, mistake, or deception, or which is likely to dilute Franchisor's rights in and to the Marks, nor shall Franchisee use any designation of origin or description or representation which falsely suggests or represents an association or connection with Franchisor constituting unfair competition.

(5) Promptly pay all sums owing to Franchisor and its affiliates, and all damages, costs and expenses, including reasonable attorneys' fees and costs, incurred by Franchisor as a result of any default by Franchisee or in connection with obtaining injunctive or other relief for the enforcement of any provisions of this Section 18, which obligation shall give rise to and remain a lien in favor of Franchisor against any and all assets of Franchisee, until such obligations are paid in full.

(6) Immediately deliver to Franchisor all Manuals, records, files, instructions, correspondence, Software Programs, and other materials related to the operation of the Shop in Franchisee's possession or control, and all copies thereof, all of which are acknowledged to be Franchisor's property, and retain no copy or record of any of the foregoing, except Franchisee's copy of this Agreement and of any correspondence between the parties and any other documents which Franchisee reasonably needs for compliance with any provision of law.

(7) Comply with the restrictions against the disclosure of Confidential Information and against competition contained in Section 10 of this Agreement and cause any other person required to execute similar covenants pursuant to Section 10 also to comply with such covenants.

(8) Promptly furnish to Franchisor an itemized list of all advertising and sales promotion materials bearing the Marks, whether located at the Shop or at any other location under Franchisee's control. Franchisor shall have the right to inspect these materials and the option, exercisable within thirty (30) days after such inspection, to purchase any or all of the materials at Franchisee's cost. Materials not purchased by Franchisor shall not be utilized by Franchisee or any other party for any purpose unless authorized in writing by Franchisor.

(9) At Franchisor's option, assign to Franchisor any interest which Franchisee has in any lease or sublease for the premises of the Shop or for any equipment used in the operation of the franchised business. Franchisor may exercise such option at or within thirty (30) days after the termination or expiration of this Agreement. Franchisee hereby appoints Franchisor its true and lawful agent and attorney-in-fact with full power and authority, for the sole purpose of taking such action as is necessary to complete the assignment of Franchisee's interest in any such lease or sublease upon the exercise of Franchisor's option described herein. This power of attorney shall survive the expiration or termination of this Agreement. In the event Franchisor does not elect to exercise its option to acquire the lease or sublease for the Shop premises, Franchisee shall make such modifications or alterations to the premises as are necessary to distinguish the appearance of the Shop from that of other Flip Flop Shops Shops, and, if Franchisee fails or refuses to do so, Franchisor shall have the right to enter upon the premises, without being guilty of trespass or any other crime or tort, to make or cause such changes to be made, at Franchisee's expense.

(10) At Franchisor's option, assign to Franchisor all rights to the telephone numbers of the Shop and any related Yellow Pages trademark or other business listings and execute all forms and documents required by Franchisor and any telephone company at any time to transfer such service and numbers to Franchisor. Franchisee shall thereafter use different telephone numbers at or in connection with any subsequent business conducted by Franchisee.

B. Additional Franchisor Options. In addition to its options under Sections 18.A.(9) and (10), Franchisor shall have the following options, to be exercised within thirty (30) days after termination or expiration of this Agreement:

(1) Franchisor shall have the option to purchase from Franchisee any or all of the furnishings, equipment, signs, fixtures, supplies, materials, inventory, and other assets related to the operation of the Shop, at fair market value. Notwithstanding the foregoing, if Franchisor exercises its option to purchase such assets, the purchase price for any products manufactured by Franchisor or any of its affiliates shall be the amount paid by Franchisee for the purchase of such products, excluding all delivery and late fees paid by Franchisee in connection with such purchase. In addition, if Franchisee owns the land upon which the Shop is located, Franchisor shall have the further option to purchase the land, including any building on the land used for the operation of the Shop, for the fair market value of the land and building. If Franchisee does not own the land, Franchisor may nevertheless exercise this option for the purpose of purchasing any building owned by Franchisee and used in the operation of the Shop.

(2) With respect to Franchisor's options under Section 18.B.(1), Franchisor shall purchase assets only and shall assume no liabilities, unless otherwise agreed in writing by the parties. If the parties cannot agree on the fair market value of the assets within thirty (30) days of Franchisor's exercise of its option, fair market value shall be determined by two (2) appraisers. Each party shall select one (1) appraiser, and the average of their determinations shall be binding. In the event of an appraisal, each party shall bear its own legal and other costs and shall divide the appraisal fees equally. The purchase price shall be paid in cash; provided, that Franchisor shall have the right to set off from the purchase price (i) all fees due from Franchisee for any appraisal conducted hereunder, (ii) all amounts due from Franchisee to Franchisor or any of its affiliates, and (iii) any costs incurred in connection with any escrow arrangement (including reasonable legal fees and costs).

(3) Closing of the purchase and sale of the properties described above shall occur not later than thirty (30) days after the purchase price is determined, unless the parties mutually agree to designate another date. At closing, Franchisee shall deliver to Franchisor, in a form satisfactory to Franchisor, such warranties, deeds, releases of lien, bills of sale, assignments and such other documents and instruments which Franchisor deems necessary in order to perfect Franchisor's title and possession in

and to the properties being purchased and to meet the requirements of all tax and government authorities. If, at the time of closing, Franchisee has not obtained all necessary documents, instruments, or third party consents, Franchisor may, in its sole discretion, place the purchase price in escrow pending issuance of any required certificates or documents. Closing shall take place at Franchisor's corporate offices or at such other location as the parties may agree.

C. Assignment of Franchisor Rights. Franchisor shall be entitled to assign any and all of its options in this Section 18 to any other party, without the consent of Franchisee.

19. MISCELLANEOUS

A. Notices.

(1) Except as expressly provided in subsection (2) below, any and all notices required or permitted under this Agreement shall be in writing and shall be delivered by electronic mail to the parties at the following e-mail addresses:

Notices to Franchisor:	notices@flipflopshops.com
Notices to Franchisee and Controlling Principals:	_____@flipflopshops.com and [INSERT PERSONAL E-MAIL ADDRESS]

All notices and other written communications shall be sent through Franchisor's server and shall be deemed delivered and received on the date the transmission is received in the e-mail box designated above, whether or not the party receiving such message opens and reads the message in a timely manner. Franchisor and Franchisee and Franchisee's Operating Principal have, and each of them hereby accept, the obligation to check, open and read the messages in the e-mail boxes designated above at least once each Business Day. Franchisee and Franchisee's Operating Principal further agree to forward any such message received to Franchisee's Principals.

(2) Upon the expiration or termination of this Agreement or if, for any reason, Franchisor no longer provides a flipflopshops.com e-mail account to Franchisee, then all future notices shall be in writing and shall be personally delivered or mailed by expedited delivery service or certified or registered mail, return receipt requested, first-class postage prepaid, or sent by prepaid facsimile (provided that the sender confirms the facsimile by sending an original confirmation copy by expedited delivery service or certified or registered mail within three (3) Business Days after transmission) to the respective parties at the addresses set forth below unless and until a different address has been designated by written notice to the other party. Any notice shall be deemed to have been given (whether or not delivery is accepted) at the time of personal delivery or, in the case of expedited delivery service on the next Business Day, or, in the case of registered or certified mail, three (3) Business Days after the date and time of mailing, or, in the case of facsimile, upon transmission (provided confirmation is sent by expedited delivery service or registered or certified mail as provided below).

Notices to Franchisor:	Flip Flop Shops, LLC 7524 Old Auburn Road Citrus Heights, California 95610 Attention: President Telephone: (818) 908-9868 Facsimile:
Notices to Franchisee and the Principals:	_____

_____

_____

Attention: _____
Telephone: _____
Facsimile: _____

B. Entire Agreement. This Agreement, the documents referred to herein, and the Attachments hereto, constitute the entire, full and complete agreement between Franchisor and Franchisee and the Principals concerning the subject matter hereof and shall supersede all prior related agreements; provided, however, that nothing in this or any related agreement is intended to disclaim the representations Franchisor made in the franchise disclosure document that Franchisor furnished to Franchisee. Except for those permitted to be made unilaterally by Franchisor hereunder, no amendment, change or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing.

C. No Waiver. No delay, waiver, omission or forbearance on the part of Franchisor to exercise any right, option, duty or power arising out of any breach or default by Franchisee or the Principals under this Agreement shall constitute a waiver by Franchisor to enforce any such right, option, duty or power against Franchisee or the Principals, or as to a subsequent breach or default by Franchisee or the Principals.

D. Approval or Consent. Whenever this Agreement requires the prior approval or consent of Franchisor, Franchisee shall make a timely written request to Franchisor, and such approval or consent shall be obtained in writing. No waiver, approval, consent, advice or suggestion given to Franchisee, and no neglect, delay or denial of any request therefor, shall constitute a warranty or guaranty by Franchisor, nor does Franchisor assume any liability or obligation to Franchisee or any third party as a result thereof.

E. Force Majeure. Upon the occurrence of an event of Force Majeure, the party affected thereby shall give prompt notice thereof to the other party, together with a description of the event, the duration for which the party expects its ability to comply with the provisions of the Agreement to be affected, and a plan for resuming operation under the Agreement, which the party shall promptly undertake and maintain with due diligence. Such affected party shall be liable for failure to give timely notice only to the extent of damage actually caused. If an event of Force Majeure shall occur, then, in addition to payments required under Section 17.C.(5), Franchisee shall continue to be obligated to pay to Franchisor any and all amounts that it shall have duly become obligated to pay in accordance with the terms of this Agreement prior to the occurrence of such event and the Indemnitees shall continue to be indemnified and held harmless by Franchisee in accordance with Section 15. Except as provided in Section 17.C.(5) and the immediately preceding sentence, neither party shall be held liable for a failure to comply with any terms and conditions of this Agreement when such failure is caused by an event of Force Majeure.

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

G. MEDIATION. FRANCHISOR AND FRANCHISEE ACKNOWLEDGE THAT DURING THE TERM OF THIS AGREEMENT CERTAIN DISPUTES MAY ARISE THAT FRANCHISOR AND FRANCHISEE ARE UNABLE TO RESOLVE, BUT THAT MAY BE RESOLVABLE THROUGH MEDIATION. TO FACILITATE SUCH RESOLUTION, FRANCHISOR AND FRANCHISEE AGREE TO SUBMIT ANY CLAIM, CONTROVERSY OR DISPUTE BETWEEN FRANCHISOR OR ANY OF FRANCHISOR AFFILIATES (AND THEIR RESPECTIVE OWNERS, OFFICERS, DIRECTORS, AGENTS, REPRESENTATIVES AND/OR EMPLOYEES) AND FRANCHISEE (AND FRANCHISEE'S OWNERS, AGENTS, REPRESENTATIVES AND/OR EMPLOYEES) ARISING OUT OF OR RELATED TO (a) THIS AGREEMENT OR ANY OTHER AGREEMENT BETWEEN FRANCHISOR AND FRANCHISEE, (b) FRANCHISOR'S RELATIONSHIP WITH FRANCHISEE, OR (c) THE VALIDITY OF THIS AGREEMENT OR ANY OTHER AGREEMENT BETWEEN FRANCHISOR AND FRANCHISEE, TO MEDIATION IN SACRAMENTO, CALIFORNIA BEFORE BRINGING SUCH CLAIM, CONTROVERSY OR DISPUTE IN A COURT OR BEFORE ANY OTHER TRIBUNAL.

(1) THE MEDIATION SHALL BE CONDUCTED IN SACRAMENTO, CALIFORNIA BY A MEDIATOR AGREED UPON BY FRANCHISOR AND FRANCHISEE AND, FAILING SUCH AGREEMENT WITHIN NOT MORE THAN FIFTEEN (15) DAYS AFTER EITHER PARTY HAS NOTIFIED THE OTHER OF ITS DESIRE TO SEEK MEDIATION, BY THE AMERICAN ARBITRATION ASSOCIATION OR ANY SUCCESSOR ORGANIZATION ("AAA") IN ACCORDANCE WITH ITS RULES GOVERNING MEDIATION. MEDIATION SHALL BE HELD IN SACRAMENTO, CALIFORNIA. THE COSTS AND EXPENSES OF MEDIATION, INCLUDING THE COMPENSATION AND EXPENSES OF THE MEDIATOR (BUT EXCLUDING ATTORNEYS' FEES INCURRED BY EITHER PARTY), SHALL BE BORNE BY THE PARTIES EQUALLY.

(2) IF THE PARTIES ARE UNABLE TO RESOLVE THE CLAIM, CONTROVERSY OR DISPUTE WITHIN NINETY (90) DAYS AFTER THE MEDIATOR HAS BEEN CHOSEN, THEN, UNLESS SUCH TIME PERIOD IS EXTENDED BY WRITTEN AGREEMENT OF THE PARTIES, EITHER PARTY MAY BRING A LEGAL PROCEEDING PURSUANT TO SECTION 19.H. FRANCHISOR AND FRANCHISEE AGREE THAT STATEMENTS MADE BY EITHER FRANCHISOR OR FRANCHISEE IN ANY SUCH MEDIATION PROCEEDING WILL NOT BE ADMISSIBLE FOR ANY PURPOSE IN ANY SUBSEQUENT LEGAL PROCEEDING.

(3) NOTWITHSTANDING THE FOREGOING PROVISIONS OF THIS SECTION 19.G., FRANCHISOR'S AND FRANCHISEE'S AGREEMENT TO MEDIATE SHALL NOT APPLY TO CONTROVERSIES, DISPUTES OR CLAIMS RELATED TO OR BASED ON THE MARKS, THE CONFIDENTIAL INFORMATION, OR MONIES OWED. MOREOVER, REGARDLESS OF FRANCHISOR'S AND FRANCHISEE'S AGREEMENT TO MEDIATE, FRANCHISOR AND FRANCHISEE EACH HAVE THE RIGHT IN A PROPER CASE TO SEEK TEMPORARY RESTRAINING ORDERS AND TEMPORARY OR PRELIMINARY INJUNCTIVE RELIEF.

H. LITIGATION. WITH RESPECT TO ANY CONTROVERSIES, DISPUTES OR CLAIMS WHICH ARE NOT FINALLY RESOLVED THROUGH MEDIATION AS PROVIDED IN SECTION 19.G. ABOVE, THE PARTIES IRREVOCABLY SUBMIT THEMSELVES TO THE JURISDICTION OF SACRAMENTO COUNTY (CALIFORNIA) SUPERIOR COURT AND THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF CALIFORNIA, AND HEREBY WAIVE ALL QUESTIONS OF PERSONAL JURISDICTION FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. FRANCHISOR AND FRANCHISEE AGREE THAT

SERVICE OF PROCESS MAY BE MADE UPON THEM IN ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY CALIFORNIA OR FEDERAL LAW.

I. GOVERNING LAW. EXCEPT TO THE EXTENT GOVERNED BY THE UNITED STATES TRADEMARK ACT OF 1946 (LANHAM ACT, 15 U.S.C. SECTIONS 1051 ET SEQ.) OR OTHER FEDERAL LAW, THIS AGREEMENT, THE FRANCHISE AND ALL CLAIMS ARISING FROM THE RELATIONSHIP BETWEEN FRANCHISOR AND FRANCHISEE WILL BE GOVERNED BY AND INTERPRETED AND CONSTRUED UNDER CALIFORNIA LAW (EXCEPT FOR CALIFORNIA CONFLICT OF LAW RULES).

J. PARTIES' ACKNOWLEDGMENTS. FRANCHISOR AND FRANCHISEE ACKNOWLEDGE THAT THE AGREEMENTS REGARDING APPLICABLE STATE LAW AND FORUM SET FORTH ABOVE PROVIDE EACH OF THE PARTIES WITH THE MUTUAL BENEFIT OF UNIFORM INTERPRETATION OF THIS AGREEMENT AND ANY DISPUTE ARISING OUT OF THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT. FRANCHISOR AND FRANCHISEE FURTHER ACKNOWLEDGE THE RECEIPT AND SUFFICIENCY OF MUTUAL CONSIDERATION FOR SUCH BENEFIT.

K. WAIVER OF PUNITIVE DAMAGES. EXCEPT WITH RESPECT TO FRANCHISEE'S OBLIGATION TO INDEMNIFY FRANCHISOR PURSUANT TO ARTICLE XV. AND CLAIMS FRANCHISOR BRING AGAINST FRANCHISEE FOR FRANCHISEE'S UNAUTHORIZED USE OF THE MARKS OR UNAUTHORIZED USE OR DISCLOSURE OF ANY CONFIDENTIAL INFORMATION, FRANCHISOR AND FRANCHISEE AND FRANCHISEE'S PRINCIPALS WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT TO OR CLAIM FOR ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER AND AGREE THAT, IN THE EVENT OF A DISPUTE BETWEEN FRANCHISOR AND FRANCHISEE, THE PARTY MAKING A CLAIM WILL BE LIMITED TO EQUITABLE RELIEF AND TO RECOVERY OF ANY ACTUAL DAMAGES IT SUSTAINS.

L. **LIMITATIONS OF CLAIM. EXCEPT FOR CLAIMS FRANCHISOR BRINGS WITH REGARD TO FRANCHISEE'S OBLIGATIONS TO INDEMNIFY FRANCHISOR PURSUANT TO ARTICLE XV., ANY AND ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE RELATIONSHIP BETWEEN FRANCHISOR AND FRANCHISEE PURSUANT TO THIS AGREEMENT WILL BE BARRED UNLESS AN ACTION IS COMMENCED WITHIN ONE (1) YEAR FROM THE DATE ON WHICH THE ACT OR EVENT GIVING RISE TO THE CLAIM OCCURRED, OR ONE (1) YEAR FROM THE DATE ON WHICH FRANCHISOR OR FRANCHISEE KNEW OR SHOULD HAVE KNOWN, IN THE EXERCISE OF REASONABLE DILIGENCE, OF THE FACTS GIVING RISE TO SUCH CLAIMS, WHICHEVER OCCURS FIRST**.

M. JURY WAIVER. FRANCHISOR AND FRANCHISEE HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVE ANY RIGHT TO A JURY TRIAL IN ANY ACTION ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, THE RELATIONSHIP CREATED BY THIS AGREEMENT, OR ANY OTHER AGREEMENTS BETWEEN FRANCHISOR AND FRANCHISEE OR FRANCHISOR'S AND FRANCHISEE'S RESPECTIVE AFFILIATES. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT. IN

THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS WRITTEN CONSENT TO A TRIAL BY THE COURT.

N. Counterpart Execution. This Agreement may be executed in multiple counterparts, each of which when so executed shall be an original, and all of which shall constitute one and the same instrument.

O. Headings. The captions used in connection with the sections and subsections of this Agreement are inserted only for purpose of reference. Such captions shall not be deemed to govern, limit, modify or in any other manner affect the scope, meaning or intent of the provisions of this Agreement or any part thereof nor shall such captions otherwise be given any legal effect.

P. Survival. Any obligation of Franchisee or the Principals that contemplates performance of such obligation after termination or expiration of this Agreement or the transfer of any interest of Franchisee or the Principals therein, shall be deemed to survive such termination, expiration or transfer. Without limitation of the foregoing, the provisions of Sections 19.G., H. and I. are intended to benefit and bind certain third party non-signatories and will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination.

Q. Gender. All references herein to the masculine, neuter or singular shall be construed to include the masculine, feminine, neuter or plural, where applicable. Without limiting the obligations individually undertaken by the Principals under this Agreement, all acknowledgments, promises, covenants, agreements and obligations made or undertaken by Franchisee in this Agreement shall be deemed, jointly and severally, undertaken by all of the Principals.

R. Remedies Cumulative. All rights and remedies of the parties to this Agreement shall be cumulative and not alternative, in addition to and not exclusive of any other rights or remedies which are provided for herein or which may be available at law or in equity in case of any breach, failure or default or threatened breach, failure or default of any term, provision or condition of this Agreement or any other agreement between Franchisee or any of its affiliates, and Franchisor or any of its affiliates. The rights and remedies of the parties to this Agreement shall be continuing and shall not be exhausted by any one or more uses thereof, and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration, earlier termination or exercise of Franchisor's rights pursuant to Section 17 of this Agreement shall not discharge or release Franchisee or any of the Principals from any liability or obligation then accrued, or any liability or obligation continuing beyond, or arising out of, the expiration, the earlier termination or the exercise of such rights under this Agreement. Additionally, Franchisee and the Principals shall pay all court costs and reasonable attorneys' fees and costs incurred by Franchisor in obtaining any remedy available to Franchisor for any violation of this Agreement.

S. No Third Party Beneficiary. Except as expressly provided to the contrary herein, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Franchisee, Franchisor, Franchisor's officers, directors and personnel and such of Franchisee's and Franchisor's respective successors and assigns as may be contemplated (and, as to Franchisee, authorized by Section 14), any rights or remedies under or as a result of this Agreement.

T. Further Assurances. The parties will promptly execute and deliver such further documents and take such further action as may be necessary in order to effectively carry out the intent and purposes of this Agreement.

U. Agreement Effective Upon Execution by Franchisor. This Agreement shall not become effective until signed by an authorized representative of Franchisor.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized representative.

FRANCHISOR:

Flip Flop Shops, LLC,
a California limited liability company

By:
Name:
Title:

FRANCHISEE:

By:

Name:

Title:

ATTACHMENT A

PRINCIPALS' GUARANTY AND ASSUMPTION AGREEMENT

This Guaranty and Assumption Agreement (the "Guaranty") is given this_____day of _____, 20__, in consideration of, and as an inducement to Flip Flop Shops, LLC ("Franchisor") to enter into that certain Franchise Agreement dated_____, 20__ (the "Agreement") with_____("Franchisee"). Each of the undersigned and any other parties who sign counterparts of this Guaranty (referred to herein individually as a "Guarantor" and collectively as "Guarantors") are Principals (as defined in the Agreement) of Franchisee and will receive material benefit from the execution of the Agreement by Franchisor.

Each Guarantor hereby personally and unconditionally guarantees to Franchisor and its successors and assigns, that Franchisee will punctually perform its obligations and pay all amounts due under the Agreement, including, without limitation, amounts due for initial franchise fees, royalties, Brand Building Fund contributions and purchases of equipment, materials, and supplies.

Each Guarantor waives:

(i) acceptance and notice of acceptance by Franchisor of the foregoing undertakings; and

(ii) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; and

(iii) protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed; and

(iv) any right he or she may have to require that an action be brought against Franchisee or any other person as a condition of liability; and

(v) all rights to payments and claims for reimbursement or subrogation which he or she may have against Franchisee arising as a result of his or her execution of and performance under this Guaranty; and

(vi) any and all other notices and legal or equitable defenses to which he or she may be entitled.

Each Guarantor consents and agrees that:

(i) his or her direct and immediate liability under this Guaranty will be joint and several not only with Franchisee, but also among the Guarantors; and

(ii) he or she will render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so; and

(iii) such liability will not be contingent or conditioned upon pursuit by Franchisor of any remedies against Franchisee or any other person; and

(iv) such liability will not be diminished, relieved or otherwise affected by any subsequent rider or amendment to the Agreement or by any extension of time, credit or other

indulgence that Franchisor may from time to time grant to Franchisee or to any other person, including, without limitation, the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which will in any way modify or amend this Guaranty, which will be continuing and irrevocable throughout the term of the Agreement and for so long thereafter as there are any monies or obligations owing by Franchisee to Franchisor under the Agreement; and

(v) Franchisee's written acknowledgment, accepted in writing by us, or the judgment of any court or arbitration panel of competent jurisdiction establishing the amount due from Franchisee will be conclusive and binding on the undersigned as Guarantors.

Each Guarantor also makes all of the covenants, representations, warranties and agreements of the Principals set forth in the Franchise Agreement and is obligated to perform thereunder, including, without limitation, under Sections 6, 7, 10, 14., 15., 18, 19.G., H., I., K., L. and M.

If Franchisor is required to enforce this Guaranty in an administrative, judicial or arbitration proceeding, and prevail in such proceeding, Franchisor will be entitled to reimbursement of Franchisor's costs and expenses, including, but not limited to, legal and accounting fees and costs, administrative, arbitrators' and expert witness fees, costs of investigation and proof of facts, court costs, other expenses of an administrative, judicial or arbitration proceeding and travel and living expenses, whether incurred prior to, in preparation for or in contemplation of the filing of any such proceeding. If Franchisor is required to engage legal counsel in connection with any failure by the undersigned to comply with this Guaranty, the Guarantors will reimburse Franchisor for any of the above-listed costs and expenses incurred by Franchisor.

IN WITNESS WHEREOF, each Guarantor has hereunto affixed his signature on the same day and year as the Agreement was executed.

PRINCIPALS

*Name:

Name:

Name:

Name:

* Denotes individual who is Franchisee's Operating Principal

ATTACHMENT B

CONFIDENTIALITY AGREEMENT AND ANCILLARY

COVENANTS NOT TO COMPETE

This Agreement is made and entered into this_____day of_____, 20_, between Flip Flop Shops, LLC, a California limited liability company ("Franchisor"), _____ ("Franchisee") and_____("Covenantor") in connection with a franchise agreement between Franchisor and Franchisee dated_____, 20__ ("Franchise Agreement"). Initially capitalized terms used, but not defined in this Agreement, have the meanings contained in the Franchise Agreement.

RECITALS

Franchisor has the right to use and license the use of a System for the establishment and operation of Flip Flop Shops Shops.

The System is identified by certain Marks including, the mark "FLIP FLOP SHOPS," and includes certain Confidential Information which provides economic advantages to Franchisor and licensed users of the System.

Franchisor has granted Franchisee the right to operate a Flip Flop Shops Shop pursuant to the Franchise Agreement.

In connection with his or her duties, it will be necessary for Covenantor to have access to some or all of the Confidential Information.

Franchisor and Franchisee have agreed on the importance of restricting the use, access and dissemination of the Confidential Information, and Franchisee therefore has agreed to obtain from Covenantor a written agreement protecting the Confidential Information and further protecting the System against unfair competition.

Covenantor acknowledges that receipt of and the right to use the Confidential Information constitutes independent valuable consideration for the representations, promises and covenants made by Covenantor herein.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, the parties agree as follows:

Confidentiality Agreement

1. Covenantor shall, at all times, maintain the confidentiality of the Confidential Information and shall use such Confidential Information only in the course of his or her employment by or association with Franchisee in connection with the operation of a Flip Flop Shops Shop under the Franchise Agreement.

2. Covenantor shall not at any time make copies of any documents or compilations containing some or all of the Confidential Information without Franchisor's express written permission.

3. Covenantor shall not at any time disclose or permit the disclosure of the Confidential Information except to other employees of Franchisee and only to the limited extent necessary to train or assist other employees of Franchisee in the operation of the Shop.

4. Covenantor shall surrender any material containing some or all of the Confidential Information to Franchisee or Franchisor, upon request, or upon termination of employment by Franchisee.

5. Covenantor shall not at any time, directly or indirectly, do any act or omit to do any act that would or would likely be injurious or prejudicial to the goodwill associated with the System.

6. Covenantor acknowledges that Franchisor grants Franchisee access to the Manuals for limited purposes only and that the Manuals remain the property of Franchisor. Covenantor agrees that no Manuals may be reproduced, in whole or in part, without Franchisor's written consent.

[Covenants Not to Compete[1]

In order to protect the goodwill of the System, and in consideration for the disclosure of the Confidential Information to Covenantor, Covenantor agrees that, during the term of his or her association with or employment by Franchisee, and for a period of two (2) year following the earlier of (i) the termination thereof, or (ii) the termination, expiration or transfer of Franchisee's interest in the Franchise Agreement, Covenantor will not, without Franchisor's prior written consent or as permitted under valid Franchise Agreements for Flip Flop Shops Shops:

a. Directly or indirectly divert, or attempt to divert any business opportunity or customer of the Shop to any competitor; and

b. Directly or indirectly, for himself or through, on behalf of, or in conjunction with any other person, persons, partnership, corporation, limited liability company, or other association, or entity, own, maintain, operate, engage in or have any financial or beneficial interest in, advise, assist or make loans to, any business which is the same as or similar to a Flip Flop Shops Shop (including, without limitation, any retail facility which primarily offers and sells flip flop shoes and related footwear and accessories) and which is, or is intended to be, located within the Protected Area or within a fifteen (15)- mile radius of any Flip Flop Shops Shop then in existence or under construction.]

[Principal's Undertaking

Covenantor also makes all of the covenants, representations, warranties and agreements of the Principals set forth in Sections 10.B., C., D., and E., 14, and 19.G., H. I., K, L., and M. of the Franchise Agreement and is obligated to perform thereunder.]

Miscellaneous

1. Franchisee shall make all commercially reasonable efforts to ensure that Covenantor acts as required by this Agreement.

2. Covenantor agrees that:

[1]If Covenantor is a Principal not signing the Principals' Guaranty and Assumption Agreement, delete the Covenants Not to Compete section and replace it with the Principal's Undertaking section.

a. Each of the covenants herein contain reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Franchisor. The obligations set forth in this Agreement will be tolled for an period of non-compliance.

b. Each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in any unappealed final decision to which Franchisor is a party, Covenantor shall be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

c. In the event of a breach of this Agreement, Franchisor would be irreparably injured and without an adequate remedy at law and, therefore, upon any such breach or attempted breach of any provision hereof, Franchisor shall be entitled, in addition to any other remedies which it may have at law or in equity, to a temporary and/or permanent injunction and a decree for the specific performance of the terms of this Agreement, without the necessity of showing actual or threatened harm and without being required to furnish a bond or other security.

3. Covenantor agrees to pay all expenses (including court costs and reasonable attorneys' fees and costs) incurred by Franchisor and Franchisee in enforcing this Agreement.

4. Any failure by Franchisor or the Franchisee to object to or take action with respect to any breach of any provision of this Agreement by Covenantor shall not operate or be construed as a waiver of or consent to that breach of any subsequent breach by Covenantor.

5. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT REFERENCE TO CALIFORNIA CONFLICT OF LAW PRINCIPLES. COVENANTOR HEREBY IRREVOCABLY SUBMITS HIMSELF TO THE JURISDICTION OF THE STATE AND FEDERAL DISTRICT COURTS LOCATED IN SACRAMENTO, CALIFORNIA IN WHICH THE FRANCHISOR'S PRINCIPAL PLACE OF BUSINESS IS LOCATED. COVENANTOR HEREBY WAIVES ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. COVENANTOR HEREBY AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON HIM IN ANY PROCEEDING RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY CALIFORNIA OR FEDERAL LAW. COVENANTOR FURTHER AGREES THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE THE COUNTY OR DISTRICT COURT IN SACRAMENTO, CALIFORNIA; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION WHICH INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF, FRANCHISOR OR FRANCHISEE MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE WHICH HAS JURISDICTION.

6. THE PARTIES TO THIS AGREEMENT HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVE ANY RIGHT TO A JURY TRIAL IN ANY ACTION ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT. IN

THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS WRITTEN CONSENT TO A TRIAL BY THE COURT.

7. This Agreement contains the entire agreement of the parties regarding the subject matter hereof. This Agreement may be modified only by a duly authorized writing executed by all parties.

8. Any and all notices required or permitted under this Agreement shall be in writing and shall be personally delivered or mailed by expedited delivery service or certified or registered mail, return receipt requested, first-class postage prepaid, or sent by facsimile or electronic mail to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other parties.

If directed to Franchisor, the notice shall be addressed to:

Flip Flop Shops, LLC
7524 Old Auburn Road
Citrus Heights, California 95610
Attention: President
Telephone: (818) 908-9868
Facsimile:

If directed to Franchisee, the notice shall be addressed to:

_____
_____
Attention: _____
Facsimile: _____

If directed to Covenantor, the notice shall be addressed to:

_____
_____
Attention: _____
Facsimile: _____

Any notice shall be deemed to have been given at the time of personal delivery or, in the case of expedited delivery service on the next Business Day, or, in the case of or registered or certified mail, three (3) Business Days after the date and time of mailing, or, in the case of facsimile or electronic mail, upon transmission (provided confirmation is sent by expedited delivery service or registered or certified mail).

9. The rights and remedies of Franchisor under this Agreement are fully assignable and transferable and shall insure to the benefit of its respective affiliates, successors and assigns. The respective obligations of Franchisee and Covenantor hereunder may not be assigned by Franchisee or Covenantor, without the prior written consent of Franchisor.

IN WITNESS WHEREOF, the undersigned have entered into this Agreement as witnessed by their signatures below.

FRANCHISOR:

Flip Flop Shops, LLC,
a California limited liability company

By:
Name:
Title:
Date:

FRANCHISEE:

By:
Name:
Title:
Date:

COVENANTOR:

By:
Name:
Title:
Date:

* If Franchisor will not be a party, delete reference and modify the agreement to reflect, including the addition of the following third party beneficiary language: "Franchisor and Franchisor's successors and assigns shall be third party beneficiaries of this Agreement, with the full and independent right, at Franchisor's and their option and in Franchisor's and their sole discretion, to enforce this Agreement."

ATTACHMENT C

SELECTED TERMS:

DESIGNATED AREA, LOCATION, PROTECTED AREA, AND OPENING DATE

1. DESIGNATED AREA:

   _____

2. LOCATION: The Shop shall be located at the following address:

   _____

3. PROTECTED AREA: **[The Protected Area will be the geographic area within a 1-mile radius around the Location.]**

3. OPENING DATE: The Opening Date of the Shop is_____, 20 .

ATTACHMENT D

STATEMENT OF OWNERSHIP INTERESTS AND MANAGEMENT INFORMATION

1. The following is a list of all shareholders, partners, members or other investors owning a direct or indirect interest in Franchisee, and a description of the nature of their interest:

NAME	OWNERSHIP INTEREST IN FRANCHISEE	NATURE OF INTEREST

2. The following is a list of all of Franchisee's Principals who are signing the Confidentiality Agreement and Ancillary Covenants Not to Compete substantially in the form set forth in Attachment B to the Franchise Agreement instead of signing the Principals' Guaranty and Assumption Agreement.

_____

_____

_____

3. Franchisee's Operating Principal is: _____

4. Franchisee's Lead Manager (if applicable) is: _____

5. Franchisee's Shop Managers are: _____

_____

_____

_____

_____

ATTACHMENT E

ELECTRONIC FUNDS TRANSFER

AUTHORIZATION TO HONOR CHARGES DRAWN BY AND PAYABLE TO

FLIP FLOP SHOPS, LLC/PAYEE

BANK NAME	ACCOUNT #	ABA#	FEIN
_____	_____	_____	_____

The undersigned Depositor hereby authorizes and requests the Depository designated below to honor and to charge to the following designated account, checks, and electronic debits (collectively, "debits") drawn on such account which are payable to the above named Payee. It is agreed that Depository's rights with respect to each such debit shall be the same as if it were a check drawn and signed by the Depositor. It is further agreed that if any such debit is not honored, whether with or without cause and whether intentionally or inadvertently, Depository shall be under no liability whatsoever. This authorization shall continue in force until Depository and Payee have received at least thirty (30) days written notification from Depositor of its termination.

The Depositor agrees with respect to any action taken pursuant to the above authorization:

(1) To indemnify the Depository and hold it harmless from any loss it may suffer resulting from or in connection with any debit, including, without limitation, execution and issuance of any check, draft or order, whether or not genuine, purporting to be authorized or executed by the Payee and received by the Depository in the regular course of business for the purpose of payment, including any costs or expenses reasonably incurred in connection therewith.

(2) To indemnify Payee and the Depository for any loss arising in the event that any such debit shall be dishonored, whether with or without cause and whether intentionally or inadvertently.

(3) To defend at Depositor's own cost and expense any action which might be brought by a depositor or any other persons because of any actions taken by the Depository or Payee pursuant to the foregoing request and authorization, or in any manner arising by reason of the Depository's or Payee's participation therein.

Name of Depository: _____

Name of Depositor: _____

Designated Bank Acct.: _____

(Please attach one voided check for the above account.)

Shop Location: _____

Shop #: _____

For information call: _____

Address: _____

Phone #: _____

Fax #: _____

_____

Name of Franchisee/Depositor (please print)

By: Signature and Title of Authorized Representative

Date: _____

ATTACHMENT F

DEFINITIONS

"Anti-Terrorism Laws" means Executive Order 13224 issued by the President of the United States, the Terrorism Sanctions Regulations (Title 31, Part 595 of the U.S. Code of Federal Regulations), the Foreign Terrorist Organizations Sanctions Regulations (Title 31, Part 597 of the U.S. Code of Federal Regulations), the Cuban Assets Control Regulations (Title 31, Part 515 of the U.S. Code of Federal Regulations), the USA PATRIOT Act, and all other present and future federal, state and local laws, ordinances, regulations, policies, lists and any other requirements of any Governmental Authority (including, without limitation, the United States Department of Treasury Office of Foreign Assets Control (a.k.a. OFAC)) addressing or in any way relating to terrorist acts and acts of war.

An "affiliate" of a named person is any person or entity that is controlled by, controlling or under common control with such named person.

"Approved Inventory" means the inventory items included on the Approved Inventory List or otherwise approved by Franchisor for sale in a Flip Flop Shops Shop and which Franchisee is required to stock in the Shop.

"Approved Inventory List" means the list of inventory items approved by Franchisor for sale in Flip Flop Shops Shops and which Franchisee is required to stock in the Shop. Franchisor will update the Approved Inventory List from time to time and provide Franchisee with the updated list. The Approved Inventory List shall, and any updates thereto shall be deemed to be part of the Manual for all purposes.

"Brand Building Fund" or "Fund" means the brand building fund described in Section 8.C. of this Agreement.

"Business Day" means each day other than a Saturday, Sunday, U.S. holidays or any other day on which the Federal Reserve is not open for business in the United States.

"Computer System" means the computer hardware and software and cash registers that Franchisor may designate from time to time for use in the operation of Flip Flop Shops Shops.

"Confidential Information" means all proprietary and confidential information relating to the establishment and operation of Flip Flop Shops Shops, including, without limitation: (i) Franchisor's standards and specifications, including equipment, product, inventory, and supplier standards and specifications; (ii) site selection criteria; (iii) advertising and marketing plans and programs; (iv) research, development and test programs for products, inventory, services and operations; (v) the contents of the Manuals; (vi) knowledge of the operating and financial results of Flip Flop Shops Shops, other than Franchisee's Shop; (viii) computer programs and systems, including electronic data files and passwords, and (ix) Improvements (as defined in Section 10.D.).

"Controlling Interest" means (a) if Franchisee is a corporation, that the Principals, either individually or cumulatively, (i) directly or indirectly own at least fifty-one percent (51%) of the shares of each class of Franchisee's issued and outstanding capital stock and (ii) be entitled, under its governing documents and under any agreements among the shareholders, to cast a sufficient number of votes to require such corporation to take or omit to take any action which such corporation is required to take or omit to take under this Agreement, or (b) if Franchisee is a partnership, that the Principals (i) own at least fifty-one percent (51%) interest in the operating profits and operating losses of the partnership as well as at least fifty-one percent (51%) ownership interest in the partnership (and at least fifty-one percent (51%)

interest in the shares of each class of capital stock of any corporate general partner) and (ii) be entitled under its partnership agreement or applicable law to act on behalf of the partnership without the approval or consent of any other partner or be able to cast a sufficient number of votes to require the partnership to take or omit to take any action which the partnership is required to take or omit to take under this Agreement.

"Force Majeure" means acts of God, strikes, lockouts or other industrial disturbances, war, terrorism, riot, epidemic, fire or other catastrophe or other forces beyond Franchisee's control.

"Gross Sales" shall mean the total selling price of all services and products and all income of every other kind and nature related to the Shop, including, without limitation, the amount of all sales transactions, delivery receipts, service income and any other receipts that Franchisor designates from time to time, whether for cash or credit and regardless of collection in the case of credit, and whether received from in-Shop sales or sale outside of the Shop premises, but expressly excluding (i) promotional allowances or rebates paid to Franchisee in connection with its purchase of products or supplies and (ii) sales, use, merchants' or other taxes measured on the basis of the Gross Sales of the Shop imposed by governmental authorities directly on sales or use and collected from customers, provided that the taxes are added to the selling price of Franchisee's goods and services and are in fact paid by Franchisee to the appropriate governmental authorities. Cash refunded and credits given to customers shall be deducted in computing Gross Sales to the extent the amounts of such cash, credit or receivables represent sums previously included in Gross Sales on which royalties or Brand Building Fund contributions were paid. Franchisor may, from time to time, authorize certain other items to be excluded from Gross Sales. Any such permission may be revoked or withdrawn at any time in writing by Franchisor in its discretion. Proceeds from the sale of coupons, gift cards, gift certificates or vouchers will not be included in Gross Sales when the coupons, gift cards, gift certificates or vouchers are sold. Instead, the retail price of products purchased with coupons, gift cards, gift certificates or vouchers will be included in Gross Sales during the week in which the coupon, gift card, gift certificate or voucher is redeemed.

"Gross Sales Report" means the report due on or before each Tuesday during the term of this Agreement, itemizing, in the form and manner Franchisor reasonably requires, the Gross Sales of the Shop for the preceding month.

"Internet" means a global computer-based communications network.

"Intranet" means a restricted global computer-based communications network.

"Lead Manager" means a qualified individual who meets the requirements in Section 7.K. of this Agreement but who is not required to own an interest in Franchisee, designated by Franchisee and approved by Franchisor to supervise the operations of Franchisee's Flip Flop Shops Shops.

"Manual" or "Manuals" means Franchisor's confidential operations manual, which may consist of one or more manuals, containing Franchisor's mandatory and suggested standards, specifications and operating procedures relating to the development and operation of Flip Flop Shops Shops and Franchisee's obligations under this Agreement. The term also includes alternative or supplemental means of communicating information to Franchisee, including bulletins, videotapes, audio tapes, compact discs, computer diskettes, CD ROMs and electronic communications.

"Opening Date" means the date the Shop opens for business to the public.

"Principals" shall include, collectively and individually, Franchisee's spouse, all officers and directors of Franchisee (including the officers and directors of any general partner of Franchisee) whom

Franchisor designates as Franchisee's Principals, and all holders of an ownership interest in Franchisee and of any entity directly or indirectly controlling Franchisee.

"Protected Area" means the geographic area assigned to Franchisee upon the execution of this Agreement and described on Attachment C, exclusive of any Reserved Area, within which Franchisee will be afforded the protections described in Section 1.B. of this Agreement.

"Publicly-held Corporation" is a corporation registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or a corporation subject to the requirements of Section 15(d) of such Act.

"Reserved Area" is any amusement park, theme park, casino, sports stadium or arena, airport, train station, hospital, larger retail Shop in which a "Shop-in-Shop" may be placed, school, hotel, office building or military base.

"Site Work" means, without limitation and as applicable, construction or finish-out of the Location, the paving of parking areas, installing outdoor lighting and sidewalks, extending utilities, demising of interior walls and demolishing of any existing premises, depending on whether the Shop is to be located in a freestanding building or contained within a shopping mall, strip center or other interior location.

"Shop" or "Flip Flop Shops Shop" means the business operated by Franchisee at the Location pursuant to this Agreement, including all assets of Franchisee used in connection therewith.

"Shop Manager" means no fewer than one (1) manager who directs the day-to-day operation and management of the Shop.

"Software Programs" means the proprietary or other software programs developed or acquired by or on behalf of Franchisor for use by Flip Flop Shops Shops.

"Taxes" means any present or future taxes, levies, imposts, duties or other charges of whatsoever nature, including any interest or penalties thereon, imposed by any government or political subdivision of such government on or relating to the operation of the franchised business, the payment of monies, or the exercise of rights granted pursuant to this Agreement, except taxes imposed on or measured by Franchisor's net income.

ATTACHMENT G

LEASE ADDENDUM TERMS

(a) Landlord acknowledges that Tenant is a franchisee of Flip Flop Shops, LLC a California limited liability company ("Franchisor"), and that the Shop located at the Premises ("Unit") is operated under the Flip Flop Shops franchise system, pursuant to a franchise agreement ("Franchise Agreement") between Tenant and Franchisor.

(b) In the event of any default by Tenant under the Lease, Landlord shall give Franchisor written notice of such default. If Tenant has failed to cure such default at the expiration of the applicable cure period, Landlord shall give Franchisor further written notice of such failure ("Franchisor Notice"). Following Franchisor's receipt of the Franchisor Notice, Franchisor shall have the right (but not the obligation) to cure Tenant's default before Landlord shall exercise any of Landlord's remedies arising as a consequence of Tenant's default. Any such cure shall be effected within fifteen (15) days following Franchisor's receipt of the Franchisor Notice. Such cure by Franchisor shall not be deemed to be an election to assume the terms, covenants, obligations and conditions of the Lease.

(c) If Franchisor cures Tenant's default or notifies Landlord of the termination of the Franchise Agreement (which termination shall constitute a non-curable default pursuant to the Lease upon Landlord's receipt of Franchisor's notice thereof), upon Franchisor's request, Landlord will exercise its rights under the Lease to remove and evict Tenant from the Premises, and Franchisor shall have the right and option, upon written notice to Landlord, to assume the terms, covenants, obligations and conditions of the Lease for the remainder of the term, together with any applicable renewal options. In such event, Landlord and Franchisor shall enter into an agreement to document such assumption. Franchisor is not a party to the Lease and shall have no liability under the Lease unless and until said Lease is assigned to, and assumed by, Franchisor as herein provided.

(d) If, at any time after the assignment contemplated in section (c), Franchisor shall notify Landlord that the franchise for the Unit is being granted to another Flip Flop Shops Shop franchisee, Landlord shall permit the assignment of the Lease to said franchisee without the payment of any fee or other cost requirement, provided that said franchisee meets Landlord's reasonable financial qualifications. Landlord shall not unreasonably withhold consent to such assignment. Thereafter, Franchisor shall be released from any and all further liabilities under the Lease. The parties agree to execute any commercially reasonable documents in furtherance of this section.

(e) Tenant will not assign the Lease or renew or extend the term thereof without the prior written consent of Franchisor, nor shall Landlord and Tenant amend or otherwise modify the Lease in any manner that could materially affect any of the foregoing requirements without the prior written consent of Franchisor.

(f) All notices sent pursuant to this Addendum shall be sent in the manner set forth in the Lease, and delivery of such notices shall be effective as of the times provided for in the Lease. For purposes of notice under the Lease, Franchisor's mailing address shall be, 7524 Old Auburn Road, Citrus Heights, California 95610, Attention: President, which address may be changed by written notice to Landlord in the manner provided in the Lease.

STATE SPECIFIC AMENDMENTS TO FRANCHISE AGREEMENT

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT
FOR THE STATE OF CALIFORNIA

The Flip Flop Shops, LLC Franchise Agreement between_____, ("Franchisee" or "You") and Flip Flop Shops, LLC ("Franchisor") of even date herewith (the "Agreement") shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

CALIFORNIA LAW MODIFICATIONS

1. The California Department of Financial Protection and Innovation requires that certain provisions contained in franchise documents be amended to be consistent with California law, including the California Franchise Investment Law, CAL. CORP. CODE Section 31000 et seq., and the California Franchise Relations Act, CAL. BUS. & PROF. CODE Section 20000 et seq. To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

b. 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.).

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

d. The franchise agreement requires mediation. The mediation will occur at the offices of the AAA nearest to Franchisor's then-current principal place of business with the costs being borne by the parties equally. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

2. Section 4.A. of the Agreement is hereby supplemented by the following:

"Payment of all initial fees is postponed until after all of Franchisor's initial obligations are complete and Franchisee is open for business."

3. The following is added to Section 19 of the Agreement as Section 19.V.:

"No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise."

4. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the California law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment as of the date of the Agreement.

FRANCHISOR:

Flip Flop Shops, LLC,
a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT
FOR THE STATE HAWAII

The Flip Flop Shops, LLC Franchise Agreement between _____ ("Franchisee" or "You") and Flip Flop Shops, LLC ("Franchisor") of even date herewith (the "Agreement") (shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

HAWAII LAW MODIFICATIONS

1. "The State of Hawaii has required that the Franchisor defer Franchisee's obligation to pay initial fees under the Agreement until Franchisee's Shop is open and Franchisor has met its pre- opening obligations. Therefore, notwithstanding anything to the contrary in Section 4.A. of the Agreement, during the period that such fee deferral requirement is imposed on Franchisor ("Fee Deferral Period"), Franchisee will not be required to pay the initial fees under the Agreement until Franchisee's Shop is open and Franchisor has met its pre-opening obligations. Immediately upon notice from Franchisor that the Fee Deferral Period has ended, Franchisee must pay the full, initial franchise fee and all other initial fees and amounts as provided in the Franchise Agreement."

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Law, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment as of the date of the Agreement.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT
FOR THE STATE OF ILLINOIS

The Flip Flop Shops Franchise Company, LLC Franchise Agreement between _____ ("Franchisee" or "You") and Flip Flop Shops, LLC ("Franchisor") of even date herewith (the "Agreement") shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

ILLINOIS LAW MODIFICATIONS

1. The Illinois Attorney General's Office requires that certain provisions contained in franchise documents be amended to be consistent with Illinois law, including the Franchise Disclosure Act of 1987, 815 ILCS 705/1-44. To the extent that this Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. Illinois Franchise Disclosure Act paragraphs 705/19 and 705/20 provide rights to You concerning nonrenewal and termination of this Agreement. If this Agreement contains a provision that is inconsistent with the Act, the Act will control.

b. Any release of claims or acknowledgments of fact contained in the Agreement that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule or order under the Act shall be void and are hereby deleted with respect to claims under the Act.

c. If this Agreement requires litigation to be conducted in a forum other than the State of Illinois, the requirement is void with respect to claims under the Illinois Franchise Disclosure Act.

d. If this Agreement requires that it be governed by a state's law, other than the State of Illinois, to the extent that such law conflicts with the Illinois Franchise Disclosure Act, Illinois law governing claims arising under the Act will control.

2. Section 4. of the Agreement is hereby supplemented by the following:

"Based on Franchisor's current financial condition, as a condition to becoming registered to offer and sell franchises in the state of Illinois, the Illinois Attorney General's Office has required that the Franchisor defer Franchisee's obligation to pay initial fees under the Agreement until Franchisee's Shop is open. Therefore, notwithstanding anything to the contrary in Section 4.A. of the Agreement, during the period that such fee deferral requirement is imposed on Franchisor ("Fee Deferral Period"), Franchisee will not be required to pay the initial fees under the Agreement until Franchisee's Shop is open. Immediately upon notice from Franchisor that the Fee Deferral Period has ended, Franchisee must pay the full, initial franchise fee and all other initial fees and amounts as provided in the Franchise Agreement."

3. Section 19. should be amended by the addition of the following as the last sentence of the section:

"However, this Section shall not act as a condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of the Illinois Franchise Disclosure Act of 1987 at Section 705/41."

4. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Illinois Franchise Disclosure Act, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment as of the date of the Agreement.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT
FOR THE STATE MARYLAND

The Flip Flop Shops, LLC Franchise Agreement between _____ ("Franchisee" or "You") and Flip Flop Shops, LLC ("Franchisor") of even date herewith (the "Agreement") (shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

MARYLAND LAW MODIFICATIONS

1. The Maryland Securities Division requires that certain provisions contained in franchise documents be amended to be consistent with Maryland law, including the Maryland Franchise Registration and Disclosure Law, MD. ANN. CODE, BUS. REG., § 14-201 et seq. (2015 Repl. Vol.) (the "Law"). To the extent that this Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. Under the Law, the general release required as a condition of renewal, sale, and/or assignment/transfer does not apply to any liability under the Law.

Any provision in the Agreement that requires you to disclaim and/or acknowledge the occurrence or nonoccurrence of any act that violates the Law as a condition to purchase a franchise, is amended to exclude such representation. Additionally, such representation will not act as a release, estoppel or waiver of any liability incurred under the Law.

b. Any requirement that litigation be conducted in a forum other than the State of Maryland shall not be interpreted to limit any rights Franchisee may have under Section 14-216(c)(25) of the Law to bring suit in the State of Maryland.

c. Any claims that Franchisee may have under the Law must be brought within 3 years after the grant of the franchise.

2. Section 4.A. of the Agreement is hereby supplemented by the following:

"The Maryland Attorney General's Office has required that the Franchisor defer Franchisee's obligation to pay initial fees under the Agreement until Franchisee's Shop is open and Franchisor has met its pre-opening obligations. Therefore, notwithstanding anything to the contrary in Section 4.A. of the Agreement, during the period that such fee deferral requirement is imposed on Franchisor ("Fee Deferral Period"), Franchisee will not be required to pay the initial fees under the Agreement until Franchisee's Shop is open and Franchisor has met its pre-opening obligations. Immediately upon notice from Franchisor that the Fee Deferral Period has ended, Franchisee must pay the full, initial franchise fee and all other initial fees and amounts as provided in the Franchise Agreement."

3. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Law, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment as of the date of the Agreement.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT

FOR THE STATE OF MINNESOTA

The Flip Flop Shops, LLC Franchise Agreement between _____ ("Franchisee" or "You") and Flip Flop Shops, LLC ("Franchisor") of even date herewith (the "Agreement") shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

MINNESOTA LAW MODIFICATIONS

1. The Commissioner of Commerce for the State of Minnesota requires that certain provisions contained in franchise documents be amended to be consistent with Minnesota Franchise Act, Minn. Stat. Section 80C.01 et seq., and the Rules and Regulations promulgated under the Act (collectively, the "Franchise Act"). To the extent that the Agreement/and or Franchise Disclosure Document contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. The Minnesota Department of Commerce requires that franchisors indemnify Minnesota franchisees against liability to third parties resulting from claims by third parties that the franchisee's use of the franchisor's proprietary marks infringes trademark rights of the third party.

b. Minn. Stat. Sec. 80C.14, Subds. 3, 4., and 5 requires, 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. If the Agreement contains a provision that is inconsistent with the Franchise Act, the provisions of the Agreement shall be superseded by the Act's requirements and shall have no force or effect.

c. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Franchise Act, such release shall exclude claims arising under the Franchise Act, and such acknowledgments shall be void with respect to claims under the Franchise Act.

d. If the Agreement requires that it be governed by the law of a State other than the State of Minnesota or arbitration or mediation, those provisions shall not in any way abrogate or reduce any rights of the Franchisee as provided for in the Franchise Act, including the right to submit matters to the jurisdiction of the courts of Minnesota.

e. Any provision that requires the Franchisee to consent to a claims period that differs from the applicable statute of limitations period under Minn. Stat § 80C.17, Subd. 5. may not be enforceable under Minnesota.

2. Section 4.A. and Section 5.B. of the Agreement are hereby supplemented by the following:

"Based on Franchisor's current financial condition, as a condition to becoming registered to offer and sell franchises in the state of Minnesota, the Minnesota Department of Commerce has required that

the Franchisor defer Franchisee's obligation to pay initial fees under the Agreement until Franchisee's Shop is open. Therefore, notwithstanding anything to the contrary in Section 4.A. and Section 5.B. of the Agreement, during the period that such fee deferral requirement is imposed on Franchisor ("Fee Deferral Period"), Franchisee will not be required to pay the initial fees set forth in Section 4.A. and Section 5.B. of the Agreement until Franchisee's Shop is open. Immediately upon notice from Franchisor that the Fee Deferral Period has ended, Franchisee must pay the full, initial franchise fee and all other initial fees and amounts as required by the Agreement."

3. Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the franchise disclosure document or agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, including your rights to any procedure, forum, or remedies provided for in that law.

4. The Agreement/and or Franchise Disclosure Document is hereby amended to delete all references to Liquidated Damages (as defined) in violation of Minnesota law; provided, that no such deletion shall excuse the franchisee from liability for actual or other damages and the formula for Liquidated Damages in the Agreement/and or Franchise Disclosure Document shall be admissible as evidence of actual damages.

5. To the extent required by Minnesota Law, the Agreement/and or Franchise Disclosure Document is amended to delete all references to a waiver of jury trial.

6. All sections of the Agreement/and or Franchise Disclosure Document referencing Franchisor's right to obtain injunctive relief are hereby amended to refer to Franchisor's right to seek to obtain.

7. Each provision of this Agreement shall be effective only to the extent that the jurisdictional requirements of the Minnesota law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

(Signature page to follow.)

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment as of the date of the Agreement.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT
FOR THE STATE OF NEW YORK

The Flip Flop Shops, LLC Franchise Agreement between _____ ("Franchisee" or "You") and Flip Flop Shops, LLC ("Franchisor") of even date herewith (the "Agreement") shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

NEW YORK LAW MODIFICATIONS

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

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

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

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the New York General Business Law, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment as of the date of the Agreement.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT

FOR THE STATE OF NORTH DAKOTA

The Flip Flop Shops, LLC Franchise Agreement between _____ ("Franchisee" or "You") and Flip Flop Shops, LLC ("Franchisor") of even date herewith (the "Agreement") shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

NORTH DAKOTA LAW MODIFICATIONS

1. The North Dakota Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with North Dakota law, including the North Dakota Franchise Investment Law, North Dakota Century Code Annotated Chapter 51-19, Sections 51-19-01 through 51-19-17 (1995). To the extent that the Agreement/and or Franchise Disclosure Document contain provisions that are inconsistent with the following, such provisions are hereby amended:

a. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the North Dakota Franchise Investment Law, or a rule or order under such law, such release shall exclude claims arising under the North Dakota Franchise Investment Law, and such acknowledgments shall be void with respect to claims under such law.

b. Covenants not to compete during the term of and upon termination or expiration of the Agreement are enforceable only under certain conditions according to North Dakota Law. If the Agreement contains a covenant not to compete which is inconsistent with North Dakota Law, the covenant may be unenforceable.

c. If the Agreement requires litigation to be conducted in a forum other than the State of North Dakota, the requirement is void with respect to claims under the North Dakota Law.

d. If the Agreement requires that it be governed by the law of a state, other than the State of North Dakota, to the extent that such law conflicts with North Dakota Law, North Dakota Law will control.

e. If the Agreement requires mediation or arbitration to be conducted in a forum other than the State of North Dakota, the requirement may be unenforceable under the North Dakota Franchise Investment Law. Arbitration involving a franchise purchased in the State of North Dakota must be held either in a location mutually agreed upon prior to the arbitration or if the parties cannot agree on a location, the location will be determined by the arbitrator.

f. If the Agreement requires payment of a termination penalty, the requirement may be unenforceable under the North Dakota Franchise Investment Law.

g. Any provision that provides that the parties waive their right to a jury trial may not be enforceable under North Dakota law.

h. Any provision that provides that the Franchisee consent to a waiver of punitive and exemplary damages may not be enforceable under North Dakota Law.

2. Section 4.A. of the Agreement is hereby supplemented by the following:

"The North Dakota Securities Department has required that the Franchisor defer Franchisee's obligation to pay initial fees under the Agreement until Franchisee's Shop is open and Franchisor has met its initial obligations. Therefore, notwithstanding anything to the contrary in Section 4.A. of the Agreement, during the period that such fee deferral requirement is imposed on Franchisor ("Fee Deferral Period"), Franchisee will not be required to pay the initial fees under the Agreement until Franchisee's Shop is open and Franchisor has met its initial obligations. Immediately upon notice from Franchisor that the Fee Deferral Period has ended, Franchisee must pay the full, initial franchise fee and all other initial fees and amounts as provided in the Franchise Agreement."

3. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the North Dakota Franchise Investment Law, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment as of the date of the Agreement.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT
FOR THE STATE OF RHODE ISLAND

The Flip Flop Shops, LLC Franchise Agreement between _____ ("Franchisee" or "You") and Flip Flop Shops, LLC ("Franchisor") of even date herewith (the "Agreement") shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

RHODE ISLAND LAW MODIFICATIONS

1. The Rhode Island Securities Division requires that certain provisions contained in franchise documents be amended to be consistent with Rhode Island law, including the Franchise Investment Act, R.I. Gen. Law, tit. 19 chap. 28.1 §§ 19-28.1-1 -19-28.1-34. To the extent that this Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. If this Agreement requires litigation to be conducted in a forum other than the State of Rhode Island, the requirement is void with respect to any claims brought under Rhode Island Franchise Investment Act Sec. 19-28.1-14.

b. If this Agreement requires that it be governed by a state's law, other than the State of Rhode Island, to the extent that such law conflicts with Rhode Island Franchise Investment Act it is void under Section 19-28.1-14.

c. If the Franchisee is required in this Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Rhode Island Franchise Investment Act, or a rule or order under such act, such release shall exclude claims arising under the Rhode Island Franchise Investment Act, and such acknowledgments shall be void with respect to claims under such act.

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Rhode Island Franchise Investment Act, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment as of the date of the Agreement.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT
FOR THE STATE SOUTH DAKOTA

The Flip Flop Shops, LLC Franchise Agreement between _____ ("Franchisee" or "You") and Flip Flop Shops, LLC ("Franchisor") of even date herewith (the "Agreement") shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

SOUTH DAKOTA LAW MODIFICATIONS

1. Section 4.A. of the Agreement is hereby supplemented by the following:

"The South Dakota Division of Securities has required that the Franchisor defer Franchisee's obligation to pay initial fees under the Agreement until Franchisee's Shop is open. Therefore, notwithstanding anything to the contrary in Section 4.A. of the Agreement, during the period that such fee deferral requirement is imposed on Franchisor ("Fee Deferral Period"), Franchisee will not be required to pay the initial fees under the Agreement until Franchisee's Shop is open. Immediately upon notice from Franchisor that the Fee Deferral Period has ended, Franchisee must pay the full, initial franchise fee and all other initial fees and amounts as provided in the Franchise Agreement."

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Law, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment as of the date of the Agreement.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT
FOR THE COMMONWEALTH OF VIRGINIA

The Flip Flop Shops, LLC Franchise Agreement between _____("Franchisee" or "you") and Flip Flop Shops, LLC ("Franchisor" or "us") of even date herewith (the "Agreement") shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

VIRGINIA LAW MODIFICATIONS

1. Section 4.A. of the Agreement is hereby supplemented by the following:

"The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise agreement."

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the State Corporation Commission under the Virginia Retail Franchising Act, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment to the Agreement on _____, 20_.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

AMENDMENT TO FLIP FLOP SHOPS, LLC FRANCHISE AGREEMENT
FOR THE STATE OF WASHINGTON

The Flip Flop Shops, LLC Franchise Agreement between _____ ("Franchisee" or "You") and Flip Flop Shops, LLC ("Franchisor") of even date herewith (the "Agreement") shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the "Amendment"):

WASHINGTON LAW MODIFICATIONS

1. The Director of the Washington Department of Financial Institutions requires that certain provisions contained in franchise documents be amended to be consistent with Washington law, including the Washington Franchise Investment Protection Act, WA Rev. Code §§ 19.100.010 to 19.100.940 (1994) ("Act"). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. The Act provides rights to You concerning nonrenewal and termination of the Agreement. If the Agreement contains a provision that is inconsistent with the Act, the Act will control.

b. If the Franchisee is required in the Agreement to execute a release of claims, such release shall exclude claims arising under the Act; except when the release is executed under a negotiated settlement after the Agreement is in effect and where the parties are represented by independent counsel. If there are provisions in the Agreement that unreasonably restrict or limit the statute of limitations period for claims brought under the Act, or other rights or remedies under the Act, those provisions may be unenforceable.

c. If the Agreement requires litigation, arbitration, or mediation to be conducted in a forum other than the State of Washington, the requirement may be unenforceable under Washington law. Arbitration involving a franchise purchased in the State of Washington, must either be held in the State of Washington or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

d. If the Agreement requires that it be governed by the law of a state, other than the State of Washington, and there is a conflict between the law and the Washington Franchise Investment Protection Act, the Act will control.

2. Section 4. of the Agreement is hereby supplemented by the following:

"Based on Franchisor's current financial condition, as a condition to becoming registered to offer and sell franchises in the state of Washington, the Washington Department of Financial Institutions has required that the Franchisor defer Franchisee's obligation to pay the initial franchise fee under the Agreement until Franchisee's Shop is open. Therefore, notwithstanding anything to the contrary in Section 4.A. of the Agreement, during the period that such fee deferral requirement is imposed on Franchisor ("Fee Deferral Period"), Franchisee will not be required to pay the initial franchise fee under the Agreement until Franchisee's Shop is open. Immediately upon notice from Franchisor that the Fee Deferral Period has ended, Franchisee must pay the full, initial franchise fee as provided in the Franchise Agreement."

3. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Washington law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners acknowledges that it has read and understands the contents of this Amendment, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this Amendment and be bound thereby. The parties have duly executed and delivered this Amendment as of the date of the Agreement.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By: Name:_____
Title: _____

FRANCHISEE:

_____

By: Name:_____
Title: _____

EXHIBIT C

LIST OF FRANCHISEES

LIST OF FRANCHISEES

as of December 31, 2023

*Franchise Agreement signed, but Shop not open as of December 31, 2023

ARIZONA

#300
2270 East Williamsfield Road, Suite 112
Gilbert, AZ 85295
Contact: Dave Thompson
Phone: 480-249-6677

#290
21001 N Tatum Blvd. Suite 46-1440
Phoenix, AZ. 85226
Owner: Dave Thompson
480-249-6677

CALIFORNIA

#323
13000 Folsom Blvd #906
Folsom, CA 95630
Contact: Tony Harb
Email: flipflopshopsfolsom@gmail.com

#352
3050 East Campus Pointe Drive
Fresno, CA. 93710
Owner: Mike Eng
916-627-6413

#127
3401 Dale Road
Modesto, CA. 95356
Owner: Michael Deo
916-667-1352

#341
214 N. Coast Hwy.
Oceanside, CA. 92054
Owner: Roma Nichols
510-366-8133
Owner: Shelby Nichols
619-757-6695

#299
1151 Galleria Blvd. Suite 256B
Roseville, CA. 95678
Owner: Michael Deo
916-667-1352

#276
112 K Street
Sacramento, CA. 95814
Owner: Michael Deo
916-667-1352

#103
716 Higuera Street
San Luis Obispo, CA. 93401
Owner: Jared Heinemann
805-459-9835

#238
413 Hillsdale Shopping Center
San Mateo, CA. 94403
Owner: Tom O'Neill
Owner: Laurel O'Neill

#283
40754 Winchester Road Suite 300
Temecula, CA. 92591
Owner: Bruce Mille
585-905-1451
Owner: Tricia Coscione
760-468-5844

COLORADO

#356
5050 Factory Shops Blvd. Unit 235
Castle Rock, CO. 80108
Owner: Graham Nessel
720-939-4407
Owner: Jaclyn Nessel
720-236-8181

#230
625 24 ½ Road Unit 8
Grand Junction, CO. 81505
Owner: Brigitte Cunningham

FLORIDA

#296
180 Canaveral Plaza Blvd.
Cocoa Beach, FL. 32931
Owner: Carmine Villani
970-485-3733
Owner: Richard Roccesano
970-485-3733

#321
120 W. Woodruff Avenue
Crestview, FL. 32536
Owner: Jason Daley
530-613-0334
Owner: Emily Daley
916-505-8145

#195
10801 Corkscrew Road Suite 187
Estero, FL. 33928
Owner: Bob Blake
317-628-4487
Owner: Bonnie Blake
317-628-4487

#272
212 Moody Boulevard
Flagler Beach, FL. 32136
Owner: Rex Kidd Galindo
954-647-0080

#302
4949 Celebration Pointe Avenue Suite #50
Gainesville, FL. 32608
Owner: Lynn Gibbs
904-571-8822
Owner: Robert Gibbs

#348
1912 Highway A1A
Indian Harbour Beach, FL. 32937
Owner: Carmine Villani
970-485-3733
Owner: Richard Roccesano

#324
1620 Margaret Street
Jacksonville, FL. 32204
Owner: Troy Winn
904-610-5484
Owner: Chris Winn
646-373-3006

#327
912 Duval Street
Key West, FL. 33040
Owner: Lisa Goetschius
203-910-5449
Owner: Joe Goetschius
203-910-1422

#288
992 Alverez Avenue
Lady Lake, FL. 32159
Owner: Raymond Bailey
352-516-7898
Owner: Stephen Bailey
352-516-7898

#254
401 Biscayne Blvd. Suite P106, Space 5700
Miami, FL. 33132
Owner: Lisa Goetschius
203-910-5449
Owner: Joe Goetschius
203-910-1422

#331
1994 Tamiami Trail #E0011
Naples, FL. 34102
Owner: Hany Ayoub
305-905-3415

#282
121 Flagler Avenue
New Smyrna Beach, FL. 32169
Owner: Shawna Graham
319-601-9873
Owner: Brandon Graham
319-759-6685

#347
1211 Toledo Blade Blvd
North Port, FL 34288
Owner: Anne Amrein
502-295-0051
Owner: Scott Amrein

#329
177 East Granada Boulevard
Ormond Beach, FL. 32176
Owner: Janice Knapp
813-428-3007
Owner: David Knapp
813-428-3007

#303
600 Pier Park Dr Ste 100
Panama City Beach, FL.
Owner: Rene Madrigal
559-836-0622

***#326**
Ponte Vedra, FL
Owner: David Hensley
904-599-4059
Katie Hensley

#342
1200 SW Gatlin Blvd
Port St. Lucie, FL 34986
Owner: Dan Silva
407-350-0610
Owner: Laurie Turner
407-227-9709

#346
615 Cross Street Unit 1109
Punta Gorda, FL. 33905
Owner: Brian Sklenar
267-980-2498

#307
3818 Sun City Center Blvd.
Ruskin, FL. 33575
Owner: Pamela Perera
813-416-1224

#308
2075 Periwinkle Way Unit #31
Sanibel, FL 33957
Owner: Hany Ayoub
305-905-3415

#325
77 San Marcos Ave
Saint Johns, FL 32084
Owner: Bob Rustici
904-669-7565
Cindy Rustici

#292
517 Anastasia Blvd.
St. Augustine, FL. 32080
Owner: Bob and Cindy Rustici
904-669-7565

#289
12801 W. Sunrise Blvd. Unit 201
Sunrise, FL. 33323
Owner: Lisa Goetschius
203-910-5449
Owner: Joe Goetschius
203-910-1422

#297
735 Dodecanese Blvd. Unit 3
Tarpon Springs, FL. 34689
Owner: Anastasia Rallis
303-815-9191
Nabil Elkasmi

***#355**
Vero Beach, FL. 32956
Owner: Kali Carlise
772-528-7834

***#305**
Lynn & Robert Gibbs
Venice , FL
Owner: Lynn Gibbs
904-571-8822
Robert Gibbs

#322
1752 Bruce B. Downs
Wesley Chapel, FL. 33544
Owner: Kevin Taylor
720-933-6133
Owner: Traci Taylor
720-313-5082

#204
1741 Palm Beach Lakes Blvd. Unit E221
West Palm Beach, FL 33401
Owner: Jorge Bernard
(239) 495-0399

#345
100 Boyd Street
Winter Garden, FL. 34787
Owner: Oliver Joseph
407-766-9125
Owner: Lori Joseph

#353
501 N. Orlando Avenue Suite 209D
Winter Park, FL.
Owner: Brent Shoemaker
443-690-5815

GEORGIA

#132
100 Bull Street
Savannah, GA. 31401
Owner: Chris Johnson
559-285-0447

HAWAII

#225
2330 Kalakaua Avenue Suite 233
Honolulu, HI. 96815
Owner: Julie Bilbao
916-439-0036

#336
91-5431 Kaplolei Pkwy - Unit 409
Kapolei, HI
Owner: Julie Bilbao
916-439-0036

#310
5460 Koloa Road Suite G101
Koloa, HI. 96756
Owner: Denise Zumwalt
808-652-5290
Owner: Andrew Zumwalt

#245
3-2600 Kaumualii Hwy. Suite 1912 A04
Lihue, HI. 96766
Owner: Denise Zumwalt
808-652-5290
Owner: Andrew Zumwalt

#060
2435 Kaanapali Parkway Suite D11
Lahaina, HI 96761
Owner: Valeh Rashidian
310-387-5867

#320
3750 Wailea Alanui Drive #A35
Wailea, HI. 96753
Owner: Julie Bilbao
916-439-0036

NEVADA

#004
3930 South Las Vegas Blvd. Suite #110
Las Vegas, NV. 89119
Owner: Scott Santy

NORTH CAROLINA

#047
1171 Duck Road Unit B6
Duck, NC. 27949
Owner: Lisa Goetschius
203-910-5449
Owner: Joe Goetschius

#075
7100 South Croatan Hwy.
Nags Head, NC. 27959
Owner: Lisa Goetschius
203-910-5449
Owner: Joe Goetschius
203-910-1422

#174
4325 Glenwood Ave. #2070
Raleigh, NC 27612
Gareth Boland

#354
3521A Airport Road
Wilson, NC.
Owner: Tommy Duncan

SOUTH CAROLINA

#269
1307 Celebrity Circle Unit B-115
Myrtle Beach, SC. 29577
Owner: Yusuf Gurkan
843-301-4935
Owner: Laura Juliana Gomez

TEXAS

#311
1310 Ranch Road 620 S Ste Unit C7
Lakeway, TX. 78734
Owner: Edwin Reyes
512-825-7698
Owner: Amanda Molina
512-750-2154

#340
345 N. Alister Street Unit G1
Port Aransas, TX. 78373
Owner: Edwin Reyes
512-825-7698
Owner: Amanda Molina
512-750-2154

VIRGINIA

#188
4802 Valley View Blvd. NW UE265
Roanoke, VA. 24012
Owner: Tom Gearheart

EXHIBIT D

LIST OF FRANCHISEES WHO HAVE LEFT THE SYSTEM

EXHIBIT D

LIST OF FRANCHISEES WHO HAVE LEFT THE SYSTEM
AS OF DECEMBER 31, 2023

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

Closures listed represent Shops closed between January 1, 2023 and December 31, 2023

CALIFORNIA

#264
13430 Lincoln Way
Auburn, CA. 95603
Owner: Christine Martin
530-863-3622
Owner: Josh Martin
530-210-6830

#291
1541 2nd Street #400
Beaumont, CA. 92223
Owner: Henry Herreras
909-900-3475

#240
100 Citadel Drive Suite 110
Commerce, CA. 90040
Owner: Lynn Castillo
585-472-2408

#266
101 West Avenida Visa Hermosa #542
San Clemente, CA. 92672
Owner: Lynn Castillo
585-472-2408

FLORIDA

#317
2919 West Bay Drive
Belleair Bluffs, FL. 33770
Owner: Chad White
727-642-0276
Owner: Debbie Busby
727-495-1584
Owner: Ronnie Busby

#279
915 E. Bloomingdale Avenue
Brandon, FL. 33511
Owner: Deana Tuzzolino
813-480-3112
Owner: Michael Tuzzolino
813-856-5030

#343
431 Front Street
Key West, FL. 33040
Owner: Lisa Goetschius
203-910-5449
Owner: Joe Goetschius
203-910-1422

#286
140 University Towne Center Drive #178
Sarasota, FL. 34243
Owner: Deana Tuzzolino
813-480-3112
Owner: Michael Tuzzolino
813-856-5030

#332
14869 N. Dale Mabry Hwy.
Tampa, FL. 33618
Owner: Kristen Curts
727-415-6766

HAWAII

#336
91-5431 Kapolei Parkway #409
Kapolei, HI. 96707
Owner: Julie Bilbao
916-439-0036

TEXAS

#281
4015 I-35 South Suite 730
San Marcos, TX. 78666
Owner: Chris Herring
512-392-0075

#318
22502 US Highway 281 N # 108
San Antonio, TX.
Owner: Edwin Reyes
512-825-7698

PENNSYLVANIA

#153
160 N. Gulph Road #1069
King of Prussia, PA. 19406
Owner: Lori Kalinovich
267-884-5837
Owner: James Kalinovich
267-884-5837

EXHIBIT E

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OPERATIONS MANUAL

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EXHIBIT F

FORM OF GENERAL RELEASE

FORM OF GENERAL RELEASE

[Current Form for Transfers and Renewals]

1. **Release of Claims**. Franchisee and its Owners and their respective assigns, heirs, representatives, agents, family members, and all other persons acting on their behalf or claiming under them (collectively referred to as the "Franchisee Related Parties") irrevocably and unconditionally release and forever discharge Franchisor, its predecessors, subsidiaries, affiliates and their respective owners, officers, directors, agents, independent contractors, servants, employees, representatives, attorneys, successors and assigns and all persons acting by, through, under or in concert with any of them (collectively "Releasees"), from all actions, causes of action, suits, debts, liens, contracts, agreements, obligations, promises, liabilities, claims, rights, demands, damages, controversies, losses, costs, and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected, fixed or contingent, except for claims under the Maryland Franchise Registration and Disclosure Law ("Claim" or "Claims"), which they now have or claim to have or at any time heretofore have had or claimed to have against each or any of the Releasees, including, without limitation, any and all such Claims arising from, based upon or related to the Franchise Agreement, but excluding claims based on any representation that Franchisor made in the most recent Franchise Disclosure Document (including its exhibits and amendments) that Franchisor delivered to Franchisee or its representative in connection with the offer of the Franchise Agreement, subject to agreed-upon changes to the contract terms described in that Franchise Disclosure Document and reflected in the Franchise Agreement (including any riders or addenda signed at the same time as the Franchise Agreement).

[For California franchisees, add: Each of the Franchisee Related Parties expressly waives and relinquishes all rights and benefits which either may now have or in the future have under and by virtue of California Civil Code Section 1542. The parties do so understanding the significance and consequence of such specific waiver. Section 1542 provides that "[a] general release does not extend to claims which the creditor does not know or suspect 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." For the purpose of implementing a general release and discharge as described in Section 1. above, the parties expressly acknowledge that this Agreement is intended to include in its effect, without limitation, all claims described in Section 1. above which the parties do not know or suspect to exist in their favor at the time of execution hereof, and that this Agreement contemplates the extinguishment of any such claims.]

2. **Unknown Claims.**

(a) Franchisee acknowledges for itself and the Franchisee Related Parties that there is a risk that subsequent to the execution of this Agreement, it will discover, incur or suffer Claims which are unknown or unanticipated at the time this Agreement is executed, including, without limitation, unknown or unanticipated Claims which arose from, are based upon or are related to the Franchise Agreement or some part or aspect thereof, which if known by Franchisee on the date this Agreement is being executed may have materially affected its decision to execute this Agreement.

(b) Franchisee acknowledges and agrees for itself and the Franchisee Related Parties that by reason of the release contained in Section 1 above, it is assuming the risk of such unknown and unanticipated Claims and agrees that its release of the Releasees contained in this Agreement applies thereto.

3. **Covenant Not to Sue**. Franchisee covenants and agrees for itself and for the Franchisee Related Parties not to bring or allow to be brought on behalf of itself or any Franchisee Related Party, any action, cause of action, suit or other proceeding of any kind, which has accrued or which may ever accrue, whether based in the Constitution, common law or statute, contract, tort, or in equity, for actual or punitive damages or other relief, against Franchisor and the Releasees arising out of, resulting from, or in any manner related to the matters referenced in Section 1.

4. **No Assignment of Claims**. Franchisee represents and warrants for itself and the Franchisee Related Parties that it has not assigned or transferred, or purported to assign or transfer, to any person or entity, any Claims released under Section 1 of this Agreement and agrees to indemnify, defend and hold the Releasees harmless from and against any and all Claims, based on or arising out of any such assignment or transfer, or purported assignment or transfer, of any Claims, or any portion thereof or interest therein. Franchisee represents and warrants that since the date of the Franchise Agreement, there has been no assignment or transfer, and no purported assignment or transfer, to any person or entity of the Franchise, the Franchise Agreement, or any rights or interests therein or in the Franchisee.

5. **Full and Independent Knowledge**. Franchisee represents that it has been represented by an attorney in connection with the preparation and review of this Agreement, that it has specifically discussed with its attorney the meaning and effect of this Agreement and that it has carefully read and understands the scope and effect of each provision contained herein. Franchisee further represents that it does not rely and has not relied upon any representation or statement made by the Franchisor or, any of the Releasees or any of their representatives with regard to the subject matter, basis or effect of this Agreement.

6. **Compromise**. Franchisee agrees for itself and the Franchisee Related Parties that the releases contained herein are the result of a compromise and shall never at any time for any purpose be considered as an admission of liability or responsibility on the part of Franchisor or the Releasees regarding any matter.

7. General Provisions.

(a) **Entire Agreement**. This Agreement, when fully executed, supersedes all previous negotiations, representations, and discussions by the parties hereto concerning the subject matter hereof and integrates the whole of all of their agreements and understandings concerning the subject matter hereof. No oral representations or undertakings concerning the subject matter hereof shall operate to amend, supersede, or replace any of the terms or conditions set forth herein.

(b) **Authority**. By their signatures below, the parties hereto represent and warrant to each other that they have all necessary authority to enter into this Agreement. Each party hereto represents and warrants that the party is entering into this Agreement solely for the purposes and consideration set forth herein.

(c) **Counterpart Execution**. This Agreement may be executed in multiple counterparts, each of which shall be fully effective as an original.

(d) **Survival**. All covenants, representations, warranties, and agreements of the parties shall survive execution and delivery of this Agreement and shall continue until such time as all the obligations of the parties hereto shall have lapsed in accordance with their respective terms or shall have been discharged in full.

(e) **Further Assurance**. The parties hereto covenant and agree that they will execute such other and further instruments and documents as are or may become necessary or convenient to effectuate and carry out the intent of this Agreement.

(f) **Complete Defense**. Franchisee acknowledges that this Agreement shall be a complete defense to any claim released under the terms of Section 1 of this Agreement and hereby consents to the entry of a temporary or permanent injunction to end the assertion of any such claim.

(g) **Attorneys' Fees**. In the event that Franchisor institutes legal proceedings of any kind to enforce this Agreement, Franchisee agrees to pay all costs and expenses associated therewith, including, but not limited to, all attorneys' fees.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized representative as of the date indicated below.

FRANCHISOR:

Flip Flop Shops, LLC, a California limited liability company

By:_ Name:_____
Title:_____
Date: _____

FRANCHISEE:

_____

By:_ Name:_____
Title:_____
Date: _____

OWNERS:

_____

Date: _____

_____

Date: _____

_____

Date: _____

[See Additional Note:

1. Add signature blocks for any additional parties identified pursuant to Section 1]

ATTACHMENT A

LIST OF STATE ADMINISTRATORS

ATTACHMENT A

LIST OF ADMINISTRATORS

We intend to register this Disclosure Document as a "franchise" in some or all of the following states, in accordance with the applicable state laws. If and when we pursue franchise registration (or otherwise comply with the franchise investment laws) in these states, the following are the state administrators responsible for the review, registration, and oversight of franchises in these states:

CALIFORNIA

Department of Financial
Protection and Innovation
320 West 4th Street, Suite 750
Los Angeles, CA 90013-2344
www.dfpi.ca.gov
Toll free number: 866-275-2677
Ask@DFPI@dfpi.ca.gov

CONNECTICUT

Cynthia Antanaitis
Assistant Director
Securities and Business Investment Division
Connecticut Department of Banking
260 Constitution Plaza
Hartford, Connecticut 06103-1800
(860) 240-8230

FLORIDA

Department of Agriculture and Consumer Services
Mayo Building, 2nd Floor
Tallahassee, Florida 32399

HAWAII

Business Registration Division
Department of Commerce
and Consumer Affairs
335 Merchant Street, Room 203
Honolulu, Hawaii 96813

INDIANA

Securities Commissioner
Indiana Securities Division
302 West Washington Street
Room E-111
Indianapolis, Indiana 46204

ILLINOIS

Chief' Franchise Bureau
Attorney General's Office
500 South Second Street
Springfield, Illinois 62706

MARYLAND

Office of the Attorney General
Division of Securities
200 St. Paul Place
Baltimore, Maryland 21202-2020

MICHIGAN

Michigan Attorney General's Office
Consumer Protection Division
Attn.: Franchise Section
525 West Ottawa
G. Mennen Williams Building, 1st Floor
Lansing, Michigan 48933

MINNESOTA

Franchise Examiner
Minnesota Department of Commerce
85 7th Place East
Suite 280
Saint Paul, Minnesota 55101

NEBRASKA

Nebraska Department of Banking and
Finance Bureau of Securities
Financial Institutions Division Lincoln,
Nebraska 68508

NEW YORK

Assistant Attorney General New York
Department of Law Investment Protection
Bureau 28 Liberty Street
New York, New York 10005

NORTH DAKOTA

Franchise Examiner
North Dakota Securities Department 600
East Boulevard Avenue
State Capitol – 5th Floor
Bismarck, North Dakota 58505-0510

OREGON

Department of Consumer
and Business Services
Division of Finance
and Corporate Securities
Labor and Industries Building Salem,
Oregon 97301

RHODE ISLAND

Securities Division
Department of Business Regulation 1511
Pontiac Avenue
John O. Pa Shop Complex - Building 69-1
Cranston, Rhode Island 02920

SOUTH DAKOTA

Franchise Administrator
Department of Labor and Regulation
Division of Insurance
Securities Regulation 124 S Euclid,
Suite 104
Pierre, South Dakota 57501

TEXAS

Statutory Document Section
Secretary of State
P.O. Box 12887
Austin, Texas 78711

UTAH

Director Department of Commerce
Division of Consumer Protection
160 East Three Hundred South
P.O. Box 45804
Salt Lake City, Utah 84111

VIRGINIA

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

WASHINGTON

Administrator Department of
Financial Institutions Securities Division
150 Israel Rd. S.W.
Tumwater, Washington 98501

WISCONSIN

Franchise Administrator Division of
Securities Department of Financial
Institutions
201 W Washington Avenue,
Suite 300
Madison, Wisconsin 53703

ATTACHMENT B

AGENTS FOR SERVICE OF PROCESS

ATTACHMENT B

AGENTS FOR SERVICE OF PROCESS

We intend to register this Disclosure Document as a "franchise" in some or all of the following states, in accordance with the applicable state law. If and when we pursue franchise registration (or otherwise comply with the franchise investment laws) in these states, we will designate the following state offices or officials as our agents for service of process in these states:

CALIFORNIA

Department of Financial Protection and Innovation~~Commissioner of Business Oversight Department of Business Oversight~~

320 West 4th Street, Suite 750
Los Angeles, CA 90013-2344
www.dfpi.ca.gov
Toll free number: 1-866-275-7677
Ask.DFPI@dfpi.ca.gov

CONNECTICUT

Banking Commissioner of
State of Connecticut
Securities and Business Investment Division
Connecticut Department of Banking
260 Constitution Plaza
Hartford, Connecticut 06103-1800
(860) 240-8230

HAWAII

Commissioner of Securities
Department of Commerce and
Consumer Affairs
Business Registration Division
335 Merchant Street, Room 203
Honolulu, Hawaii 96813

ILLINOIS

Illinois Attorney General
500 South Second Street
Springfield, Illinois 62706

INDIANA

Secretary of State 201 State House
200 West Washington
Indianapolis, Indiana 46204

MARYLAND

Maryland Securities
Commissioner
Maryland Division
of Securities 200 St.
Paul Place
Baltimore, Maryland 21202-2020

MICHIGAN

Michigan Department of
Commerce Corporations and
Securities Bureau
G. Mennen Williams
Building,
1st Floor 525 West Ottawa
Lansing, Michigan 48933

MINNESOTA

NORTH DAKOTA

Securities Commissioner
North Dakota Securities Department
600 East Boulevard Avenue
State Capitol - 5th Floor
Bismarck, North Dakota 58505-0510

OREGON

Director
Department of Consumer
and Business Services
Division of Finance
and Corporate Securities
Labor and Industries Building Salem,
Oregon 97310

RHODE ISLAND

Director
Department of Business Regulation
1511 Pontiac Avenue
John O. PA Shop Complex - Building
69-1 Cranston, Rhode Island 02920

SOUTH DAKOTA

Director
Department of Labor
and Regulation Division of Insurance
Securities Regulation 124 S Euclid,
Suite 104
Pierre, South Dakota 57501

Commissioner of Commerce
85 7th Place East
Suite 280
Saint Paul, Minnesota 55101

NEW YORK

Secretary of State of
the State of New York
99 Washington Avenue
Albany, New York 12231

NORTH CAROLINA

Secretary of State of North Carolina
2 South Salisbury Street
Raleigh, North Carolina 27601

WASHINGTON

Director of Financial Institutions
Securities Division
150 Israel Rd. S.W. Tumwater,
Washington 98501

WISCONSIN

Commissioner of Securities Wisconsin
Securities Commission 201 W
Washington Avenue, Suite 300
Madison, Wisconsin 53703

VIRGINIA

Clerk of the State
Corporation Commission
1300 East Main Street, 1st Floor
Richmond, Virginia 23219

ATTACHMENT C

STATE SPECIFIC ADDENDA TO FRANCHISE DISCLOSURE DOCUMENT

ADDENDUM TO FLIP FLOP SHOPS, LLC
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF CALIFORNIA

1. The Department of Financial Protection and Innovation requires that certain provisions contained in franchise documents be amended to be consistent with California law, including the California Franchise Investment Law, CAL. CORP. CODE Section 31000 et seq., and the California Franchise Relations Act, CAL. BUS. & PROF. CODE Section 20000 et seq. To the extent that the Franchise Disclosure Document/and or Franchise Agreement contain provisions that are inconsistent with the following, such provisions are hereby amended:

A Item 3 of the Franchise Disclosure Document is supplemented by the following language:

Neither we nor any person or franchise broker in Item 2 of the Franchise Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A.78a et seq., suspending or expelling such persons from membership in such association or exchange.

B Item 17 of the Franchise Disclosure Document is supplemented by the following language:

a. No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

b. California Business and Professions Code Sections 20000 through 20043 (the Franchise Relations Act) provide rights to the franchisee concerning termination, transfer or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

c. 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.).

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

e. The franchise agreement requires mediation. The mediation will occur at the offices of the AAA nearest to Franchisor's then-current principal place of business with the costs being borne by the parties equally. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and

Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

C Item 19 of the Franchise Disclosure Document is supplemented by the following language:

The financial performances representation figure(s) does (do) not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from the gross revenue of gross sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your Flip Flop Shops Shop. Franchisees or former franchisees, listed in the disclosure document, may be one source of this information.

D Item 5 of the Franchise Disclosure Document is hereby supplemented by the following:

"The Department has determined that we, the franchisor, have not demonstrated we are adequately capitalized and/or that we must rely on franchise fees to fund our operations. The Commissioner has imposed a fee deferral condition, which requires that we defer the collection of all initial fees from California franchisees until we have completed all of our pre-opening obligations and you are open for business. For California franchisees who sign a development agreement, the payment of the development and initial fees attributable to a specific unit in your development schedule is deferred until that unit is open."

2. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT www.dfpi.ca.gov.

3. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH A COPY OF THE FRANCHISE DISCLOSURE DOCUMENT.

4. California's Franchise Investment Law (Corporations Code sections 31512 and 31512.1) states that any provision of a franchise agreement or related document requiring the franchisee to waive specific provisions of the law is contrary to public policy and is void and unenforceable. The law also prohibits a franchisor from disclaiming or denying (i) representations it, its employees, or its agents make to you, (ii) your ability to rely on any representations it makes to you, or (iii) any violations of the law.

5. Corporations Code 31512 provides that: "Any conditions, stipulation or provision purporting to bind any person acquiring a franchise to waive compliance with any provision of this law or any rule or order hereunder is void." The franchise agreement requires a shortened status of limitations period. Pursuant to Corporations Code Section 31512, this provision is void, to the extent that it is inconsistent with the provisions of Corporations Code Sections 31303 and 31304.

6. You must sign a 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).

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

8. The registration of this franchise offering by the California Department of Financial Protection and Innovation does not constitute approval, recommendation, or endorsement by the commissioner.

ADDENDUM TO FLIP FLOP SHOPS, LLC
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF HAWAII

The State Cover Page, Item 5 and Item 7 are supplemented by the following:

"THE FRANCHISOR HAS A MEMBERS' DEFICIT OF $(4,361,521) AS OF JANUARY 3, 2018. AS A RESULT, FOR EACH FRANCHISE SOLD IN HAWAII, THE STATE OF HAWAII HAS REQUIRED US TO DEFER THE RECEIPT OF INITIAL FRANCHISE FEES AND OTHER PAYMENTS TO US AND OUR AFFILIATES UNTIL WE HAVE MET ALL OF OUR PRE-OPENING OBLIGATIONS AND YOU HAVE OPENED YOUR FRANCHISED SHOP."

ADDENDUM TO FLIP FLOP SHOPS, LLC
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF ILLINOIS

1. If the franchise agreement requires that it be governed by a state's law, other than the state of Illinois, to the extent that such law conflicts with the Illinois Franchise Disclosure Act (including judicial decisions interpreting the Act), Illinois law will govern.

2. Section 4 of the Illinois Franchise Disclosure Act provides that any provision in a franchise agreement that designates jurisdiction or venue outside the State of Illinois is void. However, a franchise agreement may provide for arbitration in a venue outside of Illinois.

3. Section 41 of the Illinois Franchise Disclosure Act provides that any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law or Illinois is void.

Your rights upon termination and non-renewal of a Franchise Agreement are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure act.

4. Items 5. and 7. of the Disclosure Document are hereby supplemented by the following:

"Based on our current financial condition, as a condition to becoming registered to offer and sell franchises in the state of Illinois, the Illinois Attorney General's Office has required that the Franchisor defer your obligation to pay initial fees under the Agreement until Franchisee's Shop is open. Therefore, during the period that such fee deferral requirement is imposed on us ("Fee Deferral Period"), Franchisee will not be required to pay the initial fees under the Agreement until Franchisee's Shop opens. Immediately upon notice from us that the Fee Deferral Period has ended, you must pay the full, initial franchise fee and all other initial fees and amounts as provided in the Franchise Agreement."

5. Each provision of this addendum shall be effective only to the extent that the jurisdictional requirements of the Illinois Franchise Disclosure Act, with respect to each such provision, are met independent of this addendum. This addendum shall have no force or effect if such jurisdictional requirements are not met.

ADDENDUM TO FLIP FLOP SHOPS, LLC
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF MARYLAND

1. Item 5. of the Disclosure Document is hereby supplemented by the following:

"The Maryland Attorney General's Office has required that we defer your obligation to pay initial fees under the Franchise Agreement until your Shop is open and we have met our pre-opening obligations. Therefore, during the period that such fee deferral requirement is imposed on us ("Fee Deferral Period"), you will not be required to pay the initial fees under the Franchise Agreement until your Shop opens and we have met our pre-opening obligations. Immediately upon notice from us that the Fee Deferral Period has ended, you must pay the full, initial franchise fee and all other initial fees and amounts as provided in the Franchise Agreement."

2. (a) The Summary column for Items 17.v., "Choice of Forum" (Franchise Agreement chart) is amended as follows:

> "A franchisee may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law. Except for any rights a franchisee has under the Maryland Franchise Registration and Disclosure Law to bring suit in Maryland for claims arising under the Law, mediation of disputes which are subject to mediation will be held in Atlanta, Georgia. Except as otherwise required by the Maryland Franchise Registration and Disclosure Law, venue for all proceedings arising under the Franchise Agreement is Cobb County, Georgia or the federal district court for the Northern District of Georgia, unless otherwise brought by us."

(b) Item 17.c., "Requirements for you to renew or extend" (Franchise Agreement chart) and Item 17.m. "Conditions for our approval of transfer" (Franchise Agreement chart) is amended by the addition of the following:

> "The Code of Maryland Regulations COMAR 02.02.08.16L., states that a general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law. This may affect the enforceability of certain provisions in the Franchise Agreement relating to renewal, sale, assignment or transfer of the Franchise Agreement."

(c) Item 17 is amended to add the following note at the end of that Item:

"Any claims that Franchisee may have under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise."

(d) The following is added as the last paragraph of Item 17:

"A provision in the Franchise Agreement which terminates the agreement upon your bankruptcy may not be enforceable under Title 11, United States Code Section 101."

ADDENDUM TO FLIP FLOP SHOPS, LLC
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF MINNESOTA

Items 5. and 7. of the Disclosure Document are hereby supplemented by the following:

"Based on our current financial condition, as a condition to becoming registered to offer and sell franchises in the state of Minnesota, the Minnesota Department of Commerce has required that we defer your obligation to pay initial fees under the Agreement until your Shop is open. Therefore, during the period that such fee deferral requirement is imposed on us ("Fee Deferral Period"), you will not be required to pay the initial fees under the Agreement until your Shop opens. Immediately upon notice from us that the Fee Deferral Period has ended, you must pay the full, initial franchise fee and all other initial fees and amounts as provided in the Franchise Agreement.

ADDENDUM TO FLIP FLOP SHOPS, LLC
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF NEW YORK

1. INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT G OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 28 LIBERTY STREET, NEW YORK, NEW YORK 10005. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.

2. Item 3, "Litigation" is hereby supplemented by the addition of the following language:

"(a) Neither we, any predecessor, any person identified in Item 2 above, nor any affiliate offering franchises under our principal trademark has pending any administrative, criminal or material civil action (or a significant number of civil actions irrespective of materiality) alleging a violation of any franchise, antitrust or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable allegations.

(b) Neither we, any predecessor, any person identified in Item 2 above, nor any affiliate offering franchises under our principal trademark has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten-year period immediately preceding the date of this disclosure document, has been convicted of a misdemeanor or pleaded nolo contendere to a misdemeanor charge or been held liable in a civil action by final judgment or been the subject of a material complaint or other legal proceeding if such misdemeanor conviction or charge or civil action, complaint or other legal proceeding involved a violation of any franchise, anti-fraud or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, misappropriation of property or comparable allegations.

(c) Neither we, any predecessor any person identified in Item 2 above, nor any affiliate offering franchises under our principal trademark is subject to any currently effective injunctive or restrictive order or decree relating to franchises or under any Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law as a result of a concluded or pending action or proceeding brought by a public agency, 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 department, including, without limitation, actions affecting a license as a real estate broker or sales agent."

3. Item 4, "Bankruptcy" is hereby deleted in its entirety and the following language substituted in lieu thereof:

> "Neither Flip Flop Shops, LLC, nor any affiliate or predecessor or current officer or general partner have during the 10 year period immediately before the date of this Disclosure Document (a) filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the Bankruptcy Code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after the officer or general partner of Flip Flop Shops, LLC held this position with the company or partnership."

4. Item 17, "Renewal, Termination, Transfer and Dispute Resolution" is amended in the franchise agreement table as follows:

(a) By adding the following in the "Summary" column opposite category d., "Termination by you":

> "To the extent required by the New York General Business Law, you may terminate the Agreement on any grounds available by law."

(b) By adding the following in the "Summary" column opposite category w., "Choice of law":

> "The foregoing choice of law should not be considered a waiver of any right conferred upon you by the General Business Law of the State of New York, Article 33."

ADDENDUM TO FLIP FLOP SHOPS, LLC
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF NORTH DAKOTA

Item 5. of the Franchise Disclosure Document is hereby supplemented by the following:

"The North Dakota Securities Department has required that we defer your obligation to pay initial fees under the Franchise Agreement until your Shop is open and we have met our initial obligations. Therefore, during the period that such fee deferral requirement is imposed on us ("Fee Deferral Period"), you will not be required to pay the initial fees under the Franchise Agreement until your Shop opens and we have met our initial obligations. Immediately upon notice from us that the Fee Deferral Period has ended, you must pay the full, initial franchise fee and all other initial fees and amounts as provided in the Franchise Agreement."

ADDENDUM TO FLIP FLOP SHOPS, LLC
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF SOUTH CAROLINA

DISCLOSURES REQUIRED BY SOUTH CAROLINA LAW

The State of South Carolina has not reviewed and does not approve, recommend, endorse or sponsor any business opportunity. The information contained in this disclosure has not been verified by the State. If you have any questions about this investment, see an attorney before you sign a contract or agreement.

1. All information required under the State of South Carolina Code of Law, Title 39 - Trade and Commerce, CHAPTER 57 Business Opportunity Sales Act, Section 39-57-30 (1)-(10) can be found in the Flip Flop Shops, LLC Franchise Disclosure Document in Items 1 through Item 23, related attachments, exhibits, and schedules.

2. This Franchise Disclosure Document is amended by the addition of the following sentence:

   If the seller fails to deliver the product, equipment or supplies necessary to begin substantial operation of the business within forty-five days of the delivery date stated in your contract, you may notify the seller in writing and demand that the contract be cancelled.

ADDENDUM TO FLIP FLOP SHOPS, LLC
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF SOUTH DAKOTA

Item 5. of the Franchise Disclosure Document is hereby supplemented by the following:

"The South Dakota Division of Securities has required that we defer your obligation to pay initial fees under the Franchise Agreement until your Shop is open. Therefore, during the period that such fee deferral requirement is imposed on us ("Fee Deferral Period"), you will not be required to pay the initial fees under the Franchise Agreement until your Shop opens. Immediately upon notice from us that the Fee Deferral Period has ended, you must pay the full, initial franchise fee and all other initial fees and amounts as provided in the Franchise Agreement."

ADDENDUM TO FLIP FLOP SHOPS, LLC FRANCHISE DISCLOSURE DOCUMENT
FOR THE COMMONWEALTH OF VIRGINIA

1. Item 5. of the Franchise Disclosure Document is hereby supplemented by the following:

"The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise agreement."

2. Item 17. of the Franchise Disclosure Document is supplemented by the following: "Under

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

ADDENDUM TO FLIP FLOP SHOPS, LLC FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF WASHINGTON

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

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

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

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

5. Item 5. of the Disclosure Document is hereby supplemented by the following:

"The Washington Department of Financial Institutions has required that we defer your obligation to pay the initial franchise fee under the Franchise Agreement until your Shop is open. Therefore, during the period that such fee deferral requirement is imposed on us ("Fee Deferral Period"), you will not be required to pay the initial franchise fee under the Franchise Agreement until your Shop opens and we have met our pre-opening obligations. Immediately upon notice from us that the Fee Deferral Period has ended, you must pay the full, initial franchise fee as provided in the Franchise Agreement."

New York Insert

(To be inserted immediately before the Acknowledgment of Receipt)

This Franchise Disclosure Document is amended by the addition of the following sentence:

Franchisor represents that this prospectus does not knowingly omit any material fact or contain any untrue statement of a material fact.

EXHIBIT G

FLIP FLOP SHOPS, LLC
STATE EFFECTIVE DATES

The following states require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This Franchise Disclosure Document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

State	Effective Date
California	
Hawaii	
Illinois	
Indiana	
Maryland	
Michigan	
Minnesota	
New York	
North Dakota	
Rhode Island	
South Dakota	
Virginia	
Washington	
Wisconsin	

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

EXHIBIT H

RECEIPT

ITEM 23
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 Flip Flop Shops, LLC offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale, or sooner if required by applicable state law. Applicable state laws in (a) Connecticut and Michigan require us to provide you the disclosure document at least 10 business 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, (b) New York requires us to provide you the disclosure document at the earlier of the first personal meeting or 10 business 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, and (c) Iowa and Maine require us to provide you the disclosure document at the earlier of the first personal meeting or 14 days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

If Flip Flop Shops, LLC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and any applicable state agency (as listed in ***Attachment A*** to this disclosure document).

The name, principal business address, and telephone number of each franchise seller offering the franchise follow:

Name	Principal Business Address	Telephone Number
Thomas A. Romeo	7524 Old Auburn Road, Citrus Heights, California 95610	916-726-4413
Devin Knott	7524 Old Auburn Road, Citrus Heights, California 95610	916-505-7194
Steven Schultz	7524 Old Auburn Road, Citrus Heights, California 95610	916-730-7752

Issuance Date: April 22, 2024

I received a disclosure document dated April 22, 2024. The disclosure document included the following Exhibits and Attachments:

Exhibit A	Financial Statements
Exhibit B	Franchise Agreement, including attachments and state-specific addenda
Exhibit C	List of Franchised Shops
Exhibit D	Franchisees Who Have Left the System
Exhibit E	Manual Table of Contents
Exhibit F	Form of General Release
Attachment A	List of State Administrators
Attachment B	Agents for Service of Process
Attachment C	State Specific Addenda to Franchise Disclosure Document

Dated: _____

_____
Individually and as an Officer of the company designated below or a company to be formed and designated below on formation.

Printed Name:_____

of _____
(a _____ Corporation)
(a _____ Partnership)
(a _____ Limited Liability Company)

[Keep this page for your records]

ITEM 23
RECEIPT

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If Flip Flop Shops, LLC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and any applicable state agency (as listed in ***Attachment A*** to this disclosure document).

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Attachment B	Agents for Service of Process
Attachment C	State Specific Addenda to Franchise Disclosure Document

Dated: _____

_____

Individually and as an Officer of the company designated below or a company to be formed and designated below on formation.

Printed Name:_____

of _____

(a _____ Corporation)

(a _____ Partnership)

(a _____ Limited Liability Company)

[Sign and Return this page]