

# Great Clips®

GREAT CLIPS, INC.  
7700 France Avenue South, Suite 425  
Minneapolis, Minnesota 55435  
(952) 893-9088  
greatclipsfranchise.com



A franchised GREAT CLIPS® Salon offers a required line of hair care services and products from a designated location, customarily in a shopping center, identified by trademarks licensed by the Franchisor ("Great Clips") and using distinctive trade dress and business methods prescribed by Great Clips.

The Initial Franchise Fee for a single unit franchise is \$25,000. This is made up of an Initial Franchise Fee of \$20,000, plus an initial contribution to the Great Clips, Inc. Market Development Advertising Fund of \$5,000. The non-refundable fee for a Fast Start Program Agreement is \$35,000. The non-refundable fee for a Master Development Agreement is \$4,000 times the number of salons to be opened under the development schedule. The estimated initial investment required for a single franchise, including the Initial Franchise Fee, is \$98,900 to \$184,700. This sum does not represent your total investment in connection with the franchise. See Items 5 through 7 for further information on other fees and your total investment.

Information comparing franchisors is available. Call the state administrators listed on Exhibit M or your public library for sources of information.

Registration of this franchise by a state does not mean that the state recommends it or has verified the information in this Offering Circular. If you learn that anything in the offering circular is untrue, contact the Federal Trade Commission and the state authority listed on Exhibit M to this Offering Circular.

## RISK FACTORS:

1. EXCEPT IN MARYLAND, AND SUBJECT TO STATE STATUTE, THE FRANCHISE AGREEMENT REQUIRES THAT ALL ARBITRATION AND LEGAL PROCEEDINGS CONCERNING THE FRANCHISE AGREEMENT OR THE RELATIONSHIP BETWEEN YOU AND GREAT CLIPS BE HELD IN THE STATE OF MINNESOTA. OUT OF STATE ARBITRATION OR LEGAL PROCEEDINGS MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE OR SUE IN MINNESOTA THAN IN YOUR HOME STATE.
2. LOCAL LAW MAY SUPERSEDE CERTAIN PROVISIONS OF THE FRANCHISE AGREEMENT. CERTAIN STATES MAY ALSO REQUIRE FRANCHISORS TO MAKE ADDITIONAL DISCLOSURES RELATED TO THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR. IF APPLICABLE, THESE ADDITIONAL DISCLOSURES APPEAR IN AN ADDENDUM TO THIS OFFERING CIRCULAR. PLEASE REFER TO THE STATE SPECIFIC ADDENDA FOR FURTHER INFORMATION.
3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

The Effective Date of this Offering Circular is April 1, 2006, unless otherwise listed below:

California:  
Illinois:  
Indiana:  
Maryland:  
Michigan:  
Minnesota:  
Rhode Island:

New York: January 22, 1997, as amended  
North Dakota:  
South Dakota:  
Washington:  
Wisconsin:

## UNIFORM FRANCHISE OFFERING CIRCULAR

GREAT CLIPS, INC.  
7700 France Avenue South, Suite 425  
Minneapolis, Minnesota 55435  
(952) 893-9088

### DATE OF ISSUANCE:

Printed on the preceding page of this Offering Circular

### INFORMATION FOR PROSPECTIVE FRANCHISEES REQUIRED BY FEDERAL TRADE COMMISSION

To protect you, we've required your franchisor to give you this information. We haven't checked it, and don't know if it's correct. It should help you make up your mind. Study it carefully. While it includes some information about your contract, don't rely on it alone to understand your contract. Read all of your contract carefully. Buying a franchise is a complicated investment. Take your time to decide. If possible, show your contract and this information to an advisor, like a lawyer or an accountant. If you find anything you think may be wrong or anything important that's been left out, you should let us know about it. It may be against the law.

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

FEDERAL TRADE COMMISSION,  
Washington, D.C.

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### Exhibits

A	List of Outlets
B	Financial Statements
C	Franchise Agreement
D	Fast Start Program Agreement
E	Master Development Agreement
F	Matrix Essentials Salon Contract
G	Software License and Support Agreement and Related Agreements
H	Charter and Bylaws for GREAT CLIPS® Marketing Cooperative
I	GREAT CLIPS® Lease Documents
J	Broker Information
K	Franchise Application Questionnaire
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## **Item 1**

### **THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES**

#### **Franchisor**

To simplify the language in this offering circular, "Great Clips" means Great Clips, Inc., the Franchisor. "You" means the person or entity that executes the Franchise Agreement with Great Clips and each individual who has any ownership interest in that entity. Great Clips is a Minnesota corporation that was incorporated on July 12, 1982. Great Clips does business under its corporate name and the trade name and service mark GREAT CLIPS®. Great Clips' principal business office is 7700 France Avenue South, Suite 425, Minneapolis, MN 55435. Great Clips has no predecessors or affiliates.

Great Clips' agents for service of process are disclosed in Exhibit M.

#### **Franchised Business**

Great Clips licenses the operation of GREAT CLIPS® salons, which are specialized and distinctive retailers of haircare and personal grooming services. The franchise described in this offering circular is a license to develop and operate a single GREAT CLIPS® business (the "Salon") at a designated location (the "Authorized Location"). The Franchise Agreement authorizes you to use the GREAT CLIPS® trade name and service mark in connection with the operation of the Salon and permits you to use the distinctive identity, trade dress, methods and system (the "System"), developed by Great Clips for conducting the GREAT CLIPS® business. GREAT CLIPS® salons offer consistent, high quality, affordable, limited haircare services and a limited selection of products designated by Great Clips to men, women and children in a distinctive retail environment. You must pay certain fees and make certain investments, described in Items 5 through 7 of this offering circular. Other material aspects of the franchise are described in this offering circular and in the Franchise Agreement included as Exhibit C, which will govern the relationship between you and Great Clips. See Item 22. Certain parts of the Franchise Agreement are highlighted in Item 17.

Great Clips may choose, in its sole and absolute discretion, to offer a development agreement (the "Master Development Agreement") to qualified individuals. Under the Master Development Agreement, you commit to open a minimum number of GREAT CLIPS® salons in a specified area defined by the television Designated Market Area (the "Exclusive DMA") within a given period of time. The number of salons to be opened under the Master Development Agreement is determined by Great Clips using a formula based upon one unit for each 10 units in the Initial Market Unit Potential ("IMUP") rounded to the nearest whole number for the entire Exclusive DMA. The Master Development Agreement is included as Exhibit E.

Great Clips opened its first GREAT CLIPS® salon in 1982 and began franchising in 1983. As of December 31, 2005, the GREAT CLIPS® franchise System had approximately 2,466 salons operated primarily by franchisees. See Item 20. Great Clips has not offered in the past and does not currently offer franchises in any other lines of business, but may do so in the future. As of December 31, 2005, Great Clips operated no company-owned GREAT CLIPS® salons. Great Clips and its affiliates reserve the right to distribute products, including products with the trademarks, service marks, trade names and symbols licensed in the Franchise Agreement, through other methods of distribution, and to undertake other business activities, including

haircare and related businesses, without obligation to its franchisees. The franchise is only for the business and format described in the Franchise Agreement.

Great Clips has entered into Regional Franchise Agreements (the "Regional Agreement") as described below, which grant to a regional franchisor (the "Regional Franchisor") the exclusive right to award and service GREAT CLIPS® franchises in specified markets (the "Regional Territory"). Under the Regional Agreement, Great Clips retains principal authority concerning system-wide matters such as operating standards and administration of the North American Advertising Fund and the Great Clips, Inc. Market Development Advertising Fund. Great Clips delegates to the Regional Franchisor the principal authority to implement System standards and operating methods in designated markets by working directly with franchisees. Great Clips may enter into additional Regional Agreements in the future.

From May 1, 1992, to September 20, 1999, Great Clips Regional Companies, a Minnesota corporation, ("GCRC") offered, sold, and serviced GREAT CLIPS® franchises in the states of Washington, Oregon, Idaho, Montana, northern California, parts of Nevada, and the Canadian provinces of Alberta and British Columbia, under various Regional Agreements. Effective September 20, 1999, Great Clips purchased substantially all of the assets of GCRC, including GCRC's right to offer and sell GREAT CLIPS® franchises in the Regional Territory, and assumed GCRC's position and responsibilities as franchisor under all GREAT CLIPS® Franchise Agreements issued by GCRC. Great Clips also acquired all Initial Franchise Fees held in GCRC's escrow account at First Trust California. From June 26, 1995, to September 12, 1997, GCRC, under a Regional Agreement with Great Clips, also had the rights to offer, sell and service GREAT CLIPS® franchises in the states of Maryland, Virginia, Delaware, Southern New Jersey, Southeastern Pennsylvania and the District of Columbia (the "Mid-Atlantic Region"). Effective September 12, 1997, Great Clips Mid Atlantic, Inc., a Delaware corporation, ("GCMA") purchased certain assets of GCRC relating to the Mid-Atlantic Region. GCMA assumed responsibility for continuing services to the existing franchisees in the Mid-Atlantic Region and for future development of the GREAT CLIPS® System in the Mid-Atlantic Region. Effective May 30, 2000, Great Clips and GCMA entered into an amendment of the Regional Agreement whereby GCMA assigned to Great Clips all its rights under the Regional Agreement to franchise and operate GREAT CLIPS® franchises in the Designated Market Area ("DMA") of Philadelphia, Pennsylvania, which included purchasing certain assets relating to the Philadelphia DMA. Great Clips assumed GCMA's position and responsibilities as franchisor under all GREAT CLIPS® Franchise Agreements issued by GCMA in the Philadelphia DMA and for continuing to develop the GREAT CLIPS® System in the Philadelphia DMA. On July 16, 2004, Atlantic Clips, Inc. acquired the issued and outstanding capital stock of GCMA and related GCMA obligations. Atlantic Clips, Inc. is a Minnesota corporation located at 7700 France Avenue South, Suite 425, Minneapolis, MN 55435. Great Clips has no direct ownership in Atlantic Clips, Inc.

### **Competitors**

The market in which you will operate is highly competitive. You should expect to compete with other national, regional and local businesses offering competitive goods and services, including members of established national or regional chains and franchise systems, some of which are older, larger and better financed than Great Clips. GREAT CLIPS® salons ordinarily are located in shopping centers, but may also be established in central business districts or as free standing units.

## **Governmental Regulations**

The Salon's stylists must be licensed by the state's Cosmetology Board or equivalent licensing entity. There will be industry-specific regulations in your municipality, county, state or province relating to the operation of a haircare salon. Health and sanitation regulations will require that your stylists maintain their haircutting equipment according to specified standards, including following proper sanitizing procedures and disposal of hair. Environmental laws may regulate the way in which certain solutions are used, stored and disposed of in the process of providing services to your customers. Building codes may require special ventilation in your Salon. You must also comply with employment, workers' compensation, insurance, corporate, taxing and other laws and regulations. You are responsible for knowing and complying with all laws and licensing requirements related to the operation of your Salon.

## **Item 2**

### **BUSINESS EXPERIENCE**

#### **Chief Executive Officer and Chairman: Raymond L. Barton**

Mr. Barton joined Great Clips in March 1983, and has held various executive positions since that time, serving as President from November 1987 until October 1998.

#### **President: Rhoda C. Olsen**

Ms. Olsen has been employed by Great Clips since December 1984, and has held various executive positions since that time, including Vice President and Executive Vice President. She was promoted to her current position in October 1998.

#### **Executive Vice President of Development and Real Estate: Dean A. Wieber**

Mr. Wieber joined Great Clips in June 1991 as Director of Real Estate and was promoted to Vice President of Real Estate in August 1994. He was promoted to Senior Vice President of Real Estate in September 1998, and was promoted to his current position in May 2004.

#### **Executive Vice President and Chief Operations Officer: Charles D. Simpson**

Mr. Simpson joined Great Clips in January 1999 as the Vice President of Franchise Development. He was promoted to Senior Vice President of Franchise Development in July 2001, and was promoted to his current position in May 2004.

#### **Vice President of Marketing: Terri A. Miller**

Ms. Miller joined Great Clips as Vice President of Marketing in June 2000.

#### **Vice President of Franchise Services and Human Resources: Nancy A. Uden**

From May 1996 to October 2002, Ms. Uden held positions as President and Principal Consultant/Shareholder for Jackson Fuehrer & Associates in Eden Prairie, Minnesota. From November 2002 to December 2005, Ms. Uden was the Senior Vice President of Human Resources for Katun Corporation in Bloomington, Minnesota. Ms. Uden joined Great Clips in January 2006.

Vice President of Operations: Jerry W. Spicer

From 1978 to 2001, Mr. Spicer was with Hazelden in Center City, Minnesota. Mr. Spicer held a variety of positions with Hazelden, including Research Manager, Director of Operations, Vice President of Professional Services, Chief Operating Officer, and President/Chief Executive Officer. In 2001, Mr. Spicer started JW Spicer Consulting, Inc. Mr. Spicer joined Great Clips in July 2002.

Regional Vice President of Business Services: Yvonne S. Mercer

Ms. Mercer joined Great Clips in November 1994 as a Training and Service Representative. She was promoted to Regional Field Consultant in September 1998, to Regional Manager in January 1999, and to Regional Director in January 2001. Ms Mercer was promoted to her current position in November 2005.

Regional Vice President of Business Services: Michelle E. Sack

Ms. Sack joined Great Clips in July 1993 as a Training and Service Representative. She was promoted to Regional Field Consultant in June 2001, and to Regional Director in April 2003. Ms. Sack was promoted to her current position in November 2005.

Director of Education Services: Brent A. Brickman

Mr. Brickman joined Deltennium Clips, Inc. in December 1997 as General Manager overseeing recruiting and training for GREAT CLIPS® salons in the Portland, Oregon area. Mr. Brickman was promoted to Regional Manager in August 2000, and was promoted to Regional Director in November 2002. In July 2004 Mr. Brickman transferred to Great Clips as Regional Director. Mr. Brickman was promoted to his current position in November 2005.

Chief Financial Officer and Treasurer: Steven C. Overholser

Mr. Overholser joined Great Clips in September 1995 as Director of Finance and Accounting. He was promoted to his current position in December 1997.

Corporate Secretary and Director of Franchise Compliance and Administration: Sandra A. Trenda

Ms. Trenda joined Great Clips as Corporate Secretary and Director of Franchise Compliance and Administration in July 2000.

Director: Shelby Yastrow

Mr. Yastrow retired as Executive Vice President, General Counsel and Secretary of McDonald's Corporation located in Oak Brook, Illinois in 1998. Mr. Yastrow joined the Great Clips Board of Directors in May 1996.

Director: Michael J. Foster

Mr. Foster is currently a general partner of RFE Associates V. L. P., the general partner of RFE Investment Partners V. L.P., ("RFE"), based in New Canaan, Connecticut. Mr. Foster joined the Great Clips Board of Directors in October 1997.

Regional Director, Southeast Region: Kevin C. Lloyd

Mr. Lloyd joined Great Clips as Regional Director, Southeast Region in March 2001.

Regional Director, South Central Region: James W. Lindner

Mr. Lindner joined Great Clips in September 1997 as a Regional Manager, was promoted to Director of Regional Operations in December 2001, and was promoted to his current position in July 2002.

Regional Director, Southwest Region: Norman K. Willardson

From 1999 to 2002, Mr. Willardson was the Director of Franchise Development for AFC, Inc. in Irvine, California, a franchisor of postal, packaging and business service franchises. He joined Great Clips in August 2002.

Regional Director, Northeast Region: Robert J. Riggle

From January 2001 to September 2002, Mr. Riggle was employed as the District Manager for D.O.C. Optics in Southfield, Michigan. He joined Great Clips in October 2002, and was promoted to his current position in November 2003.

Director of Facilities and Office Management: Thomas D. Schuenke

Mr. Schuenke joined Great Clips in June 2000 as Director of Facilities and Purchasing. He was promoted to his current position in August 2005.

Director of Franchise Development: Steven A. Gemlo

From May 1999 to January 2005, Mr. Gemlo was a Franchise Development Manager for Great Clips. From January 2005 to May 2005, Mr. Gemlo was a Franchise Development Manager for Cruise Holiday Carlson Companies. Mr. Gemlo re-joined Great Clips in May 2005 as a Franchise Development Manager and was promoted to his current position in January 2006.

Franchise Development Manager: Donald R. Novack

Mr. Novack joined Great Clips as a Franchise Development Manager in May 1999.

Franchise Development Manager: Scott M. Neilson

Mr. Neilson joined Great Clips as a Franchise Development Manager in March 2000.

Franchise Development Manager: Clarence (Butch) M. Gladden

Mr. Gladden joined Great Clips as a Franchise Development Manager in April 2000.

Business Development Manager: John (Jay) F. Mitchell

From March 2000 to March 2002, Mr. Mitchell was a Marketing Director for LLC Financial in Atlanta, Georgia. Mr. Mitchell was employed as the Franchise Licensing Representative for Super Coups in Avon, Massachusetts from April 2002 to May 2004. He was the Franchise Development Director for Allover Media in Minneapolis, Minnesota from May 2004 to March 2006. Mr. Mitchell joined Great Clips in April 2006.



Director of Brand Communications: Ann M. Latendresse

Since October 1984, Ms. Latendresse has held a variety of positions with Great Clips in the Marketing Department, including Advertising Coordinator, Advertising Manager, Marketing Manager and Creative Services and Product Development Manager. She was promoted to Director of Creative Services and Product Development in December 1999. She assumed her current title in August 2004.

Senior Marketing Manager: Larry D. Timmerman

Mr. Timmerman joined Great Clips in January 1994 as a Marketing Manager, and was promoted to his current position in February 2000.

Senior Marketing Manager: David S. Randall

Mr. Randall joined Great Clips as a Marketing Manager in February 1996. He was promoted to his current position in August 2004.

Senior Marketing Manager: Kay Lynn Hartmann

Ms. Hartmann joined Great Clips as a Marketing Manager in September 1998. She was promoted to her current position in October 2005.

Marketing Manager: Heather Briggs

From March 1999 to May 2002, Ms. Briggs was employed at Campbell Mithun in Minneapolis, Minnesota as a Media Planner and then as an Account Executive. Ms. Briggs joined Great Clips in July 2002 as an Associate Marketing Manager. She was promoted to her current position in April 2004.

Senior Meeting Services and Communications Manager: Patricia A. Burley

Ms. Burley joined Great Clips in December 1987 as Franchise Operations Coordinator. She was promoted to Communications Manager in August 1991, and to her current position in December 2002.

Director of Industry Relations: Kimberly K. Schottler

Ms. Schottler joined Great Clips in August 1996 as the Industry Relations Manager, and was promoted to her current position in February 2004.

Human Resources Manager: Melissa K. Lutz

Ms. Lutz joined Great Clips in April 1999 as Human Resources Assistant. She was promoted to Human Resources Specialist in February 2000 and to Human Resources Administrator in May 2000. Ms. Lutz was promoted to her current position in April 2003.

Information Technologies Manager: Jennifer L. Huwe

Ms. Huwe joined Great Clips in September 1999 as a Staff Accountant and was promoted to Financial Systems Analyst in December 1999. Ms. Huwe was promoted to her current position in March 2001.

Training Manager: Lora A. Peterson

Ms. Peterson joined Great Clips in June 2000 as a Training Consultant. She was promoted to her current position in July 2001.

Accounting Manager: Melody Iszler

Ms. Iszler joined Great Clips in 1994 as a Staff Accountant. Ms. Iszler was promoted to Accounting Supervisor in August 1996, and to her current position in February 1998.

Director of Planning and Analysis: Rachelle Markey Johnson

Ms. Johnson joined Great Clips in June 1999 as a Senior Financial Analyst, and was promoted to Planning and Analysis Manager in July 2002. She was promoted to her current position in September 2005.

Director of Real Estate: Marlene D. Oberste

Ms. Oberste joined Great Clips in February 1994 as a Real Estate Manager. She was promoted to Senior Real Estate Manager in December 2002, and was promoted to her current position in May 2004.

Senior Real Estate Manager: James L. Reynolds

Mr. Reynolds joined Great Clips in February 2000 as a Real Estate Manager. He was promoted to his current position in May 2004.

Real Estate Manager: Douglas N. Pemberton

Mr. Pemberton joined Great Clips as a Real Estate Manager in November 1995.

Real Estate Manager: Michael D. Chitwood

Mr. Chitwood joined Great Clips as a Real Estate Manager in February 1998.

Real Estate Manager: Lon Weiss

From February 1999 to September 2003, Mr. Weiss was a Real Estate Manager for Leslie's Poolmart, Inc. in Phoenix, Arizona. Mr. Weiss joined Great Clips in December 2003.

Real Estate Manager: Margaret Jordan Schwartzbauer

From December 1997 to October 2002, Ms. Jordan was a Real Estate Manager with Best Buy Companies, Inc. in Eden Prairie, Minnesota. Ms. Jordan joined Great Clips in April 2003.

Real Estate Manager: Margaret A. Anderson

From March 1999 to February 2004, Ms. Anderson was a Site Acquisition Manager with McDonald's Corporation in Indianapolis, Indiana. Ms. Anderson joined Great Clips in February 2004.

Real Estate Manager: Debbie L. Mauro

From September 2000 to August 2004, Ms. Mauro was employed by The Shopping Center Group in Hampton, Virginia as a Real Estate Broker. Ms. Mauro joined Great Clips in February 2005.

Real Estate Manager: Tamera D. Norwood

From December 2003 to January 2005, Ms. Norwood was a Leasing Executive for Mills Corporation in Arlington, Virginia. From January 2005 to November 2005, Ms. Norwood was Senior Leasing Representative for Feldman Mall Properties in Phoenix, Arizona. Ms. Norwood joined Great Clips in November 2005.

Real Estate Manager: Belinda L. Avera

From April 2001 to July 2003, Ms. Avera was a Senior Leasing Associate for JDN Realty Corporation in Atlanta, Georgia. From August 2003 to December 2005, Ms. Avera was a Leasing Executive for Weingarten Realty Management Company in Atlanta, Georgia and Houston, Texas. Ms. Avera joined Great Clips in January 2006.

Franchise brokers are listed in Exhibit J.

**Item 3**

**LITIGATION**

**1. Great Clips, Inc. v. Andrew R. Schmitt, et al., AAA Case No. 65 459 01165 04**

Great Clips filed this arbitration in April 2004, seeking to recover past due continuing franchise fees and continuing advertising contributions owed by the franchisees pursuant to the terms of their franchise agreements. After the arbitration was filed, the franchisees attempted to assert claims in state court in California against Great Clips. The California State Court granted Great Clips' Motion to Compel Arbitration and stayed the litigation pending completion of the arbitration. The California State Court and the American Arbitration Association denied the franchisees' motion to consolidate the arbitration with other arbitrations pending at that time in California. The franchisees then asserted claims in the arbitration against Great Clips of fraud, negligent misrepresentation, rescission, unjust enrichment and violation of the California Franchise Investment Law. The franchisees were seeking damages in an amount in excess of \$300,000, plus punitive and exemplary damages. This matter was settled in December 2005. Pursuant to the settlement, the franchisees provided a written acknowledgement that there was no legal basis for their claims and dismissed all of the claims they had asserted against Great Clips with prejudice. In addition, the franchisees assigned the lease for their one remaining salon location to Great Clips, the business assets for that location, and the leases and business assets for the other salon locations, having been previously repossessed by, and/or assigned to, Great Clips.

**2. Great Clips, Inc. v. Styling Pros, Inc., Corey A. Kotler, et al., AAA Case No. 65 114 00162 04**

Great Clips filed this arbitration in April 2004, seeking to recover past due continuing franchise fees and continuing advertising contributions owed by the franchisees pursuant to the terms of their franchise agreements. After the arbitration was filed, the franchisees attempted to assert claims in state court in California against Great Clips. The California State Court granted

Great Clips' Motion to Compel Arbitration and stayed the litigation pending completion of the arbitration. The California State Court and the American Arbitration Association denied the franchisees' motion to consolidate the arbitration with other arbitrations pending at that time in California. The franchisees then asserted claims in the arbitration against Great Clips of fraud, negligent misrepresentation, rescission, unjust enrichment and violation of the California Franchise Investment Law. The franchisees were seeking damages in an amount in excess of \$300,000, plus punitive and exemplary damages. This matter was settled in December 2005. Pursuant to the settlement, the franchisees provided a written acknowledgement that there was no legal basis for their claims and dismissed all of the claims they had asserted against Great Clips with prejudice. The franchisees assigned the leases for their two salon locations to Great Clips. In addition, all of the furniture, fixtures, equipment and supplies owned by the franchisees and used at the salons were transferred/conveyed to Great Clips. Great Clips agreed to assume certain notes in connection with the equipment and furnishings in the salons. The franchisees entered into a promissory note payable to Great Clips in the amount of \$200,000 as payment towards Great Clips' damages, past due continuing franchise fees and continuing advertising contributions and attorneys' fees.

**3. Great Clips, Inc. v. Michael Bellamy, et al., AAA Case No. 65 114 E 00168 04**

Great Clips filed this arbitration in April 2004, seeking to recover past due continuing franchise fees and continuing advertising contributions owed by the franchisees pursuant to the terms of their franchise agreement. After the arbitration was filed, the franchisees attempted to assert claims in state court in California against Great Clips. The California State Court granted Great Clips' Motion to Compel Arbitration and stayed the litigation pending completion of the arbitration. The California State Court and the American Arbitration Association denied the franchisees' motion to consolidate the arbitration with other arbitrations pending at that time in California. The franchisees then asserted claims in the arbitration against Great Clips of fraud, negligent misrepresentation, rescission, unjust enrichment and violation of the California Franchise Investment Law. The franchisees were seeking damages in an amount in excess of \$300,000, plus punitive and exemplary damages. This matter was settled in January 2006. Pursuant to the settlement, the franchisees provided a written acknowledgment that there was no legal basis for their claims and dismissed all of the claims they had asserted against Great Clips with prejudice.

**4. Xomsa Corp. et al. vs. Great Clips, Inc., AAA Case No. 72 114 E00996 05 VIAM**

The franchisees initiated this arbitration in September 2005, asserting the following claims against Great Clips: fraud, negligent misrepresentation, rescission, unjust enrichment and violation of the California Franchise Investment Law. The franchisees have asserted that they are seeking damages in excess of \$300,000, plus punitive and exemplary damages. Great Clips has filed a counterclaim for past due continuing franchise fees and continuing advertising contributions, as well as continuing franchise fees and continuing advertising contributions for the entire term of the franchise agreement. Great Clips intends to vigorously pursue its claims and defenses in the arbitration.

**5. Credit Suisse First Boston Corporation v. Arthur Andersen, L.L.P., Robert B. Crates, Jane B. Finley, Michael J. Foster, and Joel H. Williams, District Court, Dallas County Texas (Cause No. 00-08654-I).**

On or about October 20, 2000, Credit Suisse First Boston Corporation ("CSFBC") filed an action against the defendants alleging that defendant Arthur Andersen, L.L.P. ("Andersen") overstated receivables and goodwill in the preparation of the audited finances of Andersen's client HealthCor Holdings, Inc. ("HealthCor"). The complaint alleged that defendants Crates, Finley, Foster, and Williams, as board members of HealthCor, were in a position to know of

Andersen's errors, yet said nothing. CSFBC alleged that it relied on HealthCor's audited financial statements as prepared by Andersen and due to Andersen's gross errors, CSFB lost millions of dollars in its purchase of HealthCor Corporate bonds. CSFB sought actual damages, punitive damages in an amount not less than \$50,000,000, interest, costs and attorney's fees. The matter was settled and dismissed with prejudice on May 17, 2002. The insurance company for the defendants made a payment of \$500,000 on behalf of the defendants to CSFBC. There was no admission of liability by the defendants. Defendant Michael J. Foster is a board member of Great Clips. See Item 2. Great Clips was not a party to this litigation.

Other than these five actions, no litigation is required to be disclosed in this offering circular. Four of these five actions relate to Great Clips.

#### **Item 4**

#### **BANKRUPTCY**

Neither Great Clips nor any of its predecessors, officers or general partners has during the 10-year period immediately preceding the date of this offering circular: (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 U.S. 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 or within one year after the officer or general partner of the franchisor held this position in the company or partnership.

#### **Item 5**

#### **INITIAL FRANCHISE FEE**

The Initial Franchise Fee is \$20,000 for a single salon. You must pay \$10,000 of this amount (the "Partial Initial Franchise Fee") upon signing the Franchise Agreement and the balance of \$10,000 when you place the equipment order with Great Clips for the Salon. Great Clips will not accept an equipment order unless the balance of the Initial Franchise Fee has been paid. You will typically place your equipment order after you have executed a lease for the Salon and the premises have been made available to you for occupation. The Initial Franchise Fee should not be financed. All Initial Franchise Fees paid to Great Clips by Maryland franchisees before Great Clips has met its pre-opening obligations will be held in escrow at the United Bank in Bethesda, Maryland, pending satisfaction of those obligations. Great Clips allocates portions of the Initial Franchise Fee to its working capital, to costs associated with performing its obligations to franchisees, and to corporate profits.

There are several circumstances that could occur pursuant to which the Franchise Agreement may be canceled after you have paid the Partial Initial Franchise Fee. Great Clips will have the right, but not the obligation, to cancel the Franchise Agreement if: (a) you do not execute a lease for your Salon within twelve months of the date Great Clips accepts the Franchise Agreement; (b) you fail to open your Salon six months after the landlord has delivered the space; (c) you fail to complete the training program to Great Clips' satisfaction; (d) you have not obtained necessary financing for development of the Salon within six months of the date of the Franchise Agreement; (e) Great Clips determines that you are using the Franchise Agreement for speculative purposes. If any of these circumstances result in cancellation of the Franchise Agreement after you have paid part of the Partial Initial Franchise Fee, the Partial Initial Franchise Fee will be refunded unless the Franchise Agreement is part of an incentive program

which requires non-refundable fees or the Franchise Agreement is the first Franchise Agreement that you have entered into with Great Clips.

In addition to the Initial Franchise Fee, you must pay a one-time, non-refundable \$5,000 Initial Advertising Contribution to the Great Clips, Inc. Market Development Advertising Fund ("Market Development Ad Fund") when you place your equipment order with Great Clips. Great Clips will not accept an equipment order unless the Initial Advertising Contribution to the Market Development Ad Fund has been paid.

The Fast Start Program Fee is \$35,000. You must pay this amount upon signing the Fast Start Agreement. In addition to the Fast Start Program Fee, you must pay a one-time \$5,000 Initial Advertising Contribution to the Great Clips, Inc. Market Development Ad Fund when you place your equipment order with Great Clips for the first Fast Start franchise. The \$35,000 Program Fee and the \$5,000 Initial Advertising Contribution paid by franchisees to participate in the Fast Start Program described in this Item 5 and in Exhibit D are non-refundable. See Exhibit D.

You will also be purchasing certain equipment and inventory items for your Salon from Great Clips prior to the Salon opening. See Items 7 and 8.

From time to time, Great Clips has offered in connection with franchise development activity special incentive programs featuring bonuses, rebates, reduced initial franchise fees, non-refundable deposits or other types of incentives to employees or various incentive programs to existing or prospective franchisees which may include financing support or other developmental programs. Great Clips compensates third parties for the referral of individuals who become franchisees. Great Clips, in its sole and absolute discretion, may offer, modify, withdraw and reinstate any such programs in the future without notice. In addition, Great Clips has the sole and absolute discretion to determine whether to offer incentive programs to franchisees.

The range of Initial Franchise Fees paid by GREAT CLIPS® franchisees during Great Clips' last fiscal year was \$20,000 for a single salon and \$35,000- for a Fast Start Program Agreement.

Current Programs:

Fee	Explanation
<b>SINGLE SALON</b>	
\$20,000 Initial Franchise Fee \$5,000 Initial Advertising Fund Contribution to the Market Development Ad Fund	These are standard current fees for a single franchise agreement unless you are participating in one of the incentive programs described below.
<b>DEFERRAL PROGRAM</b>	
Initial Franchise Fee deferred	In some cases franchisees may qualify for the Deferral Program. The Initial Franchise Fee is deferred if you open a salon that is located within the Protected Area of one of your existing salons. The Initial Franchise Fee (\$20,000, plus the Initial Advertising Contribution of \$5,000 to the Market Development Ad Fund) is due if either of the salons should ever relocate outside the Original Salon's Protected Area. A copy of the current Deferral Program Policy will be made available to you upon request.
<b>EXPEDITER PROGRAM</b>	
	Under the Expediter Program, franchisees may qualify for a rebate of part or all of the Initial Franchise Fee paid. You may qualify for a rebate of a 50% offset of actual costs you incur in payments to a third party, other than to a landlord, to acquire a specific real estate location for the Salon. A copy of the current Expediter Program Policy will be made available to you upon request.
<b>FAST START PROGRAM</b>	
\$35,000 Fast Start Fee	Under the Fast Start Program, franchisees may apply to open three GREAT CLIPS® franchises within a specified television Designated Market Area ("DMA"). <u>The Fast Start Program is extremely limited in the number of DMAs in which it is available.</u> Under the Fast Start Program you must pay the Fast Start Program Fee of \$35,000, which is non-refundable. If the Fast Start Program Agreement is accepted by Great Clips, the Initial Franchise Fee of \$20,000 will be waived for each Fast Start franchise that opens according to the terms of the Fast Start Program Agreement. In addition, at the time you place your equipment order for the first Fast Start franchise, you will pay the Initial Advertising Contribution of \$5,000. If you follow the designated grand opening plan for each Fast Start salon, as determined by Great Clips, the Initial Advertising Contribution to Market Development Ad Fund of \$5,000 will also be waived for the second and third salon. You must open all three franchises within 36 months of Great Clips' acceptance of the Fast Start Program Agreement. If you are awarded a Franchise Agreement for a single salon, upon the sole and absolute discretion of Great Clips, you may be eligible to convert the Franchise Agreement to a Fast Start Program. The terms and conditions of the Fast Start Program are stated in the Fast Start Program Agreement attached as Exhibit D.

Fee	Explanation
<b>MASTER DEVELOPMENT AGREEMENT</b>	
<p>Development Fee of \$4,000 for each salon in the Exclusive DMA</p> <p>\$6,000 Initial Franchise Fee for each salon in the Exclusive DMA</p>	<p>The Master Development Agreement is limited in the number of DMAs in which it is available. If you enter into a Master Development Agreement, the total fee is \$10,000 for each salon in the Exclusive DMA. The fee is comprised of a \$4,000 Development Fee and a \$6,000 Initial Franchise Fee for each Franchise Agreement you sign in the Exclusive DMA. You must pay the Development Fee upon signing the Master Development Agreement. The Development Fee is non-refundable upon acceptance by Great Clips of the Master Development Agreement. You must sign a Franchise Agreement and pay the Initial Franchise Fee for the first salon upon signing the Master Development Agreement. The Initial Franchise Fee for each additional salon is due on the date you sign the Franchise Agreement. If you meet the salon opening requirements prior to the tenth year of the Master Development Agreement, you may add additional salons in the Exclusive DMA for an Initial Franchise Fee of \$10,000 for each additional salon until the expiration of the term of the Master Development Agreement. The Master Development Agreement is attached as Exhibit E.</p>

The terms and conditions of all programs are subject to change or cancellation without notice.



## Item 6

### OTHER FEES

Name of Fee <sup>1</sup>	Amount	Due Date	Remarks
Continuing Franchise Fee	6% of your Gross Sales	Biweekly	Gross Sales includes all revenue from the sale of all products, goods and services sold from or in connection with the franchise location, less sales taxes.
Sales or other taxes due on Continuing Franchise Fee	As imposed by state or local government	Biweekly	Great Clips has the right to collect from you any tax imposed on Great Clips by individual states or local government.
Continuing Advertising Contribution to the North American Advertising Fund	5% of your Gross Sales	Biweekly	You must also engage in certain local advertising and sales promotion activities at an additional cost. In order to operate a competitive business, you will need to spend a minimum of 1-3% of your Gross Sales on incremental advertising in addition to the 5% Continuing Advertising Contribution to the North American Advertising Fund.
Additional Training:			
1) The Great Clips Academy for Hair	\$40 per participant	Upon completion of the first day of training	This is the current fee and is subject to change at Great Clips' discretion. There is no fee for training your initial group of 15 stylists (which includes three initial management staff) who are hired by you, and who start training prior to or within three months of your Salon opening. Stylists must start training within 30 days of employment. You must pay your trainees' travel and living expenses in connection with attending training.
2) Management Training for Management Staff: Managing the Day-to-Day	\$100 per participant	Upon completion of the first day of training	This is the current fee and is subject to change at Great Clips' discretion. There is no fee for training your three initial management staff who are hired by you, and who start training prior to or within three months of your Salon opening. You must pay your trainees' travel and living expenses in connection with attending training.
3) Management Training for Management Staff: Growing the Salon	\$125 per participant	Upon completion of the first day of training	This is the current fee and is subject to change at Great Clips' discretion. There is no fee for training your three initial management staff who are hired by you, and who start training prior to or within three months of your Salon opening. You must pay your trainees' travel and living expenses in connection with attending training.
Renewal Fee	\$1,750	At expiration of initial 10-year term and end of each	The Renewal Fee may be adjusted annually in proportion to annual changes in the U.S. Consumer Price Index. Your ability to renew your franchise is subject to the terms and conditions of your Franchise

Name of Fee <sup>1</sup>	Amount	Due Date	Remarks
		five-year option term	Agreement. This fee is non-refundable unless your Franchise Agreement is not renewed.
Local Co-op Dues	Average of \$100 per month	As determined by your Co-op	Great Clips requires you to join a local marketing cooperative organization designated by Great Clips and pay its dues, assessments or contributions. Any salon owned by Great Clips has an equal vote on setting local Co-op dues and assessments and must pay those dues.
Insurance Coverage	\$1,300-\$2,400 per year	Upon demand	Insurance premiums are generally paid by you to your insurance carrier. If you do not purchase the required insurance coverage referenced in the Franchise Agreement, Great Clips may purchase insurance on your behalf and must be reimbursed immediately. These amounts only include property and public liability coverage. Workers' compensation and other discretionary insurance coverages vary too widely to be estimated.
Software License and Support Fee	\$89.50 per month	Monthly, by the first day of each month	This current fee is payable to Innovative Computer Systems, Great Clips' sole designated software supplier, and is subject to change. This fee is a continuing fee and includes the license fee, updates, upgrades, documentation and toll-free software support help line.
Gift Card Processing Fee	\$0.12 per transaction	As incurred	Great Clips plans to provide a Gift Card Program in late 2006. You will have the opportunity to offer Gift Cards to customers for use as gift certificates, promotional cards, or store credit. It is anticipated that the processing fee per transaction will be payable to Stored Value Systems, Inc., the anticipated third-party processor for the Gift Card Program. The processing fee is subject to change.
Lease Liability Fee	\$0 - \$3,000	Upon ordering equipment for the Salon	This fee is due if Great Clips guarantees your lease or assigns a lease to you and the landlord has not released Great Clips from ongoing liability or if Great Clips subleases to you.
Out-of-Pocket Expenses Related to Lease or Sublease Assignment	As incurred	Upon assignment of lease or sublease to you	If Great Clips assigns a lease or subleases to you, you must cover Great Clips' out-of-pocket expenses related to the assignment.
Real Estate Commission	As incurred	Upon demand	In rare cases a franchisee may be required to pay a real estate commission on a site for the Salon. This would either be paid directly to the landlord, the broker or to Great Clips if we had been charged a commission.

Name of Fee <sup>1</sup>	Amount	Due Date	Remarks
Late Charges	Accrued interest of 18% per annum or the highest interest allowed by law in the state where the Salon is located	Upon demand	Great Clips is entitled to recover its costs, including reasonable attorneys' fees, costs and other expenses in collecting amounts due. Interest begins to run from the date of non-payment or underpayment.
Audit or Inspection Cost	Cost of audit	Upon demand	You must pay the cost of an audit, inspection, and reasonable professional fees if Great Clips inspects your books and finds a discrepancy of 5% or greater in any data reported by you, or an underpayment of 2% or more of any fees or Ad Fund contributions due.
Taxes, Business Debts or Liens	As applicable	As charged	These are generally paid by you to the government agency, supplier or other creditor. If you do not pay these charges, Great Clips may, but is not obliged to, pay any taxes, business debts or liens incurred by you in connection with your Salon, and will bill the same back to you.
Resale Program Fee	The greater of \$5,000 or 5% of the selling price of your GREAT CLIPS® business, not to exceed \$20,000	Upon Great Clips' approval of the assignment	This fee is payable only if you are participating in Great Clips' Resale Program and Great Clips finds a buyer for your GREAT CLIPS® business.

<sup>1</sup>All fees or payments are imposed by and payable to Great Clips and are non-refundable except as noted. Great Clips does not charge or collect any fees, in whole or in part, on behalf of any third parties. Biweekly accounting periods and payment dates are determined periodically by Great Clips.

**Item 7**

**INITIAL INVESTMENT  
YOUR ESTIMATED INITIAL INVESTMENT**

<b>Fee</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment is Made</b>
Initial Franchise Fee	\$20,000 (1)	Two installments	\$10,000 at signing of your Franchise Agreement; \$10,000 when you order your equipment	Great Clips
Initial Advertising Contribution	\$5,000	Lump sum	When you order your equipment	Market Development Ad Fund
Travel and Living Expenses While Training	\$1,500 to \$2,500 per participant	As incurred	During training	Airlines, hotels & restaurants
Architecture Fees	\$200 (2)	Lump sum	As incurred	Great Clips
Leasehold Improvements	\$15,000 to \$40,000 (3)	As incurred	When construction starts	Suppliers, Great Clips, Landlord
Rent and Security Deposits	\$1,000 to \$8,000 (4)	Lump sum	When you sign your lease or start up an account with utility company	Landlord, utilities or Great Clips
Fixtures, Signage and Furnishings, including Computer	\$25,000 to \$35,000	Lump sum	When ordered	Suppliers, Great Clips, Landlord
Freight	\$1,200 to \$2,200	Lump sum	As incurred	Freight carriers, suppliers, Great Clips
Sales Tax on Fixtures, Signage and Furnishings	\$0 to \$1,500	Lump sum	As incurred	Suppliers, Great Clips
Opening Inventory and Supplies	\$4,700 to \$6,400 (5)	Lump sum	When ordered	Suppliers, Great Clips
Grand Opening Advertising	\$12,000 (6)	As incurred	As incurred	Suppliers
Insurance	\$1,300 to \$2,400 (7)	As incurred	Before opening	Insurance agent or carrier
Lease Liability Fee	\$0 to \$3,000 (8)	Lump sum	Upon placing equipment order	Great Clips
Lease Review Fee	\$0 to \$1,500 (9)	Lump sum	Upon review or lease assignment	Attorney

Fee	Amount	Method of Payment	When Due	To Whom Payment is Made
Additional Funds (6-12 Months)	\$12,000 to \$45,000 (10)	As incurred	As incurred	Employees, suppliers, utilities
<b>Total (10)</b>	<b>\$98,900 to \$184,700 (11)</b>			

Notes to estimated initial investment:

- (1) The Initial Franchise Fee is \$20,000 if you are applying for a single Franchise Agreement with no participation in an incentive program. See Item 5 for the conditions under which the Initial Franchise Fee is refundable. If you are participating in the Fast Start Program, you will not pay the Initial Franchise Fee of \$20,000 reflected in the estimated initial investment table, but rather you will pay a non-refundable total fee of \$35,000 for three franchises plus a \$5,000 Initial Advertising Contribution to the Market Development Ad Fund, payable at the time the equipment is ordered for the first salon. If you have signed a Master Development Agreement, you will pay a \$4,000 Development Fee and a \$6,000 Initial Franchise Fee for each Franchise Agreement you sign in the DMA. The Development Fee is non-refundable.
- (2) You will pay architecture fees for plans and drawings for your Salon. This amount may be substantially higher if revisions to completed plans are required, or if your local code requires mechanical, electrical and plumbing drawings.
- (3) Leasehold improvements, fixtures, signage and furnishings may be financed through lessors or third parties at your discretion. If you finance these items, you will incur financing costs. Your Salon will likely be in a shopping center rather than a newly built, free-standing building. A typical GREAT CLIPS® salon is approximately 1,000 to 1,200 square feet. In some circumstances, with Great Clips' consent, it may be possible to convert an existing free-standing building or a pre-existing facility, as long as it conforms to all Great Clips' System standards. The cost of these kinds of conversions is too individually variable to be realistically predicted and may cost more than a newly-built facility. You are responsible for obtaining all necessary permits or licenses necessary for the siting, construction, renovation or operation of the franchised business.
- (4) Rent is generally non-refundable. Security deposits may be refundable either in full or in part, depending on your lease or contract.
- (5) Some suppliers may offer financing assistance and you may be able to arrange financing for part of your inventory expense.
- (6) You are required to spend a minimum of \$12,000 on your grand opening plan. Additional advertising investments may be required after your grand opening.
- (7) These amounts only include your initial premium for the required property and public liability insurance, and are the estimated cost per year per salon. The cost of other coverages, including your discretionary purchases and workers' compensation varies too widely to be easily estimated.
- (8) If Great Clips has guaranteed your lease or assigned a lease to you with continuing liability to Great Clips, you must pay a non-refundable lease liability fee of \$3,000.

- (9) If Great Clips assigns a lease to you, the costs of our attorney's review have already been included in the lease liability fee. If you have an attorney review your lease, typical legal fees will be between \$850 and \$1,500
- (10) This is an estimate only of the additional operating capital needed to operate your Salon during the initial 6-12 months after you open for business. Great Clips cannot guaranty that you will not have additional expenses starting the business. The estimate includes such items as initial payroll and payroll taxes (including payroll to cover the pre-opening training period for some of your Salon staff), Continuing Franchise Fees and Advertising Fund Contributions, professional fees, including accounting fees and computer fees, additional advertising, insurance, including health insurance and workers' compensation, rent, repairs and maintenance, bank charges, miscellaneous supplies and equipment, initial Salon staff recruiting expenses, state tax and license fees, depreciation/amortization, deposits and prepaid expenses (if applicable) and other miscellaneous items. The expenses you incur during the initial start-up period will depend on factors such as local economic and market conditions, whether your Salon is located in a new market or a mature market, your experience and business acumen, competition, and the sales level you reach during this initial period. You should also provide for personal living expenses during the start-up phase of your franchised Salon. Additional operating expenses will be incurred in connection with the ongoing operation of your Salon and periodic reinvestment will be necessary following the initial start-up phase for leasehold improvements, equipment, fixtures, and other assets.
- (11) Great Clips has relied on its experience and data collected from some of its franchised salons to compile these estimates. Your cost will depend on a number of factors including local economic and market conditions and the size of your Salon. Great Clips urges you to review these figures carefully with your own independent business advisor and attorney before making any decision to enter into a Franchise Agreement with Great Clips. Great Clips does not offer financing to franchisees either directly or indirectly in connection with their initial investment requirements. The availability and terms of financing obtained from third parties will depend upon such factors as the availability of financing generally, your creditworthiness, collateral which you may make available, policies of local lending institutions with respect to the type of business or with respect to the purpose for which the money will be used, and other such factors.
- (12) Your costs may vary if you purchase an existing Salon. If you purchase an existing Salon in a market where we are accepting new franchisees, you must first be a GREAT CLIPS® franchisee and sign a GREAT CLIPS® Franchise Agreement.

Unless otherwise noted, none of the above fees are refundable to you. Great Clips does not provide direct or indirect financing for any of these fees.

## Item 8

### **RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

To insure consistent quality of products and services throughout the GREAT CLIPS® System, you must purchase only supplies, fixtures, equipment, inventory, advertising and sales promotion materials and signage that have been designated by Great Clips. All these items must conform to specifications and standards developed and issued by Great Clips. Great Clips reserves the right to periodically update and alter such standards and specifications and to add to or delete from the list of products and services authorized for sale from GREAT CLIPS® salons. See Item 16. These specifications and standards are described in more detail in the GREAT CLIPS® Facilities and Purchasing Handbook, Operations Manual, Franchisee Orientation and Training Manual, Marketing Guidebook, Brand Manual, sales and purchase orders and through other communications from Great Clips to its franchisees including the GREAT CLIPS® Web Site. You will receive Great Clips' manuals during or before your initial training.

Great Clips has no affiliates who are currently approved suppliers, or the sole approved supplier, for any categories of goods and services.

Great Clips sells the following items to you: (a) lobby items including computer desk, merchandiser, magazine rack, floor chairs, coat rack, chair rail and lobby table; (b) sales area items including post, pinwall, work stations with merchandiser, mirrors, nylon sails, sky sails, hardware packages for sails, flexible boom kit, all purpose chair, child seat, stylist hydraulic chair, anti-fatigue mats, broom area kit and hanging plants; (c) shampoo area items including shampoo bulkheads and bowls with vacuum breaker, shampoo chair and utility station; and (d) certain interior and exterior signage, GREAT CLIPS® graphics package, acrylic poster holder, price board and window stickers. Currently, Great Clips is the only supplier for these items but may designate alternate sources at its sole and absolute discretion.

With respect to the following Salon items, you will typically purchase them from Great Clips but may apply to us to obtain alternative sources of supply that meet all Great Clips' criteria to our complete satisfaction for such item or items: (a) lobby items including lobby chairs, computer, carpeting and rugs; (b) sales area items including neck strip dispensers, chrome power poles, silk plants, chrome chains, tile and flooring, molding; and (c) certain interior and exterior signage including interior neon signage, and outdoor signs.

You must meet certain standards that are communicated as necessary by Great Clips, relating to use of the GREAT CLIPS® trade name, trademarks and service marks ("Marks") on all the stationery items used by you and in your Salon. You may purchase your stationery items through Ideal Printers, Inc. or a supplier of your choice as long as all standards are met for those items. Paper goods, such as brochures, the GREAT CLIPS® style book, and financial and business forms, must be purchased from suppliers designated by Great Clips. Currently, Salon Innovations, Inc. and Ideal Printers Inc. are Great Clips' only designated suppliers for such items.

In the year ended December 31, 2005, Great Clips' total revenue from all sources, including sales from required purchases, was \$48,145,350. Great Clips' sales from required purchases were \$5,711,273 or 11.9% of the above-referenced combined gross revenues of \$48,145,350. Thus, in the year ended December 31, 2005, Great Clips' total revenue exclusive of sales from required purchases was \$42,434,077.

You must carry GREAT CLIPS® private label haircare products in your Salon and must purchase these products from suppliers designated by Great Clips. Currently, Salon Innovations,

Inc. is the only designated supplier for such items. The other haircare and perm products which you must carry are MATRIX and AMERICAN CREW. These products may be purchased from distributors of these products as designated by Great Clips. GREAT CLIPS® private label haircare products, MATRIX and AMERICAN CREW are the only products you may use in and sell in your Salon. You will be required to sign the Matrix Essentials Salon Contract. A sample of this document is included as Exhibit F. You must purchase your opening inventory and ongoing supplies of such items as combs, hairbrushes and curling irons from a supplier designated by Great Clips. Currently, Salon Innovations, Inc. is our sole designated supplier for these items. Great Clips reserves the right to change the products and services that you must carry and may change the designated supplier or suppliers of those products at its sole and absolute discretion. There is no fixed dollar amount of haircare products which you must purchase for your Salon, although you must carry an adequate inventory of all required haircare and perm products, as specified by Great Clips.

The goods, services, fixtures, equipment and inventory which you must purchase from Great Clips or suppliers designated by us currently account for approximately 88% to 95% of the purchases of goods and services you make when establishing your Salon. The goods, services, fixtures, equipment and inventory which you must purchase from Great Clips or suppliers designated by us in the operation of your Salon on an ongoing basis will vary depending upon the circumstances, such as how often you upgrade your Salon and what volume of GREAT CLIPS® private label and other haircare and paper goods supplies your particular Salon may require.

Great Clips derives revenue in the amount of approximately 10% of all private label haircare products sold by Salon Innovations, Inc. to GREAT CLIPS® franchisees, and approximately 15% of all perm products sold by MATRIX to GREAT CLIPS® franchisees. In the year ended December 31, 2005, Great Clips' revenue from product rebates from these suppliers was \$411,831, or 1.0% of total revenues. Various suppliers also make donations and contributions towards Great Clips' annual meetings in the form of goods, services and sponsorship or co-sponsorship of certain meeting events. Great Clips or its affiliates may from time to time make available for purchase by you GREAT CLIPS® signs, equipment, inventory, supplies, advertising and sales promotion programs and materials, brochures, and other like supplies. Great Clips does not guaranty the availability of independent sources of supply. Great Clips, or its affiliates, expect to derive revenue and profit from sales of such items to its franchisees. Great Clips and its affiliates reserve the right to receive promotional allowances and rebates, commissions and other consideration from vendors in respect to services rendered or rights licensed to such persons, or sales effected by such persons.

Great Clips does not currently provide any material benefits to franchisees based on a franchisee's use of designated or approved sources. Great Clips negotiates purchase agreements with its suppliers that may result in cost saving benefits to its franchisees. Great Clips may publish periodically for the benefit of its franchisees a confidential list of authorized manufacturers or sources of supply for most items required to establish and operate a GREAT CLIPS® business. These are manufacturers and/or suppliers that Great Clips has determined are capable of manufacturing goods or supplying services that consistently conform to standards and specifications. Upon request, Great Clips will make available to its franchisees the current written procedures relating to the selection process, modification or revocation of its suppliers. Great Clips' suppliers do not currently pay any fees relating to their approval or application for approval as a vendor to Great Clips. Suppliers are appointed by Great Clips if their products or services meet our standards and specifications, their facilities are capable of reliably serving the needs of our franchisees, and Great Clips is able to periodically monitor the quality of production or supply and the facilities of the supplier. You may make written request for appointment of additional sources of supply for a given product or service, which will be granted if doing so would not create an inordinate number of suppliers of such product who are reasonably available



to franchisees, and if such proposed supplier's product proves to comply with Great Clips' standards and specifications for such product, its facilities appear adequate to meet the needs of our franchisees and they are open to periodic inspection by Great Clips. The cost of evaluating a proposed new supplier may be charged to you or the supplier. You will usually be notified by mail or verbally regarding the authorization or rejection of a supplier whose appointment you have requested within 30 days of our receipt of all the required information. Great Clips will revoke its appointment of a previously authorized supplier when we determine in our sole and absolute discretion that the supplier is not meeting the standards and specifications established by Great Clips for that product or service. Great Clips currently grants or revokes approval to its suppliers verbally. Great Clips does not currently have any distribution or purchasing cooperatives.

Great Clips currently provides franchisees who are preparing to open a new GREAT CLIPS® salon a copy of the Facilities and Purchasing Handbook. This Handbook is primarily designed to assist franchisees and their contractors to install the required equipment for their Salons. The Handbook also provides standards and specifications for some items Great Clips allows franchisees to obtain from alternative sources of supply. See this Item 8. This Handbook will be updated as Great Clips determines it is necessary.

You are bound by the terms of the Franchise Agreement to construct and operate your GREAT CLIPS® Salon in accordance with the requirements of the Operations Manual, the Franchisee Orientation and Training Manual, the Facilities and Purchasing Handbook, and other communications issued, or as revised periodically, by Great Clips. You must have architectural drawings completed by a licensed architect. All drawings must be submitted to and approved by Great Clips prior to commencing any work on the location.

You must upgrade your Salon facility and fixtures, signage and equipment periodically as determined by Great Clips. Any upgrades that you are required to complete to maintain the Salon in accordance with Great Clips then-current standards will be at your expense. You will be required to remodel your Salon every 7-10 years depending on then-current standards and the overall condition of the Salon. You will also be required to make periodic improvements such as painting, carpeting, fixture repair and ongoing maintenance depending on the wear and tear of the Salon. It is anticipated that your ongoing investment will be approximately \$40,000 every 7-10 years and \$2,500 on an annual basis. See Item 17.

You must obtain a license to use computer software from Great Clips' sole designated supplier, which is currently Innovative Computer Systems ("ICS"). See Item 11 and Exhibit G.

## Item 9

### FRANCHISEE'S OBLIGATIONS

**THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AND OTHER AGREEMENTS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.**

OBLIGATION	SECTION IN AGREEMENT	ITEM IN OFFERING CIRCULAR
a. Site selection and acquisition / lease	Sections 7.1 and 7.2 of Franchise Agreement  Sections 1 and 6.3 of Master Development Agreement	Items 11 and 12
b. Pre-opening purchases / leases	Sections 7.3, 7.8 and 7.13 of Franchise Agreement  Section 1.2 of Master Development Agreement	Items 7 and 8
c. Site development and other pre-opening requirements	Sections 7.1, 7.2, 7.3, 7.7 and 7.10 of Franchise Agreement.  Section 6.3 of Master Development Agreement	Items 7, 11 and 12
d. Initial and ongoing training	Sections 6.1-6.7 of Franchise Agreement	Items 6, 7, 11 and 15
e. Opening	Sections 1.2, 3.1, 7.5 and 8.5 of Franchise Agreement	Item 11
f. Fees	Sections 3.3(d), 5.1-5.10 and 12.6 of Franchise Agreement  Sections 2 and 3 of Master Development Agreement	Items 5 and 6
g. Compliance with standards and policies / Operating Manual	Sections 4.1-4.3, 7.3-7.15 of Franchise Agreement.  Sections 1.1, 1.2, 10 and 12 of Master Development Agreement	Item 8
h. Trademarks and proprietary information	Sections 4, 7.13, 7.15. and 9.3 of Franchise Agreement  Section 1.4 of Master Development Agreement	Items 1, 13 and 14
i. Restrictions on products / services offered	Sections 7.7, 7.8 and 7.17 of Franchise Agreement	Items 8 and 16
j. Warranty and customer service requirements	Sections 7.9 and 7.12 of Franchise Agreement	Item 8

OBLIGATION	SECTION IN AGREEMENT	ITEM IN OFFERING CIRCULAR
k. Territorial development and sales quotas	Sections 1, 6.1 and 6.2 of Master Development Agreement	Item 12
l. Ongoing product / service purchases	Sections 7.8 and 7.12-7.15 of Franchise Agreement	Items 8 and 16
m. Maintenance, appearance and remodeling requirements	Sections 3.3(c), 7.3, 7.4, 7.7, 7.10, 7.12 and 7.13 of Franchise Agreement	Items 7, 8 and 17
n. Insurance	Sections 10.1-10.3 of Franchise Agreement	Items 6 and 7
o. Advertising	Section 8 of Franchise Agreement	Items 6, 7 and 11
p. Indemnification	Section 10.4 of Franchise Agreement	None
q. Owner's participation / management / staffing	Sections 7.11, 7.17 and 17.1 of Franchise Agreement Section 10 of Master Development Agreement	Item 15
r. Records / reports	Sections 9.1, 9.3 and 9.4 of Franchise Agreement	Item 6
s. Inspections / audits	Sections 7.16 and 9.5 of Franchise Agreement	Items 6 and 8
t. Transfer	Sections 12,16.1 and 16.2 of Franchise Agreement Section 11 of Master Development Agreement	Item 17
u. Renewal	Section 3 of Franchise Agreement Sections 5 and 6.2 of Master Development Agreement	Item 17
v. Post-termination obligations	Section 15 of Franchise Agreement	Item 17
w. Non-competition covenants	Section 7.18 of Franchise Agreement	Items 15 and 17
x. Dispute resolution	Section 13 of Franchise Agreement Section 13 of Master Development Agreement	Item 17

## **Item 10**

### **FINANCING**

Neither Great Clips, its agents, nor its affiliates offer financing arrangements for the purchase of your GREAT CLIPS® Salon. Great Clips may offer financing arrangements in the future depending on interest rates, availability of funds and other economic factors. Great Clips does not receive any payments from any company for the placement of financing. Great Clips has no existing practice or intention of selling, assigning or discounting to a third party all or any part of any financing arrangement.

Although it is not generally available, Great Clips may, at its sole and absolute discretion, guaranty a loan for a franchisee under limited circumstances and based upon certain criteria established by Great Clips. Great Clips may charge a fee for providing such guaranty. Great Clips reserves the right to change the amount or structure of the fee or to change or withdraw such guaranty without notice.

Great Clips, at its sole and absolute discretion, may guaranty a lease for a franchisee. In consideration for such a guaranty, you will be charged a \$3,000 non-refundable lease liability fee which will be included in your equipment order that you place with Great Clips for the Salon. Samples of the lease documents are included as Exhibit I.

Great Clips may lease space in anticipation of assigning the lease or subletting the space to a franchisee. Great Clips will pass on to the franchisee any out-of-pocket expenses that have been incurred. If Great Clips is not released from liability under the lease after the assignment of the lease or sublease of the space to the franchisee, Great Clips will charge a \$3,000 non-refundable lease liability fee to the franchisee. If the lease liability fee is due Great Clips, your equipment order will not be placed until the fee has been paid. Great Clips reserves the right to change the amount or structure of this fee at any time and without notice.

If you want to assign your Franchise Agreement to a qualified assignee and Great Clips has ongoing liability under your Salon lease, we will require the assignee to personally and corporately provide a hold harmless agreement to Great Clips before we will give our consent to the assignment of the Franchise Agreement. We may also require that we receive a fully-executed copy of an assignment of lease from you to the assignee.

Great Clips reserves the right to pledge franchisee obligations to third parties to secure their obligations to such persons. Great Clips may occasionally offer, at its sole and absolute discretion, various incentive programs in connection with its franchise development activities, some of which may involve financing support to franchisees and free rent. Such programs, if offered, are subject to change or withdrawal without notice.

## **Item 11**

### **FRANCHISOR'S OBLIGATIONS**

Great Clips has the sole and absolute right to choose with whom it will do business and has no obligation to enter into additional or new Franchise Agreements or assignment agreements with existing franchisees with whom it has entered into previous Franchise Agreements for a single location or a Fast Start Agreement or a Master Development Agreement for multiple locations.

Except as disclosed below, Great Clips need not provide any assistance to you.

### **Assistance Before Opening**

Before you open your business, Great Clips will:

- 1) Authorize you to establish and operate a retail salon identified by the GREAT CLIPS® service mark and employing the business format and System (Franchise Agreement - Section 1).
- 2) Consult with you in connection with finding a suitable site. Generally, you will lease the space for your Salon from a third party. Great Clips has occasionally assigned leases or subleased space for GREAT CLIPS® salons that we have executed as lessee. However, you are solely responsible for locating, obtaining and evaluating the suitability and prospects of your Salon location (Franchise Agreement - Section 7.1).
- 3) Provide you with an approved Salon design, advise you on Salon layout, obtaining necessary licenses or permits, proper display of the Marks, ordering equipment, fixtures and initial inventories, recruiting personnel, and managing construction or refurbishing of the Salon. You must purchase equipment, furnishings, fixtures and signs for the Salon from Great Clips or our designated suppliers, as described in Item 8, and all such items must meet our specified standards (Franchise Agreement - Sections 6.6, 7.3 and 7.8).
- 4) Provide you with advice regarding various marketing considerations, business planning, and assistance in conducting grand opening promotions and advertising and assist you in planning an initial local market advertising campaign. Under no circumstances does any assistance, consent or approval by Great Clips constitute an assurance or guaranty that such services will result in any level of success of your business (Franchise Agreement - Sections 6.7, 8.1, 8.2, and 8.5).
- 5) Provide you with the GREAT CLIPS® Operations Manual, the Franchisee Orientation and Training Manual, and various other manuals before or during your training (Franchise Agreement - Section 7.12).
- 6) Provide you and your initial staff with a training program as described in this Item 11 at no extra charge beyond the Initial Franchise Fee. You must pay your own travel and living expenses associated with any such training (Franchise Agreement - Sections 6.1 and 6.3).

### **Assistance During the Operation of the Business**

During the operation of the franchised business, Great Clips will:

- 1) Provide a GREAT CLIPS® Web Site for franchisees on the Internet covering important aspects of the GREAT CLIPS® System. You must utilize the e-mail address provided by Great Clips and access the franchisee Web Site for the purpose of communication with Great Clips. (Franchise Agreement – Section 7.14).
- 2) Provide regular System bulletins and periodic meetings and seminars for the dissemination of new concepts, procedures, systems and other useful information. You are responsible for registration fees, travel and living expenses, and other out-of-pocket costs in connection with any meetings or seminars. Great Clips will also provide continuing consulting and information on advertising and promotional matters, training and development procedures, and will provide general guidance and advice through the GREAT CLIPS® Web Site, directives, System bulletins, meetings, seminars, telephone and on-site visits (Franchise Agreement – Sections 6.2-6.5 and 6.7).

- 3) Include you in purchasing programs Great Clips may establish periodically in respect to Salon design, fixtures, furnishings, equipment, inventories and supplies. Availability of such purchasing programs may also be subject to available credit terms and your continuing qualification to participate in these programs as a franchisee in good standing (Franchise Agreement - Sections 6.7 and 7.8).
- 4) At our discretion, establish advertising and sales promotion programs for the benefit of the GREAT CLIPS® System (Franchise Agreement - Sections 8.3-8.6). You will be required to participate, from time to time, in these promotional programs. You will be required, from time to time, to sell goods or services with maximum retail price limits and/or offer various promotional items, cross marketing coupons, rebates or various other sales and marketing goods or value-added items. Any such decision about periodic discount pricing on promotions will be based on Great Clips' unilateral determination of what would be in the best interest of the franchise System to protect its competitive brand position.
- 5) Provide additional training to you, your stylists and management staff at the current fee as described in this Item 11. You must pay your own travel and living expenses associated with any such training (Franchise Agreement - Sections 6.2 and 6.5).
- 6) Provide information and advice on the operation of the GREAT CLIPS® business through the training program documentation and various other manuals which Great Clips will modify as needed. Such modifications will not alter your status or rights under the Franchise Agreement. These manuals are confidential and remain the property of Great Clips (Franchise Agreement - Section 6.7). Great Clips reserves the right to periodically develop and issue new policies and procedures relating to the operation of the franchised business. All franchisees are required to abide by and follow these policies and procedures in operating their franchise.

The following is a summary of the current Table of Contents of the Franchisee Orientation and Training Manual:

Section	Subject	Number of Pages
1	The Great Clips System	17
2	Supporting the System	7
3	Industry Relations	25
4	Finance	82
5	GCI Technology Overview	34
6	Salon Monitoring Process	15
7	Protecting Your Business	13
8	Real Estate	57
9	Facilities and Purchasing	8
10	Safety and Security	19
11	High Performance Operations	17
12	Operations Support	9
13	Salon POS System	16
14	Basic Overview of POS	4
15	POS Reports, SPOTR	40
16	Marketing	41
17	Creating a Product Focus	6
18	Recruiting	15
19	Selecting and Managing Your Manager	58
20	Scheduling for Your Grand Opening	15
21	Compensation	83
22	Franchisee Role and Responsibilities	12
23	Organizational Charts	16

The following is a summary of the current Table of Contents of the Operations Manual:

Section	Subject	Number of Pages
1	Our System	35
2	Standards of Operations	36
3	Licenses and Regulations	8
4	Field Services	30
5	Customer Service	30
6	Management Guidelines	65
7	Retention Tools and Resources	124
8	Risk Management	68
9	Salon Operations	71
10	Additional Resources	5