



August 2015  
Issue 9

## STATE OWNER NEWSLETTER

### *Corrections to FDD*

The following are some minor corrections to the FDD which was emailed to you on July 23, 2015:

Item 3 of contract: In the event Master Franchisee elects to finance the initial franchise fee on a Subfranchise Agreement, Master Franchisee and Franchisor shall split all payments of principal and interest paid by the Subfranchisee. (Delete "and interest")

Item 4 of contract: delete the sentence "Master Franchisee shall receive the following rate reductions from the city owner prices".

In the sample contract here were two item #6. The numbering has changed to make only one item 6.

Exhibit B2 Left the system: Add "Edward Elliott 3502 Jensen Place, Salem, VA 24153 540-200-5920".

I will email another copy of the FDD to each of you with these minor corrections included.

If you have not already done so, please sign the acknowledgement of receipt and return to me by snail mail, email, or fax. After I receive the acknowledgement of receipt I will send you your new License Agreement.

### *A Few Clarifications on the Changes*

The city owners will be informed of the change in the Monthly Royalty fee in the September, 2015 City Owner Newsletter. The changes to the existing Subfranchisees will be effective April 1, 2016.

The changes for new Subfranchise Sales will go into effect immediately. However, any potential sale you are currently working with will have 60 days to complete their sale at the old price of \$28,900.

Any existing subfranchisee that chooses to sell a portion of their area can do so, and the new buyer will be able to get the old equipment package at the old rate of \$14,450. Their monthly royalty fees will be on the same terms as our current existing Subfranchisees, meaning that the royalty will increase \$20 per month annually for each licensed territory until it reaches the new rate of \$200 per licensed territory.

An existing Subfranchisee you are already working with or will need to work with in the future regarding their monthly fees, due to their unfavorable economic circumstances, will be taken into account. If you are working with one or more

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of your Subfranchisees, we will work with you. We have always treated our operators and state owners very well, and we will continue to do so.

The expenses for a new franchise sale will include the cost of the equipment, training, initial supplies, EZ Net Tools & Service Monster for 12 months, shipping, a \$1,000 finders fee if applicable, a \$500 sales fee if applicable, and a \$1,000 advertising fee. The expenses will run between \$21,000 to \$22,500 for the normal \$39,000 package.

We are considering a cap of six for 3-5 years for those who have more than six territories. This will give more time for them to develop, sell, or give back their additional territories if they feel the amount of money they are paying in royalty fees is not worth retaining their current number of territories.

As a Subfranchisee runs the numbers to see what they are producing from each licensed territory, it will be easy for them to determine whether they should keep all of their existing territory, or sell a portion of it. If they have produced more than \$1,200 of income last year in any given territory, they are better off keeping the area. At the end of the first year if they have produced more than \$1,440 in any given territory, they are better off keeping the area. At the end of the second year if they have produced more than \$1,680 in any given territory, they are better off keeping the area. At the end of the third year if they have produced more than \$1,920 in any given territory, they are better off keeping the area. At the end of the fourth year if they have produced more than \$2,160 in any given territory, they are better off keeping the area. At the end of the fifth year if they have produced more than \$2,400 in any given territory, they are better off keeping the area.

I will send an email letting all of you know when we will hold our next State Owner Webinar.

Thank you for being part of Heaven's Best.