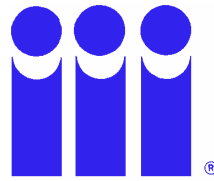


**ADMIRAL INSURANCE COMPANY**  
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**Pro-iii**  
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APPLICATION FOR FRANCHISOR E&O LIABILITY INSURANCE

**NOTICE:** This is an application for **CLAIMS MADE INSURANCE**. Such insurance, if accepted by the Insurer, applies only to claims first made against the Insured and reported to the Insurer during the Policy Period and may additionally limit any coverage applicable to negligent acts committed prior to the inception of the Policy Period. Please refer to the Policy for definitions of the terms used in this paragraph.

INSTRUCTIONS TO THE APPLICATION:

- A. Please answer all questions. The information is required to make an underwriting and pricing evaluation. Your answers hereunder are considered material to that evaluation.
- B. If a question is not applicable, state N/A. If more space is required to answer a question, please attach an exhibit stating the question number.
- C. This application must be signed and dated by an authorized person.
- D. PLEASE ATTACH THE FOLLOWING AND LABEL ACCORDINGLY:

- Schedule A-- Copies of most recent audited annual and unaudited quarterly financial statements of Form 10K and 10Q.
- Schedule B-- Copies of the franchise offering circular and all exhibits, and all amendments thereto for the last three fiscal years, used in the non-registration states and in one of the following states: (a) California; (b) Illinois; (c) Indiana; or (d) New York.
- Schedule C-- Copies of all current state orders of registration.
- Schedule D-- Names of all current franchisees listed by state.
- Schedule E-- For each former franchisee who has left the system during the last four (4) years, provide the date and reasons why the franchisee left the system and indicate if a release was signed.
- Schedule F-- List of franchisees currently in default under their franchise Agreements and type of default.
- Schedule G-- Copy of operating manual and/or similar materials.
- Schedule H-- Description of pending investigations by the Federal Trade Commission or other governmental authority.

E. PLEASE COMPLETE THE FOLLOWING:

1. Name of Applicant:

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2. Home office address:

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3. (a) Is the Applicant owned, controlled, affiliated or associated with any other firm, corporation or entity?

\_\_\_\_\_ Yes \_\_\_\_\_ No. If yes, please explain:

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(b) Are any services provided by any company or entity listed in (a) to franchisees?

\_\_\_\_\_ Yes \_\_\_\_\_ No. If yes, please explain:

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4. (a) Date Applicant was organized \_\_\_\_\_

(b) Has the name of the Applicant been changed during the past 5 years? \_\_\_\_\_ Yes \_\_\_\_\_ No. If yes, please list former names on a separate exhibit.

(c) Has any other business been purchased, merged or consolidated with the Applicant during the past 5 years? \_\_\_\_\_ Yes \_\_\_\_\_ No.

If yes, please explain:

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5. (a) How long has the Applicant been franchising? \_\_\_\_\_

(b) How many units does the Applicant own? \_\_\_\_\_

(c) How many franchised units are there? \_\_\_\_\_

6. (a) Does the Applicant have a franchise disclosure compliance program?  Yes  No If yes, please describe the program on as Schedule I to the application. Otherwise, please describe the program as Schedule J to the application.

(b) Does the Applicant have a franchise disclosure regulation or general compliance officer?  Yes  No If yes, identify: \_\_\_\_\_

Does this person have additional responsibilities?  Yes  No  
If yes, please describe the other duties conducted by this person:

\_\_\_\_\_  
\_\_\_\_\_

(c) Please provide background and the employment history of the person identified in the answer to 6 (b), above:

\_\_\_\_\_  
\_\_\_\_\_

(d) Describe the process for selecting and qualifying prospective Franchisees on a separate attachment to the application as Schedule K

(e) Does the Applicant debrief prospective franchisees prior to Execution of franchise agreement?  Yes  No. If yes, Please describe the process.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(f) For each franchise sold, does the Applicant maintain records of the Following information?

(i) Date of first contact:  Yes  No  Not Applicable

(ii) Method of contact:  Yes  No  Not Applicable

(iii) First personal meeting:  
 Yes  No  Not Applicable

(iv) Dates and places of all subsequent contacts:  
 Yes  No  Not Applicable

(v) Identity of persons who met with franchisee and subjects Discussed:  Yes  No  Not Applicable

(vi) Method by which franchisee learned about franchisor:  
 Yes  No  Not Applicable

- (vii) Franchise applications:  Yes  No  Not Applicable
- (viii) Investigative reports or tests regarding prospective franchisees:  Yes  No  Not applicable
- (ix) Sales related correspondence, memoranda and notes of conference:  Yes  No  Not applicable
- (x) Identity and involvement of professional advisor(s) to franchisees:  Yes  No  Not applicable
- (xi) Copies of offering circular(s) and contract(s) delivered and dates of delivery:  Yes  No  Not applicable
- (xii) Are terms of Franchise Contracts negotiated?  
 Yes  No  Not Applicable
- (xiii) Descriptions of any negotiations of the terms of a Franchise Contract retained by the Applicant:  
 Yes  No  Not Applicable
- (xiv) Copies of all executed agreements and riders, addenda and exhibits:  Yes  No  Not Applicable
- (xv) Properly completed signed receipts to all offering circulars, contracts and other disclosure materials delivered to franchisees:  Yes  No  Not Applicable
- (xvi) Date(s) any agreement(s) were executed by each party:  
 Yes  No  Not Applicable
- (xvii) Consideration and date paid:  
 Yes  No  Not Applicable
- (xviii) Date (s) and place (s) training was commenced and completed:  Yes  No  Not Applicable
- (xix) Evidence that franchisees successfully completed training:  
 Yes  No  Not Applicable
- (xx) Site selection and the Applicant's role therein:  
 Yes  No  Not Applicable
- (xxi) Construction of the outlet and the Applicant's role therein:  
 Yes  No  Not Applicable
- (xxii) The Applicant's assistance in connection with the opening of the franchisee's business:  Yes  No  Not Applicable
- (g) (a) Does the Applicant sell franchises using salespersons other than employees of the Applicant?

\_\_\_\_\_ Yes \_\_\_\_\_ No. If yes, please identify

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(b) Has the Applicant conducted a background check on its sales personnel? \_\_\_\_\_ Yes \_\_\_\_\_ No. If so, please explain.

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(h) Does the Applicant have programs for instructing sales Personnel on legal restrictions? \_\_\_\_\_ Yes \_\_\_\_\_ No. If so, Please explain:

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7. Please provide on Schedule L a list of all state franchise registrations beginning with the first date of registration, any lapses in registration, continuing to the present time, and identify any orders issued by any state denying or suspending the Applicant's registrations.
8. Describe on Schedule M all terminations of franchise agreements during the past 5 years, including the reasons for termination.
9.
  - (a) Identify and describe on Schedule N current litigation or arbitration proceedings pending against the Applicant (either through claims or counterclaims) not disclosed in the current offering circular.
  - (b) Identify claims asserted by the Applicant by franchisees on Schedule N:
  - (c) Identify and describe litigation/arbitration involving the Applicant during past 10 years and attach copies of settlement agreements, if any on Schedule N.
10.
  - (a) Describe any established procedures, precautions or safeguards the applicant uses or takes with respect to resolving disputes with franchisees:  

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  - (b) Is there a franchise advisory council or similar organization? \_\_\_Yes\_\_\_No  
If yes, please explain on Schedule O. Also describe the Applicant's role in this council's activities on Schedule O.
11. Provide the name of the law firm(s) (if any) which has assisted, or currently assists the Applicant with franchise contracts and/or franchise

registration/disclosure matters and/or franchise disputes:

12. Provide the name and address of the Applicant's current accounting firm:

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13. After inquiry, is the Applicant or its shareholders, partners, officers, employees or subsidiaries aware of any actual or alleged errors, violations of law, offenses, or circumstances which may reasonably be expected to result in a claim being made against the Applicant or any proposed insured person or entity? \_\_\_ Yes \_\_\_ No.

If yes, please describe on Schedule P. Also, please describe on Schedule P the Inquiry made by the Applicant prior to answering this question.

THE STATEMENTS AND INFORMATION ABOVE AND ALL SCHEDULES AND DOCUMENTS SUBMITTED OF WHICH THE INSURER RECEIVES NOTICE, ARE DEEMED PARTS OF THE APPLICATION (ALL OF WHICH SCHEDULES AND DOCUMENTS SHALL BE DEEMED ATTACHED TO THE POLICY AS IF PHYSICALLY ATTACHED THERETO), AND THE WORD "APPLICATION" REFERS TO ALL OF THE FOREGOING.

THIS APPLICATION AND ITS SCHEDULES DO NOT BIND THE APPLICANT OR THE COMPANY, NOR DOES IT OBLIGATE THE COMPANY TO ISSUE A POLICY. HOWEVER IT IS AGREED THAT SHOULD A POLICY BE ISSUED, THIS APPLICATION WILL BE ATTACHED TO AND MADE A PART OF THAT POLICY.

NOTICE:

THE LIMIT OF LIABILITY IN THE POLICY, IF ISSUED, MAY BE REDUCED OR COMPLETELY EXHAUSTED BY CLAIM COSTS AND/OR LEGAL DEFENSE. IN SUCH EVENT, THE COMPANY SHALL NOT BE LIABLE FOR ANY JUDGEMENT, SETTLEMENT OR CLAIM COSTS OR LEGAL DEFENSE COSTS WHICH ARE IN EXCESS OF THE LIMITS OF LIABILITY STATED ON THE DECLARATIONS PAGE OF THE POLICY.

THE DEDUCTIBLE IN THE POLICY, IF ISSUED, APPLIES TO CLAIM COSTS AND LEGAL DEFENSE AS WELL AS TO JUDGEMENTS AND SETTLEMENTS.

THE UNDERSIGNED(S) CERTIFIES THAT HE/SHE IS THE DULY AUTHORIZED REPRESENTATIVE(S) OF EACH PROPOSED INSURED WHICH SUBMITS THIS APPLICATION

EACH PROPOSED ASSURED REPRESENTS THAT THE STATEMENTS SET FORTH IN THE APPLICATION ARE TRUE AND CORRECT, AND THAT REASONABLE EFFORTS HAVE BEEN MADE TO OBTAIN INFORMATION SUFFICIENT FOR ACCURATE COMPLETION OF THIS APPLICATION. IT IS FURTHER AGREED BY EACH PROPOSED ASSURED THAT EACH POLICY OR RENEWAL THEREOF, IF ISSUED, IS ISSUED IN RELIANCE UPON THE TRUTH OF THE REPRESENTATIONS AND INFORMATION IN THIS APPLICATION.

EACH PROPOSED ASSURED UNDERSTANDS AND AGREES THAT ANY INSURANCE

POLICY ISSUED BY THE COMPANY SHALL BE SUBJECT TO RESCISSION IF THIS APPLICATION CONTAINS ONE OR MORE MISREPRESENTATIONS OR OMISSIONS MATERIAL TO THE ACCEPTANCE OF THE RISK BY THE COMPANY.

IF THE INFORMATION SUPPLIED ON THIS APPLICATION OR ATTACHMENTS THERETO CHANGES BETWEEN THE DATE OF THIS APPLICATION AND THE INCEPTION DATE OF THE POLICY, THE APPLICANT WILL IMMEDIATELY NOTIFY THE COMPANY OF SUCH CHANGES.

SIGNED BY AUTHORIZED OFFICER, PARTNER, OR PRINCIPAL  
DATE

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Applicant

\_\_\_\_\_  
Title