

## FRANCHISE DISCLOSURE DOCUMENT

AEFC, INC.  
A North Carolina corporation  
302 Meadowlands Drive  
Hillsborough, North Carolina 27278  
Telephone: 919-644-8100  
Email: [www.adamevestores.com](http://www.adamevestores.com)  
[franchising@adameve.com](mailto:franchising@adameve.com)



You will operate a specialty retail store for sexually mature themed products, using the trademark “Adam & Eve”. We offer start-up and conversion franchise programs.

The total investment necessary to begin the operation of an Adam & Eve start-up franchise ranges from \$170,415 to \$365,410. This includes \$30,830 to \$30,950 that must be paid to the franchisor or affiliate.

The total investment necessary to begin the operation of an Adam & Eve conversion franchise ranges from \$105,365 to 272,410. This includes \$10,830 to \$10,950 that must be paid to the franchisor or affiliate.

The total investment necessary to begin the operation of an Adam & Eve multi-unit development business ranges from \$192,915 - \$387,910 for the minimum of two outlets to be developed. This includes \$52,500, that must be paid to the franchisor or an affiliate.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact David Keegan at 302 Meadowlands Drive, Hillsborough, North Carolina 27278 and 919-644-8100.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read your entire contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as “A Consumer’s Guide to Buying a Franchise”, which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue NW, Washington, DC, 20580. You can also visit the FTC’s home page at

[www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: June 24, 2025

## How to Use This Franchise Disclosure Document

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

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

## What You Need To Know About Franchising *Generally*

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

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

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

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

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

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

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

### Some States Require Registration

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

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

## Special Risks to Consider About *This* Franchise

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

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration, and/or litigation only in North Carolina. Out-of-state mediation, arbitration, and/or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in North Carolina than in your own state.
2. **Spouse Liability.** Your spouse must sign a document that makes your spouse liable for your financial obligations under the franchise agreement, even though your spouse has no ownership interest in the business. This guarantee will place both your and your spouse's personal and marital assets, perhaps including your house, at risk if your franchise fails.

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

**AEFC, INC.**  
**Franchise Disclosure Document**

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**LIST OF EXHIBITS**

- Exhibit A: State Franchise Administrators/Agents for Service of Process
- Exhibit B: Franchise Agreement
- Exhibit C: Multi-Unit Development Agreement
- Exhibit D: Financial Statements
- Exhibit E: Operations Manual Table of Contents
- Exhibit F: Franchise Outlets
- Exhibit G: Release
- Exhibit H: State Addenda
- Exhibit I: Franchisee Acknowledgment Statement

Receipts

## **ITEM 1: THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES**

To simplify the language in this disclosure document, the terms “Franchisor”, or “we” or “us” means AEFC, Inc. , the Franchisor. The terms “we”, “us” and “Franchisor” do not include you, the “Franchisee”. We refer to the purchaser(s) of an Adam & Eve franchise, as “you” or “Franchisee”, whether an individual, a partnership, corporation, or limited liability company. If you are a corporation, partnership or other entity, our Franchise Agreement also will apply to your owners, officers and directors. If you are married and your spouse is not a partner in the franchise business, certain provisions of our Franchise Agreement will also apply to that spouse.

We were formed as a corporation in the State of North Carolina on March 16, 2003. Our principal business address is 302 Meadowlands Drive, Hillsborough, North Carolina 27278, and our telephone number is 919-644-8100. We do not own or operate any businesses of the type you will be operating. We are the designated supplier of check out products, including wrapping paper and gift bags, which are sources through The Packaging Source, that you must purchase for use in the operation of the franchised business. We have not offered franchises in any other line of business. We only offer franchises which operate under the “ Adam & Eve” trademarks. We began offering franchises in 2004.

The principal business addresses of our agents for service of process are 302 Meadowlands Drive Hillsborough, NC 27278-8502 and the state agency addresses shown on Exhibit A.

### **Our Parents, Predecessors and Affiliates**

We have no parent or predecessor companies. We have an affiliated company, PHE, Inc., a corporation, with a principal place of business at 302 Meadowlands Drive, Hillsborough, North Carolina 27278. PHE, Inc. was formed on June 23, 1982. They are the owner of the Marks and has exclusively licensed use of the Marks to us. PHE, Inc has not offered franchises in this or in any other lines of business previously.

We may operate other Adam & Eve concepts, including Adam & Eve outlets, in the future.

### **The Franchise Offered:**

We grant franchises for the right to operate specialty retail stores that sell some sexually mature themed products. You will provide products and services to customers under the “ Adam & Eve” trademark, using our distinctive operating procedures and standards in a limited protected territory and from a single location (the “Franchised Business”). The distinguishing characteristics of the Franchised Business include, but are not limited to, our distinctive trade dress, inventory, procedures for management, training, advertising, and promotional programs, all of which may be changed, improved or further developed by us at any time (the “System”).

We offer start-up and conversion franchise program. A conversion franchise is an existing retail store providing mature themed products that wishes to convert to the Adam & Eve System. We also offer qualified individuals the right to open a minimum of two Adam & Eve outlets in a designated area under the terms of a multi-unit development agreement. You must sign the then-current form of franchise agreement for each Franchised Business to be developed under the multi-unit development agreement, which may differ from the current Franchise Agreement included with this Franchise Disclosure Document.

### **Market and Competition:**

The market for your Franchised Business consists of the adult population of the general public between the ages of 18 and 80. This industry is well-developed and competitive. You will compete with businesses,

including national, regional, and local businesses, offering products and services similar to those offered by your Franchised Business. Our franchises are mainly free-standing, in strip centers, shopping centers and located in high traffic areas.

**Industry Specific Regulations:**

You must comply with all local, state, and federal laws and regulations that apply to the operation of your Franchised Business. There are federal laws that limit what can be contained in materials and products with mature themes, including DVDs, pictures, books and other materials. You must fully comply with all applicable state and local laws that may restrict the location of your store, the content of products in your store, age restrictions for entry and restrictions on the sale of products from your Store. You should investigate whether there are any state or local regulations, zoning or licensing requirements that may apply in the geographic area in which you intend to conduct business. Consult with your attorney, local government officials, real estate professionals and local zoning consultants if you have any questions about limitations on what you may sell, and where you may place your Franchised Business. Even if there are no restrictions on where you may locate your franchise, some landlords may not be willing to lease space to a mature-themed business. You should consult landlords in the areas where you intend to locate your Store. You should consider both their effect on your business and the cost of compliance. You are responsible for obtaining all licenses and permits which may be required for your business. Violation of these laws may have serious penalties. Additionally, your advertising of the Franchised Business is regulated by the Federal Trade Commission.

**ITEM 2: BUSINESS EXPERIENCE**

**President and Treasurer: Lewis Broadnax**

<b>Employer</b>	<b>Start/End Date</b>	<b>Title</b>	<b>Location</b>
AEFC, Inc.	09/2024-present	President	Hillsborough, NC
Sazerac Company	03/2019 – 06/30/2024	VP, eComm & Digital	Louisville, KY

**Vice President: David Keegan**

<b>Employer</b>	<b>Start/End Date</b>	<b>Title</b>	<b>Location</b>
AEFC, Inc.	03/2020–present	Vice-President	Hillsborough, NC
AEFC, Inc.	04/2009-03/2020	General Manager	Hillsborough, NC

**Secretary and Director of Accounting: Paige Winslow**

<b>Employer</b>	<b>Start/End Date</b>	<b>Title</b>	<b>Location</b>
AEFC, Inc.	01/2024–present	Secretary	Hillsborough, NC
AEFC, Inc.	01/2024-present	Director of Accounting	Hillsborough, NC
Coleman Huntoon and Brown CPAs	12/1987-12/2023	Senior CPA	Hillsborough, NC

**Franchise Business Consultant: Drew Monroe**

<b>Employer</b>	<b>Start/End Date</b>	<b>Title</b>	<b>Location</b>
AEFC, Inc.	02/2019-present	Franchise Business Consultant	Hillsborough, NC

**Franchise Business Consultant: Chris Ubik**

<b>Employer</b>	<b>Start/End Date</b>	<b>Title</b>	<b>Location</b>
AEFC, Inc.	10/2019-present	Franchise Business Consultant	Hillsborough, NC

**Franchise Business Consultant: Jihan Phillips**

<b>Employer</b>	<b>Start/End Date</b>	<b>Title</b>	<b>Location</b>
AEFC, Inc.	08/2021-present	Franchise Business Consultant	Hillsborough, NC
Wells Fargo Bank	8/2013-09/2021	Service Manager	Raleigh, NC

**Franchise Business Consultant: Shelia Hostler**

<b>Employer</b>	<b>Start/End Date</b>	<b>Title</b>	<b>Location</b>
AEFC, Inc.	01/2025-present	Franchise Business Consultant	Hillsborough, NC
Sactacular Holdings LLC	8/2010-1/2024	VP of Merchandising	Raleigh, NC

**ITEM 3: LITIGATION**

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

**ITEM 4: BANKRUPTCY**

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

**ITEM 5: INITIAL FEES**

**Franchise Agreement**

We will charge you an initial franchise fee of \$30,000 for a start-up franchise when you sign the Franchise Agreement (“Initial Franchise Fee”). The initial franchise fee is payable in two installments. 50% of the initial franchise fee is due in a lump sum when you sign the Franchise Agreement and 50% of the initial franchise fee is due upon lease signing for the Adam & Eve franchise.

If you are converting your existing location to an Adam & Eve outlet, then you will pay a reduced initial franchise fee of \$10,000 due in a lump sum when you sign the Franchise Agreement.

You must purchase from us your inventory of check-out products, including wrapping paper and gift bags, which you will order from The Packaging Source. We estimate your initial check-out inventory will be between \$830 to \$950.

From time to time, we may offer special incentive programs as part of our franchise development activities. We reserve the right to offer, modify or withdraw any incentive program, without notice to you. We currently offer a discounted Initial Franchise Fee for existing franchisees that purchase additional Adam & Eve outlets and in good standing with no violation notices or defaults in 12 months. The discount only applies to the cumulative number of in-operation Adam & Eve outlets owned by franchisee. This discount does not apply or include conversion franchises.

<b>Outlet to be developed</b>	<b>Discounted Initial Franchise Fee Per Outlet</b>
2 <sup>nd</sup>	\$22,500
3 <sup>rd</sup> or 4 <sup>th</sup>	\$20,000
5 <sup>th</sup> through 9 <sup>th</sup>	\$15,000
10 <sup>th</sup> through 14 <sup>th</sup>	\$10,000
15 <sup>th</sup> through 19 <sup>th</sup>	\$7,500
20 <sup>th</sup> and each subsequent outlet	\$5,000

These initial fees are imposed uniformly on all franchisees and are not refundable under any circumstance.

### **Multi-Unit Development Agreement**

You will pay us a non-refundable development fee (“Development Fee”) in a lump sum when you sign the Multi-Unit Development Agreement for a minimum of 2 outlets. The Development Fee is calculated as 100% of the initial franchise fee for the first unit and the reduced initial franchise fee for each additional unit to commit to develop under the Multi-Unit Development Agreement. The reduced initial franchise fees are outlined in the above table for discounted initial franchise fees.

<b>Number of Outlets to be Developed</b>	<b>Development Fee due on signing the Multi-Unit Development Fee</b>
2	\$52,500
3	\$72,500
4	\$92,500
5	\$107,500
6	\$122,500
7	\$137,500
8	\$152,500
9	\$167,500
10	\$177,500
11	\$187,500
12	\$197,500
13	\$207,500
14	\$217,500
15	\$225,000
16	\$232,500
17	\$240,000
18	\$247,500

19	\$255,000
20	\$260,000

If you commit to develop 2 outlets, the Development Fee is calculated as \$30,000 + \$22,500 = \$52,500.

There are no other payments to or purchases from us or any affiliate that you must make before your Franchised Business opens.

**ITEM 6: OTHER FEES**

Type of Fee	Amount	Due Date	Remarks
Royalty Fee	5% of Net Sales  Conversion Franchise: 3% of Net Sales.	Monthly, on the 15 <sup>th</sup> day of the month for the Net Sales of the prior calendar month. <b>Royalty reports are due on the 3<sup>rd</sup> day of each month. .</b>	Payable to us. See footnote 1. See footnote 2 for discounts for operating multiple franchised businesses.
Required Minimum Expenditure for Local Marketing and Advertising	5% of Net Sales per month	As incurred	Payable to third parties. All advertising must be pre-approved by us. See footnote 3.
Brand Fund Contribution	1.5 % of Net Sales	In the same time and manner as the Royalty Fee	No Brand Fund has been established as of the date of this Disclosure Document. We reserve the right to increase the required contribution to 2% of Net Sales. See footnote 4.
Advertising Cooperative	Your share of actual cost of advertising.	As determined by cooperative	No cooperatives have been established as of the date of this Disclosure Document. You are required to join an advertising cooperative if one is formed. Cooperatives will be comprised of all franchised Adam & Eve outlets in a designated geographic area. Any affiliate-owned outlets may participate in an advertising cooperative, in our sole discretion.
Late Fee	\$200	As incurred	If you fail to pay us the Royalty Fee, Brand Fund Contribution, or if you fail to submit your Gross Sales report when due, we may charge you a late fee in addition to interest charges explained below.
Interest Charge	1.5% per month of balance due or	As incurred	If you fail to pay us any amount when due, interest accrues on the unpaid balance from the

Type of Fee	Amount	Due Date	Remarks
	maximum allowed by law		original due date until paid in full.
Non-Compliance Fine	\$100 per day of non-compliance	As incurred	Payable to us, in addition to other remedies available to us.
Non-Sufficient Funds Fee	\$25	As incurred	If your check is returned or an electronic funds transfer from your bank account is denied for insufficient funds, for each occurrence we may charge you a Non-Sufficient Funds Fee.
Successor Agreement Fee	\$10,000	Before signing successor agreement	Payable to us.
Transfer Fee	\$10,000 No transfer fee will be required for transfers occurring the 12 months following the signing of the Franchise Agreement.	Before we approve the transfer	Payable to us. This fee is the same for the transfer of the Franchise Agreement and Multi-Unit Development Agreement.
Initial Training	No charge for up to 3 individuals,  Currently \$750 per each additional trainee or if retraining of any trainee is required.	Travel and related expenses are due as incurred. Fees for training additional personnel are due prior to the commencement of training.	You pay all travel and other related expenses incurred by all trainees. You will incur this fee if you want additional individuals to attend the initial training program or if retraining is required.
Additional Training	Our then-current fee, plus expenses  Currently \$250 per person per day	As incurred	Payable to us if you are required to attend additional training. You must also pay your attendees' incidental costs to attend additional training, meetings or conventions such as airfare, transportation, lodging, and meals. You and one other individual must attend our annual meeting, we do not charge a fee for attendance, lodging and meals, but you must pay your transportation.

Type of Fee	Amount	Due Date	Remarks
Remedial Training Fee	Our then-current per trainer per diem rate, plus expenses  Current rate = \$200	As incurred	Payable to us if you request additional training at your premises, or if you are operating below our standards and we require you to have additional training. You must also pay all costs of our trainer, which include but are not limited to, airfare, transportation, hotel and meals.
Interim Management Support Fee	Our then-current per diem rate for on-site management, plus expenses  Current rate = 10% of Net Sales.	As incurred	We may impose this fee (in addition to all regularly occurring fees such as the Royalty Fee and Brand Fund Contributions), payable to us, if we provide on-site management of your Franchised Business. See footnote 6.
Examination of Books and Records	Cost of examination plus related expenses	As incurred	We have the right under the Franchise Agreement to examine your books, records and tax returns. If an examination reveals that you have understated any Gross Sales, you must pay us the amount of owed Royalty Fees and Brand Fund Contribution, with interest, and if there is an understatement of 5% or more, you must pay to us the cost of the audit and all travel and related expenses.
Evaluation Fee/Supplier Approval Fee	\$500 per day	As incurred	Payable to us.
Quality Review Service/Mystery Shops	Actual cost of services provided	As incurred	Payable to third-party providers. See footnote 7.
Internal Systems Fee	Not currently accessed	Monthly, on the 5 <sup>th</sup> day following the close of each calendar month	We reserve the right to impose a fee for new or improved technology for the benefit of the System and the Franchised Business, including but not limited to, assigned phone numbers and email addresses, a franchise portal, benchmarking platform or other operations or communications systems.

Type of Fee	Amount	Due Date	Remarks
Relocation Fee	\$10,000	As incurred	Payable to us if we approve your request to relocate your Franchised Business.
Liquidated Damages	Up to 24 months of Royalty Fees and Brand Fund Contributions	Upon termination of the Franchise Agreement	If the termination is due to your default, you must pay us the average monthly Royalty Fee and Brand Fund Contribution payable by you for the 12 months prior to your default multiplied by the lesser of 24 months or the number of months remaining in the term of your Franchise Agreement.
Indemnification	Actual damages and costs incurred	As incurred	See footnote 8.
Liquidated Damages – Violation of Confidentiality or Non-Competition Covenants	\$100,000, plus our attorneys' fees	Per Occurrence	Payable to us if you violate the confidentiality and/or non-competition covenants in the Franchise Agreement
Reimbursement of Cost and Expenses for Non-compliance, Termination/Expiration	Actual costs and expenses, including but not limited to attorneys' fees	As incurred	See footnote 9.
Reimbursement of legal fees and expenses	Actual costs and expenses, including but not limited to attorneys' fees, incurred for your failure to pay amounts when due or failure to comply in any way with the Franchise Agreement	As Incurred	Payable to us.
Insurance Reimbursement	Amount paid by us for your insurance obligations, plus a 10% administrative fee	As incurred	You must reimburse us for any insurance costs and other fees we incur due to your failure to meet the insurance obligations required by the Franchise Agreement.
Taxes	Amount of taxes, our cost and a 10% administrative fee	When incurred	You must reimburse us for any taxes that we must pay to any taxing authority on account of either the operation of your Franchised Business or

Type of Fee	Amount	Due Date	Remarks
			payments that you make to us, including, but not limited to any sales taxes or income taxes imposed by any authority.
Conference Non-Attendance Fee	Currently \$3,000	As incurred	If you fail to attend our annual franchisee conference, we will assess a non-attendance fee. You are required to obtain any missed mandatory training at your cost.
Ongoing Proprietary Products	Based on the number of sales	As incurred	Paid to us for check-out products, including wrapping paper and gift bags. Ordered from The Packaging Source.

All fees and expenses described in this Item 6 are nonrefundable and are uniformly imposed. Except as otherwise indicated in the preceding chart, we impose all fees and expenses listed and you must pay them to us.

<sup>1</sup>“Net Sales” includes all sales of every kind and nature at or from your Franchised Business location or made pursuant to the rights granted to you by the Franchise Agreement, regardless of whether you have collected the amount of the sales. “Net Sales” does not include (a) any sales tax or similar taxes collected from customers and turned over to the governmental authority imposing the tax, (b) properly documented refunds to customers, and (c) properly documented promotional discounts (i.e. coupons). If you do not report Net Sales for any reporting period, then we will collect 120% of the last Royalty Fee collected and settle the balance the next period in which you report Gross Sales. You are required to set up authorization at your bank to allow us to electronically transfer funds from your bank account to our bank account. Interest and late fees will apply to any late payments or electronic funds transfer requests denied due to insufficient funds.

<sup>2</sup> If you own and operate multiple Franchised Businesses, then you the royalty fee may be discounted as follows: Your longest open and operating Franchised Business will pay 5% of Net Sales, your 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> open and operating outlets will each pay 4% of Net Sales. For the 5<sup>th</sup> and each additional cumulative open and operation Franchised Business, you will pay the below discounted royalty fee each month the open and operating Franchised Business meets the below requirements:

- a) no violation notices or notices of default in the prior 9 months.
- b) a minimum of \$3,000 in Adam & Eve proprietary products purchased from Franchisor, its affiliates or designated supplier.
- c) the Franchised Business is operating then-current Computer System in accordance with System standards;
- d) the Principals have a combined direct ownership of no less than 50% in the Franchise; and
- e) the Franchised Business did not enter the System as a conversion franchise.

Cumulative Number of Stores	Reduced Royalty Fee 1 <sup>st</sup> Store = 5% 2 <sup>nd</sup> , 3 <sup>rd</sup> & 4 <sup>th</sup> Store = 4%
Five (5)	Store 5 = 3.5%

Cumulative Number of Stores	Reduced Royalty Fee 1 <sup>st</sup> Store = 5% 2 <sup>nd</sup> , 3 <sup>rd</sup> & 4 <sup>th</sup> Store = 4%
Six (6)	Stores 5 & 6 = 3.5%
Seven (7)	Stores 5 to 7 = 3.5%
Eight (8)	Stores 5 to 7 = 3.5% Store 8 = 3%
Nine (9)	Stores 5 to 7 = 3.5% Stores 8 & 9 = 3%
Ten (10)	Stores 5 to 7 = 3.5% Stores 8 to 10 = 3%
Eleven (11), and each additional outlet	Stores 5 to 7 = 3.5% Stores 8 to 10 = 3% Store 11, and each additional outlet = 2.5%

<sup>3</sup> Upon our request, you must furnish us with a quarterly report and documentation of local advertising expenditures during the previous calendar quarter. You may not use social media platforms, such as Facebook, Twitter, Instagram, LinkedIn, blogs and other networking and sharing websites, unless you first receive our written approval to do so and such use is in strict accordance with our requirements.

<sup>4</sup> Brand Fund Contribution payments are due at the same time and in the same manner as Royalty Fees. You are required to set up authorization at your bank to allow the Brand Fund to electronically transfer funds from your bank account to the Brand Fund's bank account. Interest and late fees will apply to any late payments or electronic funds transfer requests denied due to insufficient funds. If you do not report Gross Sales for a required period, then the Brand Fund will collect 120% of the last Brand Fund Contribution collected and settle the balance the next period in which you report sales.

<sup>5</sup> We may offer mandatory and/or optional additional training programs periodically, including an annual meeting or conference. If we require it, you must participate in additional training for up to 4 days per year and an annual meeting or conference is generally between 4 and 6 days, at a location we designate.

<sup>6</sup> In the event of your death or disability, your default of the Franchise Agreement, absence of a qualified general manager, or other reasons, in our sole discretion, we may provide interim on-site management of your Franchised Business.

<sup>7</sup> We may establish quality assurance programs conducted by third-party providers, such as mystery shop programs and periodic quality audits, to monitor the operations of your Franchised Business. If we require it, you must subscribe and pay the fees for any such program.

<sup>8</sup> You must indemnify and hold us, our affiliates, and all of our respective officers, directors, agents and employees harmless from and against any and all claims, losses, costs, expenses, liability and damages arising directly or indirectly from, as a result of, or in connection with your business operations under the Franchise Agreement, as well as the costs, including attorneys' fees, of defending against them.

<sup>9</sup> If you fail to do so, in our sole discretion, we may correct any deficiency in the Franchised Business and/or your operation of the Franchised Business or take steps to modify, alter or de-identify the Franchised Location upon the termination or expiration of the Franchise Agreement. You will reimburse us for our costs and expenses incurred to correct any deficiency or to modify, alter or de-identify the Franchised Business location.

**ITEM 7: ESTIMATED INITIAL INVESTMENT**

**YOUR ESTIMATED INITIAL INVESTMENT**  
(Start-Up Franchise)

<u>Type of Expenditure</u>	<u>Amount</u>		<u>Method of Payment</u>	<u>When Due</u>	<u>To Whom Payment is Made</u>
Initial Franchise Fee <sup>1</sup>	\$30,000	\$30,000	Installments	Upon signing the Franchise Agreement and upon Signing the Lease for the Premises	Us
Lease Deposits (3 months) <sup>2</sup>	\$8,000	\$20,000	As required by landlord	As required by landlord	Landlord
Leasehold Improvements <sup>3</sup>	\$15,000	\$70,000	As required by suppliers	Before opening	Designated Suppliers, contractor and/or landlord
Furniture, Fixtures & Equipment <sup>4</sup>	\$35,000	\$70,000	As required by suppliers	As Arranged	Designated Suppliers, Suppliers
Signage <sup>5</sup>	\$5,000	\$12,000	As required by suppliers	Before opening	Suppliers
Initial Inventory <sup>6</sup>	\$60,000	\$90,000	As required by suppliers	Before opening	Designated Supplier, Suppliers, Us
Your Training Expenses <sup>7</sup>	\$500	\$2,000	As Incurred	Before opening	Transportation Providers, Restaurants, Hotels
Computer System <sup>8</sup>	\$1,035	\$21,260		Before opening	Suppliers
Grand Opening Marketing <sup>9</sup>	\$6,000	\$12,000	As Arranged	As Arranged	Advertising providers
Utility Deposits <sup>10</sup>	\$0	\$1,000	As required by utility providers	As Arranged	Utility providers and/or landlord
Business Permits and Licenses <sup>11</sup>	\$50	\$200	As required by licensing authorities	As Incurred	Licensing Authorities
Insurance (3 months) <sup>12</sup>	\$1,000	\$3,000	As required by insurer	Before opening	Insurance providers
Misc. Opening Expenses <sup>13</sup>	\$1,830	\$3,950	As required by suppliers	As Arranged	Us, Various Suppliers
Professional Fees <sup>14</sup>	\$2,000	\$5,000	As required by providers	As Arranged	Attorneys, accountants, other professional service providers
Additional Funds - 3 Months <sup>15</sup>	\$5,000	\$25,000	As Needed	After opening	Employees / Suppliers

<u>Type of Expenditure</u>	<u>Amount</u>		<u>Method of Payment</u>	<u>When Due</u>	<u>To Whom Payment is Made</u>
Total	\$170,415	\$365,410			

**YOUR ESTIMATED INITIAL INVESTMENT**  
(Conversion Franchise)

<u>Type of Expenditure</u>	<u>Amount</u>		<u>Method of Payment</u>	<u>When Due</u>	<u>To Whom Payment is Made</u>
Initial Franchise Fee <sup>1</sup>	\$10,000	\$10,000	Installments	Upon signing the Franchise Agreement	Us
Lease Deposit (3 months) <sup>2</sup>	\$0	\$0	As required by landlord	As required by landlord	Landlord
Leasehold Improvements <sup>3</sup>	\$15,000	\$70,000	As required by suppliers	Before opening	Designated Suppliers, contractor and/or landlord
Furniture, Fixtures & Equipment <sup>4</sup>	\$35,000	\$70,000	As required by suppliers	As Arranged	Designated Suppliers, Suppliers
Signage <sup>5</sup>	\$6,000	\$6,000	As required by suppliers	Before opening	Suppliers
Initial Inventory <sup>6</sup>	\$25,000	\$50,000	As required by suppliers	Before opening	Designated Supplier, Suppliers, Us
Your Training Expenses <sup>7</sup>	\$500	\$2,000	As Incurred	Before opening	Transportation Providers, Restaurants, Hotels
Computer System (3 months) <sup>8</sup>	\$1,035	\$21,260	Monthly	Before opening	Suppliers
Grand Opening Marketing <sup>9</sup>	\$3,000	\$6,000	As Arranged	As Arranged	Advertising providers
Utility Deposits <sup>10</sup>	\$0	\$0	As required by utility providers	As Arranged	Utility providers and/or landlord
Business Permits and Licenses <sup>11</sup>	\$0	\$200	As required by licensing authorities	As Incurred	Licensing Authorities
Insurance (3 months) <sup>12</sup>	\$1,000	\$3,000	As required by insurer	Before opening	Insurance providers
Misc. Opening Expenses <sup>13</sup>	\$1,830	\$3,950	As required by suppliers	As Arranged	Us, Various Suppliers
Professional Fees <sup>14</sup>	\$2,000	\$5,000	As required by providers	As Arranged	Attorneys, accountants, other professional service providers
Additional Funds - 3 Months <sup>15</sup>	\$5,000	\$25,000	As Needed	After opening	Employees / Suppliers

<u>Type of Expenditure</u>	<u>Amount</u>		<u>Method of Payment</u>	<u>When Due</u>	<u>To Whom Payment is Made</u>
Total	\$105,365	\$272,410			

<sup>1</sup> Initial Franchise Fee. The amount stated in the Table is for one outlet operated pursuant to a single Franchise Agreement. See Item 5 for information on incentive programs that may offer a discount on the Initial Franchise Fee.

<sup>2</sup> Lease Deposits. This estimate represents a 3-month deposit of rent for a 2,500 – 3,500 square foot location. Real estate costs vary widely from place to place. This estimate is based on the experience of our franchise system. Rental rates may be more or less than this range depending on the location of your Franchised Business. You may also incur real estate broker fees, additional prepayments (e.g., first and/or last month’s rent), common area maintenance (CAM) fees, real estate taxes and insurance costs, advertising or promotional fund fees or other costs, depending on the terms of your lease. Pre-paid rent is generally non-refundable while security or other deposits may be refundable either in full or in part depending upon your lease or rental contract. If you purchase a conversion franchise, you will already be in possession of suitable space that we have approved and assume that you will not have to pay these deposits.

<sup>3</sup> Leasehold Improvements. The cost of leasehold improvements will vary depending on many factors, including: (a) the size and configuration of the premises; (b) pre-construction costs (including demolition of existing walls and removal of existing improvements and fixtures); and (c) cost of materials and labor, which may vary based on geography and location or whether you must use union labor for the build-out of your restaurant. These amounts may vary substantially based on local conditions, including the availability and prices of labor and materials. These costs may also vary depending on whether certain of these costs will be incurred by the landlord or through landlord tenant improvement contributions, and the condition of the space before you take possession of the premises. Our estimate is based on a standard square footage range of approximately 2,500 – 3,500 square feet. The low end of our estimate assumes that you have leased space that previously operated as a retail business. The high end of our estimate assumes that you have leased a “vanilla box” space and that more improvements are required. Our estimate does not include any tenant improvement allowance that you may negotiate.

<sup>4</sup> Furniture, Fixtures & Equipment. This item includes all furniture, fixtures and equipment, including office furniture, merchandise displays; and decor items needed to open and operate an Adam & Eve outlet. You are required to furnish your Franchised Business in accordance with our specifications and standards, as well as the needs of your outlet and personnel. You must comply with the zoning and local ordinances and restrictive covenants applicable to your Franchised Business. Our estimate includes the cost to purchase the required laminate flooring and the costs to purchase and install the required furniture and fixtures from our designated supplier, Bella Furniture.

<sup>5</sup> Signage. This estimate is for the cost to produce and mount storefront signage on the exterior of the premises as well as all interior window and wall graphics.

<sup>6</sup> Initial Inventory to Begin Operating. This estimate is for the cost of the initial inventory you will be required to purchase before you may open the Franchised Business. Your initial inventory will include DVDs, lotions, personal lubricants, supplements, pleasure products, and lingerie.

<sup>7</sup> Your Training Expenses (transportation, lodging, and meals). The cost of the initial training program for 3 trainees are included in the Initial Franchise Fee. The chart estimates the costs for transportation, lodging, and meals for 3 trainees. These incidental costs are not included in the Initial Franchise Fee.

Your costs will depend on the point of origin, method of travel, class of accommodation, and living expenses. This cost will increase if you send more than three trainees to initial training. The duration of the training program is approximately five days. This estimate does not include your or your employee's wages.

<sup>8</sup> Computer Systems. We require you to purchase and utilize computer systems and software meeting our minimum specifications for use at your Franchised Business. This estimate includes the cost of our current required POS system. This does not include Internet and other telecommunications equipment and services in accordance with our standards to permit electronic transmission of sales information. We reserve the right to change your requirements for computer hardware and software at any time. Please see Item 11 for computer and POS System requirements.

<sup>9</sup> Grand Opening Marketing. During the 30 days prior to and 6 months following the opening of your Franchised Business, we require you to spend between \$6,000 and \$12,000 for a start-up franchise and \$3,000 to \$6,000 for a conversion franchise. You must spend this on local advertising and promotional activities in your Territory. You may elect to expend additional amounts to conduct a larger, more elaborate grand opening event. The estimate in the above Table includes the cost of promotional materials.

<sup>10</sup> Utility Deposits. Utility providers set the amounts of the utility deposits. A credit check may be required by the issuing utility company prior to the initiation of services, or a higher deposit may be required for first time customers. These costs will vary depending on the type of services required for the facility and the municipality or utility provider from which they are being contracted. We have based our estimate on the experiences of our franchise system. The figures in the chart include deposits that may be refundable to you at a later time. In most cases, your lease will require you to pay electric, gas, water, and other utilities directly; however, some landlords cover some utility charges through operating fees.

<sup>11</sup> Business Permits and Licenses. This is an estimate of the costs of building permits, sign permits, and a certificate of occupancy for your premises. Not all locations will require all of these permits, depending on the prior use of the premises and the requirements of local ordinances. This estimate also includes the cost of a local business license. The costs of permits and licenses will vary by location. We cannot estimate the cost of this license because requirements and fees vary widely. Please contact your local governing agency for this information. If you purchase a conversion franchise, you may have these licenses and permits. If you purchase a conversion franchise, you may have these licenses and permits. This estimate does not include licenses that may be required to operate a mature themed store or sell mature themed products.

<sup>12</sup> Insurance (3 months). Insurance costs and requirements may vary widely in different localities. The estimate represents the cost of the required minimums of insurance coverage for the first three months of operations. If you purchase a conversion franchise, we assume that will have some of the required insurance coverages.

<sup>13</sup> Misc. Opening Expenses. This category includes office supplies, uniforms, check-out items and other materials incurred to begin the operation of any business. These expenses will vary depending on your decisions about how to equip your Adam & Eve Store within our standards.

<sup>14</sup> Professional Fees. You may incur professional fees depending on the scope of work performed, which may include, legal and accounting fees to review franchise documents and costs of forming a separate legal entity and/or obtaining zoning approval. These amounts will vary greatly depending on your specific needs and location. We strongly recommend that you seek the assistance of professional advisors when evaluating this franchise opportunity, this disclosure document, and the Franchise Agreement. It is also advisable to consult these professionals to review any lease or other contracts that you will enter into as

part of starting your franchise.

<sup>15</sup> Additional Funds – 3 months. We relied on the experience of our franchisee’s operations since 2005 when preparing this estimate. This is an estimate of the minimum recommended levels of additional funds that may be required to cover operating expenses during the first 3 months after commencing operations. This estimate includes such items as initial payroll and payroll taxes, repairs and maintenance, bank charges, initial staff recruiting expenses, and other miscellaneous items. These estimates do not include any compensation to you and does not include debt service costs.

We do not offer financing for any part of the initial investment.

All fees and payments are non-refundable, unless otherwise stated or permitted by payee.

**YOUR ESTIMATED INITIAL INVESTMENT  
(Multi-Unit)**

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Development Fee (for 2 Outlets) <sup>1</sup>	\$52,500	Lump Sum	Upon signing the Multi-Unit Development Agreement	Us
Other Expenditures for the First Outlet <sup>2</sup>	\$140,415- 335,410	As Disclosed in Single Unit Table	As Disclosed in Single Unit Table	As Disclosed in Single Unit Table
Total	\$192,915 - \$387,910			

In general, none of the expenses listed in the above chart are refundable.

<sup>1</sup> Please see Item 5 for information on the Development Fee.

<sup>2</sup> These are the estimates for development of your first outlet. Costs associated with building out additional outlets are subject to factors that we cannot estimate or control, such as inflation, increased labor costs or increased materials costs.

**ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

We have identified various suppliers, distributors and manufacturers of equipment, inventory, and services that your Franchised Business must use or provide which meets our standards and requirements. You must purchase all equipment, fixtures, inventory, supplies and services from our designated suppliers and contractors or in accordance with our specifications.

If you are start up franchise, NALPAC is the designated supplier for 80% of your initial inventory of merchandise.

Sherwin-Williams is the designated supplier of the paint and the laminate flooring for your Franchised Business.

Bella Furniture is the designated supplier for the following products and services: store design, sale and installation of certain fixtures, sale of certain furniture required for your store.

You are required to purchase your initial order of check-out products, including wrapping paper and gift bags, from us. You will place your order directly with The Packaging Source.

During the fiscal year ended December 31, 2024, we and our affiliate earned revenue from franchisees required purchases in the amount of \$16,795 or .5% of our total revenue of \$3,550,776. Additionally, during the fiscal year ended December 31, 2024, we and our affiliate received commissions from franchisees required purchases in the amount of \$51,223 or 1.4% of our total revenue of \$3,550,776.

The following officers listed in Item 2 have an ownership interest in us, and we are a designated supplier as described above: David Groves and David Keegan. No other officers own any interest in any approved or designated supplier for any product, good or service that you are required to purchase for the operation of your Franchised Business.

We approve suppliers after careful review of the quality of the products they provide to us and you. If you would like us to consider another item or supplier, you must make such request in writing to us and have the supplier give us samples of its product or service and such other information that we may require. If the item and/or supplier meet our specifications, as we determine in our sole discretion, we will approve it as an additional item or supplier. We will make a good-faith effort to notify you whether we approve or disapprove of the proposed item or supplier within 60 days after we receive all required information to evaluate the product or service. If we do not approve any request within 60 days, it is deemed unapproved. We reserve the right to revoke approval of any item or supplier that does not continue to meet our then-current standards. Our criteria for approving items and suppliers are not available to you. Along with your written request that we approve a proposed item or supplier, you must pay an evaluation fee of \$500 per day, to offset our cost for time, review, and testing.

We maintain written lists of approved items of equipment, fixtures, inventory and services (by brand name and/or by standards and specifications) and a list of designated suppliers and contractors for those items. We update these lists periodically and issue the updated lists to all franchisees.

We estimate that your purchase or lease of products, supplies and services from designated and approved suppliers (or those which meet our specifications) will represent approximately 73% to 75% of your costs to establish your Standard Franchise and approximately 86% to 90% of your costs to establish a Conversion Franchise and approximately 40% to 50% of your costs for ongoing operation.

Currently, there are no purchasing or distribution cooperatives. However, we can require that you make your purchases through a cooperative if one is formed.

We have negotiated purchase arrangements, including price terms, with designated and approved suppliers on behalf of all franchisees.

Before you open for business, you must purchase and maintain at your sole cost and expense the insurance coverage that we specify. This includes personal injury, product liability, and broad form contractual liability, death, or property damage, or any loss, liability, or expense arising or occurring upon or in connection with the Franchised Business, comprehensive general liability insurance at a minimum of \$1,000,000 coverage, property and casualty insurance, statutory workers' compensation insurance, employer's liability insurance, automotive insurance, and product liability insurance. Each policy must be written by a responsible carrier or carriers acceptable to us, with an A.M. Best rating of no less than A-VII, and must name us and our respective officers, directors, partners, agents and employees as additional insured parties. We have the right to require additional types of insurance and coverage as provided in the Franchise Agreement.

We provide no material benefits (such as the grant of additional franchises) based on your use of designated sources; however, failure to use approved items or designated suppliers and contractors may be a default under the Franchise Agreement. Additionally, when there is any default under the Franchise Agreement, we reserve the right, in addition to other remedies available under the Franchise Agreement, to direct suppliers to withhold furnishing products and services to you.

**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 Disclosure Document.**

Obligation	Section or Article in Franchise Agreement	Section or Article in Multi-Unit Development Agreement	Item in Franchise Disclosure Document
a. Site Selection and Acquisition/Lease	8.1	Not Applicable	11
b. Pre-Opening Purchase/Leases	8.3, 12.3.1	Not Applicable	7, 11
c. Site Development & other Pre-Opening Requirements	8.2, 8.3, 12.1.1, 12.1.3	Article 5	11
d. Initial and Ongoing Training	Article 7	Not Applicable	11
e. Opening	8.2.3, 8.3	Not Applicable	11
f. Fees	5.1, 5.2.7, Article 6, 12.3.7, 12.6, 15.6, 16.4, 18.1.4, 18.1.5, 18.1.8	Article 4	5, 6, 7
g. Compliance with Standards and Policies/Operating Manual	Article 9, 12.1, 19.1.1	Not Applicable	8, 11
h. Trademarks and Proprietary Information	9.4, 12.1.8, Article 14, 19.2, 19.3, 19.4	Not Applicable	13, 14
i. Restrictions on Products/Services Offered	12.1.1, 12.1.4, 12.6	Not Applicable	8, 16
j. Warranty and Customer Service Requirements	Not Applicable	Not Applicable	Not Applicable
k. Territorial Development and Sales Quotas	13.2	Article 5	12
l. Ongoing Product/Service Purchases	12.1.4, 12.3.5	Not Applicable	8

Obligation	Section or Article in Franchise Agreement	Section or Article in Multi-Unit Development Agreement	Item in Franchise Disclosure Document
m. Maintenance, Appearance and Remodeling Requirements	Article 9, 12.1.1, 12.1.2	Not Applicable	Item 11
n. Insurance	Article 15	Not Applicable	7
o. Advertising	12.1.9, Article 13	Not Applicable	6, 11
p. Indemnification	15.6, 16.3.6, 21.1	Article 9	14
q. Owner's Participation, Management, Staffing	11.1, 11.4, 12.1.6	Not Applicable	11, 15
r. Records/Reports	12.2	Not Applicable	6
s. Inspections and Audits	9.2, 12.1.7, 12.2.5	Not Applicable	6, 11
t. Transfer	Article 16	Article 6	17
u. Renewal	Article 5	Not Applicable	17
v. Post-Termination Obligations	Article 18	Section 7.4	17
w. Non-Competition Covenants	19.5	Article 8	17
x. Dispute Resolution	Article 20	Article 10	17
y. Guaranty	11.3, Attachment 6	Not Applicable	15

**ITEM 10: FINANCING**

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

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

**Except as listed below, we are not required to provide you with any assistance.**

**1. Pre-Opening Obligations**

Before you open your Franchised Business, we will:

- a. provide you with site selection guidelines and approve a location for your Franchised Business. Within 90 days of signing the Franchise Agreement, you must submit a written request for approval to us describing the proposed location and providing other information about the site that we reasonably request. If you are a Developer, you must submit each proposed site to be developed under the Mandatory Development Schedule to us for our approval, which approval will be based on our then-current standards. (Multi-Unit Development Agreement Section 5.2). If we choose to perform on site location evaluations, the first one will be at our cost. If we conduct additional on-site location evaluations, you will pay our fee of \$400 per day, plus our representative's actual expenses (including travel, lodging, and meals).
- b. respond within 30 business days, either accepting or rejecting the proposed location. We consider the following factors in approving a site: general location and neighborhood, distance from neighboring franchise territories, proximity to major roads and residential areas, traffic patterns, condition of premises, tenant mix, and demographic characteristics of the area. If you

do not identify a site that meets our approval within 90 days of signing the Franchise Agreement and obtain possession of the site within 120 days of our approval, we reserve the right to terminate the Franchise Agreement. We will not own and/or lease a site to you. You are responsible for negotiating a lease with the owner of a site we approve. If you are a multi-unit developer, we will approve the location and territory of each Adam & Eve outlet you develop in accordance with our then-current standards. (Franchise Agreement, Sections 8.1.2, 8.1.3 10.1). If you are a Developer, you must submit each proposed site to be developed under the mandatory development schedule to us for our approval within 90 days of signing the franchise agreement for the outlet, which approval will be based on our then-current standards (Multi-Unit Development Agreement Section 5.2).

- b. provide you, directly or through our designated supplier, specifications for the layout, design, appearance, and signage for your Franchised Business. You, your architect, and your contractor are required to adapt our specifications for the construction of your premises and obtain permits. We do not adapt plans or obtain permits for you. We review and approve your construction plans as they relate to compliance with our standards only. (Franchise Agreement, Sections 8.2.2, 10.2).
- c. provide you access to the Adam & Eve Operations Manual and other manuals and training aids we designate for use in the operation of your Adam & Eve franchise, as they may be revised from time to time (Franchise Agreement, Section 10.3).
- d. provide a written list of equipment, fixtures, furnishings, signage, inventory, supplies and products that will be required to open the Franchised Business. We and our affiliates do not deliver or install any of these items (Franchise Agreement, Section 10.5).
- e. provide you with initial training at our training facility in Hillsborough, North Carolina or another location. We will determine, in our sole discretion, whether you satisfactorily complete the initial training (Franchise Agreement, Sections 7.1, 7.2).
- f. provide a trainer at your premises for on-site training, supervision and assistance for up to 5 days around the opening of your Franchised Business. (Franchise Agreement, Section 7.3).
- g. provide you with standards for qualifications and training of your employees. We do not otherwise assist you with employee hiring and training (Franchise Agreement, Section 12.1.6).
- h. subject to applicable law, recommend maximum prices for products and services at your Franchised Business (Franchise Agreement, Section 12.5).
- i. provide a written list of our standards for sexually oriented and sexually explicit materials (Franchise Agreement, Section 10.8).

## 2. **Time to Open**

We estimate the typical length of time between the signing of the Franchise Agreement and the time you open your Franchised Business is 6 to 10 months. Factors that may affect this time period include your ability to acquire financing or permits, build out of your location, have signs and equipment installed in your location, and completion of required training. You must find a site that we accept within 3 months of signing the Franchise Agreement, and in all cases, you must commence operations within 3 months from the time you obtain possession of your premises. If you have not opened your Franchised Business within 12 months after you sign the franchise agreement, you must obtain our consent to extend the time to open, which we may or may not grant, at our discretion. Failure to open your Franchised Business

within the original time as extended, is a default of the Franchise Agreement. (Franchise Agreement, Sections 8.1, 8.3).

### 3. **Obligations After Opening**

During the operation of your franchise, we will:

- a. offer from time to time, in our discretion, mandatory or optional additional training programs, including an annual meeting or conference. If we require it, you must attend an annual meeting or conference for approximately 4 days and mandatory additional training offered by us for approximately 6 days per year. Failure to attend mandatory additional training or an annual meeting or conference is a default of the Franchise Agreement. We reserve the right to impose our then-current fee per person per diem fee for attendance at all additional training programs, including the annual meeting or conference. You must also pay your transportation, lodging, meals and other expenses to attend any mandatory training program. If you fail to attend any mandatory training program, you are required to obtain the training at a location we designate, at your sole cost, which includes a fee at the then-current rate for attendance, plus all of your travel costs and our trainer's travel costs (Franchise Agreement, Section 7.4).
- b. upon your request, or as we determine to be appropriate, provide remedial on-site training and assistance at your premises. For any on-site remedial training, you must reimburse all costs for the services of our trainer, including but not limited to the trainer's then-current per diem fee and all travel-related expenses, such as transportation, meals and lodging. The current fee is \$200 per trainer per day of on-site training (Franchise Agreement, Section 7.5).
- c. upon your request, provide individualized assistance to you within reasonable limits by telephone, video conferencing, electronic mail or postage service, subject at all times to availability of our personnel and in reasonable limits (Franchise Agreement, Section 7.6).
- d. from time to time, as may become available, provide you with samples or digital artwork, advertising and promotional materials (Franchise Agreement, Section 10.6).
- e. conduct inspections of your Franchised Business, at the frequency and duration that we deem advisable. Such inspections include evaluating your products, service and premises to ensure that they meet our standards (Franchise Agreement, Section 10.4).
- f. provide a written list of equipment, fixtures, furnishings, inventory, signage, supplies and products that will be required to open the Franchised Business. (Franchise Agreement, Section 10.5).
- g. subject to applicable law, recommend maximum prices for products and services at your Franchised Business (Franchise Agreement, Section 12.5).
- h. approve or disapprove of all advertising, direct mail, and other promotional material and campaigns you propose in writing to us. We will respond within ten business days, either accepting or rejecting the proposed material and/or campaign; however, if we do not respond within ten business days, the proposed material and/or campaign is deemed "disapproved". (Franchise Agreement, Section 13.6).
- i. provide a written list of our standards for sexually oriented and sexually explicit materials (Franchise Agreement, Section 10.8).

#### 4. **Advertising**

##### **Local Advertising** (Franchise Agreement, Sections 13.2 and 13.6)

You are required to spend between \$6,000 and \$12,000 for a start-up franchise and \$3,000 to \$6,000 for a conversion franchise on grand opening advertising and promotional activities 30 days prior to and within the 6 months following the opening of your Franchised Business in your Territory. Your Grand Opening marketing campaign must be conducted in accordance with a marketing plan that we have approved. Following your Grand Opening marketing campaign, you are required to spend 5% of your Net Sales on local advertising each month. We must approve all advertising materials.

You may develop advertising materials for your own use at your own cost, and you may use marketing materials that we may offer to you from time to time. You may not use any advertising or marketing materials, including press releases, unless they have been approved in advance in writing by us, which approval may be withheld in our discretion. We will respond to your request for approval within ten business days; however, if we do not respond within ten business days, the proposed advertising or marketing material is deemed "disapproved".

We do not provide for placement of local advertising on your behalf, and we have no obligation to spend any amount on advertising in your area or territory. You are responsible for local advertising placement. If feasible, you may do cooperative advertising with other Adam & Eve franchisees in your area, with our prior written approval. You may not maintain any business profile on Facebook, Twitter, Instagram, LinkedIn, YouTube or any other social media and/or networking site without our prior written approval.

##### **Brand Fund** (Franchise Agreement, Section 13.3)

You are required to contribute to the Brand Fund 1.5% of weekly Net Sales generated by your Franchised Business. Your Brand Fund Contribution is collected at the same time and in the same manner as your Royalty Fees. Each Adam & Eve outlet operated by our affiliate or us may contribute to the Brand Fund but is not obligated to do so. We reserve the right to raise the required Brand Fund Contribution to up to 2% of weekly Net Sales.

The Brand Fund is administered by us. We may use Brand Fund Contributions to pay any and all costs for the development, production and placement of advertising, marketing, promotional and public relations materials and programs. We may also use Brand Fund contributions to pay any and all costs of marketing seminars and training programs, market research, services of advertising and/or public relations agencies, and website development and maintenance. We may further use Brand Fund contributions to pay our costs (including salaries of our personnel and other administrative costs) for advertising that is administered by us or prepared by us, as well as for administration and direction of the Brand Fund.

The Brand Fund will not be used to defray any of our other general operating expenses. Brand Fund contributions will not be used to solicit new franchise sales; provided however, we reserve the right to include "Franchises Available" or similar language and contact information in advertising produced with Brand Fund contributions. The Brand Fund and its earnings shall not otherwise inure to our benefit except that any resulting technology and intellectual property shall be deemed our property.

The Brand Fund collects and expends the Brand Fund contributions for the benefit of the System as a whole. We reserve the right to use the Brand Fund contributions to place advertising in national, regional or local media (including broadcast, print, or other media) and to conduct marketing campaigns through any channel, in our discretion, including but not limited to, internet and direct-mail campaigns. We have

no obligation, however, to place advertising or conduct marketing campaigns in any particular area, including the territory where your Franchised Business is located.

We have no obligation to make expenditures that are equivalent or proportionate to your Brand Fund contribution or to ensure that you benefit directly or pro rata from the production or placement of advertising from the Brand Fund.

An annual unaudited financial statement of the Brand Fund is available to any franchisee upon written request.

If we spend more or less than the total of all contributions to the Brand Fund in any fiscal year, we may carry-forward any surplus or deficit to the next fiscal year.

For the fiscal year ended December 31, 2024, no Brand Fund contributions were required, made or expended. Although the Brand Fund is intended to be of perpetual duration, we may terminate it at any time and for any reason or no reason. We will not terminate the Brand Fund, however, until all monies in the Brand Fund have been spent for advertising or promotional purposes or returned to contributors, without interest, on the basis of their respective contributions.

#### **Regional Advertising** (Franchise Agreement, Section 13.4)

Currently, our System has no regional advertising fund or cooperative. However, we may decide to establish a regional fund or cooperative in the future and your participation may be mandatory, in our sole discretion. A regional cooperative will be comprised of all franchised Adam & Eve outlets in a designated geographic area. Our affiliate-owned outlets may participate in a regional cooperative, in our sole discretion. We will determine in advance how each cooperative will be organized and governed. We have the right to form, dissolve, merge or change the structure of the cooperatives. If a cooperative is established during the term of your Franchise Agreement, you must sign all documents we request and become a member of the cooperative according to the terms of the documents. Currently, there are no governing documents available for your review.

If we establish a regional advertising fund or cooperative, you must contribute amounts equal to your share of the total cost of cooperative advertising. Your contributions to a regional advertising fund or cooperative will be in addition to your required contributions to the Brand Fund; however, contributions made by you to a regional advertising fund or cooperative will be credited against your required expenditures for local advertising and we may require you to contribute up to one-half of your local advertising requirement to a regional advertising fund or cooperative.

#### **Advertising Council** (Franchise Agreement, Section 9.6)

We do not have an advertising council composed of franchisees that advises us on advertising policies. The Franchise Agreement gives us the right, in our discretion, to create a franchisee advisory council to communicate ideas, including proposed advertising policies, in an advisory capacity only. If created, we will determine in advance how franchisees are selected to the council, which may include factors such as a franchisee's level of success, superior performance, and outlet profitability. We reserve the right to change or dissolve the council at any time.

#### 5. **Computer Systems** (Franchise Agreement, Section 12.3)

You must purchase and use the latest versions hardware, software, system tools and processes we specify and as stated in the Operations Manual ("Computer System"). The current approximate cost of

the Computer System is \$900 to \$20,000, plus monthly software access fees of approximately \$420 to \$795 per a month.

Currently, you are required to have the following hardware and software:

The current point of sale system ("POS System") requirement is All Point. The POS System performs a variety of functions, including payment processing, inventory management and loyalty program management. The POS System for 2 terminals, which includes support, is \$18,500, with ongoing monthly payments of \$375 for support, or the POS System can be financed with no upfront fee and ongoing monthly payments of \$750 for support, with the first payment due after 90 days. The POS System includes the following hardware: iPads, credit card terminals, cash draws, router and receipt scanner/printer.

You will also need a general purpose computer or laptop – which we estimate will cost between \$900 and \$1,500

You are required to use the software and applications that we specify and pay any subscription fees associated with them. In addition to the software associated with the POS System, we currently require you to use Microsoft Office for Business at \$45/month. This is a three-user license on the annual payment plan.

Other than the support included with the POS System. You must, at your cost, provide on-going maintenance and repairs to the computer and software. We have no obligation to maintain, repair, update or upgrade your computer and software. You must upgrade your smart device, computer hardware and software as necessary to operate the most current version of our POS System and software. We cannot estimate the cost of maintaining, updating and upgrading your smart device or computer hardware and software because it will depend on the make and model of your device and computer, repair history, usage, local cost of computer maintenance services in your area and technological advances that we cannot predict.

We may in the future modify or establish other sales reporting systems as we deem appropriate, for the accurate and expeditious reporting of gross sales and delivery of our products and services. You must fully cooperate in implementing any such modifications at your expense.

The POS System allows us to independently and remotely access all of your sales data, including your gross sales, through the Internet. There are no contractual limitations on our right to have full access to this information. We may retrieve, download, analyze and store such information and data at any time. Upon our request, you must sign any documents we require to allow us to independently and electronically access and retrieve the information stored on the POS System. We own all customer data stored in the POS System.

## **6. Table of Contents of Operations Manual**

The Table of Contents of our operations manual, current as of the date of this Disclosure Document is attached as Exhibit E. The operations manual has a total of 215 pages, excluding attachments.

## **7. Training** (Franchise Agreement, Article 7)

You (if the franchisee is individuals), your owners (if the franchisee is a business entity), your General Manager (if that is not you) and managers must complete our 5 day initial training program, to our satisfaction, at least 4weeks, but no more than 6 weeks, before opening your Franchised Business. We

will train you remotely, at our headquarters in Hillsborough, North Carolina, or at another location we specify.

### **TRAINING PROGRAM**

<b>Subject</b>	<b>Hours of Classroom Training</b>	<b>Hours of On-the-Job Training</b>	<b>Location</b>
Introduction; Facility Overview; Company Orientation; History of Adam & Eve	1-2	0	Hillsborough, North Carolina
The Franchise Concept- Adam & Eve	1-2	0	Hillsborough, North Carolina
Business Planning - Your Adam & Eve Store AEFC Support	2	0	Hillsborough, North Carolina
Buying/Merchandising POS Instruction/Operation	4	0	Hillsborough, North Carolina
Adam & Eve Dept Presentations	4	0	Hillsborough, North Carolina
Product Terminology, Knowledge and Handling	2	0	Hillsborough, North Carolina
Inventory Management	2	0	Hillsborough, North Carolina
Loss Prevention	1-2	0	Hillsborough, North Carolina
Customer Service	2	0	Hillsborough, North Carolina
Store Operations/Policies	2	0	Hillsborough, North Carolina
Administrative Support	1-2	0	Hillsborough, North Carolina
Store Planning, Advertising, Marketing	1-2	0	Hillsborough, North Carolina
<b>TOTAL</b>	<b>23 – 28</b>	<b>0</b>	

### **OPENING ASSITANCE**

<b>Subject</b>	<b>Hours of Classroom Training</b>	<b>Hours of On-the-Job Training</b>	<b>Location</b>
Store Overview	2-3	0	Your Franchised Business
Store Operations	4-6	0	Your Franchised Business
Store Operations	0	2-4	Your Franchised Business
Store Set-up	0	4-6	Your Franchised Business
Customer Service, Point-of- Sale Transactions, Sales Promotions	2-4	2-4	Your Franchised Business

Grand Opening	1	6	Your Franchised Business
Review Opening Operations	2-3	2	Your Franchised Business

We periodically conduct our initial training program throughout the year, as needed. Training will be provided by or under the direction of David Keegan, whose biographical information is in Item 2. The minimum experience of the instructors in the field that is relevant to the subject taught and our operations is from 5 to 15 years. We reserve the right to make changes to our training staff as we deem necessary and advisable without prior notice.

Our training materials consist of our operations manual, supplemented with active observation, participation, and verbal instruction.

The cost of our instructors and training materials for up to 3 trainees is included in the Initial Franchise Fee. You must pay for all travel and personal expenses, including, but not limited to, all costs for your transportation, meals, and lodging for yourself and your personnel. Our current fee to provide initial training to any additional trainee, who attends the same training session as you, is \$750 per person.

If you do not complete our initial training program to our satisfaction or receive less than an 80% on the final exam, we have the right to terminate the Franchise Agreement.

We will provide you, at no charge, on-site training, supervision and assistance for five days upon the opening of your Franchised Business.

We may offer mandatory and/or optional additional training programs, including an annual meeting or conference, from time to time. If we require it, you must participate in additional training for up to 6 days per year and an annual meeting or conference for up to 5 days, at a location we designate. Currently, you and one other individual must attend our annual meeting, we do not charge a fee for attendance, lodging and meals, but you must pay your transportation. We have the right to charge our then-current per person per diem fee for all additional training programs, including the annual convention. You are responsible for any and all incidental expenses incurred by you and your personnel in connection with additional training or attendance at our national meeting or annual conference, including, without limitation, costs of travel, lodging, meals and wages. If you fail to attend our annual conference, you will pay to us a Conference Non-Attendance Fee of \$3,000. If you fail to attend any mandatory training program, you are required to obtain the training at a location we designate, at your sole cost, which includes a fee at the then-current rate for attendance, plus all of your travel costs and our trainer's travel costs. This requirement is in addition to any training provided by approved suppliers.

**ITEM 12: TERRITORY**

Under the Franchise Agreement, you have the right to establish and operate one Adam & Eve outlet within a territory that will be defined after the location of your Franchised Business is identified and approved by us (the "Territory"). You are required to find and obtain possession of a specific location for your Franchised Business that meets our then-current site selection criteria and our approval. Your Territory is located in all or a portion of a listed town, city, or county, and is identified by a marked map and/or list of one or more contiguous zip codes. The Territory is determined on an individual basis taking into account minimum numbers of households, average home prices and household incomes. Your Territory will have a minimum population of 225,000 individuals or, if less than 225,000 individuals reside within two miles of your Franchised Business' location, your Territory will have a radius of 2 miles. Your Territory will be identified and attached to your Franchise Agreement as Attachment 2. If you do not yet have a location at the signing of the Franchise Agreement, you will receive a non-exclusive site search area listed in Attachment 2 instead.

You will receive an exclusive territory, which means that we will not open another dedicated Adam & Eve outlet or grant the right to anyone else to open a dedicated Adam & Eve outlet within your Territory, provided that you are not in default of your Franchise Agreement. Although we grant you this territory protection, we reserve all rights to sell, either directly or through others, our products and services under the Marks in the Territory through alternative distribution channels, which are described below.

There is no minimum sales requirement, market penetration or other contingency that will affect your protected right to operate in the Territory during the term of your Franchise Agreement, unless you are in default of your obligations to us.

If you sign a Multi-Unit Development Agreement, you will not receive an exclusive development area. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control. During the term of your Multi-Unit Development Agreement, provided that you are not in default of your Agreement or development schedule, we will not open another Adam & Eve outlet or grant the right to anyone else to open an Adam & Eve outlet within your development area until the expiration or sooner termination of your Multi-Unit Development Agreement. Although we grant you this limited protection right, we reserve all rights to sell our products and services under the Marks in the development area through alternative distribution channels, as discussed below. We will approve the location of each future Adam & Eve outlet to be opened under the Multi-Unit Development Agreement and the territories for those outlets based on our then-current site criteria. If you do not maintain compliance with the development schedule included in the Multi-Unit Development Agreement, we may terminate the Multi-Unit Development Agreement.

Unless you have signed our Multi-Unit Development Agreement, we may, but have no obligation to, consider granting to you the right to establish additional Adam & Eve outlets under other franchise agreements if you are in compliance with the Franchise Agreement and propose to open another Adam & Eve outlet in an area and at a location we approve. The Franchise Agreement grants you no options, rights of first refusal or similar rights to acquire additional franchises.

You may not change the location of your Franchised Business, without our written consent, which we may withhold in our sole discretion. If we give our consent, we will charge you a relocation fee of \$10,000. The conditions under which we may allow you to relocate include the following: loss of your premises not due to your default, demographics of the surrounding area, proximity to other Adam & Eve outlets, lease requirements, traffic patterns, vehicular and pedestrian access, proximity to major roads, available parking, and overall suitability. If you wish to relocate, you must identify a new location for the Franchised Business that meets our approval, in accordance with our then-current site selection procedures, and build out the approved location within 120 days. If you do not identify a site and complete the build-out within this time period, we may terminate the Franchise Agreement. You must continue to operate at your original premises until construction of the new site is complete.

We reserve all rights not expressly granted in the Franchise Agreement. For example, we or our affiliates may own, operate or authorize others to own or operate Adam & Eve outlets outside of the Territory and may operate other kinds of businesses within the Territory. Although we do not currently do so and have no plans to do so, we and our affiliates may own, acquire, conduct, or authorize others to conduct, any form of business at any location selling any type of product or service not offered under the Marks, including a product or service similar to those you will sell at your Franchised Business. We reserve the right to merge with, acquire, or be acquired by, an existing competitive or non-competitive franchise network, chain or other business; however, we will not convert any acquired business in your Territory to a franchise using our primary trademarks during the term of your Franchise Agreement.

We and our affiliates may sell products and services under the Marks within or outside the Territory through any method of distribution other than a dedicated Adam & Eve outlet location, such as distribution through retail outlets, including but not limited to, in captive market locations; mail order, interactive television, wholesale and the internet (“Alternative Distribution Channels”). You will receive no compensation for our sales through Alternative Distribution Channels in the Territory. You may not use Alternative Distribution Channels to make sales inside or outside your Territory; however, we will include a listing on our website of your Franchised Business’ location.

Certain of our affiliates currently sell, under trademarks other than those licensed to you under the Franchise Agreement, products that are the same as or similar to those that may be sold at your Adam & Eve Store. These products may be sold or offered for sale in your Territory, and you will not earn any portion of the revenue generated from these sales. These affiliates include:

1. PHE, Inc. sells adult products by mail order under the following trademarks and trade names: Video Gold, Video Mail, Mahogany Desires, Adam Male, Secret Passions, Adam & Eve Video Club and www.adamevestores.com.
2. Our division, Adam & Eve Pictures, distributes trademarked DVDs that are the same as or similar to those that may be sold at your Adam & Eve Store under the following trademarks and trade names: Adam & Eve Pictures; Adam & Eve Productions; and Femme Productions.

You may only solicit sales from customers in your Territory. Your local advertising must target customers in your Territory, although the reach of your local advertising may extend beyond your Territory.

**ITEM 13: TRADEMARKS**

Our affiliate, PHE, Inc. (“Licensor”) is the owner of our trademarks and has granted us the exclusive right to use the marks and license to others the right to use the marks in the operation of an Adam & Eve franchise in accordance with the System. The Franchise Agreement will license to you the right to operate your Franchised Business under the Adam & Eve service marks (the “Marks”).

The Licensor has registered the following Mark with the U.S. Patent and Trademark Office (the “USPTO”):

Mark	US Registration No.	US Registration Date	US Register	Canadian Registration Number	Canadian Registration Date
	7,427,598	06/25/2024	Principal	-	-
	Pending Serial Number: 991892216	Pending	Principal	-	-
Adam & Eve (trademark and service mark)	2,519,795	12/18/2001	Principal	TMA595,034	09/24/2008
	2,608,920	08/20/2002	Principal	TMA734,031	02/06/2009

The Licensor has filed all required affidavits for the above Marks and has renewed its registrations for the Marks. The Licensor intends to file all required affidavits and to renew its registrations for the Marks when they become due.

You must notify us immediately when you learn about an infringement of or challenge to your use of any Mark or other mark. The Licensor and we will take any action we think appropriate and, if you have given us timely notice and are in full compliance with the Franchise Agreement, we will indemnify you for all expenses and damages arising from any claim challenging your authorized use of any Mark or other mark. The Licensor and we have the right to control any administrative proceedings or litigation involving any Mark or other mark licensed by us to you. You must cooperate fully with the Licensor and us in defending and/or settling the litigation.

We have the right to substitute different marks if we can no longer use the current Marks, or if we determine that substitution of different marks will be beneficial to the System. In such event, we may require you, at your expense, to modify or stop using any mark, including any Mark, or to use one or more additional or substitute marks.

You must not directly or indirectly contest the Licensor's right, or our right, to any Principal Mark or other marks.

There are no other currently effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeals Board, the Trademark Administration of any state, or any court relating to the marks. There is no pending infringement, opposition, or cancellation. There is no pending material federal or state court litigation involving the Marks or other marks.

As of the date of this Disclosure Document, we know of no superior prior rights or infringing uses that could materially affect your use of the Marks.

**ITEM 14: PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

We hold no patents and have no pending patent applications that are material to the franchise. We have registered no copyright with the United States Copyright Office. However, we claim copyrights on certain forms, advertisements, promotional materials, and all other copyrightable works of which we are the author and other written materials. We also claim copyrights and other proprietary rights in our products, Manual and the contents of our website. We, through our Adam & Eve Pictures division, also own copyrights in the video material that this division produces.

There are no current material determinations of, or proceedings pending in, the United States Patent and Trademark Office, the U.S. Copyright Office, or any court regarding any of our copyrights discussed above.

There are no agreements currently in effect that limit your right to use any of our copyrights. As of the date of this Disclosure Document, we are unaware of any infringing uses of or superior previous rights to any of our copyrights that could materially affect your use of them.

You must notify us immediately when you learn about an infringement of or challenge to your use of our copyrights. We will take any action we think appropriate and, if you have given us timely notice and are in full compliance with the Franchise Agreement, we will indemnify you for all expenses and damages arising from any claim challenging your authorized use of our copyrights. We have the right to control any administrative proceedings or litigation involving our copyrights licensed by us to you. You must cooperate fully with us in defending and/or settling the litigation.

During the term of the Franchise Agreement, you may have access to and become acquainted with our trade secrets, including, but not limited to, product methods, processes, customer lists, vendor partnerships and/or relationships, sales and technical information, financial information, costs, product prices and names, software tools and applications, website and/or email design, products, services, equipment, technologies and procedures relating to the operation of the Franchised Business; the Manual; methods of advertising and promotion; instructional materials; any other information which Franchisor may or may not specifically designate as "confidential" or "proprietary"; and the components of the System, whether or not such information is protected or protectable by patent, copyright, trade secret or other proprietary rights (collectively called the "Confidential Information"). You agree that you will take all reasonable measures to maintain the confidentiality of all Confidential Information in your possession or control and that all Confidential Information and trade secrets will remain our exclusive property. You may never (during the initial term, any successor term, or after the Franchise Agreement expires or is terminated) reveal any of our Confidential Information to another person or use it for any other person or business. You may not copy any of our Confidential Information or give it to a third party except as we authorize in writing to you prior to any dissemination. Your personnel who have access to our Confidential Information must sign our Confidentiality and Non-Compete Agreement (Franchise Agreement, Attachment 8).

You must promptly tell us when you learn about unauthorized use of any Confidential Information. We are not obligated to take any action but will respond to this information as we think appropriate. We will indemnify you for losses brought by a third party concerning your use, in strict compliance with the Franchise Agreement, of the Confidential Information.

We reserve the right to modify or discontinue using the subject matter covered by a patent or copyright. In such event, we may require you, at your expense, to modify or discontinue using the subject matter in the operation of your Franchised Business.

**ITEM 15: OBLIGATIONS OF THE FRANCHISEE TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

The Franchise Agreement requires either you personally supervise and manage the day-to-day operation of your Franchised Business, or you hire a qualified general manager. You may not appoint a non-owner general manager unless you receive our prior approval. Upon approval, your general manager must successfully complete our initial training program and all other training courses we require. Your general manager must devote full time to the job and cannot have an interest or business relationship with any of our competitors. If the franchisee is a business entity, your general manager is not required to have an equity interest in the franchisee entity but must otherwise meet our approval.

Your managers and all other personnel who will have access to our proprietary and Confidential Information and training must sign our Confidentiality and Non-Compete Agreement, which is attached to our Franchise Agreement as Attachment 8. If your Franchised Business is owned by an entity, all owners of the entity must personally sign the Franchise Agreement as a "Principal". If you are a married individual, your spouse must sign our Spouse Guaranty which is attached to our Franchise Agreement as Attachment 6.

**ITEM 16: RESTRICTION ON WHAT FRANCHISEE MAY SELL**

You must offer and sell all products and services that are part of the System, and all services and products which we incorporate into the System in the future. You may only offer products and services that we have previously approved. You may only engage in providing products and services to end-consumers.

You may not use our Principal Marks or other trademarks for any other business, and you may not conduct any other business from your Franchised Business location. You cannot engage in any other business that competes with your Franchised Business, with us or our affiliates, or with Adam & Eve outlets owned by other franchisees, whether such business is inside or outside of the Territory.

We may add to, delete from, or modify the products and services that you can and must offer. You must abide by any additions, deletions, and modifications. There are no limits on our rights to make these changes.

You may only sell products and services from your approved Franchised Business location and in the manner we prescribe. You may only solicit sales from customers in your Territory. Your local advertising must target customers in your Territory, although the reach of your local advertising may extend beyond your Territory.

**ITEM 17: RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

**THE FRANCHISE RELATIONSHIP**

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

	<b>Provision</b>	<b>Section in Franchise Agreement</b>	<b>Summary</b>
a.	Length of the franchise term	Art. 4	Term is 10 years
b.	Renewal	Sections 5.1 and 5.4	If you are in good standing as defined below, you can sign a successor franchise agreement for one additional 5-year term, unless we have determined, in our sole discretion, to withdraw from the geographical area where your franchise is located.
c.	Requirements for franchisee to renew or extend	Sections 5.2 and 5.3	Be in full compliance, have no more than three events of default during current term; provide written notice to us at least six months before the end of the term; execute a new franchise agreement; pay us a successor agreement fee; continue to maintain your location, current trade dress and other standards; execute a general release; comply with then-current qualifications and training requirements; including completion of additional training.  You may be asked to sign a new Franchise Agreement with materially different terms and conditions than your original Franchise Agreement.
d.	Termination by franchisee	None	You may seek termination upon any grounds available by state law.
e.	Termination by franchisor without cause	Section 16.7	The Franchise Agreement will terminate upon your death or permanent disability and the franchise must be transferred

	Provision	Section in Franchise Agreement	Summary
			within six months to a replacement franchisee that we approve.
f.	Termination by franchisor with cause	Article 17	We may terminate only if you default. The Franchise Agreement describes defaults throughout. Please read it carefully.
g.	“Cause” defined – curable defaults	Section 17.3	You have five days to cure non-payments and any other defaults (except for non-curable defaults listed in the Franchise Agreement and described in h. immediately below).
h.	“Cause” defined - non-curable defaults	Sections 17.1 and 17.2	<p>The Franchise Agreement will terminate automatically, without notice for the following defaults: insolvency; bankruptcy; written admission of inability to pay debts; receivership; levy; composition with creditors; unsatisfied final judgment for more than 30 days; or foreclosure proceeding that is not dismissed within 30 days.</p> <p>We may terminate the Franchise Agreement upon notice to you if you: do not acquire a site, do not complete construction, obtain permits and/or open the Franchised Business within required time frames; falsify any report to us; cease operations for five days or more, unless the premises are damaged and you apply to relocate; lose possession of the premises, unless you are not at fault for loss and you timely apply to relocate; fail to restore and re-open the Franchised Business within 120 days after a casualty, as may be extended by us; fail to comply with applicable laws; default under any lease for the premises; understate Gross Sales two or more times; fail to comply with insurance and indemnification requirements; attempt a transfer in violation of the Franchise Agreement; fail, or your legal representative fails to transfer as required upon your death or permanent disability; misrepresent or omit a material fact in applying for the Franchise; are convicted or plead no contest to a felony or crime or engages in conduct that could damage the goodwill or reputation of our trademarks or the System; receive an adverse judgment in any proceeding involving allegations of fraud,</p>

	Provision	Section in Franchise Agreement	Summary
			<p>racketeering or improper trade practices or similar claim that could damage the goodwill or reputation of our trademarks or the System; conceal revenues or maintain false books; create a threat or danger to public health or safety; refuse an inspection or audit by us; use our trademarks, copyrighted material or Confidential Information in an unauthorized manner; make an unauthorized disclosure of Confidential Information; fail to comply with non-competition covenants; default in the performance of your obligations three or more times during the term or receive two or more default notices in any 12-month period; default under any other agreement with us or our affiliate; have insufficient funds to honor a check or EFT two or more times within any 12-month period; default, or your affiliate defaults, under another agreement with us or our affiliate or suppliers; or terminate the Franchise Agreement without cause.</p>
i.	Franchisee's obligations on termination/ non-renewal	Article 18	<p>Upon termination, you must: cease operations; cease to identify yourself as a Adam &amp; Eve franchisee; cease to use our trademarks or other intellectual property; cancel any assumed name registration that contains any Mark; pay us and our affiliates all sums owing; pay us any damages, costs or expenses we incur in obtaining any remedy for any violation of the Franchise Agreement by you, including, but not limited to attorney's fees; deliver to us all Confidential Information, the operations manual and all records and files related to your Franchised Business; comply with the non-disclosure and non-competition covenants; pay liquidated damages; sell to us, at our option, all furnishing, fixtures, equipment, inventory and supplies of your Franchised Business; and assign, at our option, your telephone numbers, directory and internet listings, and social media and software accounts and the lease for the location.</p>
j.	Assignment of contract by franchisor	Section 16.1.1	No restrictions on our right to assign.

	<b>Provision</b>	<b>Section in Franchise Agreement</b>	<b>Summary</b>
k.	“Transfer” by franchisee defined	Section 16.3	Any assignment, sale, transfer, gift, devise or encumbrance of any interest in the Franchise Agreement, the Franchised Business, any assets of the Franchised Business, or in the Franchisee (if the Franchisee is a business entity).
l.	Franchisor approval of transfer by franchisee	Section 16.3	No transfer is allowed without our consent, which we will not unreasonably withhold.
m.	Conditions for franchisor approval of a transfer	Section 16.3 and 16.4	Conditions include: our decision not to exercise our right of first refusal; transferee meets our then-current standards for qualifying franchisees; transferee signs our then-current form of Franchise Agreement, which may have materially different terms from your Franchise Agreement; transferee successfully complete our initial training program; you have paid us and third-party creditors all amounts owed; you and the transferee sign a Release in the form of Exhibit G; you will subordinate any claims you have against the transferee to us; you will indemnify us for misrepresentations in the transfer process, excluding the representations we make in our Disclosure Document; our approval of the material terms and conditions of the transfer; payment of a transfer fee.
n.	Franchisor’s right of first refusal to acquire franchisee’s business	Section 16.6	You must promptly notify us of any written offer to purchase your Franchise. We have 30 days to exercise our first right to buy it on the same terms and conditions, provided that (a) we may substitute cash for any other consideration (b)we may pay the entire purchase price at closing, (c) our credit is deemed as good as the proposed purchaser, (d) we have at least 60 days to close and (e) you will give us all customary seller’s representations and warranties.
o.	Franchisor’s option to purchase franchisee’s business	Section 18.2	Upon termination of the Franchise Agreement, we have the option to purchase your equipment, furniture, fixtures, signs, advertising materials, supplies, and inventory at your cost or fair market value, whichever is less.
p.	Death or disability of franchisee	Sections 16.7, 17.2	The Franchise Agreement will terminate upon your death or permanent disability,

	<b>Provision</b>	<b>Section in Franchise Agreement</b>	<b>Summary</b>
			and the franchise must be transferred within 6 months to a replacement franchisee that we approve.
q.	Non-competition covenants during the term of the franchise	Section 19.5.1	You may not: divert, or attempt to divert, customers of any Adam & Eve outlet (including yours) to any competitor, participate in any capacity, including, but not limited to as an owner, investor, officer, director, employee or agent, in any competing business; do any act that could damage the goodwill of the Marks or System, or disrupt or jeopardize our business or that of our franchisees.
r.	Non-competition covenants after the franchise is terminated or expires	Section 19.5.2	For 24 months after the termination of the Franchise Agreement, you may not: divert, or attempt to divert, customers of any Adam & Eve outlet (including yours) to any competitor, participate in any capacity, including, but not limited to as an owner, investor, officer, director, employee or agent, in any competing business within 10 miles of your former Franchised Business' location or any other Adam & Eve outlet location (franchised or company owned); do any act that could damage the goodwill of the Marks or System, or disrupt or jeopardize our business or that of our franchisees.
s.	Modification of the agreement	Sections 9.4, 14.6 and 19.1.4	No oral modifications. We may change the operations manual and System standards at any time. You may be required to implement these changes at your own costs. We have the right to modify our Marks at any time upon written notice to you.
t.	Integration/merger clause	Section 21.4	Only the terms of the Franchise Agreement and other related written agreements, such as any attachments to the Franchise Agreement or addenda, are binding (subject to applicable state law). Any representations or promises outside of the disclosure document and Franchise Agreement may not be enforceable.
u.	Dispute resolution by arbitration or mediation	Sections 20.1 and 20.2	At our option, claims that are not resolved internally may be submitted to non-binding mediation at our headquarters and then to binding arbitration, excluding claims related to injunctive relief, anti-trust, the trademarks, possession of the

	Provision	Section in Franchise Agreement	Summary
			Franchised Business premises, and post-termination obligations. Subject to state law.
v.	Choice of forum	Section 20.3	Litigation takes place in North Carolina (subject to applicable state law).
w.	Choice of law	Section 20.3	North Carolina law applies (subject to applicable state law).

**THE FRANCHISE RELATIONSHIP  
(UNDER THE MULTI-UNIT DEVELOPMENT AGREEMENT)**

**This table lists certain important provisions of the multi-unit development agreement. You should read these provisions in the agreement attached to this disclosure document.**

	Provision	Section in Multi-Unit Development Agreement	Summary
a.	Length of the franchise term	Art. 3	As determined by you and us based on the number of Adam & Eve outlets you are to develop.
b.	Renewal or extension of the Term	Not Applicable	Not Applicable
c.	Requirements for franchisee to renew or extend	Not Applicable	Not Applicable
d.	Termination by franchisee	Not Applicable	Not Applicable
e.	Termination by franchisor without cause	Section 6.6	The Multi-Unit Development Agreement will terminate upon your death or permanent disability and your interest in the agreement must be transferred within six months to a replacement developer that we approve.
f.	Termination by franchisor with cause	Article 7	We may terminate only if you default. The Multi-Unit Development Agreement describes defaults throughout. Please read it carefully.
g.	“Cause” defined – curable defaults	Section 7.3	You have five days to cure non-payments and any other defaults (except for non-curable defaults listed in the Multi-Unit Development Agreement and described in h. immediately below).
h.	“Cause” defined - non-curable defaults	Sections 7.1 and 7.2	The Multi-Unit Development Agreement will terminate automatically, without notice for the following defaults: insolvency; bankruptcy; written admission of inability to pay debts; receivership; levy; composition with creditors; unsatisfied final judgment for more than 30 days; or foreclosure

	<b>Provision</b>	<b>Section in Multi-Unit Development Agreement</b>	<b>Summary</b>
			proceeding that is not dismissed within 30 days. We may terminate the Multi-Unit Development Agreement upon notice to you if you: misrepresent or omit a material fact in applying for the Development Rights; falsify any report to us; fail to comply with any federal, state, or local law, rule, or regulation, applicable to the development and operations of your Adam & Eve outlets, including, but not limited to, the failure to pay taxes; failure to develop the Adam & Eve outlets in accordance with the Mandatory Development Schedule; attempt to transfer in violation of the Franchise Agreement; are convicted or plead no contest to a felony or crime that could damage the goodwill or reputation of our trademarks or the System; receive an adverse judgment in any proceeding involving allegations of fraud, racketeering or improper trade practices or similar claim that could damage the goodwill or reputation of our trademarks or the System; fail to comply with non-competition covenants; default, or your affiliate defaults, under any other agreement, including any Franchise Agreement, with us or any of our affiliates, suppliers or landlord and does not cure such default within the time period provided in such other agreement; or terminate the Multi-Unit Development Agreement without cause.
i.	Franchisee's obligations on termination/ non-renewal	Section 7.4	Upon termination, you must: cease all development operations and comply with the non-disclosure and non-competition covenants.
j.	Assignment of contract by franchisor	Section 6.1	No restrictions on our right to assign.
k.	"Transfer" by franchisee defined	Section 6.3	Any assignment, sale, transfer, gift, devise or encumbrance of any interest in the Multi-Unit Development Agreement or Development Rights.
l.	Franchisor approval of transfer by franchisee	Sections 6.2, 6.3	No transfer is allowed without our consent, which we will not unreasonably withhold.
m.	Conditions for franchisor approval of a transfer	Section 6.3 and 6.4	Conditions include: our decision not to exercise our right of first refusal; transferee meets our then-current

	<b>Provision</b>	<b>Section in Multi-Unit Development Agreement</b>	<b>Summary</b>
			standards for qualifying developers; you have paid us all amounts owed; transferee signs our then-current form of Multi-Unit Development Agreement, which may have materially different terms from your Multi-Unit Development Agreement; you and the transferee sign a Release in the form of Exhibit G; you subordinate any claims you have against the transferee to us; our approval of the material terms and conditions of the transfer; payment of a transfer fee.
n.	Franchisor's right of first refusal to acquire franchisee's business	Section 6.5	You must promptly notify us of any written offer to purchase your Development Rights. We have 30 days to exercise our first right to buy it on the same terms and conditions, provided that (a) we may substitute cash for any other consideration (b) we may pay the entire purchase price at closing, (c) our credit is deemed as good as the proposed purchaser, (d) we have at least 60 days to close and (e) you shall give us all customary seller's representations and warranties.
o.	Franchisor's option to purchase franchisee's business	Not Applicable	Not Applicable
p.	Death or disability of franchisee	Section 6.6	The Multi-Unit Development Agreement will terminate upon your death or permanent disability and the Development Rights must be transferred within six months to a replacement developer we approve.
q.	Non-competition covenants during the term of the franchise	Section 8.3.1	You may not: divert, or attempt to divert, customers of any Adam & Eve outlet (including yours) to any competitor, participate in any capacity, including, but not limited to as an owner, investor, officer, director, employee or agent, in any competing business; do any act that could damage the goodwill of our trademarks or System, or disrupt or jeopardize our business or that of our franchisees.
r.	Non-competition covenants after the franchise is terminated or expires	Section 8.3.2	For 24 months after the termination of the Franchise Agreement, you may not: divert, or attempt to divert, customers of any Adam & Eve (including yours) to any competitor, participate in any capacity, including, but not limited to as an owner,

	<b>Provision</b>	<b>Section in Multi-Unit Development Agreement</b>	<b>Summary</b>
			investor, officer, director, employee or agent, in any competing business within 10 miles of your former Adam & Eve outlet location or any other Adam & Eve outlet location; do any act that could damage the goodwill of our trademarks or System, or disrupt or jeopardize our business or that of our franchisees.
s.	Modification of the agreement	Section 11.4	No oral modifications. No amendment of the provisions will be binding upon either party unless the amendment has been made in writing and executed by all interested parties.
t.	Integration/merger clause	Section 11.4	Only the terms of the Multi-Unit Development Agreement and other related written agreements are binding (subject to applicable state law.) Nothing in the agreement or in any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document. Any representations or promises outside of the Franchise Disclosure Document and other agreements may not be enforceable.
u.	Dispute resolution by arbitration or mediation	Sections 10.1, 10.2, 10.3, and 10.4	At our option, claims that are not resolved internally may be submitted to non-binding mediation at our headquarters, and then to binding arbitration, excluding claims related to injunctive relief, anti-trust, the trademarks, possession of the Franchised Business premises and post-termination obligations. Subject to state law.
v.	Choice of forum	Section 10.5	Litigation takes place in North Carolina, subject to applicable state law.
w.	Choice of law	Section 10.5	North Carolina law applies, subject to applicable state law.

See the state addenda to this Franchise Disclosure Document and the Franchise Agreement for special state disclosures.

**ITEM 18: PUBLIC FIGURES**

We do not currently use any public figures to promote our franchise.

**ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS**

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

the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

We have 107 Adam and Eve franchises. We have included the historical financial representations for 101 outlets. We have excluded the 6 outlets that opened in 2024 as they would not present a full 12 months of financial representations. The below table includes the historical financial representations of our franchise system for 2024. We included net sales, but we did not include any operating expenses. Your revenues may vary significantly depending on a number of factors, including the location of your Store and how you operate your Franchised Business.

**Some stores have earned these amounts. Your individual results may vary. There is no assurance you'll earn as much.**

ADAM & EVE FRANCHISE SYSTEM SALES 2024						
Year	Number of stores at year end	Net Sales	Average Sales/month /store	Number of Stores that Met or Surpassed the Average Sales	Median Sales/Month/ Store	Number of Stores that Met or Surpassed the Median Sales
2024	101	\$82,373,343	\$67,964	40 Stores or 40%	\$60,076	51 stores or 50%

Year	Number of Stores at the Year End	Lowest Net Sales for stores open a full year	Highest Net Sales for stores open a full year	Number of stores below Median Sales	Median Sales/Year/Store	Number of Stores over Median Sales/Year/Store
2024	101	\$128,486	\$2,022,833	50 stores 50%	\$720,910	51 stores 50%

"Net Sales" does not include sales tax, refunds, or discounts.

In 2019, we started migrating franchisees to our current All Point POS System. We currently have 104 Stores on the All Point System. The Franchised Businesses report gross sales information to us based upon a uniform reporting system. In 2024, there were 100 stores utilizing the software system and those stores averaged a gross margin of 67.3%. The low end of the average was 58.1% and the high end was 74.3%.

The reasonable basis for this Financial Performance Representation is that the outlets included are similar to the franchise being offered under this Disclosure Document in terms of operations and product offerings. There are no material financial or operational characteristics of the outlets that are reasonably anticipated to differ materially from future franchise outlet operations. The information presented above has not been audited.

Written substantiation for the financial performance representation will be made available to the prospective franchisee upon reasonable request.

Other than the preceding financial performance representation, AEFC, Inc. does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may

provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor’s management by contacting David Keegan, 302 Meadowlands Drive, Hillsborough, North Carolina 27278, 919-644-8100, the Federal Trade Commission, and the appropriate state regulatory agencies.

**ITEM 20: OUTLETS AND FRANCHISEE INFORMATION**

Table No. 1  
System-wide Outlet Summary  
For Years 2022 to 2024

Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised	2022	96	96	0
	2023	96	101	+5
	2024	101	107	+6
Company – Owned*	2022	0	0	0
	2023	0	0	0
	2024	0	0	0
Total	2022	96	96	0
	2023	96	101	+5
	2024	101	107	+6

Table No. 2  
Transfers of Outlets From Franchisees to New Owners (Other than the Franchisor)  
For Years 2022 to 2024

Column 1 State	Column 2 Year	Column 3 Number of Transfers
None	2022	0
	2023	0
	2024	0
Total	2022	0
	2023	0
	2024	0

Table No. 3-A  
Status of Franchised Outlets  
For Years 2022 to 2024

Column 1 State	Column 2 Year	Column 3 Outlets at Start of Year	Column 4 Outlets Opened	Column 5 Terminations	Column 6 Non- renewals	Column 7 Reacquired by Franchisor	Column 8 Ceased Operations - Other Reasons	Column 9 Outlets at End of the Year
Arkansas	2022	5	0	0	0	0	0	5
	2023	5	1	0	0	0	0	6
	2024	6	0	0	0	0	0	6
California	2022	9	1	0	0	0	10	0
	2023	0	0	0	0	0	0	0
	2024	0	1	0	0	0	0	1
Colorado	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Florida	2022	5	1	0	0	0	0	6
	2023	6	0	0	0	0	2	4
	2024	4	0	0	0	0	0	4
Georgia	2022	0	0	0	0	0	0	0
	2023	0	1	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Idaho	2022	6	1	0	0	0	0	7
	2023	7	0	0	0	0	0	7
	2024	7	0	0	0	0	0	7
Kentucky	2022	3	0	0	0	0	0	3
	2023	3	0	0	0	0	0	3
	2024	3	0	0	0	0	0	3
Maine	2022	0	0	0	0	0	0	0
	2023	0	1	0	0	0	0	1
	2024	1	1	0	0	0	0	2
Massac- husetts	2022	4	0	0	0	0	0	4
	2023	4	0	0	0	0	0	4
	2024	4	0	0	0	0	0	4
Michigan	2022	3	0	0	0	0	0	3
	2023	3	1	0	0	0	0	4
	2024	4	0	0	0	0	0	4
Minnesota	2022	0	1	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Missouri	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Montana	2022	4	1	0	0	0	0	5
	2023	5	0	0	0	0	0	5

	2024	5	0	0	0	0	0	5
Nebraska	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Nevada	2022	6	0	0	0	0	1	5
	2023	5	0	0	0	0	0	5
	2024	5	0	0	0	0	0	5
North Carolina	2022	16	0	0	0	0	0	16
	2023	16	0	0	0	0	0	16
	2024	16	0	0	0	0	0	16
Ohio	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Oklahoma	2022	3	0	0	0	0	0	3
	2023	3	0	0	0	0	0	3
	2024	3	0	0	0	0	0	3
Oregon	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
South Carolina	2022	3	0	0	0	0	0	3
	2023	3	0	0	0	0	0	3
	2024	3	0	0	0	0	0	3
Tennessee	2022	1	1	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Texas	2022	15	1	0	0	0	0	16
	2023	16	2	0	0	0	0	18
	2024	18	3	0	0	0	0	21
Utah	2022	0	1	0	0	0	0	1
	2023	1	1	0	0	0	0	2
	2024	2	1	0	0	0	0	3
Virginia	2022	3	1	0	0	0	0	4
	2023	4	0	0	0	0	0	4
	2024	4	0	0	0	0	0	4
Washington	2022	1	1	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Wisconsin	2022	0	1	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Wyoming	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
<b>Total – US Outlets</b>	<b>2022</b>	<b>96</b>	<b>11</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>96</b>
	<b>2023</b>	<b>96</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>101</b>
	<b>2024</b>	<b>101</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>107</b>
	2022	1	0	0	0	0	0	1

Canada-Winnipeg	2023	1	0	0	0	0	0	1
	2024	1	1	0	0	0	0	2
Peru - Lima	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	1	0
Total – US & International	2022	98	11	0	0	0	11	98
	2023	98	7	0	0	0	2	103
	2024	103	7	0	0	0	1	109

Table No. 4  
Status of Company Owned Outlets  
For Years 2022 to 2024

Col. 1 State	Col. 2 Year	Col. 3 Outlets at Start of Year	Col. 4 Outlets Opened	Col. 5 Outlets Reacquired from Franchisees	Col. 6 Outlets Closed	Col. 7 Outlets Sold to Franchisees	Col. 8 Outlets at End of the Year
All States	2022	0	0	0	0	0	0
	2023	0	0	0	0	0	0
	2024	0	0	0	0	0	0
Total	2022	0	0	0	0	0	0
	2023	0	0	0	0	0	0
	2024	0	0	0	0	0	0

Table No. 5  
Projected Openings as of December 31, 2024

Column 1 State	Column 2 Franchise Agreements Signed But Outlet Not Opened	Column 3 Projected New Franchised Outlets in the Next Fiscal Year	Column 4 Projected New Company Owned Outlets in the Next Fiscal Year
Florida	0	4	0
New Jersey	0	1	0
New York	0	1	0
Virginia	0	1	0
Texas	0	3	0
Total	0	10	0

Exhibit F lists the location of each Adam & Eve franchised outlet in our System and each franchisee during our last fiscal year who has had an outlet terminated, canceled, not renewed, or has otherwise voluntarily or involuntarily ceased to do business under the franchise agreement or has not communicated with us within 10 weeks of the date of this Disclosure Document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

No franchisee has signed confidentiality clauses during the last three years.

There are no trademark-specific franchisee organizations associated with the franchise system being offered in this Franchise Disclosure Document.

**ITEM 21: FINANCIAL STATEMENTS**

Our audited financial statements from the fiscal years ended December 28, 2024, December 30, 2023, and December 31, 2022, are included in Exhibit D of this Disclosure Document.

**ITEM 22: CONTRACTS**

Copies of all proposed agreements regarding the franchise offering are included in this Disclosure Document as follows:

- Exhibit B – Franchise Agreement
- Exhibit C – Multi-Unit Development Agreement
- Exhibit G – Franchisee Acknowledgment Statement, as permitted per state law.
- 

**ITEM 23: RECEIPT**

Two copies of an acknowledgment of your receipt of this Disclosure Document appear at the end of the Disclosure Document. Please return one signed copy to us and retain the other for your records.

**EXHIBIT A**

**STATE FRANCHISE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS**

This list includes the names, addresses and telephone numbers of state agencies having responsibility for franchising disclosure/registration laws, and serving as our agents for service of process (to the extent that we are registered in their states). This list also includes the names, addresses and telephone numbers of other agencies, companies or entities serving as our agents for service of process.

<b>State</b>	<b>State Agency</b>	<b>Agent for Service of Process</b>
CALIFORNIA	Commissioner Financial Protection and Innovation Department of Financial Protection and Innovation 320 West 4 <sup>th</sup> Street, Suite 750 Los Angeles, CA 90013 (213) 576-7505 Toll-free (866-275-2677)	Commissioner of Financial Protection and Innovation
CONNECTICUT	State of Connecticut Department of Banking Securities & Business Investments Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8230	Banking Commissioner
HAWAII	Business Registration Division Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, HI 96813 (808) 586-2722	Commissioner of Securities of the State of Hawaii
ILLINOIS	Office of Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465	Illinois Attorney General
INDIANA	Indiana Secretary of State Securities Division 302 West Washington St., Room E-111 Indianapolis, IN 46204 (317) 232-6681	Indiana Secretary of State 201 State House Indianapolis, IN 46204
MARYLAND	Office of the Attorney General Division of Securities 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360	Maryland Securities Commissioner 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360
MICHIGAN	Michigan Department of Attorney General Consumer Protection Division Antitrust and Franchise Unit 670 Law Building Lansing, MI 48913 (517) 373-7117	Michigan Department of Commerce, Corporations and Securities Bureau

<b>State</b>	<b>State Agency</b>	<b>Agent for Service of Process</b>
MINNESOTA	Minnesota Department of Commerce 85 7 <sup>th</sup> Place East, Suite 280 St. Paul, MN 55101-2198 (651) 539-1500	Minnesota Commissioner of Commerce
NEW YORK	NYS Department of Law Investor Protection Bureau 28 Liberty St. 21 <sup>st</sup> FL New York, NY 10005 212-416-8222	Secretary of State 99 Washington Avenue Albany, NY 12231
NORTH DAKOTA	North Dakota Securities Department 600 East Boulevard, State Capitol, 14 <sup>th</sup> Floor Dept. 414, Bismarck, ND 58505-0510 (701) 328-4712	North Dakota Securities Commissioner
OREGON	Department of Consumer and Business Services Division of Finance and Corporate Labor and Industries Building Salem, Oregon 97310 (503) 378-4387	Director of the Department of Consumer and Business Services
RHODE ISLAND	Department of Business Regulation Division of Securities 1511 Pontiac Avenue, Building 69-1 Cranston, RI 02920 (401) 462-9585	Director of Rhode Island Department of Business Regulation
SOUTH DAKOTA	Division of Insurance Securities Regulation 124 South Euclid, Suite 104 Pierre, SD 57501 (605) 773-3563	Director of Insurance-Securities Regulation
VIRGINIA	State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9 <sup>th</sup> Floor Richmond, VA 23219 (804) 371-9051	Clerk of State Corporation Commission 1300 East Main Street, 1 <sup>st</sup> Floor Richmond, VA 23219 (804) 371-9733
WASHINGTON	<u>Mailing</u> - Department of Financial Institutions PO Box 41200 Olympia, WA 98504-1200 <u>Overnight</u> - Department of Financial Institutions 150 Israel Rd SW Tumwater, WA 98501-6456 (360) 902-8760	Department of Financial Institutions 150 Israel Rd SW Tumwater, WA 98501-6456
WISCONSIN	Wisconsin Securities Commissioner Securities and Franchise Registration 345 W. Washington Avenue Madison, WI 53703 (608) 266-8559	Commissioner of Securities of Wisconsin

**EXHIBIT B**  
**FRANCHISE AGREEMENT**

**AEFC, INC.**

**FRANCHISE AGREEMENT**

\_\_\_\_\_  
**FRANCHISEE**

\_\_\_\_\_  
**EFFECTIVE DATE**

Standard  
 Conversion

**AEFC, INC.**  
**FRANCHISE AGREEMENT**

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THIS FRANCHISE AGREEMENT (the "Agreement") is being entered into this day of \_\_\_\_\_ (the "Effective Date"), by and between AEFC, Inc. , a North Carolina corporation, with its principal place of business at 302 Meadowlands Drive, Hillsborough, North Carolina 27278 (herein "Franchisor"), and \_\_\_\_\_, a(n) \_\_\_\_\_, with its principal place of business located at \_\_\_\_\_, and \_\_\_\_\_'s principal(s) \_\_\_\_\_, an individual, residing at \_\_\_\_\_, and \_\_\_\_\_, an individual, residing at \_\_\_\_\_ ("Principal(s)"). \_\_\_\_\_ and Principal(s) shall be individually and collectively referred to, and each is, the "Franchisee".

## RECITATIONS

Through the expenditure of considerable time, effort and money, Franchisor has developed and established a specialty retail store for sexually mature themed products, under the Adam & Eve trademarks, and using Franchisor's confidential operations manual (the "Manual") of business practices and policies, and Franchisor's distinctive décor, fixtures and furnishings, operations methods, sales techniques, inventory, procedures for management control and training, assistance, advertising, and promotional programs, all of which may be changed, improved or further developed by Franchisor at any time (taken together herein the "System").

The System is identified by certain trade names, service marks, trademarks, logos, emblems and indicia of origin, including but not limited to the Adam & Eve service marks, as set forth in Attachment 1, and such other trade names, service marks, and trademarks as are now designated and may hereafter be designated or substituted by Franchisor for use in connection with the System (the "Marks").

Franchisor continues to develop, use, and control the use of such Marks in order to identify for the public the source of services and products marketed under the Marks and the System and to represent the System's high standards of quality, appearance, and service.

Franchisee understands and acknowledges the importance of Franchisor's high and uniform standards of quality, service, and appearance, and the necessity of operating the business franchised hereunder in conformity with Franchisor's standards and specifications.

NOW, THEREFORE, the parties, in consideration of the promises, undertakings and commitments of each party to the other set forth herein, and intending to be legally bound hereby, mutually agree as follows:

### 1. RECITATIONS

The Recitations set out above form part of this Agreement.

### 2. GRANT OF FRANCHISE

Franchisor hereby grants to Franchisee and Franchisee accepts, upon the terms and conditions contained in this Agreement, the license to operate an Adam & Eve franchise (the "Franchise" or "Franchised Business"), using only the Marks licensed hereunder, in strict conformity with the System, which may be changed, improved and further developed by Franchisor from time to time. This grant applies only to a single location that is designated in Attachment 2 attached hereto and incorporated herein (the "Territory").

### 3. TERRITORY

3.1 Territory. This Agreement grants Franchisee the right to operate the Franchised Business at a single location within the Territory. Subject to Section 3.2 below, Franchisor agrees that during the Term of this Agreement, Franchisor will not operate, and will not authorize any other franchisees to operate, an Adam & Eve outlet in the Territory using the same Marks as licensed to Franchisee in this Agreement so long as Franchisee is not in default under this Agreement or this Agreement has not expired or been terminated. Except as otherwise specified in this Agreement, Franchisor reserves the right to open, operate or franchise Adam & Eve outlets around, bordering, and adjacent to the Territory. Franchisee will be selling its products and services from a single location that will be determined by Franchisee with Franchisor's prior written approval, which may be withheld or denied in Franchisor's sole discretion. Franchisee is prohibited from selling to and soliciting customers through alternative distribution channels as more fully specified herein.

3.2 Reservation of Rights. Franchisee understands and agrees that all rights to any businesses, other than as specified in this Agreement, are fully reserved to Franchisor within or outside of the Territory. By way of example only, Franchisor reserves the rights to offer (i) other products or services not offered under the Marks, (ii) other sexually mature themed business concepts under the Marks or other trademarks, and (iii) products or services through any channel in the Territory other than a dedicated Adam & Eve outlet, such as distribution through retail outlets, including but not limited to, in captive market locations; mail order, interactive television, wholesale and the internet ("Alternate Distribution Channels"). Franchisee will receive no compensation for Franchisor's sales through Alternate Distribution Channels made within the Territory, except as may be set forth in the Manual. Franchisee agrees that such implementation of Franchisor's rights pursuant to this Section 3.2 is deemed not to impair or injure Franchisee's rights pursuant to Section 2 hereof.

3.3 Solicitation and Sales Restrictions. Franchisee must target Franchisee's advertising within the Territory and may only solicit sales from customers located within the Territory. Notwithstanding, Franchisee may engage in sales by delivery outside of the Territory, with Franchisor's prior consent and in accordance with Section 13.7 hereof. Franchisee is prohibited from selling and soliciting customers through Alternate Distribution Channels, provided that Franchisee may fulfill at the Franchised Business premises orders received through Franchisor's approved online ordering platform or approved third-party delivery applications.

### 4. TERM

Unless terminated earlier in accordance with the terms set forth herein, this Agreement and the Franchise granted hereunder shall commence upon the Effective Date set forth above, and terminate on the date that is **ten (10) years following the Opening Date**, as defined in Section 8 hereof (the "Term").

### 5. SUCCESSOR OPTION

Subject to the terms and conditions of this Agreement, Franchisee shall have the right, following the expiration of the Term hereof, to enter into a new franchise agreement and legal instruments and documents then customarily employed by Franchisor and in the form then generally being offered to prospective franchisees in the state in which the Franchised Business is located (the "Successor Franchise Agreement") for one (1) additional five (5) year term. The term of such Successor Franchise Agreement shall commence upon the date of expiration of the immediately preceding term. Franchisee shall be charged a successor agreement fee of Seven Thousand Five Hundred (\$7,500.00) ("Successor Agreement Fee"). In the event Franchisee is not in full compliance with Section 5.2 below at the time Franchisee notifies

Franchisor of Franchisee's desire to enter into a successor agreement, it shall be in Franchisor's sole and absolute discretion whether to permit the successor agreement.

5.1 Form and Manner of Successor Agreement. If Franchisee desires to exercise Franchisee's option to enter into a Successor Franchise Agreement, it shall be done in the following manner:

5.1.1 Not less than six (6) months prior to the expiration of the Term of this Agreement, Franchisee shall request from Franchisor in writing, a copy of Franchisor's then-current Disclosure Document (including Franchisor's then-current franchise agreement).

5.1.2 Franchisee must execute and return to Franchisor all required documents, including any and all ancillary documents, within thirty (30) days after receipt by Franchisee of a copy of Franchisor's then-current Disclosure Document.

5.1.3 The Successor Franchise Agreement shall supersede this Agreement in all respects, and Franchisee understands and acknowledges that the terms of such new agreement may differ from the terms of this Agreement, including, without limitation, higher or lower royalty and other fees.

5.1.4 If Franchisee fails to perform any of the acts, or deliver any of the notices required pursuant to this Paragraph 5 in a timely fashion, such failure shall be deemed an election by Franchisee not to exercise Franchisee's option to enter into the Successor Franchise Agreement, and such failure shall cause Franchisee's right and option to automatically lapse and expire, without further notice by Franchisor.

5.1.4.1 Franchisee acknowledges that the initial Term of this Agreement provides Franchisee more than a sufficient opportunity to recoup Franchisee's investment in the Franchise, as well as a reasonable return on such investment.

5.2 Conditions of Successor Agreement. Franchisee's right to enter into a Successor Franchise Agreement is conditioned upon the following:

5.2.1 Franchisee shall be in full compliance with this Agreement and shall have materially performed Franchisee's obligations under this Agreement, the Manual and under all other agreements that may be in effect between Franchisee and Franchisor, including but not limited to all monetary obligations.

5.2.2 Franchisee shall not have committed three (3) or more events constituting default during the Term of this Agreement, whether or not such defaults were cured.

5.2.3 Franchisee will have completed any required additional training to Franchisor's reasonable satisfaction.

5.2.4 Franchisee shall have obtained the right to continue to occupy the Franchised Business location following the expiration of the Term hereof for the full term of the Successor Franchise Agreement and/or have received Franchisor's approval regarding locating the Franchised Business at a new location.

5.2.5 Franchisee shall execute a general release of all claims Franchisee may have against AEFC, Inc. , its parent, subsidiaries and affiliates, its officers, directors, shareholders, agents, and employees, whether in their corporate and/or individual capacities. This release will include all claims arising under any federal, state, or local law, rule, or ordinance.

5.2.6 Franchisee performs such remodeling, repairs, replacements and redecoration as Franchisor may require in order to cause the Franchised Business premises, equipment, fixtures, furnishings and furniture to conform to the plans and specifications being used for new or remodeled franchised businesses at the time of the successor term.

5.2.7 Franchisee shall pay the required Successor Agreement Fee and sign the Successor Franchise Agreement.

5.3 Notice Required by Law. If applicable law requires Franchisor to give notice to Franchisee prior to the expiration of the Term, this Agreement shall remain in effect on a month-to-month basis until Franchisor has given the notice required by such applicable law. If Franchisor is not offering new Adam & Eve franchises, is in the process of revising, amending or renewing Franchisor's form of franchise agreement or disclosure document, or Franchisor is not lawfully able to offer Franchisee the then-current form of Successor Franchise Agreement at the time Franchisee advises Franchisor pursuant to Paragraph 5.2 hereof that Franchisee desires to exercise Franchisee's option to enter into a Successor Franchise Agreement, Franchisor may, in Franchisor's sole discretion, (i) offer to renew this Agreement upon the same terms set forth herein for the appropriate successor term or (ii) offer to extend the Term hereof on a month-to-month basis following the expiration of the Term for as long as Franchisor deems necessary or appropriate so that Franchisor may lawfully offer the then-current form of Successor Franchise Agreement. Any timeframes specified in this Paragraph 5 shall be inclusive of any state mandated notice periods.

5.4 Additional Reservation of Rights. Notwithstanding anything herein to the contrary, Franchisor reserves the right not to enter into a successor franchise agreement for this Franchise as a result of a decision to withdraw from a marketing area or the Territory in which Franchisee's Franchised Business is located.

## 6. FEES

6.1 Initial Franchise and Royalty Fee. As part of the consideration for the right to operate the Franchise granted herein, Franchisee shall pay to Franchisor the following fees:

6.1.1 Initial Franchise Fee. Franchisee acknowledges and agrees that the grant of this Franchise and the rights and obligations of the parties under this Agreement constitute the sole and only consideration for the initial franchise fee of Thirty Thousand Dollars (\$30,000.00) (the "Initial Franchise Fee"). The Initial Franchise Fee shall be payable in two (2) installments, as follows: Fifteen Thousand Dollars (\$15,000) is due upon Franchisee's execution of this Agreement, and the balance of Fifteen Thousand Dollars (\$15,000) is due upon execution of the lease for the Franchised Business. **The Initial Fee is fully earned at the time this Franchise Agreement is signed and is not refundable under any circumstances.** Franchisee shall pay the full amount of the Initial Fee to Franchisor upon Franchisee's execution of this Agreement.

6.1.2 Royalty Fee. Franchisee agrees to pay Franchisor, throughout the Term, a royalty fee equal to five (5%) of the Net Sales, as hereinafter defined, realized from the Franchised Business and from any other revenues received using Franchisor's methods, operations and/or trade secrets (the "Royalty Fee"). The term "Gross Sales" means the aggregate of all revenues, sales and other incomes of Franchisee from whatever source derived, regardless of whether collected by Franchisee or collected in the form of check, cash, credit or otherwise, arising out of, in connection with or relating to the Franchised Business, including, without limitation, (a) income from the sale of any products or other items, including gift cards; (b) income from any services provided; (c) all proceeds from any business interruption insurance, The term "Net Sales" is calculated as Gross Sales, but excluding (i) all refunds and discounts made in good faith to a customer; (ii) any sales, use retail sales and equivalent taxes which are collected by Franchisee for on behalf of any governmental or other

public body and actually remitted to such body; and (iii) the value of any coupon, voucher or other allowance authorized by Franchisor and issued or granted to customers of Franchised Business which is received or credited by Franchisee in full or partial satisfaction of the price of any product or service offered in connection with the Franchised Business. In Franchisor’s discretion, upon notice to Franchisee, Net Sales may be revised to exclude gift card purchases at the time of purchase, and instead include the redemption amount of purchases made by gift card as part of Net Sales.

6.1.2.1 If Franchisee owns multiple Franchised Businesses, then the Royalty Fee due and payable will be discounted based on the following parameters.

6.1.2.2 For each month that the Franchised Business outlined in Attachment 2 is Franchisees’ second (2nd), third (3rd) or fourth (4th) cumulative open and operating Franchised Business, then the Royalty Fee payable hereunder shall be reduced to four percent (4%) of Net Sales.

6.1.2.3 In the event Franchisee has five (5) or more cumulative open and operating Franchised Businesses, then Franchisee shall pay the below discounted Royalty Fee for each month the below requirements are satisfied:

- (i) no violation notices or notices of default in the prior nine (9) months.
- (ii) a minimum of Three Thousand Dollars (\$3,000) in Adam & Eve proprietary products purchased from Franchisor, its affiliates or designated supplier.
- (iii) the Franchised Business is operating the then-current Computer System in accordance with System standards;
- (iv) the Principals have a combined direct ownership of no less than fifty percent (50%) in the Franchisee.
- (v) the Franchised Business did not enter the System as a conversion franchise.

Cumulative Number of Stores	Reduced Royalty Fee 1 <sup>st</sup> Store = 5% 2 <sup>nd</sup> , 3 <sup>rd</sup> & 4 <sup>th</sup> Store = 4%
Five (5)	Store 5 = 3.5%
Six (6)	Stores 5 & 6 = 3.5%
Seven (7)	Stores 5 to 7 = 3.5%
Eight (8)	Stores 5 to 7 = 3.5% Store 8 = 3%
Nine (9)	Stores 5 to 7 = 3.5% Stores 8 & 9 = 3%
Ten (10)	Stores 5 to 7 = 3.5% Stores 8 to 10 = 3%
Eleven (11), and each additional outlet)	Stores 5 to 7 = 3.5% Stores 8 to 10 = 3% Store 11, and each additional outlet = 2.5%

6.1.4 Gross Sales Report. Franchisee shall, on the third (3<sup>rd</sup>) day of each month, for the prior calendar month, furnish Franchisor with a report verifying Franchisee’s Gross Sales at or from the Franchised Business and/or made pursuant to the rights granted hereunder during the preceding calendar month (the “Gross Sales Report”). The Gross Sales Report shall be in such form and shall contain such information

as Franchisor may from time to time prescribe. Franchisor reserves the right to establish point-of-sale systems (“POS System”) that Franchisor may require Franchisee to use from time to time in the operation of the Franchised Business. At Franchisor’s option, Franchisee shall submit, or grant Franchisor access to, the Gross Sales Report by an electronic transfer of data via the POS System at the times and interims then specified by Franchisor.

6.1.4 Method of Payment. Franchisee shall, together with the submission of the Gross Sales Report, pay Franchisor the Royalty Fee and the Brand Fund Contribution, as defined and more particularly described in Article 13, then due. At Franchisor’s request, Franchisee must execute documents, including but not limited to, the ACH Authorization attached as Attachment 3, that allow Franchisor to automatically take the Royalty Fee and Brand Fund Contribution due as well as other sums due Franchisor, from business bank accounts via electronic funds transfers or Automated Clearing House (“ACH”) payments. Franchisee’s failure to allow electronic funds transfers or ACH payments on an ongoing basis is a material breach of this Agreement. If Franchisee fails to timely report Gross Sales, then, in addition to a late fee and interest pursuant to Sections 6.2 and 6.3 hereof, Franchisor shall collect one hundred twenty percent (120%) of the last Royalty Fee payable. Franchisor shall reconcile amounts when Gross Sales are reported. Franchisor reserves the right to modify the method and frequency of collection of the Royalty Fee and Brand Fund Contribution upon forty-five (45) days’ prior notice to Franchisee.

6.2 Late Fee. If the Royalty Fee, Brand Fund Contribution, Internal Systems Fee or any Gross Sales Reports are not received by Franchisor as required by this Agreement, Franchisee shall pay to Franchisor, in addition to the overdue amount, a late fee of Two Hundred Dollars (\$200.00). This late fee is reasonably related to Franchisor’s costs resulting from the delay in payment and/or receipt of any report, is not a penalty, and is in addition to any other remedy available to Franchisor under this Agreement for Franchisee’s failure to pay the Royalty Fee, the Brand Fund Contribution, and/or submit Gross Sales Reports in accordance with the terms of this Agreement.

6.3 Interest. Any and all amounts that shall become due and owing from Franchisee to Franchisor under the terms hereof shall bear interest from the date due until paid at the rate of one and one-half percent (1.5%) per month or at the highest rate permitted by law, whichever is lower.

6.4 Internal Systems Fee. Franchisor reserves the right to impose an internal systems fee upon Franchisee, in an amount that Franchisor reasonably determines, for the development, adoption and/or use of new or improved internal systems technology for the benefit of the System and Franchised Business, including but not limited to, assigned phone numbers and email addresses required for use in the Franchised Business, a franchise portal, benchmarking platform or other operations or communications systems (“Internal Systems Fee”). In Franchisor’s sole discretion, Franchisor may (i) increase the amount of the internal systems fees or (ii) replace the technology with different technology, developed by Franchisor or a third-party, and Franchisee shall pay the then-current fees for the replacement technology and for continuous access thereto. Franchisee shall pay the Internal Systems Fee in the manner and frequency as reasonably determined by Franchisor.

6.5 Non-Sufficient Funds Fee. In the event any of Franchisee’s checks are returned, or an electronic funds transfer from Franchisee’s bank account is denied, for insufficient funds, Franchisee shall pay Franchisor, in addition to the amount due, a non-sufficient funds fee of Twenty-Five Dollars (\$25.00) per occurrence. This non-sufficient funds fee is reasonably related to Franchisor’s costs resulting from the delayed and declined payment, is not a penalty, and is in addition to any other remedy available to Franchisor under this Agreement.

6.6 Non-Compliance Fine. In addition to other remedies available to Franchisor, Franchisee shall pay Franchisor a non-compliance fine of One Hundred Dollars (\$100) per day if Franchisee fails to

comply with any mandatory standard or operating procedure and Franchisee fails to cure such non-compliance within the timeframe specified by Franchisor.

6.7 Taxes. If any withholding, sales, excise, use, privilege or other tax (excepting Franchisor's income tax obligation) ("Tax Charge") is imposed or levied by any government or governmental agency on Franchisor or Franchisee for any fee due and payable under this Agreement, including but not limited to, the Royalty Fee and Brand Fund Contribution (for the purpose of this Section 6.6, such fee shall be referred to as a "Taxable Payment"), then Franchisee shall pay Franchisor a sum equal to the amount of the Tax Charge, together with the Taxable Payment, such that the net sum received by Franchisor equals the amount of the Taxable Payment plus a ten percent (10%) administrative fee and reimbursement of Franchisor's costs, without deduction, withholding, payment or application of the Tax Charge.

## 7. TRAINING.

7.1 Initial Training Program. Franchisee (specifically including all Franchisee's principals) and Franchisee's General Manager and managers attend and complete to Franchisor's sole and absolute satisfaction, Franchisor's initial training program ("Initial Training Program"), at least four (4) weeks (but no more than six (6) weeks), prior to the opening of the Franchised Business. The Initial Training Program consists of a course conducted remotely through virtual platforms and at Franchisor's headquarters, and/or an affiliate-owned or franchised outlet. Franchisor reserves the right to designate an alternate location for the any component of the Initial Training Program. Franchisee must at all times during the term of this Agreement have principals, General Manager(s) and managers who have successfully completed the Initial Training Program to Franchisor's sole and complete satisfaction. No charge shall be made for up to three (3) individuals, which may include franchise owners and management staff to take the Initial Training Program prior to opening the Franchised Business ("Initial Trainees"). Notwithstanding the foregoing, Franchisee shall be required to pay all of the expenses of the Initial Trainees, including, without limitation, costs of travel, lodging, meals, and wages. Any additional trainees added to the Initial Training Program shall come at an additional cost to the Franchisee at Seven Hundred and Fifty Dollars (\$750.00) per additional trainee. Any re-training of attendees of the Initial Training Program will be at Franchisee's sole cost.

7.2 Satisfactory Completion. Franchisor shall determine, in Franchisor's sole discretion, whether the Initial Trainees have satisfactorily completed the Initial Training Program. If the Initial Training Program is not satisfactorily completed or if Franchisor, in Franchisor's reasonable business judgment based upon the performance of the Initial Trainees, determines that the Initial Training Program cannot be satisfactorily completed by Franchisee and Franchisee's Principal(s), Franchisor may terminate this Agreement.

7.3 Opening Assistance. During the opening of the Franchised Business, Franchisor shall provide Franchisee with opening assistance by a trained representative of Franchisor. The trainer will provide on-site opening training, supervision, and assistance to Franchisee for up to five (5) days at no charge to Franchisee. **Franchisee, management staff and a minimum of two (2) staff employees are required to attend Opening Assistance.**

7.4 Additional Training. Franchisor may offer mandatory and/or optional additional training programs from time to time. If required by Franchisor, Franchisee or Franchisee's Principals shall participate in the following additional training:

- (i) on-going training at a location designated by Franchisor; and

- (ii) an annual national business meeting or conference a location designated by Franchisor.

The total amount of required ongoing training, or annual meeting will be 10 days or less per year. This requirement is in addition to any training provided by Franchisor's approved suppliers. Franchisor reserves the right to impose a reasonable fee for all additional training programs and/or annual meetings. Franchisee shall be responsible for any and all incidental expenses incurred by Franchisee or Franchisee's personnel in connection with additional training or attendance at Franchisor's national business meeting or annual conference, including, without limitation, costs of travel, lodging, meals and wages. **However, Franchisee will not be required to pay lodging and meals for one (1) attendee for one (1) annual meeting per year.** Franchisee's failure to attend and/or complete mandatory additional training or failure to attend Franchisor's national business meeting or annual conference is a default of this Agreement. Franchisee shall be required to (i) pay a non-attendance fee and (ii) obtain any missed mandatory additional training at a location Franchisor designates, at Franchisee's sole cost. Franchisee shall pay all costs and expenses for such additional training, including but not limited to, tuition at the then-current rate and any and all transportation, meals and lodging of Franchisee, Franchisee's attendees, and Franchisor's training representatives. Franchisee shall pay to Franchisor any incurred expenses by Franchisor's training representatives within ten (10) days of Franchisor's billing thereof to Franchisee.

7.5 On-Site Remedial Training. Upon Franchisee's reasonable request or as Franchisor shall deem appropriate, Franchisor shall, during the term hereof, subject to the availability of personnel, provide Franchisee with additional trained representatives who shall provide on-site remedial training and assistance to Franchisee's personnel at the Franchised Business location. For any additional on-site training and assistance, Franchisee shall pay the per diem fee then being charged to franchisees under the System for the services of such trained representatives, plus their costs of travel, lodging, and meals.

7.6 Counseling and Assistance. In addition to visits by Franchisor's field representatives, as Franchisor deems appropriate, Franchisor shall, within reasonable limits and subject to the availability of Franchisor's personnel, upon Franchisee's request and at no charge, unless such assistance is provided at the Franchised Business pursuant to Section 7.5, furnish consultation and assistance to Franchisee, either in person or by telephone, video conference, electronic communications, mail or postal service, as determined by Franchisor, in Franchisor's sole discretion, with respect to the operation of the Franchised Business, including consultation and advice regarding training, marketing, operation issues, purchasing and inventory control, bookkeeping and System improvements.

## 8. FRANCHISED BUSINESS SITE REQUIREMENTS

### 8.1 Site Selection.

8.1.1 Franchisee assumes all cost, liability, expense and responsibility for obtaining and developing a site for the Franchised Business within the Territory and for constructing and equipping the Franchised Business at such site. Franchisee shall not make any binding commitment to a prospective vendor or lessor of real estate with respect to a site for the Franchised Business unless the site location is approved by Franchisor. We reserve the right to designate one or more site selection and/or real estate service suppliers to provide such services to you. If so, you must use it and the expense for site selection and/or real estate services will be your responsibility. While Franchisor may render assistance to Franchisee in the selection of a site, as set forth in Section 8.1.2 below, Franchisee has sole responsibility for procuring and developing a site for the Franchised Business and Franchisee may and is encouraged to consult with professionals of Franchisee's choosing in discharging such responsibility. If Franchisor has completed any research on the market area the Franchisee is considering, Franchisor shall provide such information for background purposes only. Franchisee shall verify all information provided. Franchisee acknowledges that

Franchisor's approval of a prospective site location is permission only, does not constitute a representation, promise, warranty or guarantee, express or implied, by Franchisor that the Franchised Business operated at that site will be profitable or otherwise successful, and cannot, and does not, create a liability for Franchisor. Franchisee releases Franchisor from any claims over the site location selection and evaluation by Franchisor, and Franchisee shall hold Franchisor harmless with respect to Franchisee's selection of the site for the Franchisee's Franchised Business.

8.1.2 Franchisee shall locate a site that satisfies the site selection guidelines provided to Franchisee by Franchisor and shall submit to Franchisor, in writing, a description of the site, together with written certification the site complies with Franchisor's site selection guidelines, and such other information and materials as Franchisor may reasonably require. Recognizing that time is of the essence, Franchisee shall submit such information and materials for a proposed site to Franchisor for its consent no later than ninety (90) days after the execution of this Agreement. Franchisor shall have thirty (30) business days after receipt of this information and materials to consent, in its sole and absolute discretion, to the proposed site as the location for the Franchised Business. Franchisor shall, at its option, conduct on-site location evaluation of the proposed site and Franchisee shall pay to Franchisor its then-current non-refundable per diem fee plus the expenses Franchisor incurs including travel, lodging, and meals, however Franchisor shall conduct one (1) on-site location evaluation at no cost to Franchisee. If Franchisor fails to respond to Franchisee's submission thirty (30) business days, such proposed site shall be deemed "disapproved". No site may be used for the location of the Franchised Business unless it is consented to in writing by Franchisor.

8.1.3 Within one hundred twenty (120) days after Franchisor has consented to the site for the Franchised Business (or such longer period as Franchisor consents to in writing), Franchisee shall execute a lease therefor, as applicable, and obtain physical possession of the premises. Any lease must be reviewed and approved by Franchisor and must include Franchisor's Conditional Assignment of Lease Agreement, a copy of which is attached hereto as Attachment 4. Failure by Franchisee to acquire the site for the Franchised Business within the time and in the manner required herein shall constitute a material event of default under this Agreement.

8.1.4 Upon consent by Franchisor to the location for the Franchised Business, Franchisor shall set forth the location and Territory on Attachment 2 of this Agreement and shall provide a copy thereof to Franchisee. Attachment 2, as completed by Franchisor, shall be incorporated herein and made a part hereof. Franchisee shall notify Franchisor within fifteen (15) days of any error or rejection of Attachment 2; otherwise, the Attachment 2 provided to Franchisee shall be deemed final.

## 8.2 Construction.

8.2.1 Franchisee shall be responsible for obtaining clearances that may be required by state or local laws, ordinances or regulations or that may be necessary as a result of any restrictive covenants or regulations relating to the Franchised Business location, including those related to sexually oriented businesses or the sale of adult products. Prior to beginning the construction of the Franchised Business, Franchisee shall (a) obtain all permits, licenses, insurance and certifications required for the lawful construction or remodeling and operation of the Franchised Business, including, but not limited to, permits for the installation of signage, and (b) certify in writing to Franchisor that all required approvals, clearances, permits, insurance and certifications have been obtained.

8.2.2 Franchisee must obtain all architectural, engineering and construction drawings, site plans, design plans and specifications design and specific installation services necessary for the construction and/or remodeling of the Franchised Business, at its own expense, which may be from supplier(s) designated or otherwise approved in writing by Franchisor. Franchisor or its representative shall provide layout and design guidance to Franchisee, as Franchisor deems appropriate. Franchisee

acknowledges that Franchisor's or its representative's review of design plans relates only to compliance with the System and that acceptance by Franchisor of such plans does not constitute a representation, warranty, or guarantee, express or implied, by Franchisor or its representative, including, but not limited to, any representation, warranty or guarantee that such plans are accurate or free of error, concerning their design or structural application.

8.2.3 During the time of construction or remodeling, Franchisee shall provide Franchisor, or its designated representative, with such periodic reports regarding the progress in obtaining all licenses and permits; and of the construction or remodeling as may be reasonably requested by Franchisor or its representative. **Franchisee shall use a designated or approved supplier for the architectural, engineering and construction drawings, site plans, and specifications for the Franchised Business. In addition, Franchisor or its representative may make such on-site inspections as it may deem reasonably necessary to evaluate such progress.** At least fourteen (14) days prior to completion of the construction or remodeling, Franchisee shall provide Franchisor with written notification of the scheduled date for completion of construction or remodeling. Within a reasonable time after the date of completion of construction or remodeling, Franchisor or its representative may, at its option, conduct a virtual or in-person inspection of the completed Franchised Business.

8.2.4 Franchisee acknowledges and agrees that it will not open the Franchised Business for business without the written authorization of Franchisor and that authorization to open shall be conditioned upon Franchisee's strict compliance with this Agreement.

8.3 Time to Open. Franchisee acknowledges that time is of the essence in this Agreement. Subject to Franchisee's compliance with the conditions stated below, Franchisee shall diligently obtain a site, complete site improvements, and commence operations of the Franchised Business within **90 days** after Franchisee has obtained possession of the Franchised Business premises, unless Franchisee obtains a written extension of such time period from Franchisor. The date the Franchised Business opens for business to the public shall be defined herein as the "Opening Date". Prior to the Opening Date, Franchisee shall (i) complete all exterior and interior preparations for the Franchised Business, including installation and cleaning of fixtures, furnishings and signs, in accordance with System requirements and the plans and specifications consented to by Franchisor, (ii) satisfactorily complete Franchisor's Initial Training Program, as further set forth in Article 7, (iii) hire and train staff, as required, (iv) purchase and stock initial inventory, (v) and submitted to Franchisor a completed punch list, and (iv) obtain all required licenses to operate the Franchised Business. If Franchisee fails to comply with any of such obligations, Franchisor shall have the right to prohibit Franchisee from opening for business. Franchisee's failure to open the Franchised Business and commence business (i) in accordance with the foregoing and (ii) within three hundred sixty-five (365) days following the date of this Agreement shall be deemed a material event of default under this Agreement.

8.4 No Relocation. Franchisee's rights to operate the Franchised Business shall be limited to the Territory set forth in Attachment 2, and no other. Franchisee shall not relocate the premises of the Franchised Business at any time without Franchisor's written approval, which approval shall be granted only in the sole and complete discretion of Franchisor, and, if permitted, shall be at Franchisee's sole expense. In the event such permission is granted, Franchisee shall (i) pay a relocation fee equal to Ten Thousand Dollars (\$10,000.00), (ii) secure and outfit the replacement premises in accordance with Sections 8.1 and 8.2 within one hundred twenty (120) days of Franchisor's consent, (iii) if feasible, continue to operate at the original premises during the construction of the replacement premises, and (iv) upon relocation, remove any signs or other property from the original Franchised Business premises which identified the original Franchised Business premises as part of the System. Failure to comply with the foregoing requirements shall be a default of this Agreement. Franchisor shall issue a revised Attachment 2,

in accordance with Section 8.1.4, to reflect the address of the new Franchised Business location and, in Franchisor's sole discretion, any adjustment to the Territory.

## **9. SYSTEM MAINTENANCE AND IMPROVEMENT**

9.1 Maintenance of Franchised Business Location Site and Equipment. Franchisee shall equip and maintain the Franchised Business site to the standards of décor, air quality, sanitation, repair and condition required by Franchisor, which standards are specified in the Manual and other written directives, standards and specifications. Franchisee, at Franchisee's expense, shall make such additions, alterations, repairs, refurbishing and replacements as may be required to comply with Franchisor's standards, including, without limitation, periodic repainting and repairs or replacement of worn or impaired décor, materials, furniture, fixtures, equipment, and signage as Franchisor may direct.

9.2 Inspections. Franchisee shall operate and maintain the Franchised Business and Franchised Business location in conformance, and in a manner that will ensure the highest rating possible for businesses of like kind from the governmental authorities that may inspect such businesses in the Territory. Franchisee shall submit to Franchisor a copy of any inspection reports. It shall be a default of this Agreement if, upon inspection, Franchisee does not obtain such rating or if Franchisee fails to operate in accordance with the general standards of quality, maintenance, repairs and sanitation required by the System, and Franchisor may, at its option, terminate this Agreement.

9.3 Equipment and Technology Updates. Franchisee shall make any and all upgrades to equipment, including but not limited to, design, display and storage equipment, POS Systems, and computer hardware and software, and any technology used in conjunction therewith, as Franchisor requires in its sole and absolute discretion.

### 9.4 Trade Dress Modifications.

9.4.1 Franchisee is aware that to maintain and improve the image and reputation of the System, Franchisor, in its sole and absolute discretion, may change and modify identifying elements of the System, including but not limited to, the adoption and use of new exterior building designs, new interior decors, new color schemes, new or modified marks, and new furnishings (collectively, "Trade Dress Modifications").

9.4.2 No more than once in a five (5)-year period, at Franchisor's request, Franchisee shall refurbish the Franchised Business location at Franchisee's sole expense, as required by Franchisor, to conform to Trade Dress Modifications. This includes, without limitation, structural changes, remodeling, redecoration, and modifications to existing improvements. Notwithstanding the foregoing restriction on the frequency of Trade Dress Modifications, Franchisee, upon notice by Franchisor and in accordance with Section 14.6 hereof, shall immediately discontinue the use of any Mark that is no longer desirable or available to Franchisor and substitute a different Mark or Marks as Franchisor directs.

9.4.3 Franchisee will accept, use and display any such Trade Dress Modifications as if they were a part of this Franchise Agreement at the time of execution hereof.

9.5 No Liability/Waiver of Claims. Franchisor shall not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any of the modifications, including Trade Dress Modifications, required by this Article 9. Franchisee hereby covenants not to commence or join in any litigation or other proceeding against Franchisor or any third party, complaining of any such or seeking expenses, losses or damages caused thereby. Further, Franchisee expressly waives any claims, demands or damages arising from or related to the modifications contemplated by this Article 9, including, without

limitation, any claim of breach of contract, breach of fiduciary duty, fraud, and/or breach of the implied covenant of good faith and fair dealing.

9.6 Franchisee Advisory Council. Franchisor reserves the right to create (and if created, the right to change or dissolve) a franchisee advisory council as a formal means for System franchisees to communicate ideas. In the event a franchisee advisory council is created, Franchisor may invite Franchisee to participate in council-related activities and meetings, which invitation may be based on factors, including but not necessarily limited to, a franchisee's level of success, superior performance and outlet profitability.

## **10. FRANCHISOR'S OBLIGATIONS.**

Franchisor and/or its designated representative will provide the services described below:

10.1 Site Selection Guidelines. Site selection criteria, as Franchisor may deem advisable. Franchisor shall also approve the site in accordance with Section 8.1.2.

10.2 Construction. Franchisor, or its designee, shall provide to Franchisee the criteria and specifications for the Adam & Eve outlet. Such criteria and specifications include, but are not necessarily limited to, criteria with respect to **inventory placement and flooring requirements**. Franchisee shall independently, and at Franchisee's expense, have such criteria and specifications incorporated into the construction of the Franchised Business in accordance with Article 8. **Franchisor will also designate or otherwise approve vendors for architectural, design, fabrication and installation services for the Franchised Business.**

10.3 Manual. Provide Franchisee access to the Confidential Operations Manual and such other manuals and written materials as Franchisor may hereafter develop for use by franchisees, as the same may be revised by Franchisor from time to time. Such documents may be provided electronically or via the internet, at Franchisor's sole and absolute discretion.

10.4 Inspection. Inspection of the Franchised Business and evaluations of the products sold, and services rendered therein whenever reasonably determined by Franchisor.

10.5 Pre-Opening Requirements. Provide a written list of equipment, fixtures, furnishings, signage, supplies, inventory and other products that will be required and/or recommended to open the Franchised Business for business.

10.6 Advertising Materials. Provide samples of certain advertising and promotional materials and information developed by Franchisor from time to time for use by Franchisee in marketing and conducting local advertising for the Franchised Business.

10.7 Lists of Supplies/Suppliers. Make available from time to time, and amend as deemed appropriate by Franchisor, a list of required and/or recommended products and services for System franchisees and a list of approved and/or recommended suppliers of such items as provided in the Manual and other written directives, standards and specifications. Franchisee acknowledges that Franchisor or Franchisor's affiliate(s) may be the sole approved supplier(s) of certain products and services that Franchisee is required to purchase to operate the Franchised Business.

10.8 Standards for Sexually Oriented Materials. Franchisor shall make available from time to time, and amend as deemed appropriate, written standards and specifications for visually explicit materials

and sexually oriented materials, including but not limited to approved and rejected materials, as specified in the Manual and other written directives, in accordance with System standards.

10.9 Training. The training programs specified in Article 7 herein.

10.10 On-Site Assistance. On-site post-opening assistance at the Franchised Business location in accordance with the provisions of Article 7.

10.11 Brand Fund. Administer a Brand Fund in accordance with Section 13.3.

## **11. FRANCHISEE'S REPRESENTATIONS, WARRANTIES AND COVENANTS**

11.1 Best Efforts. Franchisee, including each Principal covenants and agrees that he or she shall make all commercially reasonable efforts to operate the Franchised Business so as to achieve optimum sales.

11.2 Corporate Representations. If Franchisee is a corporation, partnership, limited liability company, or other legal entity, Franchisee and each Principal represent, warrant and covenant that:

11.2.1 Franchisee is duly organized and validly existing under the state law of its formation;

11.2.2 Attachment 5 of this Agreement accurately reflects all individuals with an ownership interest, whether direct or beneficial, in the Franchisee entity;

11.2.3 The Franchisee entity is duly qualified and is authorized to do business in the jurisdiction of the Franchised Business premises and the Territory;

11.2.4 The Franchisee entity's organizational documents shall at all times provide that the activities of Franchisee are confined exclusively to the operation of the Franchise granted herein, unless otherwise consented to in writing by Franchisor, which consent may be withheld by Franchisor in Franchisor's sole discretion;

11.2.5 The execution of this Agreement and the consummation of the transactions contemplated hereby are within Franchisee's power and have been duly authorized by Franchisee; and

11.2.6 Any financial statements and tax returns provided to Franchisor shall be certified as true, complete and correct and shall have been prepared in conformity with generally accepted accounting principles applicable to the respective periods involved and, except as expressly described in the applicable notes, applied on a consistent basis. No material liabilities, adverse claims, commitments or obligations of any nature exist as of the date of the statements or returns, whether accrued, unliquidated, absolute, contingent or otherwise, that are not reflected as liabilities.

11.3 Spouse Guaranty. If any Principal is a married individual and the Principal's spouse has not executed this Agreement, such Principal shall cause his or her spouse to personally execute and bind himself or herself to the terms of a Guaranty, in the form attached as Attachment 6 hereof.

11.4 Appointment of General Manager.

11.4.1 Franchisee shall designate and retain at all times a general manager (“General Manager”) to direct the operation and management of the Franchised Business outlet. Franchisee shall designate its General Manager prior to attending the Initial Training Program. The General Manager shall be responsible for the daily operation of the Franchised Business outlet. Unless otherwise permitted by Franchisor, the General Manager shall be Franchisee, if Franchisee is an individual, or a Principal.

11.4.2 The General Manager shall, during the entire period he or she serves as General Manager, meet the following qualifications:

11.4.2.1 meet Franchisor’s standards and criteria for such individual, as set forth in the Manual or otherwise in writing by Franchisor and shall be an individual otherwise acceptable to Franchisor in its sole discretion.

11.4.2.2 devote his or her full time and best efforts to the supervision and management of the Franchised Business and may not engage in any other business activity without the Franchisor’s consent, which may be withheld in Franchisor’s sole discretion.

11.4.2.3 satisfy the training requirements set forth in Article 7.

11.4.3 If the General Manager is not able to continue to serve in such capacity, or no longer qualifies to act as such in accordance with this Agreement, Franchisee shall promptly notify Franchisor and designate a replacement within thirty (30) days after the General Manager ceases to serve, such replacement being subject to the same qualifications required by this Agreement (including, but not limited to, completing all training and obtaining all certifications required by Franchisor). Until such replacement is designated, Franchisee shall provide interim management of the Franchised Business, who shall act in accordance with the terms of this Agreement.

Any failure to comply with the requirements of this Section shall be deemed a material event of default under this Agreement. Franchisor, in its sole discretion, may provide interim management at Franchisor’s then-current interim management support fee, plus any and all costs of travel, lodging, meals and other expenses reasonably incurred by Franchisor, and shall be withdrawn from Franchisee’s designated bank account in accordance with Section 6.1.4.

11.5 Legal Compliance. Franchisee shall comply with all federal, state, and local laws, rules and regulations and shall timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the Franchised Business. Such laws, rules and regulations shall include, without limitation, licenses to do business, health and sanitation inspections, if and when required; fictitious name registrations; sales and other tax permits; reporting and payment of all taxes; fire and police department clearances; Americans With Disability Act compliance; compliance with all federal, state or local data privacy laws, rules, and regulations; certificates of occupancy; any permits, certificates or licenses required by any environmental federal, state or local law, rule or regulation, and compliance otherwise with all environmental laws, rules, and regulations; and any other requirement, rule, law or regulation applicable to Franchisee or in the jurisdiction of the Territory . Franchisee shall further comply with all industry best practices with respect to like businesses in the Territory.

11.6 Claims and Potential Claims. Franchisee shall notify Franchisor in writing within three (3) days of any incident or injury that could lead to, or the actual commencement of any action, suit or proceeding and of the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality, which in any way relating to or affecting the operation or financial condition of the Franchised Business. Any and all media inquiries concerning the Franchised Business or Franchised Business location, including, but not limited to, the business operation and incidents and occurrences related

to a customer or employee, shall be referred to Franchisor. Neither Franchisee, Franchisee's employees nor anyone on Franchisee's behalf may comment to any broadcast medium, except as directed by Franchisor.

11.7 Assignment of Numbers and Listings. Franchisee shall execute such forms and documents, including the Internet Advertising, Social Media, Software, and Telephone Listing Agreement contained in Attachment 7 hereof, to appoint Franchisor its true and lawful attorney-in-fact, with full power and authority, for the sole purpose of assigning to Franchisor, Franchisee's telephone numbers and listings, and provide Franchisor with passwords and administrator rights for all email, software, social media or other such accounts used or created by Franchisee in order to operate the Franchised Business. Upon the expiration or termination of this Agreement, Franchisor may exercise its authority, pursuant to such documents, to obtain any and all of Franchisee's rights to the telephone numbers of the Franchised Business and all related telephone directory listings and other business listings, and all internet listings, domain names, internet advertising, websites, listings with search engines, electronic mail addresses, social media, or any other similar listing or usages related to the Franchised Business.

11.9 Security Agreement. To secure payment of all sums owing to Franchisor from Franchisee, whether they be Royalty Fees, Brand Fund Contributions, and/or other fees, costs, damages, or reimbursements pursuant to this Agreement or any other agreement between Franchisor and Franchisee and/or Principal(s), Franchisee grants Franchisor a security interest in the Collateral (as hereafter defined) and further agrees:

11.9.1 The Collateral means all furniture, fixtures, equipment, signage, inventory, and supplies of the Franchised Business, wherever located, that are now owned or hereafter acquired, and any additions, substitutions, replacements, or products thereof or proceeds therefor.

11.9.2 This Agreement shall be deemed a security agreement, and Franchisor, in Franchisor's discretion, may file with applicable state agencies or offices this Agreement and/or one or more financing statements indicating Franchisor's secured interest in the Collateral. Franchisee shall cooperate with Franchisor and shall execute such documents as may be necessary for Franchisor to perfect its security interests.

11.9.3 Upon a default of this Agreement by Franchisee, all sums owing to Franchisor from Franchisee shall be immediately due and payable, and Franchisor shall have the immediate right to possession and use of the Collateral, which includes Franchisor right to enter upon any premises, without legal process, where the Collateral may be found. Franchisor further shall have all rights, options, duties, and remedies of a secured party pursuant to the Uniform Commercial Code, as adopted by the State where the Collateral is located, including the right to dispose of the Collateral in accordance therewith.

11.9.4 Franchisor's exercise of its rights with regard to the Collateral are in addition to and not exclusive of any other rights or remedies that Franchisor may have pursuant to this Agreement, at law, or in equity for Franchisee's breach of this Agreement.

11.10 Continuing Obligations. Franchisee and each Principal acknowledge and agree that the representations, warranties, and covenants set forth in this Article 11 are continuing obligations of Franchisee and each Principal, as applicable, and that any failure to comply with such representations, warranties and covenants shall constitute a material event of default under this Agreement. Franchisee and each Principal shall cooperate with Franchisor in any efforts made by Franchisor to verify compliance with such representations, warranties, and covenants.

## **12. FRANCHISEE'S OPERATIONS**

12.1 **Operation of Franchised Business Location.** In order to maintain the highest degree of quality and service on a uniform System-wide basis, Franchisee shall operate the Franchised Business in conformity with the methods, standards and specifications prescribed by Franchisor. Franchisee agrees to comply with the Manual, as it is modified from time to time, and all directives, rules and procedures specified by Franchisor, and will, among other things:

12.1.1 Use only those furnishings, fixtures, décor, equipment, supplies, and signage that conform with Franchisor's specifications and/or which shall be purchased from only those vendors designated and approved by Franchisor. Franchisee acknowledges and agrees that: (i) Franchisor and/or Franchisor's affiliate may be a designated supplier or sole approved supplier of any product or service that Franchisee is required to lease or purchase, (ii) Franchisor and/or Franchisor's affiliate may receive payment from supplier(s) related to Franchisee's required purchases or leases, and (iii) any payments so received are for Franchisor's benefit only and may be used or applied in any manner determined by Franchisor in Franchisor's sole and absolute discretion;

12.1.2 Maintain and operate the Franchised Business location in attractive condition and good repair, using Franchisee's best efforts to maintain a clean, enjoyable and inviting atmosphere therein in accordance with System standards, the Manual and all other directives and requirements of Franchisor, and do such redecoration, repairing, refurbishing and restoration as from time to time may be reasonably required to meet System standards and Franchisor's requirements as they may be modified from time to time.

12.1.3 Procure and hold all necessary licenses or permits to allow the operation of a sexually mature themed business, including but not limited to, all licenses required for the sale of sexually mature themed products, and otherwise comply with all applicable governmental laws, ordinances, rules and regulations including those related to health, safety and sanitation.

12.1.4 Maintain sufficient inventories of merchandise and supplies, as prescribed by Franchisor.

12.1.5 Conduct sales in accordance with Franchisor's standards and specifications, as set forth in the Manual and other directives of Franchisor. Franchisee acknowledges and accepts that, unless expressly permitted in writing by Franchisor, Franchisee may only engage in providing approved merchandise products and in accordance with Section 10.7 and 10.8. Franchisee is expressly prohibited from selling products outside of the Franchised Business outlet, on the internet, to dealers and/or distributors for subsequent re-sale, and engaging in such sales shall be a material default of this Agreement;

12.1.6 Employ only engaging, outgoing and qualified individuals who are trained in accordance with Franchisor's standards, including but not limited to the protection of Franchisor's confidential and proprietary information. Franchisee and its employees will at all times enhance Franchisor's brand and conduct themselves in a competent and courteous manner in accordance with this Agreement and the image and reputation of the System. Franchisee shall use its best efforts to ensure that Franchisee's employees maintain a neat and clean appearance and render competent and courteous service to patrons of the Franchised Business. Franchisee acknowledges and agrees that poorly trained employees, sloppy or unclean appearances and incompetent or discourteous service are extremely damaging to the goodwill of the System and the Marks and are a material default of this Agreement;

12.1.7 Permit Franchisor or its agents, to inspect the Franchised Business location and any services, products or equipment, to determine whether they meet Franchisor's then-current standards, specifications and requirements. In addition to any other remedies Franchisor may have, Franchisee shall

reimburse Franchisor for Franchisor's inspection costs with respect to any item that does not conform to the System standards and specifications;

12.1.8 Prominently display signs in and upon the Franchised Business location using the Marks and/or other advertising and/or signs of such nature, form, color, number, location and size, and containing such material, as Franchisor may from time to time reasonably direct or approve in writing; and to not display in or upon the Franchised Business location or elsewhere any sign or advertising media or interior décor of any kind to which Franchisor reasonably objects, including signs and advertising media or interior décor which have not been approved by Franchisor, or which have been improperly made or are outdated. Upon giving Franchisee notice of its objection to same or upon termination hereof, Franchisor may at any time enter upon the Franchised Business location or elsewhere and remove any objectionable or non-approved signs or advertising media and keep or destroy same without paying therefor or without being deemed guilty of trespass or any other tort;

12.1.9 Conduct all advertising programs in a manner consistent with Franchisor's standards and specifications, in a manner satisfactory to Franchisor and that will not detract from the reputation of the System or the Marks;

## 12.2 Bookkeeping and Reports.

12.2.1 Franchisee agrees to keep and maintain complete and accurate books and records of its transactions and business operations using the accounting procedures and chart of accounts specified by Franchisor. Franchisee agrees to purchase the computer systems specified, software, and online services specified in Section 12.3 to maintain the records and accounts of the Franchisee to the standards of the Franchisor, and which allow Franchisor electronic access to such records and accounts in accordance with Section 12.3.2. Franchisee acknowledges and agrees that the financial data of Franchisee's Franchised Business (i) is owned by Franchisor, (ii) is Franchisor's proprietary information, (iii) may be published in franchise disclosure document(s) issued by Franchisor following the Effective Date hereof, and (iv) may be shared with other franchisees in the System .

12.2.2 Within thirty (30) days after the close of each calendar quarter and within ninety (90) days after the close of each fiscal year, Franchisee will furnish Franchisor a full and complete written statement of income and expense and a profit and loss statement for the operation of the Franchised Business during said period, together with a balance sheet for the Franchised Business, all of which shall be prepared in accordance with generally accepted accounting principles and practice and Franchisor's standard chart of accounts. Franchisee's annual statements and balance sheets shall be prepared by an independent certified public accountant and certified to be correct.

12.2.3 The financial statements required hereunder shall be in such form and contain such information as Franchisor may from time to time reasonably designate.

12.2.4 Franchisor reserves the right to require Franchisee to engage the services of a third-party accounting services firm, designated and approved by Franchisor, in the event that (i) Franchisee fails to keep books and records in accordance with Franchisor's standards or (ii) Franchisor, in its sole discretion, determines that use of a third-party accounting services firm by all System franchisees is beneficial to the System.

12.2.5 Franchisor shall have the right at all reasonable times to examine, at its expense, Franchisee's books, records, and tax returns. If Franchisor's examination finds an understatement of any Gross Sales Report, Franchisee shall pay Franchisor the amounts due together with interest thereon at the rate provided herein, and if understated by two percent (2%) or more, Franchisee shall reimburse Franchisor for the

cost of such examination. Such understatement may be considered a material default hereunder. Two (2) such understatements during the term of this Agreement may, at the option of Franchisor, be considered an incurable default and thereby subject to termination as provided herein.

### 12.3 Computer Systems.

12.3.1 Franchisee, at Franchisee's sole expense, shall install and maintain the POS System, computer hardware and software and web-based applications Franchisor requires for the operation of the Franchised Business and shall follow the procedures related thereto that Franchisor specifies in the Manual or otherwise in writing.

12.3.2 Franchisee, at Franchisee's sole expense, shall install and maintain systems, software and web-based payment processing accounts that permit Franchisor to independently and electronically access and retrieve any information stored in Franchisee's POS System, other computer systems and web-based payment processing and bookkeeping accounts, including, without limitation, information concerning Gross Sales. Upon Franchisor's request, Franchisee shall execute such documents as Franchisor may deem necessary to permit Franchisor to independently and electronically access and retrieve all information stored on Franchisee's POS System, other computer systems and web-based payment processing and bookkeeping accounts.

12.3.3 Franchisee may capture customer data only in strict accordance with Franchisor's specifications and only using those technologies and processes that are approved by Franchisor. Any and all customer data collected or provided by Franchisee, retrieved from Franchisee's POS System, or otherwise collected from Franchisee by Franchisor or provided to Franchisor, is and will be owned exclusively by Franchisor and will be considered to be Franchisor's proprietary and Confidential Information. Franchisor has the right to use such data in any manner without compensation to Franchisee. Franchisor licenses to Franchisee the use of such data solely for the purpose of operating the Franchised Business; provided that, this license shall automatically and irrevocably terminate, without any additional action or notice required by Franchisor, upon the expiration or earlier termination of this Agreement .

12.3.4 Franchisor may require Franchisee, at Franchisee's sole expense, to enter into software license agreements in the form that Franchisor requires for software Franchisor develops or acquires for use in the System, or for security purposes to protect the operation and integrity of Franchisor's systems.

12.3.5 Franchisee shall have and maintain adequate hardware and software in order to access the internet at the speed required by Franchisor from time to time. Franchisee shall utilize the electronic mail account provided by Franchisor. Franchisee shall promptly read and respond to all electronic mail related to the Franchised Business no less often than on a daily basis and shall accept and acknowledge receipt of all electronic mail sent by Franchisor. Franchisee shall not establish any website or other listing on the internet except as provided and specifically permitted herein.

12.3.6 Franchisor has established a website that provides information about the System and the products and services offered by the Adam & Eve System (the "Website"). Franchisor has sole discretion and control over the Website. Franchisor shall include a listing on its Website with Franchisee's Franchised Business location. Franchisee has no ownership or other proprietary rights to Franchisor's website and Franchisee will lose all rights to such listing of Franchisee's location upon expiration or termination of this Agreement for any reason.

12.3.7 In addition to the requirements of Section 6.4, Franchisee shall pay all fees, whether to Franchisor or to third party vendor(s), and expenses for technology required by this Agreement

for operation of the Franchised Business, including but not limited to, the costs of computer hardware and software and applications, installation costs and regularly recurring fees for software, internet access, license fees, help desk fees, and licensing or user-based fees.

12.3.8 Franchisee shall abide by Franchisor's data privacy policies. Nonetheless, Franchisee is solely responsible for maintaining the security and integrity of the computer and payment processing systems used in the Franchised Business and the customer and other data stored therein. Franchisee, at Franchisee's sole cost and expense, shall implement all computer hardware, software, and Internet security procedures, including required updates or upgrades thereto, that are reasonably necessary to protect Franchisee's computer and payment processing systems and the data stored therein from viruses, malware, privacy breaches or other unauthorized access.

12.4 Safety and Security of Premises. Franchisee is solely responsible for the safety and security of the Franchised Business premises for Franchisee, Franchisee's personnel, agents, customers, and the general public. Any suggestions by Franchisor on such matters are for guidance only and not binding on Franchisee. All matters of safety and security are within Franchisee's discretion and control, and Franchisee's indemnification obligations set forth in Section 15.6 hereof shall apply to any claims made against Franchisor regarding safety or security .

12.5 Prices. Subject to applicable law, Franchisor may set advertised and/or maximum prices for System services and products. Franchisee shall have the right to provide services and sell products at any price through promotional discounts. Franchisee acknowledges that Franchisor has made no guarantee or warranty that offering services or products at any particular price will enhance Franchisee's sales or profits.

12.6 Unapproved Item/Suppliers. If Franchisee desires to purchase, lease or use any unapproved equipment, product, or service or to purchase, lease or use any equipment, product or service from an unapproved supplier, Franchisee shall submit to Franchisor a written request for such approval prior to using such product, service or supplier or availing such product, service or supplier at the Franchised Business location. Franchisee shall not purchase or lease any item or use any supplier until and unless such item or supplier has been approved in writing by Franchisor. Franchisor shall have the right to require that its representatives be permitted to inspect the supplier's facilities and to test or otherwise evaluate samples from the supplier. Franchisor reserves the right to charge its then-current fee to Franchisee for such inspection and testing. Franchisor shall notify Franchisee whether Franchisor approves or disapproves of the proposed item or supplier within sixty (60) days after Franchisor receives all required information to evaluate the product, service or supplier. If Franchisor fails to respond to Franchisee's submission within said sixty (60) days, such item or supplier shall be deemed "disapproved." Franchisor reserves the right, at its option, to re-inspect from time to time the facilities and products of any such approved supplier and to revoke its approval upon the supplier's failure to continue to meet any of Franchisor's then-current criteria. Nothing in the foregoing shall be construed to require Franchisor to approve any particular item or supplier.

12.7 External Quality Assurance Services. Franchisor reserves the right to establish quality assurance programs conducted by third-party providers, including, but not limited to, mystery shop programs and periodic quality assurance audits ("Quality Review Services"). Upon Franchisor's request and at Franchisee's sole cost and expense, Franchisee shall subscribe to any such third-party provider for Quality Review Services to monitor the operations of the Franchised Business as directed by Franchisor.

12.9 Variations in Standards. Notwithstanding anything to the contrary contained in this Agreement and this Section 12 in particular, Franchisee acknowledges and agrees that because complete and detailed uniformity under many varying conditions may not be possible or practical, Franchisor

specifically reserves the right and privilege, at its sole discretion and as it may deem in the best interests of all concerned in any specific instance, to vary performance standards for some franchisees based upon the peculiarities and characteristics of the particular site or circumstance, business potential, existing business practices or any other condition which Franchisor deems to be of importance to the successful operation of such particular franchise business. Franchisor has full rights to vary standard specifications and practices for any other franchisee at any time without giving Franchisee comparable rights. Franchisee shall not be entitled to require Franchisor to disclose or grant to Franchisee a like or similar variation.

### **13. ADVERTISING, PROMOTIONS AND RELATED FEES**

13.1 Advertising Programs. Franchisor, or its designee, may from time to time develop and administer advertising and sales promotion programs designed to promote and enhance the collective success of all Franchised Businesses operating under the System. Franchisee, at Franchisee's sole cost and expense, shall participate in all such advertising and sales promotion programs in accordance with the terms and conditions established by Franchisor, or its designee, from time to time for each program. In all aspects of these programs, including, without limitation, the type, quantity, timing, placement and choice of media, market areas and advertising agencies, the standards and specifications established by Franchisor, as modified from time to time, shall be final and binding upon Franchisee.

#### 13.2 Local Advertising.

13.2.1 In addition to the ongoing advertising contributions set forth herein, and following the expenditures set forth in Section 13.2.3 below, Franchisee shall spend monthly, throughout the term of this Agreement, not less than five percent (5%) of Net Sales generated by the Franchised Business per month on advertising for the Franchised Business in the Territory ("Local Advertising"). Franchisor may require Franchisee to allocate to a regional advertising cooperative, as described in Section 13.4, up to one-half of Franchisee's required Local Advertising expenditures. Such allocation will be in partial or full satisfaction of Franchisee's obligations pursuant to this Section 13.2.1.

13.2.2 Within ten (10) business days of Franchisor's request, Franchisee shall provide a quarterly expenditure report accurately reflecting Franchisee's expenditures in the Territory for the preceding quarterly period. The following costs and expenditures incurred by Franchisee shall *not* be included in Franchisee's expenditures on Local Advertising for purposes of this Section, unless approved in advance by Franchisor in writing: (i) incentive programs for employees or agents of Franchisee; (ii) research expenditures; (iii) salaries and expenses of any of Franchisee's personnel to attend advertising meetings, workshops or other marketing activities; (iv) charitable, political or other contributions or donations.

13.2.3 In addition to the requirements of Section 13.2.1, during the thirty (30) days prior to and six (6) months following the opening of the Franchised Business, Franchisee shall conduct a grand opening marketing campaign in the Territory in which Franchisee must spend at between Six Thousand Dollars (\$6,000.00) and Twelve Thousand Dollars (\$12,000.00) on marketing, promotion, and awareness-generating activities. Franchisee shall conduct Franchisee's grand opening campaign in accordance with plans approved by Franchisor.

#### 13.3 Brand Fund.

13.3.1 Franchisor reserves the right to established a national fund on behalf of the System for national advertising, marketing, and brand development (the "Brand Fund"). Franchisee is required to contribute an amount equal to one and one-half percent (1.5%) of the Net Sales generated monthly by Franchisee's Franchised Business to the Brand Fund ("Brand Fund Contribution"). Franchisor reserves the right, in Franchisor's sole discretion and at any time and from time to time, to increase the amount of the

Brand Fund Contribution to any amount not to exceed to two percent (2%) of the Net Sales. Payments will be made in the same manner and time as the Royalty Fees. If Franchisee fails to timely report Gross Sales, then, in addition to a late fee and interest pursuant to Sections 6.2 and 6.3 hereof, Franchisor shall collect one hundred twenty percent (120%) of the last Brand Fund Contribution payable. Franchisor shall reconcile amounts when Gross Sales are reported.

13.3.2 Franchisor shall direct the Brand Fund and shall have sole discretion to approve or disapprove the creative concepts, materials and media used in such programs and the placement and allocation thereof. Franchisee agrees and acknowledges that the Brand Fund is intended to maximize general public recognition and acceptance of the Marks and enhance the collective success of all Franchised Businesses operating under the System.

13.3.3 Franchisor may, but has no obligation to, contribute to the Brand Fund on the same basis as Franchisee with respect to Adam & Eve outlets operated by Franchisor or Franchisor's affiliates.

13.3.4 Franchisor may use the Brand Fund to satisfy any and all costs of developing, preparing, producing, directing, administering, conducting, maintaining and disseminating advertising, marketing, promotional and public relations materials, programs, campaigns, sales and marketing seminars and training programs of every kind and nature, through media now existing or hereafter developed (including, without limitation, the cost of television, radio, magazine, social media, newspaper and electronic advertising campaigns; direct mail and outdoor billboard advertising; public relations activities; conducting marketing research, employing advertising agencies to assist therein; developing, enhancing and maintaining the Website; and staff salaries and other personnel and departmental costs for advertising that Franchisor internally administers or prepares). While Franchisor does not intend that any part of the Brand Fund will be used for advertising which is principally a solicitation for franchisees, Franchisor reserves the right to use the Brand Fund for public relations, to explain the franchise system, and/or to include a notation in any advertisement indicating "Franchises Available."

13.3.5 The Brand Fund will not be used to defray any of Franchisor's general operating expenses, except for reasonable administrative costs and overhead that Franchisor may incur in activities related to the administration and direction of the Brand Fund and such costs and expenses pursuant Section 13.3.4. The Brand Fund and its earnings shall not otherwise inure to Franchisor's benefit except that any resulting technology and intellectual property shall be deemed the property of Franchisor.

13.3.6 Franchisor will prepare an unaudited annual statement of the Brand Fund's operations and will make it available to Franchisee upon request. In administering the Brand Fund, Franchisor undertakes no obligation to make expenditures for Franchisee that are equivalent or proportionate to Franchisee's contribution or to ensure that any particular franchisee benefits directly or pro rata from the production or placement of advertising.

13.3.7 Although the Brand Fund is intended to be of perpetual duration, Franchisor may terminate it at any time and for any reason or no reason. Franchisor will not terminate the Brand Fund, however, until all monies in the Brand Fund have been spent for advertising or promotional purposes or returned to contributors, without interest, on the basis of their respective contributions.

13.4 Regional Advertising Cooperative. Franchisor reserves the right to establish, in Franchisor's sole discretion, a regional advertising cooperative. If a regional cooperative is established during the term of this Agreement, Franchisee agrees to sign all documents Franchisor requests to become a member of the cooperative according to the terms of the documents. . If Franchisor establishes a regional cooperative, Franchisee agrees to contribute amounts equal to Franchisee's share of the total cost of cooperative advertising, in addition to required Brand Fund Contributions.

13.5 Directory Listings. Franchisee shall not establish listings on the internet, including, but not limited to, listings on internet search engines, without Franchisor's prior written consent.

At Franchisee's sole cost and expense, Franchisee must list the Franchised Business in local business directories, including, but not limited to, listings on internet search engines. If feasible, and with Franchisor's prior written approval, Franchisee may do cooperative listings with other System franchisees.

Notwithstanding the foregoing, Franchisee may not maintain any business profile on Facebook, Instagram, Facebook, Instagram, X (Twitter), Bluesky, LinkedIn, YouTube, Threads, Tik Tok, Snapchat, blogs or any other social media and/or networking site without Franchisor's prior written approval and use of any social media accounts shall be in strict accordance with Franchisor's requirements. Franchisee shall provide Franchisor with all passwords and administrative rights to any and all social media accounts for the Franchised Business, and Franchisee hereby appoints Franchisor its true and lawful agent and attorney-in-fact with full power and authority, for the sole purpose of taking whatever action as is necessary for the best interest of the System, if Franchisee fails to maintain such accounts in accordance with Franchisor's standards.

13.6 Approval of Advertising. All advertising and promotion by Franchisee, in any medium, shall be conducted in a professional manner and shall conform to the standards and requirements of Franchisor as set forth in the Manual or otherwise. Franchisee shall submit to Franchisor for its approval samples of all advertising, press releases, promotional plans and materials and public relations programs that Franchisee desires to use, including, without limitation, any materials in digital, electronic or computerized form, or in any form of media now or hereafter developed that have not been either provided or previously approved by Franchisor. Franchisor shall approve or disapprove such plans and materials within ten (10) business days of Franchisor's receipt thereof. If Franchisor fails to respond to Franchisee's submission within ten (10) business days, such plans and materials shall be deemed "disapproved". Franchisee shall not use such unapproved plans or materials until they have been approved by Franchisor in writing and shall promptly discontinue use of any advertising or promotional plans or materials, whether or not previously approved, upon notice from Franchisor. Any advertising, marketing or sales concepts, programs or materials proposed or developed by Franchisee for the Adam & Eve brand and approved by Franchisor may be used by other System franchisees without any compensation to Franchisee.

13.7 Internet Based Sales. Franchisor reserves the right to establish an internet based program for the sale and fulfillment of merchandise from the Franchised Business. Franchisees shall only use the e-commerce technology designated by Franchisor. Franchisor has the right to change the manner in which internet based sales are made, including upgrades, alterations or its discontinuance. Franchisee shall pay any fees in connection with participation in the internet based sales program to Franchisor, its affiliates, designee or suppliers, and to comply with all registration, rules and procedures applicable to such program(s). Franchisee's failure to adhere to these standards could result in termination of this Agreement.

## **14. INTELLECTUAL PROPERTY**

### **14.1 Ownership.**

14.1.1 Franchisee expressly understands and acknowledges that Franchisor and/or Franchisor's affiliate(s) are the record owner of the Marks. Franchisor holds the exclusive right to license the Marks to franchisees of the System for use pursuant to the System. Franchisee further expressly understands and acknowledges that Franchisor and/or Franchisor's affiliate(s) claim copyrights on certain material used in the System, including but not limited to its website, documents, advertisements, promotional materials, photographs, social media content and the Manual, whether or not Franchisor and/or

Franchisor's affiliate(s) have filed for copyrights thereto with the U.S. Copyright Office. The Marks and copyrights, along with Franchisor's trade secrets, service marks, trade dress and proprietary systems are hereafter collectively referred to as the "Intellectual Property".

14.1.2 As between Franchisor and Franchisee, Franchisor and/or Franchisor's affiliate(s) are the owner of all right, title and interest in and to the Intellectual Property and the goodwill associated with and symbolized by them.

14.2 No Interference. Neither Franchisee nor any Principal shall take any action that would prejudice or interfere with the validity of Franchisor's and/or Franchisor's affiliate(s)'s rights with respect to the Intellectual Property. Nothing in this Agreement shall give the Franchisee any right, title, or interest in or to any of the Intellectual Property or any of Franchisor's and/or Franchisor's affiliate(s)'s service marks, trademarks, trade names, trade dress, logos, copyrights or proprietary materials, except the right to use the Intellectual Property and the System in accordance with the terms and conditions of this Agreement for the operation of a Franchised Business and only at or from the Franchised Business location or in approved advertising related to the Franchised Business.

14.3 Goodwill. Franchisee understands and agrees that any and all goodwill arising from Franchisee's use of the Intellectual Property and the System shall inure solely and exclusively to the benefit of Franchisor and/or Franchisor's affiliate(s), and upon expiration or termination of this Agreement and the license herein granted, no monetary amount shall be assigned as attributable to any goodwill associated with Franchisee's use of the Intellectual Property.

14.4 Validity. Franchisee shall not contest the validity of, or Franchisor's and/or Franchisor's affiliate(s)'s interest in, the Intellectual Property or assist others to contest the validity of, or Franchisor's and/or Franchisor's affiliate(s)'s interest in, the Intellectual Property.

14.5 Infringement. Franchisee acknowledges that any unauthorized use of the Intellectual Property shall constitute an infringement of Franchisor's and/or Franchisor's affiliate(s)'s rights in the Intellectual Property and a material event of default hereunder. Franchisee shall provide Franchisor and/or Franchisor's affiliate(s) with all assignments, affidavits, documents, information and assistance Franchisor and/or Franchisor's affiliate(s) reasonably request to fully vest in Franchisor and/or Franchisor's affiliate(s) all such rights, title and interest in and to the Intellectual Property, including all such items as are reasonably requested by Franchisor and/or Franchisor's affiliate(s) to register, maintain and enforce such rights in the Intellectual Property.

14.6 Substitution. Franchisor reserves the right to substitute different Marks for use in identifying the System and the Franchised Business, if it in its sole discretion, determines that substitution of different Marks will be beneficial to the System. Franchisor will not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any additions, modifications, substitutions or discontinuation of the Marks. Franchisee covenants not to commence or join in any litigation or other proceeding against Franchisor for any of these expenses, losses or damages.

14.7 Franchisee's Use of the Intellectual Property. With respect to Franchisee's use of the Intellectual Property pursuant to this Agreement, Franchisee further agrees that:

14.7.1 Unless otherwise authorized or required by Franchisor, Franchisee shall advertise the Franchised Business only under the Marks "Adam & Eve" and design. Franchisee shall not use the Marks, or any portions, variations, or derivatives thereof, as part of its corporate or other legal name. All fictitious names used by Franchisee shall bear the designation "a franchisee of AEFC, Inc.".

14.7.2 Franchisee shall identify itself as the owner of the Franchised Business and as an independent Adam & Eve franchisee in conjunction with any use of the Intellectual Property, including, but not limited to, uses on invoices, order forms, receipts, and contracts, as well as the display of a notice in such content and form and at such conspicuous locations on the premises of the Franchised Business as Franchisor may designate in writing.

14.7.3 Franchisee shall not use the Intellectual Property to incur any obligation or indebtedness on behalf of Franchisor.

14.7.4 Any item offered by Franchisee that contains the Marks, must be approved by Franchisor in writing prior to being distributed or sold by Franchisee and such approval may be granted or denied in Franchisor's sole and absolute discretion.

14.8 Claims. Franchisee shall notify Franchisor immediately via both email and telephone, of any apparent infringement of or challenge to Franchisee's use of any Intellectual Property and of any claim by any person of any rights in any Intellectual Property. Franchisee shall not communicate with any person other than Franchisor or any designated affiliate thereof, their counsel and Franchisee's counsel in connection with any such infringement, challenge or claim. Franchisor shall have complete discretion to take such action as it deems appropriate in connection with the foregoing, and the right to control exclusively, or to delegate control to any of its affiliates of, any settlement, litigation or other proceeding arising out of any such alleged infringement, challenge or claim or otherwise relating to any Intellectual Property. Franchisee agrees to execute any and all instruments and documents, render such assistance, and do such acts or things as may, in the opinion of Franchisor, reasonably be necessary or advisable to protect and maintain the interests of Franchisor or any other person or entity in any litigation or other proceeding or to otherwise protect and maintain the interests of Franchisor or any other interested party in the Intellectual Property. Franchisor will indemnify and defend Franchisee against and reimburse Franchisee for actual damages (including settlement amounts) for which Franchisee is held liable in any proceeding arising out of Franchisee's use of any of the Intellectual Property that infringes on the rights of any other party, provided that the conduct of Franchisee with respect to such proceeding and use of the Intellectual Property is in full compliance with the terms of this Agreement.

14.9 Franchisor may use and grant franchises and licenses to others to use the Intellectual Property and the System and to establish, develop and franchise other systems, different from the System licensed to Franchisee herein, without offering or providing Franchisee any rights in, to or under such other systems and Franchisor may modify or change, in whole or in part, any aspect of the Intellectual Property or the System, so long as Franchisee's rights thereto are in no way materially harmed thereby.

14.10 Franchisee shall not register or attempt to register the Intellectual Property in Franchisee's name or that of any other person, firm, entity or corporation.

## **15. INSURANCE AND INDEMNIFICATION**

15.1 Procurement. Franchisee shall procure, prior to the commencement of any operations under this Agreement, and thereafter maintain in full force and effect during the term of this Agreement at Franchisee's sole cost and expense and to Franchisor's sole satisfaction, insurance policies, which shall be primary and non-contributory to any insurance that Franchisor may carry. Franchisee's insurance shall be provided by insurance companies with an A.M. Best rating of not less than A-VII, protecting Franchisee and Franchisor, and naming Franchisor, its officers, directors, partners, owners, employees and affiliates as additional insureds as their interests may appear, in the following minimum limits (except as additional coverage and higher policy limits may reasonably be specified from time to time in the Manual or otherwise in writing):

15.1.1 personal injury, product liability, and broad form contractual liability, death, or property damage, or any loss, liability, or expense arising or occurring upon or in connection with the Franchised Business, Comprehensive general liability insurance at a minimum of \$1,000,000 coverage, property and casualty insurance, statutory workers' compensation insurance, employer's liability insurance, automotive insurance, and product liability insurance

15.2 Evidence of Insurance. Franchisee shall deliver to, and maintain at all times with Franchisor, current Certificates of Insurance evidencing the existence and continuation of the required coverages. Franchisee shall deliver the initial Certificate of Insurance no later than ten (10) days before Franchisee opens the Franchised Business. In addition, if requested by Franchisor, Franchisee shall deliver to Franchisor a copy of the insurance policy or policies required hereunder. At least thirty (30) days prior to the expiration of any policy, Franchisee shall deliver to Franchisor Certificates of Insurance evidencing the proper types and minimum amounts of coverage. All Certificates shall expressly provide that no less than thirty (30) days' prior written notice shall be given Franchisor in the event of material alteration to, or cancellation of, the coverages evidenced by such Certificates. Copies of Franchisees insurance certificates must be sent to Franchisor.

15.3 Failure to Procure. If, for any reason, Franchisee should fail to procure or maintain the insurance required by this Agreement as revised from time to time for all franchisees by the Manual or otherwise in writing, Franchisor shall have the right and authority (without, however, any obligation) to immediately procure such insurance and to charge Franchisee for the cost thereof together with an administrative fee of ten percent (10%) of the cost for Franchisor's expenses in so acting, including all attorneys' fees. Franchisee shall pay Franchisor immediately upon notice by Franchisor to Franchisee that Franchisor has undertaken such action and the cost thereof.

15.4 Increase in Coverage. The levels and types of insurance stated herein are minimum requirements. Franchisor reserves the right to raise the required minimum requirements for any type of insurance or add additional types of insurance requirements as Franchisor deems reasonably prudent to require. Within thirty (30) days of any such required new limits or types of coverage, Franchisee must submit proof to Franchisor of Franchisee's coverage pursuant to Franchisor's requirements.

15.5 Additional Insured. All required insurance policies shall name Franchisor and their affiliates and their members, officers, agents and employees as additional insureds as their interests may appear. All public liability policies shall contain a provision that the additional insureds, although named as insureds, shall nevertheless be entitled to recover under such policies on any loss caused by Franchisee or Franchisee's servants, agents or employees, and all required insurance policies shall contain a waiver of subrogation in favor of the additional insureds.

15.6 Indemnification. TO THE FULLEST EXTENT PERMITTED BY LAW, FRANCHISEE AGREES TO EXONERATE AND INDEMNIFY AND HOLD HARMLESS AEFC, INC., PHE, INC. AND ANY OF EITHER'S PARENT COMPANY, SUBSIDIARIES, DIVISIONS, AFFILIATES, SUCCESSORS, ASSIGNS AND DESIGNEES, AS WELL AS THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SHAREHOLDERS, SUCCESSORS, DESIGNEES AND REPRESENTATIVES (COLLECTIVELY REFERRED TO AS THE "FRANCHISOR PARTY INDEMNITEES"), FROM ALL CLAIMS BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATED TO THE OPERATION, CONDITION, OR ANY PART OF FRANCHISEE'S ADAM & EVE FRANCHISE, THE FRANCHISED BUSINESS, THE PRODUCTS, THE PREMISES, OR ANY ASPECT OF THE REAL ESTATE CONNECTED TO FRANCHISEE'S FRANCHISED BUSINESS, WHETHER CAUSED BY FRANCHISEE, FRANCHISEE'S AGENTS OR EMPLOYEES, OR ARISING FROM FRANCHISEE'S ADVERTISING OR BUSINESS PRACTICES. FRANCHISEE AGREES TO

PAY FOR ALL THE FRANCHISOR PARTY INDEMNITEES' LOSSES, EXPENSES (INCLUDING, BUT NOT LIMITED TO ATTORNEYS' FEES) OR CONCURRENT OR CONTRIBUTING LIABILITY INCURRED IN CONNECTION WITH ANY ACTION, SUIT, PROCEEDING, INQUIRY (REGARDLESS OF WHETHER THE SAME IS REDUCED TO JUDGMENT OR DETERMINATION), OR ANY SETTLEMENT THEREOF FOR THE INDEMNIFICATION GRANTED BY FRANCHISEE HEREUNDER. THE FRANCHISOR PARTY INDEMNITEES SHALL HAVE THE RIGHT TO SELECT AND APPOINT INDEPENDENT COUNSEL TO REPRESENT ANY OF THE FRANCHISOR PARTY INDEMNITEES IN ANY ACTION OR PROCEEDING COVERED BY THIS INDEMNITY. FRANCHISEE AGREES THAT TO HOLD THE FRANCHISOR PARTY INDEMNITEES HARMLESS, FRANCHISEE WILL REIMBURSE THE FRANCHISOR PARTY INDEMNITEES AS THE COSTS AND EXPENSES ARE INCURRED BY THE FRANCHISOR PARTY INDEMNITEES.

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## **16. TRANSFERS**

### **16.1 Transfers by Franchisor.**

16.1.1 Franchisor shall have the right to assign this Agreement, and all of Franchisor's rights and privileges hereunder, to any person, firm, corporation or other entity, without Franchisee's permission or prior knowledge, provided that, with respect to any assignment resulting in the subsequent performance by the assignee of Franchisor's obligations, the assignee shall expressly assume and agree to perform Franchisor's obligations hereunder. Specifically, and without limitation to the foregoing, Franchisee expressly affirms and agrees that Franchisor may: (i) sell Franchisor's assets and Franchisor's rights to the Marks and the System outright to a third party; (ii) engage in a public or private placement of some or all of Franchisor's securities; (iii) merge, acquire other corporations, or be acquired by another corporation, including competitors; (iv) undertake a refinancing, recapitalization, leveraged buy-out or other economic or financial restructuring; and (v) with regard to any or all of the above sales, assignments and dispositions, Franchisee expressly and specifically waives any claims, demands or damages arising from or relating to the loss of association with or identification of Franchisor. Nothing contained in this Agreement shall require Franchisor to remain in the business franchised herein or to offer the same products and services, whether or not bearing the Marks, in the event that Franchisor exercises its prerogative hereunder to assign Franchisor's rights in this Agreement.

16.1.2 Franchisee agrees that Franchisor has the right, now or in the future, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of that chain's or business' facilities, and to operate, franchise or license those businesses and/or facilities operating under the Marks or any other marks following Franchisor's purchase, merger, acquisition or affiliation, regardless of the location of the facilities (which Franchisee acknowledges may be within the Territory, proximate thereto, or proximate to any of Franchisee's locations). However, Franchisor represents that it will not convert any such acquired facilities that are operating within the Territory to an Adam & Eve franchise outlet during the Term of this Agreement.

16.1.3 If Franchisor assigns its rights in this Agreement, nothing herein shall be deemed to require Franchisor to remain in the sexually mature themed business or to offer or sell any products or services to Franchisee.

16.2 Restrictions on Transfers by Franchisee. Franchisee's rights and duties under this Agreement are personal to Franchisee as it is organized and with the Principals of the business as they exist on the date of execution of this Agreement, and Franchisor has made this Agreement with Franchisee in reliance on Franchisor's perceptions of the individual and collective character, skill, aptitude, attitude, business ability, and financial capacity of Franchisee. Thus, no transfer, as hereafter defined, may be made without Franchisor's prior written approval. Franchisor may void any transfer made without such approval.

16.3 Transfers by Franchisee. Franchisee shall not directly or indirectly sell, assign, transfer, give, devise, convey or encumber this Agreement or any right or interest herein or hereunder (a "Transfer"), the Franchise, the Franchised Business or any assets thereof (except in the ordinary course of business) or suffer or permit any such assignment, transfer, or encumbrance to occur by operation of law, unless it first obtains the written consent of Franchisor. A transfer of any stock in the Franchisee if it is a corporation or a transfer of any ownership rights in Franchisee if it is a partnership, a limited liability company or limited partnership shall be considered a Transfer restricted hereunder. If Franchisee has complied fully with this Agreement and subject to Franchisor's Right of First Refusal set forth in Section 16.6, Franchisor will not unreasonably withhold its consent of a Transfer that meets the following requirements:

16.3.1 The proposed transferee and all its principals must have the demeanor and be individuals of good character and otherwise meet Franchisor's then-applicable standards for franchisees.

16.3.2 The transferee must have sufficient business experience, aptitude and financial resources to operate the Franchised Business and to comply with this Agreement;

16.3.3 The transferee has agreed to complete Franchisor's initial training program to Franchisor's satisfaction;

16.3.4 Franchisee has paid all amounts owed to Franchisor and third-party creditors;

16.3.5 The transferee has executed Franchisor's then-standard form of franchise agreement, which may have terms and conditions different from this Agreement, except that the transferee shall not be required to pay the initial franchise fee;

16.3.6 Franchisee and the transferee and each of Franchisee's and the transferee's Principals shall have executed a general release, under seal, in a form satisfactory to Franchisor, of any and all claims against Franchisor and Franchisor's officers, directors, shareholders, members and employees in their corporate and individual capacities, including, without limitation, claims arising under federal, state, and local laws, rules and ordinances. Franchisee will agree to subordinate any claims Franchisee may have against the transferee to Franchisor, and indemnify Franchisor against any claims by the transferee relating to misrepresentations in the transfer process, specifically excluding those representations made by Franchisor in the Franchise Disclosure Document given to the transferee;

16.3.7 Franchisor has granted written approval of the material terms and conditions of the Transfer, including, without limitation, that the price and terms of payment will not adversely affect the Franchised Business's operation. However, Franchisor's approval of a Transfer is not in any way a representation or warranty of the transferee's success or the soundness of transferee's decision to purchase the Franchise on such terms and conditions. Franchisee shall provide Franchisor all proposed transfer documents for Franchisor's review at least thirty (30) days prior to a closing of the proposed Transfer;

16.3.8 The transferee agrees to renovate, refurbish, remodel, or replace, at the transferee's own cost, the real and personal property and equipment used in operating the Franchised Business within the timeframe specified by Franchisor in order to comply with Franchisor's then current specifications;

16.3.9 If Franchisee or any Principal finances any part of the sale price of the Transfer, Franchisee or its Principal have agreed that all obligations of the transferee under any notes, agreements or security interests to Franchisee or its Principal will be subordinate to the transferee's obligations to Franchisor; and

16.3.10 If consent is required, the lessor of the Franchised Business's premises consents to the assignment or further sublet of the premises to the transferee.

16.4 As a condition to any Transfer, Franchisee shall pay Franchisor a transfer fee equal to Ten Thousand Dollars (\$10,000.00). However, no transfer fee will be required for transfers occurring before the first anniversary of the effective date of the Franchise Agreement.

16.5 Entity Formation Documents. The By-Laws of a corporation or Operating Agreement of a limited liability company of a Franchisee that is an entity must state that (i) the issuance and assignment of any interest in Franchisee are restricted by this Article 16; (ii) Franchisee may conduct no business except the operation of a Franchised Business pursuant to the terms of this Agreement; (iii) transfers of interests in Franchisee are subject to the terms of this Agreement governing transfers; and (iv) stock or member certificates will contain a legend so indicating.

16.6 Franchisor 's Right of First Refusal.

16.6.1 If Franchisee wishes to transfer all or part of its interest in the Franchised Business or this Agreement or if a Principal wishes to transfer any ownership interest in Franchisee, pursuant to any bona fide offer to purchase such interest, then Franchisee or such Principal shall promptly notify Franchisor in writing of each such offer, and shall provide such information and documentation relating to the offer as Franchisor may require.

16.6.2 Franchisor has the right, exercisable by written notice to Franchisee within thirty (30) days after receipt of written notification and copies of all documentation required by Franchisor describing such offer, to buy the interest in this Agreement and the Franchised Business or the Principal's interest in Franchisee for the price and on the terms and conditions contained in the offer, subject to Section 16.6.3.

16.6.3 Franchisee further agrees, in the event Franchisor exercises its right of first refusal, notwithstanding anything to the contrary contained in the offer, that (i) Franchisor may substitute cash for any other form of consideration contained in the offer; (ii) at Franchisor 's option, Franchisor may pay the entire purchase price at closing; (iii) Franchisor 's credit will be deemed equal to the credit of any proposed transferee; (iv) Franchisor will have at least sixty (60) days to close the purchase; and (v) Franchisor will be entitled to receive from the Franchisee all customary representations and warranties given by a seller of the assets of a business or equity interest in an entity, as applicable.

16.6.4 If Franchisor does not exercise its right to buy within thirty (30) days, Franchisee may thereafter transfer the interest to the transferee on terms no more favorable than those disclosed to Franchisor, provided that such transfer is subject to Franchisor's prior written approval pursuant to Section 16.3 hereof. However, if (i) the sale to the transferee is not completed within one hundred twenty (120) days after the offer is given to Franchisor or (ii) there is any material change in the terms of the offer, the offer will again be subject to Franchisor's right of first refusal.

16.7 Death or Permanent Disability. The grant of rights under this Agreement is personal to Franchisee, and on the death or permanent disability of Franchisee or any of Franchisee's Principals, the

executor, administrator, conservator, or other personal representative of Franchisee or Principal, as the case may be, shall be required to transfer Franchisee's or Principal's interest in this Agreement within six (6) months from the date of death or permanent disability to a third party approved by Franchisor. Failure to transfer in accordance with the forgoing will constitute a material default and the Franchise granted by this Agreement will terminate. A transfer under this Section 16.7, including without limitation, transfer by devise or inheritance, is subject to the conditions for Transfers in this Article 16 and unless transferred by gift, devise or inheritance, subject to the terms of Section 16.6 above. For purposes of this Agreement, the term "permanent disability" means a mental or physical disability, impairment or condition that is reasonably expected to prevent or actually does prevent such person from providing continuous and material supervision of the operation of Franchisee's Franchised Business during the six (6)-month period from its onset.

Immediately after the death or permanent disability of such person, or while the Franchise is owned by an executor, administrator, guardian, personal representative or trustee of that person, the Franchised Business shall be supervised by an interim successor General Manager satisfactory to Franchisor, or Franchisor, in its sole discretion, may provide interim management at Franchisor's then-current interim management support fee, plus any and all costs of travel, lodging, meals and other expenses reasonably incurred by Franchisor, pending transfer of the Franchise to the deceased or disabled individual's lawful heirs or successors.

16.8 Effect of Consent to Transfer. Franchisor's consent to a Transfer will not waive any claims Franchisor may have against the Franchisee or any Franchisee's Principals nor waive its right to demand that the transferee comply strictly with this Agreement.

16.9 Security Interests to Lender. If Franchisee is in full compliance with this Agreement, Franchisee may pledge or give a security interest in Franchisee's interest in the Assets and the Franchised Business to a lender of the funds needed by Franchisee for Franchisee's initial investment, provided that Franchisor's rights to use or purchase the Assets as set forth in Sections 11.3.3, 16.6, 16.7, 17.4.2 and 18.2 are not impaired, that a foreclosure on such a pledge or security interest and/or any Transfer resulting from such a foreclosure shall be subject to all provisions of this Agreement, and that Franchisee obtains from the lender a written acknowledgement to Franchisor of these restrictions. Notwithstanding the foregoing, in the event Franchisee obtains financing whereby funding is provided with the assistance of the United States Small Business Administration ("SBA Financing"), Franchisee shall be permitted to grant the lender of such SBA Financing a senior lien on any Uniform Commercial Code collateral Franchisee uses to secure the SBA Financing, and Franchisor agrees to (i) subordinate its interest in any lien on Franchisee's Uniform Commercial Code collateral to that of the lender of the SBA Financing and (ii) waive the requirement of the written acknowledgment referenced in this Section.

## **17. DEFAULTS**

17.1 Default and Automatic Termination. Franchisee shall be deemed to be in material default under this Agreement, and all rights granted herein shall automatically terminate without notice to Franchisee, if Franchisee shall become insolvent or makes a general assignment for the benefit of creditors; or if Franchisee files a voluntary petition under any section or chapter of federal bankruptcy law or under any similar law or statute of the United States or any state thereof, or admits in writing its inability to pay its debts when due; or if Franchisee is adjudicated a bankrupt or insolvent in proceedings filed against Franchisee under any section or chapter of federal bankruptcy laws or under any similar law or statute of the United States or any state; or if a bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is filed and consented to by Franchisee; or if a receiver or other custodian (permanent or temporary) of Franchisee's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; or if proceedings for a composition with

creditors under any state or federal law should be instituted by or against Franchisee; or if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); or if Franchisee is dissolved; or if execution is levied against Franchisee's business or property; or if suit to foreclose any lien or mortgage against the Franchised Business premises or equipment is instituted against Franchisee and not dismissed within thirty (30) days.

17.2 Defaults with No Opportunity to Cure. Franchisee shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, without affording Franchisee any opportunity to cure the default, effective immediately upon notice to Franchisee, if Franchisee, or any Principal, as the case may be:

17.2.1 has misrepresented or omitted material facts in applying for, or in operating, the Franchise;

17.2.2 fails to acquire a site for the Franchised Business, complete construction of the Franchised Business, obtain all licenses and permits before opening, or open the Franchised Business within the time and in the manner specified in Article 8.

17.2.3 falsifies any report required to be furnished Franchisor hereunder;

17.2.4 ceases to operate the Franchised Business for a period of five (5) days or more; provided, however, that this provision shall not apply if through no fault of Franchisee, the premises are damaged or destroyed by a casualty and Franchisee applies within thirty (30) days after such event, for Franchisor's approval to relocate or reconstruct the premises (which approval shall not be unreasonably withheld) and Franchisee diligently pursues such reconstruction or relocation.

17.2.5 loses for any cause whatsoever the right of possession of the real property on which the Franchised Business is located; provided, however, that this provision shall not apply if through no fault of Franchisee, Franchisee loses right of possession and Franchisee applies within thirty (30) days after such event, for Franchisor's approval to relocate the Franchised Business (which approval shall not be unreasonably withheld) and Franchisee diligently pursues such relocation in accordance with Section 8.5.

17.2.6 fails to restore the Franchised Business location to full operation within a reasonable period time but not more than one hundred twenty (120) days from the date the Franchised Business location is rendered inoperable by any casualty or closed due to an order issued by a local authority having jurisdiction over the Franchised Business location;

17.2.7 fails to comply with any federal, state or local law, rule or regulation, applicable to the operation of the Franchised Business, including, but not limited to, the failure to pay taxes;

17.2.8 defaults under any lease or sublease of the real property on which the Franchised Business is located;

17.2.9 understates Gross Sales on two (2) occasions or more, whether or not cured on any or all of those occasions;

17.2.10 fails to comply with the covenants in Article 15;

17.2.11 permits a Transfer in violation of the provisions of Article 16 of this Agreement;

17.2.12 fails, or Franchisee's legal representative fails, to transfer the interests in this Franchise Agreement and the Franchised Business upon death or permanent disability of Franchisee or any Principal of Franchisee as required by Section 16.7.

17.2.13 is convicted of, or pleads no contest to, a felony or to a crime that could damage the goodwill associated with the Marks; or does anything (whether criminal or otherwise) to harm the reputation of the System or the goodwill associated with the Marks;

17.2.14 receives an adverse judgment or a consent decree in any case or proceeding involving allegations of fraud, racketeering, unfair or improper trade practices or similar claim which is likely to have an adverse effect on the System, or the Marks, the goodwill associated therewith or Franchisor's interest therein, in Franchisor's sole opinion;

17.2.15 conceals revenues, knowingly maintains false books, or records, or knowingly submits any false reports, fails to input all sales (whether made on-premises, through delivery or catering, or at off-site events) into the POS System, or otherwise attempts to circumvent Franchisor's sales and data reporting requirements;

17.2.16 creates a threat or danger to public health or safety from the construction, maintenance or operation of the Franchised Business;

17.2.17 refuses to permit Franchisor to inspect or audit Franchisee's books or records;

17.2.18 makes any unauthorized use of the Marks or copyrighted material or any unauthorized use or disclosure of Confidential Information (as defined in Section 19.2);

17.2.19 fails to comply with the non-competition covenants in Section 19.5;

17.2.20 defaults in the performance of Franchisee's obligations under this Agreement three (3) or more times during the term of this Agreement or has been given at least two (2) notices of default in any consecutive twelve (12) month period, whether or not the defaults have been corrected;

17.2.21 has insufficient funds to honor a check or electronic funds transfer two (2) or more times within any consecutive twelve (12)-month period;

17.2.22 defaults, or an affiliate of Franchisee defaults, under any other agreement, including any other franchise agreement, with Franchisor or any of its affiliates, suppliers or landlord and does not cure such default within the time period provided in such other agreement; or

17.2.23 terminates this Agreement, including by ceasing to operate the Franchised Business, without cause.

17.3 Curable Defaults. Franchisee shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, if Franchisee fails to cure the default within the time period set forth in this Section 17.3, effective immediately upon notice to Franchisee, if Franchisee, or any Principal, as the case may be:

17.3.1 fails to pay when due any amounts due to Franchisor under this Agreement or any related agreement and does not correct the failure within five (5) days after written notice; provided, however, Franchisor has no obligation to give written notice of a late payment more than two (2) times in any twelve (12) month period, and the third such late payment in any twelve (12) month period shall be a non-curable default under Sections 17.2.19 and/or 17.2.20;

17.3.2 fails to perform any non-monetary obligation imposed by this Agreement (excepting those defaults of obligations set forth in Sections 17.1 and 17.2 for which there is no opportunity to cure) and such default shall continue for five (5) days after Franchisor has given written notice of such default, or if the default cannot be reasonably corrected within said five (5)-day period, then if it is not corrected within such additional time as may be reasonably required assuming Franchisee proceeds diligently to cure; provided, however, Franchisor has no obligation to give written notice of a non-monetary default more than two (2) times in any twelve (12) month period, and the third such default, whether monetary or non-monetary, in any twelve (12) month period shall be a non-curable default under Section 17.2.19.

17.4 Franchisor's Cure of Franchisee's Defaults. In the event of a default by Franchisee, in addition to Franchisor's right to terminate the Franchise Agreement, and not in lieu thereof, Franchisor may, but has no obligation to:

17.4.1 effect a cure on Franchisee's behalf and at Franchisee's expense, and Franchisee shall immediately pay Franchisor the costs incurred by Franchisor upon demand; or

17.4.2 enter upon the Franchised Business location and exercise complete authority with respect to the operation thereof until such time as Franchisor determines that the default of Franchisee has been cured and that Franchisee is complying with the requirements of this Agreement. Franchisee specifically agrees that a designated representative of Franchisor may take over, control and operate the Franchised Business. In addition to all other fees paid under this Agreement, Franchisee shall pay Franchisor the then-current interim management support fee, plus any and all costs of travel, lodging, meals and other expenses reasonably incurred by Franchisor during Franchisor's operation thereof as compensation therefor. Further, Franchisee shall reimburse Franchisor for the full compensation paid to such representative including the cost of all fringe benefits plus all travel expenses, lodging, meals and other expenses reasonably incurred by such representative until the default has been cured and Franchisee is complying with the terms of this Agreement.

17.5 Notice to Suppliers. In the event of a default by Franchisee, in addition to Franchisor's right to terminate the Franchise Agreement, and not in lieu thereof, Franchisor reserves the right with five (5) days' prior written notice to Franchisee to direct suppliers to stop furnishing any and all products and supplies until such time as Franchisee's default is cured. In no event shall Franchisee have recourse against Franchisor for loss of revenue, customer goodwill, profits or other business arising from Franchisor's actions and the actions of suppliers.

17.6 Reimbursement of Costs. Franchisee shall reimburse Franchisor all costs and expenses, including but not limited to attorneys' fees, incurred by Franchisor as a result of Franchisee's default, including costs in connection with collection of any amounts owed to Franchisor and/or enforcement of Franchisor's rights under this Agreement.

## 18. POST-TERMINATION

18.1 Franchisee's Obligations. Upon termination or expiration of this Agreement, all rights and licenses granted hereunder to Franchisee shall immediately terminate and Franchisee and each Principal, if any, shall:

18.1.1 immediately cease to operate the Franchised Business, and shall not thereafter, directly or indirectly identify himself, herself or itself as a current Adam & Eve owner, franchisee or licensee;

18.1.2 immediately and permanently (i) cease to use the Marks, any imitation of any Mark, logos, copyrighted material, or other intellectual property, Confidential Information (as defined in Section 19.2 hereof), confidential or proprietary material or indicia of a Adam & Eve outlet, (ii) cease to use any trade name, trade or service mark or other commercial symbol that suggests a current or past association with Franchisor, Franchisor's affiliates, or the System and (iii) de-identify the Franchised Business premises . In particular, Franchisee shall cease to use, without limitation, all signs, billboards, advertising materials, displays, stationery, forms, and any other articles, which display the Marks;

18.1.3 take such action as may be necessary to cancel any assumed name or equivalent registration that contains the Mark or any other service mark or trademark of Franchisor, and Franchisee shall furnish Franchisor with evidence of compliance with this obligation which is satisfactory to Franchisor, within five (5) days after termination or expiration of this Agreement;

18.1.4 promptly pay all sums owing to Franchisor and its affiliates. Such sums shall include all damages, costs and expenses, including reasonable attorneys' fees, incurred by Franchisor as a result of any default by Franchisee. The payment obligation herein shall give rise to and remain, until paid in full, a lien in favor of Franchisor against any and all of the personal property, furnishings, equipment, fixtures, and inventory owned by Franchisee and located at the Franchised Business outlet at the time of default;

18.1.5 pay to Franchisor all damages, costs and expenses, including reasonable attorneys' fees, incurred by Franchisor in connection with obtaining any remedy available to Franchisor for any violation of this Agreement and, subsequent to the termination or expiration of this Agreement, in obtaining injunctive or other relief for the enforcement of any provisions of this Agreement that survive its termination;

18.1.6 immediately deliver at Franchisee's sole cost and expense, to Franchisor the Manual and all records, files, instructions, correspondence, invoices, agreements, all confidential, proprietary and copyrighted material and all other materials related to operation of the Franchised Business, including but not limited to customer lists and records, (all of which are acknowledged to be Franchisor's property), delete all electronic copies and retain no copy or record of any of the foregoing, except Franchisee's copy of this Agreement and of any correspondence between the parties and any other documents that Franchisee reasonably needs for compliance with any provision of law;

18.1.7 comply with the non-disclosure and non-competition covenants contained in Article 19; and

18.1.8 in the event this Agreement is terminated due to Franchisee's default, pay Franchisor a lump sum payment (as liquidated damages and not as a penalty) in an amount equal to: (a) the average monthly Royalty Fee and Brand Fund Contribution payable by Franchisee over the twelve (12) month period immediately prior to the date of termination (or such shorter time period if the Franchised

Business has been open less than twelve (12) months); (b) multiplied by the lesser of (i) twenty-four (24) months or (ii) the number of months then remaining in the then-current term of this Agreement. Franchisee acknowledges that a precise calculation of the full extent of the damages Franchisor will incur in the event of termination of this Agreement as a result of Franchisee's default is difficult to determine and that this lump sum payment is reasonable in light thereof. The liquidated damages payable by Franchisee pursuant to this Section 18.1.8 shall be in addition to all other amounts payable under this Agreement and shall not affect Franchisor's right to obtain appropriate injunctive relief and remedies pursuant to any other provision of this Agreement.

## 18.2 Right to Purchase.

18.2.1 Franchisor shall have the option, to be exercised within thirty (30) days after Franchisee has provided an itemization and valuation of assets, to purchase from Franchisee any or all of the furnishings, equipment (including any and computer systems), signs, fixtures, advertising materials, supplies, and inventory of Franchisee related to the operation of the Franchised Business, at Franchisee's cost or fair market value, whichever is less. Franchisor shall purchase Franchisee's assets free and clear of any liens, charges, encumbrances or security interests and Franchisor shall assume no liabilities whatsoever, unless otherwise agreed to in writing by the parties. If the parties cannot agree on the fair market value within thirty (30) days of Franchisor's exercise of its option, fair market value shall be determined by two (2) appraisers, with each party selecting one (1) appraiser, and the average of their determinations shall be binding. In the event of such appraisal, each party shall bear its own legal and other costs and shall split the appraisal fees equally. If Franchisor elects to exercise its option to purchase herein provided, it shall have the right to set off (i) all fees for any such independent appraiser due from Franchisee, (ii) all amounts due from Franchisee to Franchisor or any of its affiliates and (iii) any costs incurred in connection with any escrow arrangement (including reasonable legal fees), against any payment therefor and shall pay the remaining amount in cash. Closing of the purchase shall take place no later than thirty (30) days after Franchisor notifies Franchisee that Franchisor exercises its option to purchase the assets.

18.2.2 With respect to the options described in Sections 18.2.1, Franchisee shall deliver to Franchisor in a form satisfactory to Franchisor, such warranties, releases of lien, bills of sale, assignments and such other documents and instruments that Franchisor deems necessary in order to perfect Franchisor's title and possession in and to the assets being purchased or assigned and to meet the requirements of all tax and government authorities. If, at the time of closing, Franchisee has not obtained all of these certificates and other documents, Franchisor may, in its sole discretion, place the purchase price in escrow pending issuance of any required certificates or documents.

18.2.3 Franchisor shall be entitled to assign any and all of its option in Section 18.2.1 to any other party, without the consent of Franchisee.

18.3 Assignment of Communications. Franchisee, at the option of Franchisor, shall assign to Franchisor all rights to the telephone numbers of the Franchised Business and any related public directory listing or other business listings and execute all forms and documents required by Franchisor and any telephone company at any time, to transfer such service and numbers to Franchisor. Further, Franchisee shall assign to Franchisor any and all social media and internet listings, domain names, internet advertising, websites, listings with search engines, electronic mail addresses or any other similar listing or usage related to the Franchised Business. Notwithstanding any forms and documents that may have been executed by Franchisee under Section 11.7, Franchisee shall provide Franchisor with all passwords and administrative rights, and hereby appoints Franchisor its true and lawful agent and attorney-in-fact with full power and authority, for the sole purpose of taking such action as is necessary to complete such assignment. This power of attorney shall survive the expiration or termination of this Agreement. Franchisee shall thereafter

use different telephone numbers, social media accounts, electronic mail addresses or other listings or usages at or in connection with any subsequent business conducted by Franchisee.

18.4 Survival. The rights and obligations of the parties contained in this Article 18 shall survive the expiration or sooner termination of this Agreement.

## **19. NON-DISCLOSURE AND NON-COMPETITION COVENANTS**

### **19.1 Operations Manual**

19.1.1 Franchisor has provided to Franchisee, on loan, a current copy of the Manual. The Manual may be in hard copy or made available to Franchisee in digital, electronic or computerized form or in some other form now existing or hereafter developed that would allow Franchisee to view the contents thereof. If the Manual (or any changes thereto) are provided in a form other than physical copy, Franchisee shall pay any and all costs to retrieve, review, use or access the Manual. To protect the reputation and goodwill of Franchisor and to maintain high standards of operation under Franchisor's Marks, Franchisee shall operate all aspects of the Franchised Business in accordance with the Manual, as they may from time to time be modified by Franchisor, other written directives that Franchisor may issue to Franchisee from time to time, whether or not such directives are included in the Manual, and any other manual and materials created or approved for use in the operation of the Franchised Business.

19.1.2 Franchisee and Principals shall at all times treat the Manual, written directives, and other materials and any other confidential communications or materials, and the information contained therein, as confidential and shall maintain such information as trade secret and confidential in accordance with this Article and this Agreement. Franchisee and Principals, if any, shall not divulge and make such materials available to anyone other than those of Franchisee's employees who require the information contained therein to operate the Franchised Business. Franchisee shall, prior to disclosure, fully train and inform its employees on all the restrictions, terms and conditions under which it is permitted to use Franchisor's intellectual, proprietary and confidential information; and shall ensure its employees' compliance with such restrictions, terms and conditions. Franchisee, Principals, and any person working with Franchisee shall agree not, at any time to use, copy, duplicate, record or otherwise reproduce these materials, in whole or in part, or otherwise make the same available to any person other than those authorized above, without Franchisor's prior written consent.

19.1.3 The Manual, written directives, and other materials and any other confidential communications provided or approved by Franchisor shall at all times remain the sole property of Franchisor. Franchisee shall maintain the Manual and all Franchisor's confidential and proprietary materials at all times in a safe and secure location, shall take all reasonable measures to prevent unauthorized access thereto, whether any attempted unauthorized access takes the form of physical access or access via computer or telecommunications networks or otherwise, and shall report the theft or loss of the Manual, or any portion thereof, immediately to Franchisor. At a minimum, Franchisee shall, in the case of computer and telecommunications networks, use the latest available firewall, encryption and similar technology to prevent unauthorized access. Franchisee shall delete all electronic copies and return and cease using any physical copy of the Manual and other confidential and proprietary materials to Franchisor immediately upon request or upon transfer, termination or expiration of this Agreement.

19.1.4 Franchisor may from time to time revise the contents of the Manual and other materials created or approved for use in the operation of the Franchised Business. Franchisee expressly agrees to comply with each new or changed policy, standard or directive. In the event of any dispute as to the contents of the Manual, the terms of the master copy of the Manual maintained by Franchisor shall control.

19.2 Confidential Information. Franchisee and Principals acknowledge and accept that during the term of this Agreement Franchisee and Principals will have access to Franchisor's trade secrets, including, but not limited to, methods, processes, customer lists, vendor partnerships and/or relationships, sales and technical information, financial information, costs, product prices and names, software tools and applications, website and/or email design, products, services, equipment, technologies and procedures relating to the operation of the Franchised Business; the Manual; methods of advertising and promotion; instructional materials; any other information which Franchisor may or may not specifically designate as "confidential" or "proprietary"; and the components of the System, whether or not such information is protected or protectable by patent, copyright, trade secret or other proprietary rights (collectively referred to herein as the "Confidential Information"). Franchisee and Principal(s) covenant and agree that Franchisee and Principal(s) shall not, during the term of this Agreement and thereafter, communicate or divulge to, or use for the benefit of, any other person or entity, and, following the expiration or termination of this Agreement, shall not use for their own benefit, any Confidential Information that may be communicated to Franchisee or any Principal or of which Franchisee or any Principal may be apprised in connection with the operation of the Franchised Business under the terms of this Agreement. Franchisee and any Principal shall not divulge and make any Confidential Information available to anyone other than those of Franchisee's employees who require the Confidential Information to operate the Franchised Business and who have themselves entered into confidentiality and non-compete agreements containing the same provisions as contained in this Agreement, in accordance with Section 19.10 hereof. Franchisee and any Principal shall not at any time copy, duplicate, record or otherwise reproduce any Confidential Information, in whole or in part, or otherwise make the same available to any person other than those authorized above, without Franchisor's prior written consent. The covenant in this Section 19.2 shall survive the expiration, termination or transfer of this Agreement or any interest herein and shall be perpetually binding upon Franchisee and each Principal.

19.3 Protection of Information. Franchisee shall take all steps necessary, at Franchisee's own expense, to protect the Confidential Information and shall immediately notify Franchisor if Franchisee finds that any Confidential Information has been divulged in violation of this Agreement.

19.4 New Concepts. If Franchisee and Principal(s) develops any new concept, process, product, or improvement in the operation or promotion of the Franchised Business ("Improvements"), Franchisee is required to promptly notify Franchisor and provide Franchisor with all related information, processes, products, or other improvements, and sign any and all forms, documents and/or papers necessary for Franchisor to obtain full proprietary rights to such Improvements, without compensation and without any claim of ownership or proprietary rights to such Improvements. Franchisee and any Principal(s) acknowledge that any such Improvements will become the property of Franchisor, and Franchisor may use or disclose such information to other franchisees as it determines to be appropriate. Franchisee acknowledges and agrees that nothing in this Section 19.4 permits Franchisee to test, introduce, provide, or otherwise offer any Improvement to customers, or use any Improvement in the operation of the Franchised Business, unless and until Franchisor consents to the use of the Improvement for such purpose.

19.5 Non-Competition Covenants. Franchisee and Principals specifically acknowledge that, pursuant to this Agreement, Franchisee and Principal(s) will receive valuable training, trade secrets and Confidential Information of the System that are beyond the present knowledge, training and experience of Franchisee and each Principal. Franchisee and Principal(s) acknowledge that such specialized training, trade secrets and Confidential Information provide a competitive advantage and will be valuable to them in the development and operation of the Franchised Business, and that gaining access to such specialized training, trade secrets and Confidential Information is, therefore, a primary reason why Franchisee and each Principal, if any, are entering into this Agreement. In consideration for such specialized training, trade

secrets, Confidential Information and rights, Franchisee and each Principal covenant that, except as otherwise approved in writing by Franchisor:

19.5.1 During the term of this Agreement, Franchisee and Principal(s) shall not, either directly or indirectly, for themselves or through, on behalf of, or in conjunction with, any person or entity (i) divert, or attempt to divert, any business or customer of the Franchised Business or of other franchisees in the System to any competitor, by direct or indirect inducement or otherwise; (ii) participate as an owner, partner, director, officer, employee, consultant or agent or serve in any other capacity in any sexually mature themed business similar to the System (“Competitive Business”); (iii) do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System; or (iv) in any manner interfere with, disturb, disrupt, decrease or otherwise jeopardize the business of the Franchisor or any Adam & Eve franchisees or Franchisor-affiliated outlets.

19.5.2 Upon the expiration or earlier termination of this Agreement or upon a Transfer and continuing for twenty-four (24) months thereafter, Franchisee and Principal(s) shall not, either directly or indirectly, for themselves or through, on behalf of or in conjunction with any person or entity (i) divert, or attempt to divert, any business or customer of the Franchised Business or of other franchisees in the System to any competitor, by direct or indirect inducement or otherwise; or (ii) participate as an owner, partner, director, officer, employee, consultant or agent or serve in any other capacity in any Competitive Business within ten (10) miles of the Territory or any Adam & Eve outlet location; or (iii) do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System; or (iv) in any manner interfere with, disturb, disrupt, decrease or otherwise jeopardize the business of the Franchisor or any Adam & Eve franchisees.

19.6 Reasonableness of Restrictions. Franchisee and Principal(s) acknowledges and agrees that the covenants not to compete set forth in this Agreement are fair and reasonable and will not impose any undue hardship on Franchisee or Principal(s) since Franchisee or Principal(s), as the case may be, have other considerable skills, experience and education which afford Franchisee or Principal(s), as the case may be, the opportunity to derive income from other endeavors.

19.7 Reduction of Time or Scope. If the period of time or the geographic scope specified above, should be adjudged unreasonable in any proceeding, then the period of time will be reduced by such number of months or the geographic scope will be reduced by the elimination of such portion thereof, or both, so that such restrictions may be enforced for such time and scope as are adjudged to be reasonable. In addition, Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Paragraph 19 or any portion thereof, without Franchisee’s consent, effective immediately upon receipt by Franchisee of written notice thereof, and Franchisee agrees to forthwith comply with any covenant as so modified.

19.8 Injunctive Relief. Franchisee and Principal(s) acknowledge that a violation of the covenants of confidentiality and non-competition contained in this Agreement would result in immediate and irreparable injury to Franchisor for which monetary damages cannot fully remedy. Accordingly, Franchisee and Principal(s) hereby consent to the entry of a temporary and permanent injunction prohibiting any conduct by Franchisee or Principal(s) in violation of the terms of the covenants set forth in this Article 19 and hereby agree to waive any and all defenses to the entry of such injunction(s). Notwithstanding, Franchisee and Principal(s) acknowledge and agree that the foregoing injunctive relief is in addition to, and does not restrict Franchisor from pursuing, any and all claims for monetary damages resulting from a breach by Franchisee or Principal(s) of the covenants contained herein.

19.9 Liquidated Damages – Violation of Confidentiality or Non-Competition Covenants. In the event Franchisee and/or Principal(s) violate the covenants of confidentiality and/or non-competition set

forth herein, Franchisee and/or Principal(s) shall pay Franchisor a lump sum payment (as liquidated damages and not as a penalty) an amount equal to One Hundred Thousand Dollars (\$100,000.00), plus Franchisor's attorney's fees, for each such violation. Franchisee and Principal(s) acknowledge that a precise calculation of the full extent of the damages that Franchisor will incur in the event of Franchisee's and/or Principal(s)' violation of the covenants of confidentiality and/or non-competition is difficult to determine and that this lump sum payment is reasonable in light thereof. The liquidated damages payable by Franchisee pursuant to this Section 19.9 shall be in addition to all other amounts payable under this Agreement and shall not affect Franchisor's right to obtain appropriate injunctive relief and remedies pursuant to any other provision hereof.

19.10 No Defense. Franchisee and Principal(s) expressly agree that the existence of any claims they may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Section.

19.11 Covenants of Employees, Agents, and Third Persons. Franchisee shall require and obtain execution of covenants similar to those set forth in this Article 19 (including covenants applicable upon the termination of a person's employment with Franchisee) from all employees, contractors or third persons who will have access to Franchisor's Confidential Information, and Franchisee shall provide Franchisor with executed versions thereof. Such covenants shall be substantially in the forms set forth in Attachment 8 as revised and updated from time to time and contained in the Manual. Franchisee shall indemnify and hold Franchisor harmless from any and all liability, loss, attorneys' fees, or damage Franchisor may suffer as a result of Franchisee's failure to obtain executed restricted covenants by employees, agents and third persons as required by this Section .

## **20. DISPUTE RESOLUTION**

20.1 Internal Dispute Resolution. Franchisee shall first bring any claim, controversy or dispute arising out of or relating to this Agreement, the Attachments hereto or the relationship created by this Agreement to Franchisor's president and/or chief executive officer for resolution. By providing notice as set forth in Section 21.7 below. Franchisee must exhaust this internal dispute resolution procedure before Franchisee may bring Franchisee's dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Agreement.

20.2 Mediation. At Franchisor's option, any claim, controversy or dispute that is not resolved pursuant to Section 20.1 hereof shall be submitted to non-binding mediation. Franchisee shall provide Franchisor with written notice of Franchisee's intent to pursue any unresolved claim, controversy or dispute, specifying in sufficient detail the nature thereof, prior to commencing any legal action. Franchisor shall have thirty (30) days following receipt of Franchisee's notice to exercise Franchisor's option to submit such claim, controversy or dispute to mediation. Mediation shall be conducted through a mediator or mediators in accordance with the American Arbitration Association Commercial Mediation Rules. Such mediation shall take place in the then-current location of Franchisor's corporate headquarters. The costs and expenses of mediation, including compensation and expenses of the mediator (and except for the attorneys' fees incurred by either party), shall be borne by the parties equally. Franchisor may specifically enforce Franchisor's rights to mediation, as set forth herein.

### 20.3 Arbitration.

20.3.1 Except disputes not subject to alternative dispute resolution as set forth in Section 20.4, any dispute between Franchisor and Franchisee and/or any Principal arising out of or relating to this Agreement, the Attachments hereto or any breach thereof, including any claim that this Agreement or any of its parts, is invalid, illegal or otherwise voidable or void, which has not been resolved in

accordance with Sections 20.1 or 20.2, will be resolved by submission to the American Arbitration Association or its successor organization to be settled by a single arbitrator in accordance with the Commercial Arbitration Rules then in effect for such Association or successor organization.

20.3.2 All issues relating to arbitrability or the enforcement of the agreement to arbitrate contained in this Article 20 will be governed by the Federal Arbitration Act (9 U.S.C. §1 *et seq.*) and the federal common law of arbitration. All hearings and other proceedings will take place in the county of the in the then-current location of Franchisor's corporate headquarters, or the nearest offices of the American Arbitration Association thereto, or, if Franchisor so elects, in the county where the principal place of business of Franchisee is then located.

20.3.3 This arbitration provision is self-executing and will remain in full force and effect after expiration or termination of this Agreement. Any arbitration will be conducted on an individual, and not a class-wide or multiple plaintiffs, basis. If either party fails to appear at any properly-noticed arbitration proceeding, an award may be entered against the party by default or otherwise, notwithstanding the failure to appear. Judgment upon an arbitration award may be entered in any court having jurisdiction and will be binding, final and not subject to appeal. No punitive or exemplary damages will be awarded against Franchisor, Franchisee, or entities related to either of them, in an arbitration proceeding or otherwise, and are hereby waived.

20.3.4 The provisions of this Section 20.3 are independent of any other covenant or provision of this Agreement; provided, however, that if a court of competent jurisdiction determines that any of the provisions are unlawful in any way, the court will modify or interpret the provisions to the minimum extent necessary to have them comply with the law.

20.3.5 In proceeding with arbitration and in making determinations hereunder, no arbitrator shall extend, modify or suspend any terms of this Agreement or the reasonable standards of business performance and operation established by Franchisor in good faith. No notice, request or demand for arbitration shall stay, postpone or rescind the effectiveness of any termination of this Agreement.

20.3.6 Except as expressly required by law, Franchisor, Franchisee and any Principal shall keep all aspects of any mediation and/or arbitration proceeding in confidence, and shall not disclose any information about the proceeding to any third party other than legal counsel who shall be required to maintain the confidentiality of such information.

20.4 Exceptions. Notwithstanding the requirements of Sections 20.2 or 20.3, the following claims shall not be subject to mediation or arbitration:

20.4.1 Franchisor's claims for injunctive or other extraordinary relief;

20.4.2 disputes and controversies arising from the Sherman Act, the Clayton Act or any other federal or state antitrust law;

20.4.3 disputes and controversies based upon or arising under the Lanham Act, as now or hereafter amended, relating to the ownership or validity of the Marks;

20.4.4 disputes and controversies relating to actions to obtain possession of the premises of the Franchised Business; and

20.4.5 enforcement of Franchisee's post-termination obligations, including but not limited to, Franchisee's non-competition covenants.

20.5 Governing Law and Venue. This Agreement is made in, and shall be substantially performed in, the State of North Carolina. Any claims, controversies, disputes or actions arising out of this Agreement shall be governed, enforced and interpreted pursuant to the laws of the State of North Carolina. Franchisee and its Principals, except where specifically prohibited by law, hereby irrevocably submit themselves to the sole and exclusive jurisdiction of the state and federal courts in North Carolina. Franchisee and its Principals hereby waive all questions of personal jurisdiction for the purpose of carrying out this provision.

20.6 Mutual Benefit. Franchisee, Principal(s) and Franchisor acknowledge that the parties' agreement regarding applicable state law and forum set forth in Section 20.5 provide each of the parties with the mutual benefit of uniform interpretation of this Agreement and any dispute arising hereunder. Each of Franchisee, Principal(s) and Franchisor further acknowledge the receipt and sufficiency of mutual consideration for such benefit and that each party's agreement regarding applicable state law and choice of forum have been negotiated in good faith and are part of the benefit of the bargain reflected by this Agreement.

20.7 Waiver of Certain Damages. Franchisee and each Principal, if any, hereby waive, to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special, consequential or other damages (including, without limitation, loss of profits) against Franchisor, its affiliates, and their respective officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees, in their corporate and individual capacities, arising out of any cause whatsoever. Each of Franchisee and Principals, if any, agree that in the event of a dispute, Franchisee and each Principal shall be limited to the recovery of any actual direct compensatory damages sustained.

20.8 Injunctive Relief. Nothing herein contained (including, without limitation, Sections 20.1 through 20.5 above) shall bar Franchisor from the right to obtain immediate injunctive relief from any court of competent jurisdiction against threatened conduct by Franchisee that may cause Franchisor loss or damage, under the usual equity rules, including the applicable rules for obtaining specific performance, restraining orders, and preliminary injunctions.

20.9 Limitations of Claims. Any and all claims asserted by Franchisee and Principals arising out of or relating to this Agreement or the relationship with among the parties will be barred unless a proceeding for relief is commenced within one (1) year from the date on which Franchisee or Principal(s) knew or should have known of the facts giving rise to such claims.

20.10 Attorney's Fees. In the event of any action in law or equity by and between Franchisor and Franchisee concerning the operation, enforcement, construction or interpretation of this Agreement, the prevailing party in such action shall be entitled to recover reasonable attorney's fees and court costs incurred.

20.11 Survival. The provisions of this Article 20 shall continue in full force and effect notwithstanding the expiration or termination of this Agreement or a transfer by Franchisee or any Principal of their respective interests in this Agreement.

## **21. GENERAL**

21.1 Relationship of the Parties.

21.1.1 Independent Licensee. Franchisee is and shall be an independent licensee under this Agreement, and no partnership shall exist between Franchisee and Franchisor. This Agreement does not constitute Franchisee as an agent, legal representative, or employee of Franchisor for any purpose whatsoever, and Franchisee is not granted any right or authority to assume or create any obligation for or on behalf of, or in the name of, or in any way to bind Franchisor. Franchisee agrees not to incur or contract any debt or obligation on behalf of Franchisor or commit any act, make any representation, or advertise in any manner which may adversely affect any right of Franchisor or be detrimental to Franchisor or other franchisees of Franchisor. Franchisor does not assume any liability, and will not be considered liable, for any agreements, representations, or warranties made by Franchisee or Principal(s) which are not expressly authorized under this Agreement. Franchisor will not be obligated for any damages to any person or property which directly or indirectly arise from or relate to Franchisee's operation of the Franchised Business. Pursuant to the above, Franchisee agrees to indemnify Franchisor and hold Franchisor harmless from any and all liability, loss, attorneys' fees, or damage Franchisor may suffer as a result of claims, demands, taxes, costs, or judgments against Franchisor arising out of any allegation of an agent, partner, or employment relationship.

21.1.2 No Relationship. Franchisee acknowledges and agrees that Franchisee alone exercises day-to-day control over all operations, activities, and elements of the Franchised Business, and that under no circumstance shall Franchisor do so or be deemed to do so. Franchisee further acknowledges and agrees, and will never claim otherwise, that the various restrictions, prohibitions, specifications, and procedures of the System which Franchisee is required to comply with under this Agreement, whether set forth in the Manual or otherwise, does not directly or indirectly constitute, suggest, infer or imply that Franchisor controls any aspect or element of the day-to-day operations of the Franchised Business, which Franchisee alone controls, but only constitute standards Franchisee must adhere to when exercising control of the day-to-day operations of the Franchised Business.

21.1.3 Franchisee's Employees. Franchisor has no authority to control, either directly or indirectly, the essential terms and conditions of employment of Franchisee's employees. Franchisee acknowledges and agrees that Franchisee, in Franchisee's sole and absolute discretion, shall determine all such essential terms and conditions of employment, which are defined in the Manual or otherwise defined by law. Franchisee specifically agrees that any training Franchisor provides for Franchisee's employees is geared to impart to those employees, with Franchisee's ultimate authority, the various procedures, protocols, systems, and operations of an Adam & Eve outlet pursuant to the System and in no fashion reflects any employment relationship between Franchisor and such employees. If ever it is asserted that Franchisor is the employer, joint employer or co-employer of any of Franchisee's employees in any private or government investigation, action, proceeding, arbitration or other setting, Franchisee irrevocably agree to assist Franchisor in defending said allegation, appearing at any venue requested by Franchisor to testify on Franchisor's behalf participate in depositions, other appearances or preparing affidavits rejecting any assertion that Franchisor is the employer, joint employer or co-employer of any of Franchisee's employees.

21.2 Successors. This Agreement shall bind and inure to the benefit of the successors and assigns of Franchisor and shall be personally binding on and inure to the benefit of Franchisee (including the individuals executing this Agreement on behalf of the Franchisee entity) and its or their respective heirs, executors, administrators and successors or assigns; provided, however, the foregoing provision shall not be construed to allow a transfer of any interest of Franchisee or Principal(s) in this Agreement or the Franchised Business, except in accordance with Article 16 hereof.

21.3 Invalidity of Part of Agreement. Should any provisions in this Agreement, for any reason, be declared invalid, then such provision shall be invalid only to the extent of the prohibition without in any way invalidating or altering any other provision of this Agreement.

21.4 Entire Agreement. This Agreement, including all attachments, is the entire agreement of the parties, superseding all prior written or oral agreements of the parties concerning the same subject matter, and superseding all prior written or oral representations made to Franchisee, provided that nothing in this Agreement is intended to disclaim the representations made to Franchisee in Franchisor's Franchise Disclosure Document. No agreement of any kind relating to the matters covered by this Agreement and no amendment of the provisions hereof shall be binding upon either party unless and until the same has been made in writing and executed by all interested parties.

21.5 Construction. All terms and words used in this Agreement, regardless of the number and gender in which they are used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context or sense of this Agreement or any provision herein may require, as if such words had been fully and properly written in the appropriate number and gender. All covenants, agreements and obligations assumed herein by Franchisee and Principal(s) shall be deemed to be joint and several covenants, agreements and obligations of each of the persons named as Franchisee, if more than one person is so named.

21.6 Captions. Captions and section headings are used herein for convenience only. They are not part of this Agreement and shall not be used in construing it.

21.7 Notices. Whenever notice is required or permitted to be given under the terms of this Agreement, it shall be given in writing, and be delivered personally or by certified mail or courier, postage prepaid, addressed to the party for whom intended, and shall be deemed given on the date of delivery or delivery is refused. All such notices shall be addressed to the party to be notified at their respective addresses as set forth in the introductory paragraph of this Agreement, or at such other address or addresses as the parties may from time to time designate in writing.

21.8 Effect of Waivers. No waiver, delay, omission or forbearance on the part of Franchisor to exercise any right, option, duty or power arising from any default or breach by Franchisee shall affect or impair the rights of Franchisor with respect to any subsequent default of the same or of a different kind. Any use by Franchisee of the System or any part thereof at any place other than at the Franchised Business location shall not give Franchisee any rights not specifically granted hereunder. Failure to take action to stop such use shall not in any event be considered a waiver of the rights of Franchisor at any time to require Franchisee to restrict said use to the Franchised Business location.

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

21.10 Consent to Do Business Electronically. This agreement is made in the State of North Carolina. The parties to the Franchise Agreement hereby consent to do business electronically. Pursuant to the Uniform Electronic Transactions Act as adopted by the State of North Carolina, the parties hereby affirm to each other that they agree with the terms of the Franchise Agreement and its Attachments,

and by attaching their signature electronically to the Franchise Agreement, they are executing the document and intending to attach their electronic signature to it. Furthermore, the parties acknowledge that the other parties to the Franchise Agreement can rely on an electronic signature as the respective party's signature .

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

21.12 Survival. Any obligation of Franchisee or any Principal that contemplates performance of such obligation after termination or expiration of this Agreement or the transfer of any interest of Franchisee or any Principal therein shall be deemed to survive such termination, expiration or transfer.

The parties hereto have executed this Franchise Agreement on the day and year first above written.

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Entity):

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

**ATTACHMENT 1**

**TRADEMARKS**

Service Marks –

ADAM & EVE

**Adam & Eve**

The logo for Adam & Eve features the brand name in a classic serif font. The word 'Adam' is in a standard weight, while '&' and 'Eve' are in a bolder weight. A decorative flourish starts from the top of the 'e' in 'Eve', arches over the top of the 'e', and then curves down to underline the 'e'.

**ATTACHMENT 2**

**FRANCHISED BUSINESS LOCATION AND TERRITORY DESCRIPTION**

[If there is no Approved Location on the Effective Date, insert: \*\*TERRITORY AND ADDRESS TO BE DETERMINED AND INSERTED AFTER THE ADAM & EVE PREMISES IS IDENTIFIED BY FRANCHISEE AND APPROVED BY FRANCHISOR, IN ACCORDANCE WITH SECTION 8.1 OF THE FRANCHISE AGREEMENT, IN THE NON-EXCLUSIVE SITE SEACH AREA OF \_\_\_\_\_.]

Territory (insert map and/or define by zip codes):

\_\_\_\_\_

Franchised Business Address:

\_\_\_\_\_

\_\_\_\_\_

**ATTACHMENT 3**

**ACH AUTHORIZATION**

**DIRECT PAYMENT [ACH DEBIT] AUTHORIZATION FORM\***

Franchisee: \_\_\_\_\_

Federal Identification #: \_\_\_\_\_ Postal Zip Code: \_\_\_\_\_

\_\_\_\_\_ hereby authorizes **AEFC**  
[Franchisee]

and the depository financial institution named below, hereinafter called **Depository**, to initiate electronic debit entries, and if necessary, process any adjustments needed to correct entries made in error, to the account listed below.

\_\_\_\_\_ acknowledges that the origination of ACH transactions  
[Franchisee]

to its account must comply with the provisions of U.S. law.

Depository Financial Institution Name: \_\_\_\_\_

Routing Number \_\_\_\_\_

Account Number \_\_\_\_\_

Checking Account  Savings Account

This authority is to remain in full force and effect until **AEFC** has received written authorization from \_\_\_\_\_ of its termination in such time and manner as to afford  
[Franchisee]

**AEFC and Depository** a reasonable opportunity to act on it.

\_\_\_\_\_  
[Franchisee]

\_\_\_\_\_  
[Authorized By]

\_\_\_\_\_ [Title] \_\_\_\_\_ [Date]

**Administrative Email Address**

\_\_\_\_\_  
(This is the email address your remittance advice will be sent to)

Please email the completed form to: **AEFC**  
**askusar@pheinc.com**

**ATTACHMENT 4**

**CONDITIONAL ASSIGNMENT OF LEASE**

**FOR VALUE RECEIVED**, the undersigned \_\_\_\_\_ ("Assignor") hereby assigns and transfers to AEFC, Inc. , a North Carolina corporation with a notice address of 302 Meadowlands Drive, Hillsborough, North Carolina 27278 ("Assignee"), all of Assignor's right, title and interest as tenant in, to and under that certain lease, a copy of which shall be attached hereto (the "Lease") respecting premises commonly known as \_\_\_\_\_. This Assignment is for collateral purposes only and except as specified herein, Assignee shall have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment or the Lease unless Assignee takes possession of the premises demised by the Lease pursuant to the terms hereof and assumes the obligations of Assignor thereunder.

Assignor represents and warrants to Assignee that Assignor has full power and authority to so assign the Lease and Assignor's interest therein and that Assignor has not previously assigned or transferred, and is not obligated to assign or transfer, any of Assignor's interest in the Lease or the premises demised thereby.

Upon a default by Assignor under the Lease or under the franchise agreement for an Adam & Eve outlet between Assignee and Assignor (the "Franchise Agreement"), or in the event of a default by Assignor under any document or instrument securing the Franchise Agreement, Assignee shall have the right and is hereby empowered to take possession of the Premises demised by the Lease, expel Assignor therefrom, and, in such event, Assignor shall have no further right, title or interest in the Lease.

Assignor agrees that it will not suffer or permit any surrender, termination, amendment or modification of the Lease without the prior written consent of Assignee. Throughout the term of the Franchise Agreement and any successor terms thereof, Assignor agrees that it shall elect and exercise all options to extend the term of or renew the Lease not less than thirty (30) days prior to the last day that the option must be exercised, unless Assignee otherwise agrees in writing. If Assignee does not otherwise agree in writing, and upon failure of Assignor to so elect to extend or renew the Lease as aforesaid, Assignor hereby appoints Assignee as its true and lawful attorney-in-fact to exercise such extension or renewal options in the name, place and stead of Assignor for the purpose of effecting such extension or renewal.

ASSIGNOR:

DATED: \_\_\_\_\_ By: \_\_\_\_\_  
\_\_\_\_\_  
(Print Name, Title)

DATED: \_\_\_\_\_

DATED: \_\_\_\_\_

**CONSENT AND AGREEMENT OF LANDLORD**

to that Conditional Assignment of Lease from \_\_\_\_\_ (Assignor) to AEFC, Inc. (Assignee) dated \_\_\_\_\_ for the property known as \_\_\_\_\_  
\_\_\_\_\_.

The undersigned Landlord under the aforescribed Lease further hereby:

- (a) Agrees to notify Assignee in writing of and upon the failure of Assignor to cure any default by Assignor under the Lease;
- (b) Agrees that Assignee shall have the right, but shall not be obligated, to cure any default by Assignor under the Lease within thirty (30) days after delivery by Landlord of notice thereof in accordance with paragraph (a) above;
- (c) Consents to the foregoing Conditional Assignment and agrees that if Assignee takes possession of the Premises demised by the Lease and confirms to Landlord the assumption of the Lease by Assignee as tenant thereunder, Landlord shall recognize Assignee as tenant under the Lease, provided that Assignee cures within the thirty (30)-day period the non-monetary defaults, if any, of Assignor under the Lease;
- (d) Agrees that Assignee may further assign the Lease to a person, firm or corporation who shall agree to assume the tenant's obligations under the Lease and who is reasonably acceptable to Landlord and upon such assignment Assignee shall have no further liability or obligation under the Lease as assignee, tenant or otherwise.
- (e) Permits Assignee to enter upon the Premises without being guilty of trespass or any other crime or tort to de-identify the Premises as an Adam & Eve outlet if Tenant fails to do so following termination of the Franchise Agreement or Lease, provided that Assignee shall repair any damage caused thereby.

DATED: \_\_\_\_\_

LANDLORD:

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

**ATTACHMENT 5**

**STATEMENT OF OWNERSHIP INTERESTS IN FRANCHISEE ENTITY**

**Name**

**Percentage of Ownership**

**ATTACHMENT 6**

**SPOUSE GUARANTY**

This Guaranty and Covenant (this “Guaranty”) is given by the undersigned (“Guarantor”) on \_\_\_\_\_, (the “Effective Date”) to AEFC, Inc. , a North Carolina corporation (“Franchisor”), in order to induce Franchisor to enter into that certain Franchise Agreement dated on or about the Effective Date hereof (the “Franchise Agreement”) with \_\_\_\_\_, a(n) \_\_\_\_\_ and \_\_\_\_\_ (collectively “Franchisee”).

Guarantor acknowledges that Guarantor is the spouse of Franchisee’s Principal, as that term is used in the Franchise Agreement.

Guarantor acknowledges that Guarantor has read the terms and conditions of the Franchise Agreement and acknowledges that the execution of this Guaranty is in partial consideration for, and a condition to the granting of, the rights granted in the Franchise Agreement to Franchisee, and that Franchisor would not have granted these rights without the execution of this Guaranty by Guarantor.

Guarantor hereby individually makes, agrees to be bound by, and agrees to perform, all of the monetary obligations and non-competition covenants and agreements of the Franchisee as set forth in the Franchise Agreement, including but not limited to, the covenants set forth in Sections 19.2, 19.5, 19.6, 19.8 and 19.9 of the Franchise Agreement (“Guaranteed Obligations”). Guarantor shall perform and/or make punctual payment to Franchisor of the Guaranteed Obligations in accordance with the terms of the Franchise Agreement or other applicable document forthwith upon demand by Franchisor.

This Guaranty is an absolute and unconditional continuing guaranty of payment and performance of the Guaranteed Obligations. This Guaranty shall not be discharged by renewal of any obligations guaranteed by this instrument, change in ownership or control of the Franchisee entity, transfer of the Franchise Agreement, the suffering of any indulgence to any debtor, extension of time of payment thereof, nor the discharge of Franchisee by bankruptcy, operation of law or otherwise. Presentment, demand, protest, notice of protest and dishonor, notice of default or nonpayment and diligence in collecting any obligation under any agreement between Franchisee and Franchisor are each and all waived by Guarantor and/or acknowledged as inapplicable. Guarantor waives notice of amendment of any agreement between Franchisee and Franchisor and notice of demand for payment by Franchisee. Guarantor further agrees to be bound by any and all amendments and changes to any agreement between Franchisee and Franchisor.

Franchisor may pursue its rights against Guarantor without first exhausting its remedies against Franchisee and without joining any other guarantor hereto and no delay on the part of Franchisor in the exercise of any right or remedy shall operate as a waiver of such right or remedy, and no single or partial exercise by Franchisor of any right or remedy shall preclude the further exercise of such right or remedy.

If other guarantors have guaranteed any and or all of the Guaranteed Obligations, their liability shall be joint and several to that of Guarantor.

Until all of the Guaranteed Obligations have been paid in full and/or performed in full, Guarantor shall not have any right of subrogation, unless expressly given to Guarantor in writing by Franchisor.

All Franchisor’s rights, powers and remedies hereunder and under any other agreement now or at any time hereafter in force between Franchisor and Guarantor shall be cumulative and not alternative and shall be in addition to all rights, powers and remedies given to Franchisor by law.

Should any one or more provisions of this Guaranty be determined to be illegal or unenforceable, all other provisions nevertheless shall remain effective.

This Guaranty shall extend to and inure to the benefit of Franchisor and its successors and assigns and shall be binding on Guarantor and its successors and assigns.

Guarantor has signed this Guaranty as of the date set forth above.

**GUARANTOR - SPOUSE OF FRANCHISEE'S PRINCIPAL:**

\_\_\_\_\_  
*Signature*  
Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**ATTACHMENT 7**

**INTERNET ADVERTISING, SOCIAL MEDIA, SOFTWARE,  
AND TELEPHONE LISTING AGREEMENT**

**THIS INTERNET ADVERTISING, SOCIAL MEDIA, SOFTWARE, AND TELEPHONE LISTING AGREEMENT** (the “Agreement”) is made and entered into this day of \_\_\_\_\_ (the “Effective Date”), by and between AEFC, Inc., a North Carolina corporation, with its principal place of business at 302 Meadowlands Drive, Hillsborough, North Carolina 27278 (the “Franchisor”), and \_\_\_\_\_, a(n) \_\_\_\_\_, with its principal place of business located at \_\_\_\_\_, and \_\_\_\_\_’s principal(s), \_\_\_\_\_, an individual, residing at \_\_\_\_\_, and \_\_\_\_\_, an individual, residing at \_\_\_\_\_ (“Principal(s)”). \_\_\_\_\_ and Principal(s) shall be collectively referred to in this Agreement as the “Franchisee”.

**WHEREAS**, Franchisee desires to enter into a franchise agreement with Franchisor for an Adam & Eve retail business (“Franchise Agreement”) which will allow Franchisee to conduct internet-based advertising, maintain social media accounts, use software, and use telephone listings linked to the Adam & Eve brand.

**WHEREAS**, Franchisor would not enter into the Franchise Agreement without Franchisee’s agreement to enter into, comply with, and be bound by all the terms and provisions of this Agreement;

**NOW, THEREFORE**, for and in consideration of the foregoing and the mutual promises and covenants contained herein, and in further consideration of the Franchise Agreement and the mutual promises and covenants contained therein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Definitions**

All terms used but not otherwise defined in this Agreement shall have the meanings set forth in the Franchise Agreement. “Termination” of the Franchise Agreement shall include, but shall not be limited to, the voluntary termination, involuntary termination, or natural expiration thereof.

2. **Internet Advertising and Telephone Listings**

2.1 **Interest in Web Sites, Social Media Accounts, Other Electronic Listings and Software.** Franchisee may acquire (whether in accordance with or in violation of the Franchise Agreement) during the term of Franchise Agreement, certain right, title, or interest in and to certain domain names, social media accounts, hypertext markup language, uniform resource locator addresses, access to corresponding internet web sites, the right to hyperlink to certain web sites and listings on various internet search engines, and the right to use certain software (collectively, “Electronic Advertising and Software”) related to the Franchised Business or the Marks.

2.2 **Interest in Telephone Numbers and Listings.** Franchisee has or will acquire during the term of the Franchise Agreement, certain right, title, and interest in and to those certain telephone numbers and regular, classified, internet page, and other telephone directory listings (collectively, the “Telephone Listings”) related to the Franchised Business or the Marks.

2.3 Transfer. On Termination of the Franchise Agreement, or on periodic request of Franchisor, Franchisee will immediately:

2.3.1 direct all internet service providers, domain name registries, internet search engines, other listing agencies and software companies (collectively, the “Internet and Software Companies”) with which Franchisee has Electronic Advertising and Software: (i) to transfer all of Franchisee’s interest in such Electronic Advertising and Software to Franchisor; and (ii) to execute such documents and take such actions as may be necessary to effectuate such transfer. In the event Franchisor does not desire to accept any or all such Electronic Advertising and Software, Franchisee will immediately direct the Internet and Software Companies to terminate such Electronic Advertising and Software or will take such other actions with respect to the Electronic Advertising and Software as Franchisor directs; and

2.3.2 direct all telephone companies, telephone directory publishers, and telephone directory listing agencies (collectively, the “Telephone Companies”) with which Franchisee has Telephone Listings: (i) to transfer all Franchisee’s interest in such Telephone Listings to Franchisor; and (ii) to execute such documents and take such actions as may be necessary to effectuate such transfer. In the event Franchisor does not desire to accept any or all such Telephone Listings, Franchisee will immediately direct the Telephone Companies to terminate such Telephone Listings or will take such other actions with respect to the Telephone Listings as Franchisor directs.

2.4 Appointment; Power of Attorney. Franchisee hereby constitutes and appoints Franchisor and any officer or agent of Franchisor, for Franchisor’s benefit under the Franchise Agreement and this Agreement or otherwise, with full power of substitution, as Franchisee’s true and lawful attorney-in-fact with full power and authority in Franchisee’s place and stead, and in Franchisee’s name or the name of any affiliated person or affiliated company of Franchisee, to take any and all appropriate action and to execute and deliver any and all documents that may be necessary or desirable to accomplish the purposes of this Agreement. Franchisee further agrees that this appointment constitutes a power coupled with an interest and is irrevocable until Franchisee has satisfied all of its obligations under the Franchise Agreement and any and all other agreements to which Franchisee and any of its affiliates on the one hand, and Franchisor and any of its affiliates on the other, are parties, including without limitation this Agreement. Without limiting the generality of the foregoing, Franchisee hereby grants to Franchisor the power and right to do the following:

2.4.1 Direct the Internet and Software Companies to transfer all Franchisee’s interest in and to the Electronic Advertising and Software to Franchisor, or alternatively, to direct the Internet and Software Companies to terminate any or all of the Electronic Advertising and Software;

2.4.2 Direct the Telephone Companies to transfer all Franchisee’s interest in and to the Telephone Listings to Franchisor, or alternatively, to direct the Telephone Companies to terminate any or all of the Telephone Listings; and

2.4.3 Execute such standard assignment forms or other documents as the Internet and Software Companies and/or Telephone Companies may require in order to affect such transfers or terminations of Franchisee’s interest.

2.5 Certification of Termination. Franchisee hereby directs the Internet and Software Companies and Telephone Companies to accept, as conclusive proof of Termination of the Franchise Agreement, Franchisor’s written statement, signed by an officer or agent of Franchisor, that the Franchise Agreement has terminated.

2.6 Cessation of Obligations. After the Internet and Software Companies and the Telephone Companies have duly transferred all Franchisee's interests as described in paragraph 2.3 above to Franchisor, as between Franchisee and Franchisor, Franchisee will have no further interest in, or obligations with respect to the particular Electronic Advertising and Software and/or Telephone Listings. Notwithstanding the foregoing, Franchisee will remain liable to each and all of the Internet and Software Companies and Telephone Companies for the respective sums Franchisee is obligated to pay to them for obligations Franchisee incurred before the date Franchisor duly accepted the transfer of such interests, or for any other obligations not subject to the Franchise Agreement or this Agreement.

### 3. Miscellaneous

3.1 Release. Franchisee hereby releases, remises, acquits, and forever discharges each and all of the Internet and Software Companies and/or Telephone Companies and each and all of their parent corporations, subsidiaries, affiliates, directors, officers, stockholders, employees, and agents, and the successors and assigns of any of them, from any and all rights, demands, claims, damage, losses, costs, expenses, actions, and causes of action whatsoever, whether in tort or in contract, at law or in equity, known or unknown, contingent or fixed, suspected or unsuspected, arising out of, asserted in, assertible in, or in any way related to this Agreement.

3.2 Indemnification. Franchisee is solely responsible for all costs and expenses related to its performance, its nonperformance, and Franchisor's enforcement of this Agreement, which costs and expenses Franchisee will pay Franchisor in full, without defense or setoff, on demand. Franchisee agrees that it will indemnify, defend, and hold harmless Franchisor and its affiliates, and its and their directors, officers, shareholders, partners, members, employees, agents, and attorneys, and the successors and assigns of any and all of them, from and against, and will reimburse Franchisor and any and all of them for, any and all loss, losses, damage, damages, debts, claims, demands, or obligations that are related to or are based on this Agreement.

3.3 No Duty. The powers conferred on Franchisor hereunder are solely to protect Franchisor's interests and shall not impose any duty on Franchisor to exercise any such powers. Franchisee expressly agrees that in no event shall Franchisor be obligated to accept the transfer of any or all of Franchisee's interest in any matter hereunder.

3.4 Further Assurances. Franchisee agrees that at any time after the date of this Agreement, Franchisee will perform such acts and execute and deliver such documents as may be necessary to assist in or accomplish the purposes of this Agreement.

3.5 Successors, Assigns, and Affiliates. All Franchisor's rights and powers, and all Franchisee's obligations, under this Agreement shall be binding on Franchisee's successors, assigns, and affiliated persons or entities as if they had duly executed this Agreement.

3.6 Effect on Other Agreements. Except as otherwise provided in this Agreement, all provisions of the Franchise Agreement and attachments and schedules thereto shall remain in effect as set forth therein.

3.7 Survival. This Agreement shall survive the Termination of the Franchise Agreement.

3.8 Governing Law. This Agreement shall be governed by and construed under the laws of the State of North Carolina, without regard to the application of North Carolina conflict of law rules.

*-Remainder of page intentionally left blank-*

The undersigned have executed or caused their duly authorized representatives to execute this Internet Advertising, Social Media and Telephone Account Agreement as of the Effective Date.

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Entity):

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

## ATTACHMENT 8

### CONFIDENTIALITY AND NON-COMPETE AGREEMENT

This Confidentiality and Non-Compete Agreement (the “Agreement”) is made and entered into this day of \_\_\_\_\_, by \_\_\_\_\_, a(n) \_\_\_\_\_ (“Franchisee”), a franchisee of AEFC, Inc. , a North Carolina corporation (“Franchisor”), and \_\_\_\_\_, an individual (“Covenantor”), in connection with a Franchise Agreement.

**WHEREAS**, Franchisee and Franchisor are parties to a franchise agreement dated \_\_\_\_\_ (the “Franchise Agreement”), whereby Franchisor has granted Franchisee the right to use certain trademarks, including, the trademark “Adam & Eve” and design, and certain proprietary products, services, promotions and methods (the “System”) for the establishment and operation of Adam & Eve outlets;

**WHEREAS**, in connection with his or her duties, it will be necessary for Covenantor to have access to some or all of the confidential information, knowledge, know-how, techniques, contents of the Adam & Eve operations manual and other materials used in or related to the System and/or concerning the methods of operation of the System (collectively referred to as “Confidential Information”);

**WHEREAS**, the Confidential Information provides economic advantages to Franchisor and licensed users of the System, including Franchisee;

**WHEREAS**, Franchisee has acknowledged the importance of restricting the use, access and dissemination of the Confidential Information, and Franchisee therefore has agreed to obtain from Covenantor a written agreement protecting the Confidential Information and further protecting the System against unfair competition; and

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

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

#### **1. Confidentiality Agreement.**

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

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

**c.** Covenantor shall not at any time disclose or permit the disclosure of the Confidential Information except, and only then to the limited extent necessary, to those employees of Franchisee for training and assisting such employees in the operation of the Franchised Business.

**d.** Covenantor shall surrender any material containing some or all of the Confidential Information to Franchisee or Franchisor, upon request, or upon termination of employment or association with Franchisee.

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

**f.** Covenantor agrees that no Confidential Information may be reproduced, in whole or in part, without written consent.

## **2. Covenants Not to Compete.**

**a.** In order to protect the goodwill and unique qualities of the System, and in consideration for the disclosure to Covenantor of the Confidential Information, Covenantor further agrees and covenants that during Covenantor's employment or association with Franchisee, Covenantor shall not, for Covenantor or through, on behalf of or in conjunction with any person or entity:

(i) divert, or attempt to divert, any business or customer of the Adam & Eve outlet or of other franchisees in the System to any competitor, by direct or indirect inducement or otherwise, or

(ii) participate as an owner, partner, director, officer, employee, consultant or agent or serve in any other capacity in any sexually mature themed business substantially similar to the System.

**b.** In further consideration for the disclosure to Covenantor of the Confidential Information and to protect the goodwill and unique qualities of the System, Covenantor further agrees and covenants that, upon the termination of Covenantor's employment or association with Franchisee and continuing for twenty-four (24) months thereafter, Covenantor shall not, for Covenantor or through, on behalf of or in conjunction with any person or entity:

(i) divert, or attempt to divert, any business or customer of the Franchised Business or of other franchisees in the Adam & Eve System to any competitor, by direct or indirect inducement or otherwise, or

(ii) participate as an owner, partner, director, officer, employee, or consultant or serve in any other managerial, operational, or supervisory capacity in any sexually mature themed business within the within ten (10) miles of Franchisee's Territory or any Adam & Eve location.

**c.** The parties acknowledge and agree that each of the covenants contained herein are reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Franchisor.

**d.** If the period of time or the geographic scope specified Section 2.b. above, should be adjudged unreasonable in any proceeding, then the period of time will be reduced by such number of months or the geographic scope will be reduced by the elimination of such portion thereof, or both, so that such restrictions may be enforced for such time and scope as are adjudged to be reasonable. In addition, Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Agreement or any portion thereof, without Covenantor's or Franchisee's consent, effective immediately upon receipt by Covenantor of written notice thereof, and Covenantor agrees to forthwith comply with any covenant as so modified.

## **3. General.**

**a.** Franchisee shall take full responsibility for ensuring that Covenantor acts as required by this Agreement.

**b.** Covenantor agrees that in the event of a breach of this Agreement, Franchisor would be irreparably injured and be without an adequate remedy at law. Therefore, in the event of such a breach, or threatened or attempted breach of any of the provisions hereof, Franchisee is obligated to enforce the provisions of this Agreement and shall be entitled, in addition to any other remedies that are made available to it at law or in equity, to a temporary and/or permanent injunction and a decree for the specific performance of the terms of this Agreement, without the necessity of showing actual or threatened harm and without being required to furnish a bond or other security.

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

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

**e.** THIS AGREEMENT SHALL BE INTERPRETED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REFERENCE TO NORTH CAROLINA CHOICE OF LAW PRINCIPLES. COVENANTOR HEREBY IRREVOCABLY SUBMITS HIMSELF OR HERSELF TO THE JURISDICTION OF THE STATE AND FEDERAL COURTS OF THE STATE OF NORTH CAROLINA. COVENANTOR HEREBY WAIVES ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. COVENANTOR HEREBY AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON COVENANTOR IN ANY PROCEEDING RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY NORTH CAROLINA OR FEDERAL LAW. COVENANTOR FURTHER AGREES THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE IN NORTH CAROLINA; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION THAT INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF, FRANCHISOR OR FRANCHISEE MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE THAT HAS JURISDICTION.

**f.** The parties agree that each of the foregoing covenants contained herein shall be construed as independent of any other covenant or provision of this Agreement.

**g.** Covenantor acknowledges and agrees that each of the covenants contained herein will not impose any undue hardship on Covenantor since Covenantor has other considerable skills, experience and education which affords Covenantor the opportunity to derive income from other endeavors.

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

**i.** All notices and demands required to be given hereunder shall be in writing, and shall be delivered personally or by certified or registered mail, postage prepaid, addressed to the party for whom intended, and shall be deemed given on the date of delivery or the date delivery is refused. All such notices shall be addressed to the party to be notified at the following addresses:

If directed to Franchisee:

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

If directed to Covenantor:

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

Any change in the foregoing addresses shall be effected by giving written notice of such change to the other parties.

**j.** Franchisor is an intended third-party beneficiary of this Agreement, and Franchisor may take whatever action it deems necessary to enforce Covenantor's obligations hereunder. The rights and remedies of Franchisor under this Agreement are fully assignable and transferable and shall inure to the benefit of its respective affiliates, successors and assigns.

**k.** The respective obligations of Franchisee and Covenantor hereunder may not be assigned by Franchisee or Covenantor, without the prior written consent of Franchisor.

The undersigned have entered into this Confidentiality and Non-Compete Agreement as witnessed by their signatures below.

FRANCHISEE:

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

COVENANTOR:

\_\_\_\_\_

Name: \_\_\_\_\_

## ATTACHMENT 9

### PROVISIONS APPLICABLE TO SBA FINANCING

For the purpose of Franchisee's application for funding from a lender in which funding is provided with the assistance of the U. S. Small Business Administration (the "SBA"), and at all times that the SBA has an interest in any SBA-assisted financing provided to Franchisee, Franchisor and Franchisee agree as follows:

1. With respect to a partial interest in the Franchised Business, Franchisor may exercise its option to purchase or its right of first refusal only if the proposed transferee is not a current owner or family member of a current owner of Franchisee.

2. If Franchisor's consent is required for any transfer (full or partial) of the Franchised Business, Franchisor will not unreasonably withhold such consent.

3. If Franchisee owns the real estate where the Franchised Business operates, Franchisee will not be required to sell the real estate upon default or termination of the Franchise Agreement, but Franchisee may be required to lease the real estate for the remainder of the Term (excluding additional renewals) for fair market value.

4. If Franchisee owns the real estate where the Franchised Business operates, Franchisor has not and will not during the Term of the Franchise Agreement record against the real estate any restrictions on the use of the property, including any restrictive covenants, branding covenants or environmental indemnification, control or use restrictions. If any such restrictions are currently recorded against Franchisee's real estate, they must be removed in order for Franchisee to obtain SBA financial assistance.

5. If Franchisee owns the real estate where the Franchised Business operates, the right of Franchisor to assume Franchisee's lease has not and will not during the Term of the Franchise Agreement be recorded against the real estate and may not include any attornment language unless it is subordinated to any SBA financial assistance.

6. For other than regularly scheduled payments and payments otherwise authorized in the Franchise Agreement, Franchisor does not have the authority to unilaterally share, commingle, or withdraw funds from Franchisee's bank account.

7. The Franchise Agreement does not prevent Franchisee from having meaningful oversight over the operations of the Franchised Business. Meaningful oversight includes the authority to:

- i. Approve the annual budget of the Franchised Business;
- ii. Have control over the bank accounts of the Franchised Business; AND
- iii. Have oversight over the employees operating the Franchised Business (who must be employees of Franchisee).

Franchisee agrees that the Franchise Agreement does not prevent Franchisee from having meaningful oversight over the operations of the Franchised Business by requiring Franchisee to comply with quality, marketing, and operations standards that govern Franchisee's use of Franchisor's System.

**ATTACHMENT 10**

**ADDENDUM FOR CONVERSION FRANCHISE**

THIS ADDENDUM (“Addendum”) dated \_\_\_\_\_, hereby amends and modifies the Adam & Eve Franchise Agreement dated \_\_\_\_\_ (the “Franchise Agreement”), by and between AEFC, Inc. , a North Carolina corporation, with its principal place of business at 302 Meadowlands Drive, Hillsborough, North Carolina 27278 (herein “Franchisor”), and \_\_\_\_\_, a(n) \_\_\_\_\_, with its principal place of business located at \_\_\_\_\_, and \_\_\_\_\_’s principal(s) \_\_\_\_\_, an individual, residing at \_\_\_\_\_, and \_\_\_\_\_, an individual, residing at \_\_\_\_\_ (“Principal(s)”). \_\_\_\_\_ and Principal(s) shall be individually and collectively referred to, and each is, the “Franchisee”.

**WHEREAS**, Franchisor and Franchisee are parties to a franchise agreement dated \_\_\_\_\_, which grants Franchisee the rights to operate an Adam & Eve franchise located at \_\_\_\_\_ in accordance with said agreement (the “Franchise Agreement”); and

**WHEREAS**, Franchisee desires to convert Franchisee’s existing business to an Adam & Eve Store under the System and Proprietary Marks (as those terms are defined in the Franchise Agreement);

**WHEREAS**, the parties seek to amend the terms of the Franchise Agreement as set forth in this Addendum for the purpose of converting Franchisee’s previous business to an Adam & Eve Store; and

**NOW, THEREFORE**, in consideration of the mutual promises contained in the Franchise Agreement and this Addendum, and for good and valuable considerations in hand paid by each of the parties to the others, the receipt and sufficiency of which the parties acknowledge, the parties agree as follows:

1. **Initial Franchise Fee**. Section 6.1.1 is hereby amended by reducing the non-refundable Initial Franchise Fee due upon execution of the Franchise Agreement from Thirty Thousand Dollars (\$30,000) to Ten Thousand Dollars (\$10,000.00).
2. **Royalty Fee**. Section 6.1.21 is hereby amended to reduce the Royalty Fee to three percent (3%) of Net Sales. Franchisor shall provide Franchisee with a Royalty Fee credit in the amount of up to Sixteen Thousand Two Hundred and Fifty Dollar (\$16,250) towards leasehold improvements and fixtures.
3. **Site Selection**. Section 8.1.2 is hereby amended to state that by presenting Franchisee with the Agreement and Addendum, Franchisor has deemed to have approved the location in Attachment 2 to the Agreement for a conversion to an Adam & Eve franchise.
4. **Time to Open**. Section 8.3 is hereby amended to provide that the Franchisee shall open the Franchised Business and commence business within Forty Five (45) days after execution of the Agreement, unless Franchisee obtains a written extension of such time period from Franchisor.
5. **Grand Opening Marketing Campaign**. Section 13.2.3 is hereby amended by reducing the amount the Franchisee must spend to between “Three Thousand Dollars (\$3,000.00) and Six Thousand Dollars (\$6,000.00)”.

Except as amended hereby, all other terms and provisions of the Franchise Agreement remain in full force and effect.

The parties hereto have duly signed and executed this Addendum to the Adam & Eve Franchise Agreement as of the day and year first above written.

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Entity):

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

**EXHIBIT C**

**MULTI-UNIT DEVELOPMENT AGREEMENT**

**AEFC, INC.**

**MULTI-UNIT DEVELOPMENT AGREEMENT**

\_\_\_\_\_  
**DEVELOPER**

\_\_\_\_\_  
**DATE OF AGREEMENT**

**AEFC, INC.**

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**ATTACHMENTS:**

- 1 – Development Area
- 2 – Development Fee and Mandatory Development Area

THIS MULTI-UNIT DEVELOPMENT AGREEMENT (this "Agreement") is being entered into this day of \_\_\_\_\_ (the "Effective Date"), by and between AEFC, Inc. , a North Carolina corporation, with its principal place of business at 302 Meadowlands Drive, Hillsborough, North Carolina 27278 (herein "Franchisor"), and \_\_\_\_\_, an individual, residing at \_\_\_\_\_, and \_\_\_\_\_, an individual, residing at \_\_\_\_\_ (individually and together herein "Developer").

## RECITATIONS

Through the expenditure of considerable time, effort, and money, Franchisor has developed and established specialty retail stores for sexually mature themed products,, under the Adam & Eve trademarks, and using Franchisor's confidential operations manual ("Manual") of business practices and policies, and Franchisor's distinctive, décor, fixtures and furnishings, operations methods, sales techniques, inventory, procedures for management control and training, assistance, advertising, and promotional programs, all of which may be changed, improved or further developed by Franchisor at any time (taken together herein the "System").

The System is identified by certain trade names, service marks, trademarks, logos, emblems and indicia of origin, including but not limited to the Adam & Eve service mark, and such other trade names, service marks, and trademarks as are now designated and may hereafter be designated or substituted by Franchisor for use in connection with the System (the "Marks").

Franchisor continues to develop, use, and control the use of such Marks in order to identify for the public the source of services and products marketed under the Marks and the System and to represent the System's high standards of quality, appearance, and service.

Pursuant to franchise agreements, Franchisor licenses to others the right to operate Adam & Eve outlets, using the Marks and System, in strict conformity therewith, which may be changed, improved and further developed by Franchisor from time to time (each a "Franchise Agreement").

Developer understands and acknowledges the importance of Franchisor's high and uniform standards of quality, service, and appearance, and the necessity of operating franchised businesses of the System in conformity with Franchisor's standards and specifications.

Developer desires to obtain the right to further develop and expand the System in accordance with the development schedule described on Section 5.2 and Attachment 2 hereof (the "Mandatory Development Schedule") within the development area described on Attachment 1 (the "Development Area"), under the System and Marks, on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties, in consideration of the promises, undertakings, and commitments of each party to the other set forth herein, and intending to be legally bound hereby, mutually agree as follows:

### **1. RECITATIONS.**

The Recitations set out above form part of this Agreement.

## 2. GRANT OF DEVELOPMENT RIGHTS.

2.1 Grant. Franchisor hereby grants to Developer, and Developer hereby accepts from Franchisor, on the terms and conditions set forth in this Agreement, which includes, but is not limited to, the execution of a Franchise Agreement pursuant to Section 4 hereof, the right to develop, construct, open, and operate one (1) Adam & Eve outlet within the Development Area set forth in Attachment 1. Developer shall be granted rights to establish additional Adam & Eve outlets in the Development Area, up to the total number of outlets set forth in the Mandatory Development Schedule set forth in Attachment 2 hereof, subject to Developer's full compliance with all conditions precedent to the grant of such rights outlined below, which rights shall be exercised in accordance with Section 4.1 hereof.

2.2 Reservation of Rights. Notwithstanding the provisions of Section 2.1 above, Developer understands and agrees Franchisor fully reserves all other rights, other than as specified in this Agreement, for sales, solicitation and distribution of Adam & Eve products and services outside of the Development Area. This reservation of Franchisor's rights includes, but is not limited to, Franchisor's right to offer (i) other products or services not offered under the Marks, (ii) other mature themed concepts under the Marks or other trademarks, and (iii) products or services through any other channel of distribution in the Development Area other than a dedicated Adam & Eve outlet such as distribution through retail outlets, such as distribution through retail outlets, including but not limited to, in captive market locations; mail order, interactive television, wholesale and the internet .

2.3 No License to System and Marks. Developer expressly acknowledges that this Agreement is not a Franchise Agreement and does not grant to Developer any right or license to operate an Adam & Eve outlet, distribute any product or service, or use the Marks. This Agreement sets forth conditions which, if fully satisfied, confer upon Developer the rights to enter a Franchise Agreement with Franchisor to establish one (1) or more Adam & Eve outlets in the Development Area only. Developer's rights to open and operate an Adam & Eve outlet and use the System and Marks shall be derived only through the execution of a Franchise Agreement for each Adam & Eve outlet to be established in the Development Area.

## 3. TERM.

Unless sooner terminated in accordance with this Agreement, the term of this Agreement and all rights granted by Franchisor under this Agreement shall expire on the date on which Developer successfully and in a timely manner has complied with all of Developer's obligations hereunder and has completed the development obligations in accordance with the Mandatory Development Schedule.

## 4. DEVELOPMENT AND FRANCHISE FEES.

4.1 Multi-Unit Development Fee. In consideration of the rights granted under this Agreement, Developer shall pay Franchisor a development fee (the "Development Fee") as outlined in Attachment 2 hereto. The Development Fee is fully earned at the time this Multi-Unit Development Agreement is signed and is not refundable under any circumstances. Developer shall pay the full amount of the Development Fee to Franchisor upon Developer's execution of this Agreement.

**The Development Fee is fully earned at the time this Multi-Unit Development Agreement is signed and is not refundable under any circumstances.** Developer shall pay the full amount of the Development Fee to Franchisor upon Developer's execution of this Agreement. The Development Fee is calculated as 100% of the initial franchise fee for the first unit and the reduced initial franchise fee for each additional outlet in the following table:

<b>Outlet</b>	<b>Reduced Initial Franchise Fee Per Outlet</b>
2 <sup>nd</sup>	\$22,500
3 <sup>rd</sup> and 4 <sup>th</sup>	\$20,000
5 <sup>th</sup> through 9 <sup>th</sup>	\$15,000
10 <sup>th</sup> through 14 <sup>th</sup>	\$10,000
15 <sup>th</sup> through 19 <sup>th</sup>	\$7,500
20 <sup>th</sup> and each subsequent outlet	\$5,000

4.2 Application of Development Fee. Contemporaneously with the execution of this Agreement, Developer shall execute the initial Franchise Agreement for the first Adam & Eve outlet to be established pursuant to the Mandatory Development Schedule. Upon Franchisor's approval, Developer may enter into the Franchise Agreement as required under this Agreement using a newly formed entity, such as a limited liability company, corporation or partnership, for the sole purpose of entering into a Franchise Agreement and operating the Adam & Eve outlet pursuant thereto, provided that Developer shall also personally sign such Franchise Agreement as a principal.

## **5. EXERCISE OF DEVELOPMENT RIGHTS.**

5.1 Valid Exercise. Developer shall exercise the development rights granted hereunder only by entering into a separate Franchise Agreement with Franchisor for each Adam & Eve outlet for which a development right is granted. Developer shall execute and deliver to Franchisor, concurrently with the execution and delivery of this Agreement, Franchisor's current form of Franchise Agreement for the first Adam & Eve outlet to be established by Developer pursuant to the Mandatory Development Schedule. For each subsequent Adam & Eve outlet to be established hereunder, Developer shall execute and deliver to Franchisor Franchisor's then-current form of Franchise Agreement, which shall be presented to Developer together with Franchisor's then-current Franchise Disclosure Document. The then-current form of Franchise Agreement may differ from the current form of Franchise Agreement. Further, Developer acknowledges and agrees that Developer shall not receive any initial training related to each additional Adam & Eve outlet. Developer hereby waives all obligations by Franchisor to provide any training to Developer contained in each Franchise Agreement, other than the initial Franchise Agreement executed concurrently herewith, by and between Franchisor and Developer. Developer hereby acknowledges and agrees that the training Developer receives pursuant to the initial Franchise Agreement executed concurrently with this Agreement is sufficient to allow Developer to construct, equip, open, and operate each of Developer's Adam & Eve outlets in the Development Area.

5.2 Mandatory Development Schedule. Subsequent to Developer's signing of this Agreement and the initial Franchise Agreement, and provided that all conditions in Section 5.4 hereof are satisfied or waived, upon the execution of a lease for Developer's first Adam & Eve outlet, Developer shall execute an additional Franchise Agreement for the development of the second Adam & Eve outlet to be opened under the Mandatory Development Schedule. Provided that all conditions in Section 5.4 hereof are satisfied or waived, upon the execution of a lease for each subsequent Adam & Eve outlet to be developed by Developer, Developer shall execute an additional Franchise Agreement for the development of the next Adam & Eve outlet to be opened under the Mandatory Development Schedule. Notwithstanding the foregoing, Developer shall open the Adam & Eve outlets in accordance with the Mandatory Development Schedule described in Attachment 2 hereto.

Developer acknowledges and agrees that the terms of the Mandatory Development Schedule are reasonable and viable based upon Developer's independent investigation and analysis. Failure by Developer

to adhere to the Mandatory Development Schedule (including any extensions thereof approved by Franchisor in writing pursuant to Section 5.3 below) shall constitute a material event of default under this Agreement.

5.3 Extension of Mandatory Development Schedule. If Developer is unable to meet the Mandatory Development Schedule for any outlet, Developer may seek a reasonable extension from Franchisor. Any request for an extension must be in writing and submitted to Franchisor at least sixty (60) days prior to the Mandatory Open Date for such outlet. Franchisor shall not unreasonably withhold consent for such reasonable extension provided that Developer has (i) submitted its extension request in a timely manner; (ii) demonstrated diligent efforts to meet the original Mandatory Open Date; and (iii) has at all times acted in good faith and is otherwise fulfilling its obligations under this Agreement.

5.4 Conditions to Exercise Developer's Rights. All of the following conditions must be satisfied or waived, in Franchisor's sole discretion, before Franchisor grants Developer the right to develop an additional Adam & Eve outlet in accordance with Section 4 hereof and pursuant to a Franchise Agreement:

5.4.1 Developer shall (i) request Franchisor's then-current Franchise Disclosure Document, (ii) submit to Franchisor all information and other documents requested by Franchisor prior to and as a basis for the issuance of Franchise Agreements in the System, (iii) submit to Franchisor all financial statements reasonably requested by Franchisor, and (iv) satisfy Franchisor's then-current financial criteria.

5.4.2 Developer shall be in full compliance with this Agreement, the Mandatory Development Schedule, and all Franchise Agreements with Franchisor and any other agreement with Franchisor or Franchisor's affiliates;

5.4.3 Developer has demonstrated the management skills necessary for competent operation, organization, customer service, and record keeping of an additional Adam & Eve outlet as determined by Franchisor, in Franchisor's sole discretion.

5.5 Termination for Failure of Condition. Notwithstanding anything to the contrary contained herein, in the event that Franchisor determines, in Franchisor's sole and absolute discretion, that any condition set forth in Section 5.4 hereof cannot be satisfied, Franchisor may terminate this Agreement upon written notice to Developer. Termination of this Agreement in accordance with this Section 5.5 shall have no effect on the validity of any other agreement between Franchisor and Developer, provided that Developer is in full compliance therewith.

## **6. TRANSFER.**

### 6.1 Transfers by Franchisor.

6.1.1 Franchisor shall have the right to assign this Agreement, and all of Franchisor's rights and privileges hereunder, to any person, firm, corporation or other entity, without Developer's permission or prior knowledge, provided that, with respect to any assignment resulting in the subsequent performance by the assignee of Franchisor's obligations, the assignee shall expressly assume and agree to perform Franchisor's obligations hereunder. Specifically, and without limitation to the foregoing, Developer expressly affirms and agrees that Franchisor may: (i) sell Franchisor's assets and Franchisor's rights to the Marks and the System outright to a third party; (ii) engage in a public or private placement of some or all of Franchisor's securities; (iii) merge, acquire other corporations, or be acquired by another corporation, including competitors; (iv) undertake a refinancing, recapitalization, leveraged buy-out, or other economic or financial restructuring; and (v) with regard to any or all of the above sales, assignments, and dispositions, Developer expressly and specifically waives any claims, demands, or damages arising from or relating to the loss of association with or identification of Franchisor. Nothing contained in this

Agreement shall require Franchisor to remain in the business franchised herein or to offer the same products and services, whether or not bearing the Marks, in the event that Franchisor exercises its prerogative hereunder to assign Franchisor's rights in this Agreement.

6.1.2 Developer agrees that Franchisor has the right, now or in the future, to purchase, merge, acquire, or affiliate with an existing competitive or non-competitive franchise network, chain, or any other business regardless of the location of that chain's or business' facilities, and to operate, franchise, or license those businesses and/or facilities operating under any other marks following Franchisor's purchase, merger, acquisition, or affiliation, regardless of the location of the facilities (which Developer acknowledges may be within the Development Area, proximate thereto, or proximate to any of Developer's locations).

6.1.3 If Franchisor assigns its rights in this Agreement, nothing herein shall be deemed to require Franchisor or any of its affiliates to remain in any line of business or to offer or sell any products or services to Developer.

6.2 Restrictions on Transfers by Developer. Developer's rights and duties under this Agreement are personal to Developer, and Franchisor has made this Agreement with Developer in reliance on Franchisor's perceptions of the individual and collective character, skill, aptitude, attitude, business ability, and financial capacity of Developer. Thus, no transfer, as hereafter defined, may be made without Franchisor's prior written approval. Franchisor may void any transfer made without such approval.

6.3 Transfers by Developer. Developer shall not directly or indirectly sell, assign, transfer, give, devise, convey, or encumber this Agreement or any right granted or interest herein or hereunder (a "Transfer") or suffer or permit any such assignment, transfer, or encumbrance to occur by operation of law unless Developer first obtains the written consent of Franchisor, which Franchisor may or may not grant in Franchisor's sole discretion, and subject to the following:

6.3.1 The proposed transferee must be an individual of good moral character and otherwise meet Franchisor's then-applicable standards for multi-unit franchisees.

6.3.2 The transferee must have sufficient business experience, aptitude, and financial resources to operate multiple Adam & Eve outlets and to comply with this Agreement;

6.3.3 The transferee has agreed to complete Franchisor's initial training program to Franchisor's satisfaction;

6.3.4 Developer has paid all amounts owed to (i) Franchisor pursuant to this Agreement and all Franchise Agreements and other agreements between Franchisor and/or Franchisor's affiliates and Developer and (ii) third-party- creditors;

6.3.5 The transferee has executed Franchisor's then-standard form of Multi-Unit Development Agreement, which may have terms and conditions different from this Agreement, for a term no less than the unexpired term of future development obligations due pursuant to the Mandatory Development Schedule of this Agreement;

6.3.6 Developer and the transferee shall have executed a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor and Franchisor's officers, directors, shareholders, members, and employees in their corporate and individual capacities, including, without limitation, claims arising under federal, state, and local laws, rules, and ordinances. Developer agrees to subordinate any claims Developer may have against the transferee to Franchisor and indemnify Franchisor

against any claims by the transferee relating to misrepresentations in the transfer process, specifically excluding those representations made by Franchisor in the Franchise Disclosure Document given to the transferee;

6.3.7 Franchisor has granted written approval of the material terms and conditions of the Transfer, including, without limitation, that the price and terms of payment will not adversely affect the transferee's development obligations. However, Franchisor's approval of a Transfer is not in any way a representation or warranty of the transferee's success or the soundness of transferee's decision to purchase the Developer's development rights on such terms and conditions. Developer shall provide Franchisor all proposed transfer documents for Franchisor's review at least thirty (30) days prior to a closing of the proposed Transfer; and

6.3.8 If Developer, through Developer or any entity, finances any part of the sale price of the Transfer, Developer agrees that all obligations of the transferee under any notes, agreements, or security interests to Developer or Developer's entity will be subordinate to the transferee's obligations to Franchisor.

6.4 Transfer Fee. As a condition to any Transfer, Developer shall pay Franchisor a transfer fee of Ten Thousand Dollars (\$10,000.00). However, no transfer fee will be required for transfers occurring before the first anniversary of the effective date of the Franchise Agreement.

6.5 Franchisor 's Right of First Refusal.

6.5.1 If Developer wishes to transfer all or part of his or her interest in this Agreement pursuant to any bona fide offer received from a third party to purchase such interest, then Developer shall promptly notify Franchisor in writing of each such offer, and shall provide such information and documentation relating to the offer as Franchisor may require.

6.5.2 Franchisor has the right, exercisable by written notice to Developer within thirty (30) days after receipt of written notification and copies of all documentation required by Franchisor describing such offer, to buy the interest in this Agreement for the price and on the terms and conditions contained in the offer.

6.5.3 Developer further agrees, in the event Franchisor exercises its right of first refusal, notwithstanding anything to the contrary contained in the third-party offer, that (i) Franchisor may substitute cash for any other form of consideration contained in the offer; (ii) at Franchisor 's option, Franchisor may pay the entire purchase price at closing; (iii) Franchisor 's credit will be deemed equal to the credit of any proposed transferee; (iv) Franchisor will have at least sixty (60) days to close the purchase; and (v) Franchisor will be entitled to receive from Developer all customary representations and warranties given by a seller of franchise development rights.

6.5.4 If Franchisor does not exercise its right to buy within thirty (30) days, Developer may thereafter transfer the interest to the transferee on terms no more favorable than those disclosed to Franchisor, provided that such transfer is subject to Franchisor 's prior written approval pursuant to Section 6.3 hereof. However, if (i) the sale to the transferee is not completed within one hundred twenty (120) days after the offer is given to Franchisor or (ii) there is any material change in the terms of the offer, the offer will again be subject to Franchisor's right of first refusal.

6.6 Death or Permanent Disability. The grant of rights under this Agreement is personal to Developer, and on the death or permanent disability of Developer, the executor, administrator, conservator, or other personal representative of Developer shall be required to transfer Developer's interest in this

Agreement within six (6) months from the date of death or permanent disability to a third party approved by Franchisor. Failure to transfer in accordance with the forgoing will constitute a material default and all that is granted by this Agreement will terminate. A transfer under this Section 6.6, including without limitation, transfer by devise or inheritance, is subject to the conditions for Transfers in this Article 6 and unless transferred by gift, devise, or inheritance, subject to the terms of Section 6.5 above. For purposes of this Agreement, the term "permanent disability" means a mental or physical disability, impairment, or condition that is reasonably expected to prevent or actually does prevent such person from providing continuous and material supervision of the operation of Developer's Adam & Eve outlet(s) and remaining development schedule during the six (6)-month period from its onset.

## **7. DEFAULT AND TERMINATION.**

7.1 Default and Automatic Termination. Developer shall be deemed to be in material default under this Agreement, and all rights granted herein shall automatically terminate without notice to Developer, if Developer shall become insolvent or makes a general assignment for the benefit of creditors; or if Developer files a voluntary petition under any section or chapter of federal bankruptcy law or under any similar law or statute of the United States or any state thereof, or admits in writing his or her inability to pay debts when due; or if Developer is adjudicated a bankrupt or insolvent in proceedings filed against Developer under any section or chapter of federal bankruptcy laws or under any similar law or statute of the United States or any state; or if a bill in equity or other proceeding for the appointment of a receiver of Developer or other custodian for Developer's business or assets is filed and consented to by Developer; or if a receiver or other custodian (permanent or temporary) of Developer's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; or if proceedings for a composition with creditors under any state or federal law should be instituted by or against Developer; or if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); or if execution is levied against Developer's business or property; or if suit to foreclose any lien or mortgage against any of Developer's Adam & Eve outlet premises or equipment is instituted against Developer and not dismissed within thirty (30) days.

7.2 Defaults With No Opportunity to Cure. Developer shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, without affording Developer any opportunity to cure the default, effective immediately upon notice to Developer, if Developer:

7.2.1 has misrepresented or omitted material facts in applying for the development rights granted hereunder;

7.2.2 falsifies any report required to be furnished Franchisor hereunder;

7.2.3 fails to comply with any federal, state, or local law, rule or regulation, applicable to the development and operations of Developer's Adam & Eve outlets, including, but not limited to, the failure to pay taxes;

7.2.4 fails to develop the Adam & Eve outlets in accordance with the Mandatory Development Schedule.

7.2.5 attempts a Transfer in violation of the provisions of Article 6 of this Agreement;

7.2.6 is convicted of, or pleads no contest to, a felony or to a crime that could damage the goodwill associated with the Marks or does anything that may harm the reputation of the System or the goodwill associated with the Marks;

7.2.7 receives an adverse judgment or a consent decree in any case or proceeding involving allegations of fraud, racketeering, unfair or improper trade practices or similar claim which is likely to have an adverse effect on the System, or the Marks, the goodwill associated therewith or Franchisor's interest therein, in Franchisor's sole opinion;

7.2.8 fails to comply with the non-disclosure and non-competition covenants in Article 8 hereof;

7.2.9 defaults, or an affiliate of Developer defaults, under any other agreement, including any Franchise Agreement, with Franchisor or any of its affiliates or suppliers and does not cure such default within the time period provided in such other agreement; or

7.2.10 terminates this Agreement without cause.

7.3 Curable Defaults. Developer shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, if Developer fails to cure the default within the time period set forth in this Section 7.3, effective immediately upon notice to Developer, if Developer:

7.3.1 fails to pay when due any amounts due to Franchisor under this Agreement or any related agreement and does not correct the failure within five (5) days after written notice; provided, however, Franchisor has no obligation to give written notice of a late payment more than two (2) times in any twelve (12)-month period, and the third such late payment in any twelve (12)-month period shall be a non-curable default under Section 7.2;

7.3.2 fails to perform any non-monetary obligation imposed by this Agreement (excepting those defaults of obligations set forth in Sections 7.1 and 7.2 for which there is no opportunity to cure) and such default shall continue for five (5) days after Franchisor has given written notice of such default, or if the default cannot be reasonably corrected within said five (5)-day period, then if it is not corrected within such additional time as may be reasonably required assuming Developer proceeds diligently to cure; provided, however, Franchisor has no obligation to give written notice of a non-monetary default more than two (2) times in any twelve (12)-month period, and the third such default, whether monetary or non-monetary, in any twelve (12) - month period shall be a non-curable default under Section 7.2.

7.4 Post-Termination Obligations. Upon termination or expiration of this Agreement, all rights and licenses granted hereunder to Developer shall immediately terminate and Developer shall (i) immediately cease all development operations pursuant to this Agreement; and (ii) comply with the non-disclosure and non-competition covenants contained in Article 8.

## **8. NON-DISCLOSURE AND NON-COMPETITION COVENANTS.**

8.1 Confidential Information. Developer acknowledges and accepts that during the term of this Agreement, Developer will have access to Franchisor's trade secrets, including, but not limited to, methods, processes, customer lists, vendor partnerships and/or relationships, sales and technical information, financial information, costs, product prices and names, software tools and applications, website and/or email design, products, services, equipment, technologies and procedures relating to the operation of the Franchised Business; the Manual; methods of advertising and promotion; instructional materials; any other information which Franchisor may or may not specifically designate as "confidential" or "proprietary"; and the components of the System, whether or not such information is protected or protectable by patent, copyright, trade secret, or other proprietary rights (collectively referred to herein as the "Confidential Information").

Developer shall not, during the term of this Agreement and thereafter, communicate or divulge to, or use for the benefit of, any other person or entity, and, following the expiration or termination of this Agreement, shall not use for Developer's own benefit, any Confidential Information that may be communicated to Developer or of which Developer may be apprised in connection with the development of Adam & Eve outlets under the terms of this Agreement. Developer shall not at any time copy, duplicate, record, or otherwise reproduce any Confidential Information, in whole or in part, or otherwise make the same available to any person, without Franchisor's prior written consent. The covenant in this Section 8.1 shall survive the expiration, termination, or transfer of this Agreement or any interest herein and shall be perpetually binding upon Developer.

8.2 Protection of Information. Developer shall take all steps necessary, at Developer's own expense, to protect the Confidential Information and shall immediately notify Franchisor if Developer finds that any Confidential Information has been divulged in violation of this Agreement.

8.3 Non-Competition Covenants. Developer acknowledges that, pursuant to this Agreement, Developer will receive valuable training, trade secrets, and Confidential Information of the System that are beyond the present knowledge, training, and experience of Developer. Developer acknowledges that such specialized training, trade secrets, and Confidential Information provide a competitive advantage and will be valuable to him or her in the development and operation of Adam & Eve outlets, and that gaining access to such specialized training, trade secrets, and Confidential Information is, therefore, a primary reason why Developer is entering into this Agreement. In consideration for such specialized training, trade secrets, Confidential Information, and rights, Developer covenants that, except as otherwise approved in writing by Franchisor:

8.3.1 During the term of this Agreement, Developer shall not, either directly or indirectly, for himself or herself or through, on behalf of, or in conjunction with, any person or entity (i) divert, or attempt to divert, any business or customer of the Developer's Adam & Eve outlets or of other developers or franchisees in the System to any competitor, by direct or indirect inducement or otherwise; (ii) participate as an owner, partner, director, officer, employee, consultant, or agent or serve in any other capacity in any mature themed business similar to the System; (iii) do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System, or (iv) in any manner interfere with, disturb, disrupt, decrease, or otherwise jeopardize the business of the Franchisor or any Adam & Eve developers or franchisees or Franchisor-affiliated outlets.

8.3.2 Upon the expiration or earlier termination of this Agreement or upon a Transfer and continuing for twenty-four (24) months thereafter, Developer shall not, either directly or indirectly, for himself or herself or through, on behalf of, or in conjunction with any person or entity (i) divert, or attempt to divert, any business or customer of Developer's Adam & Eve outlets or of other franchisees in the System to any competitor, by direct or indirect inducement or otherwise; (ii) participate as an owner, partner, director, officer, employee, consultant or agent, or serve in any Competitive Business within ten (10) miles of the Development Area or any Adam & Eve location; (iii) do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System, or (iv) in any manner interfere with, disturb, disrupt, decrease or otherwise jeopardize the business of the Franchisor or any Adam & Eve developers or franchisees.

8.4 Reasonableness of Restrictions. Developer acknowledges and agrees that the covenants not to compete set forth in this Agreement are fair and reasonable and will not impose any undue hardship on Developer since Developer has other considerable skills, experience, and education which afford Developer the opportunity to derive income from other endeavors.

8.5 Reduction of Time or Scope. If the period of time or the geographic scope specified above, should be adjudged unreasonable in any proceeding, then the period of time will be reduced by such number of months or the geographic scope will be reduced by the elimination of such portion thereof, or both, so that such restrictions may be enforced for such time and scope as are adjudged to be reasonable. In addition, Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Article 8 or any portion thereof, without Developer's consent, effective immediately upon receipt by Developer of written notice thereof, and Developer agrees to forthwith comply with any covenant as so modified.

8.6 Injunctive Relief. Developer acknowledges that a violation of the covenants not to compete contained in this Agreement would result in immediate and irreparable injury to Franchisor for which no adequate remedy at law will be available. Accordingly, Developer hereby consents to the entry of an injunction prohibiting any conduct by Developer in violation of the terms of the covenants not to compete set forth in this Agreement.

8.7 No Defense. Developer expressly agrees that the existence of any claims he or she may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Section.

## **9. INDEMNIFICATION.**

TO THE FULLEST EXTENT PERMITTED BY LAW, DEVELOPER AGREES TO EXONERATE AND INDEMNIFY AND HOLD HARMLESS AEFC, INC., PHE, INC. AND ANY OF THEIR PARENT COMPANIES, SUBSIDIARIES, DIVISIONS, AFFILIATES, SUCCESSORS, ASSIGNS, AND DESIGNEES, AS WELL AS THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SHAREHOLDERS, SUCCESSORS, DESIGNEES, AND REPRESENTATIVES (COLLECTIVELY REFERRED TO AS THE "ADAM & EVE INDEMNITEES"), FROM ALL CLAIMS BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATED TO THE DEVELOPMENT, OPERATION, CONDITION, OR ANY PART OF ANY OF DEVELOPER'S ADAM & EVE OUTLETS TO BE DEVELOPED HEREUNDER, THE PRODUCTS, THE PREMISES, OR ANY ASPECT OF THE REAL ESTATE CONNECTED TO ANY OF SUCH ADAM & EVE OUTLETS, WHETHER CAUSED BY DEVELOPER'S AGENTS OR EMPLOYEES, OR ARISING FROM DEVELOPER'S ADVERTISING OR BUSINESS PRACTICES. DEVELOPER AGREES TO PAY FOR ALL THE ADAM & EVE INDEMNITEES' LOSSES, EXPENSES (INCLUDING, BUT NOT LIMITED TO ATTORNEYS' FEES), OR CONCURRENT OR CONTRIBUTING LIABILITY INCURRED IN CONNECTION WITH ANY ACTION, SUIT, PROCEEDING, INQUIRY (REGARDLESS OF WHETHER THE SAME IS REDUCED TO JUDGMENT OR DETERMINATION), OR ANY SETTLEMENT THEREOF FOR THE INDEMNIFICATION GRANTED BY DEVELOPER HEREUNDER. THE ADAM & EVE INDEMNITEES SHALL HAVE THE RIGHT TO SELECT AND APPOINT INDEPENDENT COUNSEL TO REPRESENT ANY OF THE ADAM & EVE INDEMNITEES IN ANY ACTION OR PROCEEDING COVERED BY THIS INDEMNITY. DEVELOPER AGREES THAT TO HOLD THE ADAM & EVE INDEMNITEES HARMLESS, DEVELOPER WILL REIMBURSE THE ADAM & EVE INDEMNITEES AS THE COSTS AND EXPENSES ARE INCURRED BY THE ADAM & EVE INDEMNITEES.

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## **10. DISPUTE RESOLUTION.**

10.1 Internal Dispute Resolution. Developer shall first bring any claim, controversy, or dispute

arising out of or relating to this Agreement, the Attachments hereto, or the relationship created by this Agreement to Franchisor's president and/or chief executive officer for resolution. After providing notice as set forth in Section 11.7 below, Developer must exhaust this internal dispute resolution procedure before Developer may bring Developer's dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Agreement.

10.2 Mediation. At Franchisor's option, any claim, controversy, or dispute that is not resolved pursuant to Section 10.1 hereof shall be submitted to non-binding mediation. Developer shall provide Franchisor with written notice of Developer's intent to pursue any unresolved claim, controversy, or dispute, specifying in sufficient detail the nature thereof, prior to commencing any legal action. Franchisor shall have thirty (30) days following receipt of Developer's notice to exercise Franchisor's option to submit such claim, controversy, or dispute to mediation. Mediation shall be conducted through a mediator or mediators in accordance with the American Arbitration Association Commercial Mediation Rules. Such mediation shall take place in the then-current location of Franchisor's corporate headquarters. The costs and expenses of mediation, including compensation and expenses of the mediator (and except for the attorneys' fees incurred by either party), shall be borne by the parties equally. Franchisor may specifically enforce Franchisor's rights to mediation, as set forth herein.

### 10.3 Arbitration.

10.3.1 Except disputes not subject to alternative dispute resolution as set forth in Section 10.4, any dispute between Franchisor and Developer arising out of or relating to this Agreement, the Attachments hereto, or any breach thereof, including any claim that this Agreement or any of its parts, is invalid, illegal, or otherwise voidable or void, which has not been resolved in accordance with Sections 10.1 or 10.2, will be resolved by submission to the American Arbitration Association or its successor organization to be settled by a single arbitrator in accordance with the Commercial Arbitration Rules then in effect for such Association or successor organization.

10.3.2 All issues relating to arbitrability or the enforcement of the agreement to arbitrate contained in this Article 10 will be governed by the Federal Arbitration Act (9 U.S.C. §1 *et seq.*) and the federal common law of arbitration. All hearings and other proceedings will take place in the State of North Carolina, or the offices of the American Arbitration Association, or, if Franchisor so elects, in the county where the principal place of business of Developer is then located.

10.3.3 This arbitration provision is self-executing and will remain in full force and effect after expiration or termination of this Agreement. Any arbitration will be conducted on an individual, and not a class-wide or multiple plaintiffs, basis. If either party fails to appear at any properly noticed arbitration proceeding, an award may be entered against the party by default or otherwise, notwithstanding the failure to appear. Judgment upon an arbitration award may be entered in any court having jurisdiction and will be binding, final, and not subject to appeal. No punitive or exemplary damages will be awarded against Franchisor, Developer, or entities related to either of them, in an arbitration proceeding or otherwise, and are hereby waived.

10.3.4 The provisions of this Section 10.3 are independent of any other covenant or provision of this Agreement; provided, however, that if a court of competent jurisdiction determines that any of the provisions are unlawful in any way, the court will modify or interpret the provisions to the minimum extent necessary to have them comply with the law.

10.3.5 In proceeding with arbitration and in making determinations hereunder, no arbitrator shall extend, modify, or suspend any terms of this Agreement or the reasonable standards of

business performance and operation established by Franchisor in good faith. No notice, request, or demand for arbitration shall stay, postpone, or rescind the effectiveness of any termination of this Agreement.

10.3.6 Except as expressly required by law, Franchisor and Developer shall keep all aspects of any mediation and/or arbitration proceeding in confidence and shall not disclose any information about the proceeding to any third party other than legal counsel who shall be required to maintain the confidentiality of such information.

10.4 Exceptions. Notwithstanding the requirements of Sections 10.2 or 10.3, the following claims shall not be subject to mediation or arbitration:

10.4.1 Franchisor's claims for injunctive or other extraordinary relief;

10.4.2 disputes and controversies arising from the Sherman Act, the Clayton Act, or any other federal or state antitrust law;

10.4.3 disputes and controversies based upon or arising under the Lanham Act, as now or hereafter amended, relating to the ownership or validity of the Marks; and

10.4.4 enforcement of Developer's post-termination obligations, including but not limited to, Developer's non-competition covenants.

10.5 Governing Law and Venue. This Agreement is made in and shall be substantially performed in the State of North Carolina. Any claims, controversies, disputes, or actions arising out of this Agreement shall be governed, enforced, and interpreted pursuant to the laws of the State of North Carolina. Developer, except where specifically prohibited by law, hereby irrevocably submits him/herself to the sole and exclusive jurisdiction of the state and federal courts in North Carolina. Developer hereby waives all questions of personal jurisdiction for the purpose of carrying out this provision.

10.6 Mutual Benefit. Developer and Franchisor acknowledge that the parties' agreement regarding applicable state law and forum set forth in Section 10.5 provide each of the parties with the mutual benefit of uniform interpretation of this Agreement and any dispute arising hereunder. Each of Developer and Franchisor further acknowledge the receipt and sufficiency of mutual consideration for such benefit and that each party's agreement regarding applicable state law and choice of forum have been negotiated in good faith and are part of the benefit of the bargain reflected by this Agreement.

10.7 Waiver of Jury Trial and Certain Damages. Developer hereby waives, to the fullest extent permitted by law, any right to or claim for (i) a trial by jury in any action, proceeding, or counterclaim brought by or against Franchisor, and (ii) any punitive, exemplary, incidental, indirect, special, consequential, or other damages (including, without limitation, loss of profits) against Franchisor, its affiliates, and their respective officers, directors, shareholders, partners, agents, representatives, independent contractors, servants, and employees, in their corporate and individual capacities, arising out of any cause whatsoever. Developer agrees that in the event of a dispute, Developer shall be limited to the recovery of any actual damages sustained.

10.8 Limitations of Claims. Any and all claims asserted by Developer arising out of or relating to this Agreement or the relationship among the parties will be barred unless a proceeding for relief is commenced within one (1) year from the date on which Developer knew or should have known of the facts giving rise to such claims.

10.9 Attorneys' Fees. In the event of any action in law or equity by and between Franchisor and

Developer concerning the operation, enforcement, construction, or interpretation of this Agreement, the prevailing party in such action shall be entitled to recover reasonable attorney's fees and court costs incurred.

10.10 Survival. The provisions of this Article 10 shall continue in full force and effect notwithstanding the expiration or termination of this Agreement or a transfer by Developer of his/her respective interests in this Agreement.

## 11. GENERAL.

11.1 Independent Licensee. Developer is and shall be an independent licensee under this Agreement, and no partnership shall exist between Developer and Franchisor. This Agreement does not constitute Developer as an agent, legal representative, or employee of Franchisor for any purpose whatsoever, and Developer is not granted any right or authority to assume or create any obligation for or on behalf of, or in the name of, or in any way to bind Franchisor. Developer agrees not to incur or contract any debt or obligation on behalf of Franchisor or commit any act, make any representation, or advertise in any manner which may adversely affect any right of Franchisor or be detrimental to Franchisor or other developers or franchisees of Franchisor. Pursuant to the above, Developer agrees to indemnify Franchisor and hold Franchisor harmless from any and all liability, loss, attorneys' fees, or damage Franchisor may suffer as a result of claims, demands, taxes, costs, or judgments against Franchisor arising out of the relationship hereby established which specifically, but not exclusively, includes costs, losses, expenses, attorneys fees relative to assignment or the transfer of right to develop and transactional costs relative thereto, defaults under any leases, subleases, notes, receipt of revenues or any other relationships arising directly or indirectly out of the development and operation of the Adam & Eve outlets.

11.2 Successors. This Agreement shall bind and inure to the benefit of the successors and assigns of Franchisor and shall be personally binding on and inure to the benefit of Developer and his or her respective heirs, executors, administrators, and successors or assigns; provided, however, the foregoing provision shall not be construed to allow a transfer of any interest of Developer in this Agreement, except in accordance with Article 6 hereof.

11.3 Invalidity of Part of Agreement. Should any provisions in this Agreement, for any reason, be declared invalid, then such provision shall be invalid only to the extent of the prohibition without in any way invalidating or altering any other provision of this Agreement.

11.4 Entire Agreement. This Agreement, including all attachments, is the entire agreement of the parties, superseding all prior written or oral agreements of the parties concerning the same subject matter, and superseding all prior written or oral representations made to Developer, except the representations made to Developer in Franchisor's Franchise Disclosure Document. No agreement of any kind relating to the matters covered by this Agreement and no amendment of the provisions hereof shall be binding upon either party unless and until the same has been made in writing and executed by all interested parties.

11.5 Construction. All terms and words used in this Agreement, regardless of the number and gender in which they are used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine, or neuter, as the context or sense of this Agreement or any provision herein may require, as if such words had been fully and properly written in the appropriate number and gender. All covenants, agreements, and obligations assumed herein by Developer shall be deemed to be joint and several covenants, agreements, and obligations of each of the persons named as Developer, if more than one person is so named.

11.6 Captions. Captions and section headings are used herein for convenience only. They are not part of this Agreement and shall not be used in construing it.

11.7 Notices. Whenever notice is required or permitted to be given under the terms of this Agreement, it shall be given in writing, and be delivered personally or by certified or registered mail, postage prepaid, addressed to the party for whom intended, and shall be deemed given on the date of delivery or delivery is refused. All such notices shall be addressed to the party to be notified at their respective addresses as first above written, or at such other address or addresses as the parties may from time to time designate in writing.

11.8 Effect of Waivers. No waiver, delay, omission, or forbearance on the part of Franchisor to exercise any right, option, duty, or power arising from any default or breach by Developer shall affect or impair the rights of Franchisor with respect to any subsequent default of the same or of a different kind.

11.9 Remedies Cumulative. All rights and remedies of the parties to this Agreement shall be cumulative and not alternative, in addition to and not exclusive of any other rights or remedies that are provided for herein or that may be available at law or in equity in case of any breach, failure, or default or threatened breach, failure, or default of any term, provision, or condition of this Agreement or any other agreement between Developer or any of its affiliates and Franchisor or any of its affiliates. The rights and remedies of the parties to this Agreement shall be continuing and shall not be exhausted by any one or more uses thereof, and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration, earlier termination, or exercise of Franchisor's rights pursuant to Article 7 shall not discharge or release Developer from any liability or obligation then accrued, or any liability or obligation continuing beyond, or arising out of, the expiration, the earlier termination, or the exercise of such rights under this Agreement.

11.10 Consent to Do Business Electronically. The parties to this Agreement hereby consent to do business electronically. Pursuant to the Uniform Electronic Transactions Act as adopted by the State of North Carolina, the parties hereby affirm to each other that they agree with the terms of this Agreement, and by attaching their signature electronically to this Agreement, they are executing the document and intending to attach their electronic signature to it. Furthermore, the parties acknowledge that the other parties to this Agreement can rely on an electronic signature as the respective party's signature.

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

11.10 Survival. Any obligation of Developer that contemplates performance of such obligation after termination, expiration, or transfer of this Agreement shall be deemed to survive such termination, expiration, or transfer.

(Signatures appear on the following page)

The parties hereto have executed this Multi-Unit Development Agreement on the day and year first above written.

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

DEVELOPER:

\_\_\_\_\_  
Name: \_\_\_\_\_

**ATTACHMENT 1**

**DEVELOPMENT AREA**

(insert map and/or define by zip codes):

APPROVED:

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

DEVELOPER:

\_\_\_\_\_  
Name: \_\_\_\_\_

**ATTACHMENT 2**

**DEVELOPMENT FEE AND MANDATORY DEVELOPMENT SCHEDULE**

**A.** The Agreement authorizes and obligates the Developer to establish and operate \_\_\_\_\_ (\_\_\_) “Adam & Eve” outlets, pursuant to a Franchise Agreement for each outlet in the Development Area.

**B.** The following is Developer’s Mandatory Development Schedule:

Outlet Number	Outlet Open and Operating by (“Development Deadline”)	\$ _____ Development Fee, per Section 4.1, paid on _____ (“Effective Date”)
One (1)		\$30,000
Two (2)		\$22,500
Three (3)		\$20,000

ACCEPTED:

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

DEVELOPER:

\_\_\_\_\_  
Name: \_\_\_\_\_

**EXHIBIT D**  
**FINANCIAL STATEMENTS**

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

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## INDEPENDENT AUDITOR'S REPORT

To the Stockholders  
AEFC, Inc.

### Opinion

We have audited the accompanying financial statements of AEFC, Inc. (a North Carolina S Corporation), which comprise the balance sheets as of December 28, 2024 and December 30, 2023, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AEFC, Inc. as of December 28, 2024 and December 30, 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Adjustments to Prior Period Financial Statements

The financial statements of AEFC, Inc. as of and for the year ended December 31, 2022, were audited by other auditors whose report dated May 15, 2023, expressed an unmodified opinion on those financial statements. The Company restated its financial statements for the year ended December 31, 2022, during the prior year to properly reflect the recording of revenue, customer contract costs, and payments made to stockholders in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the financial statements for the year ended December 31, 2022, before the restatement.

As part of our audit of the financial statements for the year ended December 30, 2023, we also audited the adjustments that were applied to restate the financial statements for the year ended December 31, 2022. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements for the year ended December 31, 2022, of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended December 31, 2022, as a whole.

## Responsibilities of Management for the Financial Statements

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

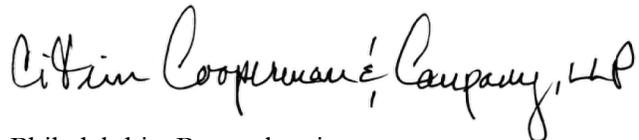
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance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

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

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

"Citrin Cooperman" is the brand under which Citrin Cooperman & Company, LLP, a licensed independent CPA firm, and Citrin Cooperman Advisors LLC serve clients' business needs. The two firms operate as separate legal entities in an alternative practice structure. The entities of Citrin Cooperman & Company, LLP and Citrin Cooperman Advisors LLC are independent member firms of the Moore North America, Inc. (MNA) Association, which is itself a regional member of Moore Global Network Limited (MGNI). All the firms associated with MNA are independently owned and managed entities. Their membership in, or association with, MNA should not be construed as constituting or implying any partnership between them.

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



Philadelphia, Pennsylvania  
June 23, 2025

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**BALANCE SHEETS**  
**DECEMBER 28, 2024 AND DECEMBER 30, 2023**

	<u>2024</u>	<u>2023</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash	\$ 3,341,298	\$ 4,545,011
Accounts receivable	384,601	519,167
Due from related-party	39,165	10,045
Inventory	16,255	10,510
Current portion of deferred franchise costs	4,397	4,397
Other current assets	<u>7,669</u>	<u>15,450</u>
Total current assets	<u>3,793,385</u>	<u>5,104,580</u>
Deferred franchise costs, net of current portion	<u>25,248</u>	<u>29,645</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,818,633</u></b>	<b><u>\$ 5,134,225</u></b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 137,734	\$ 84,239
Distribution payable	29,390	-
Due to related-party	34,639	71,496
Current portion of notes payable	520,370	619,169
Current portion of deferred revenue	<u>74,298</u>	<u>81,056</u>
Total current liabilities	<u>796,431</u>	<u>855,960</u>
Long-term liabilities:		
Notes payable, net of current portion	1,037,748	1,530,045
Deferred revenue, net of current portion	<u>198,202</u>	<u>247,984</u>
Total liabilities	<u>2,032,381</u>	<u>2,633,989</u>
Commitments (Notes 5 and 6)		
Stockholders' equity:		
Common stock	383	383
Additional paid-in capital	416,931	416,931
Retained earnings	<u>1,368,938</u>	<u>2,082,922</u>
Total stockholders' equity	<u>1,786,252</u>	<u>2,500,236</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 3,818,633</u></b>	<b><u>\$ 5,134,225</u></b>

See accompanying notes to financial statements.

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Revenues:			
Franchise fees	\$ 117,040	\$ 149,810	\$ 146,963
Royalties	3,047,749	3,259,304	3,469,330
Merchandise sales	238,892	161,848	67,993
Other revenues	<u>117,571</u>	<u>390,292</u>	<u>565,295</u>
Total revenues	<u>3,521,252</u>	<u>3,961,254</u>	<u>4,249,581</u>
Selling, general and administrative expenses	<u>1,673,098</u>	<u>1,538,004</u>	<u>1,608,803</u>
Other income (expense):			
Interest expense	(94,823)	(99,982)	(62,502)
Interest income	<u>118,031</u>	<u>59,459</u>	<u>3,514</u>
Other income (expense), net	<u>23,208</u>	<u>(40,523)</u>	<u>(58,988)</u>
<b>NET INCOME</b>	<b><u>\$ 1,871,362</u></b>	<b><u>\$ 2,382,727</u></b>	<b><u>\$ 2,581,790</u></b>

See accompanying notes to financial statements.

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Subscription Receivable</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance - January 1, 2022	694	\$ 694	\$ 573,210	\$ (68,820)	\$ 3,111,769	\$ 3,616,853
Net income	-	-	-	-	2,581,790	2,581,790
Distributions	-	-	-	-	(1,628,833)	(1,628,833)
Issuance of shares for subscription receivable	-	-	-	68,820	-	68,820
Repurchase and retirement of share	<u>(281)</u>	<u>(281)</u>	<u>(87,489)</u>	<u>-</u>	<u>(2,079,536)</u>	<u>(2,167,306)</u>
Balance - December 31, 2022	413	413	485,721	-	1,985,190	2,471,324
Net income	-	-	-	-	2,382,727	2,382,727
Distributions	-	-	-	-	(2,115,894)	(2,115,894)
Repurchase and retirement of share	<u>(30)</u>	<u>(30)</u>	<u>(68,790)</u>	<u>-</u>	<u>(169,101)</u>	<u>(237,921)</u>
Balance -December 31, 2023	383	383	416,931	-	2,082,922	2,500,236
Net income	-	-	-	-	1,871,362	1,871,362
Distributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,585,346)</u>	<u>(2,585,346)</u>
<b>BALANCE - DECEMBER 30, 2024</b>	<u><u>383</u></u>	<u><u>\$ 383</u></u>	<u><u>\$ 416,931</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,368,938</u></u>	<u><u>\$ 1,786,252</u></u>

See accompanying notes to financial statements.

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:			
Net income	\$ 1,871,362	\$ 2,382,727	\$ 2,581,790
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	-	-	7,132
Changes in operating assets and liabilities:			
Accounts receivable	134,566	(31,053)	426,610
Due from related-party	(29,120)	8,136	(17,180)
Deferred franchise costs	4,397	(6,540)	16,142
Inventory	(5,745)	2,293	191,331
Other current assets	7,781	(5,472)	8,821
Accounts payable and accrued expenses	53,495	12,411	(71,142)
Due to related-party	(36,857)	39,319	(59,551)
Deferred revenue	<u>(56,540)</u>	<u>5,905</u>	<u>17,537</u>
Net cash provided by operating activities	<u>1,943,339</u>	<u>2,407,726</u>	<u>3,101,490</u>
Cash flows from investing activities:			
Issuances of notes receivable	-	-	(150,000)
Proceeds on repayments of notes receivable	<u>-</u>	<u>50,000</u>	<u>244,310</u>
Net cash provided by investing activities	<u>-</u>	<u>50,000</u>	<u>94,310</u>
Cash flows from financing activities:			
Repayment of notes payable	(591,096)	(571,584)	(138,122)
Repayment of subscription receivable	-	-	68,820
Distributions to stockholders	<u>(2,555,956)</u>	<u>(2,115,894)</u>	<u>(1,628,833)</u>
Net cash used in financing activities	<u>(3,147,052)</u>	<u>(2,687,478)</u>	<u>(1,698,135)</u>
Net decrease (increase) in cash	(1,203,713)	(229,752)	1,497,665
Cash - beginning	<u>4,545,011</u>	<u>4,774,763</u>	<u>3,277,098</u>
<b>CASH - ENDING</b>	<u>\$ 3,341,298</u>	<u>\$ 4,545,011</u>	<u>\$ 4,774,763</u>
Supplemental disclosures of cash flow information:			
Interest paid	<u>\$ 94,819</u>	<u>\$ 99,982</u>	<u>\$ 62,502</u>
Supplemental schedules for non-cash investing and financing activities:			
Distributions payable	<u>\$ 29,390</u>	<u>\$ -</u>	<u>\$ -</u>
Notes payable issued for the repurchase of stock	<u>\$ -</u>	<u>\$ 237,921</u>	<u>\$ 2,167,306</u>

See accompanying notes to financial statements.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

**NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS**

AEFC, Inc. (the "Company") was formed on September 16, 2003, in the State of North Carolina. The Company is in the business of operating under the trademark "Adam & Eve" and selling "Adam & Eve" franchise licenses for the operation of retail stores. All franchisee centers operate under the terms and conditions of a franchise agreement.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of presentation

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

Use of estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal year

The Company's fiscal year is based on a 52-week fiscal year ending on the Saturday closest to December 31st.

Variable interest entities

The accompanying financial statements are prepared in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* ("ASU 2018-17"), which no longer requires nonpublic companies to apply variable interest entity guidance to certain common control arrangements. As disclosed in Notes 2 and 6, the Company and PHE, Inc. ("PHE"), an entity owned, in part, by stockholders of the Company, entered into an agreement whereby PHE would provide the Company with certain support services. The Company has determined PHE meets the criteria under ASU 2018-17.

Revenue recognition

The Company records revenue in accordance with FASB Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). Additionally, the Company follows the provisions of FASB ASU No. 2021-02, *Franchisors - Revenue from Contracts with Customers (Subtopic 952-606)* ("ASU 2021-02").

The Company derives its revenues from franchise fees, transfer fees, royalties, and merchandise sales.

AEFC, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 28, 2024  
DECEMBER 30, 2023 AND DECEMBER 31, 2022

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue recognition (continued)

*Franchise fees and royalties*

Contract consideration from franchisees primarily consists of initial or renewal franchise fees, area development fees, transfer fees and sales-based royalties. Multi-Unit Operator agreements ("MUOs") grant a franchisee the right to develop two or more franchise areas. The Company collects an up-front fee for the grant of such rights. The initial franchise fees and up-front development fees are nonrefundable and are collected in installments prior to the opening of a store upon meeting certain milestones outlined in the franchise agreement. Sales-based royalties are payable monthly. Renewal and transfer fees are payable when an existing franchisee renews the franchise agreement for an additional term or when a franchisee transfers its franchise unit to another franchisee, respectively.

The Company's primary performance obligations under the franchise agreement include the granting of certain rights to access the Company's intellectual property in addition to a variety of activities relating to the opening of a franchise unit. Those costs include training and other such activities commonly referred to collectively as "pre-opening activities." Pre-opening activities consistent with those under ASU 2021-02 are recognized as a single performance obligation. For all other pre-opening activities, if any, the Company determines if a certain portion of those pre-opening activities provided is not brand specific and provides the franchisee with relevant general business information that is separate from the operation of a company-branded franchise unit. The portion of pre-opening activities, if any, that is not brand specific is deemed to be distinct, as it provides a benefit to the franchisee and is not highly interrelated to the use of the Company's intellectual property and therefore accounted for as a separate performance obligation. All other pre-opening activities are determined to be highly interrelated to the use of the Company's intellectual property and therefore accounted for as a component of a single performance obligation which is satisfied along with granting of certain rights to use the Company's intellectual property over the term of each franchise agreement.

The Company estimates the stand-alone selling price of pre-opening activities using an adjusted market assessment approach. The Company first allocates the initial franchise fees and the fixed consideration under the franchise agreement to the stand-alone selling price of the pre-opening activities and the residual, if any, to the right to access the Company's intellectual property. Consideration allocated to pre-opening activities, other than those included under ASU 2021-02, which are not brand-specific is recognized when those performance obligations are satisfied. Consideration allocated to pre-opening activities included under ASU 2021-02 is recognized when those performance obligations are satisfied.

AEFC, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 28, 2024  
DECEMBER 30, 2023 AND DECEMBER 31, 2022

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue recognition (continued)

*Franchise fees and royalties (continued)*

Initial and renewal franchise fees allocated to the right to access the Company's intellectual property are recognized as revenue on a straight-line basis over the term of the respective franchise agreement. MUOs generally consist of an obligation to grant the right to open two or more territories. These development rights are not distinct from franchise agreements; therefore, up-front fees paid by franchisees for development rights are deferred and apportioned to each franchise agreement signed by the franchisee. The pro-rata amount apportioned to each franchise agreement is recognized as revenue in the same manner as initial and renewal franchise fees.

Royalties are earned as a percentage of franchisee gross sales over the term of the franchise agreement, as defined in each respective franchise agreement. Franchise royalties which represent sales-based royalties that are related entirely to the use of the Company's intellectual property are recognized as franchisee sales occur and the royalty is deemed collectible.

*Brand fund fees*

The Company reserves the right to establish a brand development fund to collect and administer funds contributed for use in advertising and promotional programs for franchise units. Brand development fund fees are collected from franchisees based on a percentage of franchisee gross revenues. The Company has determined that it acts as a principal in the collection and administration of the brand development fund and therefore recognizes the revenues and expenses related to the brand development fund on a gross basis. The Company has determined that the right to access its intellectual property and administration of the brand development fund are highly interrelated and, therefore, are accounted for as a single performance obligation. As a result, revenues from the brand development fund represent sales-based royalties related to the right to access the Company's intellectual property, which are recognized as franchisee sales occur. When brand development fund fees exceed the related brand development fund expenses in a reporting period, advertising costs are accrued up to the amount of brand development fund revenues recognized. As of December 28, 2024, December 30, 2023, and December 31, 2022, the Company has not yet established a brand fund.

*Merchandise sales*

The Company recognizes revenue from merchandise sales to franchisees when the following revenue recognition criteria are met: a contract has been identified, separate performance obligations are identified, the transaction price is determined, the transaction price is allocated to separate performance obligations and revenue is recognized upon satisfying each performance obligation. Revenue from product sales is recognized when it is shipped to the customer.

AEFC, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 28, 2024  
DECEMBER 30, 2023 AND DECEMBER 31, 2022

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue recognition (continued)

*Merchandise sales (continued)*

During the year ended January 1, 2022, the Company had an agreement with PHE whereby PHE would maintain the merchandise inventory and warehouse facilities, and process and fulfill all merchandise orders placed by the franchisees with the Company. This arrangement did not begin until August 2022. On January 1, 2023, the Company amended the terms of the agreement whereby PHE would continue to process and fulfill all merchandise orders; however, would use a drop-ship vendor to ship the goods to the franchisees.

The Company evaluates the criteria in ASC 606, *Revenue Recognition Principal Agent Considerations*, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned. Generally, when the Company is primarily responsible for fulfilling the promise to provide a specified good or service, is subject to inventory risk before the good or service has been transferred to a customer, and has discretion in establishing the price, revenue is recorded gross. In the Company's sale of merchandise through PHE and the drop-ship vendor that occurred beginning in August 2022, and during the year ended December 28, 2024, the Company is not responsible for fulfilling the order, is not subject to inventory risk of loss, and does not have discretion in establishing the price of the goods. Accordingly, the Company has determined it acts as an agent in this arrangement and revenue is recorded net of the associated cost of goods sold on the statements of income. For the sale of merchandise prior to the involvement of PHE, the Company has determined it acts as the principal in the arrangement and revenue is recorded gross of the cost of goods sold on the statements of income. Costs of goods sold in connection with the sale of merchandise where AEFC acts as an agent amounts to \$250,725, \$245,713, and \$160,983, for the years ended December 28, 2024, December 30, 2023 and December 31, 2022, respectively, and are netted with Merchandise sales in the accompanying statements of income. Costs of goods sold in connection with the sale of merchandise where AEFC is the principal amounted to \$0, \$0, and \$58,900, for the years ended December 28, 2024, December 30, 2023, and December 31, 2022, respectively, and are included in Selling, general, and administrative expenses in the accompanying statements of income.

*Other revenues*

The Company has entered into certain vendor arrangements for which it earns an incentive or commission payable by the vendor based on a percentage of purchases made by its franchisees. Vendor incentives are recognized in the period purchases are made and reported to the Company.

AEFC, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 28, 2024  
DECEMBER 30, 2023 AND DECEMBER 31, 2022

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Deferred franchise costs

The Company capitalizes direct and incremental costs, principally consisting of broker fees and commissions, associated with the sale of franchises which are amortized over the term of the franchise agreements and MUOs. In the case of costs paid related to MUOs for which no signed franchise agreement has been signed, these costs are deferred until the signed franchise agreement is received.

Deferred revenue

Contract liabilities consist of deferred revenue resulting from initial franchise fees and renewal fees paid by franchisees, which are recognized on a straight-line basis over the term of the franchise agreements.

Accounts receivable

Accounts receivable are stated at the amount the Company expects to collect. The Company assesses collectibility by reviewing accounts receivable on a collective basis where similar risk characteristics exist. In determining the allowance for doubtful accounts, management considers historical collectibility and makes judgments about the creditworthiness of the franchisees based on credit evaluations. Current market conditions and reasonable and supportable forecasts of future economic conditions adjust the historical losses to determine the appropriate allowance for doubtful accounts. Uncollectible accounts are written off when all collection efforts have been exhausted.

There was no allowance for doubtful accounts at December 28, 2024 and December 30, 2023.

Inventories

Inventories consist of finished goods available-for-sale. During the years ended December 28, 2024 and December 30, 2023, the Company used a drop-ship vendor to ship merchandise to franchisees. Inventory amounts maintained by the Company are minimal.

Inventories are stated at the lower of cost or net realizable value. Consideration is given to obsolescence, damaged or excessive levels and other factors in determining estimated net realizable value.

Advertising

Advertising costs are expensed as incurred and amount to \$470,666, \$504,039, and \$560,696 for the years ended December 28, 2024, December 30, 2023, and December 31, 2022, respectively.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Leases

The Company determines if an arrangement is a lease at the inception of the contract. At the lease commencement date, each lease is evaluated to determine whether it will be classified as an operating or finance lease. For leases with a lease term of 12 months or less (a "Short-term" lease), any fixed lease payments are recognized on a straight-line basis over such term, and are not recognized on the balance sheet. The Company did not have any lease contracts during the years ended December 28, 2024, December 30, 2023, and December 31, 2022.

Franchised outlets

The following data reflects the status of the Company's franchises as of December 28, 2024, December 30, 2023, and December 31, 2022.

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Franchises sold	6	3	8
Franchises purchased	-	-	-
Franchised outlets in operation	109	104	103
Franchisor-owned outlets in operation	-	-	-

Income taxes

The Company, with the consent of its stockholders, has elected to be taxed as an S corporation. In lieu of corporate income taxes, the stockholders of an S corporation are taxed on their proportionate share of a company's taxable income. Therefore, no provision or liability for federal or state income taxes has been included in these financial statements.

Uncertain tax positions

The Company follows accounting requirements associated with uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in these financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of December 28, 2024 and December 30, 2023, the Company had no uncertain tax positions that qualify for either recognition or disclosure in these financial statements. Additionally, the Company had no interest or penalties related to income taxes.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Subsequent events

In accordance with FASB ASC 855, *Subsequent Events*, the Company has evaluated subsequent events through June 23, 2025, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**NOTE 3. REVENUES AND RELATED CONTRACT BALANCES**

Disaggregated revenues

The Company derives the majority of its revenues from franchisees located throughout the United States. The economic risks of the Company's revenues are dependent on the strength of the economy in the United States, and the Company's ability to collect on its contracts. The Company disaggregates revenue from contracts with customers by timing of revenue recognition by type of revenue, as it believes this best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Revenues by timing of recognition for the years ended December 28, 2024, December 30, 2023, and December 31, 2022, were as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<i>Point in time:</i>			
Franchise fees	\$ 31,500	\$ 65,500	\$ 64,000
Royalties	3,047,749	3,259,304	3,469,330
Merchandise sales	238,892	161,848	67,993
Other revenue	<u>117,571</u>	<u>390,292</u>	<u>565,295</u>
Total point in time	3,435,712	3,876,944	4,166,618
<i>Over time:</i>			
Franchise fees	<u>85,540</u>	<u>84,310</u>	<u>82,963</u>
Total revenues	<u>\$ 3,521,252</u>	<u>\$ 3,961,254</u>	<u>\$ 4,249,581</u>

Deferred franchise costs

The following reflects the change in deferred franchise costs during the years ended December 28, 2024 and December 30, 2023:

Deferred franchise costs - December 31, 2022	\$ 27,502
Expense recognized during the year	(3,960)
New deferrals due to commissions paid	<u>10,500</u>
Deferred franchise costs - December 30, 2023	34,042
Expense recognized during the year	(4,397)
New deferrals due to commissions paid	<u>-</u>
Deferred franchise costs - December 28, 2024	<u>\$ 29,645</u>

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

**NOTE 3. REVENUES AND RELATED CONTRACT BALANCES (CONTINUED)**

Deferred franchise costs (continued)

Deferred franchise costs are expected to be recognized in the future as the related revenue is recognized as follows:

<u>Year ending last Saturday in December:</u>	<u>Amount</u>
2025	\$ 4,397
2026	4,397
2027	4,397
2028	4,397
2029	4,397
Thereafter	<u>7,660</u>
Total	<u>\$ 29,645</u>

Deferred revenue

The following reflects the change in deferred revenue during the years ended December 28, 2024 and December 30, 2023:

Deferred revenue - December 31, 2022	\$ 323,135
Revenue recognized during the year	(149,810)
Additions for initial franchise fees received	<u>155,715</u>
Deferred revenue - December 30, 2023	329,040
Revenue recognized during the year	(117,040)
Additions for initial franchise fees received	<u>60,500</u>
Deferred revenue - December 28, 2024	<u>\$ 272,500</u>

Deferred revenue is expected to be recognized over the remaining term of the associated franchise agreements as follows:

<u>Year ending last Saturday in December:</u>	<u>Amount</u>
2025	\$ 74,298
2026	56,878
2027	46,755
2028	31,767
2029	22,288
Thereafter	<u>40,514</u>
Total	<u>\$ 272,500</u>

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

**NOTE 4. CONCENTRATION OF CREDIT RISK**

The Company maintains cash balances in financial institutions which, at times, may exceed amounts insured by the Federal Deposit Insurance Corporation. The Company has not experienced losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Concentrations of credit risk with respect to receivables is limited due to the large number of franchisees in the Company's customer base and their geographic dispersion. The Company provides an allowance for doubtful accounts equal to the estimated collection losses based on historical experience coupled with a review of the current market conditions and reasonable and supportable forecasts of future economic conditions.

**NOTE 5. NOTES PAYABLE**

Notes payable consisted of the following at December 28, 2024 and December 30, 2023:

	<u>2024</u>	<u>2023</u>
On March 1, 2020, the Company issued a note payable to a former shareholder for the repurchase of stock for \$395,196. The note is payable in four annual installments commencing April 1, 2021. The note bears interest at a rate of 3.25%. Quarterly interest payments were due beginning June 30, 2020. The note was paid off in March 2024.	\$ -	\$ 98,799
On June 1, 2021, the Company issued a note payable to a former shareholder for the repurchase of stock for \$157,296. The note is payable in four annual installments commencing June 1, 2022. The note bears interest at a rate of 3.25%. Quarterly interest payments were due beginning June 30, 2021.	39,324	78,648
On September 1, 2022, the Company issued a note payable to a former shareholder for the repurchase of stock for \$115,910. The note is payable in five annual installments commencing January 5, 2023. The note bears interest at a rate of 5.50%. Quarterly interest payments were due beginning December 31, 2022.	69,546	92,728
On June 1, 2022, the Company issued a note payable to the estate of a former shareholder for the repurchase of stock for \$2,051,397. The note is payable in five annual installments commencing June 21, 2023. The note bears interest at a rate of 4.75%. Quarterly interest payments were due beginning September 21, 2022.	1,230,838	1,641,118

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

**NOTE 5. NOTES PAYABLE (CONTINUED)**

	<u>2024</u>	<u>2023</u>
In December of 2023, the Company issued a note payable to a former shareholder for the repurchase of stock for \$97,560. The note is payable in five annual installments commencing December 29, 2024. The note bears interest at a rate of 8.50%. Quarterly interest payments were due beginning March 31, 2024.	\$ 78,049	\$ 97,560
In December of 2023, the Company issued a note payable to a former shareholder for the repurchase of stock for \$140,361. The note is payable in five annual installments commencing December 29, 2024. The note bears interest at a rate of 8.50%. Quarterly interest payments were due beginning March 31, 2024.	<u>140,361</u>	<u>140,361</u>
	1,558,118	2,149,214
Less: current maturities	<u>520,370</u>	<u>619,169</u>
Long-term debt, less current maturities	<u>\$ 1,037,748</u>	<u>\$ 1,530,045</u>

All of the Company's notes payable are unsecured. Total interest expense on notes payable for the years ended December 28, 2024, December 30, 2023, and December 31, 2022, was \$94,823, \$99,982, and \$62,502, respectively.

As of December 28, 2024, maturities for the next four years are summarized as follows:

<u>Year ending last Saturday in December:</u>	<u>Amount</u>
2025	\$ 548,442
2026	481,046
2027	481,046
2028	<u>47,584</u>
	<u>\$ 1,558,118</u>

**NOTE 6. RELATED-PARTY TRANSACTIONS**

The Company had trade accounts payable in the amount of \$34,639 and \$71,496 due to PHE as of December 28, 2024 and December 30, 2023, respectively. The Company also had accounts receivable in the amount of \$39,165 and \$10,045 due from PHE as of December 28, 2024 and December 30, 2023, respectively.

The Company has a royalty-free, non-exclusive trademark license agreement with PHE for the use of the proprietary marks associated with Adam & Eve. Pursuant to the license agreement, the Company has acquired the right to sell Adam & Eve franchises and the right to earn franchise fees, royalties and other fees from franchisees. The license agreement will remain in force unless terminated by both parties in writing.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 28, 2024**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

**NOTE 6. RELATED-PARTY TRANSACTIONS (CONTINUED)**

On January 1, 2022, the Company entered into an agreement with PHE whereby AEFC will receive a commission of 3% on certain merchandise sales, as defined in the agreement. Total commissions earned during the years ended December 28, 2024, December 30, 2023, and December 31, 2022, was \$55,560, \$59,064, and \$49,471 respectively, and are included in Other revenues in the accompanying statements of income.

During the year ended January 1, 2022, the Company had an agreement with PHE whereby PHE provided merchandise order services, as well as general administrative support services. In exchange for these services, AEFC paid 4.6% of merchandise sales to PHE for the merchandise order services and 3.6% of royalties for the administrative services. Total amounts incurred under the agreement with PHE for the year ended December 31, 2022 was \$125,166, and is included in Selling, general, and administrative expenses in the accompanying statements of income. On January 1, 2023, the Company amended the terms of the agreement to change the fees paid to PHE for both the merchandise order services and the administrative services to 1.6% of merchandise sales and royalties, respectively. Total amounts incurred under the 2023 amended agreement with PHE for the year ended December 30, 2023, was \$59,221 which is included in "Selling, general and administrative expenses" in the accompanying statements of income. On January 1, 2024, the Company further amended the terms of the agreement to change the fees paid to PHE for merchandise order services to 3%. The Company continues to pay PHE the administrative fee of 1.6% of royalties under the 2023 amended agreement. Total amounts incurred under the 2024 amended agreement with PHE for the year ended December 28, 2024 was \$49,030 which is included in "Selling, general and administrative expenses" in the accompanying statements of income.

In August 2023, the Company entered into an agreement with PHE whereby AEFC will pay PHE a 70% commission on Adam & Eve branded merchandise sales earned by AEFC and fulfilled by PHE. Total commissions incurred under the agreement with PHE during the years ended December 28, 2024 and December 30, 2023, was \$208,063 and \$92,737, and are included in Selling, general, and administrative in the accompanying statements of income.

**NOTE 7. STOCKHOLDERS' EQUITY**

The Company has authorized 100,000 shares of \$1 par value common stock, with 383 shares issued and outstanding as of December 28, 2024 and December 30, 2023.

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

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## INDEPENDENT AUDITOR'S REPORT

To the Stockholders  
AEFC, Inc.

### Opinion

We have audited the accompanying financial statements of AEFC, Inc. (a North Carolina S Corporation), which comprise the balance sheet as of December 30, 2023, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AEFC, Inc. as of December 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AEFC, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Adjustments to Prior Period Financial Statements

The financial statements of AEFC, Inc. for the years ended December 31, 2022 and January 1, 2022 were audited by other auditors whose opinions dated May 15, 2023 and June 30, 2022, respectively, expressed an unmodified opinion. As more fully described in Note 3, the Company has restated its financial statements for the years ended December 31, 2022 and January 1, 2022, during the current year to properly reflect the recording of revenue, customer contract costs, and payments made to stockholders in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the financial statements for the years ended December 31, 2022 and January 1, 2022, before the restatement.

## Adjustments to Prior Period Financial Statements (continued)

As part of our audit of the financial statements for the year ended December 30, 2023, we also audited the adjustments described in Note 3 that were applied to restate the financial statements for the years ended December 31, 2022 and January 1, 2022. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended December 31, 2022 and January 1, 2022 of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the years ended December 31, 2022 and January 1, 2022, as a whole.

## Responsibilities of Management for the Financial Statements

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

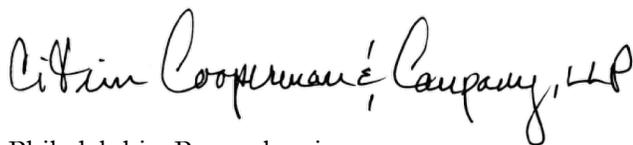
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AEFC, Inc.'s internal control. Accordingly, no such opinion is expressed.

"Citrin Cooperman" is the brand under which Citrin Cooperman & Company, LLP, a licensed independent CPA firm, and Citrin Cooperman Advisors LLC serve clients' business needs. The two firms operate as separate legal entities in an alternative practice structure. The entities of Citrin Cooperman & Company, LLP and Citrin Cooperman Advisors LLC are independent member firms of the Moore North America, Inc. (MNA) Association, which is itself a regional member of Moore Global Network Limited (MGNI). All the firms associated with MNA are independently owned and managed entities. Their membership in, or association with, MNA should not be construed as constituting or implying any partnership between them.

**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AEFC, Inc.'s ability to continue as a going concern for a reasonable period of time.

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



Philadelphia, Pennsylvania  
August 2, 2024

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**BALANCE SHEETS**  
**DECEMBER 30, 2023 AND DECEMBER 31, 2022**

	<u>2023</u>	<u>2022</u> (Restated)
<b><u>ASSETS</u></b>		
Current assets:		
Cash	\$ 4,545,011	\$ 4,774,763
Accounts receivable	519,167	488,114
Due from related-party	10,045	18,181
Note receivable from franchisee	-	50,000
Inventory	10,510	12,803
Current portion of deferred franchise costs	4,397	3,960
Other current assets	<u>15,450</u>	<u>9,978</u>
Total current assets	<u>5,104,580</u>	<u>5,357,799</u>
Deferred franchise costs, net of current portion	<u>29,645</u>	<u>23,542</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,134,225</u></b>	<b><u>\$ 5,381,341</u></b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 84,239	\$ 71,828
Due to related-party	71,496	32,177
Current portion of notes payable	619,169	577,380
Current portion of deferred revenue	<u>81,056</u>	<u>84,310</u>
Total current liabilities	<u>855,960</u>	<u>765,695</u>
Long-term liabilities:		
Notes payable, net of current portion	1,530,045	1,905,497
Deferred revenue, net of current portion	<u>247,984</u>	<u>238,825</u>
Total liabilities	<u>2,633,989</u>	<u>2,910,017</u>
Commitments (Notes 6 and 7)		
Stockholders' equity:		
Common stock	383	413
Additional paid-in capital	416,931	485,721
Retained earnings	<u>2,082,922</u>	<u>1,985,190</u>
Total stockholders' equity	<u>2,500,236</u>	<u>2,471,324</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 5,134,225</u></b>	<b><u>\$ 5,381,341</u></b>

See accompanying notes to financial statements.

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

	<u>2023</u>	<u>2022</u> (Restated)	<u>2021</u> (Restated)
Revenues:			
Franchise fees	\$ 149,810	\$ 146,963	\$ 160,403
Royalties	3,259,304	3,469,330	3,460,508
Merchandise sales	161,848	67,993	3,283,904
Other revenues	<u>390,292</u>	<u>565,295</u>	<u>349,834</u>
Total revenues	<u>3,961,254</u>	<u>4,249,581</u>	<u>7,254,649</u>
Selling, general and administrative expenses	<u>1,538,004</u>	<u>1,608,803</u>	<u>4,724,696</u>
Other income (expense):			
Interest expense	(99,982)	(62,502)	(13,483)
Interest income	<u>59,459</u>	<u>3,514</u>	<u>8,857</u>
Other expense, net	<u>(40,523)</u>	<u>(58,988)</u>	<u>(4,626)</u>
<b>NET INCOME</b>	<b><u>\$ 2,382,727</u></b>	<b><u>\$ 2,581,790</u></b>	<b><u>\$ 2,525,327</u></b>

See accompanying notes to financial statements.

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Subscription Receivable</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance - January 2, 2021, as previously reported	864	\$ 864	\$ 186,330	\$ -	\$ 2,926,924	\$ 3,114,118
Correction of error (Note 3)	-	-	-	-	(145,101)	(145,101)
Balance - January 2, 2021, as restated	864	864	186,330	-	2,781,823	2,969,017
Net income, as restated	-	-	-	-	2,525,327	2,525,327
Distributions	-	-	-	-	(1,200,001)	(1,200,001)
Issuance of shares for subscription receivable	230	230	466,520	(68,820)	-	397,930
Repurchase and retirement of share	(400)	(400)	(79,640)	-	(995,380)	(1,075,420)
Balance - January 1, 2022, as restated	694	694	573,210	(68,820)	3,111,769	3,616,853
Net income, as restated	-	-	-	-	2,581,790	2,581,790
Distributions, as restated	-	-	-	-	(1,628,833)	(1,628,833)
Repayment of subscription receivable	-	-	-	68,820	-	68,820
Repurchase and retirement of share	(281)	(281)	(87,489)	-	(2,079,536)	(2,167,306)
Balance -December 31, 2022, as restated	413	413	485,721	-	1,985,190	2,471,324
Net income	-	-	-	-	2,382,727	2,382,727
Distributions	-	-	-	-	(2,115,894)	(2,115,894)
Repurchase and retirement of share	(30)	(30)	(68,790)	-	(169,101)	(237,921)
<b>BALANCE - DECEMBER 30, 2023</b>	<u>383</u>	<u>\$ 383</u>	<u>\$ 416,931</u>	<u>\$ -</u>	<u>\$ 2,082,922</u>	<u>\$ 2,500,236</u>

See accompanying notes to financial statements.

**AEFC, INC.**  
**(A North Carolina S Corporation)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

	<u>2023</u>	<u>2022</u> (Restated)	<u>2021</u> (Restated)
Cash flows from operating activities:			
Net income	\$ 2,382,727	\$ 2,581,790	\$ 2,525,327
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	-	7,132	126,871
Provision for inventory	-	-	153,425
Changes in operating assets and liabilities:			
Accounts receivable	(31,053)	426,610	309,767
Due from related-party	8,136	(17,180)	3,809
Deferred franchise costs	(6,540)	16,142	400
Inventory	2,293	191,331	65,171
Other current assets	(5,472)	8,821	(4,916)
Accounts payable and accrued expenses	12,411	(71,142)	(141,563)
Due to related-party	39,319	(59,551)	8,411
Deferred revenue	5,905	17,537	9,497
Net cash provided by operating activities	<u>2,407,726</u>	<u>3,101,490</u>	<u>3,056,199</u>
Cash flows from investing activities:			
Issuances of notes receivable	-	(150,000)	-
Proceeds on repayments of notes receivable	50,000	244,310	477,633
Net cash provided by investing activities	<u>50,000</u>	<u>94,310</u>	<u>477,633</u>
Cash flows from financing activities:			
Repayment of notes payable	(571,584)	(138,122)	(98,799)
Repayment of subscription receivable	-	68,820	-
Proceeds from issuance of stock	-	-	397,930
Repurchase of shares	-	-	(918,124)
Distributions to stockholders	(2,115,894)	(1,628,833)	(1,200,001)
Net cash used in financing activities	<u>(2,687,478)</u>	<u>(1,698,135)</u>	<u>(1,818,994)</u>
Net increase (decrease) in cash	(229,752)	1,497,665	1,714,838
Cash - beginning	4,774,763	3,277,098	1,562,260
<b>CASH - ENDING</b>	<u>\$ 4,545,011</u>	<u>\$ 4,774,763</u>	<u>\$ 3,277,098</u>
Supplemental disclosures of cash flow information:			
Interest paid	\$ 99,982	\$ 62,502	\$ 13,483
Supplemental disclosures for non-cash investing and financing activities:			
Subscription receivable entered into in connection with the issuance of stock	\$ -	\$ -	\$ 68,820
Notes payable issued for the repurchase of stock	<u>\$ 237,921</u>	<u>\$ 2,167,306</u>	<u>\$ 157,296</u>

See accompanying notes to financial statements.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

**NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS**

AEFC, Inc. (the "Company") was formed on September 16, 2003, in the State of North Carolina. The Company is in the business of operating under the trademark "Adam & Eve" and selling "Adam & Eve" franchise licenses for the operation of retail stores. All franchisee centers operate under the terms and conditions of a franchise agreement.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of presentation

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

Use of estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal year

The Company's fiscal year is based on a 52-week fiscal year ending on the Saturday closest to December 31st.

Variable interest entities

The accompanying financial statements are prepared in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* ("ASU 2018-17"), which no longer requires nonpublic companies to apply variable interest entity guidance to certain common control arrangements. As disclosed in Notes 2 and 7, the Company and PHE, Inc. ("PHE"), an entity owned, in part, by stockholders of the Company, entered into an agreement whereby PHE would provide the Company with certain support services. The Company has determined PHE meets the criteria under ASU 2018-17.

Revenue recognition

The Company records revenue in accordance with FASB Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). Additionally, the Company follows the provisions of FASB ASU No. 2021-02, *Franchisors - Revenue from Contracts with Customers (Subtopic 952-606)* ("ASU 2021-02").

The Company derives its revenues from franchise fees, transfer fees, royalties, and merchandise sales.

AEFC, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 30, 2023  
DECEMBER 31, 2022 AND JANUARY 1, 2022

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue recognition (continued)

*Franchise fees and royalties*

Contract consideration from franchisees primarily consists of initial or renewal franchise fees, area development fees, transfer fees and sales-based royalties. Multi-Unit Operator agreements ("MUOs") grant a franchisee the right to develop two or more franchise areas. The Company collects an up-front fee for the grant of such rights. The initial franchise fees and up-front development fees are nonrefundable and are collected in installments prior to the opening of a store upon meeting certain milestones outlined in the franchise agreement. Sales-based royalties are payable monthly. Renewal and transfer fees are payable when an existing franchisee renews the franchise agreement for an additional term or when a franchisee transfers its franchise unit to another franchisee, respectively.

The Company's primary performance obligations under the franchise agreement include the granting of certain rights to access the Company's intellectual property in addition to a variety of activities relating to the opening of a franchise unit. Those costs include training and other such activities commonly referred to collectively as "pre-opening activities." Pre-opening activities consistent with those under ASU 2021-02 are recognized as a single performance obligation. For all other pre-opening activities, if any, the Company determines if a certain portion of those pre-opening activities provided is not brand specific and provides the franchisee with relevant general business information that is separate from the operation of a company-branded franchise unit. The portion of pre-opening activities, if any, that is not brand specific is deemed to be distinct, as it provides a benefit to the franchisee and is not highly interrelated to the use of the Company's intellectual property and therefore accounted for as a separate performance obligation. All other pre-opening activities are determined to be highly interrelated to the use of the Company's intellectual property and therefore accounted for as a component of a single performance obligation which is satisfied along with granting of certain rights to use the Company's intellectual property over the term of each franchise agreement.

The Company estimates the stand-alone selling price of pre-opening activities using an adjusted market assessment approach. The Company first allocates the initial franchise fees and the fixed consideration under the franchise agreement to the stand-alone selling price of the pre-opening activities and the residual, if any, to the right to access the Company's intellectual property. Consideration allocated to pre-opening activities, other than those included under ASU 2021-02, which are not brand-specific is recognized when those performance obligations are satisfied. Consideration allocated to pre-opening activities included under ASU 2021-02 is recognized when those performance obligations are satisfied.

AEFC, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 30, 2023  
DECEMBER 31, 2022 AND JANUARY 1, 2022

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue recognition (continued)

*Franchise fees and royalties (continued)*

Initial and renewal franchise fees allocated to the right to access the Company's intellectual property are recognized as revenue on a straight-line basis over the term of the respective franchise agreement. MUOs generally consist of an obligation to grant the right to open two or more territories. These development rights are not distinct from franchise agreements; therefore, up-front fees paid by franchisees for development rights are deferred and apportioned to each franchise agreement signed by the franchisee. The pro-rata amount apportioned to each franchise agreement is recognized as revenue in the same manner as initial and renewal franchise fees.

Royalties are earned as a percentage of franchisee gross sales over the term of the franchise agreement, as defined in each respective franchise agreement. Franchise royalties which represent sales-based royalties that are related entirely to the use of the Company's intellectual property are recognized as franchisee sales occur and the royalty is deemed collectible.

*Brand fund fees*

The Company reserves the right to establish a brand development fund to collect and administer funds contributed for use in advertising and promotional programs for franchise units. Brand development fund fees are collected from franchisees based on a percentage of franchisee gross revenues. The Company has determined that it acts as a principal in the collection and administration of the brand development fund and therefore recognizes the revenues and expenses related to the brand development fund on a gross basis. The Company has determined that the right to access its intellectual property and administration of the brand development fund are highly interrelated and, therefore, are accounted for as a single performance obligation. As a result, revenues from the brand development fund represent sales-based royalties related to the right to access the Company's intellectual property, which are recognized as franchisee sales occur. When brand development fund fees exceed the related brand development fund expenses in a reporting period, advertising costs are accrued up to the amount of brand development fund revenues recognized. As of December 30, 2023, December 31, 2022, and January 1, 2022, the Company has not yet established a brand fund.

*Merchandise sales*

The Company recognizes revenue from merchandise sales to franchisees when the following revenue recognition criteria are met: a contract has been identified, separate performance obligations are identified, the transaction price is determined, the transaction price is allocated to separate performance obligations and revenue is recognized upon satisfying each performance obligation. Revenue from product sales is recognized when it is shipped to the customer.

AEFC, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 30, 2023  
DECEMBER 31, 2022 AND JANUARY 1, 2022

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue recognition (continued)

*Merchandise sales (continued)*

During the year ended January 1, 2022, the Company had an agreement with PHE whereby PHE would maintain the merchandise inventory and warehouse facilities, and process and fulfill all merchandise orders placed by the franchisees with the Company. This arrangement did not begin until August 2022. On January 1, 2023, the Company amended the terms of the agreement whereby PHE would continue to process and fulfill all merchandise orders; however, would use a drop-ship vendor to ship the goods to the franchisees.

The Company evaluates the criteria in ASC 606, *Revenue Recognition Principal Agent Considerations*, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned. Generally, when the Company is primarily responsible for fulfilling the promise to provide a specified good or service, is subject to inventory risk before the good or service has been transferred to a customer, and has discretion in establishing the price, revenue is recorded gross. In the Company's sale of merchandise through PHE and the drop-ship vendor that occurred beginning in August 2022, and during the year ended December 30, 2023, the Company is not responsible for fulfilling the order, is not subject to inventory risk of loss, and does not have discretion in establishing the price of the goods. Accordingly, the Company has determined it acts as an agent in this arrangement and revenue is recorded net of the associated cost of goods sold on the statements of income. For the sale of merchandise prior to the involvement of PHE, the Company has determined it acts as the principal in the arrangement and revenue is recorded gross of the cost of goods sold on the statements of income. Costs of goods sold in connection with the sale of merchandise where AEFC acts as an agent amounts to \$245,713, \$160,983, and \$0, for the years ended December 30, 2023, December 31, 2022, and January 1, 2022, respectively, and are netted with Merchandise sales in the accompanying statements of income. Costs of goods sold in connection with the sale of merchandise where AEFC is the principal amounted to \$0, \$58,900, and \$2,803,225, for the years ended December 30, 2023, December 31, 2022, and January 1, 2022, respectively, and are included in Selling, general, and administrative expenses in the accompanying statements of income.

*Other revenues*

The Company has entered into certain vendor arrangements for which it earns an incentive or commission payable by the vendor based on a percentage of purchases made by its franchisees. Vendor incentives are recognized in the period purchases are made and reported to the Company.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Deferred franchise costs

The Company capitalizes direct and incremental costs, principally consisting of broker fees and commissions, associated with the sale of franchises which are amortized over the term of the franchise agreements and MUOs. In the case of costs paid related to MUOs for which no signed franchise agreement has been signed, these costs are deferred until the signed franchise agreement is received.

Deferred revenue

Contract liabilities consist of deferred revenue resulting from initial franchise fees and renewal fees paid by franchisees, which are recognized on a straight-line basis over the term of the franchise agreements.

Accounts receivable

Accounts receivable are stated at the amount the Company expects to collect. The Company assesses collectibility by reviewing accounts receivable on a collective basis where similar risk characteristics exist. In determining the allowance for doubtful accounts, management considers historical collectibility and makes judgments about the creditworthiness of the franchisees based on credit evaluations. Current market conditions and reasonable and supportable forecasts of future economic conditions adjust the historical losses to determine the appropriate allowance for doubtful accounts. Uncollectible accounts are written off when all collection efforts have been exhausted. Under prior accounting rules, the Company evaluated the following factors when determining the collectibility of specific customer accounts: Customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms.

There was no allowance for doubtful accounts at December 30, 2023 and December 31, 2022.

Inventories

Inventories consist of finished goods available-for-sale. During the year ended January 1, 2022, the Company had an agreement with PHE whereby PHE maintained the merchandise inventory and warehouse facilities, and processed and fulfilled all merchandise orders placed by the franchisees with the Company. This arrangement did not begin until August 2022. On January 1, 2023, the Company amended the terms of the agreement whereby PHE would continue to process and fulfill merchandise orders; however, would use a drop-ship vendor to ship the goods to the franchisees. Accordingly, inventory amounts are minimal at the years ended December 31, 2023 and December 31, 2022.

Inventories are stated at the lower of cost or net realizable value. Consideration is given to obsolescence, damaged or excessive levels and other factors in determining estimated net realizable value.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Advertising

Advertising costs are expensed as incurred and amount to \$504,039, \$560,696, and \$433,987 for the years ended December 30, 2023, December 31, 2022, and January 1, 2022, respectively.

Leases

The Company determines if an arrangement is a lease at the inception of the contract. At the lease commencement date, each lease is evaluated to determine whether it will be classified as an operating or finance lease. For leases with a lease term of 12 months or less (a "Short-term" lease), any fixed lease payments are recognized on a straight-line basis over such term, and are not recognized on the balance sheet. The Company did not have any lease contracts during the years ended December 30, 2023, December 31, 2022, and January 1, 2022.

Franchised outlets

The following data reflects the status of the Company's franchises as of December 30, 2023, December 31, 2022 and January 1, 2022:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Franchises sold	3	8	12
Franchises purchased	-	-	-
Franchised outlets in operation	104	103	106
Franchisor-owned outlets in operation	-	-	-

Income Taxes

The Company, with the consent of its stockholders, has elected to be taxed as an S corporation. In lieu of corporate income taxes, the stockholders of an S corporation are taxed on their proportionate share of a company's taxable income. Therefore, no provision or liability for federal or state income taxes has been included in these financial statements.

Uncertain tax positions

The Company follows accounting requirements associated with uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in these financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of December 30, 2023 and December 31, 2022, the Company had no uncertain tax positions that qualify for either recognition or disclosure in these financial statements. Additionally, the Company had no interest or penalties related to income taxes.

AEFC, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 30, 2023  
DECEMBER 31, 2022 AND JANUARY 1, 2022

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Recently adopted accounting pronouncements

In June 2016, the FASB issued ASU No. 2016-03, *Financial Instruments-Credit Losses (Topic 326)* ("ASC 326"), along with subsequently issued related ASUs, which requires financial assets (or groups of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected, among other provisions. ASC 326 eliminates the probable initial threshold for recognition of credit losses for financial assets recorded at amortized cost, which could result in earlier recognition of credit losses. It utilizes a lifetime expected credit loss measurement model for the recognition of credit losses at the time the financial asset is originated or acquired. The Company's financial instruments include accounts receivable and note receivable from franchisee. The expected credit losses are adjusted each period for changes in expected lifetime credit losses.

The Company adopted ASC 326 using the modified retrospective method at January 1, 2023. ASC 326 did not have a material impact on the financial statements.

Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, the Company has evaluated subsequent events through August 2, 2024, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**NOTE 3. CORRECTION OF ERRORS**

During 2023, it was determined that the Company improperly accelerated the recognition of franchise and renewal fees by recognizing revenue when the fees were received, resulting in an overstatement of franchise fee revenue. Additionally, broker fees and commissions were recognized when paid, resulting in an overstatement of expenses. It was also determined that in 2022, the Company recorded certain payments made to stockholders as expenses, resulting in an overstatement of expenses. Certain amounts in the financial statements for the years ended December 31, 2022 and January 1, 2022 have also been reclassified to conform to the current year presentation. These reclassification adjustments had no effect on the Company's previously reported net income.

With this restatement, the beginning stockholders' equity is now appropriately presented in the Company's statements of changes in stockholders' equity.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

**NOTE 3. CORRECTION OF ERRORS (CONTINUED)**

The following presents a reconciliation of the impacted financial statement line items as previously issued as of December 31, 2022 and for the years ended December 31, 2022 and January 1, 2022. The previously reported amounts labeled "Previously reported" in the table below reflect those included in the December 31, 2022 and January 1, 2022 issued financial statements. The amounts labeled "Corrections of errors" represent the effects of the restatement.

As a result of this error, opening stockholders' equity as of January 2, 2021, was overstated by \$145,101.

**As of the year ended December 31, 2022**

<u>Balance sheet as of December 31, 2022</u>	<u>Previously reported</u>	<u>Corrections of errors - increase (decrease)</u>	<u>Restated</u>
Accounts receivable	\$ 405,864	\$ 82,250	\$ 488,114
Deferred franchise costs	-	27,502	27,502
Total assets	5,271,589	109,752	5,381,341
Deferred revenues	-	323,135	323,135
Total liabilities	2,586,882	323,135	2,910,017
Stockholder's equity	2,684,707	(213,383)	2,471,324

**For the year ended December 31, 2022**

<u>Statement of income as of December 31, 2022</u>	<u>Previously reported</u>	<u>Corrections of errors - increase (decrease)</u>	<u>Restated</u>
Franchise fee revenue	\$ 196,000	\$ (49,037)	\$ 146,963
Merchandise revenue	31,002	36,991	67,993
Total revenues	4,265,140	(15,559)	4,249,581
Selling, general, and administrative expenses	1,713,509	(104,706)	1,608,803
Other expense, net	-	(58,988)	(58,988)
Net income	2,551,631	30,159	2,581,790

**For the year ended January 1, 2022**

<u>Statement of income as of January 1, 2022</u>	<u>Previously reported</u>	<u>Corrections of errors - increase (decrease)</u>	<u>Restated</u>
Franchise fee revenue	\$ 138,750	\$ 21,653	\$ 160,403
Merchandise revenue	619,497	2,664,407	3,283,904
Total revenues	4,577,466	2,677,183	7,254,649
Selling, general, and administrative expenses	2,082,516	2,642,180	4,724,696
Other income, net	-	(4,626)	(4,626)
Net income	2,494,930	30,397	2,525,327

**NOTE 4. REVENUES AND RELATED CONTRACT BALANCES**

**Disaggregated revenues**

The Company derives the majority of its revenues from franchisees located throughout the United States. The economic risks of the Company's revenues are dependent on the strength of the economy in the United States, and the Company's ability to collect on its contracts. The Company disaggregates revenue from contracts with customers by timing of revenue recognition by type of revenue, as it believes this best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

**NOTE 4. REVENUES AND RELATED CONTRACT BALANCES (CONTINUED)**

Disaggregated revenues (continued)

Revenues by timing of recognition for the years ended December 30, 2023, December 31, 2022, and January 1, 2022 were as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>Point in time:</i>			
Franchise fees	\$ 65,500	\$ 64,000	\$ 77,500
Royalties	3,259,304	3,469,330	3,460,508
Merchandise sales	161,848	67,993	3,283,904
Other revenue	<u>390,292</u>	<u>565,295</u>	<u>349,834</u>
Total point in time	3,876,944	4,166,618	7,171,746
<i>Over time:</i>			
Franchise fees	<u>84,310</u>	<u>82,963</u>	<u>82,903</u>
Total revenues	<u>\$ 3,961,254</u>	<u>\$ 4,249,581</u>	<u>\$ 7,254,649</u>

Deferred franchise costs

The following reflects the change in deferred franchise costs during the years ended December 30, 2023 and December 31, 2022:

Deferred franchise costs - January 2, 2022, as previously reported	\$ -
Correction of error (Note 3)	<u>43,644</u>
Deferred franchise costs - January 2, 2022 - as restated	43,644
Expense recognized during the year, as restated	(34,517)
New deferrals due to commissions paid, as restated	<u>18,375</u>
Deferred franchise costs - December 31, 2022, as restated	27,502
Expense recognized during the year	(3,960)
New deferrals due to commissions paid	<u>10,500</u>
Deferred franchise costs - December 30, 2023	<u>\$ 34,042</u>

Deferred franchise costs are expected to be recognized in the future as the related revenue is recognized as follows:

<u>Year ending last Saturday in December:</u>	<u>Amount</u>
2024	\$ 4,397
2025	4,397
2026	4,397
2027	4,397
2028	4,397
Thereafter	<u>12,057</u>
Total	<u>\$ 34,042</u>

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

**NOTE 4. REVENUES AND RELATED CONTRACT BALANCES (CONTINUED)**

Deferred revenue

The following reflects the change in deferred revenue during the years ended December 30, 2023 and December 31, 2022:

Deferred revenue - January 2, 2022, as previously reported	\$ -
Correction of error (Note 3)	<u>305,598</u>
Deferred revenue - January 2, 2022 - as restated	305,598
Revenue recognized during the year, as restated	(146,963)
Additions for initial franchise fees received, as restated	<u>164,500</u>
Deferred revenue - December 31, 2022, as restated	323,135
Revenue recognized during the year	(149,810)
Additions for initial franchise fees received	<u>155,715</u>
Deferred revenue - December 30, 2023	<u><u>\$ 329,040</u></u>

Deferred revenue is expected to be recognized over the remaining term of the associated franchise agreements as follows:

<u>Year ending last Saturday in December:</u>	<u>Amount</u>
2024	\$ 81,056
2025	69,403
2026	56,472
2027	43,158
2028	29,368
Thereafter	<u>49,583</u>
Total	<u><u>\$ 329,040</u></u>

**NOTE 5. CONCENTRATION OF CREDIT RISK**

The Company maintains cash balances in financial institutions which, at times, may exceed amounts insured by the Federal Deposit Insurance Corporation. The Company has not experienced losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Concentrations of credit risk with respect to receivables is limited due to the large number of franchisees in the Company's customer base and their geographic dispersion. The Company provides an allowance for doubtful accounts equal to the estimated collection losses based on historical experience coupled with a review of the current market conditions and reasonable and supportable forecasts of future economic conditions.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

**NOTE 6. NOTES PAYABLE**

Notes payable consisted of the following at December 30, 2023 and December 31, 2022:

	<u>2023</u>	<u>2022</u>
On March 1, 2020, the Company issued a note payable to a former shareholder for the repurchase of stock for \$395,196. The note is payable in four annual installments commencing April 1, 2021. The note bears interest at a rate of 3.25%. Quarterly interest payments are due beginning June 30, 2020.	\$ 98,799	\$ 197,598
On June 1, 2021, the Company issued a note payable to a former shareholder for the repurchase of stock for \$157,296. The note is payable in four annual installments commencing June 1, 2022. The note bears interest at a rate of 3.25%. Quarterly interest payments are due beginning June 30, 2021.	78,648	117,972
On September 1, 2022, the Company issued a note payable to a former shareholder for the repurchase of stock for \$115,910. The note is payable in five annual installments commencing January 5, 2023. The note bears interest at a rate of 5.50%. Quarterly interest payments are due beginning December 31, 2022.	92,728	115,910
On June 1, 2022, the Company issued a note payable to the estate of a former shareholder for the repurchase of stock for \$2,051,397. The note is payable in five annual installments commencing June 21, 2023. The note bears interest at a rate of 4.75%. Quarterly interest payments are due beginning September 21, 2022.	1,641,118	2,051,397
In December of 2023, the Company issued a note payable to a former shareholder for the repurchase of stock for \$97,560. The note is payable in five annual installments commencing December 29, 2024. The note bears interest at a rate of 8.50%. Quarterly interest payments are due beginning March 31, 2024.	97,560	-
In December of 2023, the Company issued a note payable to a former shareholder for the repurchase of stock for \$140,361. The note is payable in five annual installments commencing March 31, 2024. The note bears interest at a rate of 8.50%. Quarterly interest payments are due beginning March 31, 2024.	<u>140,361</u>	<u>-</u>
	2,149,214	2,482,877
Less: current maturities	<u>619,169</u>	<u>577,380</u>
Long-term debt, less current maturities	<u>\$ 1,530,045</u>	<u>\$ 1,905,497</u>

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

**NOTE 6. NOTES PAYABLE (CONTINUED)**

All of the Company's notes payable are unsecured. Total interest expense on notes payable for the years ended December 30, 2023, December 31, 2022, and January 1, 2022, was \$99,982, \$62,502, and \$13,483, respectively.

As of December 30, 2023, maturities for the next five years are summarized as follows:

<u>Year ending last Saturday in December:</u>	<u>Amount</u>
2024	\$ 619,169
2025	520,370
2026	891,325
2027	70,766
2028	<u>47,584</u>
	<u>\$ 2,149,214</u>

**NOTE 7. RELATED-PARTY TRANSACTIONS**

The Company had trade accounts payable in the amount of \$71,496 and \$32,177 due to PHE as of December 30, 2023 and December 31, 2022, respectively. The Company also had accounts receivable in the amount of \$10,045 and \$18,181 due from PHE as of December 30, 2023 and December 31, 2022, respectively.

The Company has a royalty-free, non-exclusive trademark license agreement with PHE for the use of the proprietary marks associated with Adam & Eve. Pursuant to the license agreement, the Company has acquired the right to sell Adam & Eve franchises and the right to earn franchise fees, royalties and other fees from franchisees. The license agreement will remain in force unless terminated by both parties in writing.

On January 1, 2022, the Company entered into an agreement with PHE whereby AEFC will receive a commission of 3% on certain merchandise sales, as defined in the agreement. Total commissions earned during the years ended December 31, 2023, and December 31, 2022, was \$59,064 and \$49,471, respectively, and are included in Other revenues in the accompanying statements of income.

During the year ended January 1, 2022, the Company had an agreement with PHE whereby PHE provided merchandise order services (see Note 2), as well as general administrative support services. In exchange for these services, AEFC paid 4.6% of merchandise sales to PHE for the merchandise order services and 3.6% of royalties for the administrative services. Total amounts incurred under the agreement with PHE for the years ended December 31, 2022 and January 1, 2022, was \$125,166 and \$123,515, respectively, and are included in Selling, general, and administrative expenses in the accompanying statements of income. On January 1, 2023, the Company amended the terms of the agreement to change the fees paid to PHE for both the merchandise order services and the administrative services to 1.6% of merchandise sales and royalties, respectively. Total amounts incurred under the amended agreement with PHE for the year ended December 30, 2023, was \$59,221.

**AEFC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 30, 2023**  
**DECEMBER 31, 2022 AND JANUARY 1, 2022**

**NOTE 7. RELATED-PARTY TRANSACTIONS (CONTINUED)**

In August 2023, the Company entered into an agreement with PHE whereby AEFC will pay PHE a 70% commission on Adam & Eve branded merchandise sales earned by AEFC and fulfilled by PHE. Total commissions incurred under the agreement with PHE during the year ended December 30, 2023, was \$92,737, and are included in Selling, general, and administrative in the accompanying statements of income.

**NOTE 8. NOTES RECEIVABLE**

During 2020, the Company extended forty-six loans in the amount of \$30,000 each to various franchisees who experienced financial hardships as a result of COVID-19 and/or were forced to close their store operations for a time period during the year. The loans were non-interest bearing if repaid within six months. Twenty-three of the franchisees repaid in the six month interest-free period, while the others made monthly payments. The loans accrued interest at a rate of 2% with a term of eighteen months. The balance as of January 1, 2022, was \$144,310. The loans were repaid during the year ended December 31, 2022.

The Company extended a loan in April 2022, to a stockholder in the amount of \$100,000 accruing interest at the rate of 5% per annum. The loan was repaid in full with interest on October 25, 2022.

During the year ending December 31, 2022, one franchisee with multiple locations encountered financial difficulties and desired to exit their franchise agreements. The Company agreed on an exit payment of \$50,000 and a promissory note was signed. Monthly payments in the amount of \$10,000 commenced on January 1, 2023, with interest accruing at the rate of 12% per annum. The promissory note was repaid in full with interest during the year ended December 30, 2023.

Interest income of \$1,509, \$3,514 and \$8,857, was earned on the various notes receivable during the years ended December 30, 2023, December 31, 2022, and January 1, 2022, respectively.

**NOTE 9. STOCKHOLDERS' EQUITY**

The Company has authorized 100,000 shares of \$1 par value common stock, with 383 and 413 shares issued and outstanding as of December 30, 2023 and December 31, 2022, respectively.

EXHIBIT E

OPERATIONS MANUAL TABLE OF CONTENTS

**ADAM & EVE FRANCHISE OPERATIONS  
MANUAL**

**Adam & Eve Customer Service Mission Statement**

Adam & Eve is committed to providing a shopping experience that *exceeds* our customers' expectations.

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**EXHIBIT F**

**FRANCHISED OUTLETS**  
(as of December 31, 2024)

ARKANSAS	
Stephen Norman* 2013 Military Road Benton AR 72015 501-687-3304	Stephen Norman* 2108 North College, Suite B Fayetteville, AR 72901 479-935-3063
Stephen Norman* 4600 Towsin Ave., Suite 2B Fort Smith, AR 72901 479-226-3154	Stephen Norman* 2200 Central Ave Hot Springs AR 71903 479-935-3063
Stephen Norman* 1510 S. University Avenue Little Rock, AR 72204 501-280-0060	Stephen Norman* 303 South Bowman Road Suite 300 West Little Rock AR 72211 479-935-3063
CALIFORNIA	
Katherine McGregor, Terrence McGregor 213B Pine Avenue Long Beach, CA 90802 (562) 337-8050	
COLORADO	
Kraig McGee* 1355 Santa Fe Drive, Suite 5 Denver, CO 80204 208-406-6315	Kraig & Kara McGee 4697 East Evans Street, Suite 103 Denver, CO 80222 303-757-2733
FLORIDA	
Karen Simpson 1440 Dunn Ave Jacksonville, FL 32216 904-714-1552	Karen Simpson 2565 SR 16 St. Augustine, FL 32092 904-962-9255
Evelyn Norman, Andrew Geisweller 330 Duvall Street Key West, FL 33040 305-741-7800	SBJ LLC 4400 S Tamiami Trail Sarasota, FL 34231 941-203-8651
GEORGIA	
Steve Strong 4790 Peachtree Industrial Blvd Norcross, GA 30071 678-620-3990	
IDAHO	
Kraig McGee* 6919 W. Fairview Ave Boise, ID 83704 208-376-0068	Kraig McGee* 348 W. Bosanko Av-Unit C Coeur D'alene, ID 83815 208-406-6315
Kraig McGee* 4213 Garrity Blvd. Nampa, ID 83687 208-461-4676	Kraig McGee* 657 N. Main Street Pocatello, ID 83201 208-235-9457
Kraig McGee*	Kraig McGee*

118 1 <sup>st</sup> Street Idaho Falls, ID 83401 208-406-6315	1111 Blue Lakes Blvd Twin Falls, ID 83301 208-595-2398
Kraig McGee* 1327 East Fairway Ave Meridian, ID 83642 986-999-4208	
<b>KENTUCKY</b>	
Scott Weis* 1319 N Dixie Hwy Elizabethtown, KY 42701 502-935-7272	Scott Weis* 8113 Preston Highway Louisville, KY 40219 502-709-4401
Scott Weis* 3862 S. Hurstbourne Parkway Louisville, KY 40299 502-493-4164	
<b>MAINE</b>	
Kraig McGee* 657 Broadway Bangor, ME 04401 207-401-4736	Kraig McGee* 424 Fore Street Portland, ME 04101 207-290-8939
<b>MASSACHUSETTS</b>	
Katherine McGregor, Terrence McGregor 18 Main Street Greenfield, MA 01301 413-774-9800	Natale Frontino 1570 Boston-Providence Highway Norwood, MA 02062 508-336-0202
Natale Frontino 1080 Fall River Avenue Seekonk, MA 02771 508-336-0202	Ozzie Figueroa 1275 Grafton St. Worcester, MA 01604 508-799-5205
<b>MICHIGAN</b>	
Mike Konja* 22772 West Road Brownstown, MI 48183 734-474-1300	Mike Konja* 6925 Middlebelt Road Garden City, MI 48135 734-261-9755
Mike Konja* 12525 Dix-Toledo Southgate, MI 48195 734- 284-8755	Angie Bollman 807 East Street Lapeer, MI 48446 810-660-7922
<b>MINNESOTA</b>	
McChill Inc 2116 Maple Grove Road Duluth, MN 55811 218-522-4556	
<b>MISSOURI</b>	
McChill Inc 108 N Rangeline Rd. Joplin, MO 64801 417-691-8058	
<b>MONTANA</b>	
Dave Hanson* 1211 Mallowney Lane	Dave Hanson* 312 Central

Billings, MT 59101 406-259-4688	Great Falls, MT 59401 406-727-4688
Dave Hanson* 3540 Centennial Drive Helena, MT 59601 406-840-0571	Dave Hanson* 1401 West Broadway Missoula, MT 59808
Dave Hanson* 10771 US Hwy 287 Three Forks, MT 59752 406-285-4688	
<b>NEBRASKA</b>	
Steven & Gayle Cutshall Kraig & Kara McGee Paul & Shirley Shillingstad 3507 South 84th Street Omaha, NE 68124 402-502-8223	McChill Inc 4327 O Street Lincoln, NE 68510 402-502-8223
<b>NEVADA</b>	
Greg Peters* 3220 Highway 50 East Carson City, NV 89701 775-841-6350	Antrece Williams 3231 N. Decatur Boulevard Las Vegas, NV 89130 702-478-6969
Greg Peters* 7520 Longley Avenue Reno, NV 89511 775-852-1162	Antrece Williams 2600 West Sahara Avenue Las Vegas, NV 89102 702-2688772
Greg Peters* 102 Los Altos Blvd Sparks, NE 89436 775-657-9630	
<b>NORTH CAROLINA</b>	
Marcus Goswick*, Jason Hoke* 248A Corporation Drive Burlington, NC 27215 336-226-9933	Preston Simpson* 1437 South Boulevard Charlotte, NC 28203 701-375-6811
Marcus Goswick*, Jason Hoke* 856 Gulley Drive Clayton, NC 27520 919-359-0211	Preston Simpson* 8415 Pit Stop Court, Suite 201 Concord, North Carolina 28027 704-717-3071
Marcus Goswick* Jason Hoke* 6400 Fayetteville Rd Durham, NC 27713 919-401-6801	Marcus Goswick* Jason Hoke* 1974 Skibo Road Fayetteville, NC 28314 910-426-2326
Preston Simpson* 2425 East Franklin Road Gastonia, NC 28054 704-868-4915	Mary Armstrong Michael Parra 2500-E Spring Garden Street Greensboro, NC 27403 336-854-3474
Jason Hoke 337 East Arlington Blvd Greenville, NC 27858 252-756-8085	Marcus Goswick* Jason Hoke* 101 Western Boulevard Jacksonville, NC 28546 910-355-2326

Preston Simpson* 2515 West Roosevelt Boulevard Monroe, NC 28110 701-225-9990	Jesse Heath* 480 River Highway, Suite B Mooresville, NC 28115 704-664-1800
Marcus Goswick* Jason Hoke* 3802 Capitol Boulevard Raleigh, NC 27604 919-872-6229	Marcus Goswick* Jason Hoke* 8629 Glenwood Ave-Hwy 70E Raleigh, NC 27612 919-571-7209
Marcus Goswick* Jason Hoke* 255 N. Equity Drive, Suite D/E Smithfield, NC 27577 919-934-3777	Marcus Goswick* Jason Hoke* 5500 N. Market Street, Suite 200 Wilmington, NC 28405 910-392-4400
OHIO	
Jon Hans Stocker 1231 East Ash Street Piqua, OH 45356 937-773-1200	Jen Stocker 2322 Harding Hwy Lima, OH 45804 567-289-6600
OKLAHOMA	
Andrew and Lennox Ryerson-Gonzalez 218 East Main Street Norman, Oklahoma 73069 415-701-5881	SSJM Holdings LLC Shona Jones 1919 West Gore Drive, Suite 122 580-699-5200
Andrew and Lennox Ryerson-Gonzalez Wolfelk Corporation 2805 NW 70 <sup>th</sup> Street Oklahoma City, Oklahoma 73118 (405) 252-7473	
OREGON	
Kraig and Kara McGee 9220 SW Barbur Boulevard Portland, OR 97219 503-244-1604	
SOUTH CAROLINA	
Marcus Goswick* Jason Hoke* 780 Oak Forest Lane, Suite 102 Myrtle Beach, South Carolina 29577 843-839-0987	Jesse Heath* 1659 Woodruff Road Greenville, SC 29607 864-520-1143
Sactacular Holdings LLC 860 Highway 175 North Myrtle Beach South Carolina 29577 843-717-1919	
TENNESSEE	
Charlie Mason Sr. 2160 Winfield Dunn Parkway Sevierville, Tennessee 37876 (865) 866-2724	Jerry Ward 2382 Germantown Pkwy, Suite 102 Cordova, TN 38016 901-310-4049
TEXAS	

Shonda & Marcus Cleveland 4211 S. Cooper Street, Suite 1 Arlington, TX 76015 682-243-4484	Paco Figueroa 5117 Fredericksburg Road San Antonio, TX 78229 210-348-9401
Paco Figueroa 6957 San Pedro Ave San Antonio, TX 78218 210-348-6902	BLV Capital 18900 Dallas Parkway, Suite 112/118 Dallas, TX 75287 972-372-4644
Paco Figueroa 1705 SW Military Drive San Antonio, TX 78221 210-981-4042	Kraig McGee* 3800 E Stan Schlueter Loop Killeen, TX 76542 254-312-8188
BLV Capital 5736 Camp Bowie Blvd Fort Worth, Texas 76107	Shonda & Marcus Cleveland 750 Alta Mere Drive, Suite 100 Fort Worth, TX 76116
Bob Strother 17531 Hwy 249/Tomball Parkway Houston, TX 77064 281-469-0619	Bob Strother 10701 W. Belfort Ave Houston, TX 77099 346-257-4869
Bob Strother 1111 Westheimer Houston, TX 77027 713-521-2326  (relocation 2024)	Bayou 22 LLC Bob Strother 6483 Westheimer Road Houston, Texas 75782 832-940-2882
Bob Strother 403 W. Grand Parkway South Katy, Texas 77494 346-257-4869	Jose Pulido 2331 Endeavor Drive Laredo, TX 78041 956-441-0847
Shona Jones 5908 82nd street suite 102 & 103 Lubbock, TX 79424 806-317-1552	Ramiro Armendariz* 2003 North 10th Street McAllen, TX 78501 956-630-5090
Ramiro Armendariz* 5517 Padre Boulevard South Padre Island, TX 78597 956-433-5161	Bob Strother 25701-45 N Borough Park The Woodlands, TX 77380 281-298-0069
Shona Jones SSJM Holdings LLC 3905 Wayne Avenue Wichita Falls, Texas 76308 (940) 613-0014	BLV Capital 5000 Western Center Blvd. Haltom City, TX 76137 817-761-0356
Shona Jones SSJM Holdings LLC 4708 N. Midkiff Road Midland, TX 79705 432-218-7020	
<b>UTAH</b>	
Kraig McGee* 2153 S. 700 E Salt Lake City, UT 84106	Kraig McGee* 3443 W 3500 Street Salt Lake City, UT 84119

435-800-0342	385-421-9337
Kraig McGee* 3531 Harrison Blvd Ogden, UT 84403 (385) 626-7518	
<b>VIRGINIA</b>	
Specialty Retail, LLC Susan Wade and Ben Woodard 7500 Jackson Arch Drive Mechanicsville, Virginia 23111 (804) 789-1116	Specialty Retail, LLC Susan Wade and Ben Woodard 732 Eden Way North, Suite I Chesapeake, Virginia 23320 (757) 226-0449
Specialty Retail, LLC Susan Wade and Ben Woodard 3801A Plank Rd. Fredericksburg, VA 22407 540-412-5687	Ben Woodard 2728 North Mall Drive Suites 115 & 116 Virginia Beach, Virginia 23452 757-937-8548
<b>WASHINGTON</b>	
Kraig McGee* 3609 North Division Street Spokane, WA 99207 5092906435	SBJ LLC 205 NW Whitman Street, Pullman, WA 99163 509-339-6260
<b>WISCONSIN</b>	
McChill Inc 6807 Odana Road Madison, Wisconsin 53719	
<b>WYOMING</b>	
Kraig McGee 2115 East Lincolnway Cheyenne, Wyoming 82001 307-369-4244	

**Franchise Agreements Signed but Outlet Not Open as of December 31, 2024**

**None.**

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

**Former Franchisees**

Franchisees that had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during the most recently completed fiscal year or has not communicated with the franchisor within the 10 weeks preceding the Issuance Date of this Disclosure Document:

Rafael Palao – Lima, Peru 204-296-4055 rpalao@adamevestores.ca	
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**EXHIBIT G**

**RELEASE**

\_\_\_\_\_ (“Franchisee”) and its Principal(s):

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

(collectively, “Franchisee’s Principal(s)”), on behalf of themselves and their respective officers, directors, employees, successors, assigns, heirs, personal representatives, and all other persons acting on their behalf or claiming under them (collectively, the “Franchisee Releasors”), hereby release, discharge and hold harmless AEFC, Inc. (“Franchisor”), PHE, Inc., their parents, subsidiaries, affiliates, and each of their respective officers, directors, shareholders, employees, agents, attorneys, successors, and assigns (collectively, the “Franchisor Releasees”) from any suits, claims, controversies, rights, promises, debts, liabilities, demands, obligations, costs, expenses, actions, and causes of action of every nature, character and description, in law or in equity, whether presently known or unknown, vested or contingent, suspected or unsuspected arising under, relating to, or in connection with the Franchise Agreement dated \_\_\_\_\_ between Franchisee and Franchisor and any related agreements and the relationship created thereby, or the Franchised Business operated under the Franchise Agreement, or any claims or representations made relative to the sale of the franchise to operate such Franchised Business or under any federal or state franchise or unfair or deceptive trade practice laws, which any of the Franchisee Releasors now own or hold or have at any time heretofore owned or held against the Franchisor Releasees (collectively, the “Franchisee Released Claims”).

FRANCHISEE AND FRANCHISEE’S PRINCIPAL(S) ON BEHALF OF THEMSELVES AND THE FRANCHISEE RELEASORS WAIVE ANY RIGHTS AND BENEFITS CONFERRED BY ANY APPLICABLE PROVISION OF LAW EXISTING UNDER ANY FEDERAL, STATE OR POLITICAL SUBDIVISION THEREOF WHICH WOULD INVALIDATE ALL OR ANY PORTION OF THE RELEASE CONTAINED HEREIN BECAUSE SUCH RELEASE MAY EXTEND TO CLAIMS WHICH THE FRANCHISEE RELEASORS DO NOT KNOW OR SUSPECT TO EXIST IN THEIR FAVOR AT THE TIME OF EXECUTION OF THIS AGREEMENT. The Franchisee Releasors also covenant not to bring any suit, action, or proceeding, or make any demand or claim of any type, against any Franchisor Releasees with respect to any Franchisee Released Claim, and Franchisee and Franchisee’s Principal(s) shall defend, indemnify and hold harmless each of Franchisor Releasees against same.

Executed as of \_\_\_\_\_, 20\_\_\_\_\_.

FRANCHISEE (Entity):

Attest: \_\_\_\_\_  
\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

(Additional signatures appear on the following page)

FRANCHISEES (Principal)

\_\_\_\_\_  
Witness Name: \_\_\_\_\_

\_\_\_\_\_  
Print Name: \_\_\_\_\_

**EXHIBIT H**  
**STATE ADDENDA**

**ILLINOIS ADDENDUM TO THE DISCLOSURE DOCUMENT,  
FRANCHISE AGREEMENT AND MULTI-UNIT DEVELOPMENT AGREEMENT**

Illinois law governs the agreements between the parties to this franchise.

Section 4 of the Illinois Franchise Disclosure Act provides that any provision in the franchise agreement which designates jurisdiction or venue outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration outside of Illinois.

Section 41 of the Illinois Franchise Disclosure Act provides that any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

Your right upon termination and non-renewal of a franchise agreement are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.

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

The parties hereto have duly executed this Illinois Addendum on \_\_\_\_\_.

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Entity):

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

**INDIANA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT PURSUANT TO  
THE INDIANA FRANCHISE DISCLOSURE LAW AND THE  
INDIANA DECEPTIVE FRANCHISE PRACTICES ACT**

The Indiana Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with Indiana law, including the Indiana Franchises Act, Ind. Code Ann. §§ 1 - 51 (1994) and the Indiana Deceptive Franchise Practices Act, Ind. Code Ann. § 23-2-2.7 (1985) (collectively referred to as the “Acts”). To the extent that (a) the jurisdictional requirements of the Acts are met and (b) this Franchise Disclosure Document, Franchise Agreement and Multi-Unit Development Agreement contain provisions that are inconsistent with the following, such provisions are hereby amended:

- (a) To the extent the Franchise Agreement and Multi-Unit Development Agreement contain provisions allowing the establishment of franchisor-owned outlets that are inconsistent with the Indiana Deceptive Franchise Practices Act § 23-2-2.7(2), the requirements of this section of the Indiana Act will control.
- (b) The franchisor may not make any substantial modification of the Franchise Agreement or Multi-Unit Development Agreement without the franchisee’s or the developer’s written consent.
- (c) To the extent any provision regarding renewal or termination of the Franchise Agreement and Multi-Unit Development Agreement is inconsistent with the Indiana Deceptive Franchise Practices Act §§ 23-2-2.7(7) and (8), the provisions of these sections of the Indiana Act will control.
- (d) Any requirement in the Franchise Agreement or Multi-Unit Development Agreement that requires the franchisee or developer to prospectively assent to a release, assignment, novation, wavier or estoppel shall not relieve any person from liability arising under the Acts.
- (e) To the extent the covenants not to compete upon expiration or termination of the Franchise Agreement and Multi-Unit Development Agreement are inconsistent with the Indiana Deceptive Franchise Practices Act § 23-2-2.7(9), the provisions of this section of the Indiana Act will control.
- (f) To the extent that any provision of the Franchise Agreement and Multi-Unit Development Agreement would be deemed unenforceable pursuant to the Indiana Deceptive Franchise Practices Act § 23-2-2.7(10), as this section of the Indiana Act is interpreted and applied, such provision of the Franchise Agreement shall be so deleted therefrom.

**MARYLAND ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT, FRANCHISE  
AGREEMENT AND MULTI-UNIT DEVELOPMENT AGREEMENT**

1. Item 17 of the Franchise Disclosure Document and the appropriate section of the Franchise Agreement are amended to disclose:
  - (a) Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of the franchise.
  - (b) Pursuant to COMAR 02.02.08.16L, any general release required by the terms and conditions of the Franchise Agreement as a condition of renewal, sale, assignment and/or transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
  - (c) Our right to terminate you upon your bankruptcy may not be enforceable under federal bankruptcy law (11 U.S.C. §101 *et. seq.*).
  - (d) This franchise agreement provides that disputes are resolved through arbitration. A Maryland franchise regulation states that it is an unfair or deceptive practice to require a franchisee to waive its right to file a lawsuit in Maryland claiming a violation of the Maryland Franchise Law. In light of the Federal Arbitration Act, there is some dispute as to whether this forum selection requirement is legally enforceable.
2. The Franchise Agreement, Multi-Unit Development Agreement and Franchisee Acknowledgment are amended to include the following statement: “All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.”
3. The Franchise Agreement and Multi-Unit Development Agreement are hereby amended to permit a franchisee to bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
4. Each provision of this Amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law, MD. Code Ann., Bus. Reg. § 14-201 *et seq.*, are met independently without reference to this Amendment.
5. No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

(Signatures appear on the following page)

The parties hereto have duly executed this Maryland Addendum on \_\_\_\_\_.

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Entity):

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

**ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT PURSUANT TO THE MICHIGAN  
FRANCHISE INVESTMENT LAW**

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

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in the Michigan Franchise Investment Act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
  - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
  - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
  - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
  - (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.
- (h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire

the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

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

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, the franchisor shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

**THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.**

Any questions regarding this notice should be directed to: Michigan Attorney General's Office, Consumer Protection Division, Attention: Franchise Section, G. Mennen Williams Building, 1st Floor, 525 West Ottawa Street, Lansing, Michigan 4893, Telephone Number: 517-373-7117.

**MINNESOTA ADDENDUM to the FRANCHISE DISLCOSURE DOCUMENT,  
FRANCHISE AGREEMENT AND MULTI-UNIT DEVELOPMENT AGREEMENT.**

In recognition of the requirements of the Minnesota Statutes Chapter 80C, the parties agree as follows:

1. No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including, fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed with the franchise.
2. Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee's assent to a release other than as part of a voluntary settlement of disputes. To the extent of any inconsistencies with the Minnesota Rules requirement contained in Sections 5.2.5 or 16.3.6 of the Franchise Agreement, such inconsistent provisions are hereby deleted.
3. To the extent of any inconsistencies, the Franchise Agreement is hereby amended to state:

“Except in certain specified cases as set forth in Minn. Stat. § 80C.14 subd. 4, Franchisor will give Franchisee 180 days notice for non-renewal of the Franchise Agreement.”
4. To the extent of any inconsistencies, the Franchise Agreement is hereby amended to state that the non-sufficient funds fee is Thirty Dollars (\$30.00) per occurrence.
5. To the extent of any inconsistencies, the Franchise Agreement is hereby amended to state:

“Except in certain specified cases as set forth in Minn. Stat. § 80C.14 subd. 3, Franchisor will give Franchisee 90 days notice of termination (with 60 days to cure)”.
6. To the extent of any inconsistencies, the Franchise Agreement and Multi-Unit Development Agreement are hereby amended to state:

“Franchisor cannot require Franchisee to: (i) conduct litigation outside Minnesota, (ii) waive a jury trial, or (iii) consent to liquidated damages, termination penalties or judgment notes. Nothing in this Franchise Agreement shall abrogate or reduce (1) any of Franchisee's rights as provided for in Minn. Stat. Chapter 80C or (2) Franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction. Franchisee cannot consent to Franchisor obtaining injunctive relief. Franchisor may seek injunctive relief.”
6. Each provision of this Amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Statutes Chapter 80C are met independently without reference to this Amendment.

(Signatures appear on the following page)

The parties hereto have duly executed this Minnesota Addendum on \_\_\_\_\_.

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Entity):

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

## NEW YORK STATE ADDENDUM TO FDD

1. The following information is added to the cover page of the Franchise Disclosure Document:

**INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR RESOURCES OR INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN ANYTHING IN THIS FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND THE APPROPRIATE STATE OR PROVINCIAL AUTHORITY. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS THAT ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.**

2. The following is to be added at the end of Item 3:

Except as provided above, the following applies to the franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

A. No such party has an administrative, criminal, or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust, or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable civil or misdemeanor allegations.

B. No such party has pending actions other than routine litigation incidental to the business that is significant in the context of the number of franchisees and the size, nature, or financial condition of the franchise system or its business operations.

C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten years immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud, or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.

D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise or under a Federal, State, or Canadian franchise, securities, antitrust, trade regulation, or trade practice law resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

3. The following is added to the end of the "Summary" sections of Item 17(c), titled "Requirements for a franchisee to renew or extend," and Item 17(m), entitled "Conditions for franchisor approval of transfer":

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; this proviso intends that the non-waiver provisions of General Business Law Sections 687(4) and 687(5) be satisfied.

4. The following language replaces the "Summary" section of Item 17(d), titled "Termination by a franchisee": "You may terminate the agreement on any grounds available by law."
5. The following is added to the end of the "Summary" sections of Item 17(v), titled "Choice of forum," and Item 17(w), titled "Choice of law":

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or the franchisee by Article 33 of the General Business Law of the State of New York.

6. Franchise Questionnaires and Acknowledgements -- No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.
7. Receipts--Any sale made must be in compliance with § 683(8) of the Franchise Sale Act (N.Y. Gen. Bus. L. § 680 et seq.), which describes the time period a Franchise Disclosure Document (offering prospectus) must be provided to a prospective franchisee before a sale may be made. New York law requires a franchisor to provide the Franchise Disclosure Document at the earliest of the first personal meeting, ten (10) business days before the execution of the franchise or other agreement, or the payment of any consideration that relates to the franchise relationship.

THE PARTIES hereto have duly executed this New York Addendum on \_\_\_\_\_.

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Entity):

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

**VIRGINIA ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT,  
FRANCHISE AGREEMENT AND MULTI-UNIT DEVELOPMENT AGREEMENT**

1. The following statements are added to Item 17.h.

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the franchise agreement does not constitute “reasonable cause,” as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a Franchisor to use undue influence to induce a franchisee to surrender any right given to him under the franchise. If any provision of the Franchise Agreement involves the use of undue influence by the franchisor to induce a franchisee to surrender any rights given to him under the franchise, that provision may not be enforceable.

2. Each provision of this Amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Virginia Retail Franchising Act are met independently without reference to this Amendment.

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

THE PARTIES hereto have duly executed this Virginia Addendum on \_\_\_\_\_.

FRANCHISOR:  
AEFC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Entity):

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

**EXHIBIT I**

**FRANCHISEE ACKNOWLEDGMENT STATEMENT**

**\*\*NOT FOR USE IN CALIFORNIA, MARYLAND, AND WASHINGTON\*\***

**'Do not sign if the franchisee is a Maryland resident or if the franchised business will be located within the State of Maryland.**

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

Franchisee hereby acknowledges the following:

1. Franchisee has conducted an independent investigation of all aspects relating to the financial, operational and other aspects of the business of operating the Franchised Business. Franchisee further acknowledges that, except as may be set forth in Franchisor's Disclosure Document, no representations of performance (financial or otherwise) for the Franchised Business provided for in this Agreement has been made to Franchisee by Franchisor and Franchisee and any and all Principals hereby waive any claim against Franchisor for any business failure Franchisee may experience as a franchisee under this Agreement.

\_\_\_\_\_  
Initial

2. Franchisee has conducted an independent investigation of the business contemplated by this Agreement and understands and acknowledges that the business contemplated by this Agreement involves business risks making the success of the venture largely dependent upon the business abilities and participation of Franchisee and its efforts as an independent business operation.

\_\_\_\_\_  
Initial

3. Franchisee agrees that no claims of success or failure have been made to it or him or her prior to signing the Franchise Agreement and that it/she/he understands all the terms and conditions of the Franchise Agreement. Franchisee further acknowledges that the Franchise Agreement contains all oral and written agreements, representations and arrangements between the parties hereto, and any rights which the respective parties hereto may have had under any other previous contracts are hereby cancelled and terminated, and that this Agreement cannot be changed or terminated orally.

\_\_\_\_\_  
Initial

4. Franchisee has no knowledge of any representations by Franchisor or its officers, directors, shareholders, employees, sales representatives, agents or servants, about the business contemplated by the Franchise Agreement that are contrary to the terms of the Franchise Agreement or the documents incorporated herein. Franchisee acknowledges that no representations or warranties are made or implied, except as specifically set forth in the Franchise Agreement.

Franchisee represents, as an inducement to Franchisor's entry into this Agreement, that it has made no misrepresentations in obtaining the Franchise Agreement.

\_\_\_\_\_  
Initial

5. Franchisor expressly disclaims the making of, and Franchisee acknowledges that it has not received or relied upon, any warranty or guarantee, express or implied, as to the potential volume, profits or success of the business venture contemplated by the Franchise Agreement.

\_\_\_\_\_  
Initial

6. Franchisee acknowledges that Franchisor's approval or acceptance of Franchisee's Business location does not constitute a warranty, recommendation or endorsement of the location for the Franchised Business, nor any assurance by Franchisor that the operation of the Franchised Business at the premises will be successful or profitable.

\_\_\_\_\_  
Initial

7. Franchisee acknowledges that it has received the AEFC, Inc. Franchise Disclosure Document with a complete copy of the Franchise Agreement and all related Attachments and agreements at least fourteen (14) calendar days prior to the date on which the Franchise Agreement was executed. Franchisee further acknowledges that Franchisee has read such Franchise Disclosure Document and understands its contents.

\_\_\_\_\_  
Initial

8. Franchisee acknowledges that it has had ample opportunity to consult with its own attorneys, accountants and other advisors and that the attorneys for Franchisor have not advised or represented Franchisee with respect to the Franchise Agreement or the relationship thereby created.

\_\_\_\_\_  
Initial

9. Franchisee, together with Franchisee's advisers, has sufficient knowledge and experience in financial and business matters to make an informed investment decision with respect to the Franchise granted by the Franchise Agreement.

\_\_\_\_\_  
Initial

10. Franchisee is aware of the fact that other present or future franchisees of Franchisor may operate under different forms of agreement(s), and consequently that Franchisor's obligations and rights with respect to its various franchisees may differ materially in certain circumstances.

\_\_\_\_\_  
Initial

11. It is recognized by the parties that Franchisor is also (or may become) a manufacturer or distributor of certain products under the Marks licensed herein; and it is understood that Franchisor does not warrant that such products will not be sold within the Franchisee's Territory by others who may have purchased such products from Franchisor.

\_\_\_\_\_  
Initial

12. BY EXECUTING THE FRANCHISE AGREEMENT, FRANCHISEE AND ANY PRINCIPAL, INDIVIDUALLY AND ON BEHALF OF FRANCHISEE'S AND SUCH PRINCIPAL'S HEIRS, LEGAL REPRESENTATIVES, SUCCESSORS AND ASSIGNS, HEREBY FOREVER RELEASE AND DISCHARGE AEFC, INC., PHE, INC., AND ANY OF ABOVE'S PARENT COMPANY, SUBSIDIARIES, DIVISIONS, AFFILIATES, SUCCESSORS, ASSIGNS AND DESIGNEES, AND THE FOREGOING ENTITIES' DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SHAREHOLDERS, SUCCESSORS, DESIGNEES AND REPRESENTATIVES FROM ANY AND ALL CLAIMS, DEMANDS AND JUDGMENTS RELATING TO OR ARISING UNDER THE STATEMENTS, CONDUCT, CLAIMS OR ANY OTHER AGREEMENT BETWEEN THE PARTIES EXECUTED PRIOR TO THE DATE OF THE FRANCHISE AGREEMENT, INCLUDING, BUT NOT LIMITED TO, ANY AND ALL CLAIMS, WHETHER PRESENTLY KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, ARISING UNDER THE FRANCHISE, SECURITIES, TAX OR ANTITRUST LAWS OF THE UNITED STATES OR OF ANY STATE OR TERRITORY THEREOF. THIS RELEASE SHALL NOT APPLY TO ANY CLAIMS ARISING FROM REPRESENTATIONS MADE BY FRANCHISOR IN FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENT RECEIVED BY FRANCHISEE.

\_\_\_\_\_  
Initial

FRANCHISEE (Entity):

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

## State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the states, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered, or exempt from registration, as of the Effective Date stated below:

<b>State</b>	<b>Effective Date</b>
Illinois	Pending
Indiana	Pending
Maryland	Pending
Michigan	Pending
Minnesota	Pending
New York	Pending
Virginia	Pending

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

**RECEIPT**

This Franchise Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Franchise Disclosure Document and all exhibits carefully.

If AEFC, Inc. offers you a franchise, it must provide this Disclosure Document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. New York requires you to receive this Franchise Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If AEFC, Inc. does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC, 20580, and to your state authority listed on Exhibit A.

The name and principal business address and telephone number of each franchise seller offering the franchise is:

David Keegan 302 Meadowlands Drive Hillsborough, NC 27278 919-644-8100	Shelia Hostler 302 Meadowlands Drive Hillsborough, NC 27278 919-644-8100
---	---

Issuance Date: June 24, 2025

I received a Disclosure Document dated June 24, 2025, that included the following Exhibits:

- Exhibit A: State Franchise Administrators/Agents for Service of Process
- Exhibit B: Franchise Agreement
- Exhibit C: Multi-Unit Development Agreement
- Exhibit D: Financial Statements
- Exhibit E: Operations Manual Table of Contents
- Exhibit F: Franchise Outlets
- Exhibit G: Release
- Exhibit H: State Addenda
- Exhibit I: Franchisee Acknowledgment Statement

Date Received: \_\_\_\_\_  
(If other than date signed)

DATE: \_\_\_\_\_

Print Name: \_\_\_\_\_

Print Address: \_\_\_\_\_

City, State: \_\_\_\_\_

\_\_\_\_\_  
(Signature of recipient)

**KEEP FOR YOUR RECORDS**

**RECEIPT**

This Franchise Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Franchise Disclosure Document and all exhibits carefully.

If AEFC, Inc. offers you a franchise, it must provide this Disclosure Document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. New York requires you to receive this Franchise Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If AEFC, Inc. does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC, 20580, and to your state authority listed on Exhibit A.

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- Exhibit I: Franchisee Acknowledgment Statement

Date Received: \_\_\_\_\_  
(If other than date signed)

DATE: \_\_\_\_\_

Print Name: \_\_\_\_\_

Print Address: \_\_\_\_\_

City, State: \_\_\_\_\_

\_\_\_\_\_  
(Signature of recipient)

Please return signed receipt to AEFC, Inc.  
302 Meadowlands Drive, Hillsborough, North Carolina 27278.