

# FRANCHISE DISCLOSURE DOCUMENT



**STUDIO PILATES INTERNATIONAL USA CORP.,**  
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As a Studio Pilates International franchisee, you will operate a Studio Pilates International fitness studio that provides Pilates and other exercise classes.

Your total investment necessary to begin operation of a Studio Pilates International franchised studio ranges from \$271,200 to \$477,300. This includes \$121,900 to \$139,500 that must be paid to the franchisor or its affiliates. If you elect to enter into a Multi-Unit Option Addendum to establish additional studios, you will also pay the franchisor a \$35,000 option fee for one additional studio, or a \$60,000 option fee for two additional studios, when you sign the Multi-Unit Option Addendum.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no 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 Jade Winter at (917) 310-3883 or at [franchising@studiopilates.com](mailto:franchising@studiopilates.com).

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

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "A Consumer's Guide to Buying a Franchise," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 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: April 26, 2023

## 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:

<b>QUESTION</b>	<b>WHERE TO FIND INFORMATION</b>
<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 Exhibits F and G.
<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 Studio Pilates International 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 a Studio Pilates International franchisee?</b>	Item 20 or Exhibits F and G list current and former franchisees. You can contact them to ask about their experiences.

**What else should I know?**

These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

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

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

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

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

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

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

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

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

### Some States Require Registration

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

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**

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 New York. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in New York than in your own state.
2. **Minimum Payments.** You must make minimum payments regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.
3. **Minimum Sales Performance Levels.** You must maintain minimum sales performance levels. Your inability to maintain these levels may result in loss of any territorial rights you are granted, termination of your franchise, and loss of your investment.
4. **Financial Condition.** The Franchisor's financial condition as reflected in its financial statements (see Item 21) calls into question the Franchisor's financial ability to provide services and support to you.

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.

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**Item 1**  
**FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES**

The franchisor is Studio Pilates International USA Corp. For ease of reference in this disclosure document, Studio Pilates International USA Corp. is referred to as “we,” “us” “our,” or “Franchisor”, and the person who is considering buying the franchise is referred to as “you”, “your,” or “Franchisee.”

**Franchisor**

The name and principal address of the franchisor is Studio Pilates International USA Corp., 246 Hawthorne Road, Hawthorne Queensland 4171, Australia. Studio Pilates International USA Corp. is a Delaware corporation formed on August 30, 2018. We do business under our company name, or in some cases simply as “Studio Pilates International” or “SPI.” We do not do business under any other name. Our agents for service of process are disclosed in Exhibit B.

Except as provided in this item, we do not offer franchises in any other line of business.

**Parents, Predecessors or Affiliates**

Our parent is Studio Pilates International London Ltd., a UK private limited company, with its principal place of business at 25 Fenchurch Avenue, London, EC3M 5AD.

Our affiliate, Studio Pilates International Australia Pty Ltd., an Australia private limited company, whose principal place of business is 246 Hawthorne Road, Hawthorne Queensland 4171, Australia, has offered franchises for Studio Pilates International studios in Australia and New Zealand since 2014. It has not conducted the type of business the franchisee will operate. Prior to 2014, our affiliate, Studio Pilates International Franchise Pty Ltd., an Australia private limited company, as trustee for the Studio Pilates International Franchise Trust, whose principal place of business is 246 Hawthorne Road, Hawthorne, Queensland, offered franchises for Studio Pilates International studios in Australia and New Zealand from 2010 to 2014. It has not conducted the type of business the franchisee will operate.

Our affiliate Studio Pilates International Hawthorne Pty Ltd., whose principal place of business 246 Hawthorne Road, Hawthorne Queensland, operates a Studio Pilates International studio at 246 Hawthorne Road, Hawthorne, Queensland, which it has operated since 2002. It has not offered franchises in any lines of business.

Our affiliate, Studio Pilates International Hong Kong Holdings Limited, a Hong Kong limited private company, with its principal place of business at 2003, 20/F Tower 5 China Hong Kong City, 33 Canton Road Tsim Sha Tsui, Kowloon, holds and licenses the intellectual property for all of the Studio Pilates International studios operated by our affiliates. It has not conducted the type of business the franchisee will operate, and it has not offered franchises in any line of business. Our parent Studio Pilates International London Ltd. has a license from Studio Pilates International Hong Kong Holding Limited to sublicense the intellectual property to us.

Our affiliate Studio Pilates Industries Pty Ltd., an Australia private limited company, whose principal place of business is 246 Hawthorne Road, Hawthorne, Queensland, imports and sells the Reformer Equipment to Studio Pilates International franchisees in Australia and New Zealand. Studio Pilates Industries Pty Ltd also sells the Reformer Equipment to us, and we resell the Reformer Equipment to our United States franchisees. Studio Pilates Industries Pty. Ltd. has not conducted the type of business the franchisee will operate, and it has not offered franchises in any line of business.

Our affiliate Studio Pilates International Education Pty Ltd, an Australia private limited company, whose principal place of business is 246 Hawthorne Road, Hawthorne, Queensland, helps to develop Pilates training courses and education. It has not conducted the type of business the franchisee will operate, and it has not offered franchises in any line of business.

We have no other affiliates that offer or have offered franchises in any line of business, and no other affiliates offer products or services to our franchisees.

### The Franchise

We offer franchises to operate a fitness studio to provide Pilates and other fitness courses under the Studio Pilates International name, using our proprietary courses and training, music, videos, and methods of instruction, using our distinctive studio design and layout, and the methods and procedures which we have developed. Our standards and procedures for conducting the franchised business are set forth in our confidential Operations Manual, which may be updated and amended by us from time to time. Each studio must operate in accordance with the franchise agreement, and the standards and procedures contained in our then-current Operations Manual. Studio Pilates International studios also offer the sale of products at the studio.

We may grant you the option to open multiple Studio Pilates International studios within a specific geographic area. If you enter into a Multi-Unit Option Addendum to open additional locations, you will pay us a non-refundable additional option fee of \$35,000 for one additional location, or \$60,000 for two additional locations, to be paid when you sign the Multi-Unit Option Addendum. The Multi-Unit Option Addendum gives you the option to open one additional studio over a one-year period, or two additional studios over a two year period, under the terms of our then-current form of franchise agreement within your agreed territory. Upon establishing each additional location under the Multi-Unit Option Addendum, you will be required to sign a then-current Franchise Agreement, which may differ from the current Franchise Agreement included with this Franchise Disclosure Document.

### Market and Competition

The market for fitness club services is well established and developed. The consumer market for the fitness club services includes anyone who desires to improve or maintain his or her health and fitness or to combat obesity.

The fitness club services market, as well as the Pilates studio services market, is highly competitive and well-developed. You will compete with local and national businesses that provide

similar services and products. Competitors include local and national gyms and fitness and Pilates studios. Before signing a franchise agreement, you should survey your market to determine the number and quality of competitors, local market conditions and the costs you would experience in your local market to operate a Studio Pilates International studio.

### Laws and Regulations

You must comply with all local, state and federal laws and regulations that apply to the operation of any business and for your premises, including state and local health and sanitary laws that regulate facilities providing health and fitness services. We urge you to inquire with your attorney about these laws and regulations. You must thoroughly investigate the zoning laws for prospective premises, since they may include zoning restrictions or special requirements. You must comply with all applicable rules and regulations when operating a Studio Pilates International studio.

## Item 2 **BUSINESS EXPERIENCE**

### Jade Michael Winter – President and Director

Jade Winter has been Chief Executive Officer and President of our Company since it was formed in August 2018. Jade has been president of our affiliate Studio Pilates International Pty Ltd, an Australia company, located in Hawthorne Queensland, Australia, since 2014 to the present; president of our affiliate Studio Pilates International Hong Kong Holdings Limited, a Hong Kong company, located in Hong Kong, China, since September 2017 to the present; president of our affiliate Studio Pilates International London Ltd., a UK company, located in London, England, since April 2017 to the present; president of our affiliate Studio Pilates International Hawthorne Pty Ltd., an Australia company, located in Hawthorne Queensland, Australia, since 2002 to the present, president of Studio Pilates Industries Pty Ltd., an Australia company, located in Hawthorne Queensland, since June 2007 to the present; president of our affiliate Studio Pilates International Franchising Pty, an Australia company, located in Hawthorne Queensland, Australia, since April 2010 to the present, and president of our affiliate Studio Pilates International Education Pty Ltd., an Australia company, located in Hawthorne Queensland, Australia, since September 2014 to the present.

### Tanya Nicole Winter – Vice President for Education

Tanya Winter has been Vice President for Education of our Company since it was formed in August 2018. Tanya has been the vice president of our affiliate Studio Pilates International Pty Ltd, an Australia company, located in Hawthorne Queensland, Australia, since 2014 to the present; vice president of our affiliate Studio Pilates International Hong Kong Holdings Limited, a Hong Kong company, located in Hong Kong, China, since September 2017 to the present; vice president of our affiliate Studio Pilates International London Ltd., a UK company, located in London, England, since April 2017 to the present; vice president of our affiliate Studio Pilates International Hawthorne Pty Ltd., an Australia company, located in Hawthorne Queensland, Australia, since 2002 to the present, vice president of Studio Pilates Industries Pty Ltd., an Australia company,

located in Hawthorne Queensland, since June 2007 to the present; vice president of our affiliate Studio Pilates International Franchising Pty, an Australia company, located in Hawthorne Queensland, Australia, since April 2010 to the present, and vice president of our affiliate Studio Pilates International Education Pty Ltd., an Australia company, located in Hawthorne Queensland, Australia, since September 2014 to the present

**Item 3**  
**LITIGATION**

No litigation is required to be disclosed in this Item.

**Item 4**  
**BANKRUPTCY**

No bankruptcy is required to be disclosed in this Item.

**Item 5**  
**INITIAL FEES**

**Initial Franchise Fee**

You must pay us a \$45,000 non-refundable lump sum Franchise Fee (the “Franchise Fee”) when you sign the Franchise Agreement. Of this amount, you may elect to pay \$2,000 of this initial franchise fee as a refundable holding deposit to hold the territory until you sign the franchise agreement or until we decide to return the deposit and not to move forward with the proposed agreement.

If you enter into an option agreement to open additional locations, you will pay us a non-refundable additional option fee of \$35,000 for one additional location, or \$60,000 for two additional locations, to be paid when you sign the multi-unit option addendum. The multi-unit option addendum gives you the option to open one additional studio over a one-year period, or two additional studios over a two-year period, under the terms of our then-current form of franchise agreement within your agreed territory. The initial franchise fee for the first additional location will be \$35,000, and the option fee will be treated as full payment of the initial franchise fees for the first additional location. The initial franchise fee for the second additional location will be an additional \$25,000, and the option fee will be applied as full payment of the initial franchise fee for the second additional location.

**Launch Package Fee**

The Launch Package Fee is a \$31,000 non-refundable lump sum fee which covers the Initial Instructor Training for up to 6 people, the Initial Business Operations Training for the initial sales, administrative, and management staff, the basic standard Studio Design and construction plans for your Studio, and Marketing and Business Operations support. This fee is due and payable in full upon the Franchisee entering into a letter of intent with a landlord.

### Initial Inventory

You must pay us or one of our affiliates a non-refundable lump sum fee for the initial inventory of products and supplies to be used or offered for sale at your studio. The amount of the fee will vary depending on the size of the studio and the type of products and supplies which we decide or you request. The fee will normally range between \$14,000 to \$18,000 for a typical size location and typical types of products or supplies.

About 40%, or \$5,600 to \$7,200, must be purchased from us or one of our affiliates.

The remaining 60%, or \$8,400 to \$10,800, must be purchased from local suppliers approved by us. The price and list of your required initial inventory of products and supplies will be specified in Schedules 3 and 4 of your Franchise Agreement.

### Pre-Opening Initial Promotion Expenses

You must pay us or one of our affiliates the sum of \$10,000 which we or our affiliates will use for pre-opening initial promotion expenses for your initial promotion. This payment, which is non-refundable, is due in full when the Franchisee has a signed letter of intent with a landlord.

**Item 6**  
**OTHER FEES**

<b>Fee (See Note 1)</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Royalty Fees	8% of Gross Sales (see Note 2)	Weekly	Fees will be deducted automatically from your account.
Marketing Fund Fee	2% of Gross Sales (see Note 2)	Monthly	Fees will be deducted automatically from your account.
Cooperative Advertising Program Fee	Up to 2% of Gross Sales (see Note 3)	Monthly	Only applies if we have established an Cooperative Advertising program in your area, and the council for the Cooperative Advertising program has established a fee. Fees will be deducted automatically from your account, and then remitted to the council for the Cooperative Advertising program. (See Note 3).
On-Going Instructor Training	\$15,000 for up to six people if paid by franchisee, or \$1,000 - \$2,500 per instructor depending on prior experience if paid by instructors (Note 4)	When you schedule an on-going instructor training session	On-going instructor training is normally a five or six day face-to-face course (40-42hours) attended after online modules (40 hours) have been completed
Transfer Fee	\$20,000	Prior to transfer of franchise	Transfer fee must be paid if franchisee sells, encumbers, assigns or transfers any of its rights or interests in Franchise Agreement, or (if Franchisee is an entity) the Franchisee owners sell, encumber, assign or transfer their interest in the franchisee
Renewal Fee	\$10,000	Prior to renewal	
Interest	12% per annum	Upon payment due date	
Technology Fee	\$1,600 per month	Monthly	Fees will be deducted automatically from your account.

			Amount may be modified from time to time as needs and costs change.
Music Licensing	Amounts charged by the providers and/or appropriate clearing house(s) for such music licensing.	As invoiced or otherwise agreed.	We may require that this amount be paid to our then-current approved supplier, which may be us or our affiliate, that determines to handle and manage these licenses for System franchisees.  As of the Issue Date, we are not collecting this amount directly.
Lease of the Reformers	Amounts charged by the providers (Note 5)	As invoiced or otherwise agreed	You may be required to pay an initial deposit and lease payments.
Marketing Materials	Costs of marketing materials, which will typically range between \$2,000 to \$3,000 every three months	Within seven days of receipt of invoice	Approved marketing materials required by us or requested by you
Annual Conference Fee	Currently \$1500 to \$2,500 depending on location.	Prior to attending annual conference	
Annual Conference travel	Costs of travel and lodging to attend annual conference	As incurred	Annual conference may be held in different countries each year.
Insurance Reimbursement	Cost of insurance, interest on the monies we advance and our administrative costs	As incurred	If you fail to maintain insurance required by the franchise agreement, we may obtain the required insurance and charge you the cost of the insurance, interest on the monies we advance, and our administrative costs.
Audit Costs	Our actual costs and travel costs of auditor	Upon invoice	If an audit of your records reveals an understatement or overstatement by at least 5% in any of the financial data you provided
Management of business upon death or disability	To be determined under circumstances	As agreed	Payable for any period that we manage the franchised business on your death or disability
Penalty Fee	Then-current fee charged by us. Currently, \$100 for	Upon demand	Payable in the event you fail to comply with your obligations under your Franchise Agreement,

	each day of non-compliance.		including the requirements in your Operations Manual.
Alternative Supplier Approval	Our then current fee for evaluating a proposed alternative product, service, or supplier. Currently, \$1,500 per day each person engaged in such evaluation.	At time of request	You must make the request in writing, and provide us with an information that we require, pay the evaluation fee, and reimburse our travel and lodging costs.
Costs and Attorneys' Fees	Our actual costs	As incurred	Payable if your default under your franchise agreement results in us incurring legal expenses.
Indemnification	Our actual costs	As incurred	You must indemnify us and related parties for claims involving the operation of your business.

Note 1: All fees are imposed by and payable to us, unless otherwise indicated. All fees payable to us are non-refundable. All fees are uniformly imposed and collected. We may require that payments to us be made by the use of pre-authorized electronic transfers from your bank operating account that we will process when any payment is due, or by check, cash, or wire transfer. Fees payable to third parties may be refundable based on your individual arrangements.

Note 2: "Gross Sales" means all income whatsoever received by the Franchisee from the sale of any products or services, not including refunds or sales taxes.

Note 3: As of the date of this Disclosure Document, we have not yet established any advertising cooperatives in any geographic area.

Note 4: Training Expenses. For all training sessions and annual conferences, you must pay for your trainees' and representatives' salaries and benefits, and for their travel, lodging and meal expenses.

For any on-going instructor training sessions, we must receive at least \$15,000 for the training session, which covers the training fees and our travel costs from other areas of the United States, for a training session for up to six people. You have a choice as to whether you pay for the instructor training yourself, or you require the individual instructors to pay for it.

If you pay for the training session yourself, then: You must pay us a flat \$15,000 on-going training fee, which will cover instructor training for up to six full paying people. The cost for each additional person ranges from \$1000-\$2500 per person depending on the person's background, prior experience and ticket type.

If you ask the individual instructors to pay for it themselves, then: The instructors must pay us directly (\$1000-\$2500 per person). We keep the full amount of the per person fees paid, even if it exceeds \$15,000. If the total revenue brought in for the course is less than the \$15,000 minimum cost, then you will have to pay us the shortfall below \$15,000, so that we receive at least \$15,000.

As the system grows, if we have sufficient staff in your region who can conduct the training, we might offer instructor training at \$1000-\$2500 per person, without requiring a minimum payment of \$15,000. However in this case, we would require a minimum number of people in the course for the training to run at no cost to you.

#### Note 5: Lease Payments for Reformer Equipment

We assume and expect that you will lease the required reformers from an approved supplier. A typical studio will require 10 – 16 reformers. A larger studio may require up to 20-25 reformers, but such studios will normally not order all of the reformers during the first few months of operation.

If you determine not to follow our system-recommended practice of leasing this equipment, the estimated cost to purchase this equipment outright will be substantially more and will be paid to us or our designated supplier of such equipment before you open. We estimate the cost to purchase the reformer equipment including the shipping and transportation will be \$49,000 to \$86,400. This estimate assumes a cost of \$4,900 to \$5,400 for the purchase of each reformer. This estimate also includes the costs of shipping and transportation of the reformers. You must pay the shipping and transportation costs to get the equipment from the port of entry into the United States through Los Angeles. This payment is non-refundable.

**Item 7**  
**ESTIMATED INITIAL INVESTMENT**

<b>Type of Expenditure</b> (Note 1)	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment is to be made</b>
Initial Franchise Fee (Note 2)	\$45,000	Lump sum	Upon signing Franchise Agreement	Us
Launch Package Fee (Note 3)	\$31,000	Lump sum	Upon signing of letter of intent with the landlord. Before Opening	Us
Pre-Opening Initial Promotion Expenses (Note 4)	\$10,000	Lump sum	Upon signing of letter of intent with the landlord. Before Opening	Us
Technology Fee (Note 5)	\$4,800	Monthly installments	First monthly payment invoiced on the 1st day of the month post opening. Fees will be deducted automatically from your account.	Us
Lease Expense (Note 6)	\$7,100 - \$76,500	As arranged	Before Opening	Landlord
Utility Deposit (Note 7)	\$1,000 - \$2,000	As arranged	Before Opening	Landlord and other vendors
Leasehold Improvements (Note 8)	\$90,000 – \$209,000	As arranged	Before Opening	Landlord, vendors and contractors
Audio- Visual Equipment (including CCTV) (Note 9)	\$25,000 - \$40,000	As arranged	Before Opening	Us
Reformer Equipment (Note 10)	\$7,100 – \$11,200	As invoiced or otherwise agreed	Upon signing of letter of intent with the landlord. Before Opening	Approved supplier
Initial Inventory (Note 11)	\$5,600 - \$7,200	As arranged	Before Opening	One of our affiliates
Additional Initial Inventory (Note 11)	\$8,400 - \$10,800	As arranged	Before Opening	Local suppliers approved by us
Signage	\$3,000 - \$6,000	As arranged	Varies with supplier	Suppliers approved by us
Computer Hardware	\$2,500 - \$4,000	As arranged	Before opening	Vendors

Insurance (Note 12)	\$4,600 - \$5,600	As arranged	Varies with supplier	Vendors
Permits & Licenses (Note 13)	\$1,500 - \$3,000	As arranged	Before opening	Municipality
First aid and CPR employee training expenses	\$100 - \$200	As arranged	Before opening	First aid and CPR certification
Uniforms	\$500 - \$1,500	As arranged	Before opening	Us or our affiliates
Professional Fees (Note 14)	\$4,000 - \$10,000	As arranged	Varies with supplier	Professionals (Accountant, attorney, etc.)
Additional Funds/Working Capital (Note 15)	\$20,000 - \$40,000	As arranged	Varies with supplier	Vendors
<b>Total</b>	\$271,200 - \$578,000			

Note 1. We do not offer direct or indirect financing for any part of the initial investment.

Note 2. The initial franchise fee is \$45,000. You may elect to pay \$2,000 of this fee to reserve a location until you sign the Franchise Agreement. You should not pay any portion of the franchise fee until at least 14 days after you received this disclosure document. You must pay the remaining balance of the franchise fee when you sign the franchise agreement. The initial franchise fee is non-refundable after you sign the franchise agreement.

If you enter into an option agreement to open one additional location, you will pay us a non-refundable additional option fee of \$35,000 for one additional location when you sign the multi-unit option addendum, which gives you the option for a one year period to open an additional studio under the terms of our then-current form of franchise agreement within your agreed territory. If the option expires, you must pay an extension fee of \$2,500 per month to extend the option up to 12 months. The initial franchise fee for the additional location will be \$35,000, and the \$35,000 option payment will be treated as full payment of this fee.

If you enter into an option agreement to open two additional locations, you will pay us a non-refundable additional option fee of \$60,000 when you sign the multi-unit option addendum, which gives you the option for a one year period to open one additional studio and a second year period to open a second additional studio, under the terms of our then-current form of franchise agreement within your agreed territory. If the option expires, you must pay an extension fee of \$2,500 per month to extend the option up to 12 months. The initial franchise fee for the first additional location will be \$35,000, and the initial franchise fee for the second additional location will be \$25,000, and the option payment will be applied as full payment of these fees.

Note 3. The Launch Package Fee covers the Initial Instructor Training for up to 6 people, the Initial Business Operations Training for the initial sales, administrative, and management, the basic standard Studio Design and construction plans for your Studio, and pre-launch Marketing and Business Operations support. In addition, you must pay the wages or salary to your own employees and instructors for the time they spend attending the training.

Note 4. You must pay us or our affiliates this payment of \$10,000, which we or our affiliates will use for pre-opening initial promotion expenses for your opening. This does not include the costs of office supplies which are listed separately.

Note 5. This estimate is based upon our current monthly fee of \$1,600 for the first three months of operation. This fee is payable to reimburse us for: (i) the cost of your license to use the required Computer Software during the term of the franchise agreement; and (ii) our cost for monitoring your business activities, including any bookkeeping functions performed in connection with such monitoring. From time to time during the franchise agreement, we can change the cost of the Technology Fee.

Note 6. This estimate covers the security deposit (which may be equal to one to three months' rent) and the first three months of rent. This estimate assumes that your leased studio premises will be in the range of 1,076 to 1,700 square feet. This estimate assumes that your base monthly rental rate will be anywhere in the range of \$1.65 to \$7.5 per square foot. This estimate also includes common area maintenance charges, your pro rata share of the real estate taxes and insurance, and your pro rata share of HVAC and trash removal, which your landlord may require you to pay. You will be required to pay an advance security deposit equal to 1 to 3 month's rent.

Note 7. Utility companies, such as electricity, water, gas, telephone and internet service providers, typically require you to pay a deposit to open a new utility service account. These deposits may be refundable in accordance with the agreements made with the utility companies.

Note 8. This estimate includes the costs for the build-out of the premises, construction materials and labor, furniture and fixtures, general contractor fees, and architect fees. The cost of your build-out and leasehold improvement will vary widely depending on many factors, including (i) the size and configuration of the premises; (ii) whether the premises require demolition and removal of existing walls and fixtures; (iii) the local rates charged by building contractors and workers in your local area; and (iv) the cost of materials in your local area. These amounts may also vary depending on whether certain of these costs will be incurred by the landlord and allocated over the term of the lease. You must follow our required design, which may require major demolition in the existing premises, and major construction of new interior walls and fixtures in the premises. You must make any required changes to our required design in order to comply with any legal requirements such as disability access, and to comply with any requirements of your landlord. The cost of such compliance-related changes has been factored into this estimate. You should investigate all of these issues with your contractor and your advisors, and you should discuss and negotiate all of these issues with the landlord, before you make any commitment to rent any particular location.

Estimated costs for a suburban location range from \$90,000 to \$140,000. Estimated cost for a high-density high-rent location are higher, ranging from \$132,000 to \$209,000. These estimates are based on historical construction costs. Inflation and other supply chain issues may increase these costs.

Note 9. This estimate includes the cost which you must pay to the Franchisor for the audio visual equipment, as well as the costs you must pay to us for our proprietary SPTV system. The costs will vary depending on the configuration of your premises.

Note 10. We assume and expect that you will lease the required reformers and other related exercise equipment from an approved supplier. A typical studio will require 10 – 16 reformers. A larger studio may require up to 20-25 reformers, but such studios will normally not order all of the reformers during the first few months of operation.

You must negotiate the amount of any lease payments with your with the supplier. The range above is designated to capture and account for (a) the typical deposit, and (b) lease (or comparable instalment) payments you make to an approved third-party provider.

If you determine not to follow our system-recommended practice of leasing this equipment, the estimated cost to purchase this equipment outright will be substantially more and will be paid to us or our designated supplier of such equipment before you open. We estimate the cost to purchase the reformer equipment including the shipping and transportation will be \$49,000 to \$86,400. This estimate assumes a cost of \$4,900 to \$5,400 for the purchase of each reformer. This estimate also includes the costs of shipping and transportation of the reformers. You must pay the shipping and transportation costs to get the equipment from the port of entry into the United States through Los Angeles.

Note 11. You are required to purchase an initial inventory of products, specified on a schedule to your franchise agreement. This may include various items such as small office furniture, laptop computer, head cushions, mats, vacuum cleaner, branded merchandise, and other items, depending on the size of the studio. About 40%, or \$5,600 to \$7,200 must be purchased from us or one of our affiliates. The remaining 60%, or \$8,400 to \$10,800 must be purchased from local suppliers approved by us.

Note 12. You are required to pay an annual premium for insurance coverage. The types of coverage and amounts are described in specified in Schedule A to your Franchise Agreement.

Note 13. You may be required to obtain certain licenses or permits before you can operate, such as building permits, fire inspection, sales tax permit, and retail sales permits. You should investigate the requirements in your area, contacts the regulatory agencies and talk with your lawyer.

Note 14. You may need to retain an attorney to assist you in the review of the Franchise Agreement, creation of a corporate entity, and review of your lease. You may need an accountant to assist you in setting up the financial recordkeeping to operate your business. You may be required to pay certain state fees in order to create a business entity.

Note 15. This is an estimate of the additional operating capital you will need during the start-up period, which is considered the initial three months after opening. This estimate of additional funds needed is based upon the experience of our existing franchisees during the three-month start-up period. The amount of additional funds which you will need for this start-up period may vary based on many factors, including geographic location, the size of your studio, the number of employees, and general economic conditions. You may need additional operating capital to pay for operating expenses such as employee payroll, inventory, utilities, products and supplies. We do not include the salary for the studio manager, based on the assumption that you will manage the studio.

### **Item 8** **RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

All services and products sold within your business require our prior approval. You must purchase all computers, equipment, and related supplies and furniture, fixture and equipment in accordance with our approved standards. For certain items, we may require that you purchase them from approved suppliers. You can request to use or offer alternative products, services, or suppliers, but we have no obligation to grant such requests. You must make your request in writing to use or offer any alternative product, service, or supplier, and you must provide us with any information that we may require about such alternative product, service or supplier. If you make such a request, we will respond to your request within ninety days, but our failure to respond within ninety days means that your request is denied. We do not make available to franchisees our criteria for approving suppliers. We can charge you our then current fee for evaluating any proposed alternative product, service, or supplier, and you must reimburse us for our reasonable costs including travel and lodging costs associated with considering any such request, even if we do not approve the proposed new supplier. Our current fee for evaluating proposed alternative products, services, or suppliers, is \$1,500 per day each person engaged in such evaluation. We have the right to revoke our prior approval of a previously authorized supplier, product or service.

You will receive a list of our approved standards and approved suppliers in our Operations Manual or in other written communications from us. We may amend the list from time to time. We will provide you notice in the Operations Manual or by other methods (such as email) of any changes in the standards and specifications.

You are required to purchase an initial inventory of products including branded merchandise from us or an approved supplier, prior to the opening of your studio. The specific items, and the cost, will be specified in the schedules to your franchise agreement. About 40%, or \$5,600 to \$7,200, must be purchased from us or one of our affiliates. The remaining 60%, or \$,400 to \$10,800, must be purchased from local suppliers approved by us. We will derive a mark-up on the cost of the products.

You are required to purchase your Pilates machines (reformers) from us, prior to the opening of your studio. The number of reformers will be specified in the schedule to your franchise agreement. We derive a mark-up on the costs of the reformers which you are required to purchase.

You are required to purchase your audio visual and CCTV equipment from us, prior to the opening of your studio. The cost will vary depending on the configuration of the location. We do not derive a mark-up on the costs of the audio visual and CCTV equipment which you are required to purchase.

You will be required to operate during the days and times specified in our Operations Manual, which may be amended from time to time.

You will be required to build out and equip your studio to the specifications required by us, including but not limited to: studio layout and design, leasehold improvements, specific design elements, fitness equipment packages, audio/video equipment packages and computer hardware and software.

If you will occupy your studio under a lease, you must submit the proposed lease to us for approval before it is signed. You must use your best efforts to ensure that the lease provides that (i) the initial term is at least ten years with at least two five-year renewal options; (ii) we get notice of any default by you under the lease, and that we have at least an additional fifteen days to cure the default, or to take over the lease; (iii) we have the option to assume the lease in the event of termination or expiration of the franchise agreement; (iv) the landlord will allow all signage required by us, provided it meets all property specifications, local codes and ordinances, and (v) all your marketing and promotion must be conducted in a dignified and professional manner and must conform to our specified standards and requirements set forth in the Operations Manual.

You are required to purchase and maintain all of the insurance coverages to be specified in the schedule to your franchise agreement. You must furnish to us copies of all insurance policies required by the franchise agreement, and such other evidence of insurance coverage and payment of premiums as we request or permit.

You must purchase a computer system that we specify, including computer hardware, software, point of sale system, bookkeeping, inventory control systems, and high-speed network connections. You must purchase, install and operate a computer system which we specify, including printer and scanner, which is connected to the Internet. You must secure broadband Internet connection and at least 1 dedicated phone line and 1 fax line for use in the Studio Pilates International studio. The setup costs currently range from \$500 to \$5,000. You must install our required software on your computer system, which shall give us remote access to your computer system. We currently use a cloud-based system, under which we obtain a license to use the system, and then give you access. You must pay us a monthly Technology Fee, which helps to cover our costs for the license to use the software we specify and for the cost of our monitoring your business activities. We currently require franchisees to use Xero small business and bookkeeping software, Gusto payroll processing Xero plug-in and Workforce staff rostering and on-boarding software. The cloud-based systems are comprised of World Manager, Google Enterprise, Mindbody and custom built KPI reporting dashboard. You may also have ongoing monthly fees for your internet and data service providers. You must secure a merchant account with a credit card processor that we approve. The expense of the license to use the "Xero software" and the required credit card processing equipment is covered by the monthly Technology Fee.

We or our affiliates may in the future realize a profit or receive payments, commissions, discounts or other allowances from your purchases of products and services from approved suppliers, and, where permitted by applicable law, we or our affiliates may retain those profits, payments, rebates, discounts or allowances for our own account without having any obligation to provide any benefits to you. We do not currently have any such arrangements with any suppliers. We do not provide any material benefits to you based on your purchase of particular products or services or your use of designated or approved suppliers.

We or our affiliates may in the future negotiate purchase arrangements with suppliers for the benefit of our franchisees. We may derive revenue under such arrangements from the suppliers from the supply of approved products or services to our franchisees. Currently, we have no such arrangements in place. There are not currently any purchasing or distribution cooperatives.

We estimate that your required purchases and leases from us, our affiliates, or approved suppliers, will be about 35-50 percent of all your purchases and leases to be made in establishing the business. We estimate that your required purchases and leases from us, our affiliates, or approved suppliers, will be about 10 percent of all your purchases and leases to be made while operating the business. In 2022, our revenue from required purchases and leases of products and services by franchisees was \$77,870, which was 42% of our total annual revenue.

## Item 9

### FRANCHISEE’S OBLIGATIONS

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

<b>Obligation</b>	<b>Section of Franchise and Related Agreement</b>	<b>Item in Disclosure Document</b>
(a) Site selection, acquisition/lease, and Site assistance	2, 12 and 13	5, 6, 7, 8 and 11
(b) Pre-opening purchases/leases and initial support	2.6, 12, 14, and Schedule 4	5, 6, 7, 8 and 11
(c) Site development and other preopening requirements	10, 12, 13, 16, and 17	5, 6, 7, 8 and 11
(d) Initial and ongoing training	16	5,6,7 and 11
(e) Opening	2, 13.5, 18.1	7,8 and 11
(f) Fees	3, 16, 18	5, 6 and 7
(g) Compliance with standards and policies/Confidential Operations Manual	1, 2, 4, 5, 6, 8, 13, 17	8, 11
(h) Trademarks and proprietary information	4, 5, 18, 19	13 and 14
(i) Restrictions on products/services offered	2, 6	8, 11 and 16

(j) Warranty and customer service requirements	8	None
(k) Territorial development	2	12
(l) Ongoing product/service purchases	6, 14	6 and 8
(m) Maintenance, appearance and remodeling requirements	12, 13	6,7 and 8
(n) Insurance	22	6,7 and 8
(o) Advertising	18	6, 7, and 11
(p) Indemnification	23	6
(q) Owner's participation/ management/staffing	17	6 and 15
(r) Records and reports	17	6 and 8
(s) Inspections and audits	17	6,8 and 11
(t) Transfer	25	6 and 17
(u) Renewal	26	6 and 17
(v) Post-termination obligations	28	17
(w) Non-competition covenants	24	17
(x) Dispute resolution	29	6 and 17
(y) Owner's guaranty	34	15

**Item 10**  
**FINANCING**

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

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

**Except as listed below, we need not provide any assistance to you.**

Before you open your Studio Pilates International studio, we will provide you with:

1. Operations Manual.

We will give you a copy of our Operations Manual (the Table of Contents for the Manuals is included as Exhibit C). We will update the manual to incorporate improvements and new developments in the Studio Pilates International system, including improvements in services and products you offer to customers. We can make these revisions at any time (Franchise Agreement Section 5.4).

2. Initial Training.

We will provide an initial training program, for a fee. One segment focuses on training the Pilates instructors. A second segment focuses on how to operate the business from an administrative and marketing perspective. (Franchise Agreement Section 16). The initial training is described in greater detail below.

### 3. Site Selection

All site selections must be pre-approved by us. You must provide us with reasonable information regarding any potential site that we may require in connection with our evaluation of your proposed location. We will review the information on potential sites which you provide. (Franchise Agreement Sections 2.2 and 12.1[e]). We may, but we are not required to, visit proposed sites with you. We retain the right to disapprove a proposed site based on factors such as neighborhood, traffic patterns, access, parking, size, layout, design, length of availability, the terms of any proposed lease or purchase contract and other factors. We will approve or refuse to approve a proposed site within 45 days after the receipt of all information that we may reasonably require. If we disapprove a site, you must locate another site.

You must locate your site, secure our approval, sign your lease, and open your studio before the opening deadline, which will be specified in the schedules to the Franchise Agreement. If we fail to agree on a site within the required time limit, then we can terminate the Franchise Agreement.

You bear the responsibility for selecting a location and negotiating a lease for your Studio Pilates International studio. Generally we do not own the premises and lease it to you. You must provide us with a copy of the lease for any potential location before you enter the lease. You are not permitted to relocate your business or open additional studios within your territory without our prior written approval. (Franchise Agreement Section 2.2).

If you sign a multi-unit option addendum, you must find a suitable location for the additional studio before the end of the 12-month option period. We must approve the location. We will approve a site for the additional studio using our then-current site criteria. We retain the right to disapprove a proposed site based on factors such as neighborhood, traffic patterns, access, parking, size, layout, design, length of availability, the terms of any proposed lease or purchase contract and other factors. We will approve or refuse to approve a proposed site within 45 days after the receipt of all information that we may reasonably require. If we disapprove a site, you must locate another site. If we fail to agree on a site within the required time limit, then we can terminate the multi-unit option addendum.

### 4. Studio Build-Out Design Plans

Once you have selected the location, we will design and provide to you basic standard formal build-out plans for the design of the studio. Our fee for providing these plans is included in the Launch Package Fee. (Franchise Agreement Section 13.3).

### 5. Furniture, Fixtures, and Equipment (including Audio Visual and CCTV Systems)

Before you open your studio, we will provide you with the written specifications for the initial supplies, equipment, audio visual and CCTV systems and exterior and interior signs required for the studio. You will be responsible for purchasing such items to equip the studio according to our requirements for fixtures, furnishings, equipment, audio visual and CCTV systems, interior and exterior signage, artwork and graphics. If we have selected approved vendors and suppliers from whom we require or recommend you purchase such items, we will provide you names of such suppliers. In many cases, such as the initial inventory and the reformer equipment, we require you to purchase such items from us or our affiliates. (Franchise Agreement Sections 1.1, 13.3, and 14). We do not directly deliver or install the equipment, but we may help coordinate the delivery and the installation of most furniture, fixtures, equipment and audio visual and CCTV systems. We will not help coordinate the delivery and installation of any equipment which we have not authorized you to purchase and install.

#### 6. Computer system requirements

We will provide you with the hardware and software requirements for your computer system. (Franchise Agreement Section 15.1). You must purchase a PC with a keyboard, mouse, and high-speed internet access. We estimate the cost of the computer systems to be \$2,500 to \$4,000. You must install our required software on your computer system, which will give us remote access to your computer system. We currently use a cloud-based system. We currently require franchisees to use Xero small business and bookkeeping software, Gusto payroll processing Xero plug-in and Workforce staff rostering and on-boarding software. The cloud-based systems are comprised of World Manager, Google Enterprise, Mindbody and custom built KPI reporting dashboard. The computer system is used to collect and store data regarding your bookkeeping. At your sole expense, you must maintain and upgrade your computer system, to meet our requirements. We will update these requirements from time to time. We will monitor your business activities and perform certain basic bookkeeping functions remotely using this system.

You must pay us a monthly Technology Fee, in return for the license to use the required software, and for monitoring your business activities remotely. Our current monthly fee for the cloud computing software and monitoring your business activities remotely is \$1,600. Apart from this monthly Technology Fee, we do not expect that you will have any other regular annual costs for any optional or required maintenance, updating, upgrading or support contracts for your computer systems. We do not have any contractual obligation for maintenance, repairs, updates and upgrades to your computerized system. You should expect to be required to upgrade your PC every 3-5 years at an estimated cost of \$2,000 to \$3,000. There are no contractual limits on the frequency and cost of your obligation to maintain, upgrade and update the computer systems in conformance with our directives. The computer system is designed to enable us to have immediate access to the information on the system, and there is no contractual limitation on our access or use of the information. We will have the right to collect and retain from your computer system all data concerning your studio, and to use that data for the purposes permitted by the franchise agreement. From time to time during the franchise agreement, we can change the cost of the Technology Fee.

#### Opening of Business

We will provide face-to-face or virtual business operations training at your location on the day of your grand opening. The details are described in more detail below.

You must open the business for operation to the public by the Opening Deadline, which will be specified in Schedule 2 of your franchise agreement. (Franchise Agreement, Section 13.5).

The typical length of time between the signing of the franchise agreement and the time you open your studio is about three to six months. Your total time may be shorter or longer depending on a number of factors, such as the time it takes you to find an acceptable location, the commercial real estate market, the time it take you to obtain any financing that you need to obtain, the time it take you to obtain the necessary permits or license, the time it takes for the build-out and construction of the studio, as may be affected by labor issue, weather conditions, material availability and other factors.

In the event that you do not open within the required time frame, we have the option to terminate your franchise agreement. (Franchise Agreement, Section 27.1).

During the operation of your Studio Pilates International studio, we will provide you with:

1. Ongoing Training.

We will offer and conduct face-to-face on-site training to you, by a single instructor, at your location, in return for our then current fees. (Franchise Agreement, Section 16.1). The training is mandatory for any new instructors, provided on an as-needed basis. The current fees are as follows:

If you pay for the training session yourself, then you must pay us a flat \$15,000 on-going training fee, which will cover instructor training for up to six people. The cost for each additional person is \$1,000 - \$2,500 per person depending on prior experience.

If you ask the individual instructors to pay for it themselves, then the instructors must pay us \$1,000 - \$2,500 per person, depending on prior experience. We keep the full amount of the per person fees paid, even if it exceeds \$15,000. If you have less than six individual instructors who are paying for their own initial training, then you will have to pay us the shortfall below \$15,000, so that we receive at least \$15,000.

We also provide an annual conference, normally in Hawthorne, Queensland, Australia, but which may also be held in different countries, which you will be required to attend. There is a fee to attend, currently projected to range between \$1,500 - \$2,500 depending on the location, and you will be required to pay for the transportation, meals, lodging, and salaries for you and any of your employees to attend the conference. (Franchise Agreement, Section 16.9).

2. Ongoing Advice

We may provide you with on-going advice, from time to time, as often as we decide with respect to the methods and procedures for marketing and sale of the services, administrative, book-

keeping, accounting and general operating procedures, updates on equipment and fitting requirements, and general management and administrative guidance and assistance. (Franchise Agreement, Sections 4.4, 6(f), and 16.4).

3. Monitoring

We will monitor your performance remotely, and keep track of whether you are meeting the required minimum sales figures, specified in Schedule 2 of your franchise agreement. (Franchise Agreement, 17.2).

4. Advertising Support.

Any advertising requires our prior approval. We will discuss and advise on marketing and advertising issues with you, as we deem necessary. (Franchise Agreement Section 18). We may provide you with advertising materials or designs from time to time, as we deem necessary. (Franchise Agreement, Section 18.3). The media coverage for any advertising will be primarily local. You must obtain our approval of all advertising and promotional plans and materials prior to use if such plans and materials have not been prepared by us and previously approved by us during the twelve months prior to their proposed use. There is no advertising council of franchisees that advises us on our advertising policies.

5. Website

On our website, we will list your studio location. You may not establish or operate your own web site or web address for your studio. (Franchise Agreement, Section 15.3). You may not establish or use social media to promote your studio without our express consent and only subject to whatever conditions and requirements we may impose, which shall include strict compliance with our social media policies. (Franchise Agreement, Section 15.3). You may not secure or register any domain names relating to your Studio Pilates International studio or that contain any of our trademarks. (Franchise Agreement, Section 19.7).

6. Marketing Fund

You must contribute to our system-wide advertising and promotional fund called the Marketing by paying a fee of two percent (2%) of your gross sales. If 50% of the franchisees in the network agree, we may increase the percentage amount which each franchisee must contribute to the Marketing Fund. The fund will be used to support and pay for advertising, marketing and promotion efforts we designate, and associated administrative expenses with the management of the fund. All marketing materials will be prepared by us or our advertising/public relations/promotional agencies. The fund may be used to pay for the costs of researching, preparing, maintaining, administering and directing advertising and promotional materials and programs in the manner that we decide. In addition, the fund may be used for the costs of soliciting prospective franchisees. Because we just started offering franchises, we do not have any historical figures for the percentage breakdown of how the funds were used in the past, or the percentage of the funds that were used to solicit prospective franchisees, but we estimate that the percentage of the fund that will be used to solicit prospective franchisees will be 10-20%. In addition, the fund

may be used to pay for the costs of the personnel who manage the advertising and promotional programs for the fund and for reasonable administrative costs and overhead incurred in the activities related to the fund. Company-owned and affiliate-owned studios, if any, will contribute to this fund, at the same rate as that required of franchisees. (Franchise Agreement, Section 18.4).

We will administer the fund and produce and we will make available to franchisees an annual unaudited financial statement 120 days following the fiscal year end upon request. The fund is not audited. Other than reimbursement for reasonable costs and overhead incurred in activities for the administration or direction of the fund, neither we nor any affiliate will receive any payment for providing services or products to the fund. If we spend more than the contributions accumulated in the fund during any fiscal year, we may receive, on demand, reimbursement in later years to the extent of the excess expenditure. We will not be required to spend any amount from the fund on advertising or promotions in your area. Any local, regional or national advertising efforts may not equitably reach all markets. If any contributions to the fund, including any associated earnings, are not spent in the fiscal year in which they accrue, they will remain in the fund for use in following years. We may terminate the fund at any time, but we will not do so until all monies in the fund have been spent for the purposes described in the franchise agreement or returned to contributors on a prorated basis. (Franchise Agreement Section 18.4).

#### 7. Advertising Cooperatives.

As of the date of this Disclosure Document, we have not yet established any advertising cooperatives in any geographic area. We however anticipate that we will set up cooperative advertising programs in certain geographic areas which we will designate. The geographic area of the advertising cooperative will normally be a city, county, metropolitan area, or state. A cooperative advertising program is designed to pool the funds of studios located within a particular geographic area in an effort to create more effective local advertising campaigns.

The cooperative advertising program will be administered by a council. The members of the council will be nominated and elected by the franchisees located in the advertising cooperative area, subject to our approval. The advertising cooperative must operate from written governing documents prepared by us. We have not yet prepared the governing documents, and so they are not available for you to review.

The council will set the amount of the cooperative advertising program fee, which shall not exceed 2% of gross sales, which shall be uniformly imposed on all franchisees and franchisor-owned studios in the designated geographic area. We will collect the advertising cooperative fee for the council, and remit it to the cooperative advertising council. The fees are not refundable. The council will make the decisions regarding the use of the advertising cooperative funds. (Franchise Agreement, Section 18.5).

The council may decide to prepare annual or periodic financial statements, and to make these statements available for review by the franchisees in the cooperative advertising program area. In that case, the costs of such financial statements, if any, will be paid for from the fees collected for the cooperative advertising program. If we establish an advertising cooperative, we

have the power without any limits to change, dissolve or merge any advertising cooperatives that have been established. Franchisor-owned studios participate in the advertising cooperatives in the same manner as franchisee-owned studios.

INITIAL TRAINING PROGRAM

TRAINING PROGRAM

Segment 1 - Pilates Instructor Training

<b>Subject</b>	<b>Hours of Classroom/Online Training</b>	<b>Hours of Face to Face On-the-Job Training</b>	<b>Location</b>
Anatomy	40 hours of online study	4 hours (one half day) workshop	Online and at your location
How to teach a class – description and demonstration	40 hours of online study	40-42 hours (5 or 6 days) face to face course	Online and at your location
How to teach a class – on-the-job training and shadowing	10 hours of online study	15-30 hours of on the job training	Online and at your location

Instructors for this segment include:

1. James Mangahas. James has been the Global Instructor Training Director for our affiliates, Studio Pilates International Australia Pty Ltd. and Studio Pilates International Franchise Pty Ltd., since 2009. He has 15 years’ experience in the field of Pilates instruction, which is the subject taught. He is a University qualified physiotherapist in Australia.
2. Natalie Dwyer. Natalie has been the National Instructor Training Manager, Asia Pacific, for our affiliates, Studio Pilates International Australia Pty Ltd. and Studio Pilates International Franchise Pty Ltd., since 2015. She has 7 years’ experience in the field of Pilates instruction, which is the subject taught.
3. Holly Heath. Holly has been an Instructor Trainer, in the Asia Pacific region, for our affiliates, Studio Pilates International Australia Pty Ltd. and Studio Pilates International Franchise Pty Ltd., since 2019. She has 4 years’ experience in the field of Pilates instruction, which is the subject taught.
4. Jade Winter. President and Director. (See Item 2). He has 20 years’ experience in the field of Pilates instruction, which is the subject taught.
5. Jacqueline Tuorto. Jacqueline has been an Instructor Trainer, with Studio Pilates International USA since 2021. She has 23 years’ experience in the field of Pilates instruction, which is the subject taught.

6. Kathy Abbot. Kathy has been an Instructor Trainer, with Studio Pilates International USA since 2020. She has 10 years' experience in the field of Pilates instruction, which is the subject taught
7. Greg D'Adamo. Greg has been an Instructor Trainer, with Studio Pilates International USA since 2023. He has 3 years' experience in the field of Pilates instruction, which is the subject taught

Segment 2 - Business Operations Training

<b>Subject</b>	<b>Hours of classroom/online training</b>	<b>Hours of on-the-job/face-to-face training</b>	<b>Location</b>
Franchisee Induction	Two hours online training		Online
Business Bootcamp	Five hours online training		Online
Daily Operations	16 hours of online and videoconference		Online and videoconference service
Human Resources	5 hours of online and videoconference		Online and videoconference service
Staffing your Studio and Instructor Training	15 hours of online and videoconference		Online and videoconference service
Marketing & Lead Generation	15 hours of online and videoconference		Online and videoconference service
Team Leadership and Management Operations	10 hours of online and videoconference		Online and videoconference service

The instructors for this segment include the following:

1. Kimberley Dullahide. Kimberley has been the Global Business Operations Training Manager for our affiliates, Studio Pilates International Australia Pty Ltd. and Studio Pilates International Franchise Pty Ltd., since 2014, and before that time she operated and managed our affiliate's location in Hawthorne Queensland, Australia, since 2010. She has 13 years' experience in the field of Studio Pilates International business operations, which is the subject taught. Kimberley is supported by her Business Operations Training team including Holly Heath, Adrian Petrovic, Sam Summerfield and Hanna Campbell who also provide this training to franchisees.
2. Jackie Hill. Jackie has been the National Marketing Manager, in the Asia Pacific region, for our affiliates Studio Pilates International Australia Pty Ltd and Studio Pilates International Franchising Pty Ltd, since January 2023, and has been performing key marketing roles for these companies since November 2022. She has over 15 years of marketing experience, working in various management roles and with international companies.

The materials used for this segment include our online course content, videos, written materials, and online pre-course exams, online post-course exams, and practical assessments.

The initial training program is required for you and any of the persons named in your Franchise Agreement as "Key People." The "Key People" are the people who you identify when you sign the Franchise Agreement that will be responsible for personally supervising the operation of the Franchised Business and that will be devoting their full time and attention to the carrying on of the Franchised Business.

The initial training program will be conducted on an as-needed basis, when we add a new franchisee. You must complete the initial training program at least thirty days before you open your Franchised Business.

Additional training or refresher courses are only required on an as-needed basis, if you or we decide that you or certain Key People require additional training. If an additional training or refresher course is required, you must pay us our then current additional training fees.

You must pay the travel and lodging expenses for our instructor to travel from Australia to your location for the face to face and on-the-job training. You must pay the wages and benefits for your own employees who attend the initial training or additional training.

## **Item 12** **TERRITORY**

Your right to operate a Studio Pilates International studio pursuant to a Franchise Agreement is limited to the location set forth in the franchise agreement. You are not granted any minimum territory.

Your site may not be changed without our written approval and compliance with our relocation procedures, and you may not operate out of any site other than the approved site within

the territory without our written approval. All sales must be made from the approved site. You are not allowed to conduct marketing directed to people outside your protected territory, including use of other channels of distribution, such as the Internet, catalog sales, telemarketing, or other direct marketing, without our prior written approval.

Unless you have signed a Multi-Unit Option Addendum with us, you do not have a right to develop and open additional Studios. You do not have any options or similar rights to acquire additional Studios. If you enter into a Multi-Unit Option Addendum to open additional locations, you will pay us a non-refundable additional option fee of \$25,000 for one additional location, or \$40,000 for two additional locations, to be paid when you sign the Multi-Unit Option Addendum. The Multi-Unit Option Addendum gives you the option to open one additional studio over a one year period, or two additional studios over a two year period, under the terms of our then-current form of franchise agreement within your agreed territory. We will approve sites for the additional Studios under the Multi-Unit Option Addendum using our then-current site criteria. Upon establishing each additional location under the Multi-Unit Option Addendum, you will be required to sign a then-current Franchise Agreement, which may differ from the current Franchise Agreement included with this Franchise Disclosure Document.

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

We may not franchise or license others, and we may not directly or indirectly develop, to own, lease, construct or operate, a Studio Pilates International studio in the geographic area covered by your territory. We may offer similar or dissimilar services or products in your territory through alternative channels of distribution while using our principal trademark, and while using trademarks other than our principal trademark. We do not pay franchisees any compensation for soliciting or conducting business within the franchisee's territory.

You are required to meet the minimum monthly sales requirements that will be specified in the schedule to the franchise agreement. If you do not meet these monthly sales figures, we have the right to terminate the franchise agreement, or to impose other requirements in lieu of termination such as modification of your protected territory.

We have not established other franchises or company-owned outlets or another distribution channel offering or selling similar products or services under a different trademark. We have not established, nor do we presently intend to establish, other franchised or company-owned businesses that are similar to the Studio Pilates International business and that sell our approved products and services under a different tradename or trademark, but we reserve the right to do so in the future without your consent.

### **Item 13** **TRADEMARKS**

We grant you the non-exclusive right and obligation to operate a studio using our trademarks, including the stylized design of "SP Studio Pilates International", and such other

trademarks, service marks, trade names, logos, trade dresses, and commercial symbols ("trademarks") that we make available to you, for providing services and products under the Studio Pilates International Business System. You may not use any of our trademarks as part of any legal entity name, web site address, email address, domain name or other identification in any print, electronic or other medium, or with any prefix, suffix or other modifying word, term, symbol or design. You may not use our trademarks for the sale of unauthorized services or products or in any manner we have not authorized in writing. All rights in and good will from the use of our trademarks accrue solely to us.

### Trademark Registration

Our affiliate, Studio Pilates International Pty Ltd, as trustee for, The Studio Pilates IP Trust, has registered the principal trademark, a stylized design of "SP Studio Pilates International" below on the Principal Register of the United States Patent and Trademark Office, in the categories of fitness services and franchise services. Fitness Services: Reg. No.: 4204256. Reg. Date: Sept. 11, 2012; Franchise Services: Reg. No. 5901254; Reg. Date: Nov. 5, 2019. All required affidavits have been filed.



The Franchisor maintains sublicensing rights in conjunction with franchising activity through a series of license agreements. The first license agreement was executed on October 30, 2017, by and between The Studio Pilates IP Trust and Studio Pilates International Hong Kong Holdings Limited. Then, on October 29, 2018, Studio Pilates International Hong Kong Holdings Limited entered into a license agreement with Studio Pilates International London Ltd. Finally, on November 12, 2018, Studio Pilates International London Ltd. entered into a license agreement with Franchisor, Studio Pilates International USA Corp. permitting the Franchisor to use and sublicense use of the relevant intellectual property to Franchisees. If our rights under our agreement with our affiliates giving us the right to use and sublicense the Marks is terminated, then our affiliate can assume all of our rights and obligations under the Franchise Agreement

### Superior Prior Rights or Infringing Uses

We are not aware of any claims of superior prior rights or infringing uses that could materially affect your use of the Mark.

### Determinations

There are no other currently effective material determinations of the Patent and Trademark Office, the Trademark Trial and Appeal Board, or the trademark administrator of any state or any court, nor is there any pending infringement, opposition or cancellation proceedings or material

litigation, involving the Marks that are relevant to their use by our franchisees. There is no decided infringement, cancellation or opposition proceedings in which we unsuccessfully fought to prevent registration of a trademark to protect the Marks. There are no agreements currently in effect that significantly limit our rights to use or license the use of the Marks that are material to you.

#### Protection of Rights

You must notify us promptly of any use by any person or legal entity other than us or our franchisees, of any of our trademarks or any variation of any of our trademarks. We will decide the actions to be taken against the use of any of our trademarks by any persons or legal entities other than us or our franchisees. Any actions that we take will be at our expense.

You must notify us promptly of any litigation brought against you involving any of our trademarks, and you must deliver to us copies of any documents for the litigation that we request. We will decide whether to settle or defend any trademark litigation brought against you. If we decide to take either action, we will do so at our expense, but you must cooperate with us. If the defense does not involve issues concerning the operation of your franchise, we will reimburse you for your out-of-pocket costs. If we decide not to defend or settle any trademark litigation brought against you, you must defend or settle the litigation at your expense.

We may acquire or develop additional trademarks, and may use those trademarks ourselves, make those trademarks available for use by you and other franchisees in the Studio Pilates International network, or make those trademarks available for use by other persons or entities. You may not directly or indirectly contest our rights in our trademarks.

#### Indemnification of You

We will indemnify you if the litigation involves defending against infringement or unfair competition if you are using our trademarks in accordance with the Franchise Agreement, and our manuals, you allow us sole control of the defense and settlement of any claim and if you give us prompt notice of the claim.

#### Modification of Trademarks

We may require you to modify or use a substitute for any trademark. If we do, you must pay your cost of compliance. We also may require you to use and display a notice in a form we approve that you are a franchisee under the Studio Pilates International system using the trademarks under a franchise agreement.

### **Item 14**

#### **PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

##### Patents

No patents are material to the franchise.

## Copyrights

Various marketing, sales, training, management and other materials (including Studio Pilates International specifications and plans) that we have created or may create in the future are and will be protected under the U.S. Copyright Act, whether or not we have obtained registrations. You may use these copyrighted materials during the term of the franchise, in a manner consistent with our ownership rights, solely for the purpose of promoting your franchised business.

There are no currently effective determinations of the U.S. Copyright Office (Library of Congress) or any court, nor are there any pending infringement, opposition or cancellation proceedings or material litigation, involving the copyrighted materials that are relevant to their use by our franchisees.

There are no agreements currently in effect that significantly limit our right to use or license the use of our copyrighted materials in any manner material to the franchise. All of the provisions in Item 13 under the heading "Protection of Rights" also apply to copyrights.

We do not know of any superior rights in or any infringing uses of our copyrighted materials that could materially affect your use of the copyrighted materials.

## Proprietary Information

We have proprietary, copyrighted manuals that include guidelines, standards and policies for the operation of your business, and other proprietary, copyrighted materials. Item 11 describes the manuals and the manner in which you may use them. All proprietary manuals and materials provided to you are for your exclusive use during the term of the franchise, and may not be reproduced, copied, loaned to, used by or shown to any person outside the Studio Pilates International system without our permission.

## **Item 15** **OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE** **FRANCHISE BUSINESS**

We strongly believe that the success of your franchised business will depend to a large extent on your personal and continued efforts, supervision and attention. You (if you are an individual) and any other managers who you identify in the schedule to your franchise agreement as "Key People", are required to personally supervise the operation of the studio, must devote their full time and attention to the carrying on of the business, and are not allowed to be part of or conduct a similar business. The "Key People" are not required to have an equity interest in your franchised business, but they must successfully complete training.

You must have each manager, employee, independent contractor or person attending initial training sign a confidentiality and non-competition agreement before you grant him or her access to our manuals or any other confidential information, in which he or she agrees to the confidentiality of the Studio Pilates International system, agrees not to use any information about

the system for his or her own benefit without consent, and agrees not to compete in certain respects with your business and other franchisees' businesses.

If you are a legal entity, each shareholder, principal officer, partner, or member must personally guarantee your obligations under the franchise agreement by signing the franchise agreement as a guarantor, and will be personally bound by, and personally liable for breach of, the franchise agreement.

**Item 16**  
**RESTRICTIONS ON WHAT FRANCHISEE MAY SELL**

You must market, supply and sell only those services and products that we specify, strictly in accordance with the Operations Manual and all directions issued by us. You must not make any changes or alterations to the services and products without our prior written consent. You must supply the whole range of the products and services we specify.

We must approve all services and any products sold within your franchised business. You will receive a list of approved services and products in our Operations Manual or in other written communications from us. We may amend the list from time to time. You may not use or permit the use of your premises for any other purpose or activity at any time without first obtaining our written consent.

You must be open for business each week for minimum hours and days as stated in our Operations Manual, or other written notice from us, unless you are limited by local government regulation, you obtain a written variance from us, or we require you to allow us to use your Studio for local training.

You are not restricted in the consumers to whom you may sell your approved services or products. However, you may sell services or products only at the premises of your Studio Pilates International studio. Your advertising should be conducted primarily within your protected territory.

From time to time, but not more than two times in any twelve-month period, we may require you to allow us to use your studio to host a multi-day local training course for new franchisees or prospective staff. Each time we use your studio for a training course, the training course may last up to 8 days. During each course, it is possible that you may be unable to operate your regularly scheduled classes for up to 8 hours each day of the course. Most of the time, but not always, the training courses may operate outside of the standard class times in most locations and will often be held in quieter times of the day. As a result of the local training courses, you may need to cancel some of your regularly scheduled classes during the local training courses and try to place customers into alternate class times. We will give you reasonable advance notice when we need to use your studio for a local training course. You will not receive any reimbursement for any lost revenue caused by the fact that we are using your studio or any costs incurred by you during the time that we are using your studio.

**Item 17**  
**RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

**This table lists certain important provisions in the franchise agreement 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) Term of the franchise	2.1 and Schedule 2	Normally 10 years. Length of term shall be negotiated with Franchisor and set forth in Schedule 2.
(b) Renewal or extension of the term	26	You have the right to renew for a renewal term, if you meet the requirements for renewal. The length of the renewal term shall be negotiated with Franchisor and set forth in Schedule 2.
(c) Requirements for franchisee to renew or extend	26.1	Notice by you, you are not in default, you pay us the renewal fee, you pay our costs for renewing including legal costs of preparing any necessary documentation, we are still offering new franchises, and you sign our then current form of Franchise Agreement which may contain terms which are materially different than your then-existing Agreement.
(d) Termination by franchisee	Not Applicable	Not applicable.
(e) Termination by franchisor without cause	Franchise Agreement, Section 27.5, and Multi-Unit Option Addendum, Section 23.	The Franchise Agreement does not provide for termination without cause, except that termination of any Multi-Unit Addendum permits Franchisor to also terminate single unit Franchise Agreements entered into under the Multi-Unit Option Addendum, and termination of any Multi-Unit Option Addendum due to the franchisee's fault permits franchisor to also terminate any single unit Franchise Agreement.
(f) Termination by franchisor with cause	27	We may terminate the franchise with cause.
(g) "Cause" defined-curable defaults that can be cured	27.2 and 27.3	The following events constitute curable defaults: failure to make payment to Franchisor; failure to submit reports; failure to comply with Manual and standards of conduct; unauthorized use of trademarks or intellectual property; failure to hold confidential information in confidence; failure to comply with non-competition restrictions; failure to comply with any other obligation not mentioned in (h) below.

(h) "Cause" defined-defaults that cannot be cured	27.1, 27.4, 27.5	The following events constitute non-curable defaults: franchisee acts fraudulently in connection with the operation of the studio; franchisee is the subject of a bankruptcy petition, becomes bankrupt, or is insolvent; franchisee has an administrator or receiver appointed to all or any of its assets; franchisee has an application or other steps made for winding up or dissolution; conviction of the franchisee or a principal of the franchisee of a felony, any financial crime, any crime involving misrepresentations, any crime of moral turpitude, or any crime demonstrating reckless disregard for the physical safety of others; franchisee conducts franchised business in a way that endangers public health or safety, franchisee voluntarily abandons the studio or the franchise relationship, principals or franchisee loses license required to carry on the studio; franchisee fails to honor on more than 2 occasions during any 12 month period any payment obligation; franchisee repeatedly or consistently fails to pay any amount due in connection with operating the studio franchisee or its principals carry on the studio business in such a manner that harms or adversely affects the reputation or goodwill of the franchise system, the franchisor, or any other franchisee; studio business is not profitable; studio business does not meet 50% of the minimum financial performance standards for six months in a row; or franchisor terminates any other agreement with the franchisee including a Multi-Unit Option Addendum due to fault of the franchisee.
(i) Franchisee's obligations on termination or non-renewal	28	Franchisee's obligations include: cease operation of the studio; take action or make modifications to the studio as directed by franchisor such as removing signs; stop using the System and the Intellectual property including the Marks; stop using the confidential information of the franchisor; stop participating in the franchise network; stop representing or holding itself out as a franchisee or being associated with the franchisor or the franchise network; deliver to franchisor all written materials relating to the studio; transfer to franchisor the right to use the telephone number of the studio; transfer to franchisor any lease for the studio premises; transfer to franchisor the equipment, fittings and fixtures of the studio business; and transfer or cancel the rights to use the studio name.
(j) Assignment of agreement by Franchisor	25.1	Franchisor may assign, and put a lien on, our rights and obligations, provided that, in the case of an assignment, franchisor obtains from the assignee a promise it will observe the terms of the franchise agreement, and in the case of a lien, franchisor obtains a promise from the person holding the lien that it will recognize and be bound by the franchisee's rights under the franchise agreement.
(k) "Transfer" by franchisee - defined	25.2	Transfer means to sell, pledge, mortgage, encumber, charge, assign, license or declare a trust, or otherwise dispose of the rights granted under the franchise agreement.
(l) Franchisor's approval of transfer by franchisee	25.2	Franchisor must approve in writing all transfers.
(m) Conditions for Franchisor's approval of transfer	25.2	Franchisor will only approve a transfer if you request in writing our consent to transfer, you provide us with information about the proposed transfer including name of proposed transferee, financial statements of the proposed transferee, the proposed sale contract, and details of the proposed transferee's business history and experience; you pay the Franchisor's costs of giving consent; you pay the transfer fee; you provide Franchisor and its affiliates and their principals with a signed general release of all claims; the proposed transferee is

		likely to meet the financial obligations under the franchise agreement, the proposed transferee is of good moral character and has sufficient business experience, aptitude and financial resources to own and operate the studio; the price and terms of payment of the proposed transfer are reasonable, the proposed transferee agrees in writing to enter into the then current franchisee agreement, the proposed transferee obtains guarantees from its principals, proposed franchisee agrees to attend training, franchisee has paid any amounts owing to the franchisor, franchisee had not breached the franchise agreement and has not failed to remedy any such breach.
(n) Franchisor's right of first refusal to acquire franchisee's business	25.3	Franchisor may match any offer.
(o) Our option to purchase your business	28.4	On expiration or termination of the franchise, Franchisor has the right (but not the duty) to take transfer of the lease, the equipment, the telephone number, and the business name.
(p) Franchisee's death or disability	9.2[c], 25.6	In the event of the death or disability of the franchisee (if it is an individual) or one of the key people, the franchisee may ask the franchisor to approve a replacement which satisfies the franchisor's selection criteria and is a suitable person to operate the studio. If franchisee does not locate, and franchisor does not approve, a suitable replacement within 60 days, then the franchisor may terminate the franchise agreement. Franchisor has the right to appoint a manager until a replacement or successor is approved, and Franchisor will keep the revenue from the operation of the studio during such period as compensation for the management services
(q) Non-competition covenants during the term of the franchise	24.1	No engaging in a similar business; no providing similar products or services; no enticing away any customers from franchisor or other franchisees, and no attempting to hire away an employees of franchisor or other franchisees.
(r) Non-competition covenants after the franchise is terminated or expires	24.2	For a two year period, no engaging in a similar business or providing similar products or services in your territory and within a thirty mile radius of your former location or the location of any other franchisee; for a two year period, no enticing away any customers from the franchisor or other franchisees; and for a two year period, no attempts to hire away any employees of franchisor or other franchisees.
(s) Modification of the agreement	4.4, 5.4, and 33.8	The franchise agreement cannot be modified without written consent signed by both parties, but we can change the requirements in our Manual and we can modify the Business System without franchisee's consent.
(t) Integration or merger clause	33.4	Only the terms of the franchise agreement are binding (subject to state law). Any other promises outside the disclosure document and franchise agreement may not be enforceable. Notwithstanding the foregoing, nothing in any agreement is intended to disclaim the express representations made in the Franchise Disclosure Document, its exhibits and amendments.
(u) Dispute resolution by mediation	29.1	Except for certain claims, all disputes must be mediated under the JAMS mediation rules, at the JAMS office nearest to franchisee's studio.

(v) Choice of forum	29.2	Subject to applicable state law, except for certain claims, arbitration conducted by a single arbitrator under JAMS Rules at the JAMS office in New York, New York, or the JAMS office nearest the franchisor’s principal office in the United States. Arbitration demand must be made within one year after the claim arises.
(w) Choice of law	33.2	Subject to applicable state law, Delaware law applies.

**Item 18**  
**PUBLIC FIGURES**

We do not use any public figure 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.

This Item 19 discloses the historical financial information regarding the four franchised Studio Pilates International studios (a) that were open and continuously operating during the twelve-month period beginning April 1, 2022 and ending March 31, 2023 (the “Measurement Period”), and (b) that uses at least 12 Pilates Reformer exercise machines as required by our current System requirements for new franchisees (referred to as “Representative Studio”).

This information was provided to us by the owners of the Representative Studios. We have not audited this information or independently verified this information.

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

Some outlets have earned this amount. Your individual results may differ. There is no assurance that you’ll sell as much.

We have provided figures on a per-month basis. To calculate the average annual earnings you can multiply the Average Monthly Gross Revenue by 12 months.

**AVERAGE MONTHLY GROSS REVENUE FOR THE REPRESENTATIVE STUDIO DURING THE MEASUREMENT PERIOD**

The average Monthly Gross Revenue for the Representative Studio during the Measurement Period was \$31,294. The highest reported Monthly Gross Revenue was \$137,080. The median reported Monthly Gross Revenue was \$21,829. The lowest reported Monthly Gross Revenue was \$7,007.

**Your individual results may differ. There is no assurance that you will earn as much.**

#### Explanatory Notes to the Figures Above

1. **Gross Monthly Revenue.** The term “Gross Monthly Revenue” means the total revenue of the franchised Studios during the Measurement Period, including all membership and class packages revenue and retail sales, excluding taxes. Gross Monthly Revenue may not include certain income that the Representative Studios may have generated from third-party vendors by virtue of promotions run by the Representative Studios through those third-party vendors because these vendors were not able to provide us with the full reports detailing the income at issue as of the Issue Date of this Disclosure Document.
2. **Average Gross Monthly Revenue; Median Gross Monthly Revenue.** The “Average Gross Monthly Revenue” was calculated by taking the sum of the Gross Monthly Revenue generated by the Representative Studios over the Measurement Period, and dividing that figure by twelve. We determined the median by taking the “middle value” amongst all the monthly values reported by the Representative Studios after the figures have been sorted from smallest to largest.
3. **Low Reported Monthly Gross Revenue.** The Low Reported Monthly Gross Revenue in the Measurement Period was for the month of May.

Other than the preceding financial performance representation, Studio Pilates International 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 Jade Winter at (917) 310-3883 or at [franchising@studiopilates.com](mailto:franchising@studiopilates.com), 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 2020 to 2022**

<b>Column 1 Outlet Type</b>	<b>Column 2 Year</b>	<b>Column 3 Outlets at the Start of the Year</b>	<b>Column 4 Outlets at the End of the Year</b>	<b>Column 5 Net Change</b>
Franchised	2020	0	1	1
	2021	1	3	2
	2022	3	4	1
Company- Owned or Affiliate Owned	2020	0	0	0
	2021	0	0	0
	2022	0	0	0
Total Outlets	2020	0	1	1
	2021	1	3	2
	2022	3	4	1

There were no company-owned outlets anywhere in the United States from 2019 to 2022.

**Table No. 2**  
**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)**  
**For Years 2020 to 2022**

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
Total	2020	0
	2021	0
	2022	0

Note: No outlets have been transferred to new owners from franchisees in any states in the years set forth in the table above.

**Table No. 3  
Status of Franchised Outlets  
For Years 2020 to 2022**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of the Year
California	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
New York	2020	0	0	0	0	0	0	0
	2021	0	1	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Connecticut	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
Illinois	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
Kentucky	2020	0	1	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	1	0	0	0	0	2
North Carolina	2020	0	0	0	0	0	0	0
	2021	0	1	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Texas	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
Totals	2020	1	0	0	0	0	0	1
	2021	1	2	0	0	0	0	3
	2022	3	1	0	0	0	0	4

**Table 4  
Status of Company-Owned and Affiliate Owned Outlets for Years 2020 to 2022**

State	Year	Outlets at Start of the Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of the Year
Total	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0

**Table No. 5**  
**Projected Openings for the Next Fiscal Year**

<b>Column 1</b> <b>State</b>	<b>Column 2</b> <b>Franchise Agreements Signed But Outlet Not Opened</b>	<b>Column 3</b> <b>Projected New Franchise Outlet in the Next Fiscal Year</b>	<b>Column 4</b> <b>Projected New Company-Owned or Affiliate-Owned Outlet in the Next Fiscal Year</b>
California	0	0	0
Connecticut	0	0	0
Illinois	0	0	0
Kentucky	0	0	0
New York	1	1	0
Colorado	1	1	0
North Carolina	0	0	0
Texas	0	0	0
<b>Total</b>	2	2	0

Attached as Exhibit F is a list of the current franchisees, with address and telephone numbers, as of December 31, 2022.

Attached as Exhibit G is a list of the franchisees who had an outlet terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently complete who have left the system during the year 2022 or who has not communicated with the franchisor within 10 weeks of the disclosure document issuance date.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

During the last three (3) fiscal years, there are no current or former franchisees that have signed confidentiality clauses that restrict them from discussing with you their experiences as a franchisee in our system.

There are no trademark specific franchisee organizations associated with the Studio Pilates International system.

**Item 21**  
**FINANCIAL STATEMENTS**

Exhibit D includes our audited financial statements, as of December 31, 2022, December 31, 2021, and December 31, 2020.

**Item 22**

## **CONTRACTS**

Exhibit A includes the Franchise Agreement and all related agreements, as follows:

Franchise Agreement (Exhibit A):

Schedule 1	Franchisee and Guarantor Information
Schedule 2	Data Sheet, including Schedule 2.1 (Territory Map) and Schedule 2.2 (Location Addendum)
Schedule 3	Fees and Royalties
Schedule 4	Initial Inventory
Annex A	Confidentiality and Non-Competition Agreement
Annex B	Form of Consent and Release
Annex C	Multi-Unit Option Addendum

### **Item 23**

## **RECEIPTS**

The last 2 pages of this Disclosure Document are 2 receipts. Please date and sign both copies. Keep one signed copy for your own records, and send one signed copy to us at [jade@studiopilates.com](mailto:jade@studiopilates.com).

**EXHIBIT A TO DISCLOSURE DOCUMENT**

**FRANCHISE AGREEMENT**

Studio Pilates International USA Corp., a Delaware corporation

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# FRANCHISE AGREEMENT

This **FRANCHISE AGREEMENT** (the "Agreement") is made and entered into by and between Studio Pilates International USA Corp., a Delaware corporation, ("we", "us", "our" or "Franchisor") and the individual or entity listed as the Franchisee on Schedule 1 ("you", "your" or "Franchisee") on the date this Agreement is executed by us, effective on the Effective Date.

## BACKGROUND

A. We have expended time, skill, money and effort to develop a system for establishing and operating Studio Pilates International studios, that utilize a proprietary, distinctive interior studio design and layout, operate with a uniform business format, and provide proprietary health and fitness training and services, all of which may be changed, improved and further developed by Franchisor from time to time.

B. The Business System is identified by means of certain proprietary trademarks, service marks, trade names, logos, trade dress and other indicia of origin, and such other indicia of origin as Franchisor may from time to time designate, and other Intellectual Property, all of which we either own or we are authorized to use.

C. You recognize the benefits to be derived from being identified with and receiving a franchise from us, and being able to utilize the Business System and the Intellectual Property.

D. You desire the right to acquire a franchise to operate a Studio Pilates International studio at the location specified in this Agreement, under the terms and conditions specified in this Agreement.

E. You have independently investigated the business contemplated by this Agreement, and recognize that the nature of the business may change over time, that an investment in a Studio Pilates International studio involves business risks, and that the success or failure depends upon your business abilities and efforts, as well as economic conditions and competition which may change and vary over time.

F. The Guarantors have requested that we grant the Franchise to the Franchisee and have agreed to provide the Guarantee as consideration for the Franchisor's grant of the Franchise.

Now, therefore, in consideration of the mutual covenant and commitments contained herein, and the foregoing recitals which are incorporated herein, we and you agree:

## OPERATIVE PROVISIONS

### 1. DEFINITIONS AND INTERPRETATION

#### 1.1 Definitions

The following definitions apply in this document:

**Additional Training Costs** means the amount payable by the Franchisee to the Franchisor for Additional Training in accordance with clause 16.7.

**Agreement** means this agreement.

**Approved Contractor** means the person or company (which may be the Franchisor or a Related Entity) designated in writing by the Franchisor from time to time as the approved contractor to conduct the Build-Out of the Premises.

**Approved Supplier** means the person or company (which may be the Franchisor or a Related Entity) designated in writing by the Franchisor from time to time as the supplier of the Products, Services or Initial Stock.

**Build-Out** means the total work to be carried out in preparing the Premises to reflect the Image and enable the operation of the Franchised Business, which must be compliant with the Franchisor's specifications included in the Manual.

**Business Day** means any weekday other than a federal holiday.

**Business Hours** means the minimum hours of business that the Franchisee is required to conduct the Franchised Business being such hours specified in the Manual.

**Business Name** shall be the words "Studio Pilates International" followed by the name of the city, town, municipality, borough, or county, suburb in which the Premises is located, to be specified in Schedule 2.

**Business Operations Training** means the training in the operation and management of the Business System provided by the Franchisor as part of the Initial Training Program, in accordance with clause 17.1(c).

**Business System** means the distinct and comprehensive business system owned by, or under licence to, us for the operation of the Franchised Business in accordance with the Manual and utilising the Intellectual Property.

**Business Training Costs** means the cost of the Business Operations Training specified in Schedule 3 and as altered by the Franchisor from time to time during the Term and specified in the Franchisor's current Disclosure Document.

**Collateral** means all personal property.

**Computer Software** means the computer software which may be developed by or under licence to us in connection with the Business System, which may be modified from time to time, and which is or may be licensed to the Franchisor and other members of the Network, including but not limited to SPTV and any accounting or bookkeeping software.

**Confidential Information** means the following whether written, electronic or in any other form:

- (a) the Business System;
- (b) the Intellectual Property;
- (c) the Manual, including any amendments to it and notices or guidelines issued under it;
- (d) all documents and files created or used in connection with the Business System and the Franchised Business;
- (e) all ideas, concepts, trade secrets, know-how, knowledge, systems, processes, formula, accounting information, financial statements, marketing plans, training programs, customer lists, supplier lists, records, computer data bases, computer systems, website coding, Computer Software and technology created or used in connection with the Business System and Franchised Business;
- (f) this Agreement;
- (g) all information designated by a member of the Network as being confidential;
- (h) copies of Confidential Information; and
- (i) any other information capable of protection in equity as confidential information,

but does not include information which is or becomes public knowledge, unless it became public knowledge through a breach of this Agreement in which case it remains Confidential Information.

**Confidentiality and Non-Competition Agreement** means the form of confidentiality and non-competition agreement in Annex C.

**CPI or Consumer Price Index** refers to the Consumer Price Index for All Urban Consumers (CPI-U) for all items, in the Census Region where the Premises are located, published by the United States Bureau of Labor Statistics.

**Compliance Questionnaire** means the form of acknowledgment attached as Annex D.

**Cooperative Advertising** means the combined advertising program of two (2) or more franchisees within a common market that Franchisor may require for Studios within a particular local area.

**Cooperative Advertising Program Fee** means the cooperative advertising program fee set by the council of a Cooperative Advertising program established by the Franchisor for the area in which the Franchisee is located, payable by the Franchisee, under clause 18.5.

**Copyright** means rights of copyright developed or acquired in relation to the Business System, including but not limited to copyright in the Products and the Manual.

**Designs** means any designs created or registered by or for us in relation to the Business System.

**Disclosure Document** means the franchise disclosure document prepared by the Franchisor and given to the Franchisee.

**Effective Date** is the date this Agreement is signed by both the Franchisee and the Franchisor.

**Equipment Supplier** means the supplier of the Reformer Equipment for use by the Franchisee in providing the Services, which shall be the Franchisor or a Related Entity.

**Force Majeure** means an event or cause beyond the reasonable control of the party claiming force majeure including:

- (j) act of God, lightning, storm, flood, fire, earthquake, explosion, cyclone, tidal wave or landslide;
- (k) strike, lockout or other labor difficulty;
- (l) act of public enemy, war (declared or undeclared), sabotage, blockade, revolution, riot, insurrection, civil commotion or epidemic;
- (m) the effect of any applicable laws, orders, rules or regulations of any Government Authority; and
- (n) an embargo, power or water shortage, or lack of transportation.

**Franchise** means the right granted to a Franchisee to operate a Franchised Business under the terms of a Franchise Agreement in a particular territory, including where the context requires the Franchise granted to the Franchisee under clause 2.1.

**Franchise Agreement** means an agreement between the Franchisor and a Franchisee under which a Franchise has been granted to that Franchisee.

**Franchised Business** means the business operated by the Franchisee of marketing, supplying and selling the Products and Services in accordance with this Agreement and the Business System, including where the context requires any such business operated by a Franchisee in the Network.

**Further Term** means the period specified in Schedule 2.

**Government Authority** means:

- (a) any local, state or federal government;
- (b) an agency or department of each of those governments;
- (c) a corporation, authority or body that is constituted under statute or regulation for a public purpose; or
- (d) the holder of a statutory office for a public purpose.

**Gross Sales** means all income whatsoever received by the Franchisee from the sale of the Products and Services, other products or services, or from any other person, and notwithstanding that the sale may have been made in breach of this Agreement. The gross sales will be reduced by all refunds made to customers in good faith in accordance with the

policies specified in the Manual, and will not include any sales tax or other tax which is separately stated and which the Franchisee may be required to and does collect from customers and pay to any federal, state or local taxing authority.

**Guarantors** means those individuals described in Schedule 1.

**Half Yearly Financial Statements** means financial statements for the six month period ending on the preceding 30 June or 31 December whichever is the later, which must confirm with Generally Accepted Accounting Principles (GAAP).

**Image** means the distinctive image, brand, goodwill, reputation and recognisable common appearance of the Network created by the use of the Intellectual Property and compliance with the Business System.

**Improvements** means all:

- (o) improvements, enhancements or modifications to and adaptations of any item of Intellectual Property; and
- (p) discoveries, innovations or inventions in connection with carrying on the Franchised Business,

made from time to time by us, Franchisee or any member of the Network.

**Initial Franchise Fee** means the initial fee payable by the Franchisee to the Franchisor as specified in Schedule 3.

**Initial Inventory** means those items of inventory required for the Franchised Business on the Opening Date as listed in Annex D.

**Initial Training Program** means the initial training program described in clause 16.1, including the Pilates Platinum Training Course and the Business Operations Training.

**Intellectual Property** means:

- (q) the Marks, Patents and Designs;
- (r) Copyright in all material produced by or for, or licensed to, Franchisor that is capable of copyright protection;
- (s) the Confidential Information;
- (t) the Improvements;
- (u) the Manual;
- (v) the Image;
- (w) the Business System;
- (x) SPTV;
- (y) all domain names associated with the Business System or Network;

- (z) the Business Name;
- (aa) the Customer List;
- (bb) Studio design concepts, floor plans, studio layouts;
- (cc) Scripts, including voiceover scripts, training methods, client enquiry procedures and telephone procedures.

**Key People** means the individuals named in Schedule 1.

**Launch Package** includes the Initial Training Program, Business Operations Training for sales and administrative staff, basic standard Studio design and construction plans, and pre-opening marketing and business operations support.

**Launch Package Fee** means the fee for the Launch Package, specified in Schedule 3.

**Lease** means the lease for the Franchised Business at the approved Location.

**Lease Effective Date** means the effective date of the Lease.

**Location** means the location for the Premises approved by Franchisor, identified in Schedule 2, or to be identified in Schedule 2.2.

**Manual** means the manual owned by, or under licence to, the Franchisor specifying operational procedures, policies, technical specifications, quality and safety standards, service standards, accounting requirements and other rules in relation to the Business System, Products and Services, including any variations to the manual, any notices or guidelines issued by the Franchisor in accordance with the manual, and any versions of the manual created specifically for franchisees.

**Marketing Fund** means the fund referred to in clause 18.4.

**Marketing Fund Fee** means the marketing fee payable by the Franchisee under clause 18.4, as specified in Schedule 3.

**Marketing Materials** means brochures, flyers, advertisements and all other documents and material (whether written, electronic or in any other form) used for marketing and promoting the Franchised Business.

**Marks** means the trade or service marks, registered and unregistered, and any other trademarks created or registered by or for us in relation to the Business System.

**Minimum Performance Standard** means the performance standard set out in Schedule 3, and any other minimum performance standards determined under clause 18.3.

**Monthly Sales and Expense Report** means a report of all the Transactions for the previous calendar month.

**Network** means collectively the Franchisor and all Franchisees.

**Opening Date** means the date the Franchised Business actually opens for business to the public.

**Opening Deadline** means the deadline for Franchisee to open the Franchised Business for business to the public, specified in Schedule 2.

**Opening Promotion Amount** means the amount specified Schedule 3.

**Owners** means the shareholders, partners, or members of the Franchisee, if the Franchisee is a business entity.

**Patents** means any patents created or registered by us, or for our benefit, in relation to the Business System.

**Performance Targets** means the performance targets determined under clause 18.2.

**Permitted Purpose** means, in respect of the Franchisee, the operation of the Franchised Business in accordance with the terms of this Agreement.

**Premises** means the premises occupied or to be occupied by the Franchisee to carry out the Franchised Business.

**Principals** means the owners and directors of the Franchisee (if the Franchisee is a body corporate), who at the time of this Agreement are those persons described in Schedule 1.

**Products** means the class packs, DVD, clothing and food products authorised to be sold by the Franchised Business including:

- (a) The various Class Packs made available for purchase by customers of the Franchised Business to facilitate the Franchisee's provision of the Services, as specified in the Manual;
- (b) Studio Pilates International Workout Mat;
- (c) Studio Pilates International Pilates Socks;
- (d) Studio Pilates International branded clothing and merchandise lines made available by the Franchisor; and

Any other products required or approved by us to be marketed, supplied and sold in connection with the Franchised Business from time to time.

**Reformer Equipment** means the reformer equipment to be purchased or leased by the Franchisee for use in the provision of the Services in accordance with clause 15 in the minimum number specified in Schedule 2.

**Related Entity** means a related or affiliate entity of the Franchisor.

**Relevant Person** means the Franchisee, Principals, Guarantor/s, Shareholders and any Related Entity of each of them.

**Renewal Fee** means the fee payable under clause 26.1(c) as specified in Schedule 3.

**Restraint Area** means all or any of the following:

- (a) Within the Territory;

- (b) Within a 30 mile radius from the Premises; and
- (c) Within a 30 mile radius from the premises of any other Franchisee;

**Restraint Period** means a continuous uninterrupted period commencing upon the sale, transfer, expiration or termination of this Agreement regardless of reason or cause, and continuing for two years thereafter.

**Royalty** means the royalty payable by the Franchisee to the Franchisor under clause 3, as specified in Schedule 3.

**Sales Commencement Date** means the date the Franchised Business makes its first sale of any products or services.

**Security Interest** shall have the meaning given to that term under the Uniform Commercial Code.

**Services** means the Pilates class services authorised to be provided by the Franchised Business to its customers including:

- (a) Orientation Workout; and
- (b) Studio Pilates International Platinum Workout System;

and any other services required or approved by us to be marketed and provided in connection with the Franchised Business from time to time.

**Shadowing** means completion of on the job training at a studio within the Network as selected by the Franchisor.

**Stationery** means letterhead, invoices, receipts, purchase orders, business cards, email signature block, paper, accounting documents and other documents or identifying materials used in connection with the Franchised Business.

**Staff** means employees, agents and contractors of the Franchisee.

**Studio** means the Pilates and fitness training studio to be operated in accordance with the terms of this Agreement

**Special Conditions** means those special conditions (if any) set out in Item 16 of Schedule 2.

**SPTV** means the method developed by, or under licence to, us for delivering Pilates exercise programs and instructions via a computer network which uses visual images displayed on television screens and projects verbal instructions through speakers.

**Technology Fee** means the fee specified in Schedule 3, as amended from time to time in accordance with clause 15.2.

**Term** means the term of this Agreement specified in Schedule 2 commencing on the Term Commencement Date.

**Term Commencement Date** means the earlier of the Opening Deadline, the Opening Date, or the commencement date for the Lease for the Premises. Once confirmed, the Term Commencement Date shall be specified and inserted in Schedule 2.

**Territory** means the geographical area specified in Schedule 2 within which the Franchisee may operate the Franchised Business.

**Territory Marketing Amount** means the amount specified in Schedule 3.

**Transactions** means:

- (a) Gross Sales of the Franchisee;
- (b) moneys received by the Franchisee;
- (c) expenses incurred by the Franchisee; and
- (d) any other transactions of the Franchisee broken down into the categories as required by the Franchisor.

**Transfer Fee** means the amount payable by the Franchisee to the Franchisor as specified in Schedule 3.

## 1.2 Rules for Interpreting this Document

This clause 1.2 specifies the rules for interpreting this document, except where the context makes it clear that a rule is not intended to apply.

- (a) The headings are for convenience only and do not affect the interpretation of this document.
- (b) A reference to:
  - (i) legislation (including subordinate legislation) is to that legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;
  - (ii) a document (including this document), or a provision of a document (including a provision of this document), is to that document or provision as amended or replaced;
  - (iii) a party to this document, or a party to any other document or agreement, includes that party's executors, administrators, permitted substitutes and permitted assigns;
  - (iv) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person;
  - (v) anything (including a right, obligation or concept) includes each part of it;
  - (vi) property includes real, personal and intangible property;

- (vii) any entity, if that entity ceases to exist, is renamed, reconstituted, replaced or dissolved, means persons or entity which succeeds to the entity's powers or functions, or performs most closely the functions of the entity;
- (viii) a clause, schedule or annex is to a clause of, or schedule or annex to, this document.
- (c) A singular word includes the plural, and vice versa.
- (d) A word which suggests one gender includes any other genders.
- (e) If a word is defined, another part of speech of that word has a corresponding meaning.
- (f) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.
- (g) An obligation on, warranty by, or right of:
  - (i) two or more persons; or
  - (ii) a party that comprises two or more persons,is the obligation, warranty or right (as the case may be) of those persons jointly and severally.
- (h) Time deadlines are calculated as follows:
  - (i) A reference to a financial year is to the period commencing on 1 July in each year and ending on 30 June in the next year, including the appropriate part of that period where this agreement commences after 1 July or ends before 30 June.
  - (ii) If a period expressed in days, beginning on a given day, act or event is provided or allowed for any purpose, the period is calculated by:
    - (A) excluding the day, or the day of the act or event; and
    - (B) including the day on which the purpose is to be fulfilled.
  - (iii) If a period expressed in weeks, months or years, beginning on a given day, act or event is provided or allowed for any purpose, the period is calculated from:
    - (A) the day, or the day of the act or event; until
    - (B) the corresponding day in the next appropriate week, calendar month or year.
  - (iv) If there is no corresponding day for the purposes of clause 1.2(h)(iii)(B), because of the differing number of days in calendar months, the corresponding day is taken to be the last day of the relevant calendar month.
  - (v) If something is to be done on a particular day, it must be done by 5.00 pm on that day.

- (vi) If something is to be done on a day which is not a Business Day then that thing must be done on the next Business Day.
- (i) If an amount payable under this Agreement is to be adjusted according to **CPI**, the adjusted amount shall be calculated on each January 1, beginning at least 12 months after the Term Commencement Date, based on the percentage change from the prior January 1.

## **2. GRANT OF FRANCHISE**

### **2.1 Grant of Franchise**

The Franchisor grants the Franchisee, upon the terms and conditions in this Agreement, the right and license, and the Franchisee accepts the right and obligation, to operate a single Franchised Business using the Business System for the Term in the Territory, in strict compliance with the terms and obligations of this Agreement and the requirements of the Manual, as it may be modified from time to time.

### **2.2 Location**

The Location for the Franchised Business is identified in Schedule 2, or will be identified in Schedule 2.2 after you have located a Location and we have approved the Location and the lease in accordance with this Agreement.

### **2.3 Territory.**

The Territory for your Franchised Business is identified in Schedule 2. During the term of the Franchise, we will not establish or operate, or grant any person other than you the right to establish or operate, a Studio Pilates International studio at any location in the Territory, except as may be provided in Section 2.4.

### **2.4 Reserved Rights.** Franchisor, on behalf of itself and its affiliates, reserve the following rights to:

- (a) provide, franchise, license, sell, distribute and market any services or products (under any brand, including but not limited to our Marks) through any channel or method of distribution, other than a Studio Pilates International studio located in your Territory, including, without limitation, through retail establishments or via the internet, whether inside or outside of your Territory;
- (b) to establish and operate, and grant to others the right to establish and operate, Studio Pilates International studios at locations anywhere outside the Territory, including locations near, on or adjacent to the Territory's boundaries;
- (c) offer and sell to persons outside the Territory, using the Marks, services and products that are the same as the services and products offered by Studio Pilates International;
- (d) in or outside the Territory, to offer and sell different services and products not offered within a Studio Pilates International studio, using the Marks, without offering you the right to participate;

- (e) acquire and continue to operate, directly or indirectly, any business operating under different trademarks in or outside the Territory;
- (f) acquire and retain, directly or indirectly, the rights and obligations of any franchisor or licensor of any business similar to a Studio Pilates International studio operating under different trademarks in or outside the Territory;
- (g) in or outside the Territory, to establish and promote other franchise systems involving different services or products using different trademarks, and to establish company-owned or franchised outlets for those systems, without offering you the right to participate;
- (h) be acquired, directly or indirectly, in whole or in part, by any person(s) or entity who provide products or services similar or dissimilar to those provided by Studio Pilates International studios; and
- (i) provide, offer, sell and grant others the right to provide, offer and sell services and goods similar to and/or competitive with those provided at Studio Pilates International studios, whether identified by the Marks or other trademarks or service marks, at festivals, cultural or trade exhibitions, or other public events, both inside and outside the Territory.

## **2.5 Franchises outside the Territory**

- (a) The Franchisee acknowledges that members of the Network, including but not limited to the Franchisor, may operate Franchised Businesses or otherwise market, supply and sell the Products and Services outside the Territory.
- (b) The Franchisee must not supply or sell the Products and Services, or otherwise carry on a Franchised Business, outside the Territory, and shall not conduct marketing of the Products and Services which is directly primarily to customers located outside the Territory.
- (c) The Franchisee expressly acknowledges that other Studio Pilates International studios (regardless of ownership) may solicit, market, sell, and deliver services and products to customers without regard to the customers' geographic location, and including customers located in the Territory.

## **2.6 Conditions Precedent**

The grant of the Franchise is conditional upon each of the following:

- (a) the Franchisee, prior to entering into this Agreement, providing to the Franchisor a signed receipt of the FDD, at least 14 days prior to signing this Agreement or paying any money, and a signed Compliance Questionnaire in the form prescribed in Annex G;
- (b) the Franchisee completing the Initial Training Program;
- (c) the Franchisee paying to the Franchisor the Initial Franchise Fee and the Launch Package Fee;
- (d) the Franchisee paying for and obtaining the Initial Inventory from the Franchisor or the Approved Suppliers as directed by the Franchisor;

- (e) the Franchisee taking out the insurance policies in accordance with the requirements of clause 22;
- (f) the Franchisee executing the other documents required under this Agreement and the Disclosure Document;
- (g) the Principals, Key People and Shareholders executing the Confidentiality and Non-Competition Agreement;
- (h) the Principals and Guarantors executing the Compliance Questionnaire; and
- (i) the Franchisee providing the Franchisor with a credit history, references and proof of finances to the satisfaction of the Franchisor.

## **2.7 Satisfaction of Conditions**

- (a) The Franchisor and the Franchisee must immediately give written notice to the other if either one discovers that any of the conditions specified in clause 2.6 becomes incapable of being satisfied.
- (b) If within 6 months from the date of this Agreement any of the conditions in clause 2.6 are not satisfied, and are not waived by the Franchisor, then the Franchisor shall be entitled to terminate this Agreement immediately by notice in writing to the Franchisee, with no refund of the moneys paid by the Franchisee to the Franchisor.
- (c) If this Agreement is terminated by Franchisor under clause 2.7(b) the Franchisor is not liable to the Franchisee for any costs, expenses or losses the Franchisee has incurred in relation to this Agreement or the Franchised Business.

## **3. FEES AND ROYALTIES**

### **3.1 Payments by Franchisee**

In addition to any other obligations to make any payments (whether under this Agreement or otherwise), the Franchisee must pay to the Franchisor or our affiliates the following:

- (a) Initial Franchise Fee;
- (b) Launch Package Fee;
- (c) Initial Inventory;
- (d) Technology Fee;
- (e) Reformer Equipment;
- (f) Royalty;
- (g) Marketing Fund Fee;
- (h) Cooperative Advertising Program Fee (if applicable);
- (i) Annual Conference attendance fee;

- (j) Additional Training Costs, where Additional Training is provided;
- (k) Transfer Fee, where it applies; and
- (l) Renewal Fee, where it applies.

### **3.2 Interest**

If the Franchisee does not pay any amount payable under this Agreement by the due date, the Franchisor may charge interest on the outstanding amount at the lesser of (a) the rate specified in Schedule 3; or (b) the maximum rate allowed by applicable law.

### **3.3 Application of Money Received**

Notwithstanding any tender of monies by the Franchisee under this Agreement after the date due for payment, those monies may be accepted and applied (in the Franchisor's absolute discretion):

- (a) first, on account of the Franchisor's legal costs and disbursements in respect of the default or delay in payment;
- (b) second, on account of interest on any amount outstanding;
- (c) third, on account of the purpose for which the monies were tendered; and
- (d) fourth, on account of other moneys due but unpaid under this Agreement. .

### **3.4 No Withholding of Payments**

The Franchisee does not have the right to withhold any payment (or part thereof) due to the Franchisor or claim any set-off by reason of any breach or alleged breach of this Agreement by the Franchisor.

### **3.5 Electronic Funds Transfer**

The Franchisee agrees that the Franchisor has the right to withdraw funds from the Franchisee's bank account each week by electronic funds transfer ("EFT") for any fees or payments due to the Franchisor or its affiliates, including but not limited to any interest due on any overdue amounts. The Franchisee shall, upon execution of this Agreement or at any time thereafter at the Franchisor's request, execute such documents or forms as the Franchisor or the Franchisee's bank determine are necessary for the Franchisor to process EFTs from the Franchisee's designated bank account for the payments due hereunder.

## **4. BUSINESS SYSTEM**

### **4.1 Ownership of Business System**

The Franchisee acknowledges that:

- (a) the Business System is the property of, or otherwise under licence to, the Franchisor; and

- (b) the Franchisee's right to use the Business System is under sub-licence from the Franchisor.

#### **4.2 Adherence to the Business System**

The Franchisee must comply with the Business System in operating the Franchised Business.

#### **4.3 Use of Business System**

The Franchisee will use the Business System solely in the conduct of the Franchised Business, and not for any other purpose.

#### **4.4 Changes to the Business System**

- (a) During the Term, the Franchisor may further develop or make changes to the Business System.
- (b) Any changes to the Business System shall be notified to the Franchisee by the Updates to the Manual in accordance with clause 5.2.
- (c) The Franchisee acknowledges that changes to the Business System may include but shall not be limited to changes to the Image, the Trade Marks, the Build-Out, the Products, the Services, Improvements to the Intellectual Property or any other changes which the Franchisor determines.
- (d) The Franchisee shall be required to comply with all directions of the Franchisor in respect of changes to the Business System, at the Franchisee's cost.

### **5. MANUAL**

#### **5.1 Ownership of the Manual**

The Franchisee acknowledges that:

- (a) the Manual is the property of, or otherwise under licence to, the Franchisor; and
- (b) the Franchisee's right to use the Manual is under sub-licence from the Franchisor.

#### **5.2 Provision of Manual**

- (a) The Franchisor will provide a copy of the Manual to the Franchisee.
- (b) The Franchisor may, at any time, provide to the Franchisee:
  - (i) a new or amended Manual;
  - (ii) updates or supplements to the Manual;
  - (iii) notices or guidelines issued under or relating to the Manual.(collectively "Updates").

### **5.3 Franchisee to Comply With Manual**

- (a) The Franchisee must, in operating the Franchised Business, comply with the Manual including any Updates.
- (b) Updates must be complied with by the effective date stated in them.
- (c) This Agreement prevails over the Manual to the extent of any direct inconsistency.

### **5.4 Updates**

- (a) The Franchisee acknowledges that the Franchisor may implement the Updates in accordance with clause 5.2(b) as reasonably necessary for the further development, improvement and operation of the Business System or the Network.
- (b) The Franchisor will provide reasonable notice to the Franchisee of any proposed Updates which will result in a significant change or cost to the Franchisee's Business, to give the Franchisee a reasonable time to comply with such new requirements.
- (c) The Franchisor will not require the Franchisee to undertake significant capital expenditure during the Term as a result of an Update to the Manuals, except where:
  - (i) Such expenditure is disclosed in the disclosure document that is given to the Franchisee before entering into, renewing or extending the term or scope of this Agreement;
  - (ii) Such expenditure is to be incurred by, and is approved by, all or a majority of Franchisees;
  - (iii) Such expenditure is a requirement of any change to the Franchisor or Franchisee's legislative obligations;
  - (iv) The Franchisee agrees to undertake the expenditure; or
  - (v) The Franchisor considers the expenditure to be reasonably necessary as capital investment in the Franchised Business, and the Franchisor provides a written statement to the Franchisee of the rationale behind the amendment to the Manual, the amount of capital expenditure required, the anticipated outcomes and benefits and the expected risks associated with making the investment.

### **5.5 Use of Manual**

- (a) The Franchisee will use the Manual solely in the conduct of the Franchised Business, and not for any other purpose.
- (b) The Franchisee must not copy the Manual by any form of duplication, or adapt, modify or create derivative works of the Manual.

### **5.6 Return of Manual**

The Franchisee must return all Manuals in the possession, custody or control of the Franchisee to the Franchisor:

- (a) immediately upon being requested to do so by the Franchisor; and
- (b) immediately upon this Agreement ending.

**6. PRODUCTS AND SERVICES**

- (a) The Franchisee must market, supply and sell the Products and Services strictly in accordance with the Manual and all directions issued by the Franchisor.
- (b) The Franchisee must not, without the Franchisor's prior written consent, make any changes or alterations to the Products or Services.
- (c) The Franchisee must, in operating the Franchised Business, market, supply and sell only the Products and Services, and not any other products or services.
- (d) The Franchisee must purchase the Products and Services (if applicable) only from the Approved Supplier and not from any other party.
- (e) The Franchisee acknowledges that the Franchisor shall determine the recommended prices at which the Franchisee may supply the Products and Services and that these prices shall be disclosed in the Manual and may be revised by the Franchisor from time to time as the Franchisor considers necessary. Franchisee has the final decision as to the prices to be charged, but Franchisee must set those prices within the pricing model approved by Franchisor. For example, if the approved model provides for the purchase of groups of passes, Franchisee can set the price for the passes, but if Franchisor has not approved a membership model, then Franchisee cannot offer memberships.
- (f) The Franchisee acknowledges that the Franchisor may modify the Products and Services, or modify the range of Products and Services, and to revoke any prior approval of any Products and Services or suppliers, for any reason or no reason. Upon receiving notification from the Franchisor of such modifications, the Franchisee will market, supply and sell only the Products and Services, or suppliers, as modified (subject to any directions received from the Franchisor).
- (g) If Franchisee desires to offer or use any products, services, or supplier which has not yet been approved, Franchisee must submit to us a written request for approval, and to provide sufficient information, specifications, and samples concerning such products, services, or suppliers for us to determine whether such product, service or supplier meets our then current specifications and standards. We have the right to deny any such request for any reason or no reason. We have the right to require you to pay to us our then-current fee for evaluation and testing, and to reimburse our travel and lodging costs related to such evaluation and testing. Within ninety days of your written request and your submission of such information, we shall notify you if we have given our approval. If we fail to provide a response within ninety days, the request shall be considered denied. You shall not offer or use any product, service or supplier unless and until it has been approved in writing by us. We have the right to require that our representatives be permitted to inspect the proposed supplier's facilities, and that samples from the supplier be delivered, either to us or to an independent laboratory designated by us, for testing. Nothing in this Agreement shall be construed to require us to approve any particular product, service, or supplier.

- (h) The Franchisee acknowledges and agrees that we and our affiliates may at any time in future become an approved or designated supplier for certain products, services, equipment, supplies, signage, or promotional items, and that we and our affiliates may derive income, from the sale of such products or services. The Franchisee further acknowledges and agrees that we and our affiliates shall have the right to collect and retain any and all allowances, rebates, credits, incentives, or benefits offered by manufacturers, suppliers, and distributors to you or to us or our affiliates based upon your purchases of products and services from such manufacturers, suppliers, and distributors.

## **7. OWNERSHIP OF FRANCHISE**

### **7.1 Franchisee Shall be a Single Purpose Entity**

Where the Franchisee is a Company or Trust, the Franchisee agrees that:

- (a) at all times, the sole business of the Franchisee will be the conduct of the Franchised Business;
- (b) it will not own or use any assets or incur any liabilities other than those directly associated with the Franchised Business; and
- (c) it will not have an interest (whether legal or equitable, by way of owning shares or otherwise) in any body corporate or business without the prior written consent of the Franchisor, such consent not being unreasonably withheld or delayed.

### **7.2 Notification of Interested Persons**

- (a) On or before the Effective Date, the Franchisee must notify the Franchisor in writing of the identity of:
  - (i) the Owners and Officers of the Franchisee; and
  - (ii) all persons who have or will have a legal or beneficial interest in the Franchisee or any holding company of the Franchisee, whether by way of owning shares, membership interests, or otherwise.
- (b) The Franchisee must notify the Franchisor in writing as soon as it becomes aware of any change to the information provided under clause 7.2(a).
- (c) The Franchisee must, at any time upon the Franchisor's request, immediately provide a written list of the information required by clause 7.2(a).

### **7.3 Change of Ownership**

The Franchisee must obtain the written approval of the Franchisor, before:

- (a) changing or permitting to be changed the underlying ownership or control of the Franchisee or Franchised Business;

- (b) changing or permitting to be changed the identity of any person who has legal or beneficial ownership of, or a legal or beneficial interest in, the Franchisee or Franchised Business; or
- (c) making any amendment to, removal of, or alteration of the effect of (which for the avoidance of doubt includes the ratification of any breach of) any rule or clause of the constituent documents of the Franchisee (including its constitution).

#### **7.4 Independent Proprietorship of Franchised Business**

- (a) The Franchisee will conduct the Franchised Business as an independent proprietor and the Franchisee acknowledges that the Franchisee and the Franchisor are not partners or joint venturers of or with each other, and that other than as provided in this Agreement, neither the Franchisee nor the Franchisor has the power to bind the other.
- (b) The Franchisee must ensure that all signs, Stationery and Marketing Materials:
  - (i) do not indicate or represent that the Franchisee is a partner, joint venturer or co-owner of the Franchisor; and
  - (ii) do indicate that the Franchisee is conducting the Franchised Business as an independent proprietor.

### **8. STANDARDS OF CONDUCT**

#### **8.1 Manual**

The Franchisee must, in carrying on the Franchised Business, observe:

- (a) the service, competency, performance and conduct standards specified in the Manual; and
- (b) any other such standards notified to the Franchisee by the Franchisor.

#### **8.2 Unacceptable Conduct**

The Franchisee must not engage in any unlawful, unethical, dishonest, disreputable, misleading or deceptive act, omission or practice in relation to the Franchised Business, Business System, Intellectual Property, Products and Services, or any member of the Network.

#### **8.3 Reputation**

The Franchisee must not do, or omit to do, anything that may adversely affect the reputation and goodwill of the Franchised Business, Business System, Image, Intellectual Property, Products, Services, or any member of the Network.

#### **8.4 Complaints**

The Franchisee shall promptly process, handle and resolve all consumer complaints connected with or relating to the Franchised Business, and shall promptly notify the Franchisor of the any following: (i) safety or health violations; (ii) claims exceeding \$500; (iii) threatened or filed lawsuits; (iv) threatened or filed regulatory actions, subpoenas, notices to appear, or formal

investigations, by any Government Authority; and (iv) any other material claims against or losses suffered by you.

### **8.5 Unauthorised Representation**

The Franchisee must not make any representations, statements or warranties about or concerning the Business System, Network, Intellectual Property, Products or Services other than those that are expressly permitted by this Agreement, the Manual or with written authorisation from the Franchisor.

### **8.6 Franchisee Not To Incite Breach**

The Franchisee must not incite or procure any Franchisee or any other person to breach that person's obligations (contractual or otherwise) to the Franchisor.

## **9. STAFF AND CONTRACTORS**

### **9.1 Obligations on Staff**

Where an obligation is imposed on the Franchisee in this Agreement to do, or not to do, any act, matter or thing, the Franchisee will ensure that its Principals and Staff comply with that obligation. Franchisee is responsible for ensuring that Staff are adequately trained and setting the Staff's hours, compensation, and working conditions, and providing or paying any legal required benefits, and paying all required taxes, unemployment insurance, and workers compensation insurance in connection with Franchisee's employees.

### **9.2 Key People**

- (a) The Franchisee must obtain the prior written consent of the Franchisor before replacing or employing Key People. The Key People are the persons named in Schedule 1.
- (b) The Franchisee agrees that the Key People must personally supervise the operation of the Franchised Business and the Franchisee must ensure that the Key People must devote their full time and attention to the carrying on of the Franchised Business. The Franchisee shall not allow the Key People to be part of, or conduct a similar business, without first obtaining the written consent of the Franchisor.
- (c) In the event of the death or disability of one or more of the Key People such that the Key Person is unable to continue as a Key Person for the Franchised Business, the Franchisee may, within a reasonable time, apply to the Franchisor for the appointment of an alternative or replacement Key Person. The Franchisor's consent to the appointment of an alternative or replacement Key Person shall not be unreasonably withheld, provided the Franchisor is satisfied that the replacement Key Person satisfies the Franchisor's selection criteria and is a suitable person to operate the Franchised Business. If Franchisee does not propose, and Franchisor does not approve, a suitable replacement within sixty (60) days, then Franchisor may terminate this Agreement.

### **9.3 Information About Staff**

The Franchisee must provide to the Franchisor, upon request and subject to law, a list of all Staff, including any information about the Staff as the Franchisor may reasonably request.

#### **9.4 Staff the Responsibility of Franchisee**

The Franchisee is solely responsible for Staff and such persons are not employees, agents or contractors of the Franchisor.

#### **9.5 Uniforms**

Unless otherwise agreed by the Franchisor, the Franchisee must ensure at its expense that all Staff wear uniforms and name tags of such design and colour and in such manner as may be reasonably required by the Franchisor and as set out in the Manual.

#### **9.6 Instructors**

All instructors working at the Franchised Business must have successfully completed the Franchisor's Instructor Training course prior to starting to work in the Franchised Business. Franchise shall not permit any person to provide classes at the Franchised Business if the person has not previously successfully completed the Franchisor's Instructor Training course.

### **10. LICENCES, PERMITS AND LAWS**

- (a) The Franchisee must, at its own cost, obtain and hold throughout the Term, all necessary licences and permits from any relevant Government Authority required by law to operate the Franchised Business.
- (b) The Franchisee shall comply with all federal, state, and local laws, rules, and regulations in the operation of the Franchised Business.
- (c) The Franchisee must at its own expense comply with any statutes, regulations, by-laws, notices, directions, orders, requirements or demands of any Government Authority that relate to Franchised Business and the Franchisee. The Franchisee shall operate and maintain the Franchised Business in strict compliance with all employment laws, building codes, fire and safety laws, sanitation laws, Americans with Disabilities Act, and any other requirements of any Governmental Authority that may be prescribed by any federal, state or local governmental agency. The Franchisee shall immediately provide Franchisor with a copy of any notice received by Franchisee from any state, local or governmental agency pertaining to compliance with any codes or requirements, or the failure to comply with any codes or requirements.

### **11. ANCILLARY AGREEMENTS**

- (a) The Franchisee must obtain the written approval of the Franchisor, before entering into any lease or finance agreement ("Ancillary Agreement") in relation to the Franchised Business.
- (b) The Franchisee must provide to the Franchisor upon request, a copy of any proposed Ancillary Agreement and such information about the other party to the proposed Ancillary Agreement as the Franchisor requests.
- (c) After entering into any Ancillary Agreement, or upon request by the Franchisor, the Franchisee will immediately provide a copy of the Ancillary Agreement to the Franchisor.

## **12. PREMISES**

### **12.1 Franchisee will locate Premises**

- (a) The Franchisee is responsible for locating the Premises for the Franchised Business.
- (b) Prior to entering into the lease or any binding commitment for the Premises, Franchisee must obtain Franchisor's approval of the location. Franchisor's approval shall not constitute a direct, indirect, or implicit warranty that the location is likely to be successful. Franchisee shall do its own due diligence with its own advisors to investigate and decide upon the suitability of the location. Franchisee acknowledges and agrees that the Franchisee must satisfy itself that the selected Premises will be suitable for the operation of the Franchised Business.
- (c) The Franchisee will be required to hold the lease for the Premises.
- (d) The Franchisor takes no responsibility for the performance or otherwise of the Franchised Business from the Premises.
- (e) The Franchisee must obtain the Franchisor's approval of the Location of the Premises and lease in accordance with this Agreement.
- (f) The Franchisee must provide to the Franchisor:
  - (i) a copy of the proposed lease before executing it; and
  - (ii) a copy of the final executed lease within 14 days after all parties have executed it.

### **12.2 Franchisee must enter into Lease within 12 months**

- (a) Franchisee must enter into a Lease for suitable premises in accordance with this clause 12.2 within 12 months of the execution date of this Agreement.
- (b) If the Franchisee has not entered into a Lease by the date calculated in accordance with clause 12.2(a), then Franchisor may terminate this Agreement by notice in writing to the Franchisee.
- (c) If Franchisor terminates this Agreement in accordance with clause 12.2(b), the Franchisee shall forfeit all funds paid under this Agreement, and Franchisee shall have no right of compensation from the Franchisor.
- (d) Notwithstanding Clause 12.2(b), the Franchisee shall be entitled to extend the due date under clause 12.2(a) for entering into a Lease by paying to the Franchisor an extension fee of \$2,500 per month (Extension Fee), for a maximum period of 12 months. The Franchisee must pay the Extension Fee monthly to the Franchisor, with the first payment being made prior to the expiration of the 12 month period specified in clause 12.2(a), and each subsequent payment being made prior to the end of the extended month. If the Franchisee fails to pay the Extension Fee on or before the end of each month, the Franchisor's right to terminate this Agreement in accordance with clause 12.2(c) will continue to apply.

### 12.3 Required Lease Terms

- (a) Franchisee must use its best endeavours to ensure that the lease provides that:
- (i) the Franchisor is entitled to receive notice of any default by the Franchisee;
  - (ii) the lease can be transferred to the Franchisor without the consent of the lessor; and
  - (iii) any other terms as the Franchisor may reasonably require, which shall be notified to the Franchisee in writing.
- (b) Without limiting clause 13.3(a), the Franchisee must use its best endeavours to obtain the landlord's agreement to include the following clauses in the lease for the Premises:
- (i) **Consent to Assignment of the Lease to Franchisor**

The Landlord acknowledges that the Tenant is a Franchisee of the Studio Pilates International franchise network. Notwithstanding anything other term of this Lease, the Landlord accepts Studio Pilates International USA Corp. (the **Franchisor**) as a suitable assignee of the Lease and may not withhold its consent to an assignment of the Lease by the Tenant to the Franchisor during the Term, unless the Franchisor is insolvent. The Franchisee must notify the Landlord of its intention to assign the Lease to the Franchisor prior to the assignment and the parties agree to complete a written assignment of the lease necessary to effect an assignment of the Lease.
  - (ii) **Notification of Default**
    - (A) If the Landlord issues a breach notice to the Tenant in accordance with the terms of this Lease, the Landlord acknowledges that it must also provide a copy of any such notice to the Franchisor at the same time as the notice is issued to the Tenant.
    - (B) The parties acknowledge that the Franchisor may, in its absolute discretion, elect to remedy the default of the Tenant under the Lease.
  - (iii) **Landlord to Transfer Lease to Franchisor**
    - (A) If the Landlord terminates this Lease in accordance with its terms, the Landlord must notify the Franchisor.
    - (B) Upon receipt of a notice that the Lease has been terminated, the Franchisor may be written notice to the Landlord, elect to take a new Lease of the Premises for the unexpired portion of the Term ("**Assignment Notice**"). To exercise this right, the Franchisor must provide the Assignment Notice within seven (7) days of receiving notice from the Landlord that the Lease has been terminated.
    - (C) Upon receipt of an Assignment Notice, the Landlord agrees that it must grant a new Lease to the Franchisor, or its nominee, on the same terms

as this Lease for the unexpired portion of the Term, including any option terms.

- (D) The Landlord's obligation to grant a new Lease to a nominee of the Franchisor in accordance with this clause shall be subject to the Landlord's approval of the Franchisor's nominee as a responsible tenant, acting reasonably.
- (c) If the Franchisee is unable to procure the inclusion of the foregoing lease terms (or clauses with the same meaning) in the lease, the Franchisee must notify the Franchisor of the Franchisee's failure to do so prior to the Franchisee executing the Lease. Franchisor may withhold approval of any lease which does not contain the required lease terms (or clauses with the same meaning).

#### **12.4 Franchisee Responsible for all Costs Relating to the Premises**

The Franchisee is responsible for all of the costs associated with the lease, locating the Premises, maintaining the Premises, any necessary build-out, and signage. Franchisee is responsible for obtaining any and all governmental approvals necessary to construct and operate the Studio Pilates International studio at the Premises.

### **13. BUILD-OUT OF PREMISES**

#### **13.1 Franchisee to undertake Build-Out**

- (a) As soon as practicable following the Lease Effective Date, the Franchisee shall arrange for the Build-Out to be completed at Franchisee's own cost.
- (b) The Franchisee acknowledges and agrees that the Franchisee must engage the Approved Contractor to conduct the Build-Out.
- (c) The Franchisee agrees to cooperate fully with the Approved Contractor, including providing all reasonable assistance and any required consents, to facilitate the Build-Out in a timely manner.
- (d) The Franchisee may be permitted to engage a contractor other than the Approved Contractor to conduct the Build-Out, provided that the Franchisor must first provide its' written consent to the Franchisee's proposed contractor, whose consent shall not be unreasonably withheld. The Franchisee must pay the Franchisor's reasonable costs associated with considering the Franchisee's alternative proposed contractor, regardless of whether the Franchisee's proposed contractor is ultimately approved by the Franchisor. The Franchisor will issue an invoice for its costs, which shall be payable upon execution of this Agreement, or at such later time as specified by the Franchisor.
- (e) Prior to commencing operations the Franchisee must obtain the Franchisor's final approval of the 'as constructed' Build-Out. The Franchisee must pay the Franchisor's reasonable costs associated with the Franchisor's review and approval of the Franchisee's Build-Out. Should the Build-Out not be constructed in accordance with the Franchisor's requirements, the Franchisee acknowledges that it must undertake any further alterations prescribed by the Franchisor at Franchisee's own cost.

### **13.2 Refurbishment**

If, during the Term, the Franchisor considers that the Build-Out of the Premises requires refurbishment or upgrading, then the Franchisee must refurbish or upgrade the Premises to the then current standards of the Franchisor's Build-Out.

### **13.3 Build-Out Plans**

- (a) The Franchisor shall design and provide to the Franchisee basic standard Studio design and construction plans for the Build-Out required for the Premises.
- (b) The Franchisee may be permitted to design its own Build-Out, provided that any Build-Out plans prepared by the Franchisee must be approved by the Franchisor in writing prior to being submitted to the Landlord for approval. The Franchisee must pay the Franchisor's reasonable costs associated with reviewing the Build-Out plans regardless of whether the Franchisee's proposed plans are ultimately approved by the Franchisor. If this clause 13.3(c) applies, the Studio Design Fee will not be payable.
- (c) Franchisor's provision of any suggested specifications or plans for the Build-Out, and Franchisor's approval of any proposed or final Build-Out plans, do not constitute a representation, warranty, or guarantee, express or implied, that such suggestions, proposals or plans are correct, error-free, practical, that they comply with the landlord's requirements, or that they comply with any federal, state, or local rules, laws, regulations or codes, and the Franchisee waives any claims to that effect. Franchisee remains solely responsible for ensuring that the Build-Out plans are correct, error-free, practical, that they comply with the landlord's requirements, and that they comply with all federal, state or local rules, laws, regulations or codes.

### **13.4 Deadline to Commence Operations**

Franchisee shall commence operation of the Studio in accordance with this Agreement by no later than the Opening Deadline. Franchisor may refuse a requests for extension of time to commence operations for any reason or for no reason, and may impose any requirements or conditions as a condition for granting any request for such extension, including but not limited to requiring Franchisee, Principals, and the Key People to provide Franchisor and its affiliates and each of their principals with a signed general release, in a form reasonably satisfactory to the Franchisor, of any and all claims against Franchisor and its affiliates, and each of their officers, directors, shareholders, partners, agents, and representatives, including without limitation, claims arising under this Agreement and federal, state and local laws, rules and regulations.

### **13.5 Change of Premises during the Term or Further Term**

- (a) If the Franchisee wishes to change the Premises during the Term or a Further Term of this Agreement, the Franchisee acknowledges that the provisions of clause 12 and clause 13 shall apply.
- (b) In particular, the Franchisee acknowledges that the fees payable in accordance with clause 12 and clause 13 shall apply to the Franchisee's selection of its new Premises at the rates then currently specified in the Franchisor's Disclosure Document.

- (c) The Franchisee must ensure that it de-brands the original Premises to the satisfaction of the Franchisor.

#### **14. REFORMER EQUIPMENT**

- (a) The Franchisee shall be required to purchase or lease the Reformer Equipment for use in providing the Services.
- (b) The Reformer Equipment must be purchased or leased from the Equipment Supplier.

#### **15. COMPUTER SYSTEM**

##### **15.1 Franchisee to obtain Computer System and install Computer Software**

- (a) The Franchisee must, at least 14 days prior to the Opening Date:
  - (i) install and operate at the Premises a computer system including but not limited to computer hardware, printer, scanner, and other peripheral equipment, which is connected to the internet, and which meet the requirements of the Franchisor (“**Computer System**”); and
  - (ii) install and operate on the Computer System the Computer Software.
- (b) The Franchisor shall be responsible for obtaining the necessary licenses to use the Computer Software, including but not limited to the bookkeeping software, for all parties within the Network.
- (c) The Franchisor will, subject to its reasonable conditions, grant to the Franchisee electronic remote access to the Franchisor’s computer system, as may be necessary for the purpose of the Franchisee performing its obligations under this Agreement.
- (d) The Franchisee must not allow the Computer System to be used for any purpose other than in the operation of the Franchised Business.
- (e) The Franchisee must not allow any person, other than the Franchisee, Principals and Staff, to use the Computer System or access the Franchisor's computer system.
- (f) The Franchisor will provide training to the Franchisee in the operation of the Computer Software as the Franchisor deems necessary.
- (g) If required by the Franchisor, the Franchisee must from time to time update or upgrade the Computer System and the Computer Software as necessary for the continued effective operation of the Franchised Business.

##### **15.2 Technology Fee**

- (a) The Franchisee must pay the ongoing monthly Technology Fee.
- (b) This fee is payable to reimburse the Franchisor for:
  - (i) the cost of the Franchisee’s license to use the Computer Software during the Term; and

- (ii) the cost of the Franchisor's monitoring the Franchisee's business activities, including bookkeeping functions performed in connection therewith.
- (c) The Franchisee acknowledges that from time to time during the Term, the cost of the Technology Fee may change. The Franchisor may from time to time advise the Franchisee by notice in writing of an increase or decrease to the Technology Fee. Where the Franchisor notifies the Franchisee of a revised Technology Fee amount, the Franchisee must pay the revised Technology Fee effective from the first day of the next calendar month

### **15.3 Franchisee must not create own Website or Online Presence**

- (a) The Franchisee is strictly prohibited from creating or using any websites or social media pages or accounts (including but not limited to Facebook, Instagram or Snapchat) or any other online listing, in the course of the Franchised Business except those expressly authorized by the Franchisor and subject to any conditions required by the Franchisor. One of the conditions shall include strict compliance with the Franchisor's social media policy, as modified from time to time. The Franchisee shall provide the Franchisor with the username, account information, and password for any such online listing, social media account, or other website listing or presence which the Franchisor authorizes the Franchisee to use or establish, and hereby grants the Franchisor full power and authority as the Franchisee's attorney-in-fact with respect to any such listings or accounts.
- (b) The Franchisee acknowledges that the Franchisor operates the website [www.studiopilates.com](http://www.studiopilates.com) and that this website is used for the promotion of the Network and contains a centralised online booking system for customers.

### **15.4 Modifications to Technology Requirements**

Franchisee acknowledges and agrees that changes to technology are dynamic and not predictable within the Term of this Agreement. In order to keep pace with inevitable but unpredictable changes to technological needs and opportunities, the Franchisee agrees that, in the future, Franchisor may establish or require Franchisee to install, use and operate, other computer hardware, Computer Software, upgrades, video systems, online portals, intranet, extranet, mobile applications, platforms, or other electronic systems for online booking, communications with Franchisor, course instruction, instructor training, customer information, marketing, transmittal of information, or for other functions required for operation of the Franchised Business. Franchisee shall be required to use any such systems required by Franchisor, and to pay any required license fees imposed by Franchisor or third party vendors associated with the use of such systems.

## **16. TRAINING**

### **16.1 Initial Training**

- (a) The Franchisor will provide initial training to the Franchisee, Key People and, where applicable, Staff, in the operation of the Business System and Franchised Business ("Initial Training Program").
- (b) The Initial Training Program will include the Business Operations Training and the Instructor Training.

- (c) The Business Operations Training will include a mixture of online learning, video based tutorials and webinars, and may include face to face training. Business Operations Training will commence on the date of this Agreement, or on such other date as the Franchisor reasonably requires. The Franchisee and Key People must attend and successfully complete the Business Operations Training prior to the opening of the studio.
- (d) The Instructor Training Course will include a mixture of online learning, video based tutorials and webinars, and face to face training incorporating training modules in anatomy and physiology, customer service protocols and facilitation of Studio Pilates International classes, plus a period of Shadowing sufficient for the Franchisor to be satisfied that the participant is sufficiently qualified to be a graduate of the course. The Instructor Training Course must be successfully completed by each instructor working in the Franchised Business before each instructor starts working in the Franchised Business. Instructor Training will be conducted in the United States at the location of the Franchised Business or another location in the United States designated by the Franchisor.
- (e) Business Operations Training will be conducted by the Franchisor online or, where face to face training is required, at the Franchisor's head office or another location nominated by the Franchisor in its discretion.
- (f) Where the Franchisee, Key People, or any employed instructor has already undertaken and passed the Instructor Training Course (including the Shadowing component), they will be exempt from the requirement to undertake the Instructor Training Course in accordance with this clause 16.1.
- (g) The Initial Training Program will not be conducted until the Franchisee has paid the Launch Package Fee.
- (h) If this Agreement is transferred to another franchisee in accordance with clause 26, an Initial Training Program will be provided to the transferee by the Franchisor at the transferee's cost.

## 16.2 Additional Training

- (a) During the Term the Franchisor will, in addition to the Initial Training Program, provide training to the Franchisee, Key People and Staff if requested by the Franchisee ("**Additional Training**").
- (b) Where the Franchisee requests Additional Training, the Franchisor will advise the Franchisee of the duration, times and location that such training can be made available to the Franchisee.
- (c) The Franchisor may also notify the Franchisee if it considers that the Franchisee, Key People, or Staff require Additional Training. Such a notice may require the Franchisee to:
  - (i) cause Key People or Staff to cease performing duties in the Franchised Business until Additional Training has been received; and
  - (ii) cause Key People or Staff to attend Additional Training.

### **16.3 Content of Training**

The content of the Initial Training Program and Additional Training will be determined by the Franchisor.

### **16.4 Ongoing Advice**

- (a) The Franchisor will provide the Franchisee with ongoing advice and support in connection with the conduct of the Franchised Business as the Franchisor considers reasonably required from time to time.
- (b) The ongoing advice may include advice and guidance with respect to:
  - (i) methods and procedures for the marketing, supply and sale of Products and Services in the Franchised Business;
  - (ii) the implementation of marketing programs;
  - (iii) sales techniques and customer relations;
  - (iv) administrative, book-keeping, accounting and general operating procedures for the operation of the Franchised Business;
  - (v) equipment and fittings necessary for the Franchised Business; and
  - (vi) general management and administrative guidance and assistance as the Franchisor deems necessary to improve the operating efficiency and profitability of the Franchised Business.

### **16.5 Franchisee's Responsibilities**

- (a) The Franchisee is responsible for ensuring that Key People attend and complete the Initial Training Program and Additional Training.
- (b) If the Franchisee considers that it or its Key People or Staff require Additional Training throughout the Term, then the Franchisee shall be obliged to notify the Franchisor and request that the Additional Training be provided.
- (c) Each Staff member of the Franchisee employed as a Pilates instructor must successfully complete the Pilates Platinum Training Course either prior to their employment as an instructor with the Franchisee or during a probationary period of employment, at the Franchisee's cost.
- (d) Each Staff member of the Franchisee employed in business administration must successfully complete the Business Operations Training during a probationary period of employment, at the Franchisee's cost.
- (e) The Franchisee must, at its own cost, provide training to Key People and Staff as required by this Agreement and as is necessary to ensure they are able to fulfil their duties and comply with the standards under this Agreement, the Manual, Business System and any applicable law.

## 16.6 No Warranty

- (a) The Franchisee acknowledges that the Franchisor makes no representation or warranty that any training it provides will ensure the success of the Franchised Business.
- (b) The Franchisee releases the Franchisor from any claim it may have against the Franchisor for loss or damage it incurs arising from the delivery or non-delivery of the Initial Training Program and Additional Training.

## 16.7 Costs of Training

- (a) The Franchisee is responsible for all costs associated with the Initial Training Program and Additional Training, including travel, accommodation and meals.
- (b) The Franchisee must pay the Franchisor the Launch Package Fee, and the Additional Training Costs, at our then-current training fees, prior to the commencement of each relevant training course.

## 16.8 Meetings and Conferences

- (a) The Franchisor may from time to time convene and conduct meetings and conferences to be attended by a representative of the Franchisee and other Franchisees in order to assist and improve the operations of the Franchisees.
- (b) The Franchisor may from time to time convene and conduct conferences or conventions to be attended by the Franchisee.
- (c) The Franchisee will use its best endeavours to attend all such meetings and conferences.
- (d) The costs of attending any meetings and conferences will be borne by the Franchisee including but not limited to the costs of travel, accommodation and meals.

## 16.9 Annual Conference

- (a) The Franchisor will hold an annual franchisee conference each year (**Annual Conference**). The Franchisor will determine the location of the Annual Conference and the Annual Conference attendance fee in its' discretion (acting reasonably). Franchisor currently contemplates that the Annual Conferences will be held in Australia (or possibly in the United States as the system grows in the United States), while other required meetings and conferences referenced in Section 16.8 will normally be conducted via videoconference (i.e. Skype) or in the United States.
- (b) Attendance at the Annual Conference is mandatory for all Franchisees. The Franchisee must attend the Annual Conference unless expressly authorized to be absent by the Franchisor. Failure to attend the Annual Conference without the Franchisor's authorization will be a breach of this Agreement.
- (c) If the Franchisee has a legitimate reason that it is not able to attend the Annual Conference, the Franchisee must notify the Franchisor in writing in advance of the reason the Franchisee is not able to attend the Annual Conference.

- (d) If the Franchisee is absent from the Annual Conference in any particular year, the Franchisee acknowledges that it may be required by the Franchisor to undertake Additional Training.
- (e) The Franchisee must pay Franchisor the Annual Conference attendance fee. In addition, the Franchisee must pay for its own costs for attending the Annual Conference, including the travel, lodging, meals, salaries and wages for the Franchisee and any of the Franchisee's employees that attend the Annual Conference.

#### **16.10 CCTV Surveillance and Training**

- (a) Prior to the Opening Date, the Franchisee must install at the Premises as part of the Build-Out, the Franchisor's approved CCTV surveillance system with audio capabilities and Wi-Fi connectivity (**Video Surveillance Coaching System**), and ensure that the Video Surveillance Coaching System is fully operational.
- (b) The Franchisees must keep the Video Surveillance Coaching System operational at all times required by the Manual and must provide remote access to the Franchisor at all times, including providing the Franchisor with the login details to the system.
- (c) Franchisee acknowledges that the Video Surveillance Coaching System shall be accessed and utilised by the Franchisor for coaching and training purposes.
- (d) The Franchisee must comply with the Franchisor's Video Surveillance Coaching System Internal Policy of Use, as updated or amended by the Franchisor from time to time.

#### **16.11 Assisting Franchisor with Local Training Courses**

- (a) The Franchisee acknowledges that from time to time the Franchisor may require the Franchisee's cooperation to arrange local training for staff or Franchisees within the Network.
- (b) When requested by the Franchisor, the Franchisee must allow the Franchisor, at no cost, to use the Franchisee's Premises to host training courses for new franchisees and prospective staff, including Initial Training or Additional Training.
- (c) The Franchisee acknowledges that where the Franchisor requires the use of the Franchisee's Premises for a local training course, the Franchisor may require the use of the Premises for up to eight (8) days for each training course, and the Franchisee may be unable to operate classes for a period of 8 hours on each day the Franchisor is using the Premises.
- (d) The Franchisee acknowledges that the Franchisee may need to cancel some of the Franchisee's regularly scheduled classes during the time that Franchisor is using Franchisee's studio for training courses. Often, but not always, the training courses may be held in quieter times of the day for some locations. Franchisee will be responsible for placing customers into alternate class times during the time that Franchisor is using the Premises for local training courses.
- (e) The Franchisor must give the Franchisee reasonable advance notice and shall not require the Franchisee to provide its Premises for use by the Franchisor for local training

courses more than two times (each time may last up to eight days) in any 12-month period.

- (f) The Franchisee shall not be entitled to any reimbursement for any lost revenue caused by the fact that the Franchisor was using the Premises for local training courses or for any costs incurred by Franchisee during the time that Franchisor was using the Premises for local training courses.

## **17. MANAGEMENT AND ADMINISTRATION OF FRANCHISE**

### **17.1 Business Hours**

The Franchisee must ensure that the Franchised Business is open for business during the Business Hours.

### **17.2 Minimum Performance Standard**

- (a) The Franchisee and Franchisor agree that for each financial year (or such other period as they agree) the Franchisor will set the Minimum Performance Standard.
- (b) If the Franchisee does not achieve the Minimum Performance Standard, the Franchisor may in its absolute discretion, intervene in the operation of the Franchised Business for a six month period (**Review Period**) for the purpose of assisting the Franchisee to achieve the Minimum Performance Standard. During the Review Period the Franchisee must adhere to any reasonable business direction given to the Franchisee by the Franchisor in the conduct of the Franchised Business.
- (c) If the Franchisee does not achieve the Minimum Performance Standard, the Franchisor may also in its absolute discretion, require such of the Franchisee, its Key People and Staff to undertake the Additional Training as determined to be necessary by the Franchisor.
- (d) The Franchisor is not liable to the Franchisee for any loss or damage incurred by the Franchisee as a consequence of any direction given by the Franchisor during the Review Period.
- (e) If the Franchisee does not achieve the Minimum Performance Standard during the Review Period the Franchisor may terminate this Agreement in accordance with clause 27.3.

### **17.3 Financial Ability to Pay its Debts When Due**

- (a) During the Term the Franchisee must have and maintain sufficient liquid assets to pay its debts as they become due.
- (b) Upon the request of the Franchisor at any time during the Term, the Franchisee shall provide the Franchisor with evidence that the Franchisee has sufficient liquid assets to pay its debts as they become due, which must be verified by the Franchisee's accountant.

#### 17.4 Bank Account

- (a) The Franchisee must, on or before the earlier of the Opening Date or the Sales Commencement Date, open a bank account for the Franchised Business.
- (b) The Franchisee must:
  - (i) provide the Franchisor with the bank account details, including but not limited to, the bank, the account number and the details of the branch where the account is held;
  - (ii) not change the bank account without obtaining the prior written consent of Franchisor;
  - (iii) conduct all of the banking of the Franchised Business through the bank account including, but not limited to, deposit of all receipts and payment of all expenses of the Franchised Business, and
  - (iv) permit the Franchisor to make EFTs from such account, and execute any forms required by the bank to permit the Franchisor to make EFTs from the account.

#### 17.5 Costs of Running Franchised Business

- (a) The Franchisee is responsible for, and must pay in a timely manner, all costs, expenses and taxes associated with carrying on the Franchised Business.
- (b) The Franchisee must ensure that the goodwill and reputation of the Franchised Business, Business System, Image and Network is not adversely affected by the credit standing of the Franchisee.

#### 17.6 Franchisee Must Keep Accurate Records

The Franchisee must:

- (a) maintain records (**Records**) of all particulars relating to the Franchised Business;
- (b) keep all Records including correspondence, emails, invoices, order forms, delivery receipts, financial statements and computer storage media for a period of not less than seven years from the date of their creation, or for the period required under relevant taxation laws, whichever is the greater;
- (c) ensure that the Records conform to any requirements as to form, content or otherwise reasonably required by the Franchisor and applicable laws; and
- (d) upon request from the Franchisor, promptly make available for inspection by the Franchisor the Records (or any part of them) that the Franchisor reasonably requires.

#### 17.7 Franchisee Must Provide Reports

The Franchisee must provide to the Franchisor, within the following time frames, the following information (**Reports**) in relation to the Franchised Business in a form approved, and containing any other information reasonably required by, the Franchisor:

- (a) by the close of business on the fifth day of each month, a Monthly Sales and Expense Report;
- (b) by the close of business on:
  - (i) 1 April each year; and
  - (ii) 1 October each year,
 Half Yearly Financial Statements, prepared in accordance with GAAP;
- (c) by the close of business on 31 December in each year, Financial Statements prepared in accordance with GAAP, verified by Franchisee, for the previous financial year and any other information as the Franchisor may reasonably require;
- (d) by April 15 in each year, federal and state income tax returns, including schedules, for the Franchised Business;
- (e) as requested, monthly sales tax returns; and
- (f) any other reports, returns, information or documentation requested by Franchisor.

#### **17.8 Accuracy of Records and Reports**

The Franchisee must ensure that the Records and Reports are true, accurate and complete.

#### **17.9 Franchisor May Inspect**

- (a) The Franchisor and its designees shall have the right to inspect any aspect of the Franchised Business at any time with or without notice.
- (b) The Franchisor may at any time make a request for information regarding the Franchised Business. The Franchisee must comply with all requests for information in respect of the Franchised Business that are received from the Franchisor within 5 Business Days of the request being made.
- (c) The Franchisor may, at any time on reasonable notice (except in the case of emergency) and at all reasonable times during normal business hours of the Franchised Business examine, review, audit and take copies of the Records and Reports of the Franchisee (including the Computer System).
- (d) Any copies made by the Franchisor or its agents and representatives under this clause 17 are the property of the Franchisor and may be taken and retained by the Franchisor.
- (e) In exercising its rights under this clause, the Franchisor will use its best endeavours to minimise any disruption to the conduct of the Franchised Business.

#### **17.10 Franchisor May Appoint Independent Auditor**

- (a) The Franchisor may, at its own cost, appoint an independent auditor to audit the Records and Reports of the Franchised Business.

- (b) The Franchisee must comply with any reasonable request of the Franchisor or the independent auditor in relation to such an audit.
- (c) If:
  - (i) the Franchisee fails to comply with clause 17.7(b); or
  - (ii) as a result of an audit under clause 17.9(b), it is discovered that there has been an understatement or overstatement by at least 5% in any of the financial data in the Records or Reports,

then, upon request from the Franchisor, the Franchisee will reimburse all costs of the relevant independent audit (including all accommodation and travelling expenses incurred by the independent auditor or Franchisor).

## **18. MARKETING AND PROMOTION**

### **18.1 Initial Promotion by Franchisee**

At least twelve weeks prior to the Opening Date of the Studio, Franchisee must pay Franchisor the Pre-Opening Initial Promotion Fee, to be used by the Franchisor for the expenses for your initial promotion.

The Franchisee must conduct an initial marketing campaign in its Territory within the eight (8) weeks immediately prior to the Opening Date. In conducting the marketing campaign the Franchisee must comply with any directions of the Franchisor and must spend at least an amount equivalent to the Opening Promotion Amount.

### **18.2 Promotion by Franchisee during the Term**

- (a) During the Term the Franchisee must, in the manner prescribed by the Franchisor and contained in the Manual, within the Territory:
  - (i) actively and diligently promote the Business System, Franchised Business and the Products and Services;
  - (ii) use its best endeavours to conduct the Franchised Business in such a way as to promote the mutual interests of all members of the Network.
- (b) The Franchisee acknowledges and agrees that it must spend at least the Territory Marketing Amount on promotion of the Business System, Franchised Business and the Products and Services during each month of the Term.
- (c) The Franchisee shall obtain the Franchisor's approval of all advertising and promotional plans and materials prior to use if such plans and materials have not been prepared by Franchisor and previously approved by Franchisor during the twelve months prior to their proposed use.

### **18.3 Signs, Stationery and Marketing Materials**

- (a) At all times during the operation of the Franchised Business, the Franchisee must exhibit signs and use Stationery and Marketing Materials required by the Franchisor and in accordance with the Manual, at the Franchisee's cost.
- (b) All signs, Stationery, Marketing Materials and marketing campaigns must be approved in advance by the Franchisor, and the Franchisee agrees to make any changes, additions or omissions to these as the Franchisor may require.
- (c) The Franchisor may, from time to time, at the Franchisor's direction or at the Franchisee's request, place advertisements or prepare Marketing Materials on behalf of the Franchisee to promote the Franchisee's business. Where the Franchisor does so, the Franchisee shall pay the Franchisor for the costs of such advertisements or Marketing Materials within seven days of receipt of the Franchisor's invoice.

### **18.4 Marketing Fund**

The Franchisee acknowledges and agrees that:

- (a) Franchisee agrees to pay a Marketing Fund Fee to Franchisor for the purposes of paying the costs of marketing the Business System and the Network;
- (b) the Marketing Fund Fee payable by the Franchisee will be used together with Marketing Fund Fees from other Franchisees;
- (c) the Marketing Fund is intended to maximise recognition of the Image, the Intellectual Property and the Network generally and that promotion and marketing may not necessarily take place or be broadcast to the area in which the Franchised Business is being operated;
- (d) the Franchisor is not responsible for the effectiveness or success of such advertising or marketing expenditure.
- (e) the Marketing Fund may be used to support and pay for any advertising, marketing and promotion efforts we designate, and associated administrative expenses with the management of the fund. The fund may be used to pay for the costs of researching, preparing, maintaining, administering and directing advertising and promotional materials and programs in the manner that we decide. In addition, the fund may be used to pay for the costs of the personnel who manage the advertising and promotional programs for the fund and for reasonable administrative costs and overhead incurred in the activities related to the fund.
- (f) the Marketing Fund and is not a trust fund and neither Franchisor or its affiliates have any fiduciary duty to Franchisee or the Principals in connection with the collection or expenditures of the Marketing Fund or any other aspect of the Marketing Fund.
- (g) the Franchisor may:
  - (i) with the approval of Franchisees, advance monies to the Marketing Fund on terms which may include payment of interest, and repayment of any such advance and interest will be a proper expense of the Marketing Fund;

- (ii) spend monies from the Marketing Fund on administrative costs associated with operating the Marketing Fund, including preparation of annual financial statements and audit of the Marketing Fund;
- (h) if 50% of the franchisees in the Network agree, the Franchisor may increase the percentage amount which each franchisee must contribute to the Marketing Fund.
- (i) the Franchisor is not obliged to spend all monies received to the Marketing Fund in any financial year, and may accumulate those monies;
- (j) the Marketing Fund is not required to be used for marketing the Franchised Business as an individual business;
- (k) in the event the Marketing Fund is wound up, Franchisor will disburse the remaining funds for the purposes authorized under this Agreement;
- (l) In the event Franchisor owns and operates a Studio Pilates International studio in the United States, these "company-owned" studios will contribute to the Marketing Fund on the same basis that franchised Studio Pilates International studios in the Network are required to contribute; and
- (m) if this Agreement is terminated or expires, the Franchisee is not entitled to any proportion of monies in the Marketing Fund.

#### **18.5 Cooperative Advertising.**

- (a) Franchisor has the right, but not the obligation, to create a Cooperative Advertising program for the benefit of Studio Pilates International studios located within a particular geographic area. Franchisor has the right to determine the geographic area for the Cooperative Advertising program, and to require that Franchisee participate in such Cooperative Advertising programs when established within Franchisee's area. If a Cooperative Advertising program is implemented in a particular area, Franchisees have the right to nominate and elect, subject to the Franchisor's approval, the members of the council which will administer the Cooperative Advertising program. Franchisee shall participate in the council according to the council's rules and procedures and Franchisee shall abide by the council's decisions. Should Franchisor establish a Cooperative Advertising program, Franchisor has the right, but not the obligation, to change, dissolve or merge such program(s) at any time.
- (b) A Cooperative Advertising program council shall have the right to impose a Cooperative Advertising fee, equal to up to 2% of Gross Sales, to be collected by the Franchisor and remitted to the Cooperative Advertising program council. The responsibility to pay the Cooperative Advertising program fee shall be in addition to the obligation to pay the Royalty, Marketing Fund Fee, and any other fees. The Cooperative Advertising Fee shall be imposed at a uniform rate for all franchised and company-owned Studio Pilates International Studios located in the designated area. The council will have the right, but not the obligation, to prepare annual or periodic financial statements, and to make them available for review by the Franchisees. The cost of such financial statements, if any, will be paid from the Cooperative Advertising program funds.

## **18.6 Franchisee's Obligations**

The Franchisee must:

- (a) comply with and take all necessary action to facilitate marketing and promotional campaigns conducted by the Franchisor, including but not limited to gift certificates and competitions;
- (b) participate in, and comply with the rules and requirements of, any membership program or privileges, directed by Franchisor, to require the Franchised Business to honor membership privileges purchased at another franchisee's location;
- (c) ensure that Products and Services which are the subject of a current marketing campaign are available for sale, and at rates not higher than the rates advertised by the Franchisor; and
- (d) only represent the characteristics, features, yields or prices of the Products and Services strictly in accordance with the information provided by the Franchisor and strictly in accordance with all relevant laws.

## **19. INTELLECTUAL PROPERTY**

### **19.1 Ownership**

The Franchisee acknowledges that:

- (a) Franchisor owns, or otherwise holds a licence to use and exploit the Intellectual Property; and
- (b) the Franchisee's right to use the Intellectual Property is under sub-licence from the Franchisor.

### **19.2 Licence**

- (a) The Franchisor licences the Franchisee to use the Intellectual Property for the purposes of carrying on the Franchised Business in the Territory.
- (b) The Franchisee acknowledges that members of the Network may be licensed or permitted by the Franchisor to use the Intellectual Property outside the Territory.
- (c) The Franchisee may only use the Intellectual Property in the manner prescribed by the Franchisor and in accordance with this Agreement and the Manual.

### **19.3 Restriction on Use of Intellectual Property**

- (a) The Franchisee must not:
  - (i) breach, or encourage any breach of, the rights of the Franchisor in the Intellectual Property;
  - (ii) do anything to diminish the value of the Intellectual Property;
  - (iii) do anything to diminish the goodwill associated with the Intellectual Property;

- (iv) alter the Intellectual Property;
  - (v) register or create any form of intellectual property, logo, mark, design or name similar to the Intellectual Property;
  - (vi) do or permit to be done anything that may jeopardise the registration of the Intellectual Property (if it is registered or capable of registration);
  - (vii) challenge the Franchisor's rights in, or assist any other person to challenge the Franchisor's rights in, the Intellectual Property;
  - (viii) sub-licence the Intellectual Property to any other person; or
  - (ix) use the Intellectual Property for a purpose outside the scope of this Agreement.
- (b) The obligations and restrictions imposed under this clause continue after this Agreement ends or is terminated.

#### **19.4 Protection of Intellectual Property**

- (a) If it comes to the Franchisee's attention that:
- (i) any person alleges that any item of Intellectual Property is invalid;
  - (ii) an item of Intellectual Property infringes the rights of a person; or
  - (iii) an item of Intellectual Property is open to any form of action or challenge,
- the Franchisee must not make any admission in relation to such matter, and will immediately notify the Franchisor.
- (b) If it comes to the Franchisee's attention that any person is infringing or may infringe the Franchisor's rights in the Intellectual Property, or the rights of any other member of the Network in the Intellectual Property, the Franchisee must immediately notify the Franchisor.
- (c) The Franchisee must, upon request, provide the Franchisor with:
- (i) all information in its possession, knowledge or control relating to the Intellectual Property and its use by any person; and
  - (ii) all assistance that is necessary to protect the Intellectual Property, and obtain or maintain its registration.
- (d) The Franchisor and its Related Entities may take all such action as is required to prosecute or defend any proceedings in relation to the Intellectual Property. The Franchisee must co-operate fully with any request by those persons in relation to such proceedings, at the expense of whoever makes the request.
- (e) The Franchisee acknowledges that the Franchisor is not obliged to take any action in respect of an alleged infringement of the Intellectual Property.

- (f) If the Franchisor gives written notice to the Franchisee that the Franchisor do not intend to take action in respect of an alleged infringement of the Intellectual Property, the Franchisee may with the prior written consent of the Franchisor commence proceedings in its own name at its own cost. The Franchisor will give the Franchisee reasonable assistance in prosecuting the proceedings.
- (g) Any damages or compensation, awarded in favour of a person instituting and paying for proceedings to pursue a claim in respect to an infringement of the Intellectual Property, belongs to the person who paid to institute those proceedings.
- (h) Franchisor shall reimburse Franchisee for all expenses reasonably incurred by Franchisee in any trademark or similar proceeding disputing Franchisee's authorized use of any Mark, provided that Franchisee has timely notified Franchisor of such proceeding and has complied with this Agreement and Franchisor's directions with regard to use of the Marks and in responding to such proceeding. At Franchisor's option, Franchisor or its designees may defend and control the defense of any proceeding arising directly from Franchisee's use of any Mark. This indemnification shall not include the expense to Franchisee of removing signage or discontinuance of the use of the Marks. This indemnification shall not apply to litigation between Franchisor and Franchisee wherein Franchisee's use of the Marks is disputed or challenged by Franchisor. This indemnification shall not apply to any separate legal or professional fees or costs incurred by Franchisee in seeking independent counsel separate from the counsel representing Franchisor and Franchisee in the event of litigation disputing Franchisor and Franchisee's use of the Marks.

#### **19.5 Improvements**

- (a) All Improvements are the property of Franchisor.
- (b) Any Improvements made by the Franchisee or its employees are assigned to the Franchisor at the time the Improvement is made.

#### **19.6 Goodwill**

Any goodwill that accrues in relation to the use of Intellectual Property accrues to the Franchisor.

#### **19.7 Business Name**

- (a) The Franchisee must:
  - (i) Ensure that, if Franchisee is entity, the formal name of the entity shall not include the mark "Studio Pilates".
  - (ii) On or before the Opening Date, obtain a fictitious name or assumed name registration for the Business Name, maintain such registration during the Term, and provide evidence of same to the Franchisor.
  - (iii) conduct the Franchised Business only under the Business Name; and

- (iv) comply with all directions from the Franchisor and contained in the Manual concerning the use and display of the Business Name on Stationery, Marketing Materials and the Premises.
- (b) If during the Term any of the information provided by the Franchisee in accordance with clause 7.2(a) changes or is no longer accurate, the Franchisee must immediately provide the Franchisor with any such revised information.

## 19.8 Trademarks

- (a) Franchisee acknowledges that your use of the Marks is a temporary authorized use under the terms of this Agreement and that we retain all ownership interests in the Marks. You acknowledge and agree that all goodwill arising from or in connection with the use of the Marks will inure to our benefit. You agree to use the Marks only in accordance with the terms of this Agreement and that the use of the Marks outside the scope of the terms of this Agreement without our prior written consent, is an infringement of our exclusive right, title and interest in and to the Marks. You agree that during the term of the Franchise, and after the expiration, termination, repurchase or transfer of the Franchise, you will not, directly or indirectly, commit an act of infringement or contest or aid others in contesting the validity, distinctiveness, secondary meaning, ownership or enforceability of the Marks, or take any other action in derogation of the Marks, and that no monetary amount will be assigned as attributable to any goodwill associated with your use of the System or the Marks. If Franchisor's rights under its agreement with its affiliate giving Franchisor the right to use and sublicense the Marks is terminated, then our affiliate can assume the Franchisor's rights and obligations under the Franchise Agreement.
- (b) Franchisee agrees to provide services and products to the public under the name "Studio Pilates International" and such other Marks we designate from time to time, but may not use any Mark, any derivation or modified version of any Mark, or any confusingly similar mark, as part of any corporate, partnership, firm or other business name, web site address, email address or other identification in any print, electronic or other medium; or with any prefix, suffix or other modifying word, term, symbol or design. You may not use any Mark in connection with the offer or sale of unauthorized services or products or in any manner that we have not authorized in writing.
- (c) Franchisee must use the Marks on Stationery and Marketing Material as directed by the Franchisor and in accordance with the Manual.
- (d) The Franchisee must ensure that any Stationery or Marketing Material bearing the Marks displays the symbol:
  - (i) "™" where the Mark is unregistered; and
  - (ii) "®" where the Mark is registered,in close proximity to the Mark.
- (e) If required by the Franchisor or Manual, or the Franchisor's Related Entities, Franchisee must include on any Stationery or Marketing Material bearing the Marks the following notation:

- (i) where the Mark is unregistered - "™ Trademark of Studio Pilates International USA";
  - (ii) where the Mark is registered – "® Registered Trademark of Studio Pilates International Ltd. Pty" or "Registered Trademark of Studio Pilates International USA Corp."
- (f) You agree not to register any domain name, open or use any social media account or application, or place an advertisement that contains the Marks without our prior written approval.
- (g) If it becomes advisable at any time, in our sole and absolute judgment, for your Franchised Business to modify or discontinue use of any Mark and/or to use one or more additional or substitute service marks, trademarks, trade names or trade dresses, you agree to comply with our directions to modify or otherwise discontinue the use of the Mark, and/or to use one or more additional or substitute service marks, trademarks, trade names or trade dresses, within a reasonable time after receiving notice from us. You will be responsible for the costs of modifying or discontinuing the use of any trademark, service mark or trade name, or using one or more substitute trademarks, service marks or trade names. We will not be responsible for reimbursing you for any loss of goodwill in connection with the modification or discontinuation of any trademark, service mark or trade name.
- (h) If you are a business entity (or an individual) you shall not use any of the Marks, or any abbreviations or portions or variations thereof, or any words deemed by us to be confusingly similar to the Marks as part of your entity name.
- (i) During the term of the Franchise, you agree to file and maintain requisite trade name or fictitious name registrations, and must execute any documents deemed necessary by us or our counsel to obtain protection for the Marks or maintain their continued validity and enforceability.
- (j) You agree to promptly notify us of any use of any Mark or any name or mark confusingly similar to any Mark by any person or entity other than us or another of our franchisees.
- (k) You agree to promptly notify us of any claim or litigation brought or threatened by any person or entity against you, involving any Mark. We may, in our sole and absolute judgment, undertake the defense or settlement of that litigation or claim, at our own expense, and you agree to execute any documents, and to render any assistance (other than financial assistance) that may, in the sole discretion of our counsel, be reasonably necessary to carry out the defense or settlement. If the defense does not involve issues concerning the operation of your Franchised Business, we will reimburse you for all reasonable out-of-pocket costs incurred by you in connection with assisting in the defense or settlement.
- (l) You agree that the use of any Mark contrary to any term of this Agreement is an act of infringement, and that the use will cause irreparable injury to us and entitle us to an order of specific performance and/or a temporary, preliminary or permanent injunction, without bond, from a court or agency of competent jurisdiction, court costs, reasonable expenses of litigation, reasonable attorney's fees, and any other appropriate relief. You agree that your only remedy if an injunction is entered against you will be the dissolution

of that injunction, if warranted, upon due hearing and expressly waive all claims for damages caused by the wrongful issuance of any injunction.

## **20. CONFIDENTIAL INFORMATION**

### **20.1 Obligation of Confidentiality**

- (a) Subject to clause 20.2, each party must hold the Confidential Information in strict confidence and must not disclose any of the Confidential Information to any person.
- (b) Each party may only use of the Confidential Information for the Permitted Purpose, or as required by law, and not for any other purpose.
- (c) Each party must:
  - (i) take all necessary and reasonable steps to protect the confidentiality of the Confidential Information; and
  - (ii) inform the other party if it becomes aware of an actual or suspected breach of this clause 20.
- (d) If required by the Franchisor, the Franchisee will have its Principals, Key People and Staff sign a Confidentiality and Non-Competition Agreement.
- (e) Each party must not:
  - (i) use the Confidential Information in a way that may be detrimental to the Business System, Network or the other party; or
  - (ii) copy or duplicate the Confidential Information unless permitted by this Agreement, the Manual or the other party.

### **20.2 Permitted Disclosure**

- (a) Notwithstanding any other provision of this clause, a party may disclose the Confidential Information:
  - (i) to its directors, employees and professional advisers provided that they agree to keep the Confidential Information confidential;
  - (ii) if the disclosure is necessary solely for the Permitted Purpose; or
  - (iii) in order to comply with any applicable law or legally binding order of any court, Government Authority, or administrative or judicial body.
- (b) A party must give the other party prior notice of any disclosure proposed to be made under clause 20.2(a).

### **20.3 Customer List**

- (a) The names, addresses and contact details of all customers of the Franchised Business (**Customer List**) are the property of the Franchisor.

- (b) The Franchisee may use the Customer List in connection with the Franchised Business during the Term.

#### **20.4 Survival after Termination**

The obligations and restrictions imposed under this clause continue after this Agreement ends or is terminated.

### **21. REPRESENTATIONS AND WARRANTIES**

#### **21.1 Franchisee's Representations and Warranties**

The Franchisee makes the following representations and gives the following warranties:

- (a) The Franchisee has the power to enter into and perform its obligations under this Agreement.
- (b) The Franchisee has taken all necessary corporate action to authorise the entry into and performance of this Agreement and carrying out the transactions contemplated by this Agreement.
- (c) The Principals are the directors of the Franchisee, if Franchisee is an entity.
- (d) This Agreement is a valid and binding obligation on the Franchisee and enforceable in accordance with its terms.
- (e) There is no litigation, tax claim, dispute or administrative or other proceeding current, to the Franchisee's knowledge, or threatened, that may have a material adverse effect on its ability to perform its obligations under this Agreement.
- (f) All information provided by it to the Franchisor is true and complete as at the date of this Agreement or, if later, when provided.
- (g) The Franchisee has disclosed to the Franchisor all facts and circumstances concerning the Franchisee and the Principals which could reasonably be considered relevant to the Franchisor's decision to grant a Franchise to the Franchisee.
- (h) The Franchisee has not relied on any representation made or warranty given by or on behalf of the Franchisor other than those contained in the Disclosure Document or this Agreement.
- (i) The Franchisee has made its own enquires, and sought its own advice, regarding this Agreement and the arrangements and transactions contemplated by this Agreement (including in relation to the financial viability of the Franchise) and, in particular, has sought (or been given the opportunity to seek) its own independent and specific:
  - (i) legal advice;
  - (ii) business advice;
  - (iii) real estate advice; and
  - (iv) accounting advice.

- (j) The Franchisee has received, read and had a reasonable opportunity to understand this Agreement and the Ancillary Documents.

## **21.2 Franchisee Acknowledgements**

The Franchisee acknowledges:

- (a) the success of the Franchised Business is dependent upon the efforts of the Franchisee, Key People and Staff, and the Franchisee accepts responsibility for the operations and financial results of the Franchised Business; and
- (b) neither the Franchisor, nor its employees, agents or representatives, has made any representation or given any warranty or guarantee regarding the financial viability of the Franchised Business or regarding the expected rate of return on investment or profitability of the Franchised Business.

## **21.3 Information About Franchisee**

- (a) The Franchisee authorises the Franchisor to make reasonable enquiries of the Franchisee's suppliers, customers, bank and trade creditors concerning the Franchisee and the Franchised Business.
- (b) The Franchisee will use its best endeavours to direct those in possession of information about the Franchisee or Franchised Business to provide to the Franchisor the information the subject of those enquiries.
- (c) Any information obtained by the Franchisor under this subclause is confidential and may be used by the Franchisor only in connection with this Agreement.

## **21.4 Litigation and Disputes**

The Franchisee must immediately notify the Franchisor of any litigation, threatened litigation or other dispute involving, or which may affect, the Franchisee.

## **22. INSURANCE**

- (a) The Franchisee will, at its own cost, take out and maintain adequate insurance policies to cover all facets of the Franchised Business, including but not limited to cover for the amounts and risks set out at Schedule 3.
- (b) All insurances policies must be taken out with an insurer approved by the Franchisor, with at least an "A" Rating Classification as indicated in A.M. Best's Key Rating Guide, and will name the Franchisor as an additional insured.
- (c) The Franchisee will at all times observe the conditions of the insurance policies.
- (d) The Franchisee must provide to the Franchisor on request such evidence as the Franchisor may require to prove the currency and the extent of insurance coverage.
- (e) The Franchisor may from time to time require the Franchisee to increase the minimum insurance limits or take out different or additional types of insurance. Within thirty (30)

days of receipt of notice from Franchisor, the Franchisee agrees to revise its coverage, as specified in any notice from the Franchisor.

- (f) If the Franchisee fails or refuses to maintain the insurance or fails or refuses to provide sufficient evidence thereof, the Franchisor may, at its option, effect such insurance coverage on behalf of the Franchisee, and the Franchisee will pay on demand all reasonable costs of the Franchisor in effecting such insurance.

## **23. INDEMNITY**

### **23.1 Franchisee to Indemnify Franchisor**

The Franchisee indemnifies and will keep indemnified and hold harmless, the Franchisor from and against all liabilities, claims, demands, causes of action, losses, damages, costs and expenses of whatever nature (including legal fees) which any person may make against or seek to recover from the Franchisor or which the Franchisor may incur or suffer as a result of or in connection with:

- (a) the performance or non-performance by the Franchisee of its obligations under this Agreement;
- (b) the supply of the Products or Services by the Franchisee to any person;
- (c) the ownership, operation, conduct, or control of the Franchised Business;
- (d) any breach of the representations and warranties given in clause 21.1; and
- (e) any unauthorised act, default, dishonesty, negligent act or omission or fraudulent conduct of the Franchisee or of any Principal, Key People or Staff of the Franchisee.

### **23.2 Indemnity to Survive Termination or Expiration**

The indemnities in clause 23 survive and continue after the Term.

## **24. RESTRAINT**

### **24.1 Non-competition during the Term**

Each Relevant Person must not, and will ensure that no person or entity which it controls does not, during the Term:

- (a) be directly or indirectly engaged, concerned or interested whether on their own account, or as an employee, consultant, agent, shareholder, director, beneficiary, trustee or otherwise, in any enterprise, corporation, firm, trust, joint venture or syndicate which is:
  - (i) engaged, concerned or interested in or carrying on any business the same as or substantially similar to the Franchised Business; or
  - (ii) engaged, concerned or interested in or carrying on any retailing or supplying of products or services the same as or substantially similar to the Products or Services;

- (b) on their own account or for any person, corporation, enterprise, firm, trust, joint venture or entity, entice away any customer from the Franchisor or from any member of the Network;
- (c) procure, employ, seek to employ or engage, or appoint in any capacity (whether as a consultant, director or otherwise):
  - (i) any employee or agent of the Franchisor;
  - (ii) any employee or agent of any member of the Network;
  - (iii) any member of the Network.

## **24.2 Non-Competition after the Term**

Each Relevant Person must not, and will ensure that no person or entity which it controls does not, during the Restraint Period:

- (a) Within the Restraint Area, be directly or indirectly engaged, concerned or interested whether on their own account, or as an employee, consultant, agent, shareholder, director, beneficiary, trustee or otherwise, in any enterprise, corporation, firm, trust, joint venture or entity which is:
  - (i) engaged, concerned or interested in or carrying on any business the same as or substantially similar to the Franchised Business; or
  - (ii) engaged, concerned or interested in or carrying on any retailing or supplying of products or services the same as or substantially similar to the Products or Services;
- (b) on their own account, or for any person, corporation, enterprise, firm, trust, joint venture or entity, entice away any customer from the Franchisor or from any member of the Network;
- (c) procure, employ, seek to employ or engage, or appoint in any capacity (whether as a consultant, director or otherwise):
  - (i) any employee or agent of the Franchisor;
  - (ii) any employee or agent of any member of the Network;
  - (iii) any member of the Network.

## **24.3 Separate restrictions**

- (a) It is intended that each of the restrictions at clauses 24.1 and 24.2 that result from combining separately each Relevant Person, with each Restraint Area and with each Restraint Period are separate independent restrictions and restraints imposed under this Agreement.
- (b) If any restriction in this clause 24 is or will be unenforceable, that does not affect the validity or enforceability of any other restrictions under this Agreement.

#### **24.4 Restraint reasonable**

- (a) The Franchisee acknowledges that each of the prohibitions and restrictions contained in the provisions of this clause 24:
  - (i) is reasonable as to period, territorial limitation and subject matter;
  - (ii) the restrictions in this Clause are intended to help protect or preserve the Franchisor's legitimate business interests, including:
    - (A) the Franchisor's relationship with other Franchisees;
    - (B) the revenue earned from the business conducted by the Franchisor, Franchisees and members of the Network;
    - (C) the goodwill of the Franchisor;
    - (D) the goodwill of other Franchisees; and
    - (E) the ability for the Franchisor to appoint any person to operate the Franchised Business; and
  - (iii) confers a benefit on the Franchisor which is no more than that which is reasonably and necessarily required by the Franchisor for the maintenance and protection of the Franchisor, the members of the Network, and the Business System.
- (b) All of the restrictions in this clause 24 are intended to prevent:
  - (i) Each Relevant Person, and people and entities associated with them, and its directors, officers, owners or employees from taking unfair advantage of the benefits that may be provided by a franchise for a Franchised Business;
  - (ii) The misappropriation, misuse or unauthorised use of the Intellectual Property including the Business System or Confidential Information; and
  - (iii) Damage to the Network.
- (c) The Restraint Period shall be extended during the period in which any of the Relevant Persons are violating the Restraint, and shall continue after any violations have ended so that Franchisor shall receive the benefit of a continuous uninterrupted period of no violations equal to the length of time of the Restraint Period.

#### **24.5 Injunctive Relief**

The Franchisee acknowledges that any breach or threatened breach of this clause 24 will cause irreparable and immeasurable damage to the Franchisor and members of the Network, and the Franchisor shall be entitled to apply to any court of competent jurisdiction to obtain an injunction to prevent any breach or threatened breach in addition to any other remedy the Franchisor may have, without the necessity of posting a bond.

## **25. TRANSFER**

### **25.1 Transfer by Franchisor**

- (a) The Franchisor may at any time, and without the Franchisee's consent, deal in any way with its rights and obligations under this Agreement, including by transferring or encumbering such rights or obligations.
- (b) In the case of a transfer, the Franchisor must obtain a covenant from the transferee that it will observe the terms of this Agreement as if it was named as Franchisor. The Franchisee will execute any documents the Franchisor reasonably requests it to execute to give effect to the transfer.
- (c) In the case of an encumbrance, the Franchisor must obtain a covenant from the encumbrance that it will recognise and be bound by the Franchisee's rights under this Agreement.
- (d) The Franchisee acknowledges that the Franchisor's Related Entities may at any time, by giving written notice to the Franchisee, assume all of the Franchisor's right, title and interest under this Agreement. The Franchisee will execute any documents reasonably requested by Franchisor's Related Entities to give effect to this clause.

### **25.2 Transfer by Franchisee**

- (a) The Franchisee may not sell, pledge, mortgage, encumber, charge, assign, licence or declare a trust, or otherwise dispose of the rights granted hereunder, or any part of this Agreement, or any rights to privileges incidental to this Agreement, to any individual, entity, bank, lending institution, or other person or entity, without our prior written consent. Further, if Franchisee is a business entity, then any transfer, sale, assignment, or issuance of any ownership interests in the entity, directly or indirectly, occurring as a result of a single transaction or a series of transactions, that alter the ownership interests, or the relative percentage of ownership, in the entity, as reflected on Schedule 1, shall be considered a "Transfer" of the rights under this Agreement, within the meaning of this clause 25, which requires that the Franchisee must obtain written approval and meet the transfer requirements in this clause 25 prior to any such attempted transfer. Any unpermitted transfer shall be considered null and void. Franchisee may request in writing the Franchisor's consent to a transfer, which consent shall not be unreasonably withheld provided that Franchisee complies with the transfer requirements.
- (b) The Franchisee must provide to the Franchisor all information that the Franchisor requests about the proposed Transfer, including:
  - (i) the name and address of the proposed transferee;
  - (ii) financial statements of the proposed transferee as at the preceding 30 June or 31 December (whichever is later) including a statement of assets and liabilities;
  - (iii) a copy of the proposed sale contract;
  - (iv) if the transferee is a body corporate, the name and address of all directors of the transferee;

- (v) such references from customers, lenders and trade creditors of the transferee as the Franchisor may reasonably require;
  - (vi) details of the transferee's business history and experience.
- (c) It is reasonable for the Franchisor to withhold consent for any proposed Transfer where:
- (i) the Franchisee has not provided the information required under clause 25.2(b);
  - (ii) the proposed transferee is unlikely, in the Franchisor's reasonable opinion, to be able to meet the financial obligations that the proposed transferee would have under this Agreement;
  - (iii) the proposed transferee is, in the reasonable opinion of the Franchisor, not of good moral character and does not have sufficient business experience, aptitude and financial resources to own and operate the Franchised Business and meet the then current standards for Franchisees;
  - (iv) the proposed transferee is insolvent;
  - (v) the proposed transferee does not meet the Franchisor's selection criteria for Franchisees;
  - (vi) the price and terms of payment to be made under the proposed Transfer are in the reasonable opinion of the Franchisor so burdensome as to affect adversely the future operations of the Franchised Business by the proposed transferee;
  - (vii) if required by the Franchisor, the proposed transferee (or any guarantors if applicable) does not attend an interview with the Franchisor at a location nominated by the Franchisor, at the proposed transferee's cost;
  - (viii) the agreement to transfer will have a significantly adverse effect on the Business System;
  - (ix) the proposed transferee does not agree in writing to comply with the obligations of the Franchisee under this Agreement, or enter into the then current Franchise Agreement, as required by the Franchisor;
  - (x) the proposed transferee does not agree in writing to complete the required renovations and upgrades of the Franchised Business and the Premises to conform to the Franchisor's then-current standards and specifications;
  - (xi) the proposed transferee does not procure and provide personal guarantees from its officers or other persons as required by the Franchisor;
  - (xii) the proposed transferee does not agree to attend training at its cost in a form substantially similar to the Initial Training Program;
  - (xiii) the Franchisee has not paid or made reasonable provision to pay any amount owing to the Franchisor;

- (xiv) the Franchisee has not paid or does not agree to pay the amounts payable under clause 25.2(d); or
  - (xv) the Franchisee has breached this Agreement or failed to remedy any such breach.
- (d) The Franchisee must, prior to a proposed Transfer:
- (i) obtain Franchisor's written approval of the proposed Transfer;
  - (ii) provide to Franchisor signed general releases from Franchisee and each of the Principals, in a form reasonably satisfactory to the Franchisor, of any and all claims against Franchisor and its affiliates, and each of their officers, directors, shareholders, partners, agents, and representatives, including without limitation, claims arising under this Agreement and federal, state and local laws, rules and regulations.
  - (iii) pay the Franchisor the Franchisor's costs of giving consent, including Franchisor's costs of investigating the proposed transferee and legal costs of preparing any necessary documentation, up to \$7,000; and
  - (iv) pay the Franchisor the Transfer Fee.
- (e) Any attempted unpermitted transfer, sale or assignment by Franchisee shall be deemed null and void.
- (f) Notwithstanding the foregoing, if: i) Franchisee is an entity, ii) Franchisee seeks to issue or transfer ownership interests to new minority owners, and iii) the issuance or transfer does not result in the controlling owner(s) losing the controlling interest in the entity, then Franchisee shall not be required to comply with the requirements of Sections 25.2 and 25.3, except that:
- (i) Franchisee shall provide to the Franchisor written notice in advance of its intent to issue or transfer the ownership interests, together with information about the new owners including the full names, planned percentage ownership interests of each of the new owners, summary of work experience, address, email address, and telephone number;
  - (ii) All new owners in the Franchisee shall execute and deliver to Franchisor a nondisclosure and non-competition agreement the same as or similar to the standard form Nondisclosure and Non-Competition Agreement attached as Annex A to the Agreement; and
  - (iii) Each stock certificate or other ownership interest certificate of the Franchisee shall have conspicuously endorsed upon the face thereof a statement in a form satisfactory to Franchisor that it is held subject to, and that further assignment or transfer thereof is subject to, all restrictions imposed upon transfers and assignments by this Agreement.

### **25.3 Franchisor's Right of First Refusal**

- (a) If the Franchisee desires to transfer the Franchise, the Franchisee must notify the Franchisor in writing of all the terms and conditions of the proposed transfer ("**Option Notice**").
- (b) The Franchisor will have an option ("**Option**") to acquire the Franchisee's interest in the Franchise on the same terms and conditions as set out in the Option Notice.
- (c) The Franchisor will have 21 days from the date of receipt of the Option Notice in which to notify the Franchisee in writing that it elects to exercise the Option.
- (d) If the Franchisor exercises the Option within the time specified in clause 25.3[c];
  - (i) the Franchisor must acquire the Franchisee's interest in the Franchise on the same terms and conditions as are set out in the Option Notice (or if the proposed consideration is not cash, the Franchisor may, at its sole discretion, purchase the interest on the same terms and conditions contained in the Option Notice or for cash equal to the fair market value of such consideration); and
  - (ii) the Franchisee must transfer its interest in the Franchise to the Franchisor.
- (e) The Franchisor will be entitled to deduct from the cash consideration to be paid under the Option, any amounts owing by the Franchisee to the Franchisor.
- (f) The Franchisor is entitled to pay any part of the cash consideration to be paid under the Option directly to creditors of the Franchisee in satisfaction of debts owed by the Franchisee.
- (g) If the Franchisor does not exercise the Option, then, subject to clause 25.2, the Franchisee may transfer the Franchise on terms and conditions no more favourable to the transferee than those contained in the Option Notice.

### **25.4 Franchisee Not To Deal With Franchised Business**

Except as provided in clause 25.2, and clause 25.5, Franchisee must not sell, pledge, mortgage, encumber, charge, assign, licence or declare a trust, over:

- (a) the Franchised Business; or
- (b) any assets of the Franchisee utilised in the Franchised Business,

without the prior written consent of the Franchisor, which consent may be withheld or given with or without conditions.

### **25.5 Transfer Upon Death or Disability of Franchisee or Key People**

- (a) On the death or permanent incapacity of Franchisee (if Franchisee is an individual) or any Key People (if Franchisee is an entity), Franchisee (or its successor, legal representative, or executor) shall transfer its interest to a third party acceptable to us within sixty days after the event of such death or permanent incapacity or the event of the legal representative or executor appointment, whichever is later. Any transfer of this

type, including a transfer by devise or inheritance, will be subject to the same requirements as other transfers under this Agreement. If the interest is not disposed of within this time (or such additional time as we otherwise agree), we may terminate this Agreement, or may exercise an option to obtain transfer from you the assets of the Franchised Business in accordance with this Agreement.

- (b) In the event of the death or permanent incapacity of Franchisee (if Franchisee is an individual) or any Key People (if Franchisee is an entity), Franchisor has the right, but not the obligation, to appoint a general manager to operate the studio on your behalf until an approved transferee is able to assume the operation of the studio, without the consent of you, your personal representative or your successor in interest. All funds from the operation of the studio during the period of operation by our appointed general manager will be kept in a separate fund, and all expenses incurred, including compensation, other costs and travel and living expenses of our appointed general manager (the "Management Expenses"), will be charged to the fund. As compensation for services provided, we will charge the fund the full amount of the Management Expenses incurred during the period of our operation. We will only have a duty to utilize reasonable efforts in operating the studio, and will not be liable to you or your principals for any debts, losses or obligations incurred by the Franchised Business, or to any creditor for any equipment, inventory, products, supplies or services purchased for the Franchised Business during any period in which it is operated by our appointed general manager.

## **25.6 Transfer to a Controlled Entity**

If Franchisee wishes to transfer this Agreement or any Multi-Unit Option Addendum or any interest in this Agreement or any Multi-Unit Option Addendum to a corporation, limited liability company or other legal entity that is entirely owned by Franchisee or its current owners ("Controlled Entity"), which Controlled Entity was formed for the financial planning, tax or other convenience of Franchisee, or if Franchisee is an entity and its owners desire to transfer any existing equity to other current owners of Franchisee, Franchisor's consent to any such transfer shall be conditioned upon the satisfaction of the following requirements, as applicable, subject to applicable state law:

- (a) the Controlled Entity is newly organized and in good standing in its state of formation, and its charter provides that its activities are confined exclusively to the operation of the Franchised Business;
- (b) Franchisee or some or all of the current holders of a legal or beneficial interest in Franchisee own all of the equity and voting power of the outstanding stock or other capital interest in the Controlled Entity;
- (c) Franchisee (and any transferring owners, if Franchisee is an entity) has executed a general release, the same as or similar to the form attached as Annex B to the Agreement,
- (d) all obligations of Franchisee to Franchisor are fully paid and satisfied; provided, however, that neither Franchisee nor any such Controlled Entity shall be required to pay a Transfer Fee as required pursuant to Section 25.2(d),
- (e) the Controlled Entity, along with Franchisee, has executed an assignment and

assumption agreement in a form acceptable to Franchisor in which the Controlled Entity has agreed to assume all obligations, debts and liabilities under this Agreement or with respect to the Franchised Business;

- (f) Franchisee has provided Franchisor with a complete copy of all contracts and Agreements, if any, between Franchisee and the Controlled Entity relating to the intended transfer of the Franchise;
- (g) Franchisee and/or the Controlled Entity has obtained all necessary consents and approvals by third parties (such as the lessor of the Approved Location) and all applicable federal, state and local laws, rules, ordinances and requirements applicable to the transfer have been complied with or satisfied; and
- (h) all owners or holders of a legal or beneficial interest in the Controlled Entity shall have executed a personal guaranty, pursuant to Section 34.
- (i) all owners or holders of a legal and beneficial interest in Controlled Entity have executed, along with the Controlled Entity, and delivered to Franchisor a nondisclosure and non-competition agreement the same as or similar to the standard form Nondisclosure and Non-Competition Agreement attached as Annex A to the Agreement;
- (j) the term of the transferred franchise shall be the unexpired Term, including all renewal rights, subject to any and all conditions applicable to such renewal rights in accordance with this Agreement;
- (k) each stock certificate or other ownership interest certificate of the Controlled Entity has conspicuously endorsed upon the face thereof a statement in a form satisfactory to Franchisor that it is held subject to, and that further assignment or transfer thereof is subject to, all restrictions imposed upon transfers and assignments by this Agreement; and
- (l) copies of the Controlled Entity's articles of incorporation or organization, bylaws, operating agreement, and other governing regulations or documents, including resolutions of the board of directors or similar governing body authorizing entry into all documents required to consummate the sale, purchase, furnished to Franchisor, and any amendment to any such furnished to Franchisor immediately upon adoption.

## **26. RENEWAL**

### **26.1 Notice of Renewal**

The Franchisor will renew this Agreement for the Further Term if:

- (a) the Franchisee notifies the Franchisor in writing no earlier than 9 months and no later than 6 months before the expiration of the Term that that it desires to renew the Agreement for the Further Term;
- (b) the Franchisee is not in default under any provision of this Agreement;
- (c) the Franchisee pays to the Franchisor the Renewal Fee;

- (d) we are still offering new franchises for Studio Pilates International franchises;
- (e) the Franchisee signs our then current form of Franchise Agreement which may contain terms which are materially different than this Agreement;
- (f) the Franchisee and the Key People provide Franchisor and its affiliates and their principals with a signed general release, in a form reasonably satisfactory to the Franchisor, of any and all claims against Franchisor and its affiliates, and each of their officers, directors, shareholders, partners, agents, and representatives, including without limitation, claims arising under this Agreement and federal, state and local laws, rules and regulation; and
- (g) the Franchisee pays to the Franchisor the Franchisor's costs of renewing this Agreement, including legal costs of preparing any necessary documentation.

## **26.2 Terms of Renewal**

A Further Term granted under clause 26.1 will, at the Franchisor's election, be:

- (a) on the same terms and conditions as this Agreement; or
  - (b) on the terms and conditions of the then current Franchise Agreement,
- except that:
- (c) the Franchisee is not obliged to undertake the Initial Training Program again;
  - (d) the Franchisee is not obliged to pay the Initial Franchise Fee again; and
  - (e) the Further Term then exercised will be removed from the Franchise Agreement, such that the number of Further Terms yet to be exercised will be reduced by one.

## **26.3 Holding Over**

In the event that the Franchisee is permitted by the Franchisor to remain as the Franchisee beyond the Term without entering into a new Franchise Agreement with the Franchisor, the parties acknowledge that the Franchisee will be entitled only to act as the Franchisee on a month to month basis and the terms of this Agreement shall continue to apply (in so far as they are relevant) as effective immediately prior to the expiry or termination of the Term.

## **26.4 Franchisor give notice**

Where this Agreement does not provide for a Further Term exercisable by the Franchisee, the Franchisor must provide notice to the Franchisee in writing no later than 6 months before the expiration of the Term whether it intends to offer an extension or renewal of the Agreement to the Franchisee.

## **27. TERMINATION**

### **27.1 Immediate Termination by Franchisor**

- (a) The Franchisor may immediately terminate this Agreement upon the occurrence of any of the following:

- (i) The Franchisee acts fraudulently in connection with the operation of the Franchised Business including, without limitation:
    - (A) a wilful and material falsification or error by the Franchisee of any report, statement or other written data furnished to the Franchisor; or
    - (B) a wilful deception of customers by the Franchisee in connection with the operation of the Franchised Business;
  - (ii) the Franchisee is the subject of a bankruptcy petition, becomes bankrupt, or is insolvent;
  - (iii) the conviction of the Franchisee or a Principal of a felony, any financial crime, any crime involving misrepresentations, any crime of moral turpitude, or any crime demonstrating reckless disregard for the physical safety of others;
  - (iv) the Franchisee conducting the Franchised Business in a way that endangers public health or safety;
  - (v) the Franchisee voluntarily abandons the Franchised Business or the franchise relationship;
  - (vi) the Franchisee does not commence operation of the Franchised Business by the Opening Deadline; or
  - (vii) the Relevant Persons or the Franchisee no longer hold a licence that the Franchisee must hold to carry on the Franchised Business.
- (b) The Franchisor is not required to provide the Franchisee with written notice when exercising its rights under clause 27.1.
  - (c) The Franchisor may terminate this Agreement without giving notice in accordance with clause 27.2 or clause 27.3 if, at the time of termination, the Franchisor and Franchisee mutually agree to the Agreement's termination.

## **27.2 Breach by Franchisee to be Remedied within 21 days**

If the Franchisee:

- (a) fails to make any payment of money due to the Franchisor under this Agreement;
- (b) fails to submit when due any of the reports required under this Agreement; or
- (c) breaches its obligations under clauses 8, 19, 20, or 24,

and the breach is not remedied within 21 days after the Franchisor serves a written notice on the Franchisee which:

- (d) identifies the breach;
- (e) specifies what the Franchisor requires to be done to remedy the breach; and

- (f) specifies that the Franchisor intends to terminate the Agreement unless the breach is remedied within 21 days of the date of service of the notice,

the Franchisor may terminate this Agreement by giving written notice to the Franchisee immediately upon the expiration of that period of 21 days.

### **27.3 Breach by Franchisee to be Remedied within 30 days**

If the Franchisee commits a breach of this Agreement, other than a breach referred to in clause 27.1 or 27.2 and the breach is not remedied within 30 days after the Franchisor serves a written notice on the Franchisee which:

- (a) identifies the breach;
- (b) specifies what the Franchisor requires to be done to remedy the breach; and
- (c) specifies that the Franchisor intends to terminate the Agreement unless the breach is remedied within 30 days of the date of service of the notice,

the Franchisor may terminate this Agreement by giving written notice to the Franchisee immediately upon the expiration of that period of 30 days.

### **27.4 Other Rights of Franchisor to Terminate**

Without limiting any other right the Franchisor may have to terminate this Agreement, the Franchisor shall have the right to terminate this Agreement immediately by notice in writing to the Franchisee if any of the following occur:

- (a) **(Insolvency)** The Franchisee:
  - (i) stops or suspends or threatens to stop or suspend payment of all or a class of its debts;
  - (ii) becomes insolvent or is presumed by a court to be insolvent;
  - (iii) has an administrator appointed over all or any of its assets or undertaking or any step preliminary to the appointment of an administrator is taken;
  - (iv) has a receiver appointed to all or any of its assets or undertaking; or
  - (v) has an application or order made, a proceeding commenced, a resolution passed or proposed in a notice of meeting, an application to a court made or other steps taken against or in respect of it for its winding up or dissolution or for it to enter into an arrangement, compromise or composition with or assignment for the benefit of its creditors, a class of them or any of them.
- (b) **(Convictions)** The Franchisee or any one of its Principals, Key People or Staff is convicted in a court of law of an offence where, in the reasonable opinion of the Franchisor, that conviction materially and adversely affects the Franchisor or the good name, goodwill or good reputation of the Franchisor, the Franchised Business, the Image, the Intellectual Property, the Business System, the Products, the Services or any member of the Network.

- (c) **(Failure to pay debts on time)** The Franchisee fails to honor on more than two occasions during any 12 month period, any form of payment made by the Franchisee to any person whether by check or electronic banking transfer, or the Franchisee repeatedly or consistently fails to pay any amount due in connection with operating the Franchised Business by its due date regardless of whether the payment is to be made to the Franchisor or to anyone else and regardless of whether any demand for payment is made by the Franchisor or by anyone else.
- (d) **(Harm to the reputation of Franchisor)** The Franchisee carries on the Franchised Business in such a manner or any Principal, Key People or Staff of the Franchisee are at any time party to any act, matter or thing that harms or adversely affects, or may harm or adversely affect, in a material manner, the good name, good reputation or goodwill of the Business System, the Franchisor, the Image or any member of the Network.
- (e) **(Franchised Business not profitable)** The Franchised Business is not profitable and without limiting this clause, the Franchised Business shall be deemed to be not profitable if for each month in any continuous six month period, the financial results for the Franchised Business are 50% (or more) below the Minimum Performance Standard.

#### **27.5 Termination – Cross Default**

- (a) If the Franchisee, or any of the Principals have entered into any other agreement with either the Franchisor or a Franchisor's Related Entity, then a breach of any one of those such agreements shall be deemed to be a breach of this Agreement;
- (b) If any other agreement entered into by the Franchisee, or any of the Principals, with the Franchisor or its Related Entities is terminated as a result of the Franchisee's or Principal's breach of that agreement, then the Franchisor may terminate this Agreement at the same time as the Franchisor provides the Franchisee or Principals with written notice of termination of the other agreement.
- (c) The Franchisee consents to termination of this Agreement in the circumstances described in clause 27.5 and acknowledges that a written notice to remedy breach issued under another Franchise Agreement of the Franchisee, or any one of the Principals, constitutes reasonable notice.

#### **27.6 Termination does not affect accrued rights**

Termination of this Agreement does not affect any accrued rights or remedies of Franchisor.

#### **27.7 Dispute**

If a dispute arises in relation to this clause 27, the parties will comply with the provisions of clause 29.

#### **27.8 Franchisor's right to discontinue services**

If Franchisee is in breach of any obligation under this Agreement, Franchisor shall have the right to suspend its performance of any of its obligations under this Agreement including, without limitation, the sale or supply of any services or products for which we are an approved supplier to you and/or suspension of your webpage on our website.

## **27.9 Amendment pursuant to applicable law**

Notwithstanding anything to the contrary contained in this clause, if any valid, applicable law or regulation of any Government Authority having jurisdiction of the Franchises Business and the parties thereto shall limit the rights of termination of Franchisor under this Agreement or shall require longer notice periods than those set forth above, this Agreement is deemed amended to satisfy the minimum notice periods or restrictions upon such termination required by such laws and regulations; provided, however, that such constructive amendment shall not be deemed a concession by Franchisor that the grounds for termination set forth in this Agreement do not constitute "good cause" for termination within the meaning ascribed to that term by any applicable law or regulation.

## **28. CONSEQUENCES OF TERMINATION OR EXPIRATION**

### **28.1 Cessation of Rights**

- (a) Immediately upon termination or expiration of this Agreement the Franchisee must:
  - (i) cease to operate the Franchised Business, and take such action and make such modifications or alterations to the Franchised Business and Premises as directed by the Franchisor (for example, by removing signage);
  - (ii) cease using the Business System, Marks, and Intellectual Property, and any names or Marks similar to the Marks;
  - (iii) cease using Confidential Information of the Franchisor;
  - (iv) cease to participate in the Network; and
  - (v) not directly or indirectly represent to the public or hold itself out as a Franchisee or as being in any way associated with or related to the Franchisor or the Network.
- (b) If the Franchisee fails to comply with clause 28.1(a) within 7 days of the date of termination or expiration, the Franchisor may take such action or make such modifications or alterations itself, at the Franchisee's cost.

### **28.2 Delivery Up of Documents and Materials**

- (a) On the termination or expiration of this Agreement the Franchisee must:
  - (i) immediately deliver up to the Franchisor all originals and copies of the:
    - (A) Manual;
    - (B) Confidential Information (and any document or thing containing Confidential Information) of the Franchisor;
    - (C) Intellectual Property (and any document or thing containing Intellectual Property);
    - (D) Stationery;

- (E) Marketing Materials;
- (F) signs used in the Franchised Business; and
- (G) uniforms used in the Franchised Business,

which are in the possession, custody or control of the Franchisee; and

- (b) after delivering to the Franchisor any Intellectual Property and Confidential Information that is in electronic form, delete that Intellectual Property and Confidential Information from any disk or electronic storage media of the Franchisee.

### **28.3 Franchisor's Options at Termination or Expiration**

Upon termination or expiration of this Agreement, the Franchisor may grant a new Franchise to a person or entity other than the Franchisee in relation to the Territory.

### **28.4 Continuing Operation of Franchised Business**

Upon the expiration or termination of this Agreement for whatever reason, the Franchisor will be entitled to require the Franchisee to transfer to the Franchisor those items listed below as the Franchisor may nominate in its discretion:

- (a) the right to use the telephone number used by the Franchised Business;
- (b) the right to use any social media account utilized by the Franchised Business;
- (c) the right to use any booking or client data system of the Franchised Business;
- (d) any lease for the Premises;
- (e) the equipment, fittings and fixtures of the Franchised Business; and
- (f) the Business Name (or cancel it if requested by the Franchisor)

The Franchisee must, upon receiving written notice from the Franchisor of those items which the Franchisor requires to be transferred, do all things necessary including executing any documents to give effect to this clause.

### **28.5 No Compensation**

Upon termination of this Agreement by the Franchisor in accordance with clause 27, the Franchisee is not entitled to compensation from the Franchisor nor is it entitled to receive any rebate or refund of any monies paid to the Franchisor under this Agreement.

### **28.6 Obligation to Pay**

Upon the expiration or termination of this Agreement for whatever reason, Franchisee shall promptly pay all sums owing to Franchisor. Such sums shall include all damages, costs and expenses, including reasonable attorneys' fees, incurred by Franchisor as a result of any default by Franchisee, which obligation shall give rise to and remain, until paid in full, a lien in Franchisor's favour against any and all of the personal property, furnishings, equipment, fixtures, and inventory owed by Franchisee and on the Premises at the time of default.

Termination or expiration of this Agreement for whatever reason does not relieve the Franchisee from any obligation to pay any monies due under this Agreement on any account whatsoever.

### **28.7 Pay for Products and Services**

If the Franchisee has ordered or received Products or Services, which at the date of termination or expiry have not been paid for, the Franchisee must by the date specified in the supplier's invoice pay the supplier for those Products and Services.

### **28.8 Liquidated Damages for Lost Royalty Fees**

- (a) If we terminate this Agreement with cause, Franchisee must pay Franchisor liquidated damages attributable solely to lost future Royalty fees equal to the average value of the Royalty fees that Franchisee was required to pay to Franchisor during the twelve months before the termination multiplied by twenty-four (being the number of months in two full years), or (ii) the number of months remaining during the terms of this Agreement, whichever is higher.
- (b) The parties acknowledge and agree that it would be impracticable to determine precisely the damages that are attributable solely to lost Royalty Fees that Franchisor would incur from this Agreement's termination and the loss of cash flow from Royalty fees due to, among other things, the complications of determining what costs, if any, Franchisor might have saved and how much the Royalty fees would have grown over what would have been this Agreement's remaining term. The parties consider this liquidated damages provision to be a reasonable, good faith pre-estimate of those damages.
- (c) This liquidated damages provision only covers Franchisor's damages from the loss of cash flow from the Royalty fees, and it does not cover any other damages, including but not limited to other unpaid amounts owed, damage to Franchisor's reputation, and damages arising from a violation of any provision of this Agreement other than the Royalty section. This liquidated damages provision does not give Franchisor an adequate remedy at law for any default under, or for the enforcement of, any provision of this Agreement other than the Royalty fee section.

### **28.9 Execution of Documents**

In the event of the termination of this Agreement for any reason, the Franchisor and the Franchisee must cooperate in the execution of all documents which are necessary to complete the termination in accordance with this Agreement, and the Franchisee hereby appoints the Franchisor as its irrevocable attorney, with the right to do any and all acts and things which are necessary to complete termination and to execute and deliver all documents which, in the opinion of the Franchisor, are necessary for accomplishing such purpose and authorises the Franchisor to change or de-register the Business Name.

## **29. RESOLVING DISPUTES**

### **29.1 Informal Resolution**

- (a) Except as otherwise provided in this Agreement, to pursue any claim arising from or relating to this Agreement, the Ancillary Agreements, or the parties' relationship, the

party asserting the claim (Complainant) must follow the exclusive procedure under this clause 29.1.

- (b) The Complainant will notify the Respondent in writing:
  - (i) the nature of the dispute;
  - (ii) the outcome the Complainant wants; and
  - (iii) the action the Complainant thinks will settle the dispute.
- (c) The Parties will then try to agree about how to resolve the dispute.
- (d) If the Parties cannot resolve their dispute within 21 days from the date of service of the notice by the Complainant to the Respondent under this clause 29.1, either party may refer the matter to a mediator and if the Parties cannot agree upon the appointment of a mediator, either party may submit the matter to JAMS and obtain the appointment of a mediator under the JAMS mediation rules. The mediation shall take place at the JAMS office nearest to the location of the Premises, unless the parties agree upon a different location.
- (e) The mediator may decide the date and time for mediation and the Parties will attend the mediation and use reasonable endeavours to resolve the dispute.
- (f) The mediator may make rules for the mediation, but the mediation should be as informal as is appropriate for proper conduct of the matter. The mediator may communicate privately with the Parties or with their lawyers. The Parties will be given adequate opportunity to present their case.
- (g) The Parties to the mediation agree that:
  - (i) everything that occurs before the mediator will be in confidence and in closed session;
  - (ii) all discussions will be without prejudice; and
  - (iii) no documents brought into existence specifically for the purpose of the mediation process will be called into evidence in any subsequent litigation by either of the Parties.
- (h) It will be the role of the mediator to act fairly, in good faith and without bias with the purpose of seeking a resolution of the dispute and will treat all matters in confidence.
- (i) The mediator will be instructed of the need for the Franchisor to maintain the integrity and reputation of the Business System, Image, Intellectual Property, and Network.
- (j) The mediator will deal with any matter as expeditiously as possible by no later than 30 Business Days after referral to the mediator.
- (k) The Parties to the mediation will bear the costs of the mediation on an equal basis. Each Party will bear its own costs of attending and preparing for the mediation.

- (l) The mediator will have no power to make any decision binding on the Parties to resolve the dispute.
- (m) This mediation procedure is not required for claims by Franchisor for injunctive relief to prevent irreparable harm, or for uncurable defaults.

## **29.2 Arbitration**

- (a) Except as otherwise provided in this Agreement, if the mediation is not successful, any controversy, claim, cause of action or dispute arising out of, or relating to the this Agreement, the Ancillary Agreements, or the parties' relationship, including, but not limited to (i) any claim by Franchisee, or any person in privity with or claiming through, on behalf of or in the right of Franchisee, concerning the entry into, performance under, or termination of, this Agreement or any other agreement entered into by Franchisor, or its subsidiaries or affiliates, and Franchisee, (ii) any claim against a past or present employee, officer, director or agent of Franchisor, (iii) any claim of breach of this Agreement, and (iv) any claims arising under state or federal laws, shall be submitted to final and binding arbitration as the sole and exclusive remedy for any such controversy or dispute. Unless, prohibited by applicable law, and except with respect to claims for payment defaults by Franchisee, any claim by Franchisee shall be made by filing a written demand for arbitration within one (1) year from the date on which the Franchisee knew or should have known, in the exercise of reasonable diligence, of the conduct, act or other event or occurrence first giving rise to the claim; otherwise, the right to any remedy shall be deemed forever waived and lost. Claims by Franchisor regarding payment defaults may be made at any time within the applicable legal statute of limitations. Claims allegedly in defense against claim for payment are barred if not made within the one year period referred to above. Persons in privity with or claiming through, on behalf of or in the right of Franchisee include, but are not limited to, spouses and other family members, heirs, executors, representatives, successors and assigns.
- (b) The right and duty of the parties to this Agreement to resolve any disputes by arbitration shall be governed exclusively by the Federal Arbitration Act, as amended, and arbitration shall be conducted pursuant to the then-prevailing Commercial Arbitration Rules of JAMS. The arbitration shall be held, at Franchisor's election, either at the JAMS office in New York, New York, or at JAMS office nearest to our principal office in the United States, if any, at the time. Any dispute as to the arbitrability of any controversy, claim, cause of action or dispute shall also be determined by arbitration.
- (c) One arbitrator shall be selected from a panel of neutral arbitrators provided by JAMS and shall be chosen by the striking method. The fees and expenses of the proceeding may be awarded by the arbitrator to the prevailing party. If not so awarded, the parties shall bear their own fees, costs and expenses, and the charges of the arbitrator shall be split between the parties. The arbitrator shall have no authority to amend or modify the terms of this Agreement. The arbitrator shall not have authority to hear or consider claims by more than one franchisee in any proceeding.
- (d) Nothing contained in this clause 29 will affect the right of a Party to take legal proceedings including the obtaining of injunctive relief where failure to obtain urgent relief would cause irreparable damage to the Party.

- (e) Franchisee and Relevant Persons waive any right to jury trial, waive the right to punitive or exemplary damages; and waive the right to bring or join in a legal proceeding with other similarly situated claimants on a group, multiple plaintiff, collective or class basis.
- (f) Franchisee and any Relevant Person, and any person in privity with or claiming through such person, must bring any claim arising from this Agreement or the Ancillary Agreement or the relationship of the parties within one year from the date the claim accrued or the date such person or entity reasonably should have become aware of the claim, whichever is earlier.
- (g) The obligations with respect to dispute resolution outlined in this clause 29 shall survive termination or expiration of this Agreement.

**29.3 Attorneys' Fees and Costs.** If legal action or arbitration is necessary to enforce the terms and conditions of this Agreement, or to defend against claims by the Franchisee, Franchisor shall be entitled to recover reasonable compensation for preparation, investigation, court costs, arbitration costs (if applicable) and reasonable attorneys' fees, as fixed by an arbitrator or court of competent jurisdiction. In addition, Franchisor shall be entitled to a further award for all expenses, costs and reasonable attorneys' fees incurred in connection with the enforcement of any arbitration award or judgment entered, any post-arbitration award or post-judgment proceedings, or any appeals.

## **30. FORCE MAJEURE**

### **30.1 Event of Force Majeure**

- (a) If a party is prevented in whole or in part from carrying out its obligations under this Agreement (other than an obligation to pay money) as a result of Force Majeure, it must promptly notify the other parties accordingly.
- (b) The notice must:
  - (i) specify the obligations the party cannot perform;
  - (ii) fully describe the event of Force Majeure;
  - (iii) estimate the time during which the Force Majeure will continue; and
  - (iv) specify the measures proposed to be adopted to remedy or abate the Force Majeure.
- (c) Following the giving of this notice, and while the Force Majeure continues, the obligations which cannot be performed (other than an obligation to pay money) because of the Force Majeure are suspended.

### **30.2 Remedy and Mitigation of Force Majeure**

The party that is prevented from carrying out its obligations under this Agreement as a result of Force Majeure must:

- (a) remedy the Force Majeure to the extent reasonably practicable and resume performance of its obligations as soon as reasonably possible; and

- (b) take all action reasonably practicable to mitigate any loss suffered by a party as a result of its failure to carry out its obligations under this Agreement.

### **30.3 Termination for Extended Force Majeure**

If a party is prevented from carrying out its obligations under this Agreement as a result of Force Majeure for a period in excess of 3 months, either party may terminate this Agreement by giving 30 Business Days written notice to the other party, without prejudice to any of the rights of any party accrued prior to the date of termination.

### **30.4 No Extension of Term**

For the avoidance of doubt, the parties agree that the Term will not be extended by the period of Force Majeure.

## **31. OBLIGATION TO PROVIDE SECURITY AND STATEMENTS OF SOLVENCY**

### **31.1 Grant of Security Interest by Franchisee**

- (a) Upon execution of this Agreement, the Franchisee grants to the Franchisor a Security Interest over all personal property of the Franchisee to secure the payment of all moneys owing under this Agreement from time to time during the Term as well as the punctual performance of all of the Franchisee's other obligations to the Franchisor at any time.
- (b) The Franchisee acknowledges and confirms that:
  - (i) the Franchisor has given value for the Franchisor's Security Interest in the Collateral; and
  - (ii) it has not made any other agreement with the Franchisor to vary the time of attachment of the Security Interest except in any express written agreement between the Franchisee and the Franchisor.
- (c) The Franchisee acknowledges that for the Security Interest is taken in all of the Franchisee's present and after-acquired property.
- (d) If the Franchisee disposes of or otherwise deals or agrees to deal with the Collateral in breach of this Agreement, the Franchisee acknowledges that:
  - (i) The Franchisor has not authorised any disposal or dealing or agreement to deal;
  - (ii) The Franchisor has not agreed that any disposal or dealing or agreement to deal will extinguish any Security Interest held by the Franchisor; and
  - (iii) The Franchisor's Security Interest continues in the Collateral despite the disposal or dealing or agreement to deal.

### **31.2 Registration of Security Interest and Franchisee's Undertakings**

The Franchisee undertakes to:

- (a) promptly sign any further documents and/or provide any further information (such information to be complete, accurate and up-to-date in all respects) which the Franchisor may reasonably require to:
  - (i) register a financing statement or financing change statement in relation to this Security Interest and otherwise do all things necessary and required by the Franchisor to ensure that the Security Interest registered by the Franchisor is a perfected security interest under the UCC;
  - (ii) register any document on any register reasonably necessary to secure the Franchisor's interest under this Agreement;
  - (iii) register any other document required to be registered under the UCC; or
  - (iv) correct a defect in a statement referred to in clauses 31.2(a)(i),(a)(ii) or (a)(iii);
- (b) indemnify, and upon demand reimburse, the Franchisor for all expenses incurred in registering a financing statement or financing change statement on the state UCC register or releasing any Collateral that is the subject of the Security Interest;
- (c) not make an amendment demand in respect of the Security Interest or apply to register a financing change statement in respect of the Security Interest, without the prior written consent of the Franchisor;
- (d) not grant a Security Interest or register (or permit to be registered), a financing statement or a financing change statement in relation to the Collateral in favour of a third party without the prior written consent of the Franchisor; and
- (e) immediately advise the Franchisor of any material change in the Franchised Business.

### **31.3 Waiver of right to receive notices**

- (a) The Franchisee hereby waives its rights to receive notices, information or statements (as the case may be) under the UCC.
- (b) Unless otherwise agreed to in writing by the Franchisor, the Franchisee waives its right to receive a verification of a debt under the laws governing collection of debts.

### **31.4 Ratification and Appointment as Attorney**

- (c) The Franchisee unconditionally ratifies any actions taken by the Franchisor under clauses 31.2 and 31.3.
- (d) The Franchisee irrevocably appoints the Franchisor to be its attorney to do such acts and execute such documents as the Franchisee could personally do or execute (including the appointment of a substitute attorney) which in the opinion of the Franchisor (acting reasonably) is necessary or expedient to give effect to any right, power or remedy conferred on the Franchisor by this Agreement and to give effect to the matters contemplated by this Agreement.
- (e) The provisions of this clause 31 will survive termination of this Agreement or any other agreement between the Franchisor and the Franchisee, for whatever reason.

### **31.5 Requirement to provide a Statement of Solvency**

The Franchisee must, within a reasonable time of being requested to do so by the Franchisor, provide the Franchisor with a statement of solvency and/or financial statements to support a statement of solvency in accordance with the Franchisor's request.

## **32. NOTICES**

### **32.1 Service of Notice**

A notice, demand, certificate, consent, approval, waiver or communication given under this document (**Notice**) must be:

- (a) in writing, in English and signed by the party giving it, or by their agent; and
- (b) delivered or sent by prepaid post, email or fax to the party's address specified in Schedule 1, or any other address notified by a party to the other party as its address for service.

### **32.2 Effective Service**

- (a) A Notice given in accordance with clause 32.1 takes effect when received, or at a later time specified in it.
- (b) A Notice is taken to be received at the time specified below:
  - (i) if hand delivered – when delivered;
  - (ii) if sent by prepaid post – on the third Business Day after the date of posting;
  - (iii) if sent by email – on the next Business Day after the date of transmission, or the date of acknowledgment of receipt, whichever is earlier;
  - (iv) if sent by fax – when the sender's fax system generates a message confirming successful transmission of the entire document.
- (c) However, if the time at which a Notice is taken to be received is not on a Business Day, or is after 5.00 p.m. on a Business Day, it is taken to be received at 9.00 a.m. on the next Business Day.

### **32.3 Ineffective Service**

A Notice is taken not to be received if:

- (a) in the case of service by post, the Notice is returned to sender because the postal service was unable to deliver it;
- (b) in the case of service by email, the party sending the Notice receives an automated email response specifying that the email containing the Notice was undeliverable;
- (c) in the case of service by fax, the sender's fax system generates a message stating that transmission was unsuccessful, or the Notice is not received in full and legible form.

### **32.4 Additional Provisions Regarding Email**

- (a) A Notice given by email is taken to be in writing, whether or not the email is printed by the addressee.
- (b) A Notice given by email is taken to be signed by the party if:
  - (i) the party's name is typewritten into the Notice; or
  - (ii) the party's handwritten signature (which may be a digital image or copy of the signature) appears in the Notice.
- (c) If:
  - (i) the originator of an email requests a read receipt from the addressee; and
  - (ii) the originator receives a read receipt from the addressee specifying the time and date that the email was read or received, the email is taken to be received no later than the time and date specified in the read receipt. A read receipt does not by itself amount to an admission by the recipient regarding the content or effect a Notice.
- (d) Nothing in this clause 32 affects the provisions of the applicable state and federal laws governing the legal effect of electronic communications and electronic signatures.

## **33. MISCELLANEOUS**

### **33.1 Special Conditions**

The Special Conditions:

- (a) Modify and vary the other general provisions of this Agreement; and
- (b) Prevail to the extent of any discrepancy or inconsistency with any other part of this Agreement.

### **33.2 Discretion in Exercising Rights and Giving Consents**

A party may exercise a right or remedy or give or refuse its consent in any way it considers appropriate (including by imposing conditions), unless this document expressly states otherwise.

### **33.3 No Warranty by Giving Consent**

By giving its approval or consent, a party does not make or give any warranty or representation as to any circumstance relating to the subject matter of the consent or approval.

### **33.4 Waiver and Delay**

Franchisor's failure to exercise any right reserved to us under this Agreement, or to insist on compliance by you with any term of this Agreement, and any custom or practice of the parties at variance with any term of this Agreement, will not constitute a waiver of our right to demand compliance with any term of this Agreement. Our waiver of any default will not affect or impair

our rights as to any subsequent default of the same or a different nature; nor will any delay, forbearance or omission by us to exercise any right as to any default of any term of this Agreement affect, impair or be our waiver of any right as to any subsequent default. Our rights and remedies under this Agreement are cumulative, and our exercise or enforcement of any right or remedy under this Agreement will not preclude us from exercising or enforcing any other right or remedy to which we are entitled. Franchisor is not liable for any loss caused by the exercise or attempted exercise of, failure to exercise, or delay in exercising a right or remedy under this document.

### **33.5 Conflict of Interest**

A party's rights and remedies under this document may be exercised even if it involves a conflict of interest or a party has a personal interest in their exercise.

### **33.6 Remedies Cumulative**

The rights and remedies provided in this document are in addition to other rights and remedies given by law independently of this document, except to the extent that those other rights and remedies are expressly excluded in this document.

### **33.7 Exclusion of Contrary Legislation**

Any laws or regulations that diminish the obligation of a party, or adversely affects the exercise by a party of a right or remedy, under or relating to this document is excluded to the full extent permitted by law, and the remaining portions of this Agreement shall be enforced to the fullest extent permitted.

### **33.8 Amendment**

This document can only be amended, supplemented, novated or replaced by another document signed by the parties.

### **33.9 Waiver**

A right under this document can only be waived by notice signed by the party or parties waiving the right. A party does not waive its rights under this document because it grants an extension or forbearance to any other party. A waiver of a right on one or more occasions does not operate as a waiver of that right if that right arises again. The exercise of a right does not prevent any further exercise of that right or of any other right. If a party does not exercise a right or remedy fully or at a given time, the party may still exercise it later.

### **33.10 No Merger**

None of the rights and obligations of a party under this document merge:

- (a) on completion of any transaction contemplated by this document;
- (b) with any security interest, guarantee, judgement or other right or remedy that a party may hold at any time; or
- (c) as a consequence of anything done under this document,

and those rights and obligations at all times remain in full force and effect.

### **33.11 Survival of Rights and Obligations**

The following survive termination or expiration of this document:

- (a) rights accrued to a party up to the date of termination or expiration of this document; and
- (b) indemnities and obligations of confidence given by a party under this document.

### **33.12 No Payment Required to Claim Indemnity**

It is not necessary for a party to incur expense or make payment before enforcing a right of indemnity under this document.

### **33.13 Giving Effect to this Document**

Each party agrees, at its own expense, to do anything (including ensuring that its employees and agents do anything) that any other party reasonably requires (such as obtaining consents, signing and producing documents) as may be necessary or desirable to give full effect to the provisions of this document and the transactions contemplated by it.

### **33.14 Entire Agreement**

This document embodies the entire agreement between the parties and supersedes all previous agreements, understandings, negotiations, warranties and representations on the subject matter of this document. If this document is inconsistent with any other agreement between any of the parties, this document prevails to the extent of the inconsistency, unless expressly stated otherwise in a schedule or exhibit to this agreement. Nothing in this or any related agreement, however, is intended to disclaim the representations we made in the franchise disclosure document that we furnished to you.

### **33.15 Construction**

No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of this document.

### **33.16 Severability**

If the whole, or any part, of a provision of this document is void, unenforceable or illegal in a jurisdiction, it is severed for that jurisdiction. The remainder of this document has full force and effect, and the validity or enforceability of that provision in any other jurisdiction is not affected. This clause has no effect if the severance materially alters the nature or intended effect of this document.

### **33.17 Costs and Expenses**

The Franchisee must pay to the Franchisor immediately upon demand:

- (a) The enforcement or performance of the obligations, covenants, terms and conditions contained in this Agreement, including every breach or default by the Franchisee or Guarantor under this Agreement; and
- (b) Any consent or approval given or withheld, or determination made by the Franchisor under this Agreement.

### **33.18 Taxes and Duties**

The Franchisee will pay, and indemnifies the Franchisor against payment of, all taxes and duties (including any interest, fines or penalties) payable:

- (a) in connection with the ownership or operation of the Franchised Business;
- (b) in connection with this Agreement; and
- (c) on any transaction contemplated by this Agreement.

### **33.19 Authority to Complete**

- (a) The Franchisee irrevocably authorises the Franchisor or its legal representative to insert:
  - (i) the Term Commencement Date in Schedule 1 once that date is determined pursuant to the definition of Term Commencement Date at clause 1.1;
  - (ii) The *Business Name* at Item 2 of Schedule 1 once that name is determined pursuant to the definition of Business Name at clause 1.1.

### **33.20 Execution under Power of Attorney or Agency**

Each person who executes this document as:

- (a) attorney for a party, or
- (b) agent of a party,

warrants that he or she has authority to do so, and will produce written evidence of that authority to any party who requests it.

### **33.21 Time of the Essence**

Time is of the essence with respect to all provisions of this document that specify a time for performance.

### **33.22 Governing Law**

This Agreement, and the rights of the parties arising from this Agreement or the relationship of the parties, shall be governed and decided according to Delaware law, without reference to any choice of law principles.

### 33.23 Relationship of the Parties

The Franchisee and Franchisor acknowledge and agree that this Agreement does not create a fiduciary relationship between them, that Franchisee shall be an independent contractor, and that nothing in this Agreement is intended to constitute either party as an agent, legal representative, subsidiary, joint venturer, partner, employee, joint employer or servant of the other for any purpose. During the term of this Agreement, Franchisee shall hold itself out to the public as an independent contractor operating the Franchised Business pursuant to the rights granted by the Franchisor. In furtherance of this provision, Franchisee shall exhibit a notice in a conspicuous place on the Premises that the studio is independently owned and operated, and will reproduce such notice on all of its correspondence, business cards, forms, and advertisements as required by Franchisor, in such form and content as Franchisor may require. Franchisee is not authorized to make any contract, agreement, warranty or representation on behalf of the Franchisor or its affiliates or their principals, or incur any debt or other obligation in the name of the Franchisor or its affiliates or their principals, and any unpermitted attempt to do any of the foregoing so shall be considered null and void.

### 33.24 Counterparts

This document may be executed in counterparts. A counterpart may be a copy of this document printed from a facsimile transmission or transmitted by email as a pdf document. All counterparts together are taken to constitute one instrument. A copy of this document which has been executed by a party (**Signatory**) may be relied upon by a party to the same extent as if it was an original of this document executed by the Signatory.

## 34. GUARANTEE

- (a) As consideration for the Franchisor's grant of the Franchise to the Franchisee, the Guarantors unconditionally and irrevocably guarantee to the Franchisor:
  - (i) the due and punctual observance and performance by the Franchisee of all the obligations, covenants, terms and conditions which the Franchisee is required to perform under this Agreement; and
  - (ii) the payment to the Franchisor of all moneys to be paid by the Franchisee under this Agreement.
- (b) As between the Guarantors and the Franchisor, the Guarantors may for all purposes be treated as the principal obligor and the Franchisor shall be under no obligation to take proceedings against the Franchisee before taking proceedings against the Guarantors.
- (c) Upon execution of this Agreement, the Guarantors grant to the Franchisor a Security Interest over all personal property of the Guarantors to secure the payment of all moneys owing under this Agreement from time to time during the Term as well as the punctual performance of all of the Guarantor's other obligations to the Franchisor at any time.
- (d) The Guarantors acknowledge and confirm that:
  - (iii) the Franchisor has given value for the Franchisor's Security Interest in the Collateral; and

- (iv) they have not made any other agreement with the Franchisor to vary the time of attachment of the Security Interest except in any express written agreement between the Guarantors and the Franchisor.
- (e) The Guarantors acknowledge that the Security Interest is taken in all of the Guarantors' present and after-acquired property.
- (f) The Guarantors obligations under this Agreement are not affected by any act, omission, matter or thing which but for this clause might affect the Guarantor's obligations in whole or in part, including without limitation any one or more of the following (whether occurring with or without the consent of any person):
  - (i) the grant to the Franchisee or any other person of any waiver or other indulgence or concession or a whole or partial discharge or release of the Franchisee or any other person,
  - (ii) the winding up of, or the appointment of an administrator, receiver or provisional liquidator to the Franchisee, Guarantor or any other person;
  - (iii) the bankruptcy, death or mental disability of the Franchisee, Guarantor or any other person;
  - (iv) the fact that the Franchisor or any other person exercises or refrains from exercising any right, power or remedy under this Agreement or otherwise, or fails to recover, by exercise of any such right, power or remedy, any moneys due or payable from the Franchisee to the Franchisor;
  - (v) failure by the Franchisor to give notice to the Guarantor of any breach by the Franchisee of the terms of this Agreement;
  - (vi) the making, variation, replacement, discharge or transfer of any agreement or transaction between the Franchisee and the Franchisor, including this Agreement.
- (g) The Guarantors agree that they will not themselves do anything which, if done by the Franchisee, would be a breach of this Agreement.
- (h) The Guarantor must not, without the written consent of the Franchisor:
  - (i) take any steps to enforce a right or claim against the Franchisee in respect of any money paid by the Guarantor under this Agreement;
  - (ii) exercise any rights as surety or rights of indemnity against the Franchisee in competition with the Franchisor;
  - (iii) reduce its liability under this deed by claiming that it or the Franchisee has a right of set-off or counterclaim against the Franchisor; or
  - (iv) claim an amount in the liquidation, administration, bankruptcy or insolvency of the Franchisee.

- (i) The Guarantor indemnifies the Franchisor against any loss it incurs as a result of having to refund any monies to the Franchisee as preferential payments.
- (j) If any of the Franchisee's obligations are unenforceable against the Franchisee, then this clause is to operate as a separate indemnity and:
  - (i) the Guarantors indemnify the Franchisor against all loss resulting from the Franchisor's inability to enforce performance of those obligations, and
  - (ii) the Guarantors must pay the Franchisor the amount of the loss resulting from the unenforceability.

# Schedule 1

## FRANCHISEE AND GUARANTOR INFORMATION

### 1. IF FRANCHISEE IS AN INDIVIDUAL:

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

Address: \_\_\_\_\_

Telephone: \_\_\_\_\_

Email: \_\_\_\_\_

### 2. IF FRANCHISEE IS A BUSINESS ENTITY:

Business Entity Name: \_\_\_\_\_

Type of Business Entity (e.g. corporation, LLC, etc.): \_\_\_\_\_

State Of Formation: \_\_\_\_\_

Owners (State Full Name, Address, and Percentage Ownership for each Owner):

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

Officers:

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

Key People (Primary Contact Person) (List Name, Address, Telephone Numbers, and Email):

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

Guarantors (List Name, Address, Telephone Number, and Email for each Guarantor):

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

# Schedule 2

## DATA SHEET

**1. TERRITORY:**

The Territory shall be the area of \_\_\_\_\_  
\_\_\_\_\_ as shown in attached map.

**2. LOCATION:**

**2.1** If Location is determined at the time of signing, the Location shall be:

\_\_\_\_\_

**2.2** If Location is **not** determined at the time of signing, the parties shall complete and sign the attached Location Addendum at the time the Location is determined.

**3. NAME UNDER WHICH STUDIO IS TO OPERATE:**

“Studio Pilates International \_\_\_\_\_”

**4. OPENING DEADLINE:**

\_\_\_\_\_

**5. TERM COMMENCEMENT DATE** (earlier of the Opening Deadline, Opening Date, or the commencement date of the Lease for the Premises) (to be inserted by Franchisor)

\_\_\_\_\_

**6. TERM** (years from the Term Commencement Date):

\_\_\_\_\_

**7. FURTHER TERM:**

\_\_\_\_\_

**8. MINIMUM PERFORMANCE STANDARD:**

For the first year of the Term (beginning with Term Commencement Date):

- (a) During the first three months            \$\_\_\_\_\_ Gross Income per month
- (b) Between 4 – 6 months                    \$\_\_\_\_\_ Gross Income per month
- (c) Between 7 – 9 months                    \$\_\_\_\_\_ Gross Income per month
- (d) Between 10 – 12 months                \$\_\_\_\_\_ Gross Income per month

and thereafter such dollar amount as determined by the Franchisor in accordance with Section 17.2(a).

**9. NUMBER OF REFORMERS REQUIRED: MINIMUM OF \_\_\_\_\_**

## **Schedule 2.1 - Territory Map**

## Schedule 2.2 - LOCATION ADDENDUM

This Addendum is made to the Studio Pilates International Franchise Agreement between Studio Pilates International USA Corp. ("Franchisor"), and \_\_\_\_\_ ("Franchisee"), dated \_\_\_\_\_, 20\_\_.

The parties agree that the Location shall be the following:

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

**Franchisor:**

By: \_\_\_\_\_  
Jade Winter, President

Date: \_\_\_\_\_

**Franchisee:**

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

Print name: \_\_\_\_\_

Date: \_\_\_\_\_

# Schedule 3

## FEES AND ROYALTIES

(Handwrite and Initial Any Changes)

### 1. INITIAL FRANCHISE FEE

(Clause 4.1)

Initial Franchise Fee: \$45,000.00

Payable as follows:

\$2,000 refundable holding deposit payable prior to signing this Agreement. (Such deposit shall not be paid until after more than 14 days after Franchisee received the Disclosure Document);

(a) \$43,000 balance payable upon execution of this Agreement.

### 2. ROYALTY

(Clause 3.1)

Royalty:

8% of Gross Sales, commencing on the Sales Commencement Date

Percentage royalty calculated weekly on each Monday for the previous week and payable by close of business on each Wednesday.

### 3. MARKETING FUND

(Clause 3.1)

Marketing Fund Fee: 2% of Gross Sales.

Payable monthly within seven (7) days of receiving an invoice from the Franchisor.

### 4. FRANCHISEE MARKETING

(Clause 18.1, 18.2)

Pre-Opening Initial Promotion Fee: \$10,000.

This fee is payable to Franchisor upon signing the letter of intent with the landlord

Territory Marketing Amount: \$\_\_\_\_\_ per month (to be adjusted annually by CPI on each anniversary of the Term Commencement Date in accordance with clause 1.2(i))

**5. LAUNCH PACKAGE FEE \$31,000**

(Clause 3.1)

Fee covers Initial Instructor Training, for up to 6 people, Business Operations Training for sales and administrative staff, basic standard basic studio design and construction plans, and pre-opening marketing and business operations.

Payable as follows: Lump sum upon signing the letter of intent with the landlord.

**6. INITIAL INVENTORY (Specified in Schedule 4)**

Initial Inventory Price: \_\_\_\_\_

**7. TRANSFER FEE**

(Clauses 3.1, 25)

Transfer Fee: \$20,000.00

Payable on the date of transfer of the Franchise in accordance with clause 27.

**8. RENEWAL FEE**

(Clauses 3, 26)

Renewal Fee: \$10,000.00

Payable on renewal of this Agreement in accordance with clause 26.

**9. INTEREST**

(Clause 3.2)

Rate: 12% per annum from the date the relevant payment was due until it is paid.

**10. TECHNOLOGY COMPUTING FEE**

(Clauses 3, 15.2)

Technology Fee: \$1,600 per month

Payable monthly within seven (7) days of receiving an invoice from the Franchisor, in the amount as amended from time to time in accordance with clause 16.3

**11. INSURANCE**

(Clause 22)

The following are the current insurance requirements, including the types of coverage and coverage amounts. These requirements may be modified from time to time by Franchisor, to require additional coverage:

A. Workers compensation insurance, and other insurance which may be required by any Governmental Authority relating to employees, including but not limited to, if applicable, unemployment insurance, disability insurance, and paid leave insurance.

B. Commercial General Liability Insurance, including the following coverage and amounts:

<u>Required Coverage</u>	<u>Minimum Limits of Coverage</u>
General Aggregate	\$5,000,000
Products/Completed Operations Aggregate	\$5,000,000
Personal and Advertising Injury	\$1,000,000
Each Occurrence	\$1,000,000
Professional Liability	\$1,000,000
Damage to Rented Premises (per occurrence)	\$1,000,000

C. "All Risk" or special form property coverage of no less than current replacement cost of the studio's equipment, fixtures and leaseholder improvements sufficient t in the amount to restore the Studio to full operation.

D. Business interruption insurance with coverage for at least 12 months for actual losses.

E. Auto Liability (hired and Non-owned autos) with a \$1,000,000 combined single limit each accident for bodily injury and property damage, for any vehicle used in the Franchised Business. Auto liability insurance is only required for an automobile used in the operation of the Franchised Business. (No automobile is currently required for operation of the Franchised Business).

F. Employment practices liability with a limit of no less than \$1,000,000 per claim and \$1,000,000 aggregate per claim and \$1,000 aggregate per location.

**12. SPECIAL CONDITIONS (INSERT IF APPLICABLE)**

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# **SCHEDULE 4**

## **INITIAL INVENTORY**

**EXECUTED by STUDIO PILATES  
INTERNATIONAL USA CORP.**

\_\_\_\_\_  
Date signed

\_\_\_\_\_  
Jade Michael Winter, as President

**EXECUTED by FRANCHISEE:**

**If an individual:**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print Name

Date  
Signed: \_\_\_\_\_

**If a business entity:**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print Name

Business Entity Name: \_\_\_\_\_

Position: \_\_\_\_\_

Date signed: \_\_\_\_\_

**SIGNED by [Guarantor],**

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of Guarantor

Address: \_\_\_\_\_

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

**SIGNED by [Guarantor],**

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of Guarantor

Address: \_\_\_\_\_

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

# **Annex A**

## **CONFIDENTIALITY AND NON-COMPETITION AGREEMENT**

**CONFIDENTIALITY AND NON-COMPETITION AGREEMENT**  
**(for shareholders, owners, members, partners,  
officers, directors, and managers of Franchisee)**

Pursuant to a Franchise Agreement dated \_\_\_\_\_, 20\_\_\_\_ (the “Franchise Agreement”),  
the Franchisee \_\_\_\_\_ has acquired the right to operate a Franchised Business and the right to use in the operation of the Franchised Business the Business System, as it may be changed, improved and further developed from time to time in the Franchisor’s sole discretion, at the Premises.

In consideration of my being a \_\_\_\_\_[state position] of Franchisee, and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, I hereby acknowledge and agree as follows:

**2. DEFINITIONS**

The following definitions apply in this document:

**Business Operations Training** means the training in the operation and management of the Business System provided by the Franchisor as part of the Initial Training Program.

**Business System** means the distinct and comprehensive business system owned by, or under licence to, us for the operation of the Franchised Business in accordance with the Manual and utilising the Intellectual Property.

**Confidential Information** means the following whether written, electronic or in any other form:

- (a) the Business System;
- (b) the Intellectual Property;
- (c) the Manual, including any amendments to it and notices or guidelines issued under it;
- (d) all documents and files created or used in connection with the Business System and the Franchised Business;
- (e) all ideas, concepts, trade secrets, know-how, knowledge, systems, processes, formula, accounting information, financial statements, marketing plans, training programs, customer lists, supplier lists, records, computer data bases, computer systems, website coding, Computer Software and technology created or used in connection with the Business System and Franchised Business;
- (f) the Franchise Agreement;
- (g) all information designated by a member of the Network as being confidential;
- (h) copies of Confidential Information; and
- (i) any other information capable of protection in equity as confidential information,

but does not include information which is or becomes public knowledge, unless it became public knowledge through a breach of this Agreement in which case it remains Confidential Information.

**Designs** means any designs created or registered by or for Franchisor in relation to the Business System.

**Disclosure Document** means the franchise disclosure document prepared by the Franchisor and given to the Franchisee.

**Franchise** means the right granted to a Franchisee to operate a Franchised Business under the terms of the Franchise Agreement.

**Franchised Business** means the business operated by the Franchisee of marketing, supplying and selling the Products and Services in accordance with this Agreement and the Business System, including where the context requires any such business operated by a Franchisee in the Network.

**Franchisor** means Studio Pilates International USA Corp., a Delaware corporation.

**Government Authority** means:

any local, state or federal government;

an agency or department of each of those governments;

a corporation, authority or body that is constituted under statute or regulation for a public purpose; or

the holder of a statutory office for a public purpose.

**Image** means the distinctive image, brand, goodwill, reputation and recognisable common appearance of the Network created by the use of the Intellectual Property and compliance with the Business System.

**Improvements** means all:

(j) improvements, enhancements or modifications to and adaptations of any item of Intellectual Property; and

(k) discoveries, innovations or inventions in connection with carrying on the Franchised Business,

made from time to time by us, Franchisee or any member of the Network.

**Initial Training Program** means the initial training program described in clause 16.1, including the Pilates Platinum Training Course and the Business Operations Training.

**Intellectual Property** means:

(l) the Trade Marks, Patents and Designs;

(m) Copyright in all material produced by or for Franchisor that is capable of copyright protection;

- (n) the Confidential Information;
- (o) the Improvements;
- (p) the Manual;
- (q) the Image;
- (r) the Business System;
- (s) SPTV;
- (t) all domain names associated with the Business System or Network;
- (u) the Business Name;
- (v) the Customer List;
- (w) Studio design concepts, floor plans, studio layouts;
- (x) Scripts, including voiceover scripts, training methods, client enquiry procedures and telephone procedures.

**Manual** means the manual owned by, or under licence to, us specifying operational procedures, policies, technical specifications, quality and safety standards, service standards, accounting requirements and other rules in relation to the Business System, Products and Services, including any variations to the manual, any notices or guidelines issued by us in accordance with the manual, and any versions of the manual created specifically for Franchisees.

**Marketing Materials** means brochures, flyers, advertisements and all other documents and material (whether written, electronic or in any other form) used for marketing and promoting the Franchised Business.

**Network** means collectively the Franchisor and all Franchisees.

**Owners** means the shareholders, partners, or members of the Franchisee, if the Franchisee is a business entity.

**Patents** means any patents created or registered by us, or for our benefit, in relation to the Business System.

**Permitted Purpose** means, in respect of the Franchisee, the operation of the Franchised Business in accordance with the terms of this Agreement.

**Premises** means the premises occupied or to be occupied by the Franchisee to carry out the Franchised Business.

**Products** means the class packs, DVD, clothing and food products authorized to be sold by the Franchised Business including:

- (a) The various Class Packs made available for purchase by customers of the Franchised Business to facilitate the Franchisee's provision of the Services, as specified in the Manual;
- (b) Studio Pilates International Workout Mat;
- (c) Studio Pilates International Pilates Socks;
- (d) Studio Pilates International branded clothing and merchandise lines made available by the Franchisor; and

any other products required or approved by us to be marketed, supplied and sold in connection with the Franchised Business from time to time.

**Related Entity** means a related or affiliate entity of the Franchisor.

**Relevant Person** means the Franchisee, Principals, Guarantor/s, Shareholders and any Related Entity of each of them.

**Restraint Area** means all or any of the following:

- (a) Within a 30 mile radius of the boundary of the Territory;
- (b) Within a 30 mile radius from the Premises;
- (c) Within a 30 mile radius from the premises of any other Franchisee;
- (d) Within the Territory.

**Restraint Period** means 2 years after the sale, transfer, expiration or termination of this Agreement.

**Services** means the Pilates class services authorized to be provided by the Franchised Business to its customers including:

- (a) Orientation Workout; and
- (b) Studio Pilates International Platinum Workout System;

and any other services required or approved by us to be marketed and provided in connection with the Franchised Business from time to time.

**Shadowing** means completion of on the job training at a studio within the Network as selected by the Franchisor.

**Stationery** means letterhead, invoices, receipts, purchase orders, business cards, email signature block, paper, accounting documents and other documents or identifying materials used in connection with the Franchised Business.

**SPTV** means the method developed by, or under licence to, us for delivering Pilates exercise programs and instructions via a computer network which uses visual images displayed on television screens and projects verbal instructions through speakers.

**Term** means the term of the Franchise Agreement.

**Territory** means the geographical area specified in Schedule 2 of the Franchise Agreement.

**Trade Marks** means the trade or service marks, registered and unregistered, and any other trademarks created or registered by or for us in relation to the Business System.

## **2. CONFIDENTIAL INFORMATION**

- (a) I agree that I must hold the Confidential Information in strict confidence and must not disclose any of the Confidential Information to any person. I may only use of the Confidential Information for the Permitted Purpose, or as required by law, and not for any other purpose. I must take all necessary and reasonable steps to protect the confidentiality of the Confidential Information. I must inform the Franchisee if I become aware of an actual or suspected breach of this. I must not use the Confidential Information in a way

that may be detrimental to the Business System, Network or the other party; or copy or duplicate the Confidential Information unless permitted by this Agreement, the Manual or the other party.

- (b) Notwithstanding any other provision of this Agreement, I may disclose the Confidential Information:
- (i) to Franchisee's directors, employees and professional advisers provided that they agree to keep the Confidential Information confidential;
  - (ii) if the disclosure is necessary solely for the Permitted Purpose; or
  - (iii) in order to comply with any applicable law or legally binding order of any court, Government Authority, or administrative or judicial body.
  - (iv) The names, addresses and contact details of all customers of the Franchised Business (**Customer List**) are the property of the Franchisor.

### **3. NON-COMPETITION DURING THE TERM**

I agree that I shall not, and I will ensure that any person or entity which I control shall not, during the Term:

- (a) be directly or indirectly engaged, concerned or interested whether on their own account, or as an employee, consultant, agent, shareholder, director, beneficiary, trustee or otherwise, in any enterprise, corporation, firm, trust, joint venture or syndicate which is:
  - (i) engaged, concerned or interested in or carrying on any business the same as or substantially similar to the Franchised Business; or
  - (ii) engaged, concerned or interested in or carrying on any retailing or supplying of products or services the same as or substantially similar to the Products or Services;
- (b) on my own account or for any person, corporation, enterprise, firm, trust, joint venture or entity, entice away any customer from the Franchisor or from any member of the Network;
- (c) procure, employ, seek to employ or engage, or appoint in any capacity (whether as a consultant, director or otherwise):
  - (i) any employee or agent of the Franchisor;
  - (ii) any employee or agent of any member of the Network;
  - (iii) any member of the Network.

### **4. NON-COMPETITION AFTER THE TERM**

I agree that I shall not, and I will ensure that any person or entity which I control shall not, during the Restraint Period:

- (a) Within the Restraint Area, be directly or indirectly engaged, concerned or interested whether on my own account, or as an employee, consultant, agent, shareholder, director, beneficiary, trustee or otherwise, in any enterprise, corporation, firm, trust, joint venture or entity which is:
  - (i) engaged, concerned or interested in or carrying on any business the same as or substantially similar to the Franchised Business; or
  - (ii) engaged, concerned or interested in or carrying on any retailing or supplying of products or services the same as or substantially similar to the Products or Services;
- (b) on my own account, or for any person, corporation, enterprise, firm, trust, joint venture or entity, entice away any customer from the Franchisor or from any member of the Network;
- (c) procure, employ, seek to employ or engage, or appoint in any capacity (whether as a consultant, director or otherwise):
  - (i) any employee or agent of the Franchisor;
  - (ii) any employee or agent of any member of the Network;
  - (iii) any member of the Network.

## **5. SEPARATE RESTRICTIONS**

- (a) It is intended that each of the restrictions in this Agreement are separate independent restrictions and restraints imposed under this Agreement.
- (b) If any restriction in this Agreement is or will be unenforceable, that does not affect the validity or enforceability of any other restrictions under this Agreement.
- (c) If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction, I expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.
- (d) I understand and acknowledge that the Franchisor and Franchisee shall have the right, in their sole discretion, to reduce the scope of any covenant set forth in this Agreement, or any portion thereof, without my consent, effective immediately upon receipt by me of written notice thereof; and I agree to comply forthwith with any covenant as so modified.

## **6. RESTRAINT REASONABLE**

- (a) I acknowledge that, with respect to each of the prohibitions and restrictions contained in this Agreement:
  - (i) The restrictions are reasonable as to period, territorial limitation and subject matter;

- (ii) the restrictions are intended to help protect or preserve the Franchisor's legitimate business interests, including:
    - (A) the Franchisor's relationship with other Franchisees;
    - (B) the revenue earned from the business conducted by the Franchisor, Franchisees and members of the Network;
    - (C) the goodwill of the Franchisor;
    - (D) the goodwill of other Franchisees; and
    - (E) the ability for the Franchisor to appoint any person to operate the Franchised Business; and
  - (iii) confers a benefit on the Franchisor which is no more than that which is reasonably and necessarily required by the Franchisor for the maintenance and protection of the Franchisor, the members of the Network, and the Business System.
- (b) All of the restrictions in this Agreement are intended to prevent:
- (i) Each Relevant Person, and people and entities associated with them, and its directors, officers, owners or employees from taking unfair advantage of the benefits that may be provided by a franchise for a Franchised Business;
  - (ii) The misappropriation, misuse or unauthorised use of the Intellectual Property including the Business System or Confidential Information; and
  - (iii) Damage to the Network.
- (c) The Restraint Period shall be extended during the period in which any of the Relevant Persons are violating the Restraint, and shall continue after any violations have ended so that Franchisor shall receive the benefit of a continuous uninterrupted period of no violations equal to the length of time of the Restraint Period.

## **7. INJUNCTIVE RELIEF**

- (a) I acknowledge that any breach or threatened breach of any of the restrictions in this Agreement will cause irreparable and immeasurable damage to the Franchisor and members of the Network, and the Franchisor shall be entitled to apply to any court of competent jurisdiction for an injunction to prevent any breach or threatened breach in addition to any other remedy the Franchisor may have, without the necessity of posting a bond.
- (b) Franchisor is a third-party beneficiary of this Agreement and may enforce it, solely and/or jointly with the Franchisee. I am aware that my violation of this Agreement will cause the Franchisor and the Franchisee irreparable harm; therefore, I acknowledge and agree that the Franchisee and/or the Franchisor may apply for the issuance of an injunction preventing me from violating this Agreement, and I agree to pay the Franchisee and the Franchisor all the costs it/they incur(s),

including, without limitation, legal fees and expenses, if this Agreement is enforced against me.

- (c) Due to the importance of this Agreement to the Franchisee and the Franchisor, any claim I might have against the Franchisee or the Franchisor is a separate matter and does not entitle me to violate, or justify any violation of this Agreement.
  
- (d) This Agreement shall be construed under the laws of the State of Delaware. The only way this Agreement can be changed is in writing signed by both the Franchisee, Franchisor, and me.

**COVENANTOR:**

\_\_\_\_\_  
Signature

Print name: \_\_\_\_\_

\_\_\_\_\_  
Address

\_\_\_\_\_  
Address

Date: \_\_\_\_\_

**FRANCHISEE: STUDIO PILATES  
INTERNATIONAL OF**

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

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

Position: \_\_\_\_\_

Date: \_\_\_\_\_

## **ANNEX B**

### **Form of Consent and Release**

**CONSENT AND RELEASE**

This AGREEMENT (“Agreement”) is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_\_ by and between Studio Pilates International USA Corp., a Delaware corporation (the “Franchisor”), and \_\_\_\_\_ [Franchisee] (hereinafter referred to as “Releasor”), wherein the parties hereto, in exchange for good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, and in reliance upon the representations, warranties, and comments herein are set forth, do agree as follows:

1. Franchisee has asked Franchisor to take the following action or to consent to the following request: **[insert as appropriate – subject of requested consent]:** \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Franchisor has the right under the Franchise Agreement to obtain a general release from Franchisee (and, if applicable, Franchisee's owners) as a condition of taking this action or agreeing to this request. Therefore, Franchisor s willing to take the action or agree to the request specified above if Franchisee (and, if applicable, Franchisee's owners) gives Franchisor the release and covenant not to sue provided below in this document. Franchisee (and, if applicable, Franchisee's owners) are willing to give Franchisor the release and covenant not to sue provided below as partial consideration for Franchisor’s willingness to take the action or agree to the request described above.

2. Release by Releasor:

Releasor does for itself, its successors and assigns, hereby release, indemnify and forever discharge the Franchisor and any affiliate, wholly owned or controlled corporation, subsidiary, successor or assign thereof and any shareholder, officer, director, employee, or agent of any of them, from any and all claims, demands, damages, injuries, agreements and contracts, indebtedness, accounts of every kind or nature, whether presently known or unknown, suspected or unsuspected, disclosed or undisclosed, actual or potential, which Releasor may now have, or may hereafter claim to have or to have acquired against them of whatever source or origin, arising out of or related to any and all transactions of any kind or character at any time prior to and including the date hereof, including generally any and all claims at law or in equity, those arising under the common law or state or federal statutes, rules or regulations such as, by way of example only, franchising, securities and anti-trust statutes, rules or regulations, in any way arising out of or connected with the Franchise Agreement between Franchisor and Releasor, and further promises never from this day forward, directly or indirectly, to institute, prosecute, commence, join in, or generally attempt to assert or maintain any action thereon against the Franchisor, any affiliate, successor, assign, parent corporation, subsidiary, director, officer, shareholder, employee, agent, executor, administrator, estate, trustee or heir, in any court or tribunal of the United States of America, any state thereof, or any other jurisdiction for any matter or claim arising before execution of this Agreement. In the event Releasor breaches any of the promises covenants, or undertakings made herein by any act or omission, Releasor shall pay, by way of indemnification, all costs and expenses of the Franchisor caused by the act or omission, including reasonable attorneys’ fees.

3. Releasor hereto represents and warrants that no portion of any claim, right, demand, obligation, debt, guarantee, or cause of action released hereby has been assigned or transferred by Releasor party to any other party, firm or entity in any manner including, but not limited to, assignment or transfer by subrogation or by operation of law. In the event that any claim, demand or suit shall be made or institute against any released party because of any such purported assignment, transfer or subrogation, the assigning or transferring party agrees to indemnify and hold such released party free and harmless from and against any such claim, demand or suit, including reasonable costs and attorneys’ fees

incurred in connection therewith. It is further agreed that this indemnification and hold harmless agreement shall not require payment to such claimant as a condition precedent to recovery under this paragraph.

4. Each party acknowledges and warrants that his, her or its execution of this Agreement is free and voluntary.

5. Delaware law shall govern the validity and interpretation of this Agreement, as well as the performance due thereunder. This Agreement is binding upon and inures to the benefit of the respective assigns, successors, heirs and legal representatives of the parties hereto.

6. In the event that any action is filed to interpret any provision of this Agreement, or to enforce any of the terms thereof, the prevailing party shall be entitled to its reasonable attorneys' fees and costs incurred therein.

7. This Agreement may be signed in counterparts, each of which shall be binding against the party executing it and considered as the original.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have executed this agreement effective as of the date first above.

RELEASOR:

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name)

STUDIO PILATES INTERNATIONAL USA CORP.

\_\_\_\_\_

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

## **ANNEX C**

### **Multi-Unit Option Addendum**

## Multi-Unit Option Addendum

This Multi-Unit Option Addendum is made and entered into by and between Studio Pilates International USA Corp., a Delaware corporation, (“we”, “us” , “our” or “Franchisor”) and the Franchisee (“Franchisee”, or “you”), pursuant to a Franchise Agreement dated \_\_\_\_\_, 20\_\_ (“Franchise Agreement”).

Whereas, pursuant to the Franchise Agreement, the Franchisee has acquired the right to operate a Franchised Business and the right to use in the operation of the Franchised Business the Business System, as it may be changed, improved and further developed from time to time in the Franchisor’s sole discretion, at the Premises;

Whereas, the Franchisee has requested that it be granted an exclusive option (“First Option”) to enter into a further Franchise Agreement within the Territory of \_\_\_\_\_ [insert territory name and description, and attach map] (“First Option Territory”) for a period of 12 months (“First Option Term”), commencing on the Term Commencement Date of the Franchise Agreement.

Now, therefore, the parties agree as follows:

1. The Franchisor grants the Franchisee the First Option upon the Franchisor’s execution of this Franchise Agreement.
2. As consideration for the grant of the First Option, the Franchisee agrees to pay the Franchisor the amount of \$35,000 (“First Option Fee”), which shall be payable immediately upon the Franchisee’s execution of this Multi-Unit Option Addendum, and fully earned upon execution of this Multi-Unit Option Addendum, and is non-refundable.
3. The Franchise Agreement offered to the Franchisee under the First Option is subject to the Franchisee having first located and secured a suitable Premises within the new First Option Territory prior to entering into the Franchise Agreement.
4. The Franchisee may exercise the First Option at any time during the First Option Term.
5. Provided that the Franchisee has obtained the Franchisor’s consent to a suitable premises at the time of the Franchisee’s exercise of the First Option, the Franchisor must offer to Franchisee a further Franchise Agreement in the First Option Territory, under the terms of Franchisor’s then-current form of Franchise Agreement, which may contain terms that are materially different than the Franchise Agreement.
6. If the Franchisee has not located and secured a suitable premises by the end of the First Option Term, the First Option will automatically lapse.
7. Notwithstanding the foregoing, the Franchisee shall be entitled to extend the First Option on a monthly basis upon payment of an extension fee of \$2,500 (“Extension Fee”), for a maximum period of 12 months. The Franchisee must pay the Extension Fee monthly to the Franchisor at the end of each month, with the first payment being made prior to the expiration of the initial First Option term, and each subsequent payment being made prior to the end of the extended term. If the Franchisee fails to pay the Extension Fee on or before the end of each month, the First Option will automatically lapse.

8. Where the Franchisee exercises the First Option and enters into a Franchise Agreement for the Territory, the First Option Fee shall be treated as the initial franchise fee under that Agreement and no further initial franchise fee shall be payable.

9. If the First Option lapses, the Franchisee acknowledges that the First Option Fee and any additional Second Option Fee (if applicable) will not be refunded and the Franchisor may immediately commence offering the sale of Franchisor's studios in the Option Territories for sale to third parties.

10. Time is of the essence.

11. This Addendum and the rights granted herein are not assignable without Franchisor's advance written consent, which may be withheld for any reason, and may be withheld even if Franchisor has consented to the Franchisee's assignment of the Franchise Agreement. Any attempted unpermitted assignment shall be considered null and void.

12. This Addendum is incorporated in and made a part of the Franchise Agreement by this reference. To the extent of any inconsistency between the Franchise Agreement and this Addendum, the terms of this Addendum shall control.

### **Second Option to Open a Second Additional Location**

**Check and complete if applicable** \_\_\_\_\_ **Yes** \_\_\_\_\_ **No**

Whereas, the Franchisee has requested that it be granted an exclusive option ("Second Option") to enter into a further Franchise Agreement within the Territory of

---

[insert territory name and description, and attach map] ("Second Option Territory") for a period of 12 months ("Second Option Term"), commencing on the end of the First Option Term.

13. The Franchisor grants the Franchisee the Second Option upon the Franchisor's execution of this Franchise Agreement.

14. As consideration for the grant of the Second Option, the Franchisee agrees to pay the Franchisor the amount of \$25,000 ("Second Option Fee"), which shall be payable immediately upon the Franchisee's execution of this Multi-Unit Option Addendum, and fully earned upon execution of this Multi-Unit Option Addendum, and is non-refundable.

15. The Franchise Agreement offered to the Franchisee under the Second Option is subject to the Franchisee having first located and secured a suitable Premises within the new Second Option Territory prior to entering into the Franchise Agreement.

16. The Franchisee may exercise the Second Option at any time during the Second Option Term.

17. Provided that the Franchisee has obtained the Franchisor's consent to a suitable premises at the time of the Franchisee's exercise of the Second Option, the Franchisor must offer to Franchisee a further Franchise Agreement in the Second Option Territory, under the terms of Franchisor's then-current form of Franchise Agreement, which may contain terms that are materially different than the Franchise Agreement.

18. If the Franchisee has not located and secured a suitable premises by the end of the Second Option Term, the Second Option will automatically lapse.

19. Notwithstanding the foregoing, the Franchisee shall be entitled to extend the Second Option on a monthly basis upon payment of an extension fee of \$2,500 ("Second Option Extension Fee"), for a maximum period of 12 months. The Franchisee must pay the Second Option Extension Fee monthly to the Franchisor at the end of each month, with the first payment being made prior to the expiration of the initial Second Option Term, and each subsequent payment being made prior to the end of the extended term. If the Franchisee fails to pay the Second Option Extension Fee on or before the end of each month, the Second Option will automatically lapse.

20. Where the Franchisee exercises the Second Option and enters into a Franchise Agreement for the Second Option Territory, the Second Option Fee shall be treated as the initial franchise fee under that Agreement and no further initial franchise fee shall be payable.

21. If the Second Option lapses, the Franchisee acknowledges that the Second Option Fee will not be refunded and the Franchisor may immediately commence offering the sale of Franchisor's studios in the Option Territories for sale to third parties.

22. Time is of the essence.

23. Termination of the Franchise Agreement permits Franchisor to terminate this Multi-Unit Option Addendum.

24. This Addendum and the rights granted herein are not assignable without Franchisor's advance written consent, which may be withheld for any reason, and may be withheld even if Franchisor has consented to the Franchisee's assignment of the Franchise Agreement. Any attempted unpermitted assignment shall be considered null and void.

25. This Addendum is incorporated in and made a part of the Franchise Agreement by this reference. To the extent of any inconsistency between the Franchise Agreement and this Addendum, the terms of this Addendum shall control.

DATED THIS \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

**EXECUTED by STUDIO PILATES  
INTERNATIONAL USA CORP.**

\_\_\_\_\_  
Date signed

\_\_\_\_\_  
Jade Michael Winter, as President

**EXECUTED by FRANCHISEE:**

**If an individual:**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print Name

Date

Signed: \_\_\_\_\_

**If a business entity:**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print Name

Business Entity Name: \_\_\_\_\_

Position: \_\_\_\_\_

—

Date signed: \_\_\_\_\_

**SIGNED by [Guarantor],**

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of Guarantor

Address:  
\_\_\_\_\_  
\_\_\_\_\_

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

**SIGNED** by **[Guarantor]**,

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of Guarantor

Address:  
\_\_\_\_\_

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

\_\_\_\_\_

**EXHIBIT B TO DISCLOSURE DOCUMENT**

**STATE ADMINISTRATORS**

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

Listed here are the names, addresses and telephone numbers of the state agencies having responsibility for franchising disclosure/registration laws and for service of process. We may not yet be registered to sell franchises in any or all of these states. There may also be additional agents appointed in some of the states listed.

<p><b><u>CALIFORNIA</u></b> California Department of Financial Protection and Innovation</p> <p>320 West 4th Street, Suite 750 Los Angeles, CA 90013 (213) 576-7500 Toll Free (866) 275-2677</p> <p>2101 Arena Boulevard Sacramento, CA 95814 (916) 445-7205</p> <p>1455 Frazee Road, Suite 315 San Diego, CA 92108 (619) 610-2093</p> <p>One Sansome Street, Suite 600 San Francisco, CA 94104 (415) 972-8565</p>	<p><b><u>CONNECTICUT</u></b></p> <p>State of Connecticut Department of Banking Securities &amp; Business Investments Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8230</p> <p>Agent: Banking Commissioner</p>
<p><b><u>HAWAII</u></b> (state administrator)</p> <p>Business Registration Division Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722</p> <p>(agent for service of process)</p> <p>Commissioner of Securities State of Hawaii 335 Merchant Street Honolulu, Hawaii 96813 (808) 586-2722</p>	<p><b><u>ILLINOIS</u></b></p> <p>Franchise Bureau Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465</p>

<p><b><u>INDIANA</u></b> (state administrator)</p> <p>Indiana Secretary of State Securities Division, E-111 302 Washington Street Indianapolis, Indiana 46204 (317) 232-6681</p> <p>(agent for service of process) Indiana Secretary of State 201 State House 200 West Washington Street Indianapolis, Indiana 46204 (317) 232-6531</p>	<p><b><u>MARYLAND</u></b> (state administrator)</p> <p>Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360</p> <p>(for service of process) Maryland Securities Commissioner 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360</p>
<p><b><u>MICHIGAN</u></b> (state administrator)</p> <p>Consumer Protection Division Antitrust and Franchise Unit Michigan Department of Attorney General 525 W. Ottawa Street, 6<sup>th</sup> Floor Lansing, Michigan 48933 (517) 373-7117</p> <p>(for service of process) Corporations Division Bureau of Commercial Services Department of Labor and Economic Growth P.O. Box 30054 Lansing, Michigan 48909</p>	<p><b><u>MINNESOTA</u></b> (state administrator)</p> <p>Minnesota Department of Commerce 85 7<sup>th</sup> Place East, Suite 500 St. Paul, Minnesota 55101-2198 (651) 296-6328</p> <p>(for service of process) Minnesota Commissioner of Commerce</p>
<p><b><u>NEW YORK</u></b> (state administrator)</p> <p>NYS Department of Law Investor Protection Bureau 28 Liberty Street, 21<sup>st</sup> Floor New York, New York 10005 (212) 416-8222</p> <p>(for service of process) New York Department of State One Commerce Plaza 99 Washington Avenue, 6<sup>th</sup> Floor Albany, New York 12231-001 (518) 473-2492</p>	<p><b><u>NORTH DAKOTA</u></b></p> <p>North Dakota Securities Department State Capitol, Fifth Floor, Dept. 414 600 East Boulevard Avenue Bismarck, North Dakota 58505 (701) 328-4712</p>

<p><b><u>OREGON</u></b></p> <p>Department of Insurance and Finance  Corporate Securities Section  Labor and Industries Building  Salem, Oregon 97310  (503) 378-4387</p>	<p><b><u>RHODE ISLAND</u></b></p> <p>Securities Division  Department of Business Regulation,  Bldg 69, First Floor  John O. Parerestaurant  Center 1511 Pontiac  Avenue  Cranston, Rhode Island 02920  (401) 462-9582</p>
<p><b><u>SOUTH CAROLINA</u></b></p> <p>National Data Access Corp.  2 Office Park Court, Suite 103  Columbia, South Carolina 29223  (803) 699-6130</p>	<p><b><u>SOUTH DAKOTA</u></b></p> <p>Division of Securities  Department of Labor &amp;  Regulation 445 East Capitol  Avenue  Pierre, South Dakota 57501 (605) 773-4823</p>
<p><b><u>VIRGINIA</u></b></p> <p>State Corporation Commission  Division of Securities and Retail Franchising  1300 East Main Street, 9th Floor  Richmond, Virginia 23219  (804) 371-9051</p> <p>(for service of process)  Clerk of the State Corporation Commission  1300 East Main Street, 1<sup>st</sup> Floor Richmond,  Virginia 23219  (804) 371-9733</p>	<p><b><u>WASHINGTON</u></b>  (state administrator)</p> <p>Department of Financial  Institutions Securities Division  P.O. Box 9033  Olympia, Washington 98507-9033  (360) 902-8760</p> <p>(for service of process)  Director, Department of Financial  Institutions Securities Division  150 Israel Road S.W. Tumwater, Washington  98501</p>
<p><b><u>WISCONSIN</u></b>  (state administrator)</p> <p>Division of Securities  Department of Financial Institutions  345 W. Washington Ave., 4<sup>th</sup> Floor  Madison, Wisconsin 53703  (608) 266-1064</p> <p>(for service of process)  Administrator, Division of  Securities Department of  Financial Institutions 345 W.  Washington Ave., 4<sup>th</sup> Floor  Madison, Wisconsin 53703</p>	

**EXHIBIT C TO DISCLOSURE DOCUMENT**

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# General Franchise Manual

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# Team Leadership & Management Operations

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# Marketing Manual

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**EXHIBIT D TO DISCLOSURE DOCUMENT**

**FINANCIAL STATEMENTS**



# **Studio Pilates International USA Corp**

**Financial Statements and Independent Auditors' Report  
As of December 31, 2022 and 2021**



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder  
of Studio Pilates International USA Corp

### **Opinion**

We have audited the accompanying financial statements of Studio Pilates International USA Corp (a Delaware corporation), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, retained earnings, 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 Studio Pilates International USA Corp, Inc. as of December 31, 2022 and 2021, 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 Studio Pilates International USA Corp 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.

### **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 Studio Pilates International USA Corp Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

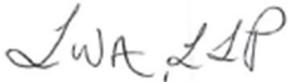
### **Auditor's Responsibilities for the Audit of the Financial Statements**

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 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 Studio Pilates International USA Corp 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 Studio Pilates International USA Corp 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.



LWA, LLP

Los Angeles, California

April 25, 2023

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**Studio Pilates International USA Corp**
**Balance Sheets**
**As of December 31, 2022 and 2021**

<b>ASSETS</b>	<b>2022</b>	<b>2021</b>
Current assets		
Cash and cash equivalents	\$ 121,735	\$ 143,605
Accounts receivables	29,539	7,949
Prepaid state taxes	35	
Total current assets	<u>151,309</u>	<u>151,554</u>
Long-term assets:		
Deferred income tax assets	38,384	17,074
Deferred commission	4,500	-
Total long-term assets	<u>42,884</u>	<u>17,074</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 194,193</u></b>	<b><u>\$ 168,628</u></b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 13,746	\$ 12,757
Federal income tax payable	-	3,708
State income tax payable	-	1,446
Due to affiliates, net	20,953	9,990
Other current liabilities	12,774	5,680
Total current liabilities	<u>47,473</u>	<u>33,581</u>
Long-term liabilities		
Deferred revenue	112,404	60,333
Total long-term liabilities	<u>112,404</u>	<u>60,333</u>
<b>SHAREHOLDER'S EQUITY</b>		
Common stock (10,000 shares authorized, issued and outstanding at par value \$0.0001)	1	1
Additional paid-in capital	78,907	78,907
Accumulated deficits	(44,592)	(4,194)
Total shareholder's equity	<u>34,316</u>	<u>74,714</u>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b><u>\$ 194,193</u></b>	<b><u>\$ 168,628</u></b>

See accompanying notes to the financial statements and auditors' report

**Studio Pilates International USA Corp**
**Income Statements  
For the Year Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>REVENUE</b>		
Equipment sales	\$ -	\$ 87,169
Franchise fee	10,000	18,001
Service fee	64,566	51,259
Training fee	32,945	24,300
Technology fee	34,913	20,675
Marketing fee	15,073	-
Digital marketing fee	27,884	-
Other revenue	141	2,097
Total Sales	<u>185,522</u>	<u>203,501</u>
<b>Less: COST OF GOODS SOLD</b>	-	76,759
<b>GROSS PROFIT</b>	<u>185,522</u>	<u>126,742</u>
<b>Less: OPERATING EXPENSE</b>		
Advertising	36,286	31,334
Bad debt expense	16,637	5,991
Bank charges	5,393	5,299
Professional fees	65,985	35,315
Office expenses	2,261	-
Taxes and licenses	400	1,050
Travel, meal and entertainment	52,588	3,054
Franchise expenses	61,010	17,389
Other expenses	819	-
Total operating expenses	<u>241,379</u>	<u>99,432</u>
<b>NET INCOME FROM OPERATIONS</b>	<u>(55,857)</u>	<u>27,310</u>
<b>NET INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<u>(55,857)</u>	<u>27,310</u>
Income tax (benefit)	<u>(15,459)</u>	<u>(11,920)</u>
<b>NET INCOME</b>	<u>\$ (40,398)</u>	<u>\$ 39,230</u>

## Studio Pilates International USA Corp

### Statement of Shareholder's Equity As of December 31, 2022 and 2021

---

	Common Stock Issued and Outstanding		Paid-in-Capital	Retained Earnings	Total
	Shares	Amount			
Balance, January 1, 2021	10,000	\$ 1	78,907	\$ (43,424)	\$ 35,484
Shares issued	-	-	-	-	-
Shares repurchased	-	-	-	-	-
Net income	-	-	-	39,230	39,230
Balance, December 31, 2021	10,000	1	78,907	(4,194)	74,714
Shares issued	-	-	-	-	-
Shares repurchased	-	-	-	-	-
Net income	-	-	-	(40,398)	(40,398)
Balance, December 31, 2022	10,000	\$ 1	78,907	\$ (44,592)	\$ 34,316

See accompanying notes to the financial statements and auditors' report

**Studio Pilates International USA Corp**
**Statement of Cash Flows  
For the Year Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income	\$ (40,398)	\$ 39,230
Adjustment to reconcile net income to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(21,590)	19,973
(Increase) in deferred tax assets	(21,310)	(17,074)
(Increase) in deferred commission	(4,500)	-
Increase in accounts payable	989	10,645
Increase (decrease) in federal income tax payable	(3,708)	3,708
Increase (decrease) in state income tax payable	(1,446)	1,446
Increase in other current liabilities	7,094	4,257
Increase in deferred revenue	52,071	17,999
<b>CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(32,798)</b>	<b>80,184</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Increase in dues to affiliates, net	10,928	9,990
<b>CASH FLOW PROVIDED BY FINANCING ACTIVITIES</b>	<b>10,928</b>	<b>9,990</b>
Net increase (decrease) in cash and cash equivalents	(21,870)	90,174
Cash and cash equivalents at beginning of year	143,605	53,431
Cash and cash equivalents at end of year	<u>\$ 121,735</u>	<u>\$ 143,605</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

	<u>2022</u>	<u>2021</u>
Cash paid during the year for:		
Interest	\$ -	-
Income taxes	\$ 9,559	-

## Studio Pilates International USA Corp

### Notes to the Financial Statements For the Year Ended December 31, 2022 and 2021

---

#### Note 1 – Summary of Significant Accounting Policies

##### Description of business:

Studio Pilates International USA Corp (the “Company”) was organized on August 30, 2018, to sell Studio Pilates franchises. The Company was created to offer a high intensity, low impact workout experience that improves athletic performance and strengthens the body.

As of December 31, 2022, there were two franchise outlets sold and four franchise outlets in operation. These franchise outlets are in New York, North Carolina, Kentucky and Colorado. They are restricted to providing services in their respective territory. There were two franchise outlets under development and no closure during the year ending December 31, 2022.

As of December 31, 2021, there were four franchise outlets sold in operation. These franchise outlets are in New York, North Carolina and Kentucky. They are restricted to providing services in their respective territory. There was no franchise outlet under development and no closure during the year ending December 31, 2021.

##### Use of estimates:

A summary of the Company’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, and disclosures. Accordingly, actual amounts could differ from these estimates.

##### Cash and cash equivalents:

The company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains deposits primarily in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”). The Company has not experienced any losses related to amounts in excess of FDIC limits.

##### Business and credit concentration:

The Company had two major customers that accounted for approximately 85% of revenue for the year ended December 31, 2021. The two largest customer account balances accounted for 100% of accounts receivable at December 31, 2021. The loss of these customers could have a material adverse effect on the Company.

The Company had one major customer that accounted for approximately 56% of revenue for the year ended December 31, 2022. The two largest customer account balances accounted for 87.28% of accounts receivable at December 31, 2022. The loss of these customers could have a material adverse effect on the Company.

## Studio Pilates International USA Corp

### Notes to the Financial Statements For the Year Ended December 31, 2022 and 2021

---

#### Note 1 – Summary of Significant Accounting Policies (Continued)

##### Business and credit concentration (continued):

The Company's success is dependent on the ability of its franchise outlets to generate revenue and pay royalties. The inability of any single outlet to generate revenue and pay royalties may have a material impact on the Company's financial position and results of operations.

##### Accounts receivable:

Accounts receivables are reported as invoice value. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its franchisees to make the required payments. Management considers the age of accounts receivable balances and general economic issues when determining the collectability of specific accounts. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts. Balances that remain outstanding after reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and credit to accounts receivable. There were no allowance for uncollectible accounts at December 2022 and 2021, respectively.

The Company recognized \$16,637 and \$5,991 in bad debt from its franchisees in 2022 and 2021, respectively.

##### Fair value measurement:

Fair value measurements are performed in accordance with the guidance provided by ASC 820, "Fair Value Measurements and Disclosures." ASC 820 defines fair value as the price that would be received from selling an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or parameters are not available, valuation models are applied.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Assets and liabilities recorded at fair value in the financial statements are categorized based upon the hierarchy of levels of judgment associated with the inputs used to measure their fair value.

Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supportable by little or no market activity and that are significant to the fair value of the asset or liability.

The carrying amounts of the Company's financial instruments, including cash, receivables, due to from affiliates and accounts payable approximate their fair values based on their short-term nature.

## Studio Pilates International USA Corp

### Notes to the Financial Statements For the Year Ended December 31, 2022 and 2021

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#### Note 1 – Summary of Significant Accounting Policies (Continued)

##### Revenue Recognition

The Company recognizes revenue in accordance with the Financial Accounting Standards Board issued Accounting Standards Update 2014-9, *Revenue from Contracts with Customers* (Topic 606) (codified as ASC 606). ASC 606 is based upon the principle that revenue is recognized to depict the contractual transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services utilizing a five-step revenue recognition model, which steps include (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the contract price, (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

In accordance with ASC 606, franchise fees are recognized as deferred revenue at the time a franchise agreement is executed or when a location commences operations. The deferred revenue is then recognized as revenue pro-rata over the term of the agreement. For area development agreements, the development fees are recognized as deferred revenue at the time an area development agreement is executed. The deferred revenue is recognized pro-rata over the term of the agreement or when the required number of franchises in the area development agreement are satisfied, whichever occurs earlier.

The Company capitalized sales commission expenses paid to internal sales personnel that are incremental to obtaining franchise contracts. Those costs are deferred and then amortized over the expected period of the benefit, which is estimated to be 10 years. Amortization expenses are included in the sales commission in the accompanying income statement.

Service, training, technology, marketing, and digital marketing fees are recognized in the period earned. Service and marketing fees are based on the percentage of franchisee gross sales. Equipment sales are recognized when products are shipped.

##### Advertising costs:

The Company expenses the costs of advertising as they are incurred. During the years ended December 31, 2022 and 2021, the Company incurred advertising costs of 36,286 and 31,334, respectively.

##### Income taxes:

The Company is a Corporation and operated as C Corporation from inception. The Company is taxed under the provisions of C Corporation, whereby the Company pays federal and state taxes on its taxable income. Income taxes have been recognized in the financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) if the Company has taken an uncertain tax position that are more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Company, and has concluded that as of December 31, 2022 & 2021, there were no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

**Studio Pilates International USA Corp**
**Notes to the Financial Statements  
For the Year Ended December 31, 2022 and 2021**


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**Note 1 – Summary of Significant Accounting Policies (Continued)**
Recent accounting pronouncement

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which provides new guidance for the accounting for credit losses on instruments within its scope, including trade receivables. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments and is effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact this ASU will have on its financial statements.

**Note 2 – Related Party Transactions**
Due to affiliate, net:

At December 31, 2022, the Company received \$21,806 in advances from Studio Pilates International Australia Pty Ltd, the Company's parent company. The Company also advanced \$853 to the CEO of Studio Pilates International Australia Pty. These advances are non-interest bearing and unsecured and are presented net in the amount of \$20,953. Management expects for the advances to be repaid during the year ended December 31, 2023. As such, these payable balances have been included in current liabilities in the balance sheets. The Company also had \$65 in accounts payable due to Studio Pilates International Australia Pty Ltd.

At December 31, 2021, the Company received \$9,990 in advances from Studio Pilates International Australia Pty Ltd. These advances are non-interest bearing and unsecured and short term in nature and thus are treated as current liabilities.

**Note 3 – Contingencies, Risks and Uncertainties**
Litigation

Although Management is not aware of any lawsuits or unasserted claims, as of December 31, 2022 and 2021, the Company is subject to litigation and claims arising in the ordinary course of business.

Credit risk

The Company maintains its cash accounts with federally insured banks. Amounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of December 31, 2022 and 2021, the Company did not maintain cash in excess of FDIC insured limits.

**Note 4 – Income Taxes**

Book income (loss) before income taxes for the years ended December 31, 2022 and 2021, are as follows:

<b>Income/ (Loss) Before Income Taxes</b>	<b>2022</b>	<b>2021</b>
Total	(61,531)	27,310

The components of income tax expense attributable to operations were as follows for the years ended December 31, 2022, and 2021:

**Studio Pilates International USA Corp**
**Notes to the Financial Statements  
For the Year Ended December 31, 2022 and 2021**
**Note 4 – Income Taxes (Continued)**

<b>Current Tax Expense:</b>		<b>2022</b>	<b>2021</b>
Current:			
	Federal	4,326	3,708
	State	1,525	1,446
Deferred:			
	Federal	(17,809)	(12,670)
	State	(3,502)	(4,404)
	<b>Total</b>	<b>(15,460)</b>	<b>(11,920)</b>

The reconciliation of income tax (benefit) within the statement of income and amounts computed at the statutory federal income tax rate for the twelve months ended December 31, 2022 and December 31, 2021, are as follows:

<b>Tax Rate Reconciliation</b>	<b>2022 Tax Amount</b>	<b>2022 Percentage</b>	<b>2021 Tax Amount</b>	<b>2021 Percentage</b>
Tax Expense at US Federal Statutory Rates	(13,270)	-21.00%	5,735	21.00%
State Income Taxes, Net of Fed Income Tax	(1,725)	-2.73%	2,017	7.39%
Federal Income Tax Expense	908	1.48%	-	0.00%
Other Adjustment	(1,782)	-2.87%	(19,672)	-72.03%
Provision For Income Taxes	(15,868)	-25.13%	(11,920)	-43.65%
Pretax Net Income (Loss)	(61,531)		27,310	
<b>Effect Tax Rate</b>	<b>-25.13%</b>		<b>-43.66%</b>	

The Company recorded federal and state income tax expenses for 2022 and 2021 for \$4,326 and \$1,525 and \$3,708 and 1,446, respectively. The lack of federal tax expense in 2022 and 2021 can be attributed to high operational and start-up expenses, which are common among emerging growth companies, resulting in continued net operating losses throughout 2022 and decreased earnings in 2021.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating loss, and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax assets and liabilities are included in the other assets and other liabilities category of the consolidated balance sheets when applicable.

On December 31, 2022, and 2021 the Company had a gross federal net operating loss carryover of \$7,707 and \$0.00, respectively, and has incurred state operating loss carryovers for the following states in tax year in 2022. The Tax Cuts and Jobs Act of 2017 permitted NOLs to be carried forward indefinitely until fully utilized.

<b>Federal Net Operating Losses (NOLs):</b>	<b>2022</b>	<b>2021</b>
Federal Net Operating Loss	7,707	-
Net DTA/ (DTL)	7,707	-

**Studio Pilates International USA Corp**
**Notes to the Financial Statements  
For the Year Ended December 31, 2022 and 2021**
**Note 4 – Income Taxes (Continued)**

<b>State Net Operating Losses (NOLs):</b>	<b>2022</b>	<b>2021</b>
Kentucky NOL	852	-
New York NOL	553	-
North Carolina NOL	433	-
Net DTA/ (DTL)	1,838	-

<b>Deferred Tax Assets:</b>	<b>2022</b>		<b>2021</b>	
	<b>Federal</b>	<b>State</b>	<b>Federal</b>	<b>State</b>
Intangibles	1,589	262	-	-
Change in Balance - SPI USA Card	97	16	-	-
Deferred Revenue - Franchise Fee	22,199	3,653	12,670	4,404
Change in Balance - Commission Amortizable	(945)	(156)	-	-
Change in Balance - A/R	(1,525)	(251)	-	-
Change in Balance - A/P	1,357	223	-	-
Deferred Revenue True-up	-	2,319	-	-
Net DTA/ (DTL)	22,772	6,066	12,670	4,404

A valuation allowance is recognized if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax asset will not be realized. This evidence is made on a gross basis as opposed to a net basis. The four sources of taxable income to be considered in determining whether a valuation allowance is required include:

- taxable income in prior carryback years, now permitted under the CARES Act of 2020
- future reversals of existing taxable temporary differences
- tax planning strategies
- future taxable income exclusive of reversing temporary differences and carryforwards.

Based on the lack of reoccurring net operating losses within the past three consecutive tax years, a valuation allowance does not need to be recorded for the 2022 or 2021 deductible deferred tax assets of \$38,384 and \$17,074 respectively. The Company will continue to monitor the four sources of taxable income listed above on an ongoing basis to determine whether we will realize any part of our cumulative deferred tax asset going forward.

In addition, due to the carryforward periods of Studio Pilates International USA Corporation, management's projection of future taxable income for the next 15 years is deemed more than sufficient to utilize substantially all the federal and state NOLs.

The Company recognizes interest and penalties related to unrecognized tax benefits within the Benefit (provision for) income taxes line in the Income Statements. Accrued interest and penalties are included within the related tax liability line in the balance sheets. No accrued interest and penalties have been recorded as of December 2022, or 2021, respectively.

## Studio Pilates International USA Corp

### Notes to the Financial Statements For the Year Ended December 31, 2022 and 2021

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#### **Note 4 – Income Taxes (Continued)**

The Company is subject to income taxes in the U.S. federal jurisdiction, and the state jurisdictions of New York, Kentucky, North Carolina, and Delaware. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgement to apply. Company tax years 2022, 2021, 2020 and 2019 remain open for examination until their statute of limitations expire in each applicable jurisdiction.

#### **Note 6 – Subsequent Events**

Management has evaluated all subsequent events and transactions for potential recognition or disclosure through April 25, 2023, the date the financial statements were available to be issued and concluded that there were no other events or transactions which required recognition or disclosure in these financial statements.

**Studio Pilates International USA Corp**

Financial Statements

December 31, 2020 and 2019

## Independent Auditors' Report

### The Stockholders

#### Studio Pilates International USA Corp

We have audited the accompanying financial statements of Studio Pilates International USA Corp which comprise the balance sheet as of December 31, 2020 and 2019 and the related statements of operations and stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Studio Pilates International USA Corp as of December 31, 2020 and 2019, 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.

*PKF O'Connor Davies, LLP*  
August 31, 2021

**Studio Pilates International USA Corp**  
Balance Sheet

	December 31,	
	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 53,431	\$ 75,058
Accounts receivable	<u>27,922</u>	<u>5,644</u>
	<u>\$ 81,353</u>	<u>\$ 80,702</u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 3,534	\$ 3,413
Deferred revenue	<u>42,334</u>	<u>62,280</u>
Total Liabilities	<u>45,868</u>	<u>65,693</u>
 Stockholders' Equity		
Common stock (10,000 shares authorized, issued and outstanding; par value \$.01)	100	100
Additional paid in capital	78,808	70,340
Retained (deficit)	<u>(43,423)</u>	<u>(55,431)</u>
Total Stockholders' Equity	<u>35,485</u>	<u>15,009</u>
	<u>\$ 81,353</u>	<u>\$ 80,702</u>

See notes to financial statements

**Studio Pilates International USA Corp**  
Statement of Operations and Stockholders' Equity

	Year Ended	
	December 31,	
	<u>2020</u>	<u>2019</u>
<b>REVENUE</b>		
Equipment sales	\$ 50,600	\$ 67,787
Franchise fees	1,666	-
Training fees	34,203	-
Service fees	10,000	-
Technology fees	4,113	-
Other revenue	<u>17,305</u>	<u>3,803</u>
Total Revenue	<u>117,887</u>	<u>71,590</u>
 <b>COST OF SALES</b>		
Pilates equipment purchases	40,899	44,733
Other inventory costs	<u>-</u>	<u>5,885</u>
Total Cost of Sales	<u>40,899</u>	<u>50,618</u>
Gross Profit	76,988	20,972
 <b>OPERATING EXPENSES</b>		
Professional fees	28,628	52,633
Reimbursable expenses	16,663	-
Other expenses	5,594	-
Bank fees	<u>6,284</u>	<u>4,129</u>
Total Operating Expenses	57,169	56,762
 Net Income (Loss) Before Provision for Income Taxes	 19,819	 (35,790)
Current federal tax expense	4,528	-
Current state and city tax expense	<u>3,283</u>	<u>-</u>
Total Income Tax Provision Expense	<u>7,811</u>	<u>-</u>
 Net Income (Loss)	 12,008	 (35,790)
 Retained (deficit), beginning of year	 <u>(55,431)</u>	 <u>(19,641)</u>
Retained (deficit), end of year	<u>\$ (43,423)</u>	<u>\$ (55,431)</u>

See notes to financial statements

**Studio Pilates International USA Corp**

Statement of Cash Flows

	Year Ended December 31,	
	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$ 12,008	\$ (35,790)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Changes in operating assets and liabilities		
Accounts receivable	(22,278)	(5,644)
Deferred revenue	(19,946)	62,280
Accounts payable and accrued expenses	<u>121</u>	<u>(1,374)</u>
Net Cash Flows from Operating Activities	(30,095)	19,472
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital contribution	<u>8,468</u>	<u>-</u>
Net Change in Cash	(21,627)	19,472
<b>CASH</b>		
Balance, beginning of year	<u>75,058</u>	<u>55,586</u>
Balance, end of year	<u>\$ 53,431</u>	<u>\$ 75,058</u>

See notes to financial statements

**Studio Pilates International USA Corp.**  
Notes to Financial Statements  
December 31, 2020

**1. Organization**

Studio Pilates International USA Corp (the “Company”) was organized on August 30, 2018. The Company is in the process of raising capital, developing markets and starting up its operations to establish franchises that will operate under the name “Studio Pilates International USA Corp.”, “Studio Pilates International”, or “SP”. The Company was created to offer a high intensity, low impact workout experience that improves athletic performance and strengthens the body.

During the year ended December 31, 2019, the Company has signed two franchise agreements for locations in Brooklyn NY, scheduled to open in January 2021 and Louisville, KY which opened in August 2020.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation and Use of Estimates***

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent 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.

***Revenue***

The Company recognizes revenue in accordance with Accounting Standards Update 2014-09 “Revenue from Contracts with Customers (Accounting Standards Codification 606)”, which provides that revenue should be recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Under this guidance, an entity identifies its performance obligations and recognizes revenue as performance obligations are satisfied. As shown on the accompanying statement of operations and stockholders’ equity, the Company has several revenue sources amongst which are the following: equipment sales, training fee income, and service and technology fees. The Company has reviewed its various revenue sources and concluded that all contracts include a single performance obligation that is satisfied either at a point in time or over time. When revenue is earned over a period that spans the year end it is recognized in the applicable period in which it is earned.

The Company sells individual franchises as well as development agreements that grant the right to develop Pilates studios. The franchise and development agreements typically require the franchisee to pay an initial nonrefundable fee and continuing fees, or royalty income, based upon a percentage of sales. Initial franchise fee revenue is recognized ratably over the franchise period once the location is open. Fees collected in advance are deferred until earned. Service income is based on a percentage of franchisee gross sales and is recognized when earned. Training and technology fees are recognized when the services are performed and earned.

**Studio Pilates International USA Corp.**  
Notes to Financial Statements  
December 31, 2020

**2. Summary of Significant Accounting Policies (*continued*)**

***Accounts Receivable***

Accounts receivable are recorded when invoices are issued and are presented in the balance sheet net of allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on the Company's historical losses, the existing economic conditions, and the financial stability of its customers. At December 31, 2020 and 2019, the Company has no allowance for doubtful accounts since all receivables are considered collectible.

***Income Taxes***

The Company accounts for income taxes in accordance with the "Liability Method". Under this method, income taxes consist of taxes currently payable plus those deferred due to temporary differences between the financial reporting and tax basis of the Company's assets and liabilities measured by applying enacted tax rates for the years in which taxes are expected to be paid or recovered.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Company had no uncertain tax positions that would require financial statement recognition or disclosure.

The Company has net operating losses of approximately \$4,000 that are available indefinitely, subject to limitations. The Company has limited operational history since its inception in 2018. Therefore, the Company has recorded a full valuation allowance of \$1,200 on its net operating loss carryforwards.

***Subsequent Events***

Management has evaluated subsequent events for disclosure and/or recognition through the date that the financial statements were issued, which date is August 31, 2021.

**3. Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents. At times, cash balances may exceed federally insured limits.

\* \* \* \* \*

# **Exhibit E to Disclosure Document**

## **STATE SPECIFIC ADDENDA**

## STATE OF CALIFORNIA

### **The Franchise Disclosure Document is amended as follows:**

1. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

2. The Franchisor's website URL address is [www.studiopilates.com](http://www.studiopilates.com).

OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION at [www.dpfi.ca.gov](http://www.dpfi.ca.gov).

3. Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

4. You must sign a general release if you renew or transfer your franchise. California Corporations Code 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).

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

6. The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).

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

8. The Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

9. The Franchise Agreement requires binding arbitration. The arbitration will occur at New York, New York, with the costs being borne by equally by the Franchisee and the Franchisor. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

10. The Franchise Agreement requires application of the laws of the State of Delaware. This provision may not be enforceable under California law.

11. 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.

12. The California State Cover Page is amended to add the following language:

THE FRANCHISE AGREEMENT CONTAINS PROVISIONS THAT LIMIT FRANCHISEE'S RIGHTS AND MAY NOT BE ENFORCEABLE IN CALIFORNIA INCLUDING BUT NOT LIMITED TO LIMITATION OF DAMAGES AND WAIVER OF JURY TRIAL.

13. Exhibit H is deleted. You are not required to sign the Compliance Questionnaire.

**AMENDMENT TO FRANCHISE AGREEMENT  
(CALIFORNIA)**

THIS AMENDMENT TO FRANCHISE AGREEMENT (this "Amendment") is made as of the last date set forth on the signature page to this Amendment, by and between Franchisee and STUDIO PILATES INTERNATIONAL USA CORP., a Delaware Corporation, ("Franchisor" or "we"). All capitalized terms not defined herein shall have the meaning set forth in the Franchise Agreement, as defined below.

WHEREAS, Franchisor and Franchisee entered into that certain Franchise Agreement dated as of \_\_\_\_\_, 20\_\_] (the "Franchise Agreement"); and

WHEREAS, Franchisor and Franchisee hereby wish to amend the Franchise Agreement in accordance with the terms and conditions contained in this Amendment.

NOW THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereby agree to amend the Franchise Agreement as follows:

1. The following is added to Section 33.13:

“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.”

IN WITNESS WHEREOF, the parties have executed this Amendment to Franchise Agreement on the dates set forth below.

**FRANCHISOR:**

**FRANCHISEE:**

STUDIO PILATES INTERNATIONAL USA CORP.

\_\_\_\_\_  
Jade Winter, President

\_\_\_\_\_  
Signature

Date: \_\_\_\_\_

\_\_\_\_\_  
Print name and position

Date: \_\_\_\_\_

## STATE OF ILLINOIS

### **The Franchise Disclosure Document is amended as follows:**

1. Illinois law governs the Franchise Agreement(s).
2. In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.
3. Your rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.
4. In conformance with section 41 of the Illinois Franchise Disclosure Act, 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.
5. In Illinois, the Physical Fitness Services Act, 815 ILCS 645/14(a) (West 2016), sets forth that "a physical fitness center shall have available and on its premises, during staffed business hours, at least one person who holds a valid certificate indicating that he [she] has successfully completed a course of training in basic cardiopulmonary resuscitation which complies with generally recognized standards for basic cardiopulmonary resuscitation."
6. Exhibit H (Compliance Questionnaire) of the Franchise Disclosure Document is deleted. You are not required to sign the Compliance Questionnaire.
7. 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.

**AMENDMENT TO FRANCHISE AGREEMENT  
(ILLINOIS)**

THIS AMENDMENT TO FRANCHISE AGREEMENT (this "Amendment") is made as of the last date set forth on the signature page to this Amendment, by and between Franchisee and STUDIO PILATES INTERNATIONAL USA CORP., a Delaware Corporation, ("Franchisor" or "we"). All capitalized terms not defined herein shall have the meaning set forth in the Franchise Agreement, as defined below.

WHEREAS, Franchisor and Franchisee entered into that certain Franchise Agreement dated as of [\_\_\_\_\_, 20\_\_] (the "Franchise Agreement");  
and

WHEREAS, Franchisor and Franchisee hereby wish to amend the Franchise Agreement in accordance with the terms and conditions contained in this Amendment.

NOW THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereby agree to amend the Franchise Agreement, and any Multi-Unit Option Addendum, as follows:

1. Section 33.22 of the Franchise Agreement is amended to read as follow:

“33.22 Illinois law governs the Franchise Agreement and any addendum to the Franchise Agreement.”

2. The Multi-Unit Option Addendum is amended to add the following new section 26:

“26. Illinois law governs this Multi-Unit Option Addendum.”

3. Section 33.14 of the Franchise Agreement is amended to add the following:

“Notwithstanding the foregoing, nothing in any agreement is intended to disclaim the express representations made in the Franchise Disclosure Document, its exhibits and amendments.”

4. In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.

5. Your rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.

6. In conformance with section 41 of the Illinois Franchise Disclosure Act, 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.

7. In Illinois, the Physical Fitness Services Act, 815 ILCS 645/14(a) (West 2016) sets forth that "a physical fitness center shall have available and on its premises, during staffed business hours, at least one person who holds a valid certificate indicating that he [she] has successfully completed a course of training in basic cardiopulmonary resuscitation which complies with generally recognized standards for

basic cardiopulmonary resuscitation."

8. Reaffirmation of Agreement. Except as expressly amended hereby, the provisions of the Franchise Agreement are and will remain in full force and effect and nothing in this Amendment will be construed as a waiver of any of the rights or obligations of the parties under the Franchise Agreement. The terms and provisions of the Franchise Agreement are incorporated by reference in this Amendment as if set forth herein.

9. Counterparts. This Amendment may be executed in one or more counterparts, (including by facsimile or .pdf copies of original signatures), each of which counterparts shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Amendment to Franchise Agreement on the dates set forth below.

FRANCHISOR:

FRANCHISEE:

STUDIO PILATES INTERNATIONAL  
USA CORP.

\_\_\_\_\_

By:

By:

Name:

Name:

Title:

Title:

Date:

Date:

**MINNESOTA ADDENDUM TO THE  
STUDIO PILATES INTERNATIONAL USA CORP FRANCHISE DISCLOSURE DOCUMENT**

In recognition of the requirements of the Minnesota Franchise Act, Minn. Stat. §§80C.01 through 80C.22, and of the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce, Minn. Rules §§2860.0100 through 2860.9930, the Studio Pilates International USA Corp. Franchise Disclosure Document for use in the State of Minnesota will be amended to include the following:

1. In Item 17(m), under the heading entitled “Conditions for Franchisor Approval of Transfer,” will be amended by adding the following language at the end of the section:

Any general release will not apply to any liability under the Minnesota Franchise Law.

2. In Items 17(b), 17(c), 17(f), and 17(k), under the headings entitled “Renewal or Extension of the Term,” “Requirements for Franchisee to Renew or Extend,” “Termination by Franchisor With Cause,” and “Transfer by Franchisee – Defined,” will be amended by adding the following language at the end of those sections:

Minnesota law provides you with certain termination, non-renewal, and transfer rights. In sum, Minn. Stat. §80C.14 (Subd. 3, 4, and 5) currently requires, except in certain specified cases, that you be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice of nonrenewal of the Franchise Agreement, and that consent to the transfer of the franchise not be unreasonably denied.

3. In Item 17(v), under the heading entitled “Choice of Forum,” will be amended by adding the following language at the end of the section:

Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or Franchise Agreement can abrogate or reduce any of your rights as provided for in Minn. Stat. §80C, or your rights to any procedure, forum, or remedies provided for by the laws of the State of Minnesota.

4. In Item 17(w), under the heading entitled “Choice of Law,” will be amended by adding the following language at the end of the section:

This provision may not be enforceable under Minnesota law.

5. The Franchisor will protect the Franchisee’s right to use the trademarks, service marks, trade names, logotypes, or other commercial symbols or indemnify the Franchisee from any loss, costs, or expenses arising out of any claim, suit, or demand regarding the use of the name.

6. Minn. Rules §2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.

7. Any limitations of claims must comply with Minn. Stat. §80C.17, Subd. 5.

8. Exhibit H (Compliance Questionnaire) of the Franchise Disclosure Document is deleted. You are not required to sign the Compliance Questionnaire.

9. 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 in connection with the franchise.

10. Each provision of this Addendum to the Disclosure Document will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Franchise Act, Minn. Stat. §§80C.01 through 80C.22 and of the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce, Minn. Rules §§2860.0100 through 2860.9930 are met independently without reference to this Addendum to the Disclosure Document.

**MINNESOTA AMENDMENT TO THE  
STUDIO PILATES INTERNATIONAL USA CORP. FRANCHISE AGREEMENT**

In recognition of the requirements of the Minnesota Franchise Act, Minn. Stat. §§80C.01 through 80C.22, and of the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce, Minn. Rules §§2860.0100 through 2860.9930, the parties to the attached Studio Pilates International USA Corp. Franchise Agreement (the “Franchise Agreement”) agree as follows:

1. Sections 2, 26, and 27 of the Franchise Agreement, under the headings “Grant of rights,” “Transfer and other dealings by the Franchisee,” and “Termination of Agreement,” will be supplemented by the addition of the following language:

Minnesota law provides franchisees with certain termination, non-renewal, and transfer rights. In sum, Minn. Stat. §80C.14, Subd. 3, 4, and 5 currently requires, except specified cases, that a franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice of nonrenewal of the Franchise Agreement, and that consent to the transfer of the franchise not be unreasonably withheld.

2. Section 33.22 of the Franchise Agreement (Choice of Law) is supplemented by the addition of the following language:

Pursuant to Minn. Stat. §80C.21, this Section 27.16 will not in any way abrogate or reduce any of Franchisee’s rights as provided for in the Minnesota Franchise Law and the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce.

3. The Multi-Unit Option Addendum is amended to add the following:

“26. Pursuant to Minn. Stat. §80C.21, this Section 27.16 will not in any way abrogate or reduce any of Franchisee’s rights as provided for in the Minnesota Franchise Law and the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce.

4. The Franchisor will protect the Franchisee’s right to use the trademarks, service marks, trade names, logotypes, or other commercial symbols or indemnify the Franchisee from any loss, costs, or expenses arising out of any claim, suit, or demand regarding the use of the name.

5. Minn. Rule §2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.

6. Any limitations of claims must comply with Minn. Stat. §80C.17, Subd. 5.

7. 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 in connection with the franchise.

8. Each provision of this Amendment will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Franchise Act, Minn. Stat. §§80C.01 through 80C.22, and of the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce, Minn. Rules §§2860.0100 through 2860.9930, are met independently without reference to this

Amendment.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Amendment to the Franchise Agreement on the same date as that on which the Franchise Agreement was executed.

**STUDIO PILATES INTERNATIONAL  
USA CORP.**

**FRANCHISEE**

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

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

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

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

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

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

## STATE OF NEW YORK

### The Franchise Disclosure Document is amended as follows:

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 SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, INVESTOR PROTECTION BUREAU, 28 LIBERTY STREET, 21<sup>ST</sup> FLOOR, NEW YORK, NEW YORK 10005.**

**THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.”**

2. The following is added at the end of Item 3:

“Except as provided above, with regard 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, which are 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 10 year period 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 Item 4:

“Neither the franchisor, its affiliate, its predecessor, officers, or general partner during the 10-year period immediately before the date of the offering circular: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after that officer or general partner of the franchisor held this position in the company or partnership.”

4. The following is added to the end of Item 5:

“The initial franchise fee constitutes part of our general operating funds and will be used as such in our discretion.”

5. The following is added to the end of the “Summary” sections of Item 17(c), titled “**Requirements for 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; it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.”

6. The following language replaces the “Summary” section of Item 17(d), titled “**Termination by franchisee**”:

“You may terminate the agreement on any grounds available by law.”

- A. The following is added to the end of the “Summary” section of Item 17(j), titled “**Assignment of contract by franchisor**”:

“However, no assignment will be made except to an assignee who in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor’s obligations under the Franchise Agreement.”

7. 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 upon the franchisee by Article 33 of the General Business Law of the State of New York.”

8. Exhibit H (Compliance Questionnaire) of the Franchise Disclosure Document is deleted. You are not required to sign the Compliance Questionnaire.
  
9. 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.

## **Exhibit F to Disclosure Document**

### **LIST OF CURRENT FRANCHISEES AS OF DECEMBER 31, 2022**

1. Marissa Fuller, 575 4<sup>th</sup> Avenue, South Slope, Brooklyn, NY. Tel. (646) 483-4748.  
kabbott@studiopilates.com
2. Kathy Abbott, 10709 Meeting Street, Prospect, KY 40059. Tel. (502) 314-2420.  
[mfuller@studiopilates.com](mailto:mfuller@studiopilates.com).
3. Laurel Mura (Denver, Colorado Location still to be identified) Tel. (970) 9088-8022.  
lmura@studiopilates.com

**EXHIBIT G TO DISCLOSURE DOCUMENT**

**LIST OF FRANCHISEES THAT LEFT SYSTEM IN THE PAST YEAR**

None

**Exhibit H to Disclosure Document**  
**COMPLIANCE QUESTIONNAIRE**

## FRANCHISEE COMPLIANCE QUESTIONNAIRE

Studio Pilates International USA Corp. (the "Franchisor") and you are preparing to enter into a Franchise Agreement for the establishment and operation of a franchised Studio Pilates International studio.

The purpose of this Questionnaire is to determine whether any statements or promises were made to you that the Franchisor has not authorized and that may be untrue, inaccurate or misleading.

Please understand that your responses to these questions are important to us and that we will rely on them.

Please review each of the following questions and statements carefully and provide honest and complete responses to each.

By signing this Questionnaire, you are representing that you have responded truthfully to the following questions.

1. I had my first substantive face-to-face meeting with a representative of the Franchisor to discuss the substance of the purchase of the franchise on \_\_\_\_\_ [Insert Date].
2. Did you receive the FDD at least 14 days before the date of such first substantive meeting?  
Yes \_\_\_\_\_ No \_\_\_\_\_
3. Did you receive the FDD at least 14 days before you entered into any binding agreement with the Franchisor for the purchase of this franchise?  
Yes \_\_\_\_\_ No \_\_\_\_\_
4. Did you receive the FDD at least 14 days before you paid any money to the Franchisor for the purchase of this franchise?  
Yes \_\_\_\_\_ No \_\_\_\_\_
5. Did you receive and personally review the Franchisor's Franchise Disclosure Document ("FDD") that was provided to you?  
Yes \_\_\_\_\_ No \_\_\_\_\_
6. Did you sign a receipt for the FDD indicating the date you received it?  
Yes \_\_\_\_\_ No \_\_\_\_\_
7. Do you understand all of the information in the FDD and any state-specific Addendum to the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

If No, what parts of the FDD and/or Addendum do you not understand? (Attach additional pages, if necessary.)

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8. Did you receive and personally review the Franchise Agreement and related agreement attached to it?

Yes \_\_\_\_\_ No \_\_\_\_\_

9. Do you understand all of the information in the Franchise Agreement and each related agreement provided to you?

Yes \_\_\_\_\_ No \_\_\_\_\_

If no, what parts of the Franchise Agreement, Addendum, and/or related agreement do you not understand? (Attach additional pages, if necessary.)

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10. Have you discussed the benefits and risks of establishing and operating a Studio Pilates International franchised business with your own legal counsel or advisor?

Yes \_\_\_\_\_ No \_\_\_\_\_

If No, do you wish to have more time to do so?

Yes \_\_\_\_\_ No \_\_\_\_\_

11. Do you understand that the success or failure of your Studio Pilates International franchised business depends in large part on your skills and abilities, competition from other businesses, interest rates, inflation labor and supply costs, lease terms and other economic and business factors?

Yes \_\_\_\_\_ No \_\_\_\_\_

12. Has any employee, or other person speaking for the Franchisor, made any statement or promise to you regarding the total revenues a Studio Pilates International studio may generate or have generated?

Yes \_\_\_\_\_ No \_\_\_\_\_

13. Has any employee, or other person speaking for the Franchisor, made any statement or promise regarding whether you are likely to achieve a particular minimum level of profitability in operating the Franchised Business?

Yes \_\_\_\_\_ No \_\_\_\_\_

14. Has any employee, or other person speaking for the Franchisor, made any statement or promise regarding the value or economic viability of the Franchised Business;

Yes \_\_\_\_\_ No \_\_\_\_\_

15. Has any employee, or other person speaking for the Franchisor, made any statement or promise regarding the operating costs you may incur in operating the Studio Pilates International studio that is contrary to the information in the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

16. Has any employee, or other person speaking for the Franchisor, made any statement, promise or agreement about the advertising, marketing, training, support service or assistance that the Franchisor will furnish to you that is contrary to, or different from, the information in the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

17. If you have answered "Yes" to any one of questions 12-16, please provide a full explanation of each "yes" answer. (Attach additional pages, if necessary, and refer to them below.) If you have answered "no" to each of questions 12-16, please leave the following lines blank.

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I certify that my answers to the foregoing questions are true, correct and complete.

**FRANCHISEE/GUARANTOR**

\_\_\_\_\_  
Signature

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

Date: \_\_\_\_\_

### **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><u>State</u></b>	<b><u>Effective Date</u></b>
California	Pending
Illinois	Pending
Minnesota	Pending
New York	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.

**RECEIPTS**

(Return one signed copy of this receipt to Studio Pilates International USA Corp)

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Studio Pilates International USA Corp. 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 Studio Pilates International USA Corp. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency identified on Exhibit B.

This franchise is offered for sale by Studio Pilates International USA Corp., 246 Hawthorne Road, Hawthorne, Queensland 4171, Australia. Tel. (917) 310-3883. The issuance date of this Disclosure Document is April 26, 2023. The names and contact information (principal business addresses and telephone number) for the individuals involved in the sale of this franchise are: (check if applicable):

\_\_\_\_ Davina Nicole Lacey, 246 Hawthorne Rd, Hawthorne, Queensland 4171, Aust. (917) 310-3883

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I received a disclosure document from Studio Pilates International USA Corp., dated as of April 26, 2023, that included the following Exhibits:

- A Franchise Agreement and Related Agreement
- B State Administrators
- C Table of Contents of Operations Manual
- D Financial Statement
- E State Specific Addenda
- F List of Current Franchisees
- G List of Franchisees that Left System in the Past Year
- H Compliance Questionnaire

\_\_\_\_\_  
Prospective Franchisee

Date: \_\_\_\_\_

\_\_\_\_\_  
Prospective Franchisee

Date: \_\_\_\_\_

**RECEIPTS**

(Return one signed copy of this receipt to Studio Pilates International USA Corp)

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

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\_\_\_\_\_  
Prospective Franchisee

Date: \_\_\_\_\_

\_\_\_\_\_  
Prospective Franchisee

Date: \_\_\_\_\_