

FRANCHISE DISCLOSURE DOCUMENT

THE HOT SPOT STUDIOS LLC
a Nevada limited liability company
1180 Scheels Drive, # 107
Sparks, Nevada 89434
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Email: admin@thehotspotstudios.com
www.thehotspotstudios.com



You will operate a do-it-yourself arts and crafts studio business featuring pottery painting, candle making, canvas painting, and other arts and crafts, such as mosaics, succulent gardens, body scrubs, and slime.

The total investment necessary to begin the operation of a The Hot Spot franchise ranges from \$80,100 to \$154,700. This includes \$40,500 that must be paid to the franchisor or an affiliate.

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

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

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "A Consumer's Guide to Buying a Franchise", which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC, 20580. You can also visit the FTC's home page at www.ftc.gov 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 29, 2025

How to Use This Franchise Disclosure Document

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

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit E.
How much will I need to invest?	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.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit C includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only The Hot Spot business in my area?	Item 12 and the “territory” provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What’s it like to be a The Hot Spot franchisee?	Item 20 or Exhibit E lists 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 A.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the

State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

Special Risks to Consider About *This* Franchise

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

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration, and/or litigation only in Nevada. 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 Nevada than in your own state.
2. **Operating History.** The Franchisor is at an early stage of development and has a limited operating history. The franchise is likely to be a riskier investment than a franchise in a system with a longer operating history.
3. **Mandatory minimum payments.** You must make minimum royalty or advertising fund payments, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.

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.

THE HOT SPOT STUDIOS LLC
Franchise Disclosure Document

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- A: List Of State Agencies/Agents For Service Of Process
- B: Franchise Agreement
- C: Financial Statements
- D: Operations Manual Table of Contents
- E: Franchised Outlets
- F: State Addenda
- G: General Release
- H: Acknowledgment Statement
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- I: Receipts

EXHIBIT C
FINANCIAL STATEMENTS



THE HOT SPOT STUDIOS LLC

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2024 AND 2023



THE HOT SPOT STUDIOS LLC

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Independent Auditor's Report

To the Members
The Hot Spot Studios LLC
San Diego, CA

Opinion

We have audited the accompanying financial statements of The Hot Spot Studios LLC, which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Hot Spot Studios LLC as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company 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 the Company'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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 the Company'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.

Restrictions on Use

The use of this report is restricted to inclusion within the Company's Franchise Disclosure Document (FDD) and is not intended to be, and should not be, used or relied upon by anyone for any other use.

Kezas & Dunlavy

St. George, Utah
January 14, 2025

THE HOT SPOT STUDIOS LLC
BALANCE SHEETS
As of December 31, 2024 and 2023

	2024	2023
Assets		
Current assets		
Cash and cash equivalents	\$ 90,813	\$ 96,595
Accounts receivable	78,543	9,740
Deferred commissions, current	22,100	-
Total current assets	191,456	106,335
Non-current assets		
Deferred commissions, non-current	11,250	-
Total non-current assets	11,250	-
Total assets	\$ 202,706	\$ 106,335
 Liabilities and Members' Equity (Deficit)		
Current liabilities		
Accounts payable	\$ 44,948	\$ 6,675
Deferred revenue, current	221,000	-
Total current liabilities	265,948	6,675
Non-current liabilities		
Note payable to member	103,884	72,485
Deferred revenue, non-current	112,500	-
Total non-current liabilities	216,384	72,485
Total liabilities	482,332	79,160
Members' equity (deficit)	(279,626)	27,175
Total liabilities and members' equity (deficit)	\$ 202,706	\$ 106,335

The accompanying notes to the financial statements are integral part of these financial statements

THE HOT SPOT STUDIOS LLC
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2024 and 2023

	2024	2023
Operating revenue		
Initial franchise fees	\$ 146,250	\$ -
Royalty fees	22,625	30,964
Marketing fees	22,432	4,240
Technology fees	5,000	-
Total operating revenue	196,307	35,204
Operating expenses		
General and administrative	386,312	102,616
Professional fees	37,081	37,974
Advertising and marketing	56,691	17,439
Commissions	14,625	-
Total operating expenses	494,709	158,029
Net loss from operations	(298,402)	(122,825)
Other expenses		
Interest expense	8,399	-
Total other expenses	8,399	-
Net loss	\$ (306,801)	\$ (122,825)

The accompanying notes to the financial statements are integral part of these financial statements

THE HOT SPOT STUDIOS LLC
STATEMENTS OF MEMBERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2024 and 2023

Balance as of January 1, 2023	\$ -
Member contributions	150,000
Net loss	(122,825)
Balance as of December 31, 2023	<u>27,175</u>
Net loss	(306,801)
Balance as of December 31, 2024	<u><u>\$ (279,626)</u></u>

The accompanying notes to the financial statements are integral part of these financial statements

THE HOT SPOT STUDIOS LLC
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Net loss	\$ (306,801)	\$ (122,825)
Adjustments to reconcile net loss to net cash used in operating activities		
Accrual of interest on loan from member	8,399	-
Changes in operating assets and liabilities:		
Accounts receivable	(68,803)	(9,740)
Deferred commissions	(33,350)	-
Accounts payable	38,273	6,675
Deferred revenue	333,500	-
Net cash used in operating activities	<u>(28,782)</u>	<u>(125,890)</u>
 Cash flows from financing activities		
Member contributions	-	150,000
Loan from member	23,000	72,485
Net cash provided by financing activities	<u>23,000</u>	<u>222,485</u>
 Net change in cash and cash equivalents	(5,782)	96,595
Cash and cash equivalents at beginning of period	96,595	-
Cash and cash equivalents at end of period	<u>\$ 90,813</u>	<u>\$ 96,595</u>
 Supplemental disclosures of cash flow		
Cash paid for interest and taxes	\$ -	\$ -

The accompanying notes to the financial statements are integral part of these financial statements

The Hot Spot Studios LLC

Notes to the Financial Statements

December 31, 2024 and 2023

(1) Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

The Hot Spot Studios LLC (the “Company”) was formed as a limited liability company in the State of Nevada on June 6, 2023 and immediately commenced operations. The Company is headquartered in San Diego, California, offering a unique pottery and craft experience.

The Company uses the accrual basis of accounting, and their accounting period is the 12-month period ending December 31 of each year.

(b) Accounting Standards Codification

The Financial Accounting Standards Board (“FASB”) has issued the FASB Accounting Standards Codification (“ASC”) that became the single official source of authoritative U.S. generally accepted accounting principles (“GAAP”), other than guidance issued by the Securities and Exchange Commission (“SEC”), superseding existing FASB, American Institute of Certified Public Accountants, emerging Issues Task Force and related literature. All other literature is not considered authoritative. The ASC does not change GAAP; it introduces a new structure that is organized in an accessible online research system.

(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with maturities of three months or less at the date of purchase. As of December 31, 2024 and 2023, the Company had cash and cash equivalents of \$90,813 and \$96,595, respectively.

(e) Accounts Receivables

Accounts receivable are recorded for amounts due based on the terms of executed franchise agreements for franchise sales, royalty fees, and marketing fees. Accounts receivable are recorded at the invoiced amount and do not bear interest, although a finance charge may be applied to such receivables that are past the due date. These receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of outstanding amounts. When determining the allowance for doubtful receivable, the Company has adopted ASC 326, *Financial Instruments—Credit Losses*. This standard requires that management utilize the Current Expected Credit Losses (“CECL”) model to recognize the appropriate allowance for doubtful receivables. This model requires entities to estimate and recognize expected credit losses over the life of the financial instrument. For trade receivables, management has elected to apply a simplified approach, based on historical loss experience and adjustments for current and forecasted economic conditions. Management regularly evaluates individual customer receivables, considering their financial condition, credit history and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received.

As of December 31, 2024 and 2023, the Company had net accounts receivable of \$78,543 and \$9,740, respectively. As of December 31, 2024 and 2023, the Company had no allowance for doubtful accounts.

The Hot Spot Studios LLC

Notes to the Financial Statements

December 31, 2024 and 2023

(f) Revenue Recognition

The Company has adopted ASC 606, *Revenue from Contracts with Customers*. ASC 606 provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the considerations expected to be received for those goods or services. In implementing ASC 606, the Company evaluated all revenue sources using the five-step approach: identify the contract, identify the performance obligations, determine the transaction price, allocate the transaction price, and recognize revenue. For each franchised location, the Company enters into a formal franchise agreement that clearly outlines the various components of the transaction price and the Company's performance obligations.

The Company's revenues consist of initial franchise fees, royalties and marketing fees based on a percentage of gross revenues, and technology fees.

Royalty and marketing fees

Upon evaluation of the five-step process, the Company has determined that royalty and marketing fees are to be recognized in the same period as the underlying sales.

Technology fees

Upon evaluation of the five-step process, the Company has determined that technology fees are to be recognized in the period in which the services are provided to the franchisees.

Initial franchise fees

The Company is required to allocate the transaction price associated with initial franchise fees between the franchise license and associated performance obligations. In identifying the associated performance obligations, the Company has elected to adopt the practical expedient for private company franchisors outlined in ASC 952-606, *Franchisors—Revenue from Contracts with Customers*. In addition, the practical expedient allows franchisors to account for pre-opening services as a single distinct performance obligation, which the Company has elected to adopt. These pre-opening services include the following (which the Company may or may not provide all of):

- Assistance in the selection of a site
- Assistance in obtaining facilities and preparing the facilities for their intended use, including related financing, architectural, and engineering services, and lease negotiation
- Training of the franchisee's personnel or the franchisee
- Preparation and distribution of manuals and similar material concerning operations, administration, and record keeping
- Bookkeeping, information technology, and advisory services, including setting up the franchisee's records and advising the franchisee about income, real estate, and other taxes about local regulations affecting the franchisee's business
- Inspection, testing, and other quality control programs

In determining the allocation of transaction price (the initial franchise fee) to either the license or to the pre-opening services, the Company has determined that the standalone selling price of its pre-opening services exceeds the initial franchise fee received; as such, the Company allocates the entire initial franchise fees to those pre-opening services. The franchise fees are then recognized as revenue when those pre-opening services have been completed, which generally occurs upon commencement of the associated franchised location's operations.

The Hot Spot Studios LLC
Notes to the Financial Statements
December 31, 2024 and 2023

(g) Income Taxes

The Company is structured as a limited liability company under the laws of the state of Nevada. Accordingly, the income or loss of the Company will be included in the income tax returns of the members. Therefore, there is no provision for federal and state income taxes.

The Company follows the guidance under ASC 740, *Accounting for Uncertainty in Income Taxes*. ASC 740 prescribes a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in the tax return. If taxing authorities were to disallow any tax positions taken by the Company, the additional income taxes, if any, would be imposed on the members rather than the Company. Accordingly, there would be no effect on the Company's financial statements.

The Company's income tax returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of December 31, 2024, the 2023 tax year was subject to examination.

(h) Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, the carrying amounts approximate fair value due to their short maturities.

(i) Concentration of Risk

The Company maintains its cash in bank deposit accounts which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risks on cash or cash equivalents.

(2) Franchise Agreements

The Company's franchise agreements generally provide for payment of initial fees as well as continuing royalties to the Company based on a percentage of sales. Under the franchise agreement, franchisees are granted the right to operate a location using the Hot Spot Studios system for a period of five years. Under the Company's revenue recognition policy, franchise fees and any corresponding commissions are recognized when the franchisee begins operations. For any franchisees that have not yet begun operations as of year-end, the Company defers both the revenues and commissions. All locations that are expected to begin operations within the following year are categorized as current, while all others are classified as non-current.

The Company has estimated the following current and non-current portions of deferred commissions as of December 31, 2024 and 2023:

	2024	2023
Deferred commissions, current	\$ 22,100	\$ -
Deferred commissions, non-current	11,250	-
	\$ 33,350	\$ -

The Company has estimated the following current and non-current portions of deferred initial franchise fees as of December 31, 2024 and 2023:

	2024	2023
Deferred revenue, current	\$ 221,000	\$ -
Deferred revenue, non-current	112,500	-
	\$ 333,500	\$ -

The Hot Spot Studios LLC
Notes to the Financial Statements
December 31, 2024 and 2023

(3) Related Party Transactions

During the year ended December 31, 2023, the Company entered into a promissory note with a member and made additional draws during the year ended December 31, 2024. The loan accrues interest at an annual rate of 10% and is due upon demand. As of December 31, 2024 and 2023, the amount due to member was \$103,884 and \$72,485, respectively.

Affiliates through common ownership operate Hot Spot Studio locations. These locations pay royalties and marketing fees. During the years ended December 31, 2024 and 2023, the Company received revenue from these affiliates through common ownership of \$44,219 and \$25,464, respectively.

(4) Commitments and Contingencies

The Company may be subject to various claims, legal actions and complaints arising in the ordinary course of business. In accounting for legal matters and other contingencies, the Company follows the guidance in ASC 450, *Contingencies*, under which loss contingencies are accounted for based upon the likelihood of incurrence of a liability. If a loss contingency is “probable” and the amount of loss can be reasonably estimated, it is accrued. If a loss contingency is “probable” but the amount of loss cannot be reasonably estimated, disclosure is made. If a loss contingency is “reasonably possible,” disclosure is made, including the potential range of loss, if determinable. Loss contingencies that are “remote” are neither accounted for nor disclosed.

In the opinion of management, all matters are of such kind, or involve such amounts, that unfavorable disposition, if any, would not have a material effect on the financial position of the Company.

(5) Subsequent Events

Management has reviewed and evaluated subsequent events through January 14, 2025, the date on which the financial statements were issued.



THE HOT SPOT STUDIOS LLC

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2023



THE HOT SPOT STUDIOS LLC

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Independent Auditor's Report

To the Members
The Hot Spot Studios LLC
San Diego, CA

Opinion

We have audited the accompanying financial statements of The Hot Spot Studios LLC, which comprise the balance sheet as of December 31, 2023, and the related statements of operations, members' equity, and cash flows for the period 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 The Hot Spot Studios LLC as of December 31, 2023, and the results of its operations and its cash flows for the period 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 the Company 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 the Company'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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 the Company'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.

Restrictions on Use

The use of this report is restricted to inclusion within the Company's Franchise Disclosure Document (FDD) and is not intended to be, and should not be, used or relied upon by anyone for any other use.

Kezar & Dunlavy

St. George, Utah
February 6, 2024

THE HOT SPOT STUDIOS LLC

BALANCE SHEET

As of December 31, 2023

Assets	
Current assets	
Cash and cash equivalents	\$ 96,595
Accounts receivable	9,740
Total current assets	<u>106,335</u>
Total assets	<u><u>\$ 106,335</u></u>
Liabilities and Members' Equity	
Current liabilities	
Accounts payable	\$ 6,675
Total current liabilities	<u>6,675</u>
Non-current liabilities	
Note payable to member	72,485
Total non-current liabilities	<u>72,485</u>
Total liabilities	<u>79,160</u>
Members' equity	<u>27,175</u>
Total liabilities and members' equity	<u><u>\$ 106,335</u></u>

The accompanying notes to the financial statements are integral part of these financial statements

THE HOT SPOT STUDIOS LLC
STATEMENT OF OPERATIONS
For the Year Ended December 31, 2023

Operating revenue	
Royalty fees	\$ 30,964
Marketing fees	4,240
Total operating revenue	<u>35,204</u>
Operating expenses	
Professional fees	37,974
Advertising and marketing	17,439
General and administrative	102,616
Total operating expenses	<u>158,029</u>
Net loss	<u><u>\$ (122,825)</u></u>

The accompanying notes to the financial statements are integral part of these financial statements

THE HOT SPOT STUDIOS LLC
STATEMENT OF MEMBERS' EQUITY
For the Year Ended December 31, 2023

Balance as of January 1, 2023	\$ -
Member contributions	150,000
Net loss	(122,825)
Balance as of December 31, 2023	<u>\$ 27,175</u>

The accompanying notes to the financial statements are integral part of these financial statements

THE HOT SPOT STUDIOS LLC
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2023

Cash flows from operating activities:	
Net loss	\$ (122,825)
Changes in operating assets and liabilities:	
Accounts receivable	(9,740)
Accounts payable	6,675
Net cash provided by operating activities	<u>(125,890)</u>
Cash flows from financing activities	
Member contributions	150,000
Loan from member	72,485
Net cash provided by financing activities	<u>222,485</u>
Net change in cash and cash equivalents	96,595
Cash and cash equivalents at beginning of period	<u>-</u>
Cash and cash equivalents at end of period	<u>\$ 96,595</u>
Supplemental disclosures of cash flow	
Cash paid for interest and taxes	\$ -

The accompanying notes to the financial statements are integral part of these financial statements

The Hot Spot Studios LLC

Notes to the Financial Statements

December 31, 2023

(1) Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

The Hot Spot Studios LLC (the "Company") was formed as a limited liability company in the State of Nevada on June 6, 2023 and immediately commenced operations. The Company is headquartered in San Diego, California, offering a unique pottery and craft experience.

The Company uses the accrual basis of accounting, and their accounting period is the 12-month period ending December 31 of each year.

(b) Accounting Standards Codification

The Financial Accounting Standards Board ("FASB") has issued the FASB Accounting Standards Codification ("ASC") that became the single official source of authoritative U.S. generally accepted accounting principles ("GAAP"), other than guidance issued by the Securities and Exchange Commission ("SEC"), superseding existing FASB, American Institute of Certified Public Accountants, emerging Issues Task Force and related literature. All other literature is not considered authoritative. The ASC does not change GAAP; it introduces a new structure that is organized in an accessible online research system.

(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with maturities of three months or less at the date of purchase. As of December 31, 2023, the Company had cash and cash equivalents of \$96,595.

(e) Accounts Receivables

Accounts receivable are recorded for amounts due based on the terms of executed franchise agreements for franchise sales, royalty fees, and marketing fees. Accounts receivable are recorded at the invoiced amount and do not bear interest, although a finance charge may be applied to such receivables that are past the due date. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical collections, customers' current creditworthiness, age of the receivable balance both individually and in the aggregate, and general economic conditions that may affect the customer's ability to pay. All account balances are reviewed on an individual basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. When recoveries of receivables previously charged off are made, they are recognized as income when payment is received.

As of December 31, 2023, the Company had net accounts receivable of \$9,740. As of December 31, 2023, the Company had no allowance for doubtful accounts.

(f) Income Taxes

The Company is structured as a limited liability company under the laws of the state of Nevada. Accordingly, the income or loss of the Company will be included in the income tax returns of the members. Therefore, there is no provision for federal and state income taxes.

The Hot Spot Studios LLC

Notes to the Financial Statements

December 31, 2023

The Company follows the guidance under ASC 740, *Accounting for Uncertainty in Income Taxes*. ASC 740 prescribes a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in the tax return. If taxing authorities were to disallow any tax positions taken by the Company, the additional income taxes, if any, would be imposed on the members rather than the Company. Accordingly, there would be no effect on the Company's financial statements.

The Company's income tax returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of December 31, 2023, no tax years are subject to examination.

(g) Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, the carrying amounts approximate fair value due to their short maturities.

(h) Concentration of Risk

The Company maintains its cash in bank deposit accounts which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risks on cash or cash equivalents.

(2) Related Party Transactions

During the year ended December 31, 2023, the Company entered into a promissory note with a member. The loan accrues interest at an annual rate of 10% and is due upon demand. As of December 31, 2023, the amount due to member was \$72,485.

During the year ended December 31, 2023, the Company received revenue from affiliates through common ownership of \$25,464.

(3) Commitments and Contingencies

The Company may be subject to various claims, legal actions and complaints arising in the ordinary course of business. In accounting for legal matters and other contingencies, the Company follows the guidance in ASC 450, *Contingencies*, under which loss contingencies are accounted for based upon the likelihood of inurrence of a liability. If a loss contingency is "probable" and the amount of loss can be reasonably estimated, it is accrued. If a loss contingency is "probable" but the amount of loss cannot be reasonably estimated, disclosure is made. If a loss contingency is "reasonably possible," disclosure is made, including the potential range of loss, if determinable. Loss contingencies that are "remote" are neither accounted for nor disclosed.

In the opinion of management, all matters are of such kind, or involve such amounts, that unfavorable disposition, if any, would not have a material effect on the financial position of the Company.

(4) Subsequent Events

Management has reviewed and evaluated subsequent events through February 6, 2024, the date on which the financial statements were issued.

**THESE FINANCIAL STATEMENTS ARE PREPARED
WITHOUT AN AUDIT. PROSPECTIVE FRANCHISEES
OR SELLERS OF FRANCHISES SHOULD BE ADVISED
THAT NO INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT HAS
AUDITED THESE FIGURES OR EXPRESSED AN
OPINION WITH REGARD TO THE CONTENT OR FORM.**

Balance Sheet

THS's LLC

As of July 31, 2025

DISTRIBUTION ACCOUNT	TOTAL
Assets	
Current Assets	
Bank Accounts	
Checking - 5945 - 1	54,074.48
Total for Bank Accounts	\$54,074.48
Accounts Receivable	
Accounts Receivable (A/R)	16,584.37
Accrued Royalties	9,740.00
Total for Accounts Receivable	\$26,324.37
Other Current Assets	
Payments to deposit	552.21
Total for Other Current Assets	\$552.21
Total for Current Assets	\$80,951.06
Fixed Assets	
Furniture & Fixtures	
Total for Fixed Assets	0
Other Assets	
Patents, copyrights, & franchises	
Total for Other Assets	0
Total for Assets	\$80,951.06
Liabilities and Equity	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable (A/P)	18,148.10
Total for Accounts Payable	\$18,148.10
Credit Cards	
Other Current Liabilities	
Short-term business loans	
Short-term loans from shareholders	16,000.00
Total for Other Current Liabilities	\$16,000.00
Total for Current Liabilities	\$34,148.10
Long-term Liabilities	
Total for Liabilities	\$34,148.10
Equity	
Retained Earnings	-116,533.84
Net Income	13,336.80

Balance Sheet

THS's LLC

As of July 31, 2025

DISTRIBUTION ACCOUNT	TOTAL
Common stock	0
Shareholder Shares - Emma Woods	5,000.00
Shareholder Shares - Jen Ebert	95,000.00
Shareholder Shares - Lorraine Kitsos	25,000.00
Shareholder Shares - Olivia Franks	25,000.00
Total for Common stock	\$150,000.00
Total for Equity	\$46,802.96
Total for Liabilities and Equity	\$80,951.06

Profit and Loss

THS's LLC

July 2025

DISTRIBUTION ACCOUNT	TOTAL	
	JUL 1 - JUL 31 2025	JAN 1 - JUL 31 2025 (YTD)
Income		
Ad Fund Income	2,716.73	16,059.69
Credit Card Fees	244.30	1,176.20
Franchise Sold Income	63,203.75	381,891.25
Royalty Fee Income	7,303.41	28,169.08
Tech Fee Income	1,050.00	6,550.00
Swag		439.87
Total for Income	\$74,518.19	\$434,286.09
Cost of Goods Sold		
Gross Profit	\$74,518.19	\$434,286.09
Expenses		
Advertising & marketing	\$5,960.33	\$37,318.41
Website	203.88	1,628.58
Tradeshaw		
Total for Advertising & marketing	\$6,164.21	\$38,946.99
Franchise Development	12,317.50	182,795.00
General business expenses	0	0
Bank fees & service charges	115.35	1,659.45
Uniforms	-120.00	2,530.93
Total for General business expenses	-\$4.65	\$4,190.38
Legal & accounting services	0	\$368.00
Accounting fees	221.00	2,958.59
Legal Fees	2,000.00	14,742.75
Total for Legal & accounting services	\$2,221.00	\$18,069.34
Management Fees	18,700.00	141,033.95
Office expenses	0	0
Merchant account fees	299.63	2,176.36
Software & apps	280.00	2,080.00
Office supplies		60.00
Printing & photocopying		401.33
Shipping & postage		568.25
Total for Office expenses	\$579.63	\$5,285.94
QuickBooks Payments Fees	755.57	1,528.96
Telephone	40.00	357.80
Training	1,250.00	13,814.02

Profit and Loss

THS's LLC

July 2025

DISTRIBUTION ACCOUNT	TOTAL	
	JUL 1 - JUL 31 2025	JAN 1 - JUL 31 2025 (YTD)
Travel	\$483.28	\$3,693.41
Hotels	766.65	1,728.65
Vehicle rental		183.14
Total for Travel	\$1,249.93	\$5,605.20
Advertising/Promotional		38.36
Business licenses		1,200.50
Client Gift		161.02
Commissions & fees		2,000.00
Interest paid		4,052.70
Meals	0	0
Meals with clients		1,480.11
Total for Meals	0	\$1,480.11
Repairs & maintenance		300.00
Total for Expenses	\$43,273.19	\$420,860.27
Net Operating Income	\$31,245.00	\$13,425.82
Other Income		
Other Expenses		
Vehicle expenses	0	0
Vehicle gas & fuel		89.02
Total for Vehicle expenses	0	\$89.02
Total for Other Expenses	0	\$89.02
Net Other Income	0	-\$89.02
Net Income	\$31,245.00	\$13,336.80

**ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF MINNESOTA**

The Commissioner of Commerce for the State of Minnesota requires that certain provisions contained in franchise documents be amended to be consistent with Minnesota Franchise Act, Minn. Stat. Section 80.01 et seq., and of the Rules and Regulations promulgated under the Act (collectively the "Franchise Act"). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

1. No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including, fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed with the franchise.

~~1.2.~~ Item 6, Non-Sufficient Funds Fee, is amended to state:

Pursuant to Minn. Stat. § 604.113, the Non-Sufficient Funds Fee is \$30.00 per occurrence.

~~2.3.~~ Item 17 is amended to state:

(a) Minn. Stat. § 80C.21 and Minnesota Rules § 2860.4400(J) prohibit us from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring you to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in this Franchise Disclosure Document or agreement(s) shall abrogate or reduce (1) any of your rights as provided for in Minn. Stat. Chapter 80C or (2) your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

(b) In accordance with Minn. Stat. § 80C.14 subd. 3-5, except in certain specified cases, we will give you 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the Franchise Agreement. Additionally, we will not unreasonably withhold our consent to a transfer of your Board and Brush Creative Studio.

(c) In accordance with Minnesota Rules 2860.4400(D), we cannot require you to assent to a general release.

(d) In accordance with Minnesota Rules 2860.4400(J), we cannot require you to consent to liquidated damages.

(e) Minn. Stat. § 80C.17 subd. 5 requires that an action be commenced pursuant to the Franchise Act within three (3) years after the cause of action accrues.

(f) You cannot consent to us obtaining injunctive relief. We may seek injunctive relief. See Minnesota Rules 2860.4400(J),

**AMENDMENT TO THE FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF MINNESOTA**

In recognition of the requirements of the Minnesota Statutes Chapter 80C, the parties to the attached The Hot Spot Studios LLC Franchise Agreement (the "Franchise Agreement") agree as follows:

1. No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including, fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed with the franchise.

4.2. Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee's assent to a release other than as part of a voluntary settlement of disputes. To the extent of any inconsistencies with the Minnesota Rules requirement contained in Sections 5.2.5 or 16.3.6 of the Franchise Agreement, such inconsistent provisions are hereby deleted.

2.3. To the extent of any inconsistencies, Section 5.1.1 of the Franchise Agreement is hereby amended to state:

"Except in certain specified cases as set forth in Minn. Stat. § 80C.14 subd. 4, Franchisor will give Franchisee 180 days' notice for non-renewal of the Franchise Agreement."

3.4. To the extent of any inconsistencies, Section 6.5 of the Franchise Agreement is hereby amended to state that the non-sufficient funds fee is Thirty Dollars (\$30.00) per occurrence.

4.5. To the extent of any inconsistencies, Sections 17.1 through 17.3 of the Franchise Agreement are hereby amended to state:

"Except in certain specified cases as set forth in Minn. Stat. § 80C.14 subd. 3, Franchisor will give Franchisee 90 days notice of termination (with 60 days to cure)".

5.6. To the extent of any inconsistencies, Article 20, Dispute Resolution, of the Franchise Agreement is hereby amended to state:

"Franchisor cannot require Franchisee to: (i) conduct litigation outside Minnesota, (ii) waive a jury trial, or (iii) consent to liquidated damages, termination penalties or judgment notes. Nothing in this Franchise Agreement shall abrogate or reduce (1) any of Franchisee's rights as provided for in Minn. Stat. Chapter 80C or (2) Franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction. Franchisee cannot consent to Franchisor obtaining injunctive relief. Franchisor may seek injunctive relief."

8. Each provision of this Amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Statutes Chapter 80C are met independently without reference to this Amendment.

~~**-Signatures appear on following page-**~~

The parties hereto have duly executed this Minnesota Amendment to the Franchise Agreement on the same date as that on which the Franchise Agreement was executed.

FRANCHISOR:
THE HOT SPOT STUDIOS LLC

By: _____

Lorraine Kitsos, Director of Training & Onboarding
(Print Name, Title)

FRANCHISEE:

By: _____

(Print Name, Title)

PRINCIPAL:

(Print Name)

PRINCIPAL:

(Print Name)

EXHIBIT I

RECEIPT

This Franchise Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Franchise Disclosure Document and all exhibits carefully.

If The Hot Spot Studios LLC 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 The Hot Spot Studios LLC does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580 and to your state authority listed on Exhibit A.

The name and principal business address and telephone number of each franchise seller offering the franchise is:

Olivia Franks 1180 Scheels Drive, #107, Sparks, Nevada 89434 1-800-764-4049	Lorraine Kitsos 1180 Scheels Drive, #107, Sparks, Nevada 89434 1-800-764-4049	Jennifer Eberts 1180 Scheels Drive, #107, Sparks, Nevada 89434 1-800-764-4049
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Issuance Date: April 29, 2025

I received a Disclosure Document with an issuance date of _____ included the following Exhibits:

- EXHIBIT A: State Agencies/Agents for Service of Process
- EXHIBIT B: Franchise Agreement
- EXHIBIT C: Financial Statements
- EXHIBIT D: Operations Manual Table of Contents
- EXHIBIT E: Franchised Outlets
- EXHIBIT F: State Addenda
- EXHIBIT G: General Release
- EXHIBIT H: Acknowledgment Statement
State Effective Dates
- EXHIBIT I: Receipts

Date Received: _____
(If other than date signed)

DATE: _____

Print Name: _____

Print Address: _____

City, State: _____

(Signature of recipient)

KEEP FOR YOUR RECORDS

EXHIBIT I

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- EXHIBIT H: Acknowledgment Statement
State Effective Dates
- EXHIBIT I: Receipts

Date Received: _____
(If other than date signed)

DATE: _____

Print Name: _____

Print Address: _____

City, State: _____

(Signature of recipient)

Please return signed receipt to The Hot Spot Studios LLC
1180 Scheels Drive, #107