

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 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. **Mandatory 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. **Supplier Control.** You must purchase all or nearly all of the inventory or supplies that are necessary to operate your business from the franchisor, its affiliates, or suppliers that the franchisor designates, at prices the franchisor or they set. These prices may be higher than prices you could obtain elsewhere for the same or similar goods. This may reduce the anticipated profit of your franchise business.
5. **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.

Reformers

You must pay us a non-refundable fee of \$55,200 to \$64,400, for 12 - 14 reformers for your studio, at a cost of \$4,600 per reformer. The number of required reformers depends on the size of your studio. The fee includes the cost of the reformer, and delivery to your studio including up to 2 weeks storage if required, ~~but not the custom duties.~~

~~You must reimburse us for the customs duties on the reformers.~~ The customized reformers which you are required to buy are manufactured and shipped from China. As of early May 2025, the U.S. government's tariffs on goods imported from China into the U.S. were about 145%. ~~Based on this level of U.S. tariffs, the customs duties on 14 reformers, which is the typical number of reformers for a studio, will be about \$42,000.~~ The amount of customs duties will vary within the estimated range depending on the number of reformers you order and the level of U.S. tariffs at the time of shipment.

Opening Package Fee

The Opening Package Fee is a \$25,000 non-refundable lump sum fee which covers the Initial Instructor Training for up to 8 people, the Initial Business Operations Training for the initial sales, administrative, and management staff, the design and development of the studio page on the brand's website and Marketing and Business Operations support. This fee is due and payable in full when you have entered into a letter of intent with a landlord.

Architectural Package

The Architectural Package Fee is a \$23,500 non-refundable lump sum fee which covers the Studio Design, construction plans and architectural services for your Studio. It includes the services of Studio Pilates approved architectural team to prepare plans ready for submission to the local government agency to obtain required permits. It does not include the permit fees charged by local authorities having jurisdiction over the project and travel expenses by the team during site visits.. This fee is due and payable when you have entered into a letter of intent with a landlord.

Marketing Launch Package Fee

You must pay us or one of our affiliates the non-refundable sum of \$12,000 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 you have entered into a letter of intent with a landlord.

Technology Subscription

You must pay us a non-refundable monthly technology subscription fee, to cover the cost for: (i) the cost of your license to use the required Computer Software and Services during the term of the franchise agreement; and (ii) our cost for monitoring your business activities, including any bookkeeping and payroll functions performed in connection with such monitoring. From time to time during the franchise agreement, we can change the cost of the Technology Subscription. The first invoice issued when you open will be a nonrefundable fee of \$1,950 for the services that have

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 8. 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 9. This Buildout Costs estimate includes the costs for the build-out of the premises, construction materials and labor, furniture and fixtures, general contractor fees, and signage. 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. Leasehold improvement costs may increase outside of this range due to factors such as (v) whether you need to install new plumbing, fire service systems or HVAC system, or make significant modifications to an existing HVAC system, and (vi) whether there are any requirements to install sound proofing, which are not considered normal improvements. 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 standard reasonable 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 \$220,000 to \$380,000 for cost for a high-density high-rent location. These estimates are based on historical construction costs. Inflation and other supply chain issues may increase these costs. These costs exclude the cost of union labor.

Note 10. 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. The Franchisor will arrange the ordering and installation of the audio visual and CCTV equipment with the approved vendor during the buildout process.

Note 11. You must purchase the required reformers from us. A typical studio will require 12 – 14 reformers, and the cost is \$4,600 per reformer. This cost includes delivery to your studio including up to 2 weeks local storage if required, but does not include customs duties, which you are responsible to pay under the Franchise Agreement. The reformers are customized for our studios and they are manufactured in and shipped from China. ~~The tariffs imposed on Chinese products, which may be significant, are impossible to estimate or predict due to the volatile nature of the trade war between the United States and China.~~ 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 purchasing the equipment, you do have the option to lease the equipment instead, however, this may increase the overall costs of the equipment. 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.

Note 12. You may need to store the reformers for a short time if they arrive to the destination prior to the Studio buildout being completed. This estimate assumes that you use a short-term local storage facility to store the reformers for four weeks, and includes the costs of unloading the reformers into the storage facility and transporting the reformers from the storage facility to the studio when ready.

Note 13. You must pay or reimburse us for the customs duties on all products including the reformers. The customized reformers which you are required to buy are manufactured and shipped from China. As of early May 2025, the U.S. government's tariffs on goods imported from China into the U.S. were about 145%. ~~Based on this level of U.S. tariffs, the customs duties on 14 reformers, which is the typical number of reformers for a studio, will be about \$42,000.~~ The amount of customs duties will vary within the estimated range depending on the number of reformers you order and the level of U.S. tariffs at the time of shipment.

Note 14. 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, 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. Included in this range is an initial supply of branded merchandise to stock the studio before launch.

Note 15. You must purchase custom made merchandise displays to be delivered to your Studio together with the reformers prior to the Opening of the Studio.

Note 16. You are required to pay an annual premium for insurance coverage. The types of coverage and amounts are described in Schedule A to your Franchise Agreement.

Note 17. You may be required to obtain certain licenses or permits before you can operate, such as building permits, signage permits, fire inspection, sales tax permit, and retail sales permits. Fees paid for securing approvals of authorities having jurisdiction over the project will vary depending on the location and the scope of works to be undertaken. You should investigate the requirements in your area, contacts the regulatory agencies and talk with your lawyer.

Note 18. 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.

trademarks accrue solely to us.

Trademark Registration

Our affiliate, Studio Pilates International Pty Ltd, as trustee for, The Studio Pilates IP Trust, has registered our 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.



~~Our affiliate, Studio Pilates International Pty Ltd, as trustee for, The Studio Pilates IP Trust, has a pending trademark registration application with the United States Patent and Trademark Office for the word mark “Studio Pilates International”, without the letters SP or the stylized design, filed November 21, 2024, Serial No. 98866762.~~

~~With regard to the word mark “Studio Pilates International,” without the letters SP or the stylized design, we do not have a federal registration for this trademark. Therefore, this trademark does not have many legal benefits and rights as a federally registered trademark. If our right to use this trademark is challenged, you may have to change to an alternative trademark, which may increase your expenses.~~

We have the right to use and sublicense the Marks under a ten-year license agreement, with two renewal terms of ten-years each, between Studio Pilates International Pty Ltd. and us, dated May 27, 2024 (“Trademark License Agreement”), which permits us to use and sublicense use of the relevant intellectual property to Franchisees. The Trademark License Agreement can only be terminated for cause. If our rights under the Trademark License Agreement are terminated, then our franchise agreements with our Franchisees shall be immediately transferred from us to our affiliate Studio Pilates International Pty Ltd.

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



Studio Pilates International USA Corp

Independent Auditor's Report and Financial Statements

December 31, 2024 and 2023



Studio Pilates International USA Corp
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December 31, 2024 and 2023

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Independent Auditor's Report

Board of Directors and Shareholder
Studio Pilates International USA Corp
New York, New York

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, 2024 and 2023, and the related statements of operations, shareholder's deficit, 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, 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 Studio Pilates International USA Corp 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'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 our audits 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'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'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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Forvis Mazars, LLP

**Birmingham, Alabama
March 11, 2025**

Studio Pilates International USA Corp
Balance Sheets
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 550,775	\$ 277,580
Accounts receivable	230,901	82,473
Due from affiliates, net	8,279	-
Total Current Assets	<u>789,955</u>	<u>360,053</u>
Long-Term Assets		
Deferred tax assets	179,801	49,402
Deferred sales commissions	68,713	25,613
Total Long-term Assets	<u>248,514</u>	<u>75,015</u>
Total Assets	<u>\$ 1,038,469</u>	<u>\$ 435,068</u>
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current Liabilities		
Accounts payable	\$ 34,771	\$ 8,795
Due to affiliates, net	-	26,911
Due to parent	2,969	101,253
Other current liabilities	96,666	55,503
Total Current Liabilities	<u>134,406</u>	<u>192,462</u>
Long-Term Liabilities		
Deferred revenue	917,478	281,679
Total Long-term Liabilities	<u>917,478</u>	<u>281,679</u>
Shareholder's Deficit		
Common stock (10,000 shares authorized, issued and outstanding at par value \$0.0001)	1	1
Accumulated deficit	(13,416)	(39,074)
Total Shareholder's Deficit	<u>(13,415)</u>	<u>(39,073)</u>
Total Liabilities and Shareholder's Deficit	<u>\$ 1,038,469</u>	<u>\$ 435,068</u>

Studio Pilates International USA Corp
Statements of Operations
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Revenue		
Equipment sales	\$ 925,908	\$ 149,600
Franchise fee	53,056	33,529
Pre-opening services fees	271,799	23,125
Sales-based royalties	418,722	159,551
Other franchise fees	<u>242,276</u>	<u>83,888</u>
Total Revenue	1,911,761	449,693
Cost of Goods Sold	<u>(839,910)</u>	<u>(71,254)</u>
Gross Profit	<u>1,071,851</u>	<u>378,439</u>
Operating Expenses		
Selling, general, and administrative	823,810	291,727
Salaries and wages	<u>207,825</u>	<u>73,719</u>
Total Operating Expenses	<u>1,031,635</u>	<u>365,446</u>
Operating Income	40,216	12,993
Other Income	<u>3,175</u>	<u>1,603</u>
Income Before Provision for Income Taxes	43,391	14,596
Provision for income taxes	<u>(17,733)</u>	<u>(9,077)</u>
Net Income	<u><u>\$ 25,658</u></u>	<u><u>\$ 5,519</u></u>

Studio Pilates International USA Corp
Statements of Changes in Shareholder's Deficit
Years Ended December 31, 2024 and 2023

	Common Stock		Accumulated Deficit	Total
	Issued and Outstanding Shares	Amount		
Balance, January 1, 2023	10,000	\$ 1	\$ (44,593)	\$ (44,592)
Net income	-	-	5,519	5,519
Balance, December 31, 2023	10,000	1	(39,074)	(39,073)
Net income	-	-	25,658	25,658
Balance, December 31, 2024	<u>10,000</u>	<u>\$ 1</u>	<u>\$ (13,416)</u>	<u>\$ (13,415)</u>

Studio Pilates International USA Corp
Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Activities		
Net income	\$ 25,658	\$ 5,519
Adjustments to reconcile net income to net cash provided by operating activities		
Changes in assets and liabilities		
Deferred tax assets	(130,399)	(10,983)
Accounts receivable	(148,428)	(52,934)
Deferred sales commissions	(43,100)	(21,113)
Accounts payable	25,976	(4,951)
Due to affiliates, net	(35,190)	5,958
Due to parent	(98,284)	22,345
Other current liabilities	41,163	42,729
Deferred revenue	635,799	169,275
	<u>273,195</u>	<u>155,845</u>
Net Cash Provided by Operating Activities		
Cash and Cash Equivalents, Beginning of Year	<u>277,580</u>	<u>121,735</u>
Cash and Cash Equivalents, End of Year	<u>\$ 550,775</u>	<u>\$ 277,580</u>

Note 1. Nature of Operations

Studio Pilates International USA Corp (the “Company”) was organized on August 30, 2018, to sell Studio Pilates franchises. The Company serves to provide customers with high intensity aerobic exercise classes to improve health and overall wellbeing.

As of December 31, 2024 and 2023, there were 12 and 5 franchise outlets in operation, respectively. These franchise outlets are located throughout the United States of America. They are restricted to providing services in their respective territory.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) on the accrual basis of accounting. The accompanying financial statements include the accounts of the Company.

Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to the 2024 financial statement presentation. These reclassifications had no effect on net income.

Use of Estimates

The preparation of financial statements in conformity 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 cash depository accounts, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”). This risk is mitigated by maintaining all deposits in high quality financial institutions. The Company has not experienced any losses in such accounts.

Business and Credit Concentration

The Company had four franchisees that accounted for approximately 87% of accounts receivable at December 31, 2024. The Company had two franchisees that accounted for approximately 20% of revenue for the year ended December 31, 2024.

The Company had one franchisee that accounted for approximately 84% of accounts receivable at December 31, 2023. The Company had two franchisees that accounted for approximately 66% of revenue for the year ended December 31, 2023.

The Company’s success is dependent on the ability of its franchisees to generate revenue and pay royalties. The inability of any single franchisee to generate revenue and pay royalties may have a material impact on the Company’s financial statements.

Studio Pilates International USA Corp
Notes to Financial Statements
December 31, 2024 and 2023

Accounts Receivable

The Company records accounts receivable at their estimated net realizable value. Price concessions are recorded based on management's estimate of uncollectible accounts, determined by analysis of specific customer accounts. There was no allowance for credit losses at December 31, 2024 and 2023.

Revenue Recognition

The Company derives its revenue from sales of franchises and royalties from franchisees. Revenues are recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods or services. The Company applies the five-step model under FASB Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, to determine when revenue is earned and recognized.

The Company has elected the practical expedient available to private companies under ASU 2021-02, *Franchisors - Revenue from contracts with customers*, to account for pre-opening activities as one distinct performance obligation for new franchise sales. The initial franchise launch fees are payable based on contract terms prior to the franchise opening. The transaction price is recognized as revenue on a straight-line basis based on the timing of when services are satisfied for pre-opening activities. Initial franchise fees are recognized as revenue on a straight-line basis over the initial term of each respective franchisee's franchise agreement. Franchise renewals and existing franchise sales are recognized as revenue on a straight-line basis based over the term of each respective franchisee's franchise agreement.

The Company received a significant portion of its revenue from sales-based royalties, admin fees, advertising fees, and other fees charged to franchisees. These fees are determined as a percentage of sales and are recognized in the period earned by the Company. Equipment sales and training fees are based on agreed contract price with franchisees. These fees are recognized as revenue when control of the promised goods or services are transferred to franchisees.

The Company capitalizes sales commission expenses paid to contracted 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 the initial term of the franchise agreement (typically 5-10 years). Amortization expenses are included in selling, general, and administrative expenses in the accompanying statements of operations.

Selling, General, and Administrative

General and administrative expenses consist of costs associated with administrative and support functions related to the Company's existing business as well as growth and development activities. These costs primarily consist of advertising, franchise expenses, information technology, and professional expenses.

Advertising Costs

The Company expenses the costs of advertising as they are incurred. During the years ended December 31, 2024 and 2023, the Company incurred advertising costs of \$301,516 and \$88,180, respectively. Advertising costs are included in the selling, general, and administrative expenses in the statements of operations.

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. Deferred income taxes are provided for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. Deferred taxes as of December 31, 2024 and 2023 are reflected on the accompanying balance sheets.

Studio Pilates International USA Corp
Notes to Financial Statements
December 31, 2024 and 2023

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 is more likely than not would not be sustained upon examination by the Internal Revenue Service.

Tax positions are recognized if it is more likely than not, based on the technical merits, the tax position will be realized or sustained upon examination. The term “more likely than not” means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Management has analyzed the tax positions taken by the Company, and has concluded that as of December 31, 2024 and 2023, 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.

Note 3. Related Party Transactions

At December 31, 2024 and 2023, the Company had \$2,969 and \$1,388 of accounts payable due to Studio Pilates Australia Pty Ltd, respectively.

At December 31, 2023, the Company received \$99,865 in advances from Studio Pilates Australia Pty Ltd. These advances are non-interest bearing and unsecured.

At December 31, 2024 and 2023, the Company advanced \$7,427 and \$852 to Studio Pilates International Canada Ltd and an officer of the Company, respectively. These advances are non-interest bearing and unsecured. Management expects for the advances to be received during the year ended December 31, 2025, thus, these receivable balances have been included in current assets in the balance sheet as of December 31, 2024. The Company also had \$35,190 in accounts payable due to Studio Pilates Industries Pty Ltd at December 31, 2023. These amounts are presented in the due to affiliates, net on the accompanying balance sheet as of December 31, 2023.

The Company purchases all equipment sold to franchisees from Studio Pilates Industries Pty Ltd. The Company purchased equipment in the amount of \$400,140 and \$71,254 and during the years ended December 31, 2024 and 2023, respectively, which is presented in cost of goods sold on the accompanying statements of operations.

Studio Pilates International USA Corp
Notes to Financial Statements
December 31, 2024 and 2023

Note 4. Income Taxes

The provision for income taxes consists of the following for the year ended December 31:

	<u>2024</u>	<u>2023</u>
Current provision (benefit)		
Federal	\$ 106,003	\$ 17,340
State	<u>42,129</u>	<u>2,720</u>
	<u>148,132</u>	<u>20,060</u>
Deferred tax (benefit) provision		
Federal	(102,167)	(11,593)
State	<u>(28,232)</u>	<u>610</u>
	<u>(130,399)</u>	<u>(10,983)</u>
Income tax expense	<u>\$ 17,733</u>	<u>\$ 9,077</u>

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	<u>2024</u>	<u>2023</u>
Deferred tax assets		
Change in balance, accounts payable	\$ 16,924	\$ 11,059
Deferred revenue	239,595	60,376
Other	<u>1,525</u>	<u>3,300</u>
	<u>258,044</u>	<u>74,735</u>
Deferred tax liabilities		
Change in balance, deferred sales commissions	(17,944)	(5,164)
Change in balance, accounts receivable	<u>(60,299)</u>	<u>(20,169)</u>
	<u>(78,243)</u>	<u>(25,333)</u>
Net deferred tax asset	<u>\$ 179,801</u>	<u>\$ 49,402</u>

The difference between the Company's effective tax rate and the statutory federal income tax rate during the years ended December 31, 2024 and 2023 is primarily due to state income taxes and non-deductible expenses.

Note 5. Subsequent Events

Management has evaluated all subsequent events and transactions for potential recognition or disclosure through March 11, 2025, 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 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.

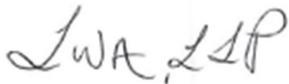
Auditor's Responsibilities for the Audit of the Financial Statements

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

ASSETS	2022	2021
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>
TOTAL ASSETS	<u><u>\$ 194,193</u></u>	<u><u>\$ 168,628</u></u>
LIABILITIES		
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>
SHAREHOLDER'S EQUITY		
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>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u><u>\$ 194,193</u></u>	<u><u>\$ 168,628</u></u>

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>
REVENUE		
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>
Less: COST OF GOODS SOLD	-	76,759
GROSS PROFIT	<u>185,522</u>	<u>126,742</u>
Less: OPERATING EXPENSE		
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>
NET INCOME FROM OPERATIONS	<u>(55,857)</u>	<u>27,310</u>
NET INCOME BEFORE PROVISION FOR INCOME TAXES	<u>(55,857)</u>	<u>27,310</u>
Income tax (benefit)	<u>(15,459)</u>	<u>(11,920)</u>
NET INCOME	<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>
CASH FLOW FROM OPERATING ACTIVITIES		
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
CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES	(32,798)	80,184
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in dues to affiliates, net	10,928	9,990
CASH FLOW PROVIDED BY FINANCING ACTIVITIES	10,928	9,990
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

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**

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:

Income/ (Loss) Before Income Taxes	2022	2021
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)

Current Tax Expense:		2022	2021
Current:			
Federal		4,326	3,708
State		1,525	1,446
Deferred:			
Federal		(17,809)	(12,670)
State		(3,502)	(4,404)
	Total	(15,460)	(11,920)

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:

Tax Rate Reconciliation	2022	2022	2021	2021
	Tax Amount	Percentage	Tax Amount	Percentage
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	
Effect Tax Rate	-25.13%		-43.66%	

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.

Federal Net Operating Losses (NOLs):	2022	2021
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)

State Net Operating Losses (NOLs):	2022	2021
Kentucky NOL	852	-
New York NOL	553	-
North Carolina NOL	433	-
Net DTA/ (DTL)	1,838	-

Deferred Tax Assets:	2022		2021	
	Federal	State	Federal	State
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

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.

**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><u>CALIFORNIA</u> California Department of Financial Protection and Innovation 320 West 4th Street, Suite 750 Los Angeles, CA 90013 (213) 576-7500 Toll Free (866) 275-2677</p> <p>2101 Arena Boulevard 651 Bannon Street, Suite 300 Sacramento, CA 9581495811 (916) 445-7205 (866) 275-2677</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><u>CONNECTICUT</u> State of Connecticut Department of Banking Securities & Business Investments Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8230</p> <p>Agent: Banking Commissioner</p>
<p><u>HAWAII</u> (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><u>ILLINOIS</u> Franchise Bureau Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465</p>

STATE OF CALIFORNIA

The registration of this franchise offering by the California Department of Financial Protection and Innovation does not constitute approval, recommendation, or endorsement by the commissioner.

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.

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.

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. Section 31512.1 of the California Corporations Code voids any disclaimer or denial of any of the following: (a) representations made by the franchisor or its personnel or agents to a prospective franchisee; (b) reliance by a franchisee on any representations made by the franchisor or its personnel or agents; (c) reliance by a franchisee on the franchise disclosure document including any exhibit thereto; and (d) violations of any provision of this division.

~~5-6.~~ California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer, or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

~~6-7.~~ 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.).

~~7-8.~~ 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.

~~8-9.~~ The franchisor will not enforce in California the prohibition on franchisee employing or soliciting for employment any current or former employee of franchisor or its affiliates or

STATE OF ILLINOIS

The Franchise Disclosure Document is amended as follows:

~~1.~~ The “~~Special Risks to Consider About This Franchise~~” page is amended to add the following Risk Factor:

~~“5. **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.”~~

~~2.1.~~ Item 5, Section entitled “Initial Franchise Fee,” is amended to add the following:

“Your obligation to pay the initial franchise fee is deferred until the time when we have fulfilled all of our pre-opening obligations owed to you under the franchise agreement and other agreements, and you have commenced doing business pursuant to the franchise agreement. The Illinois Attorney General’s Office imposed this deferral requirement due to Franchisor’s financial condition.”

~~3.2.~~ Illinois law governs the Franchise Agreement(s).

~~4.3.~~ 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.

~~5.4.~~ Your rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.

~~6.5.~~ 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.

~~7.6.~~ 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."

~~8.7.~~ Exhibit H (Compliance Questionnaire) of the Franchise Disclosure Document is deleted. You are not required to sign the Compliance Questionnaire.

~~9.8.~~ 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

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, 21ST 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. On the state cover page, the following risk factor is added:~~

~~“5. 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.”~~

- ~~3.2.~~ 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.

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:

<u>State</u>	<u>Effective Date</u>
California	Pending <u>May 14, 2025</u>
Indiana	May 1, 2025
Illinois	Pending <u>April 29, 2025</u>
Maryland	Pending
Michigan	May 3, 2025
Minnesota	Pending
New York	Pending <u>June 2, 2025</u>
Virginia	May 6, 2025
Washington	Pending <u>May 20, 2025</u>

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 March 14, 2025; (amended June 10, 2025). The names and contact information (principal business addresses and telephone number) for the individuals involved in the sale of this franchise are:

I received a disclosure document from Studio Pilates International USA Corp., dated as of March 14, 2025; (amended June 10, 2025), that included the following Exhibits:

- A Franchise Agreement and Related Agreements
- B State Administrators
- C Table of Contents of Operations Manual
- D Financial Statements
- 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: _____

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Prospective Franchisee

Date: _____
