

FRANCHISE DISCLOSURE DOCUMENT



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As a Lil' Angels® franchisee, you will schedule and take pictures of families, children, and youth involved in child care centers, sports, schools, clubs, and other youth-related organizations.

The initial investment necessary to begin operation of a Lil' Angels franchised business ranges from \$41,263-\$45,780. This investment includes \$39,500 that must be paid to the Franchisor, an affiliate, or a vendor.

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

You may wish to receive your disclosure document in another format that is more convenient to you. To discuss the availability of disclosures in different formats, contact Paul Kimball at 550 Industrial Drive SW, Cleveland, Tennessee 37311, (423) 432-5957, paulkimball@bellsouth.net.

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

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

The issue date for this Franchise Disclosure Document is April 1, 2024⁵.

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 [A] 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 Lil' Angels 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 Lil' Angels 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 C.

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 Tennessee. 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 Tennessee than in your own state.
- (2) **Governing law for franchise agreement**. The franchise agreement states that Tennessee law governs the agreement, and this law may not provide the same protections and benefits as local law. You may want to compare these laws.
- (3) **Doing a photography shoot outside your territory**. If, without our permission, you shoot an event outside of your designated territory or operate under a name other than the registered mark, you will be assessed a fee of \$5,000 and may be obligated to disgorge a portion of the sales proceeds.
- (4) **Minimum System Fee payment**. After your first year as a franchisee, you must pay us \$5,000 in system fees, minimum digital fees, and photo lab processing charges per calendar quarter (or \$20,000 per year). If you do not meet this requirement, we will notify you of the amount and permit you to pay a minimum system fee of from \$0.01 to \$1,500 each calendar quarter (or from \$0.04 to \$6,000 per year), depending upon the amount of your quarterly production. If you fail to meet this requirement, we may terminate your franchise agreement.

Certain states may require other risks to be highlighted. If so, check the “State Specific Addendum” pages for your state.

LIL' ANGELS PHOTOGRAPHY®

FRANCHISE DISCLOSURE DOCUMENT

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LIL' ANGELS PHOTOGRAPHY®

Franchise Disclosure Document

Item 1: The Franchisor, and any Parents, Predecessors, and Affiliates.

To simplify the language in this Franchise Disclosure Document, "Lil' Angels" means Lil' Angels LLC, the Franchisor. Throughout this Franchise Disclosure Document, "we" and "our" may be used to refer to Lil' Angels. "You" means the person who buys the Lil' Angels' franchise. Further, Lil' Angels Photography® is a registered mark of Lil' Angels, LLC.

Lil' Angels is a Tennessee limited liability company that was formed in May 1996. Lil' Angels does business as Lil' Angels Photography®. Our principal business address is 550 Industrial Drive SW, Cleveland, Tennessee 37311. Our Mailing Address is P.O. Box 2426, Cleveland, Tennessee 37320.

There is no parent or any affiliate that offers franchises in any line of business or provides products or services to our Franchise Owners. There is no predecessor to Lil' Angels.

The registered agent for service of process is the Minnesota Commissioner of Commerce, 85 7th Place East, Suite 280, St. Paul, Minnesota.

Franchisor's Business

We grant franchises for the right to provide photography services for families, children, and youth involved in child-care centers, sports, schools, clubs, and other youth-related organizations. For purposes of providing new owner training, testing equipment, supplies, methods, and procedures and earning a profit, we operate one Lil' Angels business in Cleveland, Tennessee and one in Rockmart, Georgia. Other than the two business locations in Cleveland, Tennessee and Rockmart, Georgia, we do not operate a business of the type to be operated by the Franchise Owner. One of our members operated a business of the type to be operated by the Franchise Owner in Tupelo, Mississippi from January 1993 to June 2014. We have offered Lil' Angels franchises since January 1, 1998. We have not offered franchises for the same type of business as that offered in this Disclosure Document. Further, we have not offered franchises in any other lines of business, do not offer franchises in any other lines of business, and do not offer franchises under names other than Lil' Angels.

Franchised Business

You will advertise and contact families, child-care centers, athletic teams and organizations, schools, clubs, and other youth-related organizations to take pictures of children, youth, and families. There is an expanding market for pictures of children, families, and youth in child-care centers and other child organizations. Although you can normally schedule the date and time for you to take pictures, some child-care centers, and other organizations set the times throughout the year for taking pictures.

Once you have taken the pictures, you will have the images processed and/or printed by photo processing labs approved by Lil' Angels. Families may order and purchase pictures from the online store or purchase them from you After you have received the processed images and/or pictures from the approved photo labs, ~~you will sell the pictures to the families.~~

In addition to the charges by the photo labs for processing each picture unit, you will pay a system fee of \$.60 for each equivalent unit. An "equivalent unit" is a unit of value we have assigned for each processed picture item. This

system fee is subject to an annual modification that is disclosed in more detail in Item 11. When other Lil' Angels Franchise Owners pay the system fee, you may have the opportunity to receive a portion of the system fee paid by these other Owners. That is, when a new Lil' Angels Franchise Owner that you introduce to the franchise system pays the \$.60 system fee, you will receive \$.15 from his or her system fee payment. You have the right to receive this payment for so long as you are a Lil' Angels Franchise Owner. However, you must qualify to receive this payment by meeting your minimum production requirement and being in compliance with the terms and conditions of the Franchise Agreement.

In the operation of your business, you will be competing with national chains and companies and local portrait and photography studios and photographers that offer the same or similar services.

Regulations Specific to Franchised Business

There are no regulations of which we are aware that specifically govern the taking of children's pictures. In addition, Franchise Owners and employees are not required to have prior photography experience. However, you will be required to obtain local and state business licenses and permits.

Factors to Consider

In considering whether to purchase a Lil' Angels franchise, you should consider the following factors: (a) you should research the number of photography and portrait studios already in your exclusive area that take pictures of families, children, and youth at childcare centers, (b) you should contact as many Franchise Owners listed in this document as possible; (c) you should contact any person with whom we have been involved in litigation, as disclosed in Item 3; (d) you should have this entire Franchise Disclosure Document reviewed by your attorney and accountant; (e) you should be aware that any investment, particularly in a franchise, involves a degree of risk, and you should not rely on any estimates of costs, revenues or other operating results other than as contained in this Franchise Disclosure Document.

Item 2: Business Experience.

Chief Manager: Paul Kimball

From 1998 to January 2015, Mr. Kimball was the Chief Operating Officer for CPQ Colorchrome, Inc. dba CPQ Professional Imaging, a photo processing company in Cleveland, Tennessee. In January 2015, he began serving as the Chief Financial Officer of CPQ Colorchrome Inc. After interacting with the Lil' Angels franchise owners since August 2010 as a vendor, trainer, and consultant, Mr. Kimball became the Chief Manager of Lil' Angels in May 2015.

Managing Member: Dawn C. Keel

From May 2010 until November 2015 Mrs. Keel was the Executive Vice President for Portrait Cafe Enterprises, LLC in Cleveland, Tennessee through which photographers were contracted to do photography shoots in venues throughout the country. She became a Managing Member for Lil' Angels in November 2015.

Member: Jim Palmer

In June 1980, Mr. Palmer opened his photography studio in Tupelo, Mississippi. From January 1993 to June 2014, he concentrated exclusively on providing photography services to child-care centers, families, and youth-related organizations. In May 1996, he became a member and Secretary of Lil' Angels. From April 2011 to May 1, 2015, he served as the Chief Manager of Lil' Angels and was the sole member from April 2014 to November 2015.

Item 3: Litigation.

No litigation is required to be disclosed in this Item.

Item 4: Bankruptcy.

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

Item 5: Initial Fees.

The initial fees of \$39,500 consist of the following:

All Franchise Owners will pay to us a nonrefundable Initial Franchise Fee of \$29,500. This fee is paid through a \$29,500 cashier's check upon execution of the Franchise Agreement or a debit or credit card together with a 3% service fee for the use of the card, and

All Franchise Owners will purchase \$10,000 of photography equipment and supplies, plus applicable taxes, and any shipping expense, at least 30 days before they commence training. This nonrefundable amount is paid in a lump sum to us or other vendors.

Item 6: Other Fees.

The table in this Item sets forth all other fees or payments that you must pay to Lil' Angels, or our affiliates, or that we collect on behalf of a third party, after you pay the Initial Franchise Fee:

OTHER FEES

Type of Fee	Amount	Due Date	Remarks
Photo Lab Processing Charges	\$.90 for each equivalent unit of every portrait package	Upon shipment of the order by the photo lab	Note 1
System Fee	\$.60 for each equivalent unit of every portrait package	Upon shipment of the order by the photo lab	Note 2
Minimum Digital Fee	\$3.50 for orders from digital files of five or less equivalent units	Upon receipt of the order	Note 3
Shipping Fee	\$11.85 for each order	Upon shipment of the order by the photo lab	Note 4
Online Store Fee	\$10 each month	At the end of every month	Note 5
Additional Owner Training	\$500 per person	Before additional training begins	See Item 11 for training, after initial owner training.
Transfer Fee and Training Fees	\$2,500 transfer fee for an assignment plus a training fee of \$2,000 and a field training fee of \$2,500	Upon the transfer of your Franchise Agreement	Either you or the transferee must pay these fees when the Franchise Agreement is signed.
Quarterly Production Requirement	\$5,000	Each calendar quarter after your first year as a franchise owner	See Note 6 and Section 9.4 of the Franchise Agreement

Type of Fee	Amount	Due Date	Remarks
Minimum System Fee Payment – if not meet Quarterly Production Requirement	From \$0.01 to \$1,500 each quarter, depending upon your quarterly production	30 days after you receive written notice	See Note 7 and Section 9.5 of the Franchise Agreement
Fee for Shooting Outside your Territory	If we give our consent, there is no fee. If you do not obtain our permission, the fee is \$5,000	Upon conclusion of the event if we do not give our permission	See Section 1.3 of the Franchise Agreement
Penalty for Failure to Provide Adequate Management	\$500	Each month you do not (1) live in your territory, (2) operate or manage your business, or (3) fail to have a manager or photographer operate or manage the business in your territory	See Section 6.20 of the Franchise Agreement

Notes:

- (1) After the pictures have been taken, you will send the images to an approved photo lab to be processed. You must submit images for all photo shoots of any type of photography for the territory in which they were taken. When the order has been processed, you must pay the amount charged by the photo lab to process the pictures together with the system fee. Although the photo lab may adjust its processing charges, the current amount is ~~\$.85~~ \$.90 for each equivalent unit of your portrait packages. You will pay the system fee, minimum digital fee, and the photo lab processing charge when we charge the total amount on your pre-authorized debit or credit card.
- (2) You will pay a system fee of \$.60 for each equivalent unit, as disclosed in Item 11. This system fee is in addition to the photo lab charge to process these picture packages. This \$.60 system fee is paid as follows:
 - \$.15 Lil’ Angels Franchise Owners as a Commission, if applicable. (See Item 11 for more information on the system fee Commission)
 - \$.45 Lil’ Angels

The system fee shall be modified annually beginning on the first Monday in January of every year following the execution of the Agreement. The modification shall be based upon the average of the Unadjusted Percent Change in Miscellaneous Personal Services for the three calendar months of the third quarter of every prior year to the three calendar months of the third quarter of the current year, as reported in the Consumer Price Index for All Urban Consumers (CPI-U): U.S. City Average (1982-84=100). During the fourth quarter of every year following execution of this Agreement, we shall advise you of the modification to the system fee and the amount of the new system fee. You shall be responsible for notifying us of any mathematical errors in computing the modification to the system fee.

- (3) Your customers may want to order the digital image of a sitting rather than order picture packages. For those orders from digital files of up to five printed equivalent units per sitting, there will be a minimum digital fee of \$3.50 charged for each sitting. For orders from digital files of six or more printed equivalent units per sitting, the minimum digital fee will be waived.
- (4) You will pay for mailing the images to an approved photo lab for the processing of the photos or may transfer the images to an approved photo lab using the internet. Once the finished pictures are ready to send back to you, the photo lab will pack your pictures and charge you a shipping fee of \$11.85. If the cost for mailing the pictures is greater than \$11.85, the photo lab will pay the balance. However, if you need the pictures to be mailed in an

expedited manner, you will pay all costs of mailing. If UPS or another similar shipper increases the costs to mail the developed photos back to you, the photo lab reserves the right to adjust the amount of the shipping fee.

- (5) Lil' Angels has established a secure online store for all Franchise Owners to use through which customers of the Franchise Owners may view images and purchase pictures and other photo items. To assist the Franchise Owners with setting up and maintaining their account and to assist their customers with issues about ordering pictures and other items, Lil' Angels charges the Online Store Fee for all participating Franchise Owners. Lil' Angels reserves the right to increase the online store fee if there is an increase in the charges it must pay to maintain the online store.
- (6) You must pay the Quarterly Production Requirement of \$5,000 in system fees, minimum digital fees, and photo lab processing charges during each calendar quarter. Only the system fees, minimum digital fees, and photo lab processing charges associated with images from photo shoots in the territory prescribed by your Agreement may be counted toward the Quarterly Production Requirement.

If you are a new Franchise Owner to the Lil' Angels System you must meet the Quarterly Production Requirement for each calendar quarter beginning with the first calendar quarter following the one-year anniversary of the date you signed the Agreement. If you purchased your franchise territory through an assignment from an existing Lil' Angels Franchise Owner, you must meet the Quarterly Production Requirement for each calendar quarter beginning with the first calendar quarter following the six-month anniversary of the date you signed the Agreement. Finally, if you were an existing Lil' Angels Franchise Owner and renewed your franchise through the Agreement, you must meet the Quarterly Production Requirement beginning with the calendar quarter in which you signed the Agreement.

- (7) If you do not meet the Quarterly Production Requirement in any calendar quarter after the requisite time period, we will give you the opportunity to avoid the termination of your franchise by providing written notice that you will have thirty days within which to pay the Minimum System Fee Payment (hereinafter referred to as "MSFP"). Payment of the MSFP avoids the termination of your franchise; it does not permit you to receive any Commission.

The MSFP is calculated as follows:

- Subtract your actual production from the minimum Quarterly Production Requirement to obtain the Production Requirement Shortage.
- Divide the amount of the Production Requirement Shortage by the Quarterly Production Requirement to determine the percent of the shortage from the Quarterly Production Requirement.
- Multiply this percentage by the Minimum System Fee Base of \$1,500 to determine the Minimum System Fee you must pay.

As provided in Section 9.4 of the Franchise Agreement, if you do not make the MSFP within the thirty-day time period, the Franchisor may terminate your franchise.

All fees are payable to and imposed and collected by Lil' Angels. Further, all fees are non-refundable and are uniformly imposed. There are no fees imposed by cooperatives.

Item 7 **Estimated Initial Investment.**

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Background Clearance Fee (1)	\$63 to \$80	Lump Sum	Before you sign the Franchise Agreement	Lil' Angels
Initial Franchise Fee (2)	\$29,500	Lump Sum	Upon signing the Franchise Agreement	Lil' Angels
Equipment and Supplies (3)	\$10,000 (4), plus applicable taxes and shipping costs	Lump Sum	Before your Training begins	Lil' Angels or vendors
Travel and Living Expenses for You and Your Employees During Training (5)	\$500 to \$1,000	As Incurred	During Training	Airlines, Hotels & Restaurants
Deposits and Licenses (6)	\$100 to \$500	As Incurred	Before you begin operation	City, County, State, and Suppliers
Miscellaneous Opening Costs (7)	\$500 to \$1,000	Lump Sum	Before you begin operation	Suppliers
Credit Card Machine (8)	\$-0- to \$1,200	Lump Sum	Before your first photo shoot	Vendor
Additional Funds – Initial Period (9)	\$600 to \$2,500	As Incurred	As Incurred	Photo Lab, gas, meals, travel
TOTAL (10)	\$41,263 to \$45,780			

Notes:

- (1) To ensure that every franchise owner is above reproach and has nothing in his or her past that would cause any concern about being with children and families, you must undergo a complete background check. We reserve the right to withhold a franchise based upon the results of the background check.
- (2) You may pay the Initial Franchise Fee by using a cashier's check or a debit or credit card transaction together with a 3% service fee for the right to use this method of payment. We do not offer direct or indirect financing to Franchise Owners.
- (3) You may purchase this equipment and supplies from Lil' Angels or from other vendors that we approve. The New Owner Training Class will include hands-on picture taking experience with the equipment, so you must have the equipment and supplies before the training class begins.

- (4) You may purchase the Equipment and Supplies from us by using a cashier's check or a debit or credit card transaction together with a 3% service fee for the right to use this method of payment.
- (5) If you purchase a new franchise directly from Lil' Angels, we will pay for the cost of lodging at the host hotel during the New Owner Training Classes for the two persons you designate. However, if you purchase a franchise through a transfer from a Lil' Angels Franchise Owner or you are a photographer working for a Franchise Owner, you must pay your own hotel or lodging expense at the host hotel during the New Owner Training Classes. Lil' Angels furnishes the noon meals for everyone during the New Owner Training Classes. You will pay all other costs associated with the training. To assist with transportation, meetings, and training schedules, you must stay at the designated host hotel during the training.
- (6) Lil' Angels recommends that all Franchise Owners operate from their home, rather than from a store front or photo studio location. Thus, there are no expenses to be paid that are associated with real estate acquisition, leasehold improvements, or signs. The deposits and licenses are an estimate for a business phone line and local business licenses.
- (7) This is an estimate of the expenses for the first three months of the operation of your business. These expenses include payroll costs, if any, legal, and accounting charges. Because these figures are estimates, we cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on factors such as how much you follow our methods and procedures, your management and marketing skill, experience and business acumen, local economic conditions, the local market for our product, the competition, and the sales level reached during the initial three months.
- (8) You will need to obtain a credit card machine that you can take to your photography shoots to accommodate those families who wish to pay for their picture packages through their debit or credit cards. If you do not already have a credit card machine, this is an average of the amount to be charged by a bank for the machine, forms, and deposit.
- (9) The initial period is for the first three months of the operation of your business. After you have taken your first pictures, you will submit the images to an approved photo-processing lab. After the lab completes the processing of your images, you will be charged for the pictures. Although this amount varies with the number of images taken during this first photo shoot, the average amount is \$600. Once you have received the finished pictures, you will sell them to the parents of the children you have photographed. Depending upon the distance of the photography shoots from your location, you will pay for gas, meals, and other travel related expenses. Income from your job or from your spouse's or another's job should meet additional living expenses.
- (10) We used our years of experience to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the Lil' Angel's franchise.

THERE ARE NO OTHER DIRECT OR INDIRECT PAYMENTS TO THE FRANCHISOR IN CONJUNCTION WITH THE PURCHASE OF THE FRANCHISE. FURTHER, ALL FEES THAT ARE PAYABLE TO LIL' ANGELS ARE NON-REFUNDABLE.

Item 8: Restrictions on Sources of Products and Services.

First, in order to maintain the high uniformity and quality of services throughout the Lil' Angels System, you must use certain equipment and supplies. The main components of the equipment and supplies consist of the following:

Canon Professional Digital Camera with lens

Einstein Professional Lights

Camera Case	Tripod	Cargo Box
Tools	Backgrounds	Light Stands
Posing Table	Laptop Computer	Costume Outfits

In order to maintain further uniformity and quality of services throughout the Lil' Angels System, you must use certain vendors from which to purchase the equipment and supplies. You may purchase the equipment and start up supplies from Lil' Angels. No officer of Lil' Angels owns an interest in any supplier.

If any of these supplies or camera equipment is lost, damaged, or stolen, you must buy similar camera equipment or supplies that meet our specifications from any source of your own choosing. We are an approved supplier for the camera, equipment, props, costumes, and supplies. The specifications for the camera, equipment, props, costumes, and supplies include standards for type and model of camera and type, make, color and sizes of props, costumes, and supplies.

Second, you must send all your images from every photo shoot for any type of photography through your Lil' Angels account to photo processing labs that have been approved by Lil' Angels to process your images. If you own multiple territories, you must submit the images for the territory in which the images were taken. We will make available to you the prices for photo processing prior to signing the Franchise Agreement.

Third, you must maintain the minimum insurance coverage set forth in Section 6.17 of the Franchise Agreement. For all insurance, you must include Lil' Angels as an additional named insured and loss payee (if applicable) as well as furnish us with proof of such coverage every twelve (12) months. Because insurance premiums vary greatly with companies and with business insurance packages, it is extremely difficult to give an exact figure or even an approximate figure for the annual or monthly insurance costs. Insurance fees are paid to an insurance agency, person, or entity chosen by you.

We have established certain written standards and specifications that photo processing facilities must meet to service the Lil' Angels Franchise Owners. These specifications include standards for quick processing of images, product quality, processing procedures, placing the logo on the finished picture, fees, shipping costs, billing and credit terms, procedures for handling returns, and reputation in the market place.

In addition, we have established certain specifications that vendors must meet to sell cameras, equipment and supplies to the Lil' Angels Franchise Owners. These specifications include standards for quality of equipment and supplies, comprehensive support and replacement policies, quickness of providing the equipment and supplies, and reputation in the market place. If you wish to purchase the camera, equipment, and supplies from a vendor other than Lil' Angels, you must submit a written request to us. We will evaluate the proposed vendor using the approval specifications.

If you would like us to review a product or service to add to our approved list, you should send a written request together with the product and written information about the services to Lil' Angels. We will first evaluate the product or service to see if its addition would fit the Lil' Angels System. This is an arbitrary decision made by the management of Lil' Angels. We or a Franchise Owner will test the product or service for a period of time sufficient to evaluate adequately its benefits. Further, we or a Franchise Owner will test the product or services' ability to add to the revenue of any Franchise Owner's business, the ease of implementing the product or service, the services available from the manufacturer or seller of the product, the quality, historical background and stability of the manufacturer or seller, the "fit" with the Lil' Angels System, and many other elements, both tangible and intangible. This testing process may take as long as three to six months and there is no fee charged to evaluate potential suppliers.

We will notify you and the proposed product and equipment supplier in writing of our approval within 30 days from the date we have all the information to complete our evaluation process. In addition, we will notify you and any

supplier in writing at least 30 days before disapproving that supplier. You will have 30 days from the date of the letter to discontinue using the unapproved supplier.

Upon request, we will provide our criteria for approving suppliers and provide our specifications and standards to you and approved suppliers. We have used our experience and the experience of other Franchise Owners to issue and modify our specifications. An approval may be revoked if the supplier fails to provide goods and/or services to Franchise Owners according to our standards and specifications.

Except as described above, you need not purchase from or deal with specific people or companies to buy goods or services required in the operation of your business. In the Operations Manual and other materials that you will receive at training, following the signing of your Franchise Agreement, we have listed certain approved cameras, equipment, products, goods, and supplies along with a list of approved vendors, including Lil' Angels.

We derive revenue from purchases you make from us. In the year ending December 31, ~~2023~~2024, Franchise Owners paid us \$1,565,899-522,671 for photo processing charges and supplies, which represent approximately 98% of our total revenues of \$1,587,404-541,036. The payment for photo processing and supplies from approved sources will constitute approximately 35% of your overall expenses for the operation of the Lil' Angel's franchise.

For the period ending December 31, ~~2023~~2024, we paid the approved photo processing labs and suppliers \$1,042,189-944,844 for photo processing and supplies.

Except for the supplier of frames, which pays us 10% of your purchases, and the photo processing labs, which credits us with a management fee of 2% of your orders, approved suppliers do not make payments to us from your purchases. We reserve the right to increase the management fee from the photo processing labs to 25%.

We do not negotiate purchase arrangements with suppliers and we do not provide material benefits to a Franchise Owner based upon their use of approved sources. Finally, there are no purchasing or distribution cooperatives.

Item 9: Franchise Owner's Obligations.

FRANCHISEE'S OBLIGATIONS

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

	Obligation	Section in Franchise Agreement	Disclosure Document Item
a.	Site selection and acquisition/lease	Not Applicable	Items 7 and 11
b.	Pre-opening purchases/leases	Not Applicable	Items 7 and 8
c.	Site development and other pre-opening requirements	Not Applicable	Items 7 and 11
d.	Initial and ongoing training	Sections 5.2 and 6.1	Items 7 and 11
e.	Opening	Not Applicable	Item 11
f.	Fees	Section 3	Items 5 and 6

	Obligation	Section in Franchise Agreement	Disclosure Document Item
g.	Compliance with standards and policies/Operating Manual	Sections 6.9, 6.16, 6.18, and 6.23	Items 11 and 16
h.	Trademarks and proprietary information	Sections 6.3 and 6.10	Items 13 and 14
i.	Restrictions on products/services offered	Section 6.8	Items 8 and 16
j.	Warranty and customer service requirements	Not Applicable	Not Applicable
k.	Territorial development and sales quotas	Sections 1.3 and 9.4	Item 12
l.	Ongoing product/service purchases	Section 6.8	Item 8
m.	Maintenance, appearance, and remodeling requirements	Section 6.23	Item 11
n.	Insurance	Section 6.17	Items 6 and 8
o.	Advertising	None	Items 6 and 11
p.	Indemnification	Section 6.19	Item 17
q.	Owner's participation/management/staffing	Section 6.20	Items 11 and 15
r.	Records and reports	Section 6.6	Item 8
s.	Inspections and audits	Section 6.7	Item 17
t.	Transfer	Section 11	Item 17
u.	Renewal	Section 2.2	Item 17
v.	Post-termination obligations	Section 9.6	Items 15 and 17
w.	Non-competition covenants	Section 7	Items 12, 15 and 17
x.	Dispute resolution	Section 10	Item 17
y.	Other	Not Applicable	Not Applicable

Item 10. Financing.

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

Item 11: Franchisor's Assistance, Advertising, Computer Systems, and Training.

Except as listed below, Lil' Angels is not required to provide you with any assistance.

(1) Pre-Opening Obligations

We do not provide assistance in locating a site and negotiating the purchase or lease of a site. We do not generally own the premises and lease it to the Franchise Owner. We do not approve sites for you. In place of operating a store-front location, we recommend, but do not require, that you operate out of your home.

(2) Length of Time to Open Your Business

It typically takes from one to three months after you sign the Franchise Agreement to open your business. The factors that affect this time are the dates for the New Owner Training Classes and the field-training program, legal and accounting matters that pertain to your business, and the schedules of the operators of the child-care centers, schools, clubs, and other youth-related organizations in preparation for your initial meeting with them.

(3) On-going Obligations of Lil' Angels

A. Hold additional training classes. (Section 5.2 of the Franchise Agreement)

Lil' Angels also holds additional, optional classes and programs to assist you in offering the latest portrait styles and techniques and to give you further sales, management, and marketing information. These classes will be held in the training facilities at CPQ Colorchrome, Inc., 550 Industrial Drive SW, Cleveland, TN 37311, or other agreeable locations. You shall be responsible for the expenses of anyone attending these additional training classes.

The charge for additional training is \$500 per person. Although Lil' Angels will pay for the noon lunches during the training, you must pay all travel, lodging, meals, personal expenses, compensation, and other expenses associated with this training for you and your employees.

B. Consult with all Franchise Owners. (Section 5.3 of the Franchise Agreement)

Lil' Angels will give advice to and consult with you about operating and growing your business. Further, we will work to improve the Lil' Angels System. We will look for and test new services and products. Once a new service or product is approved, we will introduce it to you for implementation in your business.

C. Update the Basic Training Manual and materials. (Section 5.1 of the Franchise Agreement)

Lil' Angels will update and revise the Basic Training Manual as new services, products or other developments are made to the system.

D. Pay the System Fee Commission to Franchise Owners. (Section 4.1 of the Franchise Agreement)

You will pay a system fee of \$.60 for each equivalent unit. This system fee is in addition to the photo lab charge to process these picture packages. Further, this fee is subject to an annual modification that is based upon the average of the Unadjusted Percent Change in Miscellaneous Personal Services for the three calendar months of the third quarter of every prior year to the three calendar months of the third quarter of the current year, as reported in the Consumer Price Index for All Urban Consumers (CPI-U): U.S. City Average (1982-84=100). This system fee is paid as follows:

\$.15	Lil' Angels Franchise Owners as a Commission, if applicable.
\$.45	Lil' Angels

Every Franchise Owner has the opportunity, but not the requirement, to introduce other potential Franchise Owners to the Lil' Angels franchise system. Franchise Owners may not refer themselves. In the event the referred person purchases a Lil' Angels franchise, **you will not receive any part of the Initial Franchise Fee that he or she pays or any Commission or other monetary or other benefit as a result of that purchase. That is, when you introduce potential Franchise Owners to the Lil' Angels franchise system, you will not be offering or granting franchises or acting as a franchise seller.**

However, you do have the right to receive a \$.15 Commission payment from the system fees and minimum digital fee paid by Franchise Owners that you have referred for so long as you are a Lil' Angels Franchise Owner. When you cease to be a Lil' Angels Franchise Owner for whatever reason, the Commission payments also cease. Further, if a Franchise Owner on whose behalf you were receiving Commission payments is terminated or his or her franchise agreement is canceled or ownership interest is transferred, you will not receive any future Commission on behalf of that Franchise Owner. The right to receive Commission payments may not be transferred.

The amount of the Commission you would receive from the minimum digital fee would be \$.75, for five equivalent units.

There is no maximum number of Franchise Owners you can refer to us, nor is there a maximum dollar amount of Commission you can earn. However, to receive any Commission, you must first meet the requirements for referring a potential Franchise Owner. The Commission will be paid to natural persons and not to business entities. If you operate as a business entity (partnership, Limited Liability Company, corporation, or other similar arrangement), you must be an ongoing, materially participating, majority owner of the entity for you to receive any Commission. You may not refer yourself, a family member, or any entity you directly or indirectly own or control for purposes of receiving a Commission.

Although there is no minimum number of pictures you must sell, you must qualify to receive any Commission. First, you must pay at least the sum of \$5,000 in system fees, minimum digital fees, and photo lab processing charges within each calendar quarter. This amount is called the Quarterly Production Requirement. In addition, you must be in compliance with the terms and conditions of the Franchise Agreement. In the event you do not meet this Quarterly Production Requirement in any calendar quarter or you are not in compliance with the terms and conditions of the Franchise Agreement, you shall not be entitled to receive any Commission. However, when you do pay the Quarterly Production Requirement in any subsequent calendar quarter and cure any breach of the Franchise Agreement, if curable, you shall be entitled to receive a Commission beginning with the month in which you paid the \$5,000 amount and comply with the terms and conditions of the Franchise Agreement.

If you own more than one territory, you must submit event sheets and booking reports every month for each territory owned to receive any Commission. If you fail to submit the event sheets and booking reports every month, you will not receive any Commission payments and will be assessed a penalty of \$100 per month. When you begin to submit the event sheets and booking reports, you will be entitled to receive Commission payments.

(4) Advertising Program

There is no required advertising program in which you must participate. Further, there is no advertising council. If you wish to use advertising materials that you have produced, you should submit the materials to us for our review prior to their use. It is vitally important that you schedule and attend personal meetings with families, personnel in ~~child care~~ childcare centers and other youth-related organizations to discuss the program of Lil' Angels.

Lastly, you may use electronic media, including the Internet, in the operation of your business. However, you must not place information through the electronic media that will (1) materially impair the exclusivity of the marks or

their goodwill; (2) detract from the successful operation of any Franchise Owner or the Franchisor; (3) violate any business policy, practice, procedure, or obligation prescribed in any manuals or by us; or (4) result in unreasonable litigation or public criticism of the Franchisor, the franchise business or system, its marks, or the photography profession.

(5) Electronic Cash Registers and Computer Systems

You are not required to buy or use an electronic cash register or particular computer system. However, it is advisable that you use a computer system to manage your business and to process the orders for pictures.

(6) Basic Training Manual. (Section 5.1 of the Franchise Agreement)

Upon completion of the New Owner Training Class, we will loan you a 283-page Basic Training Manual for your use. The Basic Training Manual will remain the property of Lil’ Angels and must be returned to us at your expense without copying or duplicating in any way when your Franchise Agreement is terminated or expires. We will update the Basic Training Manual as new services, products or other developments are made to the system.

The following is the Table of Contents of our Basic Training Manual that will be loaned to you:

**Basic Training Manual
Table of Contents**

<u>Section</u>	<u>Number of Pages</u>
Operation	25 Pages
School Days.....	95 Pages
Forms	39 Pages
Sales.....	36 Pages
Editing Software.....	40 Pages
Special Photography.....	3 Pages
Directory.....	4 Pages
Equipment	10 Pages
Miscellaneous.....	<u>31 Pages</u>
	Total 283 Pages

(7) Training Program. (Section 5.2 of the Franchise Agreement).

There is no required time for you to complete the New Owner Training Class and field training program after signing the Franchise Agreement or before opening the business.

We will train you and your manager or one other person you designate after you have signed the Franchise Agreement and before you begin operation of the business or before a manager begins to manage your business. If you hire a photographer to take pictures on your behalf, the photographer must also attend and successfully complete the initial owner training program. Alternatively, if we have certified you to train your photographers, you may train any hired photographers before they commence to take pictures for you.

There will be no charge for two people to attend the initial owner training class. However, after the designation of these two people, you will be responsible to pay a training fee of two thousand dollars (\$2,000) per person for additional Franchise Owners, managers, and photographers who attend the Franchise Owner Training Class.

The initial owner training consists of a New Owner's Training Class and a two-day field-training internship in Cleveland, Tennessee or in your territory with an instructor listed in Item 2 or an experienced Franchise Owner. The New Owner's Training Class is held in the training facilities at CPQ Colorchrome, Inc., 550 Industrial Drive SW, Cleveland, Tennessee 37311 for a six to seven-day period. The class covers all aspects of the Lil' Angels System, principles of small businesses, financial operations, marketing techniques, business management and technical photography training. Classes are held approximately quarterly but may be canceled if a minimum number of three new Franchise Owners do not register to attend. The maximum time that you may have to wait to attend the training would be four months. During the training, you must stay at the designated host hotel.

The instructors of the New Owner's Training Classes are listed in Item 2. Their experience is also set forth in Item 2. In addition, ~~Gretchen Flores~~, Steve Martin, Carrie Phillips, ~~Jack Taylor~~, Robyn Tholen, Judy Wethington, Jessica Wolfenden, ~~Erin Veith King~~, Brooke Yeomans, B. J. Edmonds, and Kathleen Lineberry may teach parts of the classes. Their qualifications to teach the classes are:

~~Gretchen Flores~~

~~Since 1998 Gretchen Flores has been the owner and operator of a Lil' Angels Photography franchise in River Ridge, Louisiana.~~

Steve Martin

Since 2002, Steve Martin has been the owner and operator of a Lil' Angels Photography franchise in Cookeville, Tennessee.

Carrie Phillips

Since 2006 Carrie Phillips has been the owner and operator of a Lil' Angels Photography franchise in Kansas City, Missouri.

~~Jack Taylor~~

~~Since 1997 Jack Taylor has been an owner and operator of a Lil' Angels Photography franchise in Summerfield, Florida.~~

Robyn Tholen

Since 2002 Robyn Tholen has owned and operated a Lil' Angels franchise first in St. Louis, Missouri and then in Kansas City, Missouri.

Judy Wethington

Since 2013, Judy Wethington has owned and operated a Lil' Angels Photography® franchise in Rockford, Illinois. Judy also serves as an on-site Field Trainer for new franchise owners during the two-day field-training internship of the New Owner training.

Jessica Wolfenden

Jessica Wolfenden has been a professional photographer since 2008. Beginning in 2018, she has led the operation and growth of the East Tennessee Lil' Angels company store. She also handles lab customer support for franchise owners.

~~Erin Veith King~~

~~Since 2004 Erin Veith King has owned and operated a Lil' Angels Photography franchise in St. Peters, Missouri.~~

Brooke Yeomans

Since 2005, Brooke Yeomans has owned and operated a Lil' Angel Photography franchise in Aurora, Colorado.

B. J. Edmonds

Since 2014, B. J. Edmonds has worked at CPQ Colorchrome, Inc. dba CPQ Professional Imaging, a photo processing company in Cleveland, Tennessee as a Trainer and Technical Support Person for photography. From 2012 to 2014, he was a Trainer at Lifetouch National School Studio located in Chattanooga, Tennessee and from 2008 to 2012, he was a Photoshop Editor for WE Design LLC, an Architecture/Creative Strategy company based in New York, New York.

Kathleen Lineberry

From 1999 to the present, Kathleen Lineberry has worked at CPQ Colorchrome, Inc. She has extensive experience in training customers and staff on several digital photography software programs together with the production interface and workflow involving those programs. In her current position as Production Coordinator, she has helped to not only develop new products, but also market and implement the new photography products and services.

You and your manager or photographer, who will be responsible for the day-to-day operation of the business or photographing children using the Lil' Angels System, must attend the New Owner Training Classes before you begin the operation of the Lil' Angels franchise. The training will consist of instruction, all classroom materials, homework, and hands-on training. However, you may train your hired photographer before he or she begins to photograph children, youths, and families, only if we have certified you. During the New Owner Training Classes, we will pay for your lodging expense, but you will be responsible for your own and your employee's travel, meals, personal expenses, compensation, and other expenses while attending training. Further, you must successfully complete the following classes to our satisfaction:

TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of on-the-Job Training	Location
Orientation, Sales and Small Business Issues	3.0 Hours	0 Hours	CPQ Colorchrome, Inc.
Camera, Technical skills, Set up	5.0 Hours	0 Hours	CPQ Colorchrome, Inc.
Marketing and Lab procedure	6.5 Hours	0 Hours	CPQ Colorchrome, Inc.
Selling and Record Keeping	3.0 Hours	2.0 Hours	CPQ Colorchrome, Inc.
School Day Photos and Booking	4.0 Hours	1.0 Hours	CPQ Colorchrome, Inc.
School Day Photos	1.0 Hours	6.0 Hours	CPQ Colorchrome, Inc.

Special Photography	0 Hours	10 Hours	CPQ Colorchrome, Inc.
School Day Photos	2 Hours	10.0 Hours	CPQ Colorchrome, Inc.
Field Training to Implement all Aspects of the Lil' Angels System	0 Hours	16 Hours	At Business Location in the Territory of Franchise Owner or CPQ Colorchrome, Inc.

If we are not satisfied that you have successfully completed the program, you must attend and successfully complete the next scheduled New Owner Training Class.

Following the New Owner's Training Class, we will have an instructor listed in Item 2 or an experienced Franchise Owner come to your territory or use the business facility in Cleveland, Tennessee for the second portion of the initial owner training. This field training will consist of a two-day period of hands-on implementation of the Lil' Angels System that includes solicitation of business prospects, booking the prospects, scheduling photography shoots, taking the pictures in different situations, forwarding the images to the approved photography labs, receiving the processed images, selling the images, and paying and reporting the sales to the appropriate taxing authorities, the photo labs, children's centers, and us.

Additional training programs and refresher courses are provided for all Franchise Owners. While attendance is not required at these additional training programs, it is recommended that you attend.

Item 12: Territory.

We will grant you an exclusive territory with an average population of 300,000 or approximately 150 child-care centers. We will define the limits of the territory by highways, roads, and county boundaries. However, you will operate from one location, usually your home, and must receive our permission before relocating. If you were to move or otherwise relocate outside of your territory, we would base our approval of the relocation of your business or your establishment of additional franchise operations on the payment of any required initial franchise fee, and/or your successful implementation of the Lil' Angels System in your territory.

Although you may not use "Lil' Angels" or "Lil' Angels Photography"[®] in the legal name of your business, you must use the registered mark, "Lil' Angels Photography"[®], in all information about your business and on printed materials used in your business. Further, you must operate your business, including at every photography shoot and in all types of photography, under the name, "Lil' Angels Photography"[®].

While you may use the names and trademarks that have been granted to you in the operation and conduct of your business within your exclusive territory, you may not operate or conduct any business outside of your exclusive territory without our written permission. We will not operate a Lil' Angels business or permit the operation of any other Lil' Angels franchised business within your defined territory. Neither Lil' Angels nor other Franchise Owners can solicit or accept orders inside your defined territory without your prior written permission. Further, you may not solicit or accept orders outside your defined territory. To protect you and all other Franchise Owners, we will assess a fee of up to \$5,000 per event and require the submission of event sheets from any Franchise Owner who shoots outside his or her defined

territory and/or operates under another name. Further, if there is no owner of the territory in which the infraction took place, the Franchisor will at its discretion determine what portion of the sales proceeds will be turned over to Franchisor and what portion Franchise Owner will be allowed to keep of the proceeds from the unauthorized photo shoot.

In addition, you do not have the right to use other channels of distribution to make sales outside of your territory. Neither we nor an affiliate has used or reserved the right to use other channels of distributions to make sales within your territory under our principal trademark or under other trademarks. Further, neither we nor an affiliate have plans to operate or franchise a business under a different trademark.

In the event Lil' Angels secures a regional or national account that has one or more locations in your territory, you must take photographs at the location(s) and comply with the procedures set forth in the regional or national agreement. In the event you choose to not take photographs at the location, do not comply with the regional or national account procedures, or do not meet the standards of the account, we reserve the right to take photographs at the location(s) to maintain the regional or national account for the benefit of the system and other Lil' Angels Franchise Owners. If we take photographs at a national or regional location or at a child-care center at which you choose to not take photographs, you will not receive any compensation as a result of that photography shoot.

You do not receive an option, a right of first refusal, or similar rights to acquire additional franchises within the territory or contiguous territories. Further, you maintain rights to your area even though the population increases. There are no other sales volume amounts, market penetration requirements or other contingencies that you must achieve to maintain your franchise rights.

Item 13: Trademarks.

Under your Franchise Agreement, Lil' Angels grants you the right to use all of its names and trademarks (the "Marks") currently used or which may later be used in the operation of the Lil' Angels photography businesses.

The following marks are registered with the United States Patent and Trademark Office on the Principal Register:

Service Mark:	Lil' Angels Photography
Serial Number:	2,137,312
Registration Date:	February 17, 1998, renewed March 20, 2018
Service Mark:	Lil' Angels Photography with quadrilateral shapes
Serial Number:	3,569,590
Registration Date:	February 3, 2009, renewed March 20, 2018

Lil' Angels owns all rights to the Marks listed above and has filed all required affidavits and renewals. You may use the Marks in the operation of your business. However, you may not use any of the Marks or any derivative of them in your business name.

There are no presently effective determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the Trademark Administrator of this state, any court of this state, and no pending interference, opposition or cancellation proceeding or material litigation involving the Marks. There are no agreements currently in effect which significantly limit our rights to use or license the use of the Marks in any manner material to your business.

Lil' Angels will protect your rights to use the trademarks, service marks, trade names, logotypes, or other commercial symbols or indemnify you from any loss, costs, or expenses arising out of any claim, suit, or demand

regarding the use of the name. However, if we require you to modify or discontinue using the trademarks, service marks, trade names, logotypes, or other commercial symbols, you do not have any right to compensation or otherwise.

Lil' Angels does not know of any superior prior rights or infringing uses that could materially affect your use of our Marks.

Item 14: Patents, Copyrights, and Proprietary Information.

We do not own rights in or licenses to any patents or copyrights that are material to the franchise. Further, we do not have any pending patent or copyright applications that are material to the franchise. In addition, we are not aware of any current, material determinations of the United States Patent and Trademark Office, the United States Copyright Office or a court regarding any patent or copyright that affects the franchised business. Finally, we are not aware of any proceedings that are pending in the United State Patent and Trademark Office or any court that are material to the franchise.

We do not know of any patent or copyright infringement that could materially affect you.

Nevertheless, we claim copyright protection and a proprietary interest in all written, printed, and video materials we use in conjunction with the Lil' Angels System. We know of no party infringing upon the use of our written, printed, and video materials or proprietary information.

You must notify us immediately if you become aware of any party infringing on information we claim as proprietary.

Item 15: Obligation to Participate in the Actual Operation of the Franchise Business.

You must at all times retain and exercise management control over your business, unless we approve otherwise in writing. You are an independent contractor, and as such must exercise full, complete, and unfettered control over, and have full responsibility for any employee and labor relations matter involving your employees and for any sales and picture issues that may arise as a result of photographing children and selling the photographs. While the Franchise Agreement does not require you to participate in the direct, day-to-day operation of your studio, we recommend that you become personally involved in the direct operation of your business.

If you do not live in the territory specified in your Franchise Agreement, you must have a photographer living in the territory that will operate your franchised business. Any supervisor or photographer must successfully complete the initial training program before they commence their responsibilities. Although there is no required equity interest that a supervisor must have in your business, a supervisor must agree to maintain our trade secrets and to not compete with you.

Item 16: Restrictions on What the Franchise Owner May Sell.

You must sell only the goods or services that we have approved for sale. We have the right to add additional authorized services and products that you will offer. There are no limits on our right to add additional services and products. Further, we retain the right to approve or disapprove goods or services that you have submitted for approval to sell.

You may teach about photography only to your staff members who have signed a confidentiality and non-disclosure agreement. You specifically agree to not teach or train anyone else about photography regardless of whether you are paid.

Item 17: Renewal, Termination, Transfer, and Dispute Resolution.

THE FRANCHISE RELATIONSHIP

This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this Franchise Disclosure Document.

Provision	Section in Franchise Agreement	Summary
a. Length of the franchise term	Section 2.1	10 Years
Provision	Section in Franchise Agreement	Summary
b. Renewal or extension of the term	Section 2.2	In the discretion of the Franchisor, which will not be unreasonably withheld, you may apply for an additional term of 10 years
c. Requirements for franchisee to renew or extend ⁽¹⁾	Section 2.2	The term “renewal” in the Lil’ Angels System means you may continue to operate your franchise business, but under the then current Franchise Agreement at the end of the term of your original Franchise Agreement. To renew or extend the term of your Franchise Agreement, you must give timely notice, sign the then current Franchise Agreement, which may have materially different terms and conditions than your original contract, attend training class, upgrade your equipment and supplies to the then current requirements, and sign a general release
d. Termination by franchisee	Section 9.1	If we commit a material breach of the Franchise Agreement, you must give us written notice and time to cure
e. Termination by franchisor without cause	Not Applicable	Not Applicable
f. Termination by franchisor with cause ⁽¹⁾	Sections 9.2 and 9.3	Your Franchise Agreement can be terminated if you default
g. "Cause" defined – curable defaults ⁽²⁾	Section 9.3	Any material breach of the Franchise Agreement, including: you violate the Franchise Agreement or a requirement of any manual, you continually fail to comply with written policies of Franchisor and/or the requirements of the Agreement after you receive notice, you fail to provide required services, you fail to pay any fee or other payment obligation to us or an approved vendor, you fail to submit reports or data or supply false reports or data, you transfer any rights without our consent, you file for bankruptcy, you make an assignment for the benefit of creditors, you do anything that impairs the exclusivity of the Marks or their goodwill, you commit an act that detracts from the successful operation of another owner or Lil’ Angels, you violate any business policy, practice or procedure, you engage in any activity that impairs the System, you fail to maintain a

		designated manager or you make a material misrepresentation relating to the acquisition of the franchise, and you continue to breach the Franchise Agreement.
h. "Cause" defined – non-curable defaults	Section 9.2	Failure to pay any required financial obligation within 30 days after receipt of notice, abandonment of franchised business, conviction of criminal misconduct, seizure of business, loss of license to operate the business, failure to comply with any law applicable to the franchise and violation of the safety and accountability policies
Provision	Section in Franchise Agreement⁽¹⁾	Summary
i. Franchisee’s obligations on termination/non-renewal	Section 9.6	Complete cessation of operation, payment of outstanding amounts, return of all manuals, furnish the names of all daycare customers and potential customers, and abide by covenant not to compete (also see (r) below)
j. Franchisor assigns contract	Section 11.1	No restrictions.
k. "Transfer" by franchisee - defined	Section 11.2	The term “transfer” includes transfers of the franchise and assets or ownership change through an assignment
l. Franchisor approval of transfer by franchisee	Section 11.2	Based on evaluation of new owner, but will not be unreasonably withheld
m. Conditions for franchisor approval of transfer	Section 11.2	Transferee owner qualifies, signs the new Franchise Agreement, and pays the transfer fee for an assignment. You satisfy all debts owed to Lil’ Angels, sign a general release, deliver necessary documents to transferee, and ensure transferee purchases required equipment and supplies. You or transferee pays for the transferee to attend and successfully complete the New Owner Training Class and field-training program
n. Franchisor’s right of first refusal to acquire franchisee’s business	Section 11.2	You must first offer the sale or assignment of your business to Lil’ Angels, which must accept your offer within 30 days
o. Franchisor’s option to purchase franchisee’s business	Not Applicable	Not Applicable
p. Death or disability of franchisee	Section 12	No automatic transfer through probate; heirs must qualify (See (l) & (m) above)
q. Non-competition covenants during the term of the franchise	Section 7	You may not participate in any business that is in any way competitive with a Lil’ Angels franchise
r. Non-competition covenants	Section 7.2	You may not participate in any business that is in any way competitive

after the franchise is terminated or expires ⁽¹⁾		with a Lil' Angels franchise and which is within fifty miles of your territory or the territory of any other franchise owner for two years after termination or expiration of your Franchise Agreement
s. Modification of the agreement	Section 15.4	Must be in writing, signed by you, and accepted by Lil' Angels, manuals may be revised by us unilaterally
Provision	Section in Franchise Agreement⁽¹⁾	Summary
t. Integration/merger clause	Section 15.3	Only the terms of the Franchise Agreement are binding (subject to state law). Any representations or promises outside of the Franchise Disclosure Document and Franchise Agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	Section 10	All disputes are first subject to arbitration in Cleveland, Bradley County, Tennessee
v. Choice of forum ⁽³⁾	Section 15.12	Arbitration must be in Cleveland, Bradley County, Tennessee
w. Choice of law ⁽³⁾	Section 15.11	The governing law will be the law of the state of Tennessee.

Notes:

- (1) This state may have statutes and court decisions that may supersede the provisions of the Franchise Agreement in your relationship with us including the areas of termination, a limitation on the post termination noncompetition covenant and renewal of your franchise.
- (2) Provisions of your Franchise Agreement giving Lil' Angels the right to terminate in the event of your bankruptcy may not be enforceable under federal bankruptcy law (11 U.S.C. Sec. 101, et seq.).
- (3) The Franchise Agreement requires binding arbitration. The arbitration will occur at Cleveland, Tennessee with the costs being borne by the losing party. Further, the Franchise Agreement requires application of the laws of the state of Tennessee. However, Minnesota Statutes, Section 80C.21, and Minnesota Rule 2860.4400(J) prohibit the Franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the Franchise Owner to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Public Offering Statement or Franchise Agreement can abrogate or reduce any of the Franchise Owner's rights as provided for in Minnesota Statutes, Chapter 80C, or Franchise Owner's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

Item 18: Public Figures.

Lil' Angels does not use any public figure to promote this franchise.

Item 19: Financial Performance Representations.

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

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

We do not make any representations about a franchisee’s future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor’s management by contacting Paul Kimball, 550 Industrial Drive SW, Cleveland, Tennessee 37311, (423) 432-5957, the Federal Trade Commission, and the appropriate state regulatory agencies.

Item 20: Outlets and Franchise Owner Information.

With respect to the information in the following tables, references to ~~2021~~2022, ~~2022~~2023, and ~~2023~~2024 calendar years relate to the periods ending December 31, ~~2021~~2022, December 31, ~~2022~~2023, and December 31, ~~2023~~2024.

Table No. 1
System wide Outlet Summary
For years ~~2021~~2022~~2023~~2024

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net change
Franchised	2022 <u>2021</u>	4346	4143	-2 <u>-3</u>
	2023 <u>2022</u>	4143	4041	-1 <u>-2</u>
	2024 <u>2023</u>	4041	3840	-2 <u>-1</u>
Company Owned	2022 <u>2021</u>	2	2	0
	2023 <u>2022</u>	2	2	0
	2024 <u>2023</u>	2	2	0
Total Outlets	2022 <u>2021</u>	4548	4345	-2 <u>-3</u>
	2023 <u>2022</u>	4345	4243	-1 <u>-2</u>
	2024 <u>2023</u>	4243	4042	-2 <u>-1</u>

Table 2
Transfers of Outlets from Franchisees to new Owners (other than the Franchisor)
For Years ~~2021~~2022~~2023~~2024

State	Year	Number of Transfers
TN	2022 <u>2021</u>	0
	2023 <u>2022</u>	0
	2024 <u>2023</u>	1
TX	2022 <u>2021</u>	10
	2023 <u>2022</u>	10
	2024 <u>2023</u>	0
Total	2022 <u>2021</u>	11
	2023 <u>2022</u>	10
	2024 <u>2023</u>	1

Table 3
Status of Franchised Outlets
For Years 2021-2023

State	Year	Outlets at start of Year	Outlets Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
CA	<u>2022</u> <u>2021</u>	<u>23</u>	<u>00</u>	<u>00</u>	<u>01</u>	<u>00</u>	<u>00</u>	<u>22</u>
	<u>2023</u> <u>2022</u>	<u>22</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>22</u>
	<u>2024</u> <u>2023</u>	<u>22</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>22</u>
State	Year	Outlets at start of Year	Outlets Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
CO	<u>2022</u> <u>2021</u>	2	0	0	0	0	0	2
	<u>2023</u> <u>2022</u>	2	0	0	0	0	0	2
	<u>2024</u> <u>2023</u>	2	0	0	0	0	0	2
FL	<u>2022</u> <u>2021</u>	5	0	0	0	0	0	5
	<u>2023</u> <u>2022</u>	5	0	0	0	0	0	5
	<u>2024</u> <u>2023</u>	5	0	0	0	0	0	5
GA	<u>2022</u> <u>2021</u>	1	0	0	0	0	0	1
	<u>2023</u> <u>2022</u>	1	0	0	0	0	0	1
	<u>2024</u> <u>2023</u>	1	0	0	0	0	0	1
IA	<u>2022</u> <u>2021</u>	1	0	0	0	0	0	1
	<u>2023</u> <u>2022</u>	1	0	0	0	0	0	1
	<u>2024</u> <u>2023</u>	1	0	0	0	0	0	1
IL	<u>2022</u> <u>2021</u>	<u>33</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>02</u>	<u>00</u>	<u>33</u>
	<u>2023</u> <u>2022</u>	<u>33</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>02</u>	<u>00</u>	<u>33</u>
	<u>2024</u> <u>2023</u>	<u>33</u>	<u>10</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>43</u>
KY	<u>2022</u> <u>2021</u>	1	0	0	0	0	0	1
	<u>2023</u> <u>2022</u>	1	0	0	0	0	0	1
	<u>2024</u> <u>2023</u>	1	0	0	0	0	0	1
LA	<u>2022</u> <u>2021</u>	<u>33</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>33</u>
	<u>2023</u> <u>2022</u>	<u>33</u>	<u>00</u>	<u>00</u>	<u>10</u>	<u>00</u>	<u>00</u>	<u>23</u>
	<u>2024</u> <u>2023</u>	<u>23</u>	<u>00</u>	<u>00</u>	<u>01</u>	<u>00</u>	<u>00</u>	<u>22</u>
MO	<u>2022</u> <u>2021</u>	5	0	0	0	0	0	5
	<u>2023</u> <u>2022</u>	5	0	0	0	0	0	5
	<u>2024</u> <u>2023</u>	5	0	0	0	0	0	5
MS	<u>2022</u> <u>2021</u>	4	0	0	0	0	0	4
	<u>2023</u> <u>2022</u>	4	0	0	0	0	0	4
	<u>2024</u> <u>2023</u>	4	0	0	0	0	<u>01</u>	<u>43</u>
NC	<u>2022</u> <u>2021</u>	<u>22</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>22</u>
	<u>2023</u> <u>2022</u>	<u>22</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>10</u>	<u>00</u>	<u>12</u>
	<u>2024</u> <u>2023</u>	<u>12</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>01</u>	<u>00</u>	<u>11</u>
NE	<u>2022</u> <u>2021</u>	<u>10</u>	<u>01</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>11</u>
	<u>2023</u> <u>2022</u>	<u>11</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>11</u>

	2024 2023	<u>14</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>10</u>	<u>04</u>
NJ	2022 2021	1	0	0	0	0	0	1
	2023 2022	1	0	0	0	0	0	1
	2024 2023	1	0	0	0	0	<u>01</u>	<u>40</u>
NV	2022 2021	1	0	0	0	0	0	1
	2023 2022	1	0	0	0	0	0	1
	2024 2023	1	0	0	0	0	0	1
State	Year	Outlets at start of Year	Outlets Opened	Termination	Non-renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
OH	2022 2021	1	0	0	0	0	0	1
	2023 2022	1	0	0	0	0	0	1
	2024 2023	1	0	0	0	0	0	1
OR	2022 2021	1	0	0	0	0	0	1
	2023 2022	1	0	0	0	0	0	1
	2024 2023	1	0	0	0	0	<u>01</u>	<u>40</u>
PA	2022 2021	2	0	0	0	0	0	2
	2023 2022	2	0	0	0	0	0	2
	2024 2023	2	0	0	0	0	0	2
SD	2022 2021	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	2023 2022	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	2024 2023	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
TN	2022 2021	2	0	0	0	0	0	2
	2023 2022	2	0	0	0	0	0	2
	2024 2023	2	<u>10</u>	0	0	0	0	<u>23</u>
TX	2022 2021	3	0	0	0	0	0	3
	2023 2022	3	0	0	0	0	0	3
	2024 2023	3	0	0	0	0	0	3
WA	2022 2021	<u>22</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>10</u>	<u>00</u>	<u>12</u>
	2023 2022	<u>12</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>04</u>	<u>00</u>	<u>14</u>
	2024 2023	<u>14</u>	<u>00</u>	<u>10</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>04</u>
Total	2022 2021	4346	0	0	14	12	00	4143
	2023 2022	4143	0	0	04	14	00	4041
	2024 2023	4041	20	10	00	04	30	3840

Table 4
Status of Company-Owned Outlets
For Years ~~2021~~-~~2023~~

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired from Franchisees	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of Year
GA	2022 2021	1	0	0	0	0	1
	2023 2022	1	0	0	0	0	1

	2024 2023	1	0	0	0	0	1
TN	2022 2021	1	0	0	0	0	1
	2023 2022	1	0	0	0	0	1
	2024 2023	1	0	0	0	0	1
Totals	2022 2021	2	0	0	0	0	2
	2023 2022	2	0	0	0	0	2
	2024 2023	2	0	0	02	2	2

Table 5
Projected Openings as of December 31, ~~2023~~2024

State	Franchise Agreements Signed but Outlet not Opened	Projected New Franchise Outlet in the Next Fiscal Year	Projected New Company Owned Outlet in the Next Fiscal Year
Total	0	0	0

Current Franchise Owners as of December 31, ~~2023~~2024

The following is a list of the current Franchise Owners as of December 31, ~~2023~~2024 and the addresses and telephone numbers of each of their outlets:

California

Tom and Julie Castle, 2524 Black Tern Way, Elk Grove, CA 95757 (916) 799-3622
Carolyn & Michael Johnson, 3009 Sprucewood Lane, Escondido, CA 92027 (760) 535-8044

Colorado

Brooke Yeomans, 2448 South Scranton Way, Aurora, CO 80014 (303) 912-3306

Florida

Trish Lobb, 13160 Wexford Hollow Road, Jacksonville, FL 32224 (904) 859-7445
Dawn Moore, 12620-3 Beach Blvd. #336, Jacksonville, FL 32246 (904) 318-6172
Lorielle Conner, 5397 Rio Vista Street, Sarasota, FL 34232 (941) 374-1804
Kim Williams, 5929 NE 72nd Street, Silver Springs, FL 34488 (352) 732-6733
Jack Taylor, 14641 SE 1st Avenue Road, Summerfield, FL 34491 (352) 245-4161

Georgia

Crystal and Eddie Atkinson, 2005 Hawthorne Way, Woodstock, GA 30189 (770) 627-4776

Illinois

Jackie Kardesh, 25900 W. Apache Lane, Lake Barrington, IL 60010 (480) 707-7259
Connie Fisher, 2648 Newport Drive, Naperville, IL 60565 (630) 253-4862
Judy Phillips, 3424 Bow Court, Rockford, IL 61109 (815) 979-6696
Michelle Mulcrone, 5831 Raintree Lane, Westmont, IL 60569 (708) 912-8990

Iowa

Jason Mars McDonald, 1823 Bourland Avenue, Waterloo, IA 50702 (317) 371-1487

Kentucky

Angela Kasiak, 4735 Colby Road, Winchester, KY 40391 (219) 510-3013

Louisiana

Shelia Ginn, 106 Spyglass Drive, Monroe, LA 71203 (318) 345-2265

Gretchen Flores, 180 Henfer Avenue, River Ridge, LA 70123 (504) 738-2980

Mississippi

Cheryl McElroy, 3220 Dean Road, Nesbit, MS 38651 (662) 671-2684

Audrey Baggett, 4642 Twilight Cove, Pearl, MS 39208 (601) 382-3864

Jim Palmer, 833-A County Road 811, Saltillo, MS 38866 (662) 844-1446

Missouri

Carrie Phillips, 3518 NE 50th Street, Kansas City, MO 64119 (816) 876-8591

Robyn Tholen, 12673 NW 45 Hwy, Parkville, MO 64152 (816) 985-6749

Erin Veith-King, 1615 Dardenne Ridge Drive, St. Peters, MO 63376 (636) 278-1460

Erin King, 1615 Dardenne Ridge Drive, St. Peters, MO 63376 (314) 604-0800

Nebraska

~~_____ Tanya DeWald, 301 East Main Street, Bloomfield, NE 68718 (605) 660-8944~~

Nevada

Tiffany Campbell, 11892 Bella Luna Street, Las Vegas, NV 89183 (901) 219-7182

New Jersey

~~_____ Yash and Hetal Doshi, 201 Saint Pauls Avenue, Apt 10 S, Jersey City, NJ 07306, (213) 618-0155~~

North Carolina

Thomas Tanner, 74 Bently Way, Clayton, NC 27527 (919) 243-8104

Ohio

Karen Hoffmann, 20278 Bradgate Lane, Strongsville, OH 44149 (440) 759-5214

Oregon

~~_____ Paula Sorensen, 13333 SW 128th Place, Portland, OR 97223 (360) 241-6084~~

Pennsylvania

Gillian Hench, 32 Sir William Drive, Newville, PA 17241 (717) 386-3103

Vicki Helsley, 141 McIntyre Road, Pittsburgh, PA 15237 (412) 979-8398

South Dakota

Heidi Childers, 427 Dale Avenue, Harrisburg, SD 57032 (605) 484-6799

Tennessee

Jennifer Cockroft, 8171 N. Westbrook, Bartlett, TN 38002 (901) 679-8915

Steve Martin, 3814 Post Oak Circle, Cookeville, TN 38506 (931) 537-2039

Texas

Sonoe and Fred Tarbox, 11609 April Drive, Unit C, Austin, TX 78753 (512) 409-5147
Kim Routon, 28823 Hollycrest Drive, Katy, TX 77494 (281) 723-4616

Washington

~~Wendie Smith, 829 East 68th Street, Tacoma, WA 98404 (253) 592-2652~~

Former Franchise Owners as of December 31, ~~2023~~2024

The following is a list of the name, city and state and current business telephone number or last known home telephone number of every Franchise Owner who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently completed fiscal year or who has not communicated with the Franchisor within 10 weeks of the Disclosure Document issuance date:

Nebraska

Tanya DeWald, 301 East Main Street, Bloomfield, NE 68718 (605) 660-8944 entered into a mutual termination of her franchise agreement in January 2024 because her husband was promoted and relocated to an area where there already was a franchise outlet.

New Jersey

Yash and Hetal Doshi, 201 Saint Pauls Avenue, Apt 10 S, Jersey City, NJ 07306, (213) 618-0155 entered into an agreement to transfer the franchise back to us because Yash was promoted by his company and relocated to the west coast.

Oregon

Paula Sorensen, 13333 SW 128th Place, Portland, OR 97223 (360) 241-6084 entered into an agreement with us in March 2024 to transfer the franchise back to us for health reasons.

Washington

Wendie Smith, 829 East 68th Street, Tacoma, WA 98404 (253) 592-2652 was terminated in October 2024 for violation of company policies.

North Carolina

~~Tammy Dixon, 399 Wildwood Lane, Winston Salem, NC 27107 (336) 255-5390 entered into an agreement on January 20, 2023 to transfer the franchise back to us so she could return to working at the bank where she formerly was employed.~~

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

We are not selling a previously owned franchised outlet.

Franchise Owners have not signed confidentiality clauses during the last three fiscal years. To the extent known, there is no trademark-specific franchisee organization associated with the franchise system being offered.

Item 21: Financial Statements.

Attached collectively as Exhibit A are the following statements:

1. Unaudited balance sheet as of March 31, 2024⁵ and related income statement for the period ending March 31, 2024⁵.
2. Complete sets of audited financial statements of the Franchisor as of December 31, 2024², December 31, 2022³, and December 31, 2023⁴.

Item 22: Contracts.

Attached as Exhibit B is the Lil' Angels Franchise Agreement. If the Franchise Owner is a corporation, all shareholders must guarantee its performance. If Franchise Owner is a partnership, all partners must guarantee its performance.

Item 23: Receipt.

Attached as Exhibit G are detachable acknowledgments of receipt, which are the last two pages of this Franchise Disclosure Document.

EXHIBIT A

FINANCIAL STATEMENTS

Required Disclosure for Unaudited Financial Statements

These March 31, 2024⁵ financial statements have been 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 their content or form.

LIL ANGELS LLC
Balance Sheet
 As of March 31, 2025

	<u>Mar 31, 25</u>
ASSETS	
Current Assets	
Checking/Savings	
FIRST TENNESSEE	187,335.62
Total Checking/Savings	187,335.62
Other Current Assets	
12100 · Inventory Asset	15,106.08
Total Other Current Assets	15,106.08
Total Current Assets	202,441.70
Fixed Assets	
1415 · Computer	4,870.03
Total Fixed Assets	4,870.03
Other Assets	
1420 · Machinery and Equipment	
1700 · Accumulated Depreciation	-9,748.17
1420 · Machinery and Equipment - Other	2,909.00
Total 1420 · Machinery and Equipment	-6,839.17
Total Other Assets	-6,839.17
TOTAL ASSETS	<u>200,472.56</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2000 · Accounts Payable	22,286.98
Total Accounts Payable	22,286.98
Other Current Liabilities	
Admin Payable to CPQ	-51,000.00
Note Payable to Shareholder	-262,500.00
2560 · SBA LOAN	150,000.00
2060 · Commissions payable	-8,492.47
Total Other Current Liabilities	-171,992.47
Total Current Liabilities	-149,705.49
Total Liabilities	-149,705.49
Equity	
Stockholder Equity	
3002 · Capital - J. Palmer	57,083.04
3302 · Distribution- Palmer	-866,280.99
3303 · Distribution- CDK HOLDING	-787,655.00
Total Stockholder Equity	-1,596,852.95
30700 · Members Draw	-54,237.00
3200 · Members Equity-CDK HOLDING	1,982,494.97
Net Income	18,773.03
Total Equity	350,178.05
TOTAL LIABILITIES & EQUITY	<u>200,472.56</u>

LIL ANGELS LLC
Balance Sheet
As of March 31, 2025

	<u>Mar 31, 25</u>
ASSETS	
Current Assets	
Checking/Savings	187,335.62
Other Current Assets	15,106.08
Total Current Assets	<u>202,441.70</u>
Fixed Assets	4,870.03
Other Assets	-6,839.17
TOTAL ASSETS	<u><u>200,472.56</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	22,286.98
Other Current Liabilities	-171,992.47
Total Current Liabilities	<u>-149,705.49</u>
Total Liabilities	-149,705.49
Equity	350,178.05
TOTAL LIABILITIES & EQUITY	<u><u>200,472.56</u></u>

LIL ANGELS LLC
Profit & Loss
 January through March 2025

	Jan - Mar 25
Ordinary Income/Expense	
Income	
-SALES	
CD's	0.00
Equipment	10,000.00
Finishing/Prep	20.00
Freight	20,330.24
Misc New Product (CPQ)	1,130.15
Non Production	603.00
Panels	74.34
Photo Sales	
SALES Photo Sales Special	11.70
Photo Sales - Other	144,849.08
Total Photo Sales	144,860.78
Press Product	24.38
Total -SALES	177,042.89
Fees	
Franchise Fee	19,500.00
Total Fees	19,500.00
Total Income	196,542.89
Cost of Goods Sold	
Cost of Goods	108,070.36
50000 · Cost of Goods Sold	1,035.93
5050 · Franchise Equipment & Suppies	15,607.27
5300 · Sales Commission	12,302.44
Total COGS	137,016.00
Gross Profit	59,526.89
Expense	38,202.77
Net Ordinary Income	21,324.12
Other Income/Expense	
Other Income	-952.29
Other Expense	
Interest Expense	83.10
Payroll	1,000.00
Payroll Taxes	182.50
Utilities	333.20
Total Other Expense	1,598.80
Net Other Income	-2,551.09
Net Income	18,773.03

LIL' ANGELS LLC
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024

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HOOD, CPA & ASSOCIATES

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Lil' Angels LLC

Opinion

We have audited the accompanying financial statements of Lil' Angels LLC (a Tennessee limited liability company), which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of income, members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lil' Angels, 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 Lil' Angels LLC 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 Lil' Angels LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

7110 East Brainerd Road | Chattanooga, TN | 37421

Office: 423.541.7800 | Fax: 423.541.7801

www.hoodaccounting.com



HOOD, CPA & ASSOCIATES

Auditors' Responsibility for the Audit of the Financial Statements

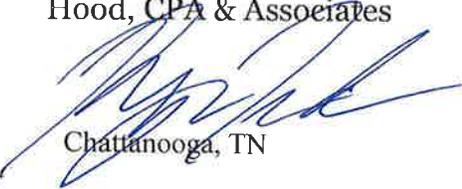
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance 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 Lil' Angels LLC'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 Lil' Angels LLC'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.

Hood, CPA & Associates



Chattanooga, TN

March 23, 2025

LIL' ANGELS LLC
BALANCE SHEETS
December 31, 2024 and 2023

ASSETS

	<u>2024</u>	<u>2023</u>
Current Assets:		
Cash	\$ 195,715	\$ 193,748
Accounts receivable	0	
Other current assets	<u>0</u>	<u>0</u>
Total current assets	195,715	193,748
Long Term Assets		
Property and equipment, net	<u>1,042</u>	<u>1,736</u>
Total long term assets	196,757	195,484
Total Assets	<u>\$196,757</u>	<u>\$ 195,484</u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Accounts payable	2,185	15,786
Accrued expenses	0	0
Commissions payable	0	8,125
PPP Loan	<u>44,498</u>	<u>44,498</u>
Total current liabilities	<u>46,683</u>	<u>68,409</u>
Long Term Liabilities		
SBA Loan	<u>150,000</u>	<u>150,000</u>
Total long term liabilities	<u>150,000</u>	<u>150,000</u>
Total Liabilities	196,683	218,409
Members' Equity (Deficit)	<u>74</u>	<u>(22,925)</u>
Total Liabilities and Members' Equity	<u>\$ 196,757</u>	<u>\$ 195,484</u>

See Accountants' Report and notes to Financial Statements.

LIL' ANGELS LLC
STATEMENTS OF INCOME
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Income:		
Processing income	\$ 1,522,671	\$ 1,565,899
Franchise income	-	0
Other revenue	18,365	21,505
Other income- interest	-	-
 Total Revenues	 <u>1,541,036</u>	 <u>1,587,404</u>
 Cost of Sales		
Processing costs	929,642	1,027,505
Commissions	83,792	87,462
Other	<u>15,202</u>	<u>14,684</u>
Total Cost of Sales	<u>1,058,636</u>	<u>1,129,651</u>
 Gross Profit	 <u>482,400</u>	 <u>457,753</u>
 Expenses:		
Salaries and wages	91,000	70,000
Credit card and bank Fees	50,441	49,836
Advertising	8,164	10,679
Training expense	25,723	944
Professional fees	35,755	30,009
Dues and Subscriptions	4,005	5,138
Other general and administrative	4,842	0
Retirement Expense	17,684	0
Payroll taxes	4,568	6,097
Business taxes and licenses	0	180
Computer expenses	2,693	132
Travel	0	0
Taxes - other	4,121	0
Insurance	2,575	2,366
Telephone and utilities	1,328	1,172
Shipping	0	63
Depreciation	694	1,157
Interest expense	8,774	11,796
Bad debt expense	<u>0</u>	<u>49</u>
 Total general and administration expenses	 <u>262,367</u>	 <u>230,340</u>
 Income before income taxes	 220,033	 227,413
 State income tax expense	 <u>0</u>	 <u>0</u>
 Net income	 <u>\$ 220,033</u>	 <u>\$ 227,413</u>

See Accountants' Report and notes to Financial Statements.

LIL' ANGELS LLC
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years Ended December 31, 2024 and 2023

	2024	2023
Members' equity, beginning of year	\$ (22,925)	\$ (77,336)
Member distribution	(197,034)	(173,002)
Net income	220,033	227,413
Members' equity (deficit), end of year	\$ 74	\$ (22,925)

See Accountants' Report and notes to Financial Statements.

LIL' ANGELS LLC
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Net income	\$ 220,033	\$ 227,413
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	694	1,157
(Increase) decrease in operating assets:		
Accounts receivable	0	0
Prepaid expenses	-	0
Other current assets		0
Increase (decrease) in		
Accounts payable	(13,601)	1,131
Accrued expenses	0	377
Commission payable	<u>(8,125)</u>	<u>0</u>
Net cash provided by operating activities	<u>(21,032)</u>	<u>2,665</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	0
Proceeds from notes payable	-	
Interest receivable		-
Loans receivable	-	
Disposition of property and equipment	<u>-</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>0</u>	<u>0</u>
Cash flows from financing activities		
Member distributions	<u>(197,034)</u>	<u>(173,002)</u>
Net cash used by financing activities	<u>(197,034)</u>	<u>(173,002)</u>
Increase (decrease) in cash	<u>1,967</u>	<u>(57,076)</u>
Cash at beginning of year	<u>193,748</u>	<u>136,672</u>
Cash at end of year	<u>\$ 195,715</u>	<u>\$ 193,748</u>

Supplemental disclosures of cash flow statement information

Interest paid	\$ <u>8,774</u>	\$ <u>11,796</u>
State income taxes paid	\$ <u>0</u>	\$ <u>0</u>

See Accountants' Report and notes to Financial Statements.

LIL' ANGELS LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Lil' Angels LLC ("the Company") is a Tennessee limited liability company and was organized to grant franchisees the right to provide photography services to child day care centers and other children's organizations throughout the United States. Franchisees are required to process their photographs through the Company. There were 46 franchised outlets in operation as of December 31, 2024, and 46 franchised outlets as of December 31, 2023. The period of duration the Company will expire on December 31, 2050.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

Preparing the Company's 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2024 or 2023. The Company places its temporary cash investments with high credit quality financial institutions. At times such investments with high credit quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Trade Accounts Receivable

Accounts and notes receivable reflect amounts due from franchisees under trade accounts receivable and installment notes receivable. Installment contracts receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any direct charge-offs. Installment contract receivables originate from the financing arrangements associated with new franchise sales. Interest accruals are at stated contractual rates on installment contracts and are not applicable to accounts receivable.

The Company employs the direct charge-off method for all uncollectible accounts; thus no provision for doubtful accounts has been made in the accompanying balance sheets. The Company charged-off \$0 and \$49 of uncollectible accounts in 2024 and 2023, respectively.

Lil' Angels LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements are charged to expense as incurred. Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The Company uses other depreciation methods (generally, accelerated depreciation methods) for tax purposes where appropriate. The estimated service lives of property and equipment are principally as follows:

Vehicles	3 to 10 years
Machinery and equipment	3 to 20 years
Furniture and Fixtures	5 years

Income taxes

The Company files a partnership tax return and therefore is not a taxpaying entity for federal income tax purposes. The members are liable for individual federal and state income taxes on their respective share of the Company's taxable income.

The Company files tax returns in the United States federal jurisdiction and the State of Tennessee jurisdiction. The Company is not currently under tax examination and is no longer subject to examination by the federal and state authorities for years prior to 2019.

Based on the evaluation of the Company's tax positions, management believes all positions taken would more likely than not be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the years ended December 31, 2024 and 2023.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ending December 31, 2024 and 2023 totaled \$8,164 and \$10,679 respectively.

Subsequent events

In accordance with ASC 855, the Company evaluated subsequent events through March 23, 2025 the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

LIL' ANGELS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Note B - Concentrations

For the years ended December 31, 2024 and 2023 the Company recognized 99% and 99% respectively, of its revenues from processing fees of its franchisees. Processing costs paid to CPQ Professional Imaging, Inc. were 65 % of total expenses in 2024 and 65% of total expenses paid in 2023.

Note C - Property and equipment

Property and equipment consisted of the following at December 31, 2024 and 2023.

	2024	2023
Equipment and computers	12,385	12,385
Software	10,500	10,500
Accumulated depreciation	(21,843)	(21,419)
Property and equipment, net	\$ 1,042	\$ 1,736
Depreciation expense for the year	\$ 694	\$ 1,157

Note D - Franchise fee revenue

The Company sells franchise rights to photography businesses. An initial franchise fee is charged which is earned upon payment. The franchisee also commits to a quarterly production requirement for the term of the franchise agreement. For each quarter the franchisee fails to meet their quarterly production, they are assessed a minimum system fee. The franchise agreement obligates the Company to certain commitments to franchisees, of which, significant obligations include: providing franchisees with a Company manual, providing initial training to franchisees, and providing ongoing business consultation to franchisees. Total franchise fee revenue for 2024 was \$0. Total franchise fee revenue for 2023 was \$0. As of 2024, the Company had 46 signed franchise agreements with initial terms of ten years.

Note E - Risk management

The Company is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; and natural disasters for which the Company carries commercial insurance.

LIL' ANGELS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Note F - Notes Payable

The Company received a loan from First Horizon Bank in the amount of \$44,498 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated April 23, 2020, and may be forgiven to the extent proceeds of the loan are used for eligible expenditures such as payroll and other expenses described in the CARES Act. No determination has been made as to whether the Company will be eligible for forgiveness, in whole or in part. The loan bears interest at a rate of 1% and is payable in monthly installments of principal and interest over 24 months beginning at 6 months from the date of the note. The loan may be repaid at any time with no prepayment penalty.

The Company also received a loan from the Small Business Administration in the amount of \$150,000. The loan is subject to a note dated June 18, 2020, with payments deferred for 24 months. The loan bears interest at a fixed rate of 3.75%, payable monthly, and matures on June 18, 2050.

Note G - Related parties

CDK Holdings, LLC, the acquiring member of 66 2/3rds interest in the Company as of November 16, 2015.

The husband of CDK Holdings, LLC's sole member is working for the Company as its General Manager and received \$50,000 in gross wages in 2024 and \$70,000 in 2023.

Imaging, Inc., which is the Company's photography processing vendor. The Company paid expenses to CPQ Professional Imaging, Inc. of \$929,642 in 2024 and \$1,027,505 in 2023.

LIL' ANGELS LLC
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Lil' Angels LLC

Opinion

We have audited the accompanying financial statements of Lil' Angels LLC (a Tennessee limited liability company), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lil' Angels, LLC as of December 31, 2023 and 2022, 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 Lil' Angels LLC 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 Lil' Angels LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility 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 Lil' Angels LLC'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 Lil' Angels LLC'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.

Hood, CPA & Associates

Chattanooga, TN

March 22, 2024

**LIL' ANGELS LLC
BALANCE SHEETS
December 31, 2023 and 2022**

ASSETS

	<u>2023</u>	<u>2022</u>
Current Assets:		
Cash	\$ 193,748	\$ 136,672
Accounts receivable	0	
Other current assets	<u>0</u>	<u>0</u>
Total current assets	193,748	136,672
Long Term Assets		
Property and equipment, net	<u>1,736</u>	<u>2,893</u>
Total long term assets	195,484	2,893
Total Assets	<u>\$195,484</u>	<u>\$ 139,565</u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Accounts payable	15,786	13,901
Accrued expenses	0	0
Commissions payable	8,125	8,502
PPP Loan	<u>44,498</u>	<u>44,498</u>
Total current liabilities	<u>68,409</u>	<u>66,901</u>
Long Term Liabilities		
SBA Loan	<u>150,000</u>	<u>150,000</u>
Total long term liabilities	<u>150,000</u>	<u>150,000</u>
Total Liabilities	218,409	216,901
Members' Equity (Deficit)	<u>(22,925)</u>	<u>(77,336)</u>
Total Liabilities and Members' Equity	<u>\$ 195,484</u>	<u>\$ 139,565</u>

See Accountants' Report and notes to Financial Statements.

LIL' ANGELS LLC
STATEMENTS OF INCOME
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Income:		
Processing income	\$ 1,565,899	\$ 1,426,611
Franchise income	-	0
Other revenue	21,505	21,776
Other income- interest	-	
Total Revenues	<u>1,587,404</u>	<u>1,448,387</u>
Cost of Sales		
Processing costs	1,027,505	939,939
Commissions	87,462	78,409
Other	<u>14,684</u>	<u>23,306</u>
Total Cost of Sales	<u>1,129,651</u>	<u>1,041,654</u>
Gross Profit	<u>457,753</u>	<u>406,733</u>
Expenses:		
Salaries and wages	70,000	80,000
Credit card and bank Fees	49,836	45,852
Advertising	10,679	15,278
Training expense	944	21,626
Professional fees	30,009	24,523
Dues and Subscriptions	5,138	363
Other general and administrative		36,656
Convention expenses	0	409
Payroll taxes	6,097	6,862
Business taxes and licenses	180	1,527
Computer expenses	132	2,486
Travel	0	4,344
Taxes - other	0	0
Insurance	2,366	2,189
Telephone and utilities	1,172	992
Shipping	63	0
Depreciation	1,157	1,928
Interest expense	11,796	2,924
Bad debt expense	<u>49</u>	<u>0</u>
Total general and administration expenses	<u>230,340</u>	<u>247,959</u>
Income before income taxes	227,413	158,774
State income tax expense	<u>0</u>	<u>0</u>
Net income	<u>\$ 227,413</u>	<u>\$ 158,774</u>

See Accountants' Report and notes to Financial Statements.

LIL' ANGELS LLC
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years Ended December 31, 2023 and 2022

	2023	2022
Members' equity, beginning of year	\$ (77,336)	\$ 10,479
Member distribution	(173,002)	(246,589)
Net income	227,413	158,774
Members' equity (deficit), end of year	\$ (22,925)	\$ (77,336)

See Accountants' Report and notes to Financial Statements.

LIL' ANGELS LLC
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net income	\$ 227,413	\$ 158,774
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	1,157	1,928
(Increase) decrease in operating assets:		
Accounts receivable	0	0
Prepaid expenses	-	0
Other current assets		16,194
Increase (decrease) in		
Accounts payable	1,131	(24,101)
Accrued expenses	377	0
Credit card payable	<u>0</u>	<u>799</u>
Net cash provided by operating activities	<u>2,665</u>	<u>(5,180)</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	0
Proceeds from notes payable	-	
Interest receivable		-
Loans receivable	-	
Disposition of property and equipment	<u>-</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>0</u>	<u>0</u>
Cash flows from financing activities		
Member distributions	<u>(173,002)</u>	<u>(246,589)</u>
Net cash used by financing activities	<u>(173,002)</u>	<u>(246,589)</u>
Increase (decrease) in cash	<u>(57,076)</u>	<u>(92,995)</u>
Cash at beginning of year	<u>136,672</u>	<u>229,667</u>
Cash at end of year	<u>\$ 193,748</u>	<u>\$ 136,672</u>
<u>Supplemental disclosures of cash flow statement information</u>		
Interest paid	<u>\$ 11,796</u>	<u>\$ 2,924</u>
State income taxes paid	<u>\$ 0</u>	<u>\$ 0</u>

See Accountants' Report and notes to Financial Statements.

LIL' ANGELS LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Lil' Angels LLC ("the Company") is a Tennessee limited liability company and was organized to grant franchisees the right to provide photography services to child day care centers and other children's organizations throughout the United States. Franchisees are required to process their photographs through the Company. There were 46 franchised outlets in operation as of December 31, 2023, and 46 franchised outlets as of December 31, 2022. The period of duration the Company will expire on December 31, 2050.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

Preparing the Company's 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2023 or 2022. The Company places its temporary cash investments with high credit quality financial institutions. At times such investments with high credit quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Trade Accounts Receivable

Accounts and notes receivable reflect amounts due from franchisees under trade accounts receivable and installment notes receivable. Installment contracts receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any direct charge-offs. Installment contract receivables originate from the financing arrangements associated with new franchise sales. Interest accruals are at stated contractual rates on installment contracts and are not applicable to accounts receivable.

The Company employs the direct charge-off method for all uncollectible accounts; thus no provision for doubtful accounts has been made in the accompanying balance sheets. The Company charged-off \$49 and \$0 of uncollectible accounts in 2023 and 2022, respectively.

Lil' Angels LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements are charged to expense as incurred. Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The Company uses other depreciation methods (generally, accelerated depreciation methods) for tax purposes where appropriate. The estimated service lives of property and equipment are principally as follows:

Vehicles	3 to 10 years
Machinery and equipment	3 to 20 years
Furniture and Fixtures	5 years

Income taxes

The Company files a partnership tax return and therefore is not a taxpaying entity for federal income tax purposes. The members are liable for individual federal and state income taxes on their respective share of the Company's taxable income.

The Company files tax returns in the United States federal jurisdiction and the State of Tennessee jurisdiction. The Company is not currently under tax examination and is no longer subject to examination by the federal and state authorities for years prior to 2018.

Based on the evaluation of the Company's tax positions, management believes all positions taken would more likely than not be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the years ended December 31, 2023 and 2022.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ending December 31, 2023 and 2022 totaled \$10,679 and \$15,278 respectively.

Subsequent events

In accordance with ASC 855, the Company evaluated subsequent events through March 22, 2024 the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

LIL' ANGELS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

Note B - Concentrations

For the years ended December 31, 2023 and 2022 the Company recognized 99% and 99% respectively, of its revenues from processing fees of its franchisees. Processing costs paid to CPQ Professional Imaging, Inc. were 65 % of total expenses in 2023 and 65% of total expenses paid in 2022.

Note C - Property and equipment

Property and equipment consisted of the following at December 31, 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Equipment and computers	12,385	12,385
Software	10,500	10,500
Accumulated depreciation	<u>(21,149)</u>	<u>(19,992)</u>
Property and equipment, net	<u>\$ 1,736</u>	<u>\$ 2,893</u>
Depreciation expense for the year	<u>\$ 1,157</u>	<u>\$ 1,928</u>

Note D - Franchise fee revenue

The Company sells franchise rights to photography businesses. An initial franchise fee is charged which so earned upon payment. The franchisee also commits to a quarterly production requirement for the term of the franchise agreement. For each quarter the franchisee fails to meet their quarterly production, they are assessed a minimum system fee. The franchise agreement obligates the Company to certain commitments to franchisees, of which, significant obligations include: providing franchisees with a Company manual, providing initial training to franchisees, and providing ongoing business consultation to franchisees. Total franchise fee revenue for 2023 was \$0. Total franchise fee revenue for 2022 was \$0. As of 2022, the Company had 46 signed franchise agreements with initial terms of ten years.

Note E - Risk management

The Company is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; and natural disasters for which the Company carries commercial insurance.

EXHIBIT B

FRANCHISE AGREEMENT

**LIL' ANGELS PHOTOGRAPHY®
FRANCHISE AGREEMENT
NUMBER**

For

Franchise Owner

DATED:

As used for all purposes throughout this Agreement, "Lil' Angels Photography" is a registered mark of Lil' Angels, LLC.

LIL' ANGELS PHOTOGRAPHY®
FRANCHISE AGREEMENT
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LIL' ANGELS PHOTOGRAPHY®

FRANCHISE AGREEMENT

Name of Franchise Owner: _____

Franchise Owner Number: _____

THIS FRANCHISE AGREEMENT (hereinafter "Agreement") is made and entered into this _____ day of _____, 202__, by and between LIL' ANGELS LLC, having its principal place of business located at 550 Industrial Drive SW, Cleveland, Tennessee 37311 (hereinafter referred to as "Franchisor"), and _____ hereinafter referred to as "Franchise Owner").

WITNESSETH:

- A. Franchisor, as the result of the expenditure of time, skill, effort, and money, has created and owns a unique system relating to the development, expansion, and operation of photography services for families, senior high school students, children, youth involved in ~~child-care~~childcare centers, sports, schools, clubs, other youth-related organizations, and all other subjects.
- B. Franchisor has designed, developed, and adopted unique and distinguishing characteristics and methods of operation that include, without limitation, marketing, operating procedures and materials, training, and reporting procedures.
- C. Franchisor is the owner of certain trade names, service marks, logotypes, trade symbols, emblems, signs, slogans, insignia, trademarks, designs, commercial symbols, and copyrights for use in connection with the Lil' Angels Photography® System together with all goodwill associated therewith (the "Marks").
- D. As used for all purposes throughout this Agreement, "Lil' Angels Photography®" is a registered mark of Lil' Angels, LLC.
- E. Franchise Owner desires to enter into the business of operating a Franchise which provides photography services for families, children, and youth involved in ~~child-care~~childcare centers, sports, schools, clubs, and other youth-related organizations through implementation of Franchisor's System and wishes to obtain a Lil' Angels Photography® franchise from Franchisor.
- F. Franchisor from time to time, may revise and update the franchise marketing and operating policies, System characteristics, procedures and methods designed to assist Franchise Owner in the operation of a Lil' Angels Photography® service.

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

1. GRANT OF RIGHTS

1.1 Grant of Right. Subject to the terms and conditions of this Agreement, Franchisor hereby grants to Franchise Owner, a Lil' Angels Photography® Franchise and Franchise Owner hereby accepts all the rights and obligations to do business as the owner of a Lil' Angels Photography® franchise.

_____ (Initial)

_____ (Initial)

1.2 Consideration. Franchise Owner promises to promote the business of the Lil' Angels Photography franchise, pay all fees, make all other required payments, perform all the terms of this Agreement and abide by the System. In exchange Franchisor grants the Lil' Angels Photography® franchise to Franchise Owner, which initially will be operated from the following location: _____

1.3 Territory. Franchisor grants a Lil' Angels Photography® franchise for a specific territory. The territory of Franchise Owner is described in Exhibit 1 that is attached to this Agreement. Except as provided in this Section, Franchisor will not operate a Lil' Angels Photography® business located in or permit the operation of another Lil' Angels Photography® franchised business located in the franchised territory.

Franchise Owner agrees to operate the Lil' Angels franchise only within the territory described in Exhibit 1 and solely under the registered mark, Lil' Angels Photography®. If, without written consent of the Franchisor, Franchise Owner operates outside the territory in Exhibit 1 and/or operates under a name other than the registered mark, Franchisor will assess a fee up to \$5,000 per event and require Franchise Owner to submit all reports from any such photography shoot. Further, if there is no owner of the territory in which the infraction took place, the Franchisor will at its discretion determine what portion of the sales proceeds will be turned over to Franchisor and what portion Franchise Owner will be allowed to keep of the proceeds from the unauthorized photo shoot.

If Franchisor secures a regional or national account that has one or more locations in the franchised territory, Franchise Owner shall take photographs at the location(s) and comply with the procedures and other provisions set forth in the agreement with the regional or national account and meet the standards of the account. If Franchise Owner chooses to not take photographs at the location, or not comply with the agreement with the regional or national account, or does not meet the standards of the account, Franchisor reserves the right to take photographs at the location(s) and/or arrange for another Franchise Owner or other person/entity to take photographs to maintain the regional or national account, even if this activity is in the franchised territory.

If a ~~child care~~ childcare center or other actual or potential customer requests that pictures be taken at its location and Franchise Owner chooses to not take photographs at the location, Franchisor reserves the right to take photographs at the location or arrange for another Franchise Owner or other person/entity to do so, even if this activity is in the franchised territory.

Franchise Owner must maintain all valid licenses as required by any government agency(s) to operate the Lil' Angels Photography® franchise in its territory.

Franchisor does not, by granting the territory to Franchise Owner, guarantee the success or profitability of the Lil' Angels' franchise.

2. TERM AND RENEWAL

2.1 Term. This Agreement shall be effective as of the date specified above and shall continue for an initial term of ten (10) years unless terminated as hereinafter provided.

2.2 Renewal. Franchise Owner shall not have an automatic right to renew this Agreement. Whether the Agreement is to be renewed shall be subject to the discretion of Franchisor, which will not be unreasonably withheld. If this Agreement is renewed, Franchisor may modify the size of the territory based upon an increase or decrease in the number of daycare centers and whether Franchise Owner

_____ (Initial)

_____ (Initial)

has developed a sufficient amount of production from operating the territory. Franchisor shall be deemed to have acted reasonably in exercising discretion not to renew if Franchise Owner fails to satisfy any one or more of the following conditions for renewal:

- A. Notice.** Franchise Owner shall give written notice to Franchisor not more than one hundred and eighty (180) days and not less than one (1) year prior to the expiration of the current term requesting without any qualification that Franchisor renew the Agreement. Franchise Owner's failure to give a timely, unconditional request to renew shall be grounds for expiration without renewal of the Agreement at the end of the term.
- B. Compliance.** Franchise Owner shall have been in full compliance with all the terms, covenants, and conditions in this Agreement, including but not limited to provisions for payments to Franchisor, continuously during the term of this Agreement, at the time of delivering the written notice and at expiration of this Agreement and none of the grounds for termination in Article 9 shall exist.
- C. Execution of the Then Current Agreement.** Following receipt of the notice from Franchise Owner and upon the decision of Franchisor to renew the Agreement, Franchisor shall provide Franchise Owner with a copy of the then-current Agreement being used by Franchisor for new Franchise Owners. That Agreement may have different terms, covenants, conditions, and fees than this Agreement. Its term shall be ten (10) years. Franchise Owner shall execute and deliver the Agreement to Franchisor in compliance with all applicable disclosure rules and regulations, at least thirty (30) days prior to the expiration of the term.
- D. List of All Claims.** Concurrently with the execution of any renewal agreement, Franchise Owner shall prepare a list of all actual and potential claims against Franchisor and Franchisor's owners, members, managers, and personnel. Franchise owner is not required to release the claims prior to entering into the renewal agreement.
- E. Participation in Additional Training.** If required by Franchisor, Franchise Owner shall participate in the next available New Owner Training and Advanced Training Classes.
- F. Upgrade of Equipment and Supplies.** Upon exercise of the renewal option, Franchise Owner shall make such capital expenditures that reasonably may be required by Franchisor to renovate, paint and purchase cameras, lights, and other equipment, props, costumes, and otherwise modernize Franchisor Owner's location, business cards, advertising materials, signs, equipment and other properties and procedures to conform to the image and standards of the Lil' Angels System at the time of the execution of the renewal of this Agreement.
- G. Notice of Expiration.** If applicable law requires that Franchisor give notice to Franchise Owner prior to expiration of the term or any Renewal Term or if applicable law requires that longer periods of notice be given than those set forth herein Franchisor shall have the right to elect that this Agreement shall remain in effect on a month-to-month basis to allow Franchisor time to give the notice required by applicable law.
- H. Notice of Nonrenewal.** If Franchisor intends to not renew the Franchise Agreement, Franchisor shall give Franchise Owner 180 days' notice of the intention to not renew the Franchise.

_____ (Initial)

_____ (Initial)

3. FEES AND PAYMENTS

3.1 Initial Franchise Fee. In consideration for the grant of the franchise:

- A. Payment.** Franchise Owner shall pay to Franchisor an initial franchise fee of twenty-nine thousand five hundred dollars (\$29,500). The entire initial franchise fee is fully earned upon payment. The initial franchise fee is not refundable, in whole or in part, for any reason, except as stated in Section 3.1(B). The initial franchise fee shall be paid by a cashier's check or through a credit or debit card together with a 3% service fee for use of the card.
- B. Approval.** Franchisor shall have fifteen (15) days from the later of the date of receipt of the Agreement or full payment of the initial franchise fee to approve or disapprove Franchise Owner. Should Franchisor disapprove Franchise Owner, a full refund of the franchise fee shall be made.

3.2 Other Payments to Franchisor.

- A. System Fee.** In consideration for the authorization to use the marks and system granted by Franchisor, Franchise Owner shall pay a system fee in the amount of sixty cents (\$.60) for each equivalent unit ordered by Franchise Owner. For purposes of this Agreement, an "equivalent unit" is a unit of value that is assigned to each processed picture item purchased by Franchise Owner.

However, for orders from digital files of up to five printed equivalent units per sitting, there will be a minimum digital fee of \$3.50 charged for each sitting. For orders from digital files of six or more printed equivalent units per sitting, the minimum digital fee will be waived. The Franchisor reserves the right to modify the amount of the minimum digital fee.

The system fee and minimum digital fee shall be in addition to the charges by a photo lab for the processing and printing of the images and digital files of Franchise Owner.

- B. Payment Procedure for System Fee, Minimum Digital Fee, and Photo Processing Charges.** Franchise Owner shall pay the system fee and minimum digital fee together with the charge for processing and printing of the picture packages and shipping costs using a pre-authorized debit or credit card or other method that Franchisor specifies from time to time. Franchise Owner agrees to have sufficient funds at all times in its bank or other account to permit Franchisor to process payments using the pre-authorized debit or credit card or other method.
- C. Online Store Fee.** Franchisor has established a secure online store for the use of all Franchise Owners that permits their customers to view images and purchase pictures and other photo items. If Franchise Owner uses the online store, Franchise Owner shall pay a support and maintenance fee of \$10 per month. Franchisor reserves the right to increase the online store fee in the event there is an increase in the charges it must pay to maintain the online store.
- D. Liability for Fees.** Franchise Owner's obligation to pay Franchisor the system fee, minimum digital fee, photo processing charges, online store fee, and other fees pursuant to the terms of this Agreement is absolute, unconditional, and will remain in full force and effect until the

_____ (Initial)

_____ (Initial)

term of this Agreement has expired (and thereafter, with regard to any fees due and not paid at the time of termination). Franchise Owner does not have the right of offset and will timely pay all system fees and minimum digital fees due to Franchisor regardless of any claims or allegations Franchise Owner may allege against Franchisor.

Because of Franchisor's need to make regular payments of Commission from the system fee and minimum digital fee payments, as set forth in Item 4, Franchise Owner must pay the full amount of system fees and minimum digital fees without any withholding that may be imposed by a government authority. In the event Franchise Owner does pay a withheld amount to a government authority, Franchise Owner may submit proof of payment of the withheld amount in accordance with the required procedures of Franchisor. For purposes of reimbursement, Franchisor shall credit the withheld amount to the account of Franchise Owner.

3.3 Increase in System Fee and Photo Processing Charges.

- A. **System Fee.** The system fee and any other similar fee shall be modified annually beginning on the first Monday in January of each year following the date of this Agreement. The modification shall be based upon the average of the Unadjusted Percent Change in Miscellaneous Personal Services for the three calendar months of the third quarter of each prior year to the three calendar months of the third quarter of the current year, as reported in the Consumer Price Index for All Urban Consumers (CPI-U): U.S. City Average (1982-84=100). During the fourth quarter of each year following execution of this Agreement, Franchisor shall advise Franchise Owner of the modification to the system fee and the amount of the new system fee. Franchise Owner shall be responsible for notifying Franchisor of any mathematical error in computing the modification to the system fee. If publication of the above index is discontinued or modified, or if Franchisor determines that index does not sufficiently represent increases relevant to this Agreement, then Franchisor can select and use an alternative index or procedure that reasonably reflects the relevant rate of increases in prices.
- B. **Photo Processing Charges.** The approved photo labs and not Franchisor set the charges for processing and printing of the images of Franchise Owner together with the shipping and handling costs. Franchisor may assist the photo labs in notifying franchise owners of any change in the photo processing charges and shipping fees.

4. COMMISSION

- 4.1 **Other Franchise Owners.** Franchise Owner has the opportunity, but not the requirement, to introduce other potential franchise owners to the Lil' Angels franchise system. For Franchise Owner to earn the right to receive any Commission, which is obtained when the other potential franchise owners become new franchise owners, Franchise Owner must qualify to receive the Commission, as set forth in Section 4.3, and comply with the procedures established by Franchisor. Any Commission earned by Franchise Owner from the system fee and minimum digital fee paid by this new franchise owner will be based on each equivalent unit in every order of the other franchise owner. Franchise Owner shall not receive any part of the Initial Franchise Fee paid by the referred owner through any Commission or any other monetary or other benefit.

Franchise Owner may not refer himself, herself, an immediate family member, or any entity he or she directly or indirectly owns or operates for purposes of receiving commissions.

_____ (Initial)

_____ (Initial)

4.2 Amount of Commission. The amount of the Commission to be paid to Franchise Owner during the term of this Franchise Agreement from the system fees, as may be modified by Section 3.3, is as follows:

A. Equivalent Unit. For all equivalent units, the amount of the Commission to be paid to Franchise Owner during the term of this Franchise Agreement from the system fee, as may be modified by Section 3.3, is as follows:

Equivalent Unit	Commission
1	\$.15

B. Minimum Digital Fee. In the event there are five or less printed equivalent units per sitting ordered from a digital file, the amount of the Commission to be paid to Franchise Owner would be based upon five equivalent units.

4.3 Requirements to Receive a Commission. First, Franchise Owner must have referred to Franchisor the name and the contact information of the potential franchise owner, in accordance with Franchisor’s referral requirements, before a representative of Franchisor contacted or became aware of the potential franchise owner. Second, Franchise Owner must pay at least the Quarterly Production Requirement in system fees, minimum digital fees, and photo lab processing charges as set forth in Section 9.4 and comply fully with all of the terms, covenants, and conditions of this Franchise Agreement, including those set forth in Section 9, to qualify to receive the Commissions.

4.4 When a Commission Will Not Be Paid. If Franchise Owner does not meet the Quarterly Production Requirement in a calendar quarter ending after the date of this Agreement, Franchise Owner shall not be entitled to receive any Commission. If Franchise Owner is in violation of any term, covenant, or condition of this Agreement, Franchise Owner shall not be entitled to receive any Commission. When Franchise Owner meets the Quarterly Production Requirement in any subsequent calendar quarter and cures any violation, except those set forth in Section 9.2 that are subject to immediate termination by Franchisor, Franchise Owner shall be entitled to receive a Commission beginning with the month in which Franchise Owner achieved the Quarterly Production Requirement and was in compliance with terms, covenants, and conditions of this Agreement. Any Commission shall be forfeited for the period in which Franchise Owner did not qualify to receive it.

Franchisor shall not pay a Commission to a Franchise Owner who owns more than one territory until Franchise Owner supplies Franchisor with event sheets and booking reports every month for each territory owned. In addition to not receiving Commission payments, Franchise Owner shall pay to Franchisor a penalty of \$100 per month for failure to supply the event sheets and booking reports for each territory owned. When event sheets and booking reports are supplied monthly and if Franchise Owner is entitled to receive a Commission payment, Franchisor shall pay a Commission to Franchise Owner.

If Franchise Owner is terminated or this Agreement is canceled, transferred, sold, or expires, a Commission will not be paid to Franchise Owner. If the other franchise owner on whose behalf a Commission was being paid is terminated, or its franchise agreement is canceled, transferred, sold, or expires, Franchise Owner will not be paid any Commission on behalf of that other franchise owner.

_____ (Initial)

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4.5 Avoidance of Multiple Commissions. Franchisor shall not be obligated to pay multiple commissions. If there are multiple claimants to any commission(s) then Franchisor shall have the right to determine which claimant is entitled to the commission and/or to allocate among claimants the commission provided for above.

5. OBLIGATIONS OF FRANCHISOR

5.1 Manual. Franchisor agrees to loan to Franchise Owner copies of all its updated confidential management, technical and operational materials together with any trade secrets and business techniques designed to assist Franchise Owner in the operation of its business during the term of this Agreement. The manual and other materials may, from time to time, be updated and revised.

5.2 Training. Franchisor shall provide an initial franchise owner training program that consists of all aspects of the Lil' Angels System including marketing, sales, operation, and business management. There will be no charge for up to two people designated by Franchise Owner to attend the New Owner Training Class. The site for the New Owner Training Class shall be at the training facilities at CPQ Colorchrome, Inc., 550 Industrial Drive SW, Cleveland, Tennessee 37311, and the field-training shall take place in Cleveland, Tennessee or in the territory of Franchise Owner and with a representative of Franchisor or an experienced Franchise Owner.

Additional training also shall be provided by Franchisor from time to time as Franchisor deems appropriate for the management, administrative, sales, and photography staff of all Franchise Owners. The location for on-going training shall be at the training facilities at CPQ Colorchrome, Inc., 550 Industrial Drive SW, Cleveland, Tennessee 37311 or at other designated sites. Franchise Owner shall be responsible for the expenses of anyone, including owners, who attend training classes. The charge for the additional training is \$500 per person. In addition, Franchise Owner shall be responsible for the salaries and expenses, including, but not limited to, transportation, food, and lodging of the staff who attend any training classes.

5.3 Consultation. Franchisor agrees to provide, when Franchisor deems necessary or appropriate, reasonably prompt advice to and consultation with Franchise Owner about the establishment, operation, and maintenance of the Lil' Angels' franchise. However, Franchisor shall not regulate or set the prices of portrait services and products to be sold by Franchise Owner.

6. OBLIGATIONS OF FRANCHISE OWNER

In order to continue to use the Marks and operate under this Agreement, Franchise Owner agrees at all times to comply with the following obligations:

6.1 Training. It shall be mandatory for Franchise Owner and any manager who will be responsible for the day-to-day operation of the business to attend and successfully complete the New Owner Training Class and field-training program before commencing operation or management of the Franchise or before taking pictures on behalf of Franchise Owner. If Franchise Owner hires a photographer to take pictures on behalf of Franchise Owner, the photographer must attend and successfully complete the New Owner Training Classes and field-training program before taking pictures on behalf of Franchise Owner.

After the initial training of the two-designated people, Franchise Owner shall pay a training fee of two thousand dollars (\$2,000) per person for additional franchise owners, managers, and

_____ (Initial)

_____ (Initial)

photographers who attend the New Owner Training Class and a field-training fee of two thousand five hundred dollars (\$2,500).

- 6.2 Payment of Fees.** Franchise Owner agrees to comply with the payment procedure established from time to time by Franchisor (which may be established by Franchisor for Franchise Owners generally, or particularly for Franchise Owner or for certain Franchise Owners that includes Franchisor Owner) for the system fee, minimum digital fee, initial franchise fee, transfer fee, online store fee, and other fees.
- 6.3 Use of Marks.** Franchise Owner agrees to use the trade names, service marks, and trademarks as they are developed by Franchisor only in the manner and to the extent specifically licensed by this Agreement and solely within the Exclusive Territory granted in Exhibit 1. Franchise Owner agrees to notify Franchisor promptly of any person, partnership, association, or corporation improperly using the trade names, service marks, trademarks or other registered marks, manuals, methods, procedures, or trade secrets of Franchisor.
- 6.4 Name of Business.** Franchise Owner agrees to operate and do business of any and all types of photography only under the name "Lil' Angels Photography®."
- 6.5 Government Compliance.** Franchise Owner shall conduct the Lil' Angels franchise and maintain any premises in strict compliance with all applicable laws, ordinances, regulations and other requirements of any federal, state, county, or municipal government and shall obtain and maintain all necessary permits, licenses, or other consents for the operation of the business.
- 6.6 Reports.** Franchise Owner shall submit to Franchisor, whether by copies of materials or by electronic modems or other communications means, certain activity, sales and income reports, calendar of events and account contact information, financial statements, and tax returns as described in the Operation Manual or otherwise in writing by Franchisor. If this Agreement represents an additional franchise owned by Franchise Owner, he or she must supply event sheets and booking statements for each franchise owned, every month.
- 6.7 Inspections and Audit.** Franchise Owner shall allow Franchisor, or its representatives, to visit and inspect all areas and aspects of the franchise business periodically for the purpose of reviewing operating procedures, auditing the financial records of Franchise Owner, ensuring proper use of the Marks, verifying location of customers, and counseling Franchise Owner in the operation of the Lil' Angels franchise. Franchisor, or its representative, shall make reasonable efforts to avoid disruption of Franchise Owner's business.

Franchisor also shall have the right to inspect the records of Franchise Owner's business through modem or other communications methods.

- 6.8 Obligation to Purchase.** Franchise Owner agrees to use only approved photo labs for processing and printing any and all images taken while a Franchise Owner. If requested, Franchisor shall provide a list of approved suppliers, brand names, equipment, furniture, props, signs, supplies and specifications for use with the Lil' Angels System. If Franchise Owner proposes to obtain supplies, equipment, furniture, props, signs, and other items not previously approved by Franchisor or from suppliers not previously approved by Franchisor, Franchise Owner shall first seek the approval of Franchisor. Franchise Owner shall not obtain supplies, equipment, furniture, props, signs, or other items not approved by Franchisor and shall not obtain any of these from any supplier not approved by Franchisor. Franchisor may require submission of samples and/or other information to determine

_____ (Initial)

_____ (Initial)

whether such suppliers or such supplies, equipment, furniture, props, signs, and other items meet its specifications. Franchisor will advise Franchise Owner within a reasonable time whether such suppliers or such supplies, equipment furniture, props, signs, and other items meet its specifications.

- 6.9. Right to Limit Number of Suppliers.** Franchise Owner acknowledges that goals for cost, service and consolidating purchases to increase bargaining power and seek better pricing and service, and other factors, may go against having more than one supplier or multiple suppliers in a market. Among the factors Franchisor may consider regarding proposed photo labs, supplies, equipment, furniture, props, signs or other items or services or a proposed supplier are effects of consent on lowering costs and pricing, quality and uniformity of products and services and/or impact on any purchasing program(s). Franchisor may determine that any items or services shall be limited to a designated brand or brands or designated supplier determined by Franchisor.
- 6.10. Basic Training Manual.** Franchise Owner agrees to comply with the Basic Training Manual and other confidential policy or procedures manuals setting forth the requirements that Franchise Owners must comply with, and not be in conflict with the provisions of this Agreement.
- 6.11. Changes.** Franchise Owner understands and agrees that the System is constantly being modified and improved and that modifications and improvements require from time to time changes in the manner of operation and other aspects of the System. Franchise Owner agrees to adopt and update any manual with these changes and to implement any change in the System.
- 6.12. Ownership.** The Basic Training Manual and other manuals provided by Franchisor shall at all times remain the sole property of Franchisor, shall be treated by all parties as loaned to Franchise Owner for the operation of the Lil' Angels franchise and shall promptly be returned upon the expiration or other termination of this Agreement.
- 6.13. Non-Disclosure.** Franchise Owner shall at all times treat as confidential, and shall not at any time disclose, copy, duplicate, record or otherwise reproduce, in whole or in part or otherwise make available to any unauthorized person or source, the contents of any manual. Franchise Owner agrees to not at any time furnish either directly or indirectly, any information regarding Franchisor, other Franchise Owners, the methods of operation, manuals, or any other information relating to the Lil' Angels System, to anyone except to Franchisor, other Franchise Owners, a person designated by Franchisor to provide services to Franchise Owner, or staff of Franchise Owner.
- Franchise Owner may teach about photography only to his or her staff member who has signed a confidentiality and non-disclosure agreement. Franchise Owner agrees to not teach or train anyone else about photography regardless of whether Franchise Owner is paid.
- 6.14. Trade Secret.** The parties acknowledge that the Lil' Angels System in its entirety constitutes a trade secret of Franchisor that is revealed to Franchise Owner in confidence. Franchise Owner acknowledges that it has not developed or been engaged in any program or system similar to the Lil' Angels System prior to the execution of this Agreement.
- 6.15. Injunctive and Other Relief.** Franchise Owner understands that Franchisor shall seek injunctive relief in the event of actual or threatened or impending breach of any sub-section in this Article 6 by Franchise Owner, in addition to any and all other remedies and damages available to Franchisor. The obligations of this Article 6 shall not apply to information that can be legally demonstrated as coming to Franchise Owner's attention prior to disclosure by Franchisor or which legally has become part of the public domain by publication or communication by others.

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6.16. Franchise Owner's Personnel. Franchise Owner shall require all personnel performing managerial or supervisory functions, all personnel receiving or to receive special training from Franchisor and family members of Franchise Owner, or partners, officers, directors, and shareholders of Franchise Owner to keep confidential all information received in every training session.

6.17 Insurance. Franchise Owner shall procure at its own expense and maintain in full force and effect during the term of this Agreement, an insurance policy or policies protecting all officers, directors, partners and employees of Franchise Owner and Franchisor against any loss, liability, or expense whatsoever arising or occurring upon or in connection with the Lil' Angels franchise, as Franchisor may reasonably require for its own and Franchise Owner's protection. Franchisor and Franchisor's owners and personnel shall be named as additional insureds in such policy or policies (Workmen's Compensation excepted). Franchise Owner shall secure the insurance policies before commencement of business and provide proof of such insurance to Franchisor prior to attendance at the New Owner Training Class. Franchise Owner shall provide Franchisor with copies of the complete policies.

Such policy or policies shall be written by an insurance company satisfactory to Franchisor in accordance with standards and specifications set forth in the Basic Training Manual or otherwise in writing, and shall include, at a minimum, the following:

- Comprehensive general liability insurance coverage with a per-occurrence limit of at least one million dollars (\$1,000,000),
- Owned, hired and non-owned automobile liability coverage for any vehicles, with minimum limits of at least one million dollars (\$1,000,000),
- Property insurance covering the loss to or damage of all equipment in the amount of at least \$10,000.
- Insurance covering employee dishonesty or money and securities coverage
- Worker's Compensation and employer's liability insurance as well as such other insurance as may be required by statute or rule of the state in which the franchised business is located and/or operated.
- Other and additional insurance that Franchisor may specify from time to time.

Upon obtaining the insurance required by this Agreement and for every year thereafter, Franchise Owner shall submit proof of satisfactory insurance and proof of payment to Franchisor, together with, upon request, copies of all policies and policy amendments. The proof of insurance shall include a statement by the insurer that the policy or policies will not be canceled or materially altered without at least thirty (30) days prior written notice to Franchisor sent certified mail, return receipt requested.

6.18 Franchisor May Obtain Insurance. If Franchise Owner, for any reason, does not procure and maintain all insurance coverage required by this Agreement, Franchisor shall have the right and authority (without, however, any obligation to do so) to procure such insurance coverage and to charge the premium to Franchise Owner, which charges, together with a reasonable fee for expenses incurred by Franchisor in connection with such procurement, shall be payable by Franchise Owner immediately upon notice.

6.19 Indemnification. Franchise Owner shall indemnify, defend, and hold Franchisor and Franchisor's ownership, management, and personnel harmless from and against any and all costs and expenses, including court costs, expenses of arbitration, expenses of litigation, losses, liabilities, damages, causes of action, its attorneys' fees, and claims and demands whatsoever, known or unknown,

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asserted or unasserted, and however arising, including without limitation, those arising out of actions or claims based upon the alleged acts, errors, omissions or misrepresentations of Franchise Owner or any partners, officers, directors, agents, employees or representatives, or the conduct or operation of the Lil' Angels franchise. Franchise Owner's indemnification and defense obligations shall not be waived or reduced by any insurance provided by Franchise Owner, or any third party.

6.20 Management. Franchise Owner and any manager of Franchise Owner must attend and successfully complete the new owner training course and field-training program offered by Franchisor before beginning operation of or working with the Lil' Angels franchise. If Franchise Owner hires a photographer to work in the franchised business, the photographer must attend and successfully complete the new owner training course and field-training program offered by Franchisor before he or she may take pictures for Franchise Owner. Franchise Owner shall not permit any proposed manager or photographer to operate or work in the Lil' Angels franchise before he or she is fully trained.

If Franchise Owner does not live in the territory prescribed by this Agreement, Franchise Owner must secure a manager or photographer who does live in the territory to operate and manage the franchised business. If Franchise Owner fails to have a full-time manager or photographer to operate the business, Franchise Owner will be assessed a fee of \$500 a month until he or she has management that Franchisor in its judgment considers to be adequate for the territory.

6.21 Payment of Obligations. Franchise Owner agrees that the image of the Lil' Angels System in its community is an integral part of Franchise Owner's success. To that end, Franchise Owner shall pay promptly, as and when due, all obligations incurred in the course of business and operation of the Lil' Angel's franchise business.

6.22 Closing of Business. If, for any reason other than fire, flood, or other natural disaster, Franchise Owner closes the photography business for 30 days or more or fails within 60 days to re-open the business, then effective on delivery of notice of termination by Franchisor to Franchise Owner, this Agreement shall be deemed to be terminated and Franchise Owner shall thereupon have no further rights as a Franchise Owner.

6.23 Operation. Franchise Owner shall:

- A. Operate in accordance with the standards, business practices and policies presently in force and as amended from time to time by Franchisor as set forth in Franchisor's Basic Training and other operations manuals,
- B. Keep the properties, cameras, props, lights, and other equipment, areas, and items under the control of Franchise Owner maintained at all times in good condition and repair, neat and clean,
- C. Comply with all business policies, practices, and procedures set forth by Franchisor from time to time, and
- D. Offer, sell, and provide only such products and merchandise and only photography services that are approved for use by Franchise Owners and as from time to time may be prescribed or approved by Franchisor.

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6.24 Signs. If Franchise Owner operates from a business location, Franchise Owner shall display the signs at the location that have been approved by Franchisor in writing. Franchise Owner shall not use or display any other signs of any kind or nature at the location without first obtaining the written approval of Franchisor before their use. All signs used by Franchise Owner shall conform to the specifications of Franchisor as to art work, lettering, colors, size, construction, and overall appearance and shall be approved in advance by Franchisor.

6.25 Compliance Fee. If Franchise Owner fails to comply with any one or more of the written policies of Franchisor and/or any one or more of the requirements of this Agreement, Franchisor shall give one written notice or warning to comply. If Franchise Owner fails to comply with the written policies and/or requirements of this Agreement, Franchise Owner shall pay a Compliance Fee of five hundred dollars (\$500) per occurrence. This fee does not waive or excuse the breach or damages caused by the breach.

6.26 Attendance at National Convention. Franchise Owner shall attend the Lil' Angels National Convention, unless excused in advance, in writing by Franchisor.

7. COVENANT NOT TO COMPETE OR DISCLOSE CONFIDENTIAL INFORMATION

7.1 Competing Interests. During the term of the Agreement, Franchise Owner shall not, either directly or indirectly, for himself, herself or itself on behalf of or in conjunction with any other person, persons, partnership or corporation own, maintain, engage in, participate in or have any interest in the operation of any other photography business that offers the same or substantially similar services and benefits as Franchisor or any other business Franchisor shall deem competitive including, but not limited to, taking pictures of families, children, and youth and taking pictures at daycares, preschools, and youth and children's organizations, provided however that:

- A. The above provisions relating to interests in any other photography business shall not apply to any interest fully disclosed and known to Franchisor in additional Lil' Angels franchised operations.
- B. The above provisions relating to interests in other similar businesses shall not apply to ownership by Franchise Owner of outstanding securities of any corporation whose securities are publicly held and traded, provided that said securities are held by Franchise Owner for investment purposes only and that Franchise Owner's total holdings do not constitute more than five percent (5%) of the outstanding securities of any corporation.

7.2 Competing Business. Franchise Owner covenants that during the term of this Agreement or any renewal or extension and for a period of (2) two years after the expiration or termination or non-renewal of this Agreement, regardless of the cause of expiration or termination or non-renewal, it shall not, either directly or indirectly, for himself, herself, or itself, or on behalf of or in conjunction with any other person, persons, partnership, or corporation:

- A. Divert or attempt to divert any business of or any clients of Franchise Owner, other Franchise Owners or Franchisor including, but not limited to, individual family, children, and youth clients, daycares, preschools, and youth and children's organizations to any other photography business, by direct or indirect inducement or otherwise directly or indirectly own, maintain, engage in, or participate in the operation of any other photography business offering the same or substantially similar services or products as the Lil' Angels System or

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concept within fifty (50) miles of the approved territory of Franchise Owner or of any territory operated by another Lil' Angels franchise owner.

- B. Employ or seek to employ any person employed by Franchisor or any other person who is at that time operating or employed by or at any other Lil' Angels Franchise or otherwise directly or indirectly induce such persons to leave their employment without the prior written consent of Franchisor.
- C. Notwithstanding the above, in the event of expiration, non-renewal, or termination of this Agreement, such covenant shall not operate to prohibit Franchise Owner from conducting his, her, or its former occupation as a photographer, if applicable, as long as the photography services are not the same or substantially similar services formerly rendered while a Franchise Owner.

7.3 Non-Disclosure. Franchise Owner shall not, during the term of this Agreement or after its expiration or termination or non-renewal, communicate or divulge to any other person, persons, association, partnership or corporation, or use for the benefit of himself, herself, or itself or any other person, persons, partnership, association or corporation, any confidential information, knowledge or know-how concerning the methods of operation, promotion, or contracts used in the Lil' Angels franchise nor shall Franchise Owner disclose or divulge or use in whole or in part any trade secrets or private processes of Franchisor or its affiliated companies. If Franchise Owner violates any of the covenants in this Section 7.3, Franchisor shall seek damages from Franchise Owner in an amount equal to three (3) times the then-current initial franchise fee as if such unauthorized activity was a business that had been opened pursuant to a Franchise Agreement.

7.4 Franchise Owner to Secure Non-Compete and Non-Disclosure Agreements from Employees. Franchise Owner shall have its employees sign an agreement to not own, maintain, engage in, participate in or have any interest in the operation of any other photography business that offers the same or substantially similar services and benefits as Franchisor or any other business that competes with the Lil' Angels Franchise System. In addition, Franchise Owner shall have its employees sign a non-disclosure agreement so that its employees will not disclose or use the Lil' Angels System, its methods of operation, promotion, contracts, trade secrets, or private processes. Franchisor will supply the forms to comply with the terms of this section.

7.5 Responsibility Upon Breach of Covenants. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Article 7 is held unreasonable or unenforceable by a court or agency or arbitrator having competent jurisdiction, it is the intention of the Parties that the court or agency or arbitrator define acceptable limits to the provision, which shall continue as revised in full force and effect. Following the ruling of the court or agency or arbitrator, this Agreement shall automatically be deemed amended to restate the limits of the restrictions in accordance with the order of the court or agency or arbitrator.

Franchise Owner acknowledges that a violation of any covenant in this Article 7 will cause irreparable damage to Franchisor, the exact amount of which may not be subject to reasonable or accurate calculation. Therefore, Franchise Owner understands that in the event of such violation, Franchisor shall seek injunctive relief to restrain Franchise Owner, or ~~any one~~ anyone acting for or on its behalf, from violating said covenants, or any of them. Franchise Owner shall be entitled to contest any allegations of breach of the Agreement. Such remedies, however, shall be cumulative and in addition to any other remedies to which Franchisor may be entitled. Franchise Owner represents and

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acknowledges that in the event of the expiration, termination, or non-renewal of this Agreement for whatever cause, the experience and capabilities of Franchise Owner are such that employment in a business engaged in other lines or of a different nature than that of the operation of a portrait studio that offers the same or substantially similar services or products of the Lil' Angels System or concept can be obtained, and that the enforcement of a remedy by way of injunction will not prevent Franchise Owner from earning a livelihood.

If Franchisor sues to enforce any provision of this Article 7, Franchisor shall be entitled to receive, in addition to any relief or remedy granted, the cost of bringing such suit, including, but not limited to, reasonable attorney's fees and other costs and expenses set forth in Subsection 16.5 of this Agreement. The covenants in this Article 7 shall survive the termination or expiration of this Agreement.

For the purposes of construing the covenants in this Article 7, Franchise Owner shall be deemed to include not only the individual or entity which is defined as Franchise Owner in the introductory paragraph of this Agreement, but shall also include all partners of the entity which executes this Agreement, if the entity is a partnership, all shareholders, officers and directors of the entity which executes this Agreement, if the entity is a corporation, and all members, managers and officers of the entity which executes this Agreement if the entity is a limited liability company. By their signatures hereto, all partners, shareholders, officers, directors, members, managers, and officers of the entity which sign this Agreement as Franchise Owner acknowledge and accept the duties and obligations imposed upon each and every one of them, individually, by the terms of this Section.

8. NAME

Franchise Owner agrees to operate his or her business in all types of photography under the name, "Lil' Angels Photography®." However, the legal name of Franchise Owner, whether a proprietorship, partnership or corporation or limited liability company, shall not include the trade name in any fashion "Lil' Angels" or "Lil' Angels Photography®". Franchise Owner shall include on all printed material used, authorized, or distributed by it, including, without limitation, all stationery, business cards, receipt forms, advertising and other printed materials, a statement identifying Franchise Owner, noting that Franchise Owner is doing business as "Lil' Angels," and including the phrase "each Lil' Angels franchised business is independently owned and operated" or similar statement approved in advance, in writing, by Franchisor.

9. TERMINATION

9.1 Termination by Franchise Owner. Franchise Owner may terminate this Agreement if Franchisor commits a material breach of the Agreement. Franchise Owner must give written notice to Franchisor that sets forth a ninety (90) day period within which to correct or to begin to correct any material default identified in writing by Franchise Owner. If Franchisor does not correct or to begin to correct the default during this ninety (90) day period, Franchise Owner may terminate the Agreement upon further written notice to Franchisor.

9.2 Immediate Termination by Franchisor. At Franchisor's option, this Agreement shall automatically terminate effective on delivery of written notice and without opportunity to cure, upon any violation of any one (1) or more of the following:

- A. Franchise Owner fails or refuses to pay the Minimum System Fee Payment within 60 days from the date of written notification by Franchisor, as set forth in Section 9.4,

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- B. Franchise Owner abandons the Lil' Angels franchise operated pursuant to this Agreement with Franchisor, for more than thirty (30) days without Franchisor's prior approval. If the written notice is forwarded to the principal place of business designated by Franchise Owner pursuant to Section 16.10, but is returned to Franchisor as "unclaimed", "unable to forward", or other similar failure-to-deliver designation, the effective date of termination shall be the date of the written notice,
- C. Franchise Owner is convicted of any criminal misconduct directly related to the operation of the franchise business, or any felony,
- D. The Lil' Angels franchise or business premises of Franchise Owner is seized, taken over or foreclosed by a government official in the exercise of his or her duties, or seized, taken over or foreclosed by a creditor, lien holder or lessor, provided that a final judgment against Franchise Owner remains unsatisfied for thirty (30) days (unless a *supersedeas* or other appeal bond has been filed); or a levy of execution has been made upon the franchise granted by this Agreement or upon any property used in the Lil' Angels franchise, and it is not discharged within five (5) days of such levy,
- E. Franchise Owner loses any required license to operate a Lil' Angels Photography® business in the government division in which the Lil' Angels franchise is granted,
- F. Franchise Owner fails for a period of ten (10) days after notification, to comply with any federal, state or local law applicable to the operation of the Lil' Angels franchise,
- G. Franchise Owner fails to comply with the safety policies of Franchisor, including, but not limited to, the minimum age requirements for a child to be photographed on a stool,
- H. Franchise Owner fails to comply with any one or more of the accountability policies of Franchisor while operating its business and/or conducting any photography activity, including, but not limited to, the requirement to never be alone with a child at any time; to only photograph children who are wearing approved clothes; to only wear proper attire; and to avoid inappropriate language and any inappropriate behavior in relation to anyone, or
- I. Franchise Owner is accused of any misconduct in relation to a child, whether in relation to its photography activity, and whether the accusation is true or false, or becomes a subject of any attention in the media or otherwise that may injure the reputation of Lil' Angels, whether the attention is justified or not. Franchise Owner must conduct himself/herself/itself with care at all times in a manner to avoid even the appearance, accusation of, or association with any impropriety.

In a state where written notice is required, the period will be governed by the state law regarding written notice.

9.3 Franchisor may Terminate Agreement. Franchisor has the right to terminate this Agreement for any material breach of this Agreement. For purposes of this Section, a material breach of this Agreement consists of any one or more of the following:

- A. Franchise Owner violates any covenant of this Agreement or requirement of any manual,

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- B. Franchise owner engages in continuing noncompliance of any covenant of this Agreement or requirement of any manual, pursuant to Section 6.25,
- C. Franchise Owner fails to provide services as required by the terms of this Agreement,
- D. Franchise Owner fails to pay by the due date any System Fee, photo processing charge or other fee or obligation to Franchisor or an approved vendor,
- E. Franchise Owner fails to submit timely any report or financial data required by this Agreement or provides false data or reports,
- F. Franchise Owner purports to transfer any rights or obligations under this Agreement to a third party without Franchisor's prior, written consent,
- G. A petition in bankruptcy is filed that concerns a corporate Franchise Owner or a shareholder of a corporate Franchise Owner, a partnership Franchise Owner or a partner of a partnership Franchise Owner, or a member of a limited liability company Franchise Owner or if Franchise Owner files or has filed against him, her, or if a petition in bankruptcy or if an assignment for the benefit of creditors or similar disposition of the assets of the franchised business is made, all of which is subject to applicable law,
- H. Franchise Owner, its agent or employee, improperly and without authorization uses any of Franchisor's marks in a manner that impairs the reputation or exclusivity of the mark or its goodwill, or uses another name or mark in conjunction with the operation of its franchise,
- I. Franchise Owner, its agent or employee commits an act that detracts from the successful operation of any Franchise Owner, the Lil' Angels System, or Franchisor,
- J. Franchise Owner violates or permits the violation of any business policy, practice, procedure, or obligation prescribed in any manual or by Franchisor,
- K. Franchise Owner engages in any activity or practice that results in litigation against or public criticism of Franchisor, the Lil' Angels Franchise, the System, its marks, or the photography profession,
- L. Franchise Owner fails to appoint or maintain a designated manager or photographer, if Franchise Owner is not directly involved in the franchised business or does not live in the territory prescribed by this Agreement,
- M. Franchise Owner makes or made a material misrepresentation relating to the acquisition of the Lil' Angels Franchise,
- N. Franchise Owner fails to cure a default under the Franchise agreement that materially impairs the good will associated with the trade name, trademark, service mark, logotype or other commercial symbol after the Franchise Owner has received written notice to cure at least 24 hours in advance, or
- O. After breaching a provision and being notified thereof, Franchise Owner again breaches the same provision of this Agreement, or Franchise Owner breaches this Agreement on three or

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more occasions within any period of twelve (12) months, whether the breaches are of the same or different provisions and whether any or all of the breaches was or were cured.

Except for Subsection 9.2 listed above, upon the occurrence of a material breach of this Agreement, Franchisor shall forward to Franchise Owner written Notice of Intent to Terminate. Such written Notice of Intent to Terminate shall be hand delivered or sent through the United States Postal Service (USPS), United Parcel Service (UPS), or Federal Express (Fed Ex) or similar delivery service to the last known office address of Franchise Owner. If Franchise Owner consists of one (1) or more persons, corporations, partnerships, or limited liability companies, notice of communication to one (1) person, shareholder, partner, or member shall constitute notice to all.

Franchise Owner shall have ninety (90) days from the date of the Notice of Intent to Terminate with sixty (60) days to cure the default of this Agreement. If the default is timely cured, this Agreement shall not be terminated (except in the case of Section 9.3(O)). If the default is not timely cured, this Agreement will be deemed to be terminated effective on the date specified in the Notice.

Should state law require a minimum notice period be given to Franchise Owner for termination, Franchisor shall abide by such law. In the absence of such law, the termination shall be effective on the date specified on the written notice.

Termination of this Agreement by Franchisor shall not be an exclusive remedy and shall not in any way affect the right of Franchisor to receive any fees or other amounts payable by Franchise Owner, lost future system fees and any other fees, and/or to enforce, in any manner, the provisions of this Agreement against Franchise Owner. Franchise Owner agrees that upon the breach of any covenant in this Agreement, automatic termination at Franchisor's option, notice of termination, or termination, Franchise Owner shall continue to pay all current and future system fees and charges that are required to be paid, including legal fees.

9.4 Quarterly Production Requirement. For payments of system fees, minimum digital fee, and photo processing charges to count toward the production requirement, Franchise Owner must submit all images from every photo shoot, regardless of subject matter and whether originating outside or from within the territory prescribed by this Agreement. Franchise Owner agrees to submit images for all photo shoots from any type of photography through his, her, or its Lil' Angels account at the approved photo labs only. The Quarterly Production Requirement of \$5,000 is accumulated and recognized as Franchise Owner pays the system fees, minimum digital fees, and photo processing charges during each calendar quarter.

A Franchise Owner who is new to the franchise system shall meet the production requirement for each calendar quarter throughout the term of this Agreement beginning with the first calendar quarter following the one-year anniversary of the date of this Agreement by paying at least \$5,000 in system fees, minimum digital fees, and photo lab processing charges within each calendar quarter.

A Franchise Owner who purchases a franchise through a transfer from an existing Franchise Owner shall meet the production requirement for each calendar quarter throughout the term of this Agreement beginning with the first calendar quarter following the six-month anniversary of the date of this Agreement by paying at least \$5,000 in system fees, minimum digital fees, and photo lab processing charges within each calendar quarter.

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If an existing Franchise Owner renews his or her franchise through this Franchise Agreement, the obligation to meet the production requirement for each calendar quarter throughout the term of this Agreement begins with the calendar quarter in which he, she, or it signs this Franchise Agreement.

If Franchise Owner does not meet the Quarterly Production Requirement beginning with the required calendar quarter during the term of this Agreement, Franchisor shall give written notice that Franchise Owner will have thirty (30) days from the date of the written notice within which to pay the Minimum System Fee Payment (“MSFP”). If Franchise Owner does not make the MSFP within the thirty (30) day time period, Franchisor may terminate this Agreement and the Franchise.

9.5 Minimum System Fee Payment. Though Franchisor may permit payment of the MSFP to avoid termination of the franchise, the payment does not permit Franchise Owner to receive any Commission. The MSFP is calculated as follows:

- 1) Subtract the actual production by Franchise Owner from the Quarterly Production Requirement to obtain the Production Requirement Shortage.
- 2) Divide the amount of the Production Requirement Shortage by the Quarterly Production Requirement to determine the percent of the shortage from the Quarterly Production Requirement.
- 3) Multiply this percentage by the Minimum System Fee Base of \$1,500.

The resulting amount will be the Minimum System Fee.

9.6 Responsibility of Franchise Owner on Termination, Expiration, or Transfer. In no event shall termination, expiration, or transfer of this Agreement for any reason relieve Franchise Owner of any obligations, debts, duties, or responsibilities accrued under this Agreement. Upon termination, expiration, or transfer of this Agreement for any reason, Franchise Owner immediately shall cease to be a Franchise Owner and shall:

- A. Return immediately at Franchise Owner's expense, all manuals and other books, forms or brochures to Franchisor or its designee,
- B. Perform any obligation required by this Agreement,
- C. Execute and deliver all documents and take such actions as Franchisor may deem reasonably necessary or desirable to evidence the fact that Franchise Owner has ceased using the Marks and that Franchise Owner has no further interest or right in the Marks whatsoever,
- D. Pay promptly to Franchisor all sums then owing by Franchise Owner,
- E. Notify all telephone directory and other listing companies (for example, on-line and other directories) of the termination of Franchise Owner's right to use the franchise names and Marks, authorize the transfer of telephone numbers and directory and other listings, also including any domain and social media addresses, if any, to Franchisor, and appoint Franchisor as Franchise Owner's attorney-in-fact to affect such transfers,
- F. Cease using all of the Marks, and other items and materials, business format, signs (if any), and forms of marketing and advertising indicative of the Lil' Angels System,

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- G. Cease to operate, advertise or do business under any name or in any manner that might tend to give the general public the impression that this Agreement is still in force or that Franchise Owner is still connected in any way with Franchisor, or any longer has any right to the use of the Lil' Angels System or Marks associated with it,
- H. Abide by the covenant not to compete in Article 7 of this Agreement, and
- I. Furnish a list of all accounts and potential accounts, including the name of the business, contact name, address, and telephone number.

Franchisor is hereby irrevocably appointed as Franchise Owner's attorney-in-fact to execute in the name of Franchise Owner all documents and to do all acts necessary to carry out Franchise Owner's obligations upon termination or expiration of the Agreement. The parties mutually will determine the best means of contacting customers of Franchise Owner to advise them that he, she, or it is no longer involved with the Lil' Angels Franchise.

No right or remedy herein conferred upon or reserved by Franchisor is exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be cumulative of every other right or remedy given hereunder.

10. ARBITRATION

Franchise Owner and Franchisor agree and acknowledge that any controversy or claim arising out of or relating to this Agreement or with regard to its interpretation, formation, breach, or any other aspect of the relationship between Franchise Owner and Franchisor, including claims of fraud in the inducement and including this Article providing for arbitration (hereinafter collectively referred to as "claims"), which is not settled through negotiation, shall be arbitrated in accordance with the Commercial Arbitration Rules of the American Arbitration Association.

Franchisor and Franchise Owner shall attempt in good faith to resolve all disputes between them prior to commencing any form of action. If a dispute has not been corrected or resolved within a reasonable time, not to exceed thirty (30) days, then either party will have the right to request that the dispute be submitted to arbitration.

The parties agree to arbitration exclusively in Cleveland, Bradley County, Tennessee. The parties agree that the arbitrators may tender an interim ruling, including injunctive relief, and all claims of any type by either party, including defenses, are included in the jurisdiction of arbitration.

Either party shall send written demand for arbitration to (1) the other party and (2) the Regional Office of the American Arbitration Association invoking the binding arbitration provisions of this Section. Each party has ten (10) days from the date of mailing by the American Arbitration Association of the written list of proposed arbitrators within which to return the written list of proposed arbitrators with their choices of arbitrators, to the American Arbitration Association. The arbitrator selected by Franchisor and the arbitrator selected by Franchise Owner shall select the third arbitrator. The parties consent to the jurisdiction of any appropriate court to enforce the provisions of this Section and/or to confirm any award rendered by the panel of arbitrators.

Any costs or other expenses, including attorney fees, arbitrator fees and expenses and payments in preparation for arbitration, incurred by the successful party arising out of or occurring because of the arbitration proceedings or any action to confirm and enforce an arbitration award shall be assessed by

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the arbitrators or the court against the unsuccessful party. For purposes of this paragraph, the arbitrators also will consider a party unsuccessful if it withdraws its demand for arbitration prior to a decision by the arbitrators.

Nothing herein contained shall bar the right of either party to seek and obtain temporary injunctive relief from a court of competent jurisdiction in accordance with applicable law against threatened conduct that will cause loss or damage, pending completion of the arbitration, or for enforcement of rights under any personal property lease or real estate lease between the parties.

It is the intent of the parties that any arbitration between Franchisor and Franchise Owner shall be of Franchise Owner's individual claim and that the claim subject to arbitration shall not be arbitrated on a class-wide basis. It is the further intent of the parties that Franchise Owner waives any right to a jury trial of any claims against any person arising out of or relating to this Agreement, including claims of fraud in the inducement. Franchise Owner agrees that this clause is entered into without any fraud, duress, or undue influence on the part of Franchisor, its ownership, management, employees, or any agent or broker. It is the intent of the parties and they agree that any claim arising out of this Agreement, whether for rescission, damages, or any other type of remedy at law or in equity, shall be brought within the later of (a) one (1) year from the date the act or failure to act by any person occurred or, (b) within six months of the date claimant knew or should have known of the act or failure to act by the party sought to be charged, but in a claim relying for its timeliness on this six month period, not more than one (1) year from the act or failure to act.

However, nothing in this Section or Agreement shall abrogate or reduce any rights of the Franchise Owner as provided for in Minnesota Statutes 1984, Chapter 80C, including the right to submit matters to the jurisdiction of the courts of Minnesota.

The term "Franchise Owner", for purposes of this Section, shall include the owners, partners, shareholders, members, guarantors, principals, or any person or entity claiming by or through any of the foregoing. The term "Franchisor", for this section, shall include its officers, directors, shareholders, members, managers, agents, or employees, regardless of whether they are signatories to this Agreement.

11. TRANSFER

11.1 Franchisor May Transfer this Agreement. Franchisor may transfer, assign, or sell its interest in this Agreement in whole or in part.

11.2 Franchise Owner May Transfer the Franchise Agreement and Franchise Rights.

A. Transfer by Assignment. Franchise owner may transfer its interest in this Agreement and franchise rights through an assignment.

A transfer through an assignment of the franchise rights and this Agreement takes place when a buyer purchases (1) the right to enter into a new ten-year term of the then current Franchise Agreement, (2) the territory of Franchise Owner, and (3) the business assets of Franchise Owner. In an assignment, the buyer must ensure its equipment and supplies meet the then current standards of Franchisor.

B. Franchise Owner Must Not Transfer Without Franchisor's Consent. This Agreement is entered into by Franchisor in reliance upon and in consideration of the singular skill,

_____ (Initial)

_____ (Initial)

qualifications and representations of Franchise Owner, the photographer or of the present officers, partners, shareholders, members, and/or managers of Franchise Owner, who will actively participate in the ownership and operation of the Lil' Angels franchise. Therefore, neither this Agreement nor any of its rights or privileges shall be transferred, assigned, shared, or divided by operation of law or otherwise in any manner without the prior express written consent of Franchisor.

If Franchise Owner desires to transfer any rights under this Agreement to a third party, written notice shall first be given to Franchisor of such proposed transfer. Such notice shall include the name and address of the proposed transferee, a suitable current financial statement regarding the proposed transferee and all other information requested by Franchisor concerning the proposed transfer and transferee. The notice to Franchisor shall be made in sufficient time in advance of the proposed transfer to enable Franchisor to comply with all disclosure requirements concerning the intended transferee.

Franchisor's written consent shall not be unreasonably withheld, but will be conditioned upon such items that include, but are not limited to:

- 1) approval of any proposed transferee in accordance with the standards then applied to prospective Franchise Owners,
- 2) payment of all outstanding debts by Franchise Owner,
- 3) execution of a general release of claims by Franchise Owner,
- 4) execution by the proposed transferee of the then current form of Agreement for a ten (10)-year term and payment of the applicable Transfer Fee,
- 5) attendance at and successful completion of the next available New Owner Training Class and field-training program,
- 6) Franchisor's satisfaction that the terms and conditions of the proposed transfer are not unduly burdensome and will not jeopardize the continued operation of the franchise; and
- 7) delivery to and acknowledgement of receipt by the proposed transferee of any information required by the rules and regulations of the Federal Trade Commission or any applicable state requirement to be delivered in sufficient time prior to the proposed transfer or payment of any consideration.

Any new Franchise Owner and its manager, if any, must agree to attend and successfully complete the New Owner Training Class and field-training of Franchisor following the execution of the Franchise Agreement and before the new Franchise Owner commences business or before any manager begins to perform his or her duties.

Franchisor shall not unreasonably withhold written consent for the transfer, provided the proposed transferee meets the criteria set forth above. Consent to one transfer shall not be deemed to be a consent to any other proposed transfer, nor to any other person or subsequent transferee.

_____ (Initial)

_____ (Initial)

- C. **Transfer Fee and Training Fees.** Upon the approval by Franchisor of the proposed transfer of any rights of Franchise Owner or this Agreement, such transferee of Franchise Owner shall pay to Franchisor a Transfer Fee of two thousand five hundred dollars (\$2,500).

In addition to the Transfer Fee, the transferee shall pay to Franchisor the then-current fee for the New Owner Training Class and the field-training program. At the date of signing this Agreement, the New Owner Training fee is two thousand dollars (\$2,000) per person and the field-training fee is two thousand five hundred dollars (\$2,500). All fees shall be paid upon execution of the then current Franchise Agreement by transferee.

- D. **Transfer to Corporation.** Provided Franchise Owner demonstrates to Franchisor that it is, and thereafter remains, the legal and beneficial owner of a majority of the stock of a transferee corporation and agrees to act as the materially participating, majority owner of that corporation, Franchisor shall agree to allow Franchise Owner to incorporate and transfer all rights to a corporation organized expressly for the conduct of this business without the payment of a Transfer Fee and training fees.

Franchise Owner and all other shareholders must personally guarantee the performance of the duties and responsibilities of the transferee corporate Franchise Owner, including the payment of all fees.

- E. **Right of First Refusal.** Should Franchise Owner receive a bona fide offer to transfer or propose to enter into any agreement to transfer, or to divide, share, purchase, or obtain this Agreement or any right under this Agreement, Franchise Owner must first make written offer to Franchisor to purchase or obtain this Agreement or any rights upon the same terms and conditions as offered by the prospective purchaser or proposed to be entered into by Franchise Owner. Such written offer must contain the name and address of the proposed purchaser, a suitable current financial statement regarding the proposed purchaser and all other information requested by Franchisor concerning the proposed purchaser.

Following receipt of all required documents and information, Franchisor shall have thirty (30) days within which to accept the written offer to transfer, assign, divide, share, purchase, or obtain all rights under this Agreement. If Franchisor has not accepted the written offer within thirty (30) days of its receipt, then subject to the conditions in Section 11.2(B), Franchise Owner may proceed with the transfer, division, share, sale, or divestiture to the potential transferee provided (i) Franchise Owner or transferee is not in default or breach of any payment or other condition of this Agreement, and (ii) Franchise Owner and the prospective transferee meet the conditions set forth in Subsection 11.2.

- F. **Equipment and Supplies Must be Current for Assignments.** Franchise Owner or transferee must ensure its equipment and supplies meet the current standards of Franchisor. Therefore, Franchise Owner or transferee specifically agree to make such capital expenditures that reasonably may be required by Franchisor to renovate, paint and purchase equipment and supplies, props, and other equipment and otherwise modernize Franchisor Owner's location, business cards, advertising materials, or signs to conform to the then current image, safety and function requirements of the Lil' Angels System at the time of the transfer of this Agreement or its rights.

12. DEATH OR INCAPACITY OF FRANCHISE OWNER

_____ (Initial)

_____ (Initial)

In the event of the death or incapacity of an individual Franchise Owner, or managing partner or managing member of a Franchise Owner which is a partnership or limited liability company, or any shareholder owning fifty percent (50%) or more of the capital stock of a Franchise Owner which is a corporation, the heirs, beneficiaries, devisees, or legal representatives of the individual, partner or shareholder, together with all surviving or remaining partners or members or shareholders, shall, within one hundred and eighty (180) days of such event:

- A. Apply to Franchisor for the right to continue to operate the franchise for the duration of the term of this Agreement, pursuant to a valid will, trust or buy-sell agreement controlling the issue of succession upon the death or incapacity of a shareholder or partner, which right shall be granted upon the fulfillment of all the conditions set forth in Section 11 of this Agreement (no Transfer Fee shall be required); or
- B. Sell, transfer, or convey Franchise Owner's interest in compliance with the provisions of Section 11 of this Agreement. If, however, a proper and timely application for the right to continue to operate the Lil' Angels franchise has been made and rejected, the one hundred and eighty (180) days to sell, transfer, or convey shall be computed from the date of the rejection. If the heirs or beneficiaries are unable to meet such qualifications or if Franchisor rejects a proposed transferee, the personal representative will be granted an additional one hundred and eighty (180) days to dispose of the deceased's interest.

13. INDEPENDENT CONTRACTOR

13.1 Franchise Owner is Independent from Franchisor. This Agreement does not constitute Franchise Owner as an agent, legal representative, joint venture, partner, beneficiary, employee, or servant of Franchisor for any purpose whatsoever. It is understood between the parties that Franchise Owner and Franchisor are independent contractors and Franchise Owner is in no way authorized to make any contract, agreement, warranty, or representation on behalf of Franchisor or to create any obligation, expressed or implied, on behalf of Franchisor.

13.2 Hold Harmless. Under no circumstances shall Franchisor be liable for any act, omission, debt, or any other obligation of Franchise Owner. Franchise Owner shall indemnify, defend, and save and hold Franchisor harmless against any such claim and the cost of defending against such claims arising directly or indirectly from, or as a result of, or in connection with, Franchise Owner's ownership, operation, or other aspect of the franchised business.

14. LIL' ANGELS SYSTEM

Lil' Angels has created a unique system relating to the development, expansion, and operation of photography services for families, senior high school students, children, youth involved in ~~child care~~ childcare centers, sports, schools, clubs, other youth-related organizations, and all other subjects.

It is understood by all parties that Franchisor is constantly working to improve the Lil' Angels System and the services and products to be rendered by Franchise Owner and Franchisor. Franchisor reserves the right to make changes from time to time in the registered service marks, trade names, trademarks, manuals, forms, methods, and all other aspects of the Lil' Angels System to be used by Franchise Owner.

Franchisor reserves the right to approve in advance the form, content, and general appearance of any literature, signs, equipment, props or other material or property on which a Franchisor name or

_____ (Initial)

_____ (Initial)

service mark is used, and Franchise Owner agrees not to use, or to permit the use of, such names or registered marks without obtaining such prior express written approval from Franchisor. All parties agree that any use of a registered service mark, trademark or trade name of Franchisor by Franchise Owner shall inure to the benefit of Franchisor.

15. MISCELLANEOUS

15.1 Severability. If any article, section, part, term, sentence, or provision of this Agreement is determined to be invalid for any reason, all the remaining articles, parts, sections, terms, and provisions of this Agreement shall remain in full force and effect as if the invalid part of this Agreement were deemed not to be a part of this Agreement.

15.2 Conflicting Law. If any provision of this Agreement conflicts with local, state, or federal law or regulation, the local, state, or federal law or regulation shall control and take precedence over any provisions of this Agreement.

15.3 Entire Agreement. This Agreement constitutes the entire and complete understanding and agreement by and between the parties and supersedes all other agreements, oral or written, between the parties. All captions in this Agreement are intended solely for the convenience of the parties. The captions shall not be deemed to affect the meaning or construction of any provision. The provisions of this Agreement shall be interpreted and construed according to their fair meanings and not strictly for or against any party. Nothing in this or in any related agreement, however, is intended to disclaim the representations made in the Franchise Disclosure Document furnished to Franchise Owner.

15.4 Amendments. This Agreement may be modified, changed, or amended only by written agreement signed by both parties. Notwithstanding this section, Franchisor may unilaterally modify, revise and update any manual or other material concerning the Lil' Angels System.

15.5 Cost of Enforcing. If a party institutes any action or proceeding to secure or protect such party's rights under this Agreement, including the enforcement of an arbitration award, the successful party shall be entitled to recover in any judgment reasonable attorneys' fees, together with court costs, all filing fees and expenses of litigation and payroll and other personnel costs of employees while they are involved in the litigation.

15.6 Legal Fees. Franchise Owner will be responsible for all legal fees associated with a transfer, termination, or other legal assistance involving the Franchisor. Franchisor shall advise the Franchise Owner of the amount or range of the legal fees before any legal work is begun.

15.7 Waivers. Either party may waive any covenant or condition to be performed by the other party only by executing a written agreement. A waiver by a party of a default or breach or series of defaults or breaches in performance of any of the terms, provisions, covenants, or conditions of this Agreement to be performed by the other party shall not constitute a waiver of any other breach, default or waiver of any terms, provisions, covenants, or conditions to be performed by the other party.

15.8 Approval or Consent of Franchisor. In any section of this Agreement in which approval or consent of Franchisor is required, Franchisor will not unreasonably withhold such approval or consent.

15.9 Successors and Assignees. This Agreement shall benefit and bind any permitted successor, transferee, or assignee of either of the parties. Any transferee, assignee, or successor in interest to

_____ (Initial)

_____ (Initial)

Franchise Owner or Franchisor shall assume all the rights, duties, privileges, and responsibilities of Franchise Owner or Franchisor in this Agreement, as applicable.

- 15.10 Notice.** Any notice required to be sent to Franchisor shall be in writing and forwarded to Franchisor at its principal place of business in Cleveland, Tennessee, and to Franchise Owner at the principal place of business designated by Franchise Owner.
- 15.11 Governing Law.** The terms, provisions, and conditions of this Agreement shall be interpreted and construed according to the internal laws of the State of Tennessee applicable to agreements made entirely within and to be performed within the State of Tennessee and thus without application of other state's law and without regard for principles of conflicts of law. This Agreement shall be effective only upon its acceptance in Cleveland, Tennessee, by authorized officers of Franchisor.
- 15.12 Venue and Jurisdiction.** All arbitration hearings and proceedings and other actions initiated by either party against the other party will have its venue exclusively in Cleveland, Bradley County, Tennessee. Franchise Owner acknowledges that it, its officers, directors, shareholders, members, partners, managers, and employees have had substantial business and personal contacts with Franchisor in Cleveland, Tennessee. Consequently, Franchise Owner and each and all its officers, directors, shareholders, partners, employees, and guarantors, if applicable:
- A. Submit to personal jurisdiction in the State of Tennessee for the purposes of any suit, proceeding or hearing brought to enforce or construe the terms of this Agreement or to resolve any dispute or controversy arising under, as a result of, or in connection with this Agreement,
 - B. Stipulate that any such arbitration hearing, proceeding, or other action will have its exclusive venue in and be held in Cleveland, Bradley County, Tennessee, and
 - C. Waive any rights to contest venue and jurisdiction in Cleveland, Bradley County, Tennessee and any claims that such venue and jurisdiction is invalid.

16. GUARANTY

For and in consideration of this Agreement, and to induce Franchisor to enter into this Agreement with Franchise Owner, the undersigned Guarantor(s), if deemed necessary in the sole discretion of Franchisor, shall execute this Agreement as Guarantor(s) and shall hereinafter be referred to collectively as "Guarantor." During the term and any renewal of this Agreement, and after the term of this Agreement has ended or after the rights pursuant to this Agreement have been canceled, sold, or terminated, each Guarantor guarantees to Franchisor that Franchise Owner will perform each covenant, condition, agreement, and undertaking to be performed by Franchise Owner. Each Guarantor agrees to be bound, jointly and severally, by all the terms, covenants, and conditions of Franchise Owner that are contained in this Agreement. Guarantor agrees that in the event Franchise Owner fails or refuses to make any payments required by this Agreement, Guarantor will make all payments due Franchisor. If, for whatever reason Guarantor is held as a matter of law to not be required to perform any non-payment obligation of this Agreement, Guarantor will nevertheless continue to insure and/or make all payments to Franchisor.

Guarantor waives (a) demand or notice of non-performance, and (b) the right to require Franchisor to proceed against Franchise Owner and agrees that Franchisor may proceed against Guarantor directly and independently of Franchise Owner. Guarantor agrees that this guaranty shall extend throughout

_____ (Initial)

_____ (Initial)

the current term of this Agreement and to all extensions, renewals, amendments, cancellations, terminations, or other modifications or conclusion of this Agreement. This guaranty shall benefit and bind the heirs, executors, administrators, successors, transferees, and assignees of the undersigned Guarantor.

17. ADDITIONAL REPRESENTATIONS OF FRANCHISE OWNER

- A. Franchise Owner is a _____ (sole proprietor, partnership, or corporation).
- B. If a corporation, Franchise Owner is organized under the laws of the State of _____.
- C. If a corporation or partnership, the following is a list of the names and addresses of each shareholder, officer, or partner who is involved in the licensed business:

<u>NAME</u>	<u>COMPLETE ADDRESS</u>	<u>PERCENT OF OWNERSHIP</u>	<u>OFFICE</u>
_____	_____	_____	_____
_____	_____	_____	_____

D. FRANCHISE OWNER CERTIFIES THAT THE FOLLOWING INFORMATION AND DATES ARE TRUE AND CORRECT, AND THE UNDERSIGNED UNDERSTANDS THAT FRANCHISOR IS RELYING ON THESE STATEMENTS IN CONSIDERATION OF ENTERING INTO THE FRANCHISE AGREEMENT.

_____, 202__ is the date on which Franchise Owner received a Franchise Disclosure Document with all exhibits.

_____, 202__ is the date of Franchise Owner's first personal meeting with Franchisor's Representative(s) to discuss the possible purchase of this Lil' Angels Franchise.

_____, 202__ is the date Franchise Owner received a completed copy (except signatures) of the Agreement that was later signed.

_____, 202__ is the date on which Franchise Owner signed this Agreement.

_____, 202__ is the date on which Franchise Owner delivered any deposit, down payment, purchase price, etc., in the form of cash, check, or other consideration to the Franchisor Representative.

IN WITNESS WHEREOF, the parties have executed this Agreement the day and year first above written.

Franchise Owner: _____

Franchisor: Lil' Angels, LLC.

By: _____

By: _____

By: _____

By: _____

_____ (Initial)

_____ (Initial)

GUARANTORS: (All shareholders, if a corporation; all partners, if a partnership)

_____ (Initial)

_____ (Initial)

EXHIBIT 1

TERRITORY

____ (Initial)

____ (Initial)

ADDENDUM TO THE FRANCHISE AGREEMENT

THIS ADDENDUM TO THE FRANCHISE AGREEMENT is made and entered into this _____ day of _____, 20_____, by and between LIL' ANGELS LLC, a Tennessee Limited Liability Company, having its principal place of business located at 550 Industrial Drive SW, Cleveland, Tennessee 37311 (hereinafter referred to as "Franchisor"), and _____ (hereinafter referred to as "Franchise Owner").

The Franchisor and Franchise Owner agree as follows:

1. These franchises have been registered under the Minnesota Franchise Act. Registration does not constitute approval, recommendation, or endorsement by the commissioner of commerce of Minnesota or a finding by the commissioner that the information provided herein is true, complete, and not misleading.
2. The Minnesota Franchise Act makes it unlawful to offer or sell any franchise in this state which is subject to registration without first providing to the prospective Franchisee, at least 7 days prior to the execution by the prospective Franchisee of any binding franchise or other agreement, or at least 7 days prior to the payment of any consideration, by the Franchisee, whichever occurs first, a copy of this public offering statement, together with a copy of all proposed agreements relating to the franchise. This public offering statement contains a summary only of certain material provisions of the franchise agreement. The contract or agreement should be referred to for an understanding of all rights and obligations of both the franchisor and the Franchisee.
3. Minnesota Statute 80C.21 and Minnesota Rule 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee's rights as provided for in Minnesota Statute 80C or (2) franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.
4. With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statute 80C.14 Subd. 3-5, which require (except in certain specified cases)
 - that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the franchise agreement and
 - that consent to the transfer of the franchise will not be unreasonably withheld.
5. Minnesota considers it unfair to not protect the franchisee's right to use the trademarks. Refer to Minnesota Statute 80C.12 Subd. 1(G). The franchisor will protect the franchisee's rights to use the trademarks, service marks, trade names, logotypes, or other commercial symbols or indemnify the franchisee from any loss, costs, or expenses arising out of any claim, suit, or demand regarding the use of the name.
6. Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.
7. The franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. See Minnesota Rule 2860.4400(J). Also, a court will determine if a bond is required.
8. The Limitations of Claims section must comply with Minnesota Statute 80C.17 Subd. 1

_____ (Initial)

_____ (Initial)

9. No statement, questionnaire, or acknowledgment signed or agreed to by Franchise Owner 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 Franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the franchise.
10. The parties hereto acknowledge that all of the remaining terms, covenants, and conditions of the Franchise Agreement they executed are in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Addendum ~~simultaneous~~ simultaneously ~~to~~ with the Franchise Agreement on the day and year first above written.

Franchise Owner:

LIL' ANGELS, LLC

By: _____

By: _____

By: _____

Its: _____

GUARANTORS: (All shareholders, if a corporation; all partners, if a partnership)

_____ (Initial)

_____ (Initial)

EXHIBIT C

STATE AGENCIES AND AGENTS FOR SERVICE OF PROCESS

STATE AGENCIES

Department of Financial Protection and Innovation
State of California
2101 Arena Boulevard
Sacramento, California 95834
(866) 275-2677

Department of Agricultural and Consumer Services
Division of Consumer Services
Mayo Building, Second Floor
Tallahassee, FL 32399-0800
(904) 922-2770

Franchise & Securities Division
State Department of Commerce
P.O. Box 40
Honolulu, HA 96813
(808) 586-2722

Franchise Division
Office of Attorney General
500 South Second Street
Springfield, IL 62706
(217) 782-4465

Franchise Division
Office of Secretary of State
302 W. Washington St., Rm. E111
Indianapolis, IN 46204
(317) 232-6681

Office of the Attorney General
Consumer Protection Division
P.O. Box 2000
Frankfort, KY 40602
(502) 573-2200

Office of the Attorney General
Securities Division
200 St. Paul Place
Baltimore, MD 21202
(410) 576-6360

Michigan Attorney General
Corporate Oversight Division
PO Box 30213
Lansing MI 48909
(517) 335-7567

Department of Commerce
Securities Section
85 7th Place East, Suite 280
St. Paul, MN 55101
(651) 539-1600

Nebraska Department of Banking and Finance
1200 North Street, Suite 311
P.O. Box 95006
Lincoln, NE 68509-5006
(402) 471-3445

Franchise & Securities Division
State Department of Law
120 Broadway 23rd Floor
New York NY 10271
(212) 416-8211

Franchise Division
Office of Securities Commission
600 East Boulevard - 5th Floor
Bismarck, ND 58505
(701) 328-2910

Corporate Securities Section
Dept. of Insurance & Finance
Labor & Industries Bldg.
Salem, OR 97310
(503) 378-4387

Franchise Office
Division of Securities
233 Richmond St. - Suite 232
Providence, RI 02903
(401) 222-3048

Division of Insurance
Securities Regulation
124 S. Euclid Avenue 2nd Floor
Pierre, SD 57501
(605) 773-3563

Statutory Document Section
Secretary of State
P.O. Box 12887
Austin, TX 78711
(512) 475-1769

Division of Consumer Protection
P.O. Box 45804
Salt Lake City, UT 84145-0804
(801) 530-6601

Franchise Office
State Corporation Commission
PO Box 1197
Richmond, VA 23218-1200
(804) 371-9276

The Washington Department of Financial Institutions
Securities Division
PO Box 41200
Olympia, WA 98504-1200
(360) 902-8760

Franchise Office
Wisconsin Securities Commission
P.O. Box 1768
Madison, WI 53701
(608) 266-3364

AGENTS FOR SERVICE OF PROCESS

Commissioner of the Department of Financial Protection and Innovation
State of California
2101 Arena Boulevard
Sacramento, CA 95834

Illinois Attorney General
500 South Second Street
Springfield, Illinois 62706

Michigan Attorney General
Corporate Oversight Division
525 W. Ottawa Street 1st Floor
Lansing MI 48913

Minnesota Commissioner of Commerce
85 7th Place East, Suite 280
St. Paul, MN 5510

Director of the Division of Insurance
Securities Regulation
124 South Euclid Avenue 2nd Floor
Pierre, SD 57501

Paul Kimball
Chief Manager, Lil' Angels, LLC
550 Industrial Drive SW
Cleveland, TN 37311

Clerk of the State Corporation Commission
1300 East Main Street
Richmond, VA 23219

Securities Administrator
Washington State Department of Financial Institutions
150 Israel Road SW
Tumwater, WA 98501

EXHIBIT D

STATE SPECIFIC ADDENDUM FOR THE STATE OF MINNESOTA

MINNESOTA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

1. These franchises have been registered under the Minnesota Franchise Act. Registration does not constitute approval, recommendation, or endorsement by the commissioner of commerce of Minnesota or a finding by the commissioner that the information provided herein is true, complete, and not misleading.
2. The Minnesota Franchise Act makes it unlawful to offer or sell any franchise in this state which is subject to registration without first providing to the prospective Franchisee, at least 7 days prior to the execution by the prospective Franchisee of any binding franchise or other agreement, or at least 7 days prior to the payment of any consideration, by the Franchisee, whichever occurs first, a copy of this public offering statement, together with a copy of all proposed agreements relating to the franchise. This public offering statement contains a summary only of certain material provisions of the franchise agreement. The contract or agreement should be referred to for an understanding of all rights and obligations of both the franchisor and the Franchisee.
3. Minnesota Statute 80C.21 and Minnesota Rule 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee's rights as provided for in Minnesota Statute 80C or (2) franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.
4. With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statute 80C.14 Subd. 3-5, which require (except in certain specified cases)
 - that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the franchise agreement and
 - that consent to the transfer of the franchise will not be unreasonably withheld.
5. Minnesota considers it unfair to not protect the franchisee's right to use the trademarks. Refer to Minnesota Statute 80C.12 Subd. 1(G). The franchisor will protect the franchisee's rights to use the trademarks, service marks, trade names, logotypes, or other commercial symbols or indemnify the franchisee from any loss, costs, or expenses arising out of any claim, suit, or demand regarding the use of the name.
6. Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.

7. The franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. See Minnesota Rule 2860.4400(J). Also, a court will determine if a bond is required.
8. The Limitations of Claims section must comply with Minnesota Statute 80C.17 Subd. 1
9. No statement, questionnaire, or acknowledgment signed or agreed to by Franchise Owner 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 Franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

EXHIBIT E

LIST OF FRANCHISED AND COMPANY-OWNED LOCATIONS

List of Franchised and Company-Owned Locations

Although a listing of Franchise Owners and their contact information may be found in Item 20, this Exhibit lists the information for both the Franchised and Company-Owned locations.

California

Tom and Julie Castle, 2524 Black Tern Way, Elk Grove, CA 95757 (916) 799-3622
Carolyn & Michael Johnson, 3009 Sprucewood Lane, Escondido, CA 92027 (760) 535-8044

Colorado

Brooke Yeomans, 2448 South Scranton Way, Aurora, CO 80014 (303) 912-3306

Florida

Trish Lobb, 13160 Wexford Hollow Road, Jacksonville, FL 32224 (904) 859-7445
Dawn Moore, 12620-3 Beach Blvd. #336, Jacksonville, FL 32246 (904) 318-6172
Lorielle Conner, 5397 Rio Vista Street, Sarasota, FL 34232 (941) 374-1804
Kim Williams, 5929 NE 72nd Street, Silver Springs, FL 34488 (352) 732-6733
Jack Taylor, 14641 SE 1st Avenue Road, Summerfield, FL 34491 (352) 245-4161

Georgia

Company Owned - Carrie Kimbell, 570 Grady Road, Rockmart, GA 30153 (470) 304.2686
Crystal and Eddie Atkinson, 2005 Hawthorne Way, Woodstock, GA 30189 (770) 627-4776

Illinois

Jackie Kardesh, 25900 W. Apache Lane, Lake Barrington, IL 60010 (480) 707-7259
Connie Fisher, 2648 Newport Drive, Naperville, IL 60565 (630) 253-4862
Judy Phillips, 3424 Bow Court, Rockford, IL 61109 (815) 979-6696
Michelle Mulcrone, 5831 Raintree Lane, Westmont, IL 60569 (708) 912-8990

Iowa

Jason Mars McDonald, 1823 Bourland Avenue, Waterloo, IA 50702 (317) 371-1487

Kentucky

Angela Kasiak, 4735 Colby Road, Winchester, KY 40391 (219) 510-3013

Louisiana

Shelia Ginn, 106 Spyglass Drive, Monroe, LA 71203 (318) 345-2265
Gretchen Flores, 180 Henfer Avenue, River Ridge, LA 70123 (504) 738-2980

Mississippi

Cheryl McElroy, 3220 Dean Road, Nesbit, MS 38651 (662) 671-2684
Audrey Baggett, 4642 Twilight Cove, Pearl MS 39208 (601) 382-3864
Jim Palmer, 833-A County Road 811, Saltillo, MS 38866 (662) 844-1446

Missouri

Carrie Phillips, 3518 NE 50th Street, Kansas City, MO 64119 (816) 876-8591
Robyn Tholen, 12673 NW 45 Hwy, Parkville, MO 64152 (816) 985-6749
Erin Veith-King, 1615 Dardenne Ridge Drive, St. Peters, MO 63376 (636) 278-1460
Erin King, 1615 Dardenne Ridge Drive, St. Peters, MO 63376 (314) 604-0800

Nebraska

~~_____ Tanya DeWald, 301 East Main Street, Bloomfield, NE 68718 (605) 660-8944~~

Nevada

Tiffany Campbell, 11892 Bella Luna Street, Las Vegas, NV 89183 (901) 219-7182

New Jersey

~~Yash and Hetal Doshi, 201 Saint Pauls Avenue, Apt 10 S, Jersey City, NJ 07306, (213) 618-0155~~

North Carolina

Thomas Tanner, 74 Bently Way, Clayton, NC 27527 (919) 243-8104

Ohio

Karen Hoffmann, 20278 Bradgate Lane, Strongsville, OH 44149 (440) 759-5214

Oregon

~~_____ Paula Sorensen, 13333 SW 128th Place, Portland, OR 97223 (360) 241-6084~~

Pennsylvania

Gillian Hench, 32 Sir William Drive, Newville, PA 17241 (717) 386-3103

Vicki Helsley, 141 McIntyre Road, Pittsburgh, PA 15237 (412) 979-8398

South Dakota

~~_____ Heidi Childers, 427 Dale Avenue, Harrisburg, SD 57032 (605) 484-6799~~

Tennessee

~~_____ Jennifer Cockroft, 8171 N. Westbrook, Bartlett, TN 38002 (901) 679-8915~~

Tennessee

Company Owned - Jessica Wolfenden, 2200 Harris Circle NW, Cleveland, TN 37311 (423) 716-1232

Steve Martin, 3814 Post Oak Circle, Cookeville, TN 38506 (931) 537-2039

Texas

Sonoe and Fred Tarbox, 11609 April Drive, Unit C, Austin, TX 78753 (512) 409-5147

Kim Routon, 28823 Hollycrest Drive, Katy, TX 77494 (281) 723-4616

Washington

~~Wendie Smith, 829 East 68th Street, Tacoma, WA 98404 (253) 592-2652~~

EXHIBIT F

STATE EFFECTIVE DATES

State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, 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:

State	Effective Date
California	Pending
Illinois	Pending
Michigan	Pending
Minnesota	April 27, 2023 Pending
South Dakota	Pending
Virginia	Pending
Washington	Pending

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

EXHIBIT G

RECEIPTS

RECEIPT FOR FRANCHISE DISCLOSURE DOCUMENT
LIL' ANGELS, LLC
550 Industrial Drive SW
Cleveland, Tennessee 37311
(423) 432-5957

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

If Lil' Angels, LLC offers you a franchise, it must provide this Franchise 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.

If Lil' Angels, LLC does not deliver this Franchise 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 to the appropriate State Agency.

The franchise seller offering the franchise is Paul Kimball, whose principal business address is 550 Industrial Drive SW, Cleveland, Tennessee 37311 and whose telephone number is (423) 432-5957.

The Issuance Date for this Franchise Disclosure Document is April 1, ~~2024~~2025.

Lil' Angels, LLC authorizes the Minnesota Commissioner of Commerce, 85 7th Place East, Suite 280, St. Paul, Minnesota 55101 to receive service of process for the company.

I received a Franchise Disclosure Document dated April 1, ~~2024~~2025 that included the following:

- A. FINANCIAL STATEMENTS
- B. FRANCHISE AGREEMENT
- C. STATE AGENCIES AND AGENTS FOR SERVICE OF PROCESS
- D. MINNESOTA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
- E. LIST OF FRANCHISED AND COMPANY-OWNED LOCATIONS
- F. STATE EFFECTIVE DATES
- G. RECEIPTS

I acknowledge that the information contained in the Franchise Disclosure Document of Lil' Angels, LLC is confidential and proprietary. I agree that this information will be used only for purposes of evaluating the possible purchase of a Lil' Angels franchise and will not be disclosed to any person other than my legal and financial advisors.

Signed: _____ Signed: _____

Print Name: _____ Print Name: _____

Address: _____ Address: _____

Telephone: () _____ Telephone: () _____

Email: _____ Email: _____

Dated: _____ Dated: _____

PLEASE COMPLETE, SIGN, AND RETAIN THIS COPY FOR YOUR RECORDS

RECEIPT FOR FRANCHISE DISCLOSURE DOCUMENT
LIL' ANGELS, LLC
550 Industrial Drive SW
Cleveland, Tennessee 37311
(423) 432-5957

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Signed: _____ Signed: _____

Print Name: _____ Print Name: _____

Address: _____ Address: _____

Telephone: () _____ Telephone: () _____

Email: _____ Email: _____

Dated: _____ Dated: _____

PLEASE COMPLETE, SIGN, AND RETURN THIS COPY TO LIL' ANGELS OFFICE