

## FRANCHISE DISCLOSURE DOCUMENT



9ROUND HOLDING COMPANY, LLC d/b/a  
I LOVE KICKBOXING™  
A South Carolina limited liability company  
847 NE Main Street  
Simpsonville, South Carolina 29681  
Direct Line: (864) 962-4600  
[www.ILoveKickboxing.com](http://www.ILoveKickboxing.com)  
[facebook.com/ilovekickboxing](https://facebook.com/ilovekickboxing)  
[instagram.com/ilovekickboxing](https://instagram.com/ilovekickboxing)  
[twitter.com/ilovekickboxing](https://twitter.com/ilovekickboxing)  
[youtube.com/ilovekickboxing](https://youtube.com/ilovekickboxing)  
[linkedin.com/company/ilovekickboxing-com](https://linkedin.com/company/ilovekickboxing-com)

You will operate a fitness center that offers a boxing and kickboxing physical fitness training program through scheduled classes in a group environment with instructional staff and which includes a proprietary system of challenging workouts.

A “Standard Center” is a brick and mortar I LOVE KICKBOXING Center that only offers I LOVE KICKBOXING classes.

A “Lightweight Center” is an existing fitness facility that offers the goods and services of that existing fitness facility as well as I LOVE KICKBOXING classes.

The total investment necessary to begin operation of a Standard I LOVE KICKBOXING™ unit offering is \$100,149.00 to \$370,700.00. This includes \$22,350.00 to \$51,750.00 that must be paid to the franchisor or an affiliate.

The total investment necessary to begin operation of a Lightweight I LOVE KICKBOXING™ unit offering is \$7,400.00 to \$64,900.00. This includes \$3,200.00 to \$13,000.00 that must be paid to us or an affiliate.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive 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.**

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact: Shannon Hudson, 847 NE Main Street, Simpsonville, South Carolina 29681, (864) 962-4600.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as “*A Consumer’s Guide to Buying a Franchise*,” which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-help or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC’s home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: July 31, 2024

## 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 or litigation only in South Carolina. Out-of-state mediation or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate or litigate with the franchisor in South Carolina than in your own state.
2. **Mandatory Minimum Payments.** You must make mandatory minimum royalty payments or advertising contributions regardless of your sales levels. Your inability to make these payments may result in termination of your franchise and loss of your investment.
3. **Spousal Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the Franchise Agreement, even if your spouse has no ownership interest in the franchise. This Guarantee will place both your and your spouse's marital and personal assets (perhaps including your house) at risk if your franchise fails.
- 3.4. **Turnover Rate. During the last three years, a high percentage of franchised outlets were terminated or transferred. This franchise could be a higher risk investment than a franchise system with a lower turnover rate.**

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

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### STATE APPENDIX

#### EXHIBITS

- EXHIBIT A – List of State Administrators and List of Agents for Service of Process
- EXHIBIT B – Financial Statements
- EXHIBIT C – Standard Franchise Agreement, Lightweight Franchise Agreement, Sample Renewal Addendum, and State-Specific Addenda
- EXHIBIT D – Current and Former Franchisee List
- EXHIBIT E – Operating Manual Table of Contents
- EXHIBIT F – Sample Membership Agreement
- EXHIBIT G – Sample Form of General Release Agreement
- EXHIBIT H – Receipts

2020, ILKB TOO LLC entered into an asset purchase agreement with ILKB, LLC and purchased the assets of the franchised business.

Other than as described above, neither of our predecessors nor any of their affiliates have ever offered franchises in any other line of business. None of their affiliates provide products or services to our franchisees. Other than the noted above, our predecessors have never operated a business of the type described in this disclosure document.

### The Franchise Offered

We have developed a proprietary business format and system (“System”) for operating a fitness center (“Center”) that features a specialized boxing and kickboxing physical fitness training program through scheduled classes in a group environment with instructional staff and which includes a proprietary system of challenging workouts. The I LOVE KICKBOXING program combines strength and cardiovascular exercises for the entire body to achieve results.

Our System includes a distinct interior layout, design, décor, color scheme, graphics, fixtures, and furnishings, operating and customer service standards and procedures including proprietary workout routines, advertising and marketing specifications and requirements, and other standards, specifications, techniques, and procedures, that we designate (collectively, the “Standards”). Centers operating under the System are identified by the trade name and service mark “I LOVE KICKBOXING” or “ILKB” and other trademarks, service marks, and trade identifiers that we designate (the “Marks”). During hours of operation, you will offer instructional staffed classes to members.

For reference purposes throughout this Franchise Disclosure Document, we refer to the locations in our System as “Standard Centers” or “Lightweight Centers”. We refer to the I LOVE KICKBOXING location you will operate as the “Center”. When we reference the I LOVE KICKBOXING franchise in this Franchise Disclosure Document we are referring to both concepts unless we specifically refer to one or the other.

A “Standard Center” is a brick and mortar I LOVE KICKBOXING Center that only offers I LOVE KICKBOXING classes.

A “Lightweight Center” is an existing fitness facility that offers the goods and services of that existing fitness facility as well as I LOVE KICKBOXING classes.

We grant qualified candidates the right to operate one (1) or more I LOVE KICKBOXING Centers according to our Franchise Agreement (see [Exhibit C](#)) and our Standards which will be communicated to you via our confidential operating manuals (the “Manual”) (see Item 11). ~~Please see Item 5 regarding our Market Accelerator Program.~~

~~We currently offer a franchisee referral program to existing franchisees (see Item 5).~~

### The Market and Competition

The market for fitness and workout centers and clubs is well developed and very competitive. You will compete with other fitness clubs offering similar services, including national franchise systems and other regional and local chains. You also will compete to a certain extent with public recreation centers and not-for-profit community organizations, such as the YMCA. Before selecting a site for your Center, you should survey the area for existing competitors and be aware that a competitor may enter the market at any time.

Typically, our services are sold to individuals and are not seasonal, although you may experience peak months and membership fluctuations. For example, January is typically a busier month for health clubs.

### Laws and Regulations

**ITEM 2**  
**BUSINESS EXPERIENCE**

Chief Executive Officer, and Manager (Director): Shannon Hudson

Shannon is the creator and founder of the 9ROUND business model and system and has served as the CEO and Manager (Director) of 9Round Franchising, LLC since 9Round's inception in December 2008 and the CEO and Manager (Director) of I LOVE KICKBOXING since February 2024. Shannon opened the first 9ROUND Center in March 2008, which currently operates in Greenville, South Carolina. Since July 2008, he also has served as Manager of 9RSC, which operated a 9ROUND Center in Greenville, South Carolina through June 30, 2019. Since December 2013, Shannon has served as Manager of H&S, which operated 9Round Centers through June 30, 2019.

Chief Operations Officer and Manager (Director): Heather Hudson

Heather has served as the COO and Manager (Director) of 9Round Franchising, LLC since 9Round's inception in December 2008 and the COO and Manager (Director) of I LOVE KICKBOXING since February 2024. Since July 2008, Heather also has served as Manager of 9RSC, which operated a 9ROUND Center in Greenville, South Carolina through June 30, 2019. Since December 2013, Heather has served as Manager of H&S, which operated 9Round Centers through June 30, 2019.

General Counsel: Eve Memmer

~~Eve has served as the General Counsel of 9Round Franchising, LLC since November 2023 and as General Counsel of I LOVE KICKBOXING since February 2024. Prior to this, Eve served as 9Round's Director of Legal Services from April 2023 to November 2023, and from August 2020 to April 2023, she served as corporate paralegal. Before coming to 9Round, Eve served as a corporate paralegal from March 2019 to May 2020 in the mortgage servicing industry. Eve has experience in the line of business associated with the franchise since August 2020.~~

Sr. Director of Operations: Drew Stauffacher

Drew has served as the Senior Director of Operations of 9Round Franchising, LLC since June of 2023 and as our Senior Director of Operations since February 2024. Prior to that, Drew served as Director of Fitness Programming for 9Round Franchising, LLC since January 2019. Drew was an owner of two (2) 9ROUND Centers from August of 2014 to March 2020.

Sr. Director of Franchise Resales: Brian Burke

Brian currently serves as Senior Director of Franchise Resales for 9Round Franchising, LLC and has served our franchise development department since February 2024. Prior to that, Brian served as 9Round's Senior Director of Operations from June 2023 to December 2023. From September 2021 until June 2023, Brian served as 9Round's Director of Franchise Resales. Brian served as Director of Ongoing Franchise Business Support for 9Round Franchising, LLC from November 2018 until September 2021. Brian began working with 9Round Franchising, LLC in November 2016 as a franchise business coach. Brian is a prior 9ROUND franchisee who operated up to three (3) Centers between December 2010 and May 2020.

Sr. Director of Marketing and Creative: Anna Lynch

Anna has served as 9Round's Senior Director of Marketing and Creative since June 2023 and as our Senior Director of Marketing and Creative since February 2024. Prior to that, Anna served as 9Round's Director of Marketing, leading the 9Round marketing team, since November 2015. Anna has been designated as a Certified Franchise Executive by the International Franchise Association since February 2020.

### ITEM 3 LITIGATION

#### **Litigation Against Franchisees in the Last Fiscal Year**

During fiscal year 2023, we are not aware of any lawsuits being initiated against franchisees.

#### **Pending Litigation Against Our Predecessor ILKB TOO LLC**

~~Roddie McDowall, Teresa Hatter McDowall, and Transcending Future Legacy v. ILKB LLC, Michael Parrella, ILKB TOO, LLC, Daniel Castellini, and Shaun York; EDNY Case No. 2:20-cv-06171. Filed December 20, 2020.~~

~~Plaintiffs claim ILKB TOO LLC as successor in liability to plaintiffs' previous claims against ILKB LLC. Plaintiffs filed complaints alleging violations of applicable state Franchise Sales Acts, breach of contract, fraud, and negligent misrepresentations against ILKB TOO LLC's predecessor ILKB LLC, and its former CEO, for damages related to misrepresentations made during Plaintiffs' purchase of an ILOVEKICKBOXING franchise. The complaints alleged that ILKB TOO LLC's officers, Daniel Castellini and Shaun York, were also liable for these claims based on a theory of successor liability. ILKB TOO LLC has disputed these claims, filed motions to be dismissed from the suits, and are currently awaiting final ruling.~~

~~Roger Gould and Dolphin Kickboxing Company v. ILKB LLC, Michael Parrella, Ryan Healy, Scott Ferrari, ILKB TOO, LLC, Daniel Castellini, and Shaun York; EDNY Case No. 2:20-cv-05154. Filed October 26, 2020.~~

~~Plaintiffs claim ILKB TOO LLC as successor in liability to plaintiffs' previous claims against ILKB LLC. Plaintiffs filed complaints alleging violations of applicable state Franchise Sales Acts, breach of contract, fraud, and negligent misrepresentations against ILKB TOO LLC's predecessor ILKB LLC, and its former CEO, for damages related to misrepresentations made during Plaintiffs' purchase of an ILOVEKICKBOXING franchise. The complaints alleged that ILKB TOO LLC's officers, Daniel Castellini and Shaun York, were also liable for these claims based on a theory of successor liability. ILKB TOO LLC has disputed these claims, filed motions to be dismissed from the suits, and are currently awaiting final ruling.~~

~~Thomas Callen, Courtney Callen, and Golden Polar Bear, LLC v. ILKB LLC, Michael Parrella, Ryan Healy, Scott Ferrari, ILKB TOO, LLC, Daniel Castellini, and Shaun York; EDNY Case No. 2:20-cv-03345. Filed July 24, 2020.~~

~~Plaintiffs claim ILKB TOO LLC as successor in liability to plaintiffs' previous claims against ILKB LLC. Plaintiffs filed complaints alleging violations of applicable state Franchise Sales Acts, breach of contract, fraud, and negligent misrepresentations against ILKB TOO LLC's predecessor ILKB LLC, and its former CEO, for damages related to misrepresentations made during Plaintiffs' purchase of an ILOVEKICKBOXING franchise. The complaints alleged that ILKB TOO LLC's officers, Daniel Castellini and Shaun York, were also liable for these claims based on a theory of successor liability. ILKB TOO LLC has disputed these claims, filed motions to be dismissed from the suits, and are currently awaiting final ruling.~~

Other than these actions, no

No litigation is required to be disclosed in this Item.

## ITEM 5 INITIAL FEES

### STANDARD CENTERS

You will pay us an Initial Franchise Fee when you sign a Franchise Agreement, which secures your Preliminary Designated Area. If you are acquiring franchise rights for a new, single Center, the Initial Franchise Fee is \$19,900, which is nonrefundable.

The Initial Franchise Fee is payable in full when the Franchise Agreement is signed and is nonrefundable. The Initial Franchise Fee is uniform for all new franchisees but may differ for franchisees under prior existing agreements.

Of the Grand Opening Marketing fees ~~range of \$10,000 to \$25,000~~, if you acquire the rights to a new license, you will pay us a sum of \$17,500, which is nonrefundable, within one (1) week of signing the lease for your Center, and if you acquire the rights to an existing Center that is open and operating, you will pay us a sum of \$8,000 when you sign a Franchise Agreement, for your initial print materials and event starter kit and for digital marketing advertising and management fees.

Of the Opening Equipment and Inventory Package ~~range of \$28,900 to \$38,700~~, you will pay us a sum of approximately \$5,350, which is nonrefundable. The Opening Equipment and Inventory Package includes the exercise equipment and floor mats necessary to operate the Center (including items such as punching bags and high-end industrial quality floor mats), interior signage, entry furniture and displays, and your initial opening inventory of retail items (including gloves, hand wraps, and apparel).

For the Coaching Screen System, you will pay us \$2,500 to \$5,000, which is nonrefundable.

Of the shipping and handling for the Grand Opening Marketing Materials, Opening Equipment and Inventory Package and the Coaching Screen System ~~range of \$5,500 to \$8,000~~, you will pay us a sum of \$1,500 to \$4,000, which is nonrefundable, before you open your Center.

#### Veteran's Program

If you are a veteran or a former member of the U.S. Armed Forces and were honorably discharged (you must provide us with a copy of your DD214), we will reduce your Initial Franchise Fee for your first Center only by twenty percent (20%) for an Initial Franchise Fee of \$15,920 for your first Standard Center ("Veteran Discount"), which is nonrefundable.

#### Resales Programs

##### *Existing Franchisees:*

Unless otherwise provided in the original franchise agreement, a \$5,000 Initial Franchise Fee, which is nonrefundable, will be utilized for existing Franchisees purchasing an existing franchise location with a new, then-current Franchise Agreement that has a new ten (10)-year term.

##### *New Franchisees to the System:*

A \$10,000 Initial Franchise Fee, which is nonrefundable, will be utilized for new Franchisees purchasing an existing location with a new, then-current Franchise Agreement that has a new ten (10)-year term.

##### *Manager/Trainer to Owner Program:*

A one-time Initial Franchise Fee of \$7,500, which is nonrefundable, will be utilized for an existing manager or trainer who has worked for an existing Franchisee for at least six (6) months at an existing Center, and who meets our then-current criteria, purchasing an existing franchise location with a new, then-current Franchise Agreement that has a new ten (10)-year term. The Initial Franchise Fee under the Manager/Trainer to Owner Program is separate to the discounts under the Market Accelerator Program, should you choose to participate in the Market Accelerator Program.

### Renewals

~~If you are an existing franchisee and your current I LOVE KICKBOXING license is within its renewal period as defined in your Franchise Agreement between the effective date of this FDD (as it applies to you for the state in which you are located) and until we issue our next FDD, your renewal Franchise Fee, which is nonrefundable, will be the lower of \$1,000 or the amount stated in your original Franchise Agreement.~~

### Market Accelerator Program

If you later would like to acquire franchise rights as part of our Step Up Program, the total Initial Franchise Fee for the second Center, and for each additional Center, is \$15,000 (a discount of \$4,900 for each Center), which is nonrefundable.

<b>Step Up Program</b>	<b>Amount</b>
Initial Franchise Fee for first Center	\$19,900
Each additional Center Initial Franchise Fee	\$15,000

### **LIGHTWEIGHT CENTERS**

This program will allow a Franchisee to offer I LOVE KICKBOXING™ classes inside of an existing fitness facility.

You will pay us an Initial Franchise Fee when you sign a Franchise Agreement, which secures your Authorized Location. A \$2,500 Initial Franchise Fee, which is nonrefundable, will be utilized for the first Lightweight Center and for each additional Center, is \$1,000, which is nonrefundable. A \$1,250 Initial Franchise Fee, which is nonrefundable, will be utilized for any Franchisee purchasing an existing franchise location with a new, then-current Franchise Agreement.

<b>Lightweight Program</b>	<b>Amount</b>
Initial Franchise Fee for first Lightweight Center	\$2,500
Each additional Lightweight Center Initial Franchise Fee	\$1,000
Initial Franchise Fee for Resale of an existing Lightweight Center	\$1,250

If you choose to purchase the Grand Opening Marketing items and services from us, you will pay us a sum of approximately \$0 to \$5,000, which is nonrefundable.

Of the Opening Equipment and Inventory Package range for a Lightweight Center ~~of \$1,800 to \$10,500~~, you will pay us a sum of approximately \$1,800 to \$2,500, which is nonrefundable. The opening Equipment and Inventory Package includes a minimum of your initial opening inventory of retail items (including gloves, speed wraps, and apparel). You may need to purchase interior signage and additional equipment, including but not limited to, free standing punching bags and floor mats to meet our then-current standards.

For the Coaching Screen System, you will pay us \$300 to \$2,000, which is nonrefundable.

Of the shipping and handling for the Opening Equipment and Inventory Package and the Coaching Screen System ~~range of \$100 to \$3,000~~, you will pay us a sum of \$100 to \$1,000, which is nonrefundable, before you open your Center.

### Veteran's Program

If you are a veteran or a former member of the U.S. Armed Forces and were honorably discharged (you must provide us with a copy of your DD214), we will reduce your Initial Franchise Fee for your first Center only by fifteen percent (15%) for an Initial Franchise Fee of \$2,125, which is nonrefundable, for your first Lightweight Center (“Veteran Discount”).

### **REFERRAL PROGRAM**

~~We currently offer a franchisee referral program to existing franchisees (the “Referral Program”) whereby if an existing franchisee introduces a prospect to us, other than under the terms of the Manager/Trainer to Owner program or if a prospect is an existing franchisee themselves, and the prospect successfully becomes an ILKB franchisee purchasing either a new license or an existing Center for sale that is not the Center of the existing franchisee who made the introduction to us, the existing franchisee may receive a fee of \$2,500 if the sale is for a Standard Center and \$500 if the sale is for a Lightweight Center. The Referral Program is solely operated at our discretion and may be modified or terminated at any time. Existing franchisees must comply with certain terms of the Referral Program in order to qualify for the fee, including only being authorized to display approved ILKB provided Referral Program brochure at their own ILKB Center(s) and introducing the prospect to our development department provided that the prospect has not already begun our franchising process or whose information has been previously received by us through other lead channels.~~

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## ITEM 6

### OTHER FEES FOR STANDARD FRANCHISEES

Type of Fee <sup>1</sup>	Amount	Due Date	Remarks
Royalty Fee	\$750 or 6% of Gross Sales, whichever is greater, per month.	Monthly.	Subject to increase <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software.
Brand Building Fund Fee	\$300 or 2% of Gross Sales, whichever is greater, per month.	Monthly.	Subject to increase <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software. See Item 11 for more information about Gross Sales and the Brand Building Fund.
Local Advertising Spend, Local Marketing Fund, or Cooperative Advertising <sup>2</sup> Contribution	The higher of 8% of gross revenue or \$6,000 per rolling three (3)-month period. <sup>3</sup>	Monthly.	See Item 11 for more information about our right to set up and require participation in a Local Marketing Fund or an advertising cooperative.
Technology Fee <sup>4</sup>	\$199 per month.	Monthly.	Subject to increase <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software.
Digital Marketing Services <sup>5</sup>	\$750 per month desired ad spend; \$300 per month management fee for mid-tier services.	Monthly.	Subject to increase or change <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software.
Heart rate monitor system <i>(Optional)</i>	\$139 per month	Monthly.	Subject to increase or change <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software. This fee is currently payable to us but may be payable directly to the vendor in the future.
Workout statistics measurement software <i>(Optional)</i>	Will vary based on usage.	Monthly.	The fee may be collected through billing software. This fee is currently payable to us but may be payable directly to the vendor in the future.

Type of Fee <sup>1</sup>	Amount	Due Date	Remarks
Insurance	\$126 - \$240 per month.	Monthly or annually.	Subject to increase <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software.
Audits	Cost of audit plus interest at 12% or the maximum rate allowable by law.	Immediately upon receipt of bill.	You pay for cost of audit only if it shows an understatement of memberships or revenue.
Annual Convention Tickets <sup>6</sup>	Will vary under the circumstances (currently \$399 per franchise owner).	Annual, upon demand.	Subject to increase <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software and may be taken in installments, at our option.
Assignment Fee	\$500.	Upon application to assign your Franchise Agreement.	Payable when you assign your Franchise Agreement to a corporation or other business entity owned by you or when you alter the percentage ownership of any minority partner, member, or other owner of your business, other than the Principal Owner.
Graphic Design Fee <sup>7</sup>	\$50 - \$100 per hour.	As incurred.	Subject to increase <del>based on actual costs or CPI adjustment.</del> Payable upon completed work product provided to you or the applicable vendor.
Relocation Fee	\$1,500 - \$5,000.	Upon application to relocate your Center.	Payable when you relocate your Center.
Costs and Attorneys' Fees	Will vary under circumstances.	As incurred.	Payable only if your non-compliance with the Franchise Agreement causes us to incur legal expenses.
Interest	12% per annum.	Upon demand.	Payable only if you fail to pay amounts owed to us when due.

Type of Fee <sup>1</sup>	Amount	Due Date	Remarks
Indemnification	Will vary under the circumstances.	As incurred.	You must reimburse us if we are held liable for claims arising out of your franchise operations.
Supplier Review Fee	Our costs and expenses, which we expect will range from \$1,000 to \$5,000, but may exceed this range depending on the product.	As incurred.	See Item 8 for more information on approved suppliers.
Quality Assurance Inspections	Our out-of-pocket costs which will vary.	Upon demand.	If you fail to submit a “walk-through” video, you must reimburse us for our costs, including travel costs, that we incur related to evaluating or inspecting your Center with our personnel or third party “mystery shoppers.”
Modernization and Maintenance Costs	Our reasonable costs and expenses which will vary.	Upon demand.	You must maintain the Center premises and modernize them every five (5) years. If you fail to do so, we may complete these for you, and you must pay us our reasonable costs.
Securities Offering Costs	Will vary under the circumstances.	Upon demand.	If you engage in a private offering of securities, we must review the prospectus or other offering documents and you will pay our costs for that review.
Ongoing Training	\$99 to \$500 per person plus your travel expenses. If our representative provides additional training at your Center, we may require you to reimburse our related travel and lodging costs for our representative.	Upon demand.	Subject to increase <del>based on actual costs or CPI adjustment.</del> We may require you and other key employees of the Center to attend ongoing training, which will be held at a location that we designate.
Renewal Fee	<del>The lesser of 25% of the then-current Initial Franchise Fee</del> <u>or our</u>	<del>Before renewal, at least six (6) months but not</del>	See Item 17 for Renewal Term and Conditions of Renewal.

Type of Fee <sup>1</sup>	Amount	Due Date	Remarks
	<u>then-current Renewal Fee. Our current Renewal Fee is \$1,000.</u>	<u>twelve (12) months prior to end of expiring term. Upon signing of Renewal Franchise Agreement.</u>	
Administrative Fee	\$250 per enforcement effort (i.e. written or verbal notification and follow up).	Upon demand.	We may assess an administrative fee to compensate us for our efforts to address the failure to comply with the Franchise Agreement or Brand Standards.
Management Fee	5% of the Center's gross revenues, plus reimbursement of our reasonable costs and expenses.	Upon demand.	If you are in default of the Franchise Agreement, we may send our personnel to manage the Center until the default is cured.
Liquidated Damages <sup>8</sup>	<p>For ceasing operations or committing a default that results in termination of your franchise rights, the lesser of \$20,000 or the estimated present value of monthly fees through the end of the franchise term;</p> <p>For selling unauthorized products, an amount equal to 70% of gross revenues derived from the sale;</p> <p>For offering unauthorized services, an amount equal to 100% of gross revenues derived from the offering of services.</p>	Upon demand.	

“Gross Sales” is defined as the total of all revenue from the sale of services and products from all sources in connection with the business at your Center or online whether for check, cash, credit, or otherwise (and

\$399 but is subject to increase. We may collect the ticket price through billing software and may be taken in installments, at our option. In addition to the ticket price, you are responsible for all costs associated with attending the annual convention, such as travel, lodging, and other incidentals. The costs may increase if you are attending with more than one (1) franchise owner, a manager, or other staff.

Note 7. Upon your request, and subject to availability, we, or our approved suppliers, may offer services to complete retail designs, window decals, create local advertising assets, update and/or promote your website, and provide other graphic design services. Our current hourly rate, depending upon the services requested, is \$50 - \$100 per hour, which is subject to change or increase. Any requests for changes or updates to the content of your website and/or any type of website promotion you wish to do must be approved by us in writing and performed by us, or our approved suppliers. We typically respond to you within ten (10) business days of our receipt of your request for all website changes. We may charge a fee of \$50 - \$100 per hour as necessary to update and/or promote your website or provide other graphic design services. Delivery time for designs will vary based on the type of request. We may collect the fees through our billing software. We will provide you with at least thirty (30) calendar days' notice of any change to our graphic design fee. Currently, we do not charge for minor updates such as changes to phone number, physical gym address, location email, or location URLs, but we may restrict the number of major and minor changes that we will make.

Note 8. If you prematurely cease operations, or if you commit a default that results in termination of your franchise rights, you must pay us, as liquidated damages, the lesser of \$20,000 or an amount equal to the average monthly fees paid to us over the past twelve (12) months multiplied by the number of months remaining in the then-current term, reduced to present value at a rate of 6%. If you sell any products or offer any services that we have not authorized for sale, you must pay us an amount equal to 70% of the gross revenue that you derived from the sale of unauthorized products, and 100% of the gross revenues that you derived from the offer of unauthorized services. We have the right to collect these amounts in the same way as we collect payment of Royalty Fees. We also have the right, in our sole discretion, to collect these amounts immediately or in installments, payable at 6% interest for a term of up to twenty-four (24) months.

#### OTHER FEES FOR LIGHTWEIGHT FRANCHISEES

Type of Fee <sup>1</sup>	Amount	Due Date	Remarks
Continuing Fee <sup>2</sup>	\$499 per month or \$599 per month.	Monthly.	Subject to increase <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software.
Digital Marketing Services (Optional)	Will vary based on chosen service.	Monthly.	Subject to increase or change <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software.

Type of Fee <sup>1</sup>	Amount	Due Date	Remarks
Heart rate monitor system <i>(Optional)</i>	\$139 per month	Monthly.	Subject to increase or change <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software. This fee is currently payable to us but may be payable directly to the vendor in the future.
Workout statistics measurement software <i>(Optional)</i>	Will vary based on usage.	Monthly.	The fee may be collected through billing software. This fee is currently payable to us but may be payable directly to the vendor in the future.
Audits	Cost of audit plus interest at 12% or the maximum rate allowable by law.	Immediately upon receipt of bill.	You pay for cost of audit only if it shows an understatement of memberships or revenue.
Annual Convention Tickets <i>(Optional)</i> <sup>3</sup>	Will vary under the circumstances (currently \$399 per franchise owner).	Annual, upon demand.	Subject to increase <del>based on actual costs or CPI adjustment.</del> The fee may be collected through billing software and may be taken in installments, at our option.
Assignment Fee	\$500.	Upon application to assign your Franchise Agreement.	Payable when you assign your Franchise Agreement to a corporation or other business entity owned by you or when you alter the percentage ownership of any minority partner, member, or other owner of your business, other than the Principal Owner.
Graphic Design Fee <sup>4</sup>	\$50 - \$100 per hour.	As incurred.	Subject to increase <del>based on actual costs or CPI adjustment.</del> Payable upon completed work product provided to you or the applicable vendor.

Type of Fee <sup>1</sup>	Amount	Due Date	Remarks
Securities Offering Costs	Will vary under the circumstances.	Upon demand.	If you engage in a private offering of securities, we must review the prospectus or other offering documents and you will pay our costs for that review.
Ongoing Training	\$99 to \$500 per person plus your travel expenses. If our representative provides additional training at your Center, we may require you to reimburse our related travel and lodging costs for our representative.	Upon demand.	Subject to increase <del>based on actual costs or CPI adjustment</del> . We may require you and other key employees of the Center to attend ongoing training, which will be held at a location that we designate.
Renewal Fee	25% of the then-current Initial Franchise Fee.	Before renewal, at least six (6) months but not twelve (12) months prior to end of expiring term.	See Item 17 for Renewal Term and Conditions of Renewal.
Administrative Fee	\$250 per enforcement effort (i.e. written or verbal notification and follow up).	Upon demand.	We may assess an administrative fee to compensate us for our efforts to address the failure to comply with the Franchise Agreement or Brand Standards.

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Body composition analyzer <sup>14</sup>	\$349 to \$5,500	As arranged	Before opening	Approved Vendors
Shipping and Handling (for the Grand Opening Marketing Materials, Opening Equipment and Inventory Package, and coaching screen system)	\$5,500 to \$8,000	As arranged	Before opening as incurred	Us and Approved Vendors
Travel, Lodging and Meals for Initial Training Program <sup>15</sup>	\$0 to \$4,000	As arranged	As incurred	See Item 11 and Note 8
Business Licenses and Other Professional Fees <sup>16</sup>	\$400 to \$1,500	As arranged	Before opening	Appropriate Licensing Authorities and Third Parties
Additional Funds – three (3) months <sup>17</sup>	\$25,000 to \$61,000	As arranged	As incurred	Third Parties
Total <sup>18</sup>	\$100,149 to \$370,700			

These figures represent the estimated costs to develop a Center and to operate it during the initial phase – which is estimated to be three (3) months. ~~Your actual costs will depend on how closely you follow the I LOVE KICKBOXING system standards, your management skill, experience and business acumen, local economic conditions, acceptance by local consumers of our approved services, prevailing wage rates, competition, the size of your Center, and other factors.~~ If you purchase franchise rights for additional Centers under our Market Accelerator Program, you will incur these expenses for each Center you develop, less the applicable Initial Franchise Fee discount. In preparing your budget, you should also consider the potential effect of inflation on future costs. All fees are nonrefundable unless otherwise stated and may not include applicable taxes.

Note 1. A \$5,000 Initial Franchise Fee will be utilized for existing Franchisees purchasing an existing franchise location with a new Franchise Agreement that has a new ten (10)-year term. A \$10,000 Initial Franchise Fee will be utilized for new Franchisees purchasing an existing location with a new Franchise Agreement that has a new ten (10)-year term. An Initial Franchise Fee of \$19,900 will be utilized for new Franchisees opening a new location. See Item 5 for a description of the Initial Franchise Fees and available discounts available in our Market Accelerator Program, Resale Programs, and Veteran Discount.

Failure to pay the Initial Franchise Fee upon execution of the Franchise Agreement will result in a non-curable default of the Franchise Agreement by you and we will have the right to immediately terminate the Franchise Agreement in accordance with the relevant terms of the Franchise Agreement.

Note 2. The range includes the estimated cost for computers, software, printers, high-speed internet connection, sound system, television, telephone(s) with answering system, and hardware and installation costs for the I LOVE KICKBOXING music system.

rolling three (3) month period). ~~The figures in the chart include the estimated amounts of employee salary or wages and rent, excluding any distributions or draw to the franchisee.~~

Note 18. The total estimated initial investment is an estimate only of the range of start-up expenses you may incur. We relied on our principals' combined expertise when preparing these figures. ~~The actual amount of additional funds you will need depends on a variety of factors, including the size of your Center, the time of year when you start your business, type and quantity of exercise equipment in your Center, implementation of a marketing plan, your own management skill, economic conditions, competition in your area, and other factors. The estimate of initial investment funds is based on owner-operated business, and does not include salaries or benefits for full-time employees. As your business grows, you may choose to hire employees to carry out support service tasks. The estimate does not include any finance charges, interest, or debt service obligation, or your living expenses. You should have sufficient capital or other means to pay for your living expenses for at least twelve (12) months.~~

### YOUR ESTIMATED INITIAL INVESTMENT FOR A LIGHTWEIGHT CENTER

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fee <sup>1</sup>	\$1,000 to \$2,500	Lump sum	At signing of the Franchise Agreement	Us
Technology, and Sound System <sup>2</sup>	\$1,000 to \$6,000	As arranged	Before opening as incurred	Vendors
Coaching screen system <sup>3</sup>	\$300 to \$2,000	As arranged	Before opening as incurred	Approved Vendor
Heart rate monitor system (Optional) <sup>4</sup>	\$0 to \$2,400	As arranged	Before opening	Approved Vendor
Workout statistics measurement hardware (Optional) <sup>5</sup>	\$0 to \$5,500	As arranged	Before opening	Approved Vendor
Body composition analyzer (Optional)	\$0 to \$5,500	As arranged	Before opening	Approved Vendors
Leasehold Improvements <sup>6</sup>	\$0 to \$10,000	As arranged	Before opening	Contractors
Grand Opening Marketing (Optional) <sup>7</sup>	\$0 to \$5,000	As arranged	Before opening as incurred	Us and Approved Vendors
Opening Equipment and Inventory Package <sup>8</sup>	\$1,800 to \$10,500	As arranged	Before opening as incurred	Us and Approved Vendors
Shipping and Handling (for the Opening Equipment and Inventory Package, and coaching screen system)	\$100 to \$3,000	As arranged	Before opening as incurred	Us and Approved Vendors
Exterior Signage <sup>9</sup>	\$300 to \$6,000	As arranged	Before opening	Approved Vendors

Note 9. You must at least have vinyl window signage, that we design, at your Lightweight Center. You may purchase additional signage such as an I LOVE KICKBOXING™ channel sign.

Note 10. We recommend that you hire an attorney to help you evaluate this franchise offering, to identify the laws and regulations that may apply to your Center and for whatever other purpose you deem appropriate.

Note 11. The figures in the chart represent the estimated amount of additional funds you will need to cover other initial operating expenses for a period of two (2) months and are based on estimated figures to open a Center in Greenville County, South Carolina, based on our local market experience.

Note 12. The total estimated initial investment is an estimate only of the range of start-up expenses you may incur. We relied on our principals' combined expertise when preparing these figures. ~~The actual amount of additional funds you will need depends on a variety of factors, including the size of your Center, the time of year when you start your business, type and quantity of exercise equipment in your Center, implementation of a marketing plan, your own management skill, economic conditions, competition in your area, and other factors. The estimate of initial investment funds is based on owner-operated business, and does not include salaries or benefits for full-time employees. As your business grows, you may choose to hire employees to carry out support service tasks. The estimate does not include any finance charges, interest, or debt service obligation, or your living expenses. You should have sufficient capital or other means to pay for your living expenses for at least twelve (12) months.~~

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## ITEM 8 RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

### Site Selection

You must operate the Center at a location that meets our then-current site selection requirements and that we have approved. We require that the Center offers instructional staffed classes to members.

If you are a **Standard franchisee** and you lease the location, you and the landlord must execute the standard form of lease addendum (attached to the Franchise Agreement as Attachment E).

If you are a **Lightweight franchisee** and you lease the location, you must provide written approval from the landlord to operate the Center within the Existing Business Center.

You must construct and equip your Center according to our approved design, specifications, and standards. In addition to meeting our design specifications and standards, it is your responsibility to ensure that your building plans comply with the Americans with Disabilities Act and all other federal, state, and local laws. You must also use equipment (including hardware and software for the Technology System, as further described in Item 11), signage, fixtures, furnishings, products, supplies, and marketing materials that meet our specifications and standards.

### Approved and Designated Suppliers

Currently, we are the only approved supplier of your ongoing inventory of gloves, supportive hand wraps, certain print materials, apparel, furniture, website, and graphic design services. Other than this, neither we nor our affiliates are approved suppliers of any other products or services, and none of our officers hold an interest in any other privately-held suppliers, or a material interest in any publicly-held suppliers, to our franchise system. Occasionally, our officers may own non-material interest in publicly-held companies that may be suppliers to our franchise system.

**Standard franchisees** must purchase from approved sources, which may include us, our required opening equipment and inventory package (which includes equipment and initial inventory), grand opening advertising services, hardware for the coaching screen system, I LOVE KICKBOXING music system, point of sale system, email marketing subscription package, ~~and~~ business text messaging service and a computer that meets our then-current criteria. You also must maintain and communicate at all times and for all business purposes through an email address provided by our approved vendor.

**Lightweight franchisees** must purchase from approved sources, which may include us, our required opening equipment and inventory package (which includes the initial inventory of retail items and any necessary equipment to meet our current standards), ~~and~~ hardware for the coaching screen system and a computer that meets our then-current criteria.

We will provide you with a list of approved manufacturers, suppliers, and distributors (“Approved Suppliers List”) and other approved equipment, signs, stationery, supplies and other items or services that we periodically designate as necessary to operate the Center (“Approved Supplies List”). We, an affiliate, or a third-party vendor or supplier, may be the only approved supplier for certain products. The Approved Suppliers List also may include other specific products without reference to a particular manufacturer, or they may designate the specifications and standards for other approved products. We may revise the Approved Suppliers List and Approved Supplies List. We give you the approved lists as we deem advisable.

You may use in the operation of the Center only the proprietary or non-proprietary equipment that we specify, and must purchase and lease all equipment that we designate from our approved suppliers.

Except for instances where we designate a single source supplier, if you wish to purchase any products or services for which we have established approved suppliers from an unapproved supplier, you may request our consent in writing. If we request, you must submit samples and other information as we require for testing or to otherwise determine whether the product, material or supply, or the proposed supplier meets

## ITEM 10 FINANCING

As of the date of this disclosure document we do not offer direct or indirect financing and we do not guarantee your note, lease or obligation. We may periodically arrange with third party finance companies or banks to make financing programs available to franchisees. These arrangements ordinarily involve no more than arranging to put franchisees in contact with sources of financing available to individual franchisees. There is no assurance that financing will be offered in any particular instance. If financing is offered, the financial institution independently establishes the amount, terms, interest rate and duration. If an individual franchisee, who does not have an active relationship with Guidant, is referred to Guidant Financial of 2404 Bank Drive, Boise ID, and the individual franchisee elects a Rollover as Business Start-Up (ROBS) loan with a fee of \$4,995, Guidant will pay us a referral fee of \$1,000. Other than the foregoing, neither we nor any of our affiliates receive any payments in exchange for such referrals or the placement of any financing. It is solely your responsibility to locate and obtain, on whatever terms you can arrange, any required financing for the establishment of your Center.

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## ITEM 11

### FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING FOR A STANDARD CENTER

**Except as listed below, 9Round Holding Company, LLC d/b/a I LOVE KICKBOXING, is not required to provide you with any assistance.**

Before you open your Center, we will:

1. Provide you with our then-current site selection criteria, and the general design for your Center (Franchise Agreement, Sections 5A and 5C).
2. Provide you with the names of approved suppliers and Approved Supplies Lists (Franchise Agreement, Section 6C).
3. Provide you with access to the Manual that details the specifications and procedures incidental to the operation of the Center. (Franchise Agreement, Section 6G). These include specifications for equipment, signs, fixtures, opening inventory, and supplies. We do not install the equipment, signs, or fixtures, but we provide installation instructions for certain items.
4. Provide the training programs described below (Franchise Agreement, Sections 7B and 7C).
5. Provide grand opening assistance (Franchise Agreement, Section 8B).

During the operation of your Center, we will:

1. Provide updates to the approved suppliers and Approved Supplies Lists (Franchise Agreement, Section 6C).
2. Evaluate your business and provide ongoing support and service as we determine necessary (Franchise Agreement, Section 6E).
3. Provide refresher training courses as we determine necessary (Franchise Agreement, Section 7C).
4. Provide best practices for pricing products and services (Franchise Agreement, Section 6.B).

#### Advertising and Marketing

If you acquire franchise rights for a new Center, approximately twelve (12) weeks before the Center opens for business and approximately eight (8) weeks after the Center opens for business, you must pay us and approved vendors for local grand opening marketing. If you acquire franchise rights to an existing location, commencing on a date as agreed by us after you have acquired the Center and lasting for approximately twelve (12) weeks thereafter, you must pay us and approved vendors for local new ownership marketing. After receiving your Grand Opening Marketing Fee we or our approved vendors will provide to you digital marketing services and grand opening or new ownership marketing materials as the case may be, and in the case of new licenses, pre-opening marketing materials, for promoting the launch of your Center.

You must use your best efforts to aggressively promote and advertise the Center in your local area and participate in any local promotional programs that we establish. On an ongoing basis, you must spend the higher of 8% of your monthly gross revenue or \$24,000 per calendar year (an average of \$2,000 per month, which may be more during peak months and less during non-peak months) on advertising or marketing that conforms to our standards and specifications. If you fail to add forty-five (45) memberships (excluding trial memberships or memberships lasting less than a full month) over any rolling three (3)-month period, we reserve the right to audit your marketing and advertising to ensure it conforms to our standards and specifications. If you have not spent the higher of 8% of your monthly gross revenue or \$6,000 per rolling three (3)-month period on Local Advertising, we reserve the right to collect the difference, through billing

software, between how much you have spent in the applicable three (3)-month rolling period and the minimum required expenditure. Any amounts that we collect will be added to the Brand Building Fund. The advertising program for the products and services offered by Standard Centers currently consists of print, direct mail, digital advertising, and special promotions designed for use by franchisees in their local markets. We are not required to spend any amount on advertising in the area or territory where your franchise is located.

Any marketing material not designed or provided by us must be pre-approved; you must submit your marketing materials to us for approval prior to using (print, electronic or other forms of media) and actively promote your Center and the system through use of approved local marketing and marketing materials. We will not unreasonably withhold approval of your marketing materials, which must be factually accurate and current, dignified, up-to-date, and in good condition, and must accurately depict the I LOVE KICKBOXING Marks.

### Brand Building Fund

You must pay us a Brand Building Fund Fee of \$300, or 2% of Gross Sales, whichever is greater, per month in the same manner and at the same time as the Royalty Fee. “Gross Sales” is defined as the total of all revenue from the sale of services and products from all sources in connection with the business at your Center or online whether for check, cash, credit, or otherwise (and regardless of collectability), and all proceeds from any business interruption insurance, but does not include (a) the sale price of products returned in good faith by customers of the business, and (b) any sales tax or other taxes collected from customers of the business by you for remittance to the appropriate taxing authority. This is a fee that you pay to us, and not a contribution to an advertising fund or any kind of group or pooled advertising program. We will place all Brand Building Fund Fees we receive in the Brand Building Fund and we will manage such Fund. The Brand Building Fund will only be used for Standard Centers. Upon written request, we will provide you with an annual unaudited statement of the receipts and disbursements of the Brand Building Fund for the most recent calendar year. We do not perform an audit of the Brand Building Fund. Any end-of-year surpluses in the Fund in a given year will carry over to the next year. In consideration for this Fee, we provide general marketing and promotional services, and other efforts to support the generation of sales appointments, for the I LOVE KICKBOXING™ brand. These services may include any or all of the following: creative development services (such as designing new logos, graphics, and promotional pieces), public relations services, I LOVE KICKBOXING annual conference expenses, web design and hosting services, national engine optimization, marketing and brand reputation tools and services, technology investments, digital and social media content creation, digital marketing, developing and implementing promotions, tie-ins, contests, or sweepstakes, direct mail advertising, sponsorships and endorsements, trade association memberships (such as IHRSA), and reimbursing us the costs of administering the Brand Building Fund, including employee salaries and benefits. Services may be provided by in-house personnel or third-party service providers and vendors.

The Brand Building Fund is not a trust or escrow account, and we have no fiduciary obligations regarding the Brand Building Fund. We cannot ensure that any individual franchisee will benefit directly or on a pro rata basis from the future placement of any such advertising in its local market. We may spend in any fiscal year an amount greater or less than the aggregate contributions of System businesses to the Brand Building Fund in that year. We will determine the methods of advertising, media employed, and scope, contents, terms and conditions of advertising, marketing, promotional, and public relations campaigns and programs. Payments are accounted for as general operating revenue, and we do not provide a separate accounting for how this revenue is spent. Any end-of-year surpluses in the Brand Building Fund in a given year will carry over to the next year. We do not perform an audit to the Brand Building Fund nor do we make financial statements available.

~~For the most recently concluded fiscal year, our predecessor, ILKB TOO LLC, spent the advertising funds as follows:~~

Type of Expenditure	Percentage
Production	6%
Media Placement	40%
Public Relations	0%
Brand Development	0%
Marketing Software	12%
Website Design	0%
Administrative Expenses	43%
<b>Total</b>	<b>100%</b>

We are not required to spend any particular amount on marketing, advertising, or production in the area in which your Center is located. We may make loans to the Brand Building Fund bearing reasonable interest to cover any deficit of the Brand Building Fund and cause the Brand Building Fund to invest in a surplus for future use by the Brand Building Fund. Brand Building Fund Fees will not be used for advertising principally directed at the sale of franchises. The company-owned locations also contribute to the Brand Building Fund.

Local Marketing Fund or Cooperative; Franchisee Advertising Council

We have the right to designate, in our discretion, any geographical area in which at least two (2) I LOVE KICKBOXING franchises are located as a “designated advertising area” for the purposes of establishing a Local Marketing Fund that we control (“Local Marketing Fund”) or local or regional advertising cooperative controlled by its members (“Cooperative”). If a Local Marketing Fund or Cooperative is established in your market, you will be required to participate and contribute. Any amount contributed to a Local Marketing Fund or Advertising Co-op will be in addition to, and not in lieu of, the Brand Building Fund Fee. We have the right to determine the amount of contribution, in our sole judgment, provided that aggregate monthly contributions will not exceed \$750 per month (subject to adjustment for increases in the Consumer Price Index). Any contributions you make to a Local Marketing Fund or Cooperative will count toward the minimum local advertising and marketing expenditure described above.

If we have established a Cooperative in your area, you must participate in the Cooperative and its programs, execute any participating documents we require and abide by its bylaws. A Cooperative may vote to increase the required contribution amount referenced above if approved by members representing at least two-thirds of the Centers in the Cooperative. Each Center in the Cooperative will have one (1) vote. Centers owned by us and our affiliates will be a member of the Cooperative and will make the same contribution and have the same voting rights as franchised locations. Each Cooperative will be required to adopt governing bylaws that meet our approval and that we may require the Cooperative to amend from time to time. The Cooperatives must submit to us its meeting minutes on our request. All advertising cooperatives must obtain our written approval of all promotional and advertising materials, creative execution and media schedules prior to their implementation. The members of each Cooperative and their elected officers will be responsible for the administration of the Cooperative. If you wish to obtain an accounting of your local Cooperative, you may do so by submitting your request in writing to the officers of the Cooperative. We reserve the right to administer the Cooperatives’ funds and will require payment from its members via electronic funds transfer or collected through billing software with your monthly royalties. The governing

## AND TRAINING FOR A LIGHTWEIGHT CENTER

**Except as listed below, 9Round Holding Company, LLC d/b/a I LOVE KICKBOXING, is not required to provide you with any assistance.**

Before you open your Lightweight Center, we will:

1. Provide you with the names of approved suppliers and Approved Supplies Lists (Franchise Agreement, Section 6C).
2. Provide you with access to the Manual that details the specifications and procedures incidental to the operation of the Lightweight Center. (Franchise Agreement, Section 6G). These include specifications for equipment, signs, opening inventory, and supplies. We do not install the equipment or signs but we provide installation instructions for certain items.
3. Provide the training programs described below (Franchise Agreement, Sections 7B and 7C).

During the operation of your Lightweight Center, we will:

1. Provide updates to the approved suppliers and Approved Supplies Lists (Franchise Agreement, Section 6C).
2. Evaluate your business and provide ongoing support and service as we determine necessary (Franchise Agreement, Section 6E).
3. Provide refresher training courses as we determine necessary (Franchise Agreement, Section 7C).
4. Provide best practices for pricing products and services (Franchise Agreement, Section 6.B).

### Advertising and Marketing

If you acquire franchise rights for a new Lightweight Center, approximately four (4) weeks before the Center opens for business and eight (8) weeks after the Center opens for business, you must use your best efforts to promote the Lightweight Center in your local area. The advertising program for the products and services offered by Lightweight Centers currently consists of print, direct mail, digital advertising, and special promotions designed for use by franchisees in their local markets. We are not required to spend any amount on advertising in the area or territory where your franchise is located.

Any marketing material not designed or provided by us must be pre-approved; you must submit your marketing materials to us for approval prior to using (print, electronic or other forms of media) and actively promote your Lightweight Center and the system through use of approved local marketing and marketing materials. We will not unreasonably withhold approval of your marketing materials, which must be factually accurate and current, dignified, up-to-date, and in good condition, and must accurately depict the I LOVE KICKBOXING Marks.

You are not required to contribute to the Brand Building Fund.

### Local Marketing Fund or Cooperative; Franchisee Advertising Council

As of the date of this disclosure document, there is no Local Marketing Fund that we control (“Local Marketing Fund”) or local or regional advertising cooperative controlled by its members (“Cooperative”). If we create one in the future, your participation will be optional.

In the future, we may elect to form an advertising council composed of franchisees to advise us on advertising policies. As of the date of this disclosure document, there is no advertising council in effect for the franchise system.

### Technology System for Lightweight Centers

You must acquire, maintain, and use all computer hardware and related accessories and peripheral equipment, which currently includes, but is subject to change, any I LOVE KICKBOXING app, music,

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

During the term of the Franchise Agreement, you (if franchisee is an individual) or your general manager must devote sufficient time and best efforts to the management of the Center. You are expected to stay informed about our organizational plans, initiatives, and direction by regular review of communications sent to you electronically or otherwise.

You or your general manager must provide direct on-premises supervision to the Center. The general manager must complete our training course. He or she need not have any equity interest in the franchisee or the business entity that owns or operates the franchise. If he or she fails to satisfactorily complete the training program, you may designate a different individual and you must notify us immediately. We may request that you are present at the Center for any inspection or evaluation we conduct.

All officers, directors, members and all managers, instructors and other employees having access to our proprietary information must execute non-disclosure agreements in a form we accept. If we so require, your managers, instructors, and other employees receiving training must execute covenants not to compete in a form that we approve.

Any individual or entity that holds, directly or indirectly, any equity interest in the franchisee must sign a personal guaranty. If this is your second or additional franchise, your entity must sign a corporate guaranty. If your spouse is not a direct or indirect party to the franchise agreement, they do not need to sign a personal guaranty.

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**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 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.

**REVENUE REPORTED FROM THE 39 LOCATIONS (STANDARD CENTERS)**  
**IN OPERATION FROM JUNE 2023 TO MAY 2024**

The chart below reflects historical membership information concerning the 39 franchised Standard Centers that were open and operating in the United States from June 1, 2023 to May 31, 2024. We have not included the two (2) Centers that opened during this time period, and we have not included the twenty-three (23) Centers that closed during this time period, nor any Lightweight Centers.

**Calculated Average and Median Revenue**  
**on an Aggregate Dollar Value Basis<sup>1</sup>**

	<b>Average Monthly AUV<sup>2</sup> (\$)</b>	<b>Median Monthly AUV<sup>2</sup> (\$)</b>	<b>Average Yearly Gross Revenue (\$)</b>	<b>Median Yearly Gross Revenue(\$)</b>
<b>Centers in Top Third<sup>3</sup></b>	40,489.00	40,649.00	485,866.00	487,792.00
<b>Centers in Middle Third<sup>3</sup></b>	30,410.79	30,045.00	364,930.00	360,534.00
<b>Centers in Bottom Third<sup>3</sup></b>	18,756.60	20,829.00	225,079.00	249,953.00
<b>Highest Performing Center<sup>4</sup></b>	47,724.58	-	572,695.00	-
<b>Lowest Performing Center<sup>5</sup></b>	8,758.42	-	105,101.00	-

Note 1. The figures reflected in the chart above were compiled from information reported to us, or our predecessor, by franchisees.

Note 2. “AUV” means “average unit volume”, which is the average aggregate gross sales of the Centers.

Note 3. Of the total number of 39 Centers, there are 13 Centers in the top third, 13 Centers in the middle third, and 13 Centers in the bottom third.

Note 4. The top third had a yearly Gross Revenue range of \$572,695-\$417,429. The middle third had a yearly Gross Revenue range of \$410,636-\$319,832. The bottom third had a yearly Gross Revenue of \$310,787-\$105,101.

Note 5. The Highest Performing Center is based on the highest AUV. This Center has been open since June 2019.

Note 6. The Lowest Performing Center is based on the lowest AUV. This Center opened in April 2017.

**Some outlets have attained these results. Your individual results may differ. There is no assurance that you will earn as much.**

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

Other than the preceding financial performance representation, we do not make any financial performance 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 future income, you should report it to the franchisor's management by contacting Shannon Hudson, 847 NE Main Street, Simpsonville, South Carolina 29681, (864) 962-4600, the Federal Trade Commission, and the appropriate state regulatory agencies.

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**ITEM 20  
OUTLETS AND FRANCHISEE INFORMATION**

**Table 1  
Systemwide Outlet Summary  
For Years 2021 to 2023<sup>1</sup>**

Outlet Type	Year	Outlets and the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2021	115	84	-31
	2022	84	73	-11
	2023	73	52	-21
Company Owned	2021	0	0	0
	2022	0	0	0
	2023	0	0	0
Total Outlets	2021	115	84	-31
	2022	84	73	-11
	2023	73	52	-21

Note 1. The information we have provided in this table was recorded by the predecessor companies ILKB LLC and ILKB TOO LLC.

**Table 2  
Transfers of Outlets from Franchisees to New Owners (other than Franchisor)  
For Years 2021 to 2023<sup>1</sup>**

State	Year	Number of Transfers
<del>Alabama</del>	<del>2021</del>	<del>0</del>
	<del>2022</del>	<del>0</del>
	<del>2023</del>	<del>0</del>
Arizona	2021	1
	2022	0
	2023	0
<del>California</del>	<del>2021</del>	<del>0</del>
	<del>2022</del>	<del>0</del>
	<del>2023</del>	<del>0</del>
Colorado	2021	0
	2022	1
	2023	0
<del>Connecticut</del>	<del>2021</del>	<del>0</del>
	<del>2022</del>	<del>0</del>
	<del>2023</del>	<del>0</del>
<del>Delaware</del>	<del>2021</del>	<del>0</del>
	<del>2022</del>	<del>0</del>
	<del>2023</del>	<del>0</del>
Florida	2021	0
	2022	0
	2023	2

State	Year	Number of Transfers
Georgia	2021	0
	2022	0
	2023	0
Illinois	2021	1
	2022	1
	2023	0
Indiana	2021	0
	2022	0
	2023	1
Iowa	2021	0
	2022	0
	2023	0
Kansas	2021	0
	2022	0
	2023	0
Kentucky	2021	0
	2022	0
	2023	0
Maryland	2021	0
	2022	0
	2023	0
Massachusetts	2021	0
	2022	0
	2023	0
Michigan	2021	0
	2022	0
	2023	0
Minnesota	2021	0
	2022	0
	2023	0
Missouri	2021	0
	2022	0
	2023	0
Nebraska	2021	0
	2022	0
	2023	0

State	Year	Number of Transfers
Nevada	2021	0
	2022	0
	2023	0
New Hampshire	2021	0
	2022	0
	2023	0
New York	2021	0
	2022	1
	2023	1
North Carolina	2021	0
	2022	0
	2023	0
Ohio	2021	0
	2022	1
	2023	0
Oregon	2021	0
	2022	0
	2023	0
Pennsylvania	2021	2
	2022	0
	2023	0
South Carolina	2021	0
	2022	0
	2023	0
South Dakota	2021	0
	2022	0
	2023	0
Tennessee	2021	0
	2022	0
	2023	0
Texas	2021	2
	2022	1
	2023	0
Utah	2021	0
	2022	0
	2023	0
Virginia	2021	0
	2022	4
	2023	1
Washington	2021	0
	2022	0
	2023	0
Wisconsin	2021	0

State	Year	Number of Transfers
	2022	1
	2023	0
Total	2021	6
	2022	11
	2023	6

Note 1. The information we have provided in this table was recorded by the predecessor companies ILKB LLC and ILKB TOO LLC.

**Table 3**  
**Status of Franchise Outlets**  
**For Years 2021 to 2023<sup>1</sup>**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of Year
Alabama	<del>2021</del>	0	0	0	0	0	0	0
	<del>2022</del>	0	0	0	0	0	0	0
	<del>2023</del>	0	0	0	0	0	0	0
Arizona	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Arkansas	<del>2021</del>	0	0	0	0	0	0	0
	<del>2022</del>	0	0	0	0	0	0	0
	<del>2023</del>	0	0	0	0	0	0	0
California	2021	14	1	5	0	0	0	10
	2022	10	0	2	0	0	0	8
	2023	8	0	4	0	0	0	4
Colorado	2021	3	0	2	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	1	0	0	0	0
Connecticut	2021	5	0	3	0	0	0	2
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
Delaware	<del>2021</del>	0	0	0	0	0	0	0
	<del>2022</del>	0	0	0	0	0	0	0
	<del>2023</del>	0	0	0	0	0	0	0
District of Columbia	<del>2021</del>	0	0	0	0	0	0	0
	<del>2022</del>	0	0	0	0	0	0	0
	<del>2023</del>	0	0	0	0	0	0	0
Florida	2021	9	0	1	0	0	0	8
	2022	8	0	1	0	0	0	7
	2023	7	1	2	0	0	0	6
Georgia	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of Year
	2023	1	0	1	0	0	0	0
Idaho	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Illinois	2021	9	0	1	0	0	0	8
	2022	8	0	2	0	0	0	6
	2023	6	0	3	0	0	0	3
Indiana	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Iowa	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2022</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2023</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
Kansas	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2022</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2023</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
Kentucky	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2022</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2023</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
Louisiana	2021	2	0	1	0	0	0	1
	2022	1	0	1	0	0	0	0
	2023	0	0	0	0	0	0	0
MaineMaryland	2021	<del>0</del>	0	0	0	0	0	<del>0</del>
	2022	<del>0</del>	0	0	0	0	0	<del>0</del>
	2023	<del>0</del>	0	0	0	0	0	<del>0</del>
Maryland	<del>2021</del>	<del>2</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>2</del>
	<del>2022</del>	<del>2</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>2</del>
	<del>2023</del>	<del>2</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>2</del>
Massachusetts	2021	8	0	1	0	0	0	7
	2022	7	1	2	0	0	0	6
	2023	6	0	1	0	0	0	5
Michigan	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2022</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2023</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
Minnesota	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	1	0	0	0	0
Missouri	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2022</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2023</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
Montana	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of Year
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Nebraska	2021	0	0	0	0	0	0	5
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Nevada	2021	5	0	0	0	0	0	5
	2022	5	0	0	0	0	0	5
	2023	5	0	1	0	0	0	4
New Hampshire	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
New Jersey	2021	4	0	2	0	0	0	2
	2022	2	0	1	0	0	0	1
	2023	1	0	0	0	0	0	1
New Mexico	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
New York	2021	14	0	7	0	0	0	7
	2022	7	1	2	0	0	0	6
	2023	6	1	1	0	0	0	6
North Carolina	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
North Dakota	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Ohio	2021	3	0	2	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	1	0	0	0	0
Oklahoma	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Oregon	2021	1	0	0	0	0	0	1
	2022	1	1	0	0	0	0	2
	2023	2	1	0	0	0	0	3
Pennsylvania	2021	7	1	2	0	0	0	6
	2022	6	0	1	0	0	0	5
	2023	5	0	2	0	0	0	3
South Carolina	2021	2	0	1	0	0	0	1
	2022	1	0	1	0	0	0	0

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of Year
	2023	0	0	0	0	0	0	0
South Dakota	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2022</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2023</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
Tennessee	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2022</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2023</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
Texas	2021	11	0	4	0	0	0	7
	2022	7	0	0	0	0	0	7
	2023	7	0	2	0	0	0	5
Utah	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2022</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2023</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
Vermont	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2022</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2023</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
Virginia	2021	6	0	0	0	0	0	6
	2022	6	0	0	0	0	0	6
	2023	6	0	3	0	0	0	3
Washington	<del>2021</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2022</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
	<del>2023</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>
Wisconsin	2021	2	0	0	0	0	0	2
	2022	2	0	1	0	0	0	1
	2023	1	0	1	0	0	0	0
Totals	2021	115	2	33	0	0	0	84
	2022	84	3	14	0	0	0	73
	2023	73	3	24	0	0	0	52

Note 1. The information we have provided in this table was recorded by the predecessor companies ILKB LLC and ILKB TOO LLC.

**Table 4**  
**Status of Company-Owned Outlets**  
**For Years 2021 to 2023<sup>1</sup>**

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

Note 1. The information we have provided in this table was recorded by the predecessor companies ILKB LLC and ILKB TOO LLC.

**Table 5**  
**Projected Openings**  
**As of December 31, 2023**

State	Franchise Agreements Signed But Outlet Not Opened	Projected Openings in the Next Fiscal Year	Projected New Company Owned Openings in the Next Fiscal Year
Alabama	0	0	0
Alaska	0	0	0
Arkansas	0	0	0
Arizona	0	0	0
California	0	1 <sup>1</sup>	0
Colorado	0	0	0
Delaware	0	0	0
District of Columbia	0	0	0
Florida	0	1 <sup>1</sup>	0
Georgia	0	0	0
Hawaii	0	0	0
Idaho	0	0	0
Illinois	1	0	0
Indiana	0	0	0
Iowa	0	0	0
Kansas	0	0	0
Kentucky	0	0	0
Louisiana	0	0	0
Maine	0	0	0
Maryland	1	0	0
Massachusetts	0	0	0
Michigan	0	0	0
Minnesota	0	0	0
Mississippi	0	0	0
Missouri	0	0	0
Montana	0	0	0
Nebraska	0	0	0
Nevada	0	0	0
New Hampshire	0	0	0
New Jersey	0	0	0
New Mexico	0	0	0
New York	0	0	0
North Carolina	0	0	0
North Dakota	0	0	0

State	Franchise Agreements Signed But Outlet Not Opened	Projected Openings in the Next Fiscal Year	Projected New Company Owned Openings in the Next Fiscal Year
Ohio	0	0	0
Oklahoma	0	0	0
Oregon	0	0	0
Pennsylvania	0	0	0
Rhode Island	0	0	0
South Carolina	0	1 <sup>1</sup>	0
South Dakota	0	0	0
Tennessee	0	0	0
Texas	0	0	0
Vermont	0	0	0
Virginia	0	0	0
Washington	0	0	0
Wisconsin	0	0	0
Total	2	3	0

Note 1. This is a projected new Lightweight Center.

Attached at Exhibit D is a list of I LOVE KICKBOXING Centers open as of December 31, 2023 and a list of franchisees who are in the process of opening Centers. Exhibit D also includes a list of franchisees who have left the system within the last fiscal year or who have not communicated with us within ten (10) weeks of this disclosure document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

In some instances, current and former franchisees sign provisions restricting their ability to speak only about their experience with I LOVE KICKBOXING. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

There is a I LOVE KICKBOXING Franchisee Advisory Council (FAC) which is currently comprised of five (5) members representing various geographic areas: four (4) U.S. I LOVE KICKBOXING franchisees, one (1) Canadian I LOVE KICKBOXING Franchisee, and one (1) I LOVE KICKBOXING franchisor representative. Currently, five (5) franchisee members are nominated and elected each year following I LOVE KICKBOXING's annual World Convention or by any other process as may be announced by us, including by email. One (1) franchisee member shall be the Executive Choice Nominee and selected by our Chief Executive Officer. Any person who owns an interest in a I LOVE KICKBOXING franchise is eligible for nomination, selection, and membership, provided that they meet certain criteria found in the FAC By-laws. Qualified persons may be nominated by franchisees or by others, including I LOVE KICKBOXING management. Each member will be selected for a one (1) year term. To ensure continuity from year to year, one (1) franchisee member from the prior year's FAC will be selected by I LOVE KICKBOXING as members for the following year's FAC.

**ITEM 21**  
**FINANCIAL STATEMENTS**

Attached to this disclosure document as Exhibit B are the audited balance sheets as of December 31, 2023, December 31, 2022, and December 31, 2021, and the related consolidated statements of operations and comprehensive income, and changes in member equity and cash flows for the years then ended as well as the unaudited balance sheet and income statement as of July 31, 2024 of 9Round Franchising, LLC, our parent company. 9Round Franchising, LLC has guaranteed our performance with you. A copy of the Guaranty of Performance is included in Exhibit B.

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## **FOR THE STATE OF MARYLAND**

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

### Item 5 is revised to include the following:

Based upon franchisor's financial condition, the Maryland Securities Commissioner has required a financial assurance. Therefore, all initial fees and payments owed by franchisees shall be deferred until the franchisor completes its pre-opening obligations under the franchise agreement.

Item 17 of the disclosure document is supplemented by the following:

- (a) Any release or waiver provision contained in the Franchise Agreement or any release required as a condition of the sale, renewal, and/or assignment/transfer of the franchise shall not apply to any liability incurred under the Maryland Franchise Registration and Disclosure Law (the "Maryland Franchise Law").
- (b) Any claims arising under the Maryland Franchise Law must be brought within three years after the grant of the franchise;
- (c) Any provision in the Franchise Agreement requiring litigation in a forum outside the State of Maryland will not limit any rights you may have under the Maryland Franchise Law to bring suit in the State of Maryland.

## **FOR THE STATE OF MINNESOTA**

Item 13 of the disclosure document is supplemented by the following:

The franchisor will protect the franchisee's rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols ("Marks") or indemnify the franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name.

As required by the Minnesota Franchise Act, Minn. Stat. Sec. 80C.12(g), we will reimburse you for any costs incurred that you incur in the defense of your right to use the Marks, so long as you were using the Marks in the manner that we authorized, and so long as we are timely notified of the claim and given the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.

Item 17 of the disclosure document is supplemented by the following:

With respect to franchises governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require, except in certain specified cases, that (1) a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the Agreement and (2) that consent to the transfer of the franchise will not be unreasonably withheld.

To the extent that any condition, stipulation, or provision contained in the Franchise Agreement (including any choice of law provision) purports to require any person who, at the time of acquiring a franchise is a resident of Minnesota, or, in the case of a partnership or corporation, organized or incorporated under the laws of Minnesota, or purporting to bind a person acquiring any franchise to be operated in Minnesota, to waive compliance with the Minnesota Franchises Law, such condition, stipulation, or provision may be void and unenforceable under the non-waiver provision of the Minnesota Franchises Law.

## ***LIST OF STATE ADMINISTRATORS***

### **California**

Department of Financial Protection and Innovation  
320 West 4th Street, Suite 750  
Los Angeles, California 90013  
(866) 275-2677

### **Hawaii**

Commissioner of Securities of the State of Hawaii  
Department of Commerce and Consumer Affairs  
Business Registration Division  
Securities Compliance Branch  
335 Merchant Street, Room 203  
Honolulu, Hawaii 96813  
(808) 586-2722

### **Illinois**

Office of Attorney General  
500 S. Second Street  
Springfield, Illinois 62706  
(217) 782-4465

### **Indiana**

Franchise Section, Securities Division  
302 W. Washington St., Room E-111  
Indianapolis, Indiana 46204  
(317) 232-6681

### **Maryland**

Office of Attorney General  
Securities Division  
200 St. Paul Place  
Baltimore, Maryland 21202  
(410) 576-~~7042~~[6360](tel:4105766360)

### **Michigan**

Department of Attorney General  
Consumer Protection Division  
Attn: Franchise Section  
525 W. Ottawa Street  
G. Mennen Williams Bldg., 1<sup>st</sup> Floor  
Lansing, Michigan 48913  
(517) 373-7117

### **Minnesota**

Department of Commerce  
85 7<sup>th</sup> Place East, Suite 280  
St. Paul, Minnesota 55101-2198  
(651) 539-1600

### **New York**

NYS Department of Law  
Investor Protection Bureau  
28 Liberty Street, 21st Floor  
New York, New York 10005  
(212) 416-8236

### **North Dakota**

North Dakota Securities Department  
600 East Blvd. Avenue  
State Capitol, Fifth Floor Dept. 414  
Bismarck, North Dakota 58505-0510  
(701) 328-4712

### **Oregon**

Division of Consumer and Business Services  
350 Winter St. N.E. Labor & Industries Bldg., Rm 21  
Salem, Oregon 97310  
(503) 378-4387

### **Rhode Island**

Department of Business Regulation  
Securities Division  
1511 Pontiac Avenue, Bldg. 68-2  
Cranston, Rhode Island 02920  
(401) 462-9527

### **South Dakota**

Department of Labor and Regulation  
Securities Regulation  
124 S. Euclid, Suite 104  
Pierre, South Dakota 57501  
(605) 773-3563

### **Virginia**

State Corporation Commission  
Division of Securities and Retail Franchising  
1300 East Main Street, 9<sup>th</sup> Floor  
Richmond, Virginia 23219  
(804) 371-9051

### **Washington**

Department of Financial Institutions, Securities Div.  
150 Israel Road, S.W.  
Tumwater, Washington 98501  
(360) 902-8760

### **Wisconsin**

Division of Securities  
Department of Financial Institutions  
4822 Madison Yards Way, North Tower  
Madison, WI 53705  
(608) 266-8559

**EXHIBIT B**  
**FINANCIAL STATEMENTS**

# **9Round Franchising, LLC**

## ***Report on Consolidated Financial Statements***

***For the years ended December 31, 2023 and 2022***

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# 9Round Franchising, LLC

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## Independent Auditor's Report

To the Members  
9Round Franchising, LLC  
Simpsonville, South Carolina

### Opinion

We have audited the consolidated financial statements of 9Round Franchising, LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of operations and comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Elliott Davis, LLC*

Greenville, South Carolina  
April 26, 2024

# 9Round Franchising, LLC

## Consolidated Balance Sheets

As of December 31, 2023

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 5,164,601	\$ 4,659,496
Trade accounts receivable, net	995,005	812,150
Employee Retention Credit receivable (Note 10)	-	1,126,204
Inventory, net	1,337,218	1,797,655
Prepaid expenses	290,132	399,394
Current portion of deferred franchise costs	632,756	447,853
Due from related parties	20,843	172,452
Current portion of notes receivables	17,554	13,939
Total current assets	<u>8,458,109</u>	<u>9,429,143</u>
<b>Noncurrent assets</b>		
Property and equipment, net	2,455,964	2,446,253
Operating lease right-of-use assets	902,475	1,194,662
Intangibles, net	28,234	37,646
Deferred franchise costs, net of current portion	851,814	1,506,314
Deferred tax asset	19,448	55,010
Notes receivable, less current portion	7,935	22,603
Other assets	4,884	4,886
Total noncurrent assets	<u>4,270,754</u>	<u>5,267,374</u>
Total assets	<u>\$ 12,728,863</u>	<u>\$ 14,696,517</u>
<b>Liabilities and Members' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 369,335	\$ 364,109
Accrued expenses	376,996	505,473
Income taxes payable	4,749	5,637
Current portion of deferred franchise revenue	1,108,611	1,270,772
Current portion of finance lease liabilities	24,939	21,993
Current portion of operating lease liabilities	248,430	289,989
Other current liabilities	392,828	171,775
Total current liabilities	<u>2,525,888</u>	<u>2,629,748</u>
<b>Long-term liabilities</b>		
Deferred franchise revenue, net of current portion	3,658,898	5,403,077
Operating lease liabilities, net of current portion	674,918	923,347
Finance lease liabilities, net of current portion	1,968,384	1,993,323
Total long-term liabilities	<u>6,302,200</u>	<u>8,319,747</u>
Total liabilities	<u>8,828,088</u>	<u>10,949,495</u>
<b>Members' equity</b>	<u>3,900,775</u>	<u>3,747,022</u>
Total liabilities and members' equity	<u>\$ 12,728,863</u>	<u>\$ 14,696,517</u>

See Notes to Consolidated Financial Statements

## 9Round Franchising, LLC

### Consolidated Statements of Operations and Comprehensive Income

For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Revenues</b>		
Franchise fee revenue	\$ 2,373,700	\$ 2,353,912
Master and area license fee revenue	379,946	407,199
Royalty revenue	2,495,083	2,945,041
Fee revenue	2,715,273	3,287,833
Product revenue	2,574,905	4,811,196
Rebate revenue	1,902,306	1,884,968
Other revenue	1,051,810	1,107,930
Total revenues	<u>13,493,023</u>	<u>16,798,079</u>
<b>Cost of product revenue</b>	<u>1,918,405</u>	<u>2,988,820</u>
<b>Operating expenses</b>		
Advertising and marketing	1,533,476	2,102,498
Depreciation and amortization	411,585	460,099
Commissions	708,159	894,179
Professional fees	712,269	647,387
Personnel costs	3,706,458	4,240,905
Other operating expenses	3,323,276	3,832,068
Total operating expenses	<u>10,395,223</u>	<u>12,177,136</u>
Income from operations	<u>1,179,395</u>	<u>1,632,123</u>
<b>Other income (expense)</b>		
Interest expense	(79,217)	(81,292)
Interest income	106,739	6,545
Unrealized foreign currency gain (loss)	20,733	(7,510)
Loss on disposal of property, plant and equipment	(4,001)	(27,648)
Gain on forgiveness of Paycheck Protection Program loan	-	576,070
Employee Retention Credit income (Note 10)	-	1,126,204
Other income, net	28,321	34,248
Total other (expense) income, net	<u>72,575</u>	<u>1,626,617</u>
Income before income taxes	1,251,970	3,258,740
<b>Income tax expense</b>	42,055	36,915
Net income	<u>1,209,915</u>	<u>3,221,825</u>
<b>Other comprehensive income (loss)</b>		
Changes in cumulative translation adjustments	(38,977)	7,111
Total comprehensive income	<u>\$ 1,170,938</u>	<u>\$ 3,228,936</u>

See Notes to Consolidated Financial Statements

**9Round Franchising, LLC****Consolidated Statements of Changes in Members' Equity****For the years ended December 31, 2023 and 2022**

	<u>Accumulated Other Comprehensive Loss</u>	<u>Accumulated Earnings</u>	<u>Total Members' Equity</u>
<b>Balance, January 1, 2022</b>	\$ (22,265)	\$ 2,318,445	\$ 2,296,180
Cumulative adjustment for implementation of ASC 842	-	(26,998)	(26,998)
Distributions to members	-	(1,751,096)	(1,751,096)
Net income	-	3,221,825	3,221,825
Other comprehensive income	7,111	-	7,111
<b>Balance, December 31, 2022</b>	<u>(15,154)</u>	<u>3,762,176</u>	<u>3,747,022</u>
Distributions to members	-	(1,017,185)	(1,017,185)
Net income	-	1,209,915	1,209,915
Other comprehensive loss	(38,977)	-	(38,977)
<b>Balance, December 31, 2023</b>	<u>\$ (54,131)</u>	<u>\$ 3,954,906</u>	<u>\$ 3,900,775</u>

**See Notes to Consolidated Financial Statements**

**9Round Franchising, LLC****Consolidated Statements of Cash Flows****For the years ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 1,209,915	\$ 3,221,825
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	411,587	460,099
Decrease in discount on notes receivable	-	(23)
Gain on forgiveness of Paycheck Protection Program loan	-	(576,070)
Employee Retention Credit income	-	(1,126,204)
Loss on disposal of property and equipment	4,101	27,489
Provision for credit losses	81,663	52,522
Deferred taxes	37,513	25,139
Interest expense on finance lease liabilities	79,217	80,026
Changes in operating assets and liabilities:		
Trade accounts receivable	863,767	94,299
Inventories, net	460,437	262,540
Prepaid expenses	117,804	33,302
Deferred franchise costs	785,660	805,817
Due from related parties	-	(10,381)
Operating lease ROU assets and lease liabilities, net	2,199	6,927
Other current assets	-	6,333
Accounts payable	4,844	(13,926)
Accrued expenses	(139,675)	(319,928)
Income taxes payable	558	(3,696)
Deferred franchise revenue	(2,235,628)	(1,788,242)
Due to related parties	54,254	-
Other current liabilities	221,053	(19,393)
Net cash provided by operating activities	<u>1,959,269</u>	<u>1,218,455</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(415,985)	(65,782)
Issuance of notes receivable	(5,320)	(37,500)
Collections on notes receivable	16,373	2,817
Net cash used for investing activities	<u>(404,932)</u>	<u>(100,465)</u>
<b>Cash flows from financing activities</b>		
Principal payments on finance leases	(101,210)	(99,227)
Distributions to members	(1,017,185)	(1,751,096)
Net cash used for financing activities	<u>(1,118,395)</u>	<u>(1,850,323)</u>
Net increase (decrease) in cash and cash equivalents	435,942	(732,333)
Exchange rate effect on cash and cash equivalents	69,163	(12,448)
<b>Cash and cash equivalents, beginning of year</b>	<u>4,659,496</u>	<u>5,404,277</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 5,164,601</u>	<u>\$ 4,659,496</u>
<b>Supplemental disclosure</b>		
Cash paid for interest	<u>\$ 79,217</u>	<u>\$ 81,292</u>
Cash paid for income taxes	<u>\$ 8,121</u>	<u>\$ 9,099</u>

**See Notes to Consolidated Financial Statements**

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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#### Note 1. Summary of Significant Accounting Policies and Activities

##### Description of business:

9Round Franchising, LLC and its subsidiaries (collectively, the “Company”) were formed for the purpose of granting franchises for the establishment and operation of a center (“Center”) offering a service-oriented boxing and kickboxing fitness program combining strength, cardiovascular exercises and circuit training for the entire body to achieve results. A 9Round Center offers boxing and kickboxing fitness programs that provide professional assistance to clients for a total body workout using our proprietary system of challenging workout stations. A 9Round Center franchise will offer clients a variety of comprehensive services that include, but are not limited to, teaching various boxing and kickboxing disciplines in addition to selling retail and fitness products utilizing the Company’s proprietary business format and system.

On December 15, 2008, 9Round Franchising, LLC was formed under the laws of the State of South Carolina.

During 2008, the Company began offering franchises pursuant to federal and state laws that regulate the sale of franchises including the Federal Trade Commission’s Franchise Rule. The Company’s accounting for franchising operations is in accordance with franchisor accounting, generally accepted in the United States of America.

The franchise agreements typically require the franchisee to pay an initial, nonrefundable fee, as well as continuing royalties to the Company generally based upon a fixed fee stated in the contract. In most cases, under these arrangements, franchisees are granted the right to use and operate the location for a period of ten years with an additional ten-year renewal option contingent on payment of a renewal fee.

On November 27, 2013, the Company incorporated 9Round Franchising of Canada, Inc. under the British Columbia Corporations Act. On November 8, 2018 the Company incorporated 9Rfranchising Canada, ULC under the British Columbia Corporations Act. On January 1, 2019, 9Round Franchising of Canada, Inc. was amalgamated as one company under the name 9Rfranchising Canada, ULC. On July 31, 2018, 9Round Attic Holdings, LLC was formed under the laws of the State of South Carolina and is the U.S. parent of 9Rfranchising Canada, ULC. 9Round Attic Holdings, LLC and 9Rfranchising Canada, ULC are wholly owned subsidiaries of 9Round Franchising, LLC.

On December 16, 2014, the Company formed 9Round International, LLC under the laws of the State of South Carolina. 9Round International, LLC is a wholly owned subsidiary of 9Round Franchising, LLC.

On December 22, 2023, the Company formed 9Round Holding Company, LLC under the laws of the State of South Carolina. 9Round Holding Company, LLC is a wholly owned, non-operating, subsidiary of 9Round Franchising, LLC.

##### Principles of consolidation:

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of 9Round Franchising, LLC and its wholly owned subsidiaries, 9Rfranchising Canada, ULC, 9Round International, LLC, and 9Round Holding Company, LLC. All significant intra-entity balances and transactions have been eliminated.

The Company does not apply the VIE consolidation model to its qualifying common control arrangements. Additionally, activity related to these arrangements is described in Note 7.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Cash and cash equivalents:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company places its cash with high quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits. The Company has not experienced losses in such investments and does not believe it is exposed to any significant risk on its cash and cash equivalents.

##### Trade accounts receivable, net:

Trade accounts receivable consist primarily of franchise fees, royalties, and other fees due from franchisees. Receivables are recorded at their invoiced amounts, net of a reserve for potential credit losses. No interest is charged on outstanding receivables. Prior to January 1, 2023, management estimated the allowance for doubtful accounts by identifying troubled accounts and by applying a historical experience to an aging of accounts. The allowance for doubtful accounts was approximately \$84,000 at December 31, 2022.

Effective January 1, 2023, the Company adopted Accounting Standards Update (ASU) 2016-13 as amended. An allowance for credit losses is maintain based on historical experience adjusted for current conditions and reasonable and supportable forecasts taking into account geographical and industry-specific economic factors. The Company also considers any specific customer collection issues. Since the Company's trade receivables are largely similar, the Company evaluates is allowance for credit losses as one portfolio segment. Receivables balances are charged against the allowance for credit losses after all means of collection have been exhausted and the potential for collections is considered remote. Provisions for credit losses on trade receivables are recorded in other operating expenses on the accompanying consolidated statement of operations and comprehensive income.

Estimating credit losses based on risk characteristics requires significant judgement by the Company. Significant judgments include but are not limited to assessing current economic conditions and the extent to which they would be relevant to the existing characteristics of the Company's financial assets, the estimated life of financial assets and the level of reliance on historical experience in light of economic conditions. The Company reviews and updates, when necessary, its historical risk characteristics that are meaningful to estimating credit losses, any new risk characteristics that arise in the natural course of business and the estimated life of its financial assets.

The following shows activity in the allowance for credit losses for the year ended December 31, 2023:

Balance at January 1, 2023	\$	83,610
Provision for credit losses		81,663
Credits charged-off against allowance		<u>(8,090)</u>
Balance at December 31, 2023	\$	<u>157,183</u>

## 9Round Franchising, LLC

### *Notes to Consolidated Financial Statements*

*December 31, 2023 and 2022*

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#### **Note 1. Summary of Significant Accounting Policies and Activities, Continued**

##### Notes receivable:

Notes receivable consist of amounts due from new franchisees when a portion of the franchise sale has been financed by the Company, less an allowance for uncollectible notes for estimated losses resulting from franchisees' failure to make note payments in accordance with the terms of their respective loan agreements. Prior to January 1, 2023, management determined the allowance for uncollectible notes by identifying troubled accounts and by applying a historical experience to an aging of accounts. Effective January 1, 2023, management determined the allowance for credit losses associated with notes receivable in accordance with the guidance under ASU 2016-13. As of December 31, 2023 and 2022, management has determined that no allowance for credit losses on uncollectible notes was required.

Certain notes receivable from franchisees do not have a stated interest rate, the Company determines an effective interest rate in accordance with Accounting Standards Codification ("ASC") 835-30-35 *Interest – Imputation of Interest*. The Company recognizes interest income from these notes in the period earned. The Company had notes receivable balances totaling approximately \$25,000 and \$37,000 at December 31, 2023 and 2022, respectfully.

Amounts charged to the allowance for credit losses are accounted for as a reduction in franchise fee revenue. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for credit losses.

##### Inventory:

Inventory consisting of gym supplies, personal equipment, and apparel is stated at lower of cost or net realizable value. Net realizable value represents the estimated selling price for inventory less all estimated costs to sell. The cost of inventory is based on the first-in, first-out (FIFO) basis, and includes expenditures incurred in acquiring the inventory and other costs incurred in bringing it to its existing location and condition. A provision or write off is made for any obsolete or damaged inventory identified by management. Damaged inventory is written down as identified. Obsolescence is assessed based on factors such as consumable inventory and comparison of the level of inventory holding to the projected likely future sales using factors existing at the reporting date. The reserve for slow-moving or obsolete inventory was approximately \$29,000 and \$48,000 as of December 31, 2023 and 2022, respectively.

##### Deferred franchise costs:

Deferred franchise costs consist of commissions and other direct costs relating to initial franchise fees, development agreements and license fees for which revenue has not been recognized. These costs are deferred until the related revenue is recognized.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset, and leasehold improvements are amortized over the shorter of the estimated useful lives or the period of the respective leases. No depreciation is taken on construction in progress. The estimated useful lives of the assets are as follows:

	<u>Estimated Useful Life</u>
Buildings	30.25 years
Leasehold improvements	30.25 years
Furniture and fixtures	7 years
Vehicles, software and equipment	3-5 years

Upon disposition, the asset cost and related accumulated depreciation are removed from the books and the resulting gain or loss is included in other expenses in the accompanying consolidated statements of operations and comprehensive income. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

##### Intangible assets:

Intangible assets primarily consist of certain legal and related costs incurred in connection with trademark applications as well as costs to acquire the franchise development rights for Wisconsin from a franchisee. The Company capitalizes such costs to the extent that an economic benefit is anticipated from the resulting trademark and development rights, or an alternative future use is available to the Company. Amortization of trademark costs and development rights is provided for by the straight-line method over the estimated useful lives of the assets. The Company's assessment of future economic benefit of its intangible assets involves management judgment, and a different conclusion could result in an impairment charge up to the carrying value of these assets.

##### Impairment of long-lived assets:

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Management believes there is no impairment with long-lived assets as of December 31, 2023 and 2022.

## 9Round Franchising, LLC

### *Notes to Consolidated Financial Statements*

*December 31, 2023 and 2022*

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#### **Note 1. Summary of Significant Accounting Policies and Activities, Continued**

##### Revenue recognition:

The Company recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers.

The Company's revenue primarily consists of franchise revenue, master and area license fee revenue, product revenue, rebate revenue, and Company-owned gym revenue. The Company's products and services are sold primarily to customers in the United States, Canada and certain international markets. Our results of operations are substantially affected by economic conditions, which can vary significantly by market and can be impacted by consumer disposable income levels and spending habits.

*Franchise revenue:* Franchise revenue consists primarily of initial and renewal franchise fees, royalties, advertising revenue, and other fees.

Our franchise agreements include (a) the right to use our symbolic intellectual property over the term of each franchise agreement, (b) pre-opening services, such as training, and (c) ongoing services, such as management of the advertising contributions, development of training materials and gym monitoring. These promises are highly dependent upon and interrelated with the franchise right granted in the franchise agreement, so they are not considered to be individually distinct and therefore are accounted for as a single performance obligation. Revenue from franchise agreements, which consists of royalties, advertising, and other fees, is recognized evenly over the term of the agreement with the exception of sales-based fees.

Sales-based royalty and sales-based advertising revenues are recognized in the period in which the sales occur. Sales-based royalties and sales-based advertising are variable consideration related to the Company's performance obligation to the franchisees to maintain the intellectual property being licensed.

Franchise fee revenue consists of initial and transfer franchise fees. Franchise fees are billed and received upon the signing of the franchise agreement. Recognition of these fees occur over time based on the term of the underlying franchise agreement. In the event a franchise agreement is terminated, any remaining deferred fees are recognized in the period of termination.

*Master and area license revenue:* The Company sells master and area licenses that grant the sole rights to develop 9Round Centers and grant individual franchises within a specific geographical area. These agreements transfer franchise rights within a geographical area permitting the opening of a number of franchised outlets. Decisions regarding the number of outlets and their locations are primarily made by the master franchisee with approval of the Company. The Company believes the license and development rights are distinct from the franchise agreements.

Similar to the franchise agreements, the right to use our symbolic intellectual property over the term of the license agreement is accounted for as a single performance obligation recognized evenly over the term of the license agreement. In the event a license agreement is terminated, any remaining deferred fees are recognized in the period of termination.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Revenue recognition, continued:

*Product revenue:* Revenue from the sale of products is recognized upon transfer of control to the customer, which is typically upon shipment. The Company has elected to treat shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated equipment and not as a separate performance obligation. The Company collects and remits sales taxes on transactions with customers and reports such amounts under the net method in the consolidated statements of operations and comprehensive income. Accordingly, these taxes are not included in gross revenue.

*Rebate revenue:* Rebates are received based on purchases of goods or services by a franchisee to approved vendors required in the franchise agreements. Revenue is recognized at a point in time each month.

*Company-owned gym revenue:* Gym revenue consists of membership fees and merchandise sales. Membership revenue is a stand-ready performance obligation with a series of distinct time increments and therefore is a single performance obligation. Revenue from gym memberships is recognized evenly over the term of the membership agreement. The Company records revenue from sales of merchandise upon delivery of the good to the customer, which is when our performance obligation is satisfied.

Revenue from products and merchandise sales and rebates is recognized at a point in time, whereas franchise fee, master and area license fee, royalty, and fee revenue are recognized over time. Total revenue recognized at a point in time and over time was approximately as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Revenue recognized at a point in time	\$ 4,761,000	\$ 7,115,000
Revenue recognized over time	<u>8,732,000</u>	<u>9,683,000</u>
	<u>\$ 13,493,000</u>	<u>\$ 16,798,000</u>

With the exception of initial, renewal, and master area and license fees, all other revenue is either collected on the date of transaction or within one month. The Company believes its franchising, master and area licensing agreements do not contain a significant financing component because (a) the timing of the upfront payment does not arise for the reason of provision of financing to the Company and (b) the sales-based royalty is variable and based on factors outside the Company or the franchisee's control.

##### Leases:

In February 2016, the FASB issued ASC Topic 842, *Leases* (Topic 842), to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. The update retains a distinction between finance leases (similar to capital leases under previous guidance) and operating leases, with classification affecting the pattern of expense recognition in the income statement.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Leases, continued:

The Company adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminated the requirement to restate the prior-period financial statements. Under this transition provision, the Company applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continued to be reported and disclosed in accordance with the Company's historical accounting treatment under ASC Topic 840, *Leases*.

The Company elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Company did not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Company did not elect to adopt the "hindsight" practical expedient, and therefore measured the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022. Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Company's leases of approximately \$1,341,000 and \$1,353,000, respectively, at January 1, 2022, and a cumulative-effect adjustment of approximately \$27,000 to the opening balance of retained earnings.

The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Company obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

The Company made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

##### Income taxes:

The Company is taxed as a partnership for federal income tax purposes. Consequently, federal income taxes are not provided for or payable by the Company. The Company is subject to various state level taxes. The Company has elected to file composite filings for state income taxes in those states in which the Company meets the requirements for composite filing.

## 9Round Franchising, LLC

### *Notes to Consolidated Financial Statements*

*December 31, 2023 and 2022*

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#### **Note 1. Summary of Significant Accounting Policies and Activities, Continued**

##### Income taxes, continued:

The Company is considered a non-resident in foreign jurisdictions and is subject to corporate withholding taxes for payments of royalties and similar payments made by its foreign franchisees. The Company recognizes these withholding taxes in the provision for income taxes in the consolidated statements of operations and comprehensive income. The Company's net income or loss is allocated to the members who are taxed individually on their share of each Company's earnings.

The Company recognizes income tax related interest and penalties in interest expense and other operating expenses, respectively, in the consolidated statements of operations and comprehensive income.

9Round International, LLC, 9Round Attic Holdings, LLC, and 9Round Holding Company, LLC are single member LLCs and, as such, are treated as divisions of 9Round Franchising, LLC for federal income tax purposes. Because of their status, these entities are disregarded as separate entities for income tax purposes, therefore these entities do not file income tax returns separate and apart from their parent, 9Round Franchising, LLC.

9Rfranchising Canada, ULC is taxed as a corporation in Canada and accounts for income taxes in accordance with generally accepted accounting standards, which requires the use of the liability method of accounting for income taxes. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred income taxes are provided for the temporary differences in basis of the Company's assets and liabilities and their reported amounts. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are determined based on the enacted rates that are expected to be in effect when these differences are expected to reverse. Deferred tax expense or benefit is the result of the changes in the deferred tax assets and liabilities. The Company records a valuation allowance to reduce deferred tax assets if it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The Company recognizes income tax related interest and penalties in interest expense and other operating expenses, respectively, in the consolidated statements of operations and comprehensive income.

##### Advertising:

All costs associated with advertising and marketing are expensed in the period incurred. Advertising and marketing costs totaled approximately \$1,533,000 and \$2,102,000 for the years ended December 31, 2023 and 2022, respectively.

##### Personnel costs:

Personnel costs include all salaries, wages, and contract labor paid to employees and contract laborers. Personnel costs also include charges for employee benefits, various payroll taxes and other payroll related fees.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Shipping and handling costs:

Amounts billed to a customer in a sales transaction related to shipping and handling are included in revenue in the accompanying consolidated statements of operations and comprehensive income. Costs incurred for shipping and handling are included in cost of product revenue in the accompanying consolidated statements of operations and comprehensive income.

##### Presentation of sales taxes:

The states and municipalities in which the Company operates impose sales tax on all of the Company's nonexempt revenue. The Company collects sales tax from its franchisees and remits the entire amount to the appropriate taxing authority. The Company's policy is to exclude the tax collected and remitted from revenue and cost of product revenue in the accompanying consolidated statements of operations and comprehensive income. The Company accrues sales tax liabilities as it records sales, maintaining the amount owed to the taxing authorities as a current liability.

##### Other comprehensive income:

Other comprehensive income consists of foreign currency translation adjustments.

##### Foreign currency:

Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of members' equity in accumulated other comprehensive loss. Gains and losses from foreign currency transactions are included in other income and expense.

##### Use of estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

##### Fair value of assets and liabilities:

The carrying values of all of the Company's financial instruments approximate their fair values. The Company applies the guidance related to fair value for certain non-financial assets and liabilities. The non-financial assets and liabilities include items such as long-lived assets and intangibles.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Recently adopted accounting pronouncement:

Effective January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended. The update creates a new impairment standard for financial assets measured at amortized cost. Financial assets measured at amortized cost will be presented at the net amount to be expected to be collected through an allowance for credit losses that are expected to occur of the remaining life of the asset. The existing incurred loss model has been replaced with a current expected credit loss (CECL) model. The Company adopted the guidance in the update using the modified retrospective approach. Upon adoption, management determined that there was no material impact to the financial statements and accordingly no adjustment to retained earnings was recorded upon adoption.

Under Topic 326, the Company changed its policy for assessing credit losses to include consideration of a broader range of information to estimate credit losses over the life of its financial assets. As of December 31, 2023, the financial assets of the Company within the scope of the assessment comprised trade accounts receivable, notes receivable from franchisees, and contract assets resulting from revenue transactions (deferred franchise costs). Estimated credit losses on notes receivable from franchisees and contract assets were not material.

##### Reclassifications:

Certain reclassifications have been made to the prior year consolidated financial statements to conform to current year presentation. These reclassifications had no effect on the previously reported net income or members' equity.

##### Subsequent events:

The Company has evaluated events and transactions for potential recognition or disclosure through April 26, 2024, the date the consolidated financial statements were available for issuance.

#### Note 2. Property and Equipment

Property and equipment consisted of the following as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 1,628,035	\$ 1,384,468
Furniture and fixtures	247,774	216,402
Vehicles and equipment	214,183	216,169
Software	634,561	634,561
Construction in progress	<u>156,746</u>	<u>26,473</u>
	2,881,299	2,478,073
Less: accumulated depreciation	<u>(2,135,155)</u>	<u>(1,811,004)</u>
	746,144	667,069
Buildings under finance leases – net of accumulated amortization of \$371,106 and \$301,742 in 2023 and 2022, respectively	<u>1,709,820</u>	<u>1,779,184</u>
Property and equipment, net	<u>\$ 2,455,964</u>	<u>\$ 2,446,253</u>

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

#### Note 2. Property and Equipment, Continued

Depreciation expense for the years ended December 31, 2023 and 2022 was approximately \$402,000 and \$451,000, respectively, which includes approximately \$69,000 of amortization expense related to finance leases for the years ended December 31, 2023 and 2022.

#### Note 3. Intangible Assets

Intangible assets consisted of the following as of December 31, 2023 and 2022:

	<u>December 31, 2023</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Development rights	\$ 179,708	\$ 179,708	\$ -
Trademark	<u>94,115</u>	<u>65,881</u>	<u>28,234</u>
	<u>\$ 273,283</u>	<u>\$ 245,589</u>	<u>\$ 28,234</u>

  

	<u>December 31, 2022</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Development rights	\$ 179,708	\$ 179,708	\$ -
Trademark	<u>94,115</u>	<u>56,469</u>	<u>37,646</u>
	<u>\$ 273,823</u>	<u>\$ 236,177</u>	<u>\$ 37,646</u>

Amortization expense was approximately \$9,000 for each of the years ended December 31, 2023 and 2022. The estimated amortization of intangible assets for the years subsequent to December 31, 2023, is as follows:

2024	\$ 9,412
2025	9,412
2026	<u>9,411</u>
	<u>\$ 28,235</u>

#### Note 4. Contract Balances

Contract balances related to contracts with customers consist of receivables, deferred franchise costs, and deferred revenue. See Note 1 for details on accounts receivable. The opening balance of trade accounts receivable, net at January 1, 2022 was approximately \$960,000.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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#### Note 4. Contract Balances, Continued

Deferred franchise costs (contract asset) consist of commissions and other direct costs relating to initial franchise fees, developmental agreements, and license fees for which revenue has not been recognized. Deferred franchise revenue (contract liability) represents that portion of the total revenue from initial franchise, license, and development agreements attributable to services required to be provided by the Company that have not yet been performed.

The opening balance of deferred franchise costs and deferred franchise revenue as of January 1, 2022 was approximately \$2,884,000 and \$8,455,000, respectively.

#### Note 5. Leases

The Company leases its warehouse facilities, studio, Company-owned gyms and office equipment under operating lease agreements that mature between September 2023 and December 2030. Some leases include one or more options to renew, generally at the Company's sole discretion, with renewal terms that can extend the lease term up to 10 years. In addition, certain leases contain termination options, where the rights to terminate are held by either the Company, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Company will exercise that option. The Company's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

The Company also leases its office facilities in Simpsonville, South Carolina under finance leases, which including renewals, expire between March 2048 and July 2049. The interest rate implicit on these leases is 3.95%. The Company's finance leases generally do not contain any material restrictive covenants or residual value guarantees. The right-of-use assets associated with the Company's finance leases are included as a component of property and equipment, net on the accompany consolidated balance sheets.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term. The components of lease expense are as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 349,530	\$ 342,363
Finance lease cost – amortization of ROU assets	69,365	69,365
Finance lease cost – interest on lease liabilities	78,973	80,026
Variable lease cost	<u>44,458</u>	<u>73,743</u>
	<u>\$ 542,326</u>	<u>\$ 565,497</u>

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

#### Note 5. Leases, Continued

Supplemental cash flow information related to leases is as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash outflows – payments on operating leases	\$ 347,331	\$ 335,436
Financing cash outflows – payments on finance leases	\$ 100,626	\$ 99,227
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	\$ -	\$ 128,697

The weighted-average remaining lease term and weighted-average discount rate at December 31, 2023 and 2022 are as follows:

	<u>Operating Leases</u>	<u>Finance Leases</u>
<i>December 31, 2023:</i>		
Weighted-average remaining lease term	4.0 years	24.6 years
Weighted-average discount rate	5.33%	3.95%
<i>December 31, 2022:</i>		
Weighted-average remaining lease term	4.6 years	25.7 years
Weighted-average discount rate	5.31%	3.95%

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of December 31, 2023:

	<u>Operating Leases</u>	<u>Finance Leases</u>
2024	\$ 291,482	\$ 103,234
2025	264,296	105,299
2026	218,280	107,405
2027	193,703	109,553
2028	19,413	111,744
Thereafter	<u>39,998</u>	<u>2,709,934</u>
Total lease payments	1,027,172	3,247,169
Less imputed interest	<u>(103,824)</u>	<u>(1,253,846)</u>
Total present value of lease liabilities	<u>\$ 923,348</u>	<u>\$ 1,993,323</u>

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

#### Note 6. Income Taxes

The Company is taxed as a partnership under the provisions of Subchapter K of the Internal Revenue Code. Consequently, federal income taxes are not provided for or payable by the Company. 9Round Franchising, LLC files income tax returns in the U.S. federal jurisdiction, and the various states in which it operates. 9Round Franchising, LLC is subject to routine audits by taxing jurisdictions. 9Round Franchising, LLC believes it is no longer subject to income tax examinations for the years prior to 2020.

The Company is considered a non-resident in foreign jurisdictions and is subject to corporate withholding taxes for payments of royalties and similar payments made by its foreign franchisees.

In accordance with FASB ASC 740-10, *Income Taxes*, 9Round Franchising, LLC is required to disclose uncertain tax positions. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.

9Round Franchising, LLC has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. 9Round Franchising, LLC believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on its financial condition, results of operations or cash flows. Accordingly, 9Round Franchising, LLC has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2023 and 2022.

9RFranchising Canada, ULC is taxed as a general corporation under the Canadian federal tax regulations, and for the years ending December 31, 2023 and 2022, 9RFranchising Canada, ULC was subject to provincial taxes. 9RFranchising Canada, ULC is solely owned by 9Round Attic Holdings, LLC, and as such, is treated as a disregarded entity for U.S. federal income tax purposes. The activity of 9RFranchising Canada, ULC is reported on the U.S. partnership income tax returns.

9RFranchising Canada, ULC files income tax returns in the Canadian federal jurisdiction. 9RFranchising Canada, ULC is subject to routine audits by taxing jurisdictions. 9RFranchising Canada, ULC is no longer subject to income tax examinations for the years prior to 2019.

The income tax expense consisted of the following for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Current:		
Foreign	\$ 6,493	\$ 8,178
Deferred:		
Foreign	<u>35,562</u>	<u>28,737</u>
Income tax expense	<u>\$ 42,055</u>	<u>\$ 36,915</u>

Deferred income taxes are provided for temporary differences between the basis of assets and liabilities for financial reporting purposes and income tax purposes.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

#### Note 6. Income Taxes, Continued

The components of the net deferred tax asset as of December 31, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Deferred tax asset:		
Deferred revenue	\$ 98,720	\$ 156,292
Deferred tax liability:		
Deferred franchise costs	<u>(79,272)</u>	<u>(101,282)</u>
Net deferred tax asset	<u>\$ 19,448</u>	<u>\$ 55,010</u>

In accordance with FASB ASC 740-10, *Income Taxes*, 9RFranchising Canada, ULC is required to disclose uncertain tax positions. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.

9RFranchising Canada, ULC has analyzed tax positions taken for filing with the Canadian Revenue Agency. During 2022, the Canadian Revenue Agency assessed 9RFranchising Canada, ULC for failure to withhold under Part XIII of the Income Tax Act for the years 2015-2021. In connection with this assessment, the 9RFranchising Canada, ULC has recorded an accrual of \$198,981 and \$188,213 as of December 31, 2023 and 2022, respectively, which is included in accrued expenses on the accompanying consolidated balance sheets. An expense of \$188,213 was recorded in other operating expenses on the accompanying consolidated statement of operations and comprehensive income for the year ended December 31, 2023. The change in the accrued balance during the year ended December 31, 2023 is the result of changes in the currency exchange rate. 9RFranchising Canada, ULC has filed an objection with the Canadian Revenue Agency. The liability is subject to change and it is possible that the amount will differ from the amounts recorded. Any resulting adjustment will be recorded in the period incurred.

#### Note 7. Related Party Transactions

The majority members of the Company own an interest in H&S Empire, LLC (“H&S”). The Company leases its main office facilities from H&S under finance lease agreements (Note 5). During the years ended December 31, 2023 and 2022, the Company made cash payments totaling approximately \$101,000 and \$99,000, respectively, to H&S under these finance lease agreements. The Company also leases three studio locations from H&S under operating leases. During the years ended December 31, 2023 and 2022, the Company made cash payments totaling approximately \$51,000 and \$50,000, respectively, to H&S under these operating lease agreements.

At December 31, 2023 and 2022, the Company had receivables of approximately \$21,000 and \$21,000, respectively, from related parties with common ownership. These amounts have been recorded in current assets in the accompanying consolidated balance sheets as payment is expected within one year from the consolidated balance sheet date.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

#### Note 8. Summary of Franchises

The following is a summary of changes in the number of U.S. franchises during the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Outlets in operation at beginning of year	371	445
Outlets opened during the year	4	7
Outlets terminated or closed during the year	<u>(96)</u>	<u>(81)</u>
Outlets in operation at end of year	<u>279</u>	<u>371</u>
Franchised outlets	275	365
Affiliate and company owned outlets	4	6

#### Note 9. Paycheck Protection Program

In February 2021, the Company executed a term note with a financial institution in the principal amount of approximately \$576,000 pursuant to a second draw Paycheck Protection Program (“PPP”) loan which provided additional support under the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the “Economic Aid Act”). The term of the PPP loan was for five years with an interest rate of 1.0% per annum, which payments could be deferred up to the first sixteen months of the term of the loan. After the initial deferral period, the loan required monthly payments of principal and interest until maturity with respect to any portion of the PPP loan which was not forgiven. A PPP loan recipient may apply for, and be granted, forgiveness for all or a portion of the loan granted under the program. Such forgiveness was determined based upon the use of loan proceeds for payroll costs, rent and utility costs, and the maintenance of employee and compensation levels. In May 2022, the Small Business Administration approved the Company’s application for forgiveness and remitted payment to the lender for the full amount. Accordingly, the Company recognized a gain on forgiveness of debt at the time totaling \$576,070. This gain is included as a component of other income (expense) on the accompanying statements of operations and comprehensive income.

#### Note 10. Employee Retention Credit

The Employee Retention Credit (“ERC”) program was created under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and was significantly modified, expanded and extended into the first two quarters of calendar year 2021 by the Consolidated Appropriations Act, 2021 (the “Act”). The goal of the ERC program was to encourage employers to retain and continue paying employees during periods of pandemic-related reductions in business volume even if those employees were not actually working, and therefore, were not providing a service to the employer. Under the Act, eligible employers could take credits up to 70% of qualified wages with a limit of \$10,000 per employee per quarter for the first two quarters of calendar year 2021. In order to qualify for the ERC, organizations had to experience at least a 20% drop in gross receipts in the quarter compared to the same quarter in calendar year 2019. The American Rescue Plan Act of 2021 extended the ERC to the third quarter of calendar year 2021.

## **9Round Franchising, LLC**

### ***Notes to Consolidated Financial Statements***

***December 31, 2023 and 2022***

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#### **Note 10. Employee Retention Credit, Continued**

During 2022, the Company claimed an ERC of approximately \$1,126,000 with the Internal Revenue Service. Approximately \$881,000 pertained to 2021 qualified wages and approximately \$245,000 pertained to 2020 qualified wages. Management believes that the claim is in alignment with applicable regulatory criteria, the amounts are known and realizable, and receipt of the refundable ERC is probable. As such, the Company recognized this amount within other income (expense) in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2022. The total amount of ERC claimed by the company in 2022 was included as a receivable on the consolidating balance sheet as of December 31, 2022. The Company received the entire amount of the recorded receivable during the year ended December 31, 2023.

#### **Note 11. Commitments and Contingencies**

Various legal actions and claims which have arisen in the normal course of business may be pending against the Company from time to time. It is the opinion of management that the ultimate resolution of these contingencies will not have a material effect on the financial condition, results of operations or liquidity of the Company.

Additionally, it is reasonably possible that estimates made in the consolidated financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including losses on inventory and impairment losses related to other long-lived assets.

#### **Note 12. Subsequent Events**

Effective February 28, 2024, the Company acquired certain assets from ILKB Too LLC through its subsidiary 9Round Holding Company, LLC. The acquisition took place pursuant to an asset purchase agreement for a purchase price of approximately \$1,400,000, consisting of \$800,000 paid in cash and \$600,000 in payments contingent upon the renewal of certain expired franchise agreements acquired in the transaction.

# **9Round Franchising, LLC**

## ***Report on Consolidated Financial Statements***

***For the years ended December 31, 2022 and 2021***

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# 9Round Franchising, LLC

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## Independent Auditor's Report

To the Members  
9Round Franchising, LLC  
Simpsonville, South Carolina

### Opinion

We have audited the consolidated financial statements of 9Round Franchising, LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Adoption of Lease Accounting Standard

As discussed in Note 1 to the financial statements, the Company adopted the provisions of Accounting Standards Update 2016-2, *Leases (Topic 842)* during the year ended December 31, 2022. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Greenville, South Carolina  
April 17, 2023

**9Round Franchising, LLC****Consolidated Balance Sheets****As of December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,659,496	\$ 5,404,277
Trade accounts receivable, net	812,150	960,490
Employee Retention Credit receivable (Note 11)	1,126,204	-
Inventory, net	1,797,655	2,060,195
Prepaid expenses	399,394	432,996
Current portion of deferred franchise costs	447,853	556,194
Due from related parties	20,843	10,462
Current portion of notes receivables	13,939	3,592
Total current assets	<u>9,277,534</u>	<u>9,428,206</u>
<b>Noncurrent assets</b>		
Property and equipment, net	2,446,253	3,419,743
Operating lease right-of-use assets	1,194,662	-
Intangibles, net	37,646	47,058
Deferred franchise costs, net of current portion	1,657,923	2,327,686
Deferred tax asset	55,010	83,747
Other assets	27,489	11,796
Total noncurrent assets	<u>5,418,983</u>	<u>5,890,030</u>
Total assets	<u>\$ 14,696,517</u>	<u>\$ 15,318,236</u>
<b>Liabilities and Members' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 364,109	\$ 378,706
Accrued expenses	505,473	839,035
Income taxes payable	5,637	8,822
Current portion of deferred franchise revenue	1,270,772	1,536,623
Current portion of finance lease liabilities	21,993	47,651
Current portion of operating lease liabilities	289,989	
Other current liabilities	171,775	191,168
Total current liabilities	<u>2,629,748</u>	<u>3,002,005</u>
<b>Long-term liabilities</b>		
Finance lease liabilities, net of current portion	1,993,323	2,525,961
Operating lease liabilities, net of current portion	923,347	-
Deferred franchise revenue, net of current portion	5,403,077	6,918,020
Paycheck Protection Program loan	-	576,070
Total long-term liabilities	<u>8,319,747</u>	<u>10,020,051</u>
Total liabilities	<u>10,949,495</u>	<u>13,022,056</u>
<b>Members' equity</b>	<u>3,747,022</u>	<u>2,296,180</u>
Total liabilities and members' equity	<u>\$ 14,696,517</u>	<u>\$ 15,318,236</u>

**See Notes to Consolidated Financial Statements**

## 9Round Franchising, LLC

### Consolidated Statements of Operations and Comprehensive Income For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Revenues</b>		
Franchise fee revenue	\$ 2,353,912	\$ 3,182,348
Master and area license fee revenue	407,199	491,274
Royalty revenue	2,945,041	2,837,892
Fee revenue	3,287,833	3,006,400
Product revenue	4,811,196	5,338,672
Rebate revenue	1,884,968	1,743,688
Other revenue	1,107,930	1,022,356
Total revenues	<u>16,798,079</u>	<u>17,622,630</u>
<b>Cost of product revenue</b>	<u>2,988,820</u>	<u>3,397,958</u>
<b>Operating expenses</b>		
Advertising and marketing	2,102,498	937,847
Depreciation and amortization	460,099	535,490
Commissions	894,179	1,345,090
Professional fees	647,387	599,928
Personnel costs	4,240,905	4,277,383
Other operating expenses	3,832,068	3,683,063
Total operating expenses	<u>12,177,136</u>	<u>11,378,801</u>
Income from operations	<u>1,632,123</u>	<u>2,845,871</u>
<b>Other income (expense)</b>		
Interest expense	(81,292)	(72,322)
Interest income	6,545	2,713
Unrealized foreign currency loss	(7,510)	(15,969)
Loss on disposal of property, plant and equipment	(27,648)	(4,785)
Gain on forgiveness of Paycheck Protection Program loan	576,070	-
Employee Retention Credit income (Note 11)	1,126,204	-
Other income, net	34,248	20,194
Total other (expense) income, net	<u>1,626,617</u>	<u>(70,169)</u>
Income before income taxes	<u>3,258,740</u>	<u>2,775,702</u>
<b>Income tax expense</b>	<u>36,915</u>	<u>29,465</u>
Net income	<u>3,221,825</u>	<u>2,746,237</u>
<b>Other comprehensive income (loss)</b>		
Changes in cumulative translation adjustments	7,111	(1,138)
Total comprehensive income	<u>\$ 3,228,936</u>	<u>\$ 2,745,099</u>

See Notes to Consolidated Financial Statements

## 9Round Franchising, LLC

### Consolidated Statements of Changes in Members' Equity

For the years ended December 31, 2022 and 2021

	Accumulated Other Comprehensive Loss	Accumulated Earnings	Total Members' Equity
<b>Balance, January 1, 2021</b>	\$ (21,127)	\$ 2,644,815	\$ 2,623,688
Distributions to members	-	(3,072,607)	(3,072,607)
Net income	-	2,746,237	2,746,237
Other comprehensive loss	(1,138)	-	(1,138)
<b>Balance, December 31, 2021</b>	<u>(22,265)</u>	<u>2,318,445</u>	<u>2,296,180</u>
Cumulative adjustment for implementation of ASC 842	-	(26,998)	(26,998)
Distributions to members	-	(1,751,096)	(1,751,096)
Net income	-	3,221,825	3,221,825
Other comprehensive income	7,111	-	7,111
<b>Balance, December 31, 2022</b>	<u>\$ (15,154)</u>	<u>\$ 3,762,176</u>	<u>\$ 3,747,022</u>

See Notes to Consolidated Financial Statements

**9Round Franchising, LLC****Consolidated Statements of Cash Flows****For the years ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 3,221,825	\$ 2,746,237
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	460,099	535,490
Decrease in discount on notes receivable	(23)	(293)
Gain on forgiveness of Paycheck Protection Program loan	(576,070)	-
Employee Retention Credit income	(1,126,204)	-
Loss on disposal of property and equipment	27,489	4,785
Bad debt expense	52,522	81,708
Deferred taxes	25,139	20,934
Interest expense on finance lease liabilities	80,026	72,299
Changes in operating assets and liabilities:		
Trade accounts receivable	94,299	(333,392)
Inventory	262,540	(592,926)
Prepaid expenses	33,302	11,374
Deferred franchise costs	805,817	1,102,427
Due from related parties	(10,381)	379
Operating lease ROU assets and lease liabilities, net	6,927	-
Other current assets	6,333	-
Accounts payable	(13,926)	101,468
Accrued expenses	(319,928)	479,199
Income taxes payable	(3,696)	(7,907)
Other current liabilities	(19,393)	18,676
Deferred franchise revenue	(1,788,242)	(2,708,911)
Net cash provided by operating activities	<u>1,218,455</u>	<u>1,531,547</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(65,782)	(256,747)
Issuance of notes receivable	(37,500)	-
Payments for assets acquired	-	(25,000)
Collections on notes receivable	2,817	10,541
Net cash used for investing activities	<u>(100,465)</u>	<u>(271,206)</u>
<b>Cash flows from financing activities</b>		
Principal payments on finance leases	(99,227)	(117,637)
Proceeds from Paycheck Protection Program loan	-	576,070
Distributions to members	(1,751,096)	(3,072,607)
Net cash used for financing activities	<u>(1,850,323)</u>	<u>(2,614,174)</u>
Net increase (decrease) in cash and cash equivalents	(732,333)	(1,353,833)
Exchange rate effect on cash and cash equivalents	(12,448)	(196)
<b>Cash and cash equivalents, beginning of year</b>	5,404,277	6,758,306
<b>Cash and cash equivalents, end of year</b>	<u>\$ 4,659,496</u>	<u>\$ 5,404,277</u>
<b>Supplemental disclosure</b>		
Cash paid for interest	<u>\$ 225,171</u>	<u>\$ 72,322</u>
Cash paid for income taxes	<u>\$ 9,099</u>	<u>\$ 16,625</u>

**See Notes to Consolidated Financial Statements**

## 9Round Franchising, LLC

### *Notes to Consolidated Financial Statements*

*December 31, 2022 and 2021*

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#### **Note 1. Summary of Significant Accounting Policies and Activities**

##### Description of business:

9Round Franchising, LLC and its subsidiaries (collectively the “Company”) were formed for the purpose of granting franchises for the establishment and operation of a center (“Center”) offering a service-oriented boxing and kickboxing fitness program combining strength, cardiovascular exercises and circuit training for the entire body to achieve results. A 9Round Center offers boxing and kickboxing fitness programs that provide professional assistance to clients for a total body workout using our proprietary system of challenging workout stations. A 9Round Center franchise will offer clients a variety of comprehensive services that include but are not limited to teaching various boxing and kickboxing disciplines in addition to selling retail and fitness products utilizing the Company’s proprietary business format and system.

On December 15, 2008, 9Round Franchising, LLC was formed under the laws of the State of South Carolina.

During 2008, the Company began offering franchises pursuant to federal and state laws that regulate the sale of franchises including the Federal Trade Commission’s Franchise Rule. The Company’s accounting for franchising operations is in accordance with franchisor accounting, generally accepted in the United States of America.

The franchise agreements typically require the franchisee to pay an initial, nonrefundable fee, as well as continuing royalties to the Company generally based upon a fixed fee stated in the contract. In most cases, under these arrangements, franchisees are granted the right to use and operate the location for a period of ten years with an additional ten-year renewal option contingent on payment of a renewal fee.

On November 27, 2013, the Company incorporated 9Round Franchising of Canada, Inc. under the British Columbia Corporations Act. On November 8, 2018 the Company incorporated 9Rfranchising Canada, ULC under the British Columbia Corporations Act. On January 1, 2019, 9Round Franchising of Canada, Inc. was amalgamated as one company under the name 9Rfranchising Canada, ULC. On July 31, 2018, 9Round Attic Holdings, LLC was formed under the laws of the State of South Carolina and is the U.S. parent of 9Rfranchising Canada, ULC. 9Round Attic Holdings, LLC and 9Rfranchising Canada, ULC are wholly owned subsidiaries of 9Round Franchising, LLC.

On December 16, 2014, the Company formed 9Round International, LLC under the laws of the State of South Carolina. 9Round International, LLC is a wholly owned subsidiary of 9Round Franchising, LLC.

##### Principles of consolidation:

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of 9Round Franchising, LLC and its wholly owned subsidiaries, 9Rfranchising Canada, ULC and 9Round International, LLC. All significant intra-entity balances and transactions have been eliminated.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

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#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Cash and cash equivalents:

The Company places its cash with high quality financial institutions. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits. The Company has not experienced losses in such investments and does not believe it is exposed to any significant risk on its cash and cash equivalents.

##### Trade accounts receivable:

Trade accounts receivable consist primarily of franchise fees, royalties, and other fees due from franchisees, less an allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. No interest is charged on outstanding receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts. The allowance for uncollectible accounts was approximately \$84,000 and \$35,000 as of December 31, 2022 and 2021, respectively.

##### Inventory:

Inventory consisting of gym supplies, personal equipment, and apparel is stated at lower of cost or net realizable value. Net realizable value represents the estimated selling price for inventory less all estimated costs to sell. The cost of inventory is based on the first-in, first-out (FIFO) basis, and includes expenditures incurred in acquiring the inventory and other costs incurred in bringing it to its existing location and condition. A provision or write off is made for any obsolete or damaged inventory identified by management. Damaged inventory is written down as identified. Obsolescence is assessed based on factors such as consumable inventory and comparison of the level of inventory holding to the projected likely future sales using factors existing at the reporting date. The reserve for slow-moving or obsolete inventory was approximately \$48,000 and \$40,000 as of December 31, 2022 and 2021, respectively.

##### Deferred franchise costs:

Deferred franchise costs consist of commissions and other direct costs relating to initial franchise fees, development agreements and license fees for which revenue has not been recognized. These costs are deferred until the related revenue is recognized.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

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#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset, and leasehold improvements are amortized over the shorter of the estimated useful lives or the period of the respective leases. No depreciation is taken on construction in progress. The estimated useful lives of the assets are as follows:

	<u>Estimated Useful Life</u>
Buildings	30.25 Years
Leasehold improvements	30.25 Years
Furniture and fixtures	7 Years
Vehicles, software and equipment	3-5 Years

Upon disposition, the asset cost and related accumulated depreciation are removed from the books and the resulting gain or loss is included in other expenses in the accompanying consolidated statements of operations and comprehensive income. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

##### Notes receivable:

Notes receivable consist of amounts due from new franchisees when a portion of the franchise sale has been financed by the Company, less an allowance for uncollectible notes for estimated losses resulting from franchisees' failure to make note payments in accordance with the terms of their respective loan agreements. Management determines the allowance for uncollectible notes by identifying troubled accounts and by using historical experience applied to an aging of accounts. Amounts charged to the allowance for uncollectible notes are accounted for as a reduction in franchise fee revenue. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible notes. As of December 31, 2022 and 2021, no allowance for uncollectible notes was recorded. Certain notes receivable from franchisees do not have a stated interest rate, the Company determines an effective interest rate in accordance with Accounting Standards Codification ("ASC") 835-30-35 *Interest on Receivables and Payables*. The Company recognizes interest income from these notes in the period earned. The Company had notes receivable balances totaling approximately \$37,00 and \$4,000 at December 31, 2022 and 2021, respectfully.

##### Intangible assets:

Intangible assets primarily consist of certain legal and related costs incurred in connection with trademark applications as well as costs to acquire the franchise development rights for Wisconsin from a franchisee. The Company capitalizes such costs to the extent that an economic benefit is anticipated from the resulting trademark and development rights, or an alternative future use is available to the Company. Amortization of trademark costs and development rights is provided for by the straight-line method over the estimated useful lives of the assets. The Company's assessment of future economic benefit of its intangible assets involves management judgment, and a different conclusion could result in an impairment charge up to the carrying value of these assets.

## 9Round Franchising, LLC

### *Notes to Consolidated Financial Statements*

*December 31, 2022 and 2021*

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#### **Note 1. Summary of Significant Accounting Policies and Activities, Continued**

##### Impairment of long-lived assets:

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Management believes there is no impairment with long-lived assets as of December 31, 2022 and 2021.

##### Revenue recognition:

The Company recognizes revenue in accordance with Topic 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers.

The Company's revenue primarily consists of franchise revenue, master and area license fee revenue, product revenue, rebate revenue, and Company-owned gym revenue. The Company's products and services are sold primarily to customers in the United States, Canada and certain international markets. Our results of operations are substantially affected by economic conditions, which can vary significantly by market and can be impacted by consumer disposable income levels and spending habits.

*Franchise revenue:* Franchise revenue consists primarily of initial and renewal franchise fees, royalties, advertising revenue, and other fees.

Our franchise agreements include (a) the right to use our symbolic intellectual property over the term of each franchise agreement, (b) pre-opening services, such as training, and (c) ongoing services, such as management of the advertising contributions, development of training materials and gym monitoring. These promises are highly dependent upon and interrelated with the franchise right granted in the franchise agreement, so they are not considered to be individually distinct and therefore are accounted for as a single performance obligation. Revenue from franchise agreements, which consists of royalties, advertising, and other fees, is recognized evenly over the term of the agreement with the exception of sales-based fees.

Sales-based royalty and sales-based advertising revenues are recognized in the period in which the sales occur. Sales-based royalties and sales-based advertising are variable consideration related to the Company's performance obligation to the franchisees to maintain the intellectual property being licensed.

Franchise fee revenue consists of initial and transfer franchise fees. Franchise fees are billed and received upon the signing of the franchise agreement. Recognition of these fees occur over time based on the term of the underlying franchise agreement. In the event a franchise agreement is terminated, any remaining deferred fees are recognized in the period of termination.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Revenue recognition, continued:

*Master and area license revenue:* The Company sells master and area licenses that grant the sole rights to develop 9Round Centers and grant individual franchises within a specific geographical area. These agreements transfer franchise rights within a geographical area permitting the opening of a number of franchised outlets. Decisions regarding the number of outlets and their locations are primarily made by the master franchisee with approval of the Company. The Company believes the license and development rights are distinct from the franchise agreements.

Similar to the franchise agreements, the right to use our symbolic intellectual property over the term of the license agreement is accounted for as a single performance obligation recognized evenly over the term of the license agreement. In the event a license agreement is terminated, any remaining deferred fees are recognized in the period of termination.

*Product revenue:* Revenue from the sale of products is recognized upon transfer of control to the customer, which is typically upon shipment. The Company has elected to treat shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated equipment and not as a separate performance obligation. The Company collects and remits sales taxes on transactions with customers and reports such amounts under the net method in the consolidated statements of operations and comprehensive income. Accordingly, these taxes are not included in gross revenue.

*Rebate revenue:* Rebates are received based on purchases of goods or services by a franchisee to approved vendors required in the franchise agreements. Revenue is recognized at a point in time each month.

*Company-owned gym revenue:* Gym revenue consists of membership fees and merchandise sales. Membership revenue is a stand-ready performance obligation with a series of distinct time increments and therefore is a single performance obligation. Revenue from gym memberships is recognized evenly over the term of the membership agreement. The Company records revenue from sales of merchandise upon delivery of the good to the customer, which is when our performance obligation is satisfied.

Revenue from products and merchandise sales and rebates is recognized at a point in time, whereas franchise fee, master and area license fee, royalty, and fee revenue are recognized over time. Total revenue recognized at a point in time and over time was as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Revenue recognized at a point in time	\$ 7,115,369	\$ 7,758,785
Revenue recognized over time	<u>9,682,710</u>	<u>9,863,845</u>
	<u>\$ 16,798,079</u>	<u>\$ 17,622,630</u>

With the exception of initial, renewal, and master area and license fees, all other revenue is either collected on the date of transaction or within one month. The Company believes its franchising, master and area licensing agreements do not contain a significant financing component because (a) the timing of the upfront payment does not arise for the reason of provision of financing to the Company and (b) the sales-based royalty is variable and based on factors outside the Company or the franchisee's control.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

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#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Leases:

In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Company adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Company has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Company's historical accounting treatment under ASC Topic 840, Leases.

The Company elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Company does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Company has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Company obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

The Company made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Company's leases of approximately \$1,341,000 and \$1,353,000, respectively, at January 1, 2022, and a cumulative-effect adjustment of approximately \$27,000 to the opening balance of retained earnings.

## 9Round Franchising, LLC

### *Notes to Consolidated Financial Statements*

*December 31, 2022 and 2021*

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#### **Note 1. Summary of Significant Accounting Policies and Activities, Continued**

##### Income taxes:

The Company is taxed as a partnership for federal income tax purposes. Consequently, federal income taxes are not provided for or payable by the Company. The Company is subject to various state level taxes. The Company has elected to file composite filings for state income taxes in those states in which the Company meets the requirements for composite filing. The Company is considered a non-resident in foreign jurisdictions and is subject to corporate withholding taxes for payments of royalties and similar payments made by its foreign franchisees. The Company recognizes these withholding taxes in the provision for income taxes in the consolidated statements of operations and comprehensive income. The Company's net income or loss is allocated to the members who are taxed individually on their share of each Company's earnings.

The Company recognizes income tax related interest and penalties in interest expense and other operating expenses, respectively, in the consolidated statements of operations and comprehensive income.

9Round International, LLC is a single member LLC and, as such, is treated as a division of 9Round Franchising, LLC for federal income tax purposes.

Because of its status, the Company is disregarded as a separate entity for income tax purposes, therefore the Company itself does not file an income tax return separate and apart from its parent, 9Round Franchising, LLC.

9Rfranchising Canada, ULC is taxed as a corporation in Canada and accounts for income taxes in accordance with generally accepted accounting standards, which requires the use of the liability method of accounting for income taxes. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred income taxes are provided for the temporary differences in basis of the Company's assets and liabilities and their reported amounts. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are determined based on the enacted rates that are expected to be in effect when these differences are expected to reverse. Deferred tax expense or benefit is the result of the changes in the deferred tax assets and liabilities. The Company records a valuation allowance to reduce deferred tax assets if it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The Company recognizes income tax related interest and penalties in interest expense and other operating expenses, respectively, in the consolidated statements of operations and comprehensive income.

##### Advertising:

All costs associated with advertising and marketing are expensed in the period incurred. Advertising and marketing costs were approximately \$2,102,000 and \$938,000 for the years ended December 31, 2022 and 2021, respectively.

##### Personnel costs:

Personnel costs include all salaries, wages, and contract labor paid to employees and contract laborers. Personnel costs also include charges for employee benefits, various payroll taxes and other payroll related fees.

## 9Round Franchising, LLC

### *Notes to Consolidated Financial Statements*

*December 31, 2022 and 2021*

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#### **Note 1. Summary of Significant Accounting Policies and Activities, Continued**

##### Shipping and handling costs:

Amounts billed to a customer in a sales transaction related to shipping and handling are included in revenue in the accompanying consolidated statements of operations and comprehensive income. Costs incurred for shipping and handling are included in cost of product revenue in the accompanying consolidated statements of operations and comprehensive income.

##### Presentation of sales taxes:

The states and municipalities in which the Company operates impose sales tax on all of the Company's nonexempt revenue. The Company collects sales tax from its franchisees and remits the entire amount to the appropriate taxing authority. The Company's policy is to exclude the tax collected and remitted from revenue and cost of product revenue in the accompanying consolidated statements of operations and comprehensive income. The Company accrues sales tax liabilities as it records sales, maintaining the amount owed to the taxing authorities as a current liability.

##### Other comprehensive income:

Other comprehensive income consists of foreign currency translation adjustments.

##### Foreign currency:

Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of members' equity in accumulated other comprehensive loss. Gains and losses from foreign currency transactions are included in other income and expense.

##### Employee Retention Credit:

The Company has incurred certain employment taxes during 2020 and 2021 and is yet to receive the refundable Employee Retention Credit. The Company has accounted for the credit as a loss recovery under ASC 410, *Asset Retirement and Environmental Obligations* (by analogy), which indicates that a claim for recovery should be recognized only when the claim is probable as it is defined in ASC Topic 450, *Contingencies*. The Company has elected to account for the credit on a gross basis within the consolidated statements of operations and comprehensive income.

##### Use of estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### Fair value of assets and liabilities:

The carrying values of all of the Company's financial instruments approximate their fair values. The Company applies the guidance related to fair value for certain non-financial assets and liabilities. The non-financial assets and liabilities include items such as long-lived assets and intangibles.

##### Subsequent events:

The Company has evaluated events and transactions for potential recognition or disclosure through April 17, 2023, the date the consolidated financial statements were available for issuance.

##### Reclassifications:

Certain reclassifications have been made to the prior year consolidated financial statements to conform to current year presentation. These reclassifications had no effect on the previously reported net income or members' equity.

#### Note 2. Property and Equipment

Property and equipment consisted of the following as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 1,384,468	\$ 1,388,238
Furniture and fixtures	216,402	254,744
Vehicles and equipment	216,169	295,563
Software	634,561	579,561
Construction in progress	<u>26,473</u>	<u>54,683</u>
	2,478,073	2,572,789
Less: accumulated depreciation	<u>(1,811,004)</u>	<u>(1,562,691)</u>
	667,069	1,010,098
Buildings under finance leases – net of accumulated amortization of \$301,742 and \$327,865 in 2022 and 2021, respectively	<u>1,779,184</u>	<u>2,409,645</u>
Property and equipment, net	<u>\$ 2,446,253</u>	<u>\$ 3,419,743</u>

Depreciation expense for the years ended December 31, 2022 and 2021 was approximately \$451,000 and \$503,000, respectively, which includes approximately \$69,000 and \$91,000 of amortization expense related to finance leases for the years ended December 31, 2022 and 2021, respectively.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

#### Note 3. Intangible Assets

Intangible assets consisted of the following as of December 31, 2022 and 2021:

	December 31, 2022		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Development rights	\$ 179,708	\$ 179,708	\$ -
Trademark	<u>94,115</u>	<u>56,469</u>	<u>37,646</u>
	<u>\$ 273,823</u>	<u>\$ 236,177</u>	<u>\$ 37,646</u>

  

	December 31, 2021		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Development rights	\$ 179,708	\$ 179,708	\$ -
Trademark	<u>94,115</u>	<u>47,057</u>	<u>47,058</u>
	<u>\$ 273,823</u>	<u>\$ 226,765</u>	<u>\$ 47,058</u>

Amortization expense for the years ended December 31, 2022 and 2021 was approximately \$9,000 and \$32,000, respectively. The estimated amortization of intangible assets for the years subsequent to December 31, 2022, is as follows:

2023	\$ 9,412
2024	9,412
2025	9,412
2026	<u>9,410</u>
	<u>\$ 37,646</u>

#### Note 4. Contract Balances

Contract balances related to contracts with customers consist of receivables, deferred franchise costs, and deferred revenue. See Note 1 for details on accounts receivable.

Deferred franchise costs (contract asset) consist of commissions and other direct costs relating to initial franchise fees, developmental agreements, and license fees for which revenue has not been recognized. Deferred franchise revenue (contract liability) represents that portion of the total revenue from initial franchise, license, and development agreements attributable to services required to be provided by the Company that have not yet been performed.

The opening balance of deferred franchise costs and deferred franchise revenue as of January 1, 2021 was approximately \$3,911,000 and \$11,087,000, respectively.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

#### Note 5. Leases

The Company leases its warehouse facilities, studio, Company-owned gyms and office equipment under operating lease agreements that mature between September 2023 and December 2030. Some leases include one or more options to renew, generally at the Company's sole discretion, with renewal terms that can extend the lease term up to 10 years. In addition, certain leases contain termination options, where the rights to terminate are held by either the Company, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Company will exercise that option. The Company's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

The Company also leases its office facilities in Simpsonville, South Carolina under finance leases, which including renewals, expire between March 2048 and July 2049. The interest rate implicit on these leases is 3.95%. The Company's finance leases generally do not contain any material restrictive covenants or residual value guarantees. The right-of-use assets associated with the Company's finance leases are included as a component of property and equipment, net on the accompany consolidated balance sheets.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term. The components of lease expense are as follows for the year ended December 31, 2022:

Operating lease cost	\$	342,363
Finance lease cost – amortization of ROU assets		69,365
Finance lease cost – interest on lease liabilities		80,026
Short-term/variable lease cost		<u>73,743</u>
	\$	<u>565,497</u>

Total rent expense for operating leases was approximately \$312,000 for the year ended December 31, 2021.

Supplemental cash flow information related to leases is as follows for the year ended December 31, 2022:

Cash paid for amounts included in measurement of lease liabilities:		
Operating cash outflows – payments on operating leases	\$	335,436
Financing cash outflows – payments on finance leases	\$	99,227
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	\$	128,697

The weighted-average remaining lease term and weighted-average discount rate at December 31, 2022 are as follows:

	<u>Operating Leases</u>	<u>Finance Leases</u>
Weighted-average remaining lease term	4.6 years	25.7 years
Weighted-average discount rate	5.31%	3.95%

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

#### Note 5. Leases, Continued

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of December 31, 2022:

	<u>Operating Leases</u>	<u>Finance Leases</u>
2023	\$ 347,331	\$ 101,210
2024	291,482	103,234
2025	264,296	105,299
2026	218,280	107,405
2027	193,703	109,553
Thereafter	<u>59,411</u>	<u>2,821,678</u>
Total lease payments	1,374,503	3,348,379
Less imputed interest	<u>(161,167)</u>	<u>(1,333,063)</u>
Total present value of lease liabilities	<u>\$ 1,213,336</u>	<u>\$ 2,015,316</u>

Future minimum lease commitments, as determined under Topic ASC 840, for all non-cancellable leases are as follows as of December 31, 2021:

	<u>Operating Leases</u>	<u>Capital Leases</u>
2022	\$ 319,707	\$ 99,226
2023	295,019	101,210
2024	238,667	103,234
2025	210,914	105,299
2026	176,266	107,405
Thereafter	<u>238,414</u>	<u>2,931,231</u>
Total minimum lease payments	<u>\$ 1,478,987</u>	<u>\$ 3,447,605</u>

#### Note 6. Paycheck Protection Program

In February 2021, the Company executed a term note with a financial institution in the principal amount of approximately \$576,000 pursuant to a second draw Paycheck Protection Program (“PPP”) loan which provided additional support under the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the “Economic Aid Act”). The term of the PPP loan was for five years with an interest rate of 1.0% per annum, which payments could be deferred up to the first sixteen months of the term of the loan. After the initial deferral period, the loan required monthly payments of principal and interest until maturity with respect to any portion of the PPP loan which was not forgiven. A PPP loan recipient may apply for, and be granted, forgiveness for all or a portion of the loan granted under the program. Such forgiveness was determined based upon the use of loan proceeds for payroll costs, rent and utility costs, and the maintenance of employee and compensation levels. In May 2022, the Small Business Administration approved the Company’s application for forgiveness and remitted payment to the lender for the full amount. Accordingly, the Company recognized a gain on forgiveness of debt at the time totaling \$576,070. This gain is included as a component of other income (expense) on the accompanying statements of operations and comprehensive income.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

#### Note 7. Income Taxes

The Company is taxed as a partnership under the provisions of Subchapter K of the Internal Revenue Code. Consequently, federal income taxes are not provided for or payable by the Company. 9Round International, LLC is a single member LLC and, as such, is treated as a division of 9Round Franchising, LLC for federal income tax purposes. Because of its status, the Company is disregarded as a separate entity for income tax purposes, therefore the Company itself does not file an income tax return separate and apart from its parent, 9Round Franchising, LLC. 9Round Franchising, LLC files income tax returns in the U.S. federal jurisdiction, and the various states in which it operates. 9Round Franchising, LLC is subject to routine audits by taxing jurisdictions. 9Round Franchising, LLC believes it is no longer subject to income tax examinations for the years prior to 2019.

The Company is considered a non-resident in foreign jurisdictions and is subject to corporate withholding taxes for payments of royalties and similar payments made by its foreign franchisees.

In accordance with FASB ASC 740-10, *Income Taxes*, 9Round Franchising, LLC is required to disclose uncertain tax positions. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.

9Round Franchising, LLC has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. 9Round Franchising, LLC believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on its financial condition, results of operations or cash flows. Accordingly, 9Round Franchising, LLC has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2022 and 2021.

9Rfranchising Canada, ULC is taxed as a general corporation under the Canadian federal tax regulations, and for the years ending December 31, 2022 and 2021, 9Rfranchising Canada, ULC was subject to provincial taxes. 9Rfranchising Canada, ULC is solely owned by 9Round Attic Holdings, LLC, and as such, is treated as a disregarded entity for U.S. federal income tax purposes. The activity of 9Rfranchising Canada, ULC is reported on the U.S. partnership income tax returns.

9Rfranchising Canada, ULC files income tax returns in the Canadian federal jurisdiction. 9Rfranchising Canada, ULC is subject to routine audits by taxing jurisdictions. 9Rfranchising Canada, ULC is no longer subject to income tax examinations for the years prior to 2019.

The income tax expense consisted of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Current:		
Foreign	\$ 8,178	\$ 8,955
Deferred:		
Foreign	<u>28,737</u>	<u>20,510</u>
Income tax expense	<u>\$ 36,915</u>	<u>\$ 29,465</u>

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

#### Note 7. Income Taxes, Continued

Deferred income taxes are provided for temporary differences between the basis of assets and liabilities for financial reporting purposes and income tax purposes.

The components of the net deferred tax asset as of December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Deferred tax asset:		
Deferred revenue	\$ 156,292	\$ 224,050
Deferred tax liability:		
Deferred franchise costs	<u>(101,282)</u>	<u>(140,303)</u>
Net deferred tax asset	<u>\$ 55,010</u>	<u>\$ 83,747</u>

In accordance with FASB ASC 740-10, *Income Taxes*, 9RFranchising Canada, ULC is required to disclose uncertain tax positions. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.

9RFranchising Canada, ULC has analyzed tax positions taken for filing with the Canadian Revenue Agency. Subsequent to December 31, 2022, the Canadian Revenue Agency assessed 9RFranchising Canada, ULC for failure to withhold under Part XIII of the Income Tax Act for the years 2015-2021. In connection with this assessment, the 9RFranchising Canada, ULC has recorded an accrual of \$188,213 included in accrued expenses on the accompanying consolidated balance sheet as of December 31, 2022 and an expense of the same amount recorded in other operating expenses on the accompanying consolidated statement of operations and comprehensive income for the year ended December 31, 2022. 9RFranchising Canada, ULC has filed an objection with the Canadian Revenue Agency. The liability is subject to change and it is possible that the amount will differ from the amounts recorded. Any resulting adjustment will be recorded in the period incurred.

#### Note 8. Related Party Transactions

The majority members of the Company own an interest in H&S Empire, LLC ("H&S"). The Company leases its main office facilities from H&S under finance lease agreements (Note 5). During the years ended December 31, 2022 and 2021, the Company made cash payments totaling \$99,227 and \$117,637, respectively, to H&S under these finance lease agreements. The Company also leases three studio locations from H&S under operating leases. During the years ended December 31, 2022 and 2021, the Company made cash payments totaling \$50,196 and \$49,610, respectively, to H&S under these operating lease agreements.

At December 31, 2022 and 2021, the Company had receivables of approximately \$21,000 and \$10,000, respectively, from related parties with common ownership. These amounts have been recorded in current assets in the accompanying consolidated balance sheets as payment is expected within one year from the consolidated balance sheet date.

## 9Round Franchising, LLC

### Notes to Consolidated Financial Statements

December 31, 2022 and 2021

#### Note 9. Summary of Franchises

The following is a summary of changes in the number of U.S. franchises during the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Outlets in operation at beginning of year	445	494
Outlets opened during the year	7	16
Outlets terminated or closed during the year	<u>(81)</u>	<u>(65)</u>
Outlets in operation at end of year	<u>371</u>	<u>445</u>
Franchised outlets	365	439
Affiliate and company owned outlets	6	6

#### Note 10. Employee Retention Credit

The Employee Retention Credit (“ERC”) program was created under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and was significantly modified, expanded and extended into the first two quarters of calendar year 2021 by the Consolidated Appropriations Act, 2021 (the “Act”). The goal of the ERC program is to encourage employers to retain and continue paying employees during periods of pandemic-related reductions in business volume even if those employees are not actually working, and therefore, are not providing a service to the employer. Under the Act, eligible employers could take credits up to 70% of qualified wages with a limit of \$10,000 per employee per quarter for the first two quarters of calendar year 2021. In order to qualify for the ERC, organizations have to experience at least a 20% drop in gross receipts in the quarter compared to the same quarter in calendar year 2019. The American Rescue Plan Act of 2021 extended the ERC to the third quarter of calendar year 2021.

During 2022, the Company claimed an ERC of approximately \$1,126,000 with the Internal Revenue Service. Approximately \$881,000 pertained to 2021 qualified wages and approximately \$245,000 pertained to 2020 qualified wages. Management believes that the claim is in alignment with applicable regulatory criteria, the amounts are known and realizable, and receipt of the refundable ERC is probable. As such, the Company recognized this amount within other income (expense) in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2022. The total amount of ERC claimed by the company in 2022 is included as a receivable on the consolidating balance sheet as of December 31, 2022. As of the date that the consolidated financial statements were available to be issued the Company had received approximately \$260,000 of the total credit receivable. The remaining credit is expected to be received in the year ended December 31, 2023.

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**9Round Franchising, LLC**

*Notes to Consolidated Financial Statements*

*December 31, 2022 and 2021*

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**Note 11. Commitments and Contingencies**

Various legal actions and claims which have arisen in the normal course of business may be pending against the Company from time to time. It is the opinion of management that the ultimate resolution of these contingencies will not have a material effect on the financial condition, results of operations or liquidity of the Company.

Additionally, it is reasonably possible that estimates made in the consolidated financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including losses on inventory and impairment losses related to other long-lived assets.

**ADDENDUM TO I LOVE KICKBOXING FRANCHISE AGREEMENT FOR  
THE STATE OF MARYLAND**

Even though there may be terms in ~~the disclosure document or the both the Standard Franchise Agreement and Lightweight~~ Franchise Agreement to the contrary, the following provisions will apply to franchisees protected by terms of the Maryland Franchise Registration and Disclosure Law:

1. ~~The statement in the Franchise Agreement which provides for termination upon bankruptcy of the franchisee may bring a lawsuit in Maryland for claims arising not be enforceable under the Maryland Franchise Registration and Disclosure Law; federal bankruptcy law (11 U.S.C. Section 101 et seq.).~~

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

3. Any general release required as a condition of renewal, sale, or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

4. Based upon franchisor’s financial condition, the Maryland Securities Commissioner has required a financial assurance. Therefore, all initial fees and payments owed by franchisees shall be deferred until the franchisor completes its pre-opening obligations under the franchise agreement.

5. The Standard Franchise Agreement and Lightweight Franchise Agreement are amended to add:  
“Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.”

Each of the undersigned hereby acknowledges having read and understood this Addendum and consents to be bound by all of its terms.

**FRANCHISEE:** (For an entity)

Name of Entity: \_\_\_\_\_

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

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

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

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

**FRANCHISEE:** (For an individual)

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

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

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

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

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

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

**FRANCHISOR:**

9ROUND HOLDING COMPANY, LLC d/b/a  
I LOVE KICKBOXING

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

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

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

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

**ADDENDUM TO I LOVE KICKBOXING FRANCHISE AGREEMENT AND RELATED  
AGREEMENTS FOR  
THE STATE OF WASHINGTON**

This Addendum pertains to both Standard and Lightweight franchises sold in the State of Washington and is for the purpose of complying with Washington statutes and regulations. Notwithstanding anything which may be contained in the body of ~~the~~both the Standard Franchise Agreement and Lightweight Franchise Agreement to the contrary, the ~~Agreement is~~Agreements are amended as follows:

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.
2. RCW 19.100.180 may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.
3. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of the franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
4. A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or right or remedies under the Act such as right to a jury trial, may not be enforceable.
5. Under the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW the following revisions are made to the Standard Franchise Agreement, the Lightweight Franchise Agreement, and any related agreements:
  - a. “Reasonable Business Judgement” as defined in both the Standard and Lightweight Franchise Agreement and Section 15H(iii) does not modify the franchisor’s duty to deal with franchisees in good faith under RCW 19.100.180(1).
  - b. Section 4.B of the Franchise Agreement is amended to state that any release signed by a renewing franchisee does not apply with respect to claims arising under the Washington Franchise Investment Protection Act, RCW 19.100, or the rules adopted thereunder.
  - c. Section 11.C(vi) of the Franchise Agreement is amended to state that any release signed by a transferring franchisee does not apply with respect to claims arising under the Washington Franchise Investment Protection Act, RCW 19.100, or the rules adopted thereunder.
  - d. Section 5 of the Renewal Addendum is revised to state that the release does not apply to with respect to claims arising under the Washington Franchise Investment Protect Act, RCW 19.100, or the rules adopted thereunder.
  - e. The General Release is revised to state that it does not apply with respect to claims arising under the Washington Franchise Investment Protection Act, RCW 19.100, or the rules adopted thereunder.

6. Section 10.B of the Franchise Agreement is amended to state that franchisees have no obligation to indemnify or hold harmless an indemnified party for losses to the extent that they are caused by the indemnified party's negligence, willful misconduct, strict liability, or fraud.

5.7. Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

6.8. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

7.9. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

10. Section 15.B (Waiver/Integration) of the Franchise Agreements do not apply in Washington.

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

**Use of Franchise Brokers.** The franchisor may use the services of franchise brokers to assist it in selling franchises. A franchise broker represents the franchisor and is paid a fee for referring prospects to the franchisor. Do not rely only on the information provided by a franchise broker about a franchise. Do your own investigation by contacting the franchisor's current and former franchisees to ask them about their experience with the franchisor.

Each of the undersigned hereby acknowledge having read and understood this Addendum and consents to be bound by all of its terms.

**FRANCHISEE:** (For an entity)

Name of Entity: \_\_\_\_\_

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

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

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

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

**FRANCHISEE:** (For an individual)

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

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

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

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

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

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

**FRANCHISOR:**

Brian Cook, Pamela Cook <sup>1</sup>	Forest Dr.				com
Kicksfit, Inc. Brian Cook, Pamela Cook <sup>1</sup>	5203 Commonwealth Centre Pkwy	Midlothian	VA	23112	bcook@ilovekickboxing.com
Jabcross, LLC Casey Bushey	2704 Virginia Beach Blvd.	Virginia Beach	VA	23452	757-918-8595
<b>Washington</b>					
<b>West Virginia</b>					
<b>Wisconsin</b>					
<b>Wyoming</b>					

Note 1. This Franchisee has entered into a Multi-Outlet Agreement.

### Franchisees with Signed Franchise Agreement, but Outlet not Open as of December 31, 2023

The information we have provided in this table was recorded by the predecessor company ILKB TOO LLC.

<b>Illinois</b>					
Chun Mei <u>ChenChen</u> <sup>1</sup>	TBD	Bloomington	IL	TBD	cchen@ilovekickboxing.com
<b>Maryland</b>					
Jagannadha <u>MaddaliMaddali</u> <sup>1</sup>	TBD	Laurel	MD	TBD	jagan@ilovekickboxing.com

### Franchisees Who Left the System as of December 31, 2023

The information we have provided in the following tables was recorded by the predecessor company ILKB TOO LLC.

The following is a list of former franchisees who had a franchise terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under a franchise agreement during our most recently completed year ending December 31, 2023, or who have not communicated with us within 10 weeks of the issuance date of this Franchise Disclosure Document.

#### Transfer of Interest:

Franchisee	City	ST	Phone or Email
David Hazard	Oldsmar	FL	813-343-8020
Tuong Luu	Trinity	FL	727-496-8588
Kelly Gollis	Evansville	IN	812-205-2646
Andrew Vulpis	Moore	OK	405-534-4779
Sarah Brown	Liverpool	NY	315-930-2700
Andrew Vulpis	Virginia Beach	VA	757-918-8595

#### Terminations:

Franchisee	City	ST	Phone or Email
Nando Ramamirtham	San Jose	CA	415-839-8572
Nando Ramamirtham	San Mateo	CA	415-839-8572
Ari Urera	Redondo Beach	CA	646-342-6797
Sanjay Chetwani, Saichin Rai	Concord	CA	408-407-9826
Andrew Vulpis	Lakewood	CO	757-918-8595

## STATE EFFECTIVE DATES

The following states 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 Franchise Disclosure Document is registered, on file, or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

State	Effective Date
California	<del>Pending</del> <u>November 26, 2024</u>
Hawaii	<del>Pending</del> <u>October 15, 2024</u>
Illinois	<del>Pending</del> <u>October 9, 2024</u>
Indiana	August 1, 2024
Maryland	Pending
Michigan	August 6, 2024
Minnesota	Pending
New York	October 10, 2024
North Dakota	October 3, 2024
Rhode Island	August 6, 2024
South Dakota	August 2, 2024
Virginia	<del>Pending</del> <u>November 25, 2024</u>
Washington	Pending
Wisconsin	July 31, 2024

In all other states, the effective date of this Franchise Disclosure ~~Document~~document is the issuance date of ~~July 31~~April 30, 2024.

**RECEIPT**

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain English. Read this disclosure document and all agreements carefully.

If 9Round Holding Company, LLC d/b/a I LOVE KICKBOXING offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale (or sooner if required by state law). New York requires that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If 9Round Holding Company, LLC d/b/a I LOVE KICKBOXING does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agencies listed in Exhibit A to this disclosure document.

Issuance Date: July 31, 2024

I acknowledge receiving this Franchise Disclosure Document issued on July 31, 2024, (or the date reflected on the State Effective Dates Page), which included the following exhibits:

**EXHIBIT A** – List of State Administrators and List of Agents for Service of Process; **EXHIBIT B** – Financial Statements; **EXHIBIT C** – Standard Franchise Agreement and Lightweight Franchise Agreement, Sample Renewal Addendum, and State-Specific Addenda; **EXHIBIT D** – Franchisee List; **EXHIBIT E** – Operating Manual Table of Contents; **EXHIBIT F** – Sample Membership Agreement; **EXHIBIT G** – Sample Form of General Release Agreement; **EXHIBIT H** –Receipts

Date FDD Received: \_\_\_\_\_ Signed\*: \_\_\_\_\_

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

Date FDD Received: \_\_\_\_\_ Signed\*: \_\_\_\_\_

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

\*Signed individually and as an authorized representative of the franchisee company.

FRANCHISE SELLER’S NAME AND CONTACT INFORMATION:

Shannon Hudson, 847 NE Main Street, Simpsonville, SC 29681, Phone: 864-962-4600.

Brian Burke, 847 NE Main Street, Simpsonville, SC 29681, Phone: 864-962-4600.

You should return one (1) copy of the signed receipt by signing and dating it, and either mailing it to 9Round Holding Company, LLC d/b/a I LOVE KICKBOXING at 847 NE Main Street, Simpsonville, SC 29681, or e-mailing it to legal@strikingbrands.com. You may keep the second copy for your records.

**Copy for Franchisee**

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**Copy for 9Round Holding Company, LLC d/b/a I LOVE KICKBOXING**