

FRANCHISE DISCLOSURE DOCUMENT



GloStation Franchising USA, Inc.
a Delaware corporation
4695 Chabot Drive, Suite 200
Pleasanton, California 94588
(925) 558-2768
franchise@sandboxvr.com
www.sandboxvr.com

As a franchisee, you will own and operate a Sandbox VR Business featuring live-action, hyper reality experiences, including virtual reality and physical adventures, with a full body tracking system. The total investment necessary to begin operation of a Sandbox VR Business is \$250,719 to \$1,875,464 net of tenant allowances that, as set forth in Item 7, typically cover between 44% and 100% of construction and leasehold expense. If negotiated with your landlord, such tenant allowances can reduce the total out-of-pocket initial investment, which otherwise could range from \$1,427,090 to \$2,890,038. This initial investment includes \$541,000 to \$577,000 that must be paid to the franchisor or designee. This initial investment also includes at least \$20,000 for a grand opening marketing program that must be paid to the franchisor or designee. We and you may choose to sign a Development Rights Agreement under which you will develop a number of Sandbox VR Businesses. We expect the Development Rights Agreement to cover between 2 and 10 Sandbox VR Businesses. The total investment necessary to enter into a Development Rights Agreement ranges from \$100,000 to \$180,000, consisting of a development fee paid to the franchisor. These figures do not include the initial investment necessary to open and begin operating Sandbox VR Businesses upon signing individual Franchise Agreements pursuant to a Development Rights Agreement.

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

You may wish to receive your Disclosure Document in another format that is more convenient for you. To discuss the availability of disclosures in different formats contact Lee Hebditch, our Director, Global Franchise Operations, at 4695 Chabot Drive, Suite 200, Pleasanton, California 94588, (925) 558-2768.

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

Buying a franchise is a complex investment. The information in this Disclosure Document can help you make up your mind. Information on franchising, such as "A Consumer's Guide to Buying a Franchise," which can help you understand how to use this Disclosure Document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance date of this Disclosure Document:

July 12, 2024.

exclusive franchisee, and from 2019 through 2023 he served as Franchise Development Manager for UN1T. Mr. Swinden is currently based in Riyadh, Saudi Arabia.

Item 3

LITIGATION

Vortex Gaming Ltd. and Vortex Gaming T1 Ltd. v. GloStation Franchising USA, Inc. dba Sandbox, No. CV-23-00694933-0000 (Sup. Ct. of Justice, Ontario)

Effective July 2, 2024, the parties agreed to a final settlement and release of the above referenced litigation and a related arbitration identified below involving Vortex Gaming Ltd. and Vortex Gaming T1 Ltd. (collectively, "Vortex"), our franchisees in Canada. By way of background, in January 2023, we issued notices of termination for failure to pay outstanding amounts with respect to several franchise agreements between us and Vortex. On February 17, 2023, Vortex filed an action in the Ontario Superior Court of Justice against us. The action sought: (a) an injunction restraining us from terminating or purporting to terminate the franchise agreements between us and Vortex; and (b) a declaration that any such termination or purported termination is ineffective or wrongful at law. Vortex's Notice of Motion and Statement of Claim alleged that we breached our franchise agreements with Vortex by terminating those franchise agreements before delivering certain equipment to Vortex. Vortex further alleges that we breached our statutory duty of fair dealing under Ontario's Arthur Wishart Act (Franchise Disclosure), 2000 (the "Wishart Act"). In addition to the injunction and declaration, Vortex sought CAD\$151,600,000 in damages, along with other incidental relief.

GloStation Franchising USA, Inc. v. Vortex Gaming Ltd. and Vortex Gaming T1 Ltd. (AAA Case No. 01-23-0001-0748).

On March 15, 2023, we filed a separate arbitration proceeding against Vortex with the American Arbitration Association, ~~*GloStation Franchising USA, Inc. v. Vortex Gaming Ltd. and Vortex Gaming T1 Ltd. (AAA Case No. 01-23-0001-0748).*~~ Our Demand for Arbitration sought a declaration that we properly terminated the franchise agreements at issue in the Canadian lawsuit and damages for breach of another franchise agreement that was not terminated. Vortex filed the same claims that are pending in the Canadian lawsuit as counterclaims in the arbitration proceeding and sought damages of CAD \$11,548,000. Although a final hearing was scheduled for late May 2024, the parties have since agreed to a final settlement of the dispute that resolved both the litigation and the arbitration.

Other than the foregoing litigation and arbitration, no litigation is required to be disclosed in this Item.

Item 4

BANKRUPTCY

GSUSA (case no. 1:20-bk-11435-MB) and our affiliates GloStation Core USA, Inc. (case no. 1:20-bk-11436-MB), Sandbox VR Topanga, LLC (case no. 1:20-bk-11434-MB), Sandbox VR Mission Valley, LLC (case no. 1:20-bk-11437-MB), Sandbox VR San Mateo, LLC (case no. 1:20-bk-11438-MB), Sandbox VR Cerritos, LLC (case no. 1:20-bk-11439-MB), Sandbox VR Ridge Hill, LLC (case no. 1:20-bk-11440-MB), Sandbox VR Austin, LLC (case no. 1:20-bk-11441-MB), Sandbox VR Colony, LLC (case no. 1:20-bk-11442-MB), Sandbox VR Oakbrook, LLC (case no.

1:20-bk-11443-MB), and Sandbox VR Pop-Up, LLC (case no. 1:20-bk-11444-MB) commenced voluntary chapter 11 bankruptcy reorganization cases in the United States Bankruptcy Court for the Central District of California (San Fernando Valley Division) on August 13, 2020. Before entering chapter 11, these entities and our Ultimate Parent entered a Plan Support Agreement (“PSA”) and Plan Term Sheet with their secured lenders (Silicon Valley Bank, Triple Point Capital, and Atel Ventures). Under the PSA and term sheet, the secured lenders agreed to restructure their debt and support the reorganization plan for the chapter 11 entities. The entities’ joint Chapter 11 plan was confirmed by the Court on November 25, 2020. The final decree closing the case was issued on February 11, 2021.

Other than these matters, no bankruptcy is required to be disclosed in this Item.

Item 5

INITIAL FEES

The initial fees payable to us under the Franchise Agreement and any Development Agreement identified in this Item 5 are a subset of the total investment necessary to begin operation of a Sandbox VR Business, which ranges from \$250,719 to \$1,875,464 net of tenant allowances that, as set forth in Item 7, typically cover between 44% and 100% of construction and leasehold expense. If negotiated with your landlord, such tenant allowances can reduce the total out-of-pocket initial investment, which otherwise could range from \$1,427,090 to \$2,890,038.

Franchise Agreement

When you sign the Franchise Agreement, you must pay us a lump sum initial franchise fee of \$50,000, less any amount credited toward the initial franchise fee under a Development Rights Agreement between us and you or your affiliate. This initial franchise fee is uniform and not refundable under any circumstances.

If you enter into a Development Rights Agreement, you must pay a development fee that varies depending upon the number of franchises Sandbox VR Businesses that the Development Rights Agreement authorizes you to open, a number that typically ranges from 2 to 10. The development fee for a Development Rights Agreement that grants rights to open 2 franchises is currently \$100,000, an amount equal to twice the initial franchise fee (currently \$50,000). For each additional franchise that the Development Rights Agreement authorizes you to open, the development fee is 20% of the initial franchise fee (currently \$50,000), *i.e.*, \$. When the Franchise Agreement for each Sandbox VR Business covered by the 10,000 per franchise, for a maximum of \$180,000 in the case of a Development Rights Agreement for 10 franchises Development Rights Agreement is signed, you will be obligated to pay the difference—if any—between the amount of the development fee for such franchise and the then current initial franchise fee. For example, if the initial franchise fee is still \$50,000 when you open the first two franchises covered by the Development Agreement, you will not owe an additional franchise fee for such units. If the amount of the initial franchise fee has increased, the amount due upon signing the Franchise Agreement will be the amount by which the then current initial franchise fee exceeds \$50,000. For subsequent Franchise Agreements, you will receive a credit against the initial franchise fee equal to the amount of the development fee paid for each such franchise (currently \$10,000 per franchise).

We will provide you up to 3 test fit layouts at no charge to confirm that a Sandbox VR Business can be operated at a proposed site. A test fit layout is a floor plan used to confirm that

specific space. Typically, 1 to 2 test fit layouts are required for each Sandbox VR Business. We will charge you a design services fee of \$3,000 per test fit layout for the 4th and each subsequent test fit layout (if any) for the Franchised Business. If we elect, at our option, to send our personnel to the site selection area to review, evaluate, and/or tour with you any proposed sites for the Franchised Business, you must reimburse us for our and our personnel's costs and expenses incurred for each visit (currently estimated to be between \$100 to \$3,000, depending on the location of the site selection area, but subject to increase if our costs increase).

Before you open the Franchised Business for business, we will provide an initial brand standard training program for your Managing Owner (defined in Item 15), your General Manager (defined in Item 15), and one assistant manager at the Franchised Business (the "Initial Training Program"). However, if the Managing Owner has attended and completed the Initial Training Program to our satisfaction under an existing franchise agreement with us, we will not require the Managing Owner to attend the Initial Training Program. At your option, additional personnel for the Franchised Business may attend the Initial Training Program. Except as otherwise described below, we provide the Initial Training Program to three (3) individuals associated with the Franchised Business at no charge. Additional members of the Franchised Business staff may participate, but we may charge a fee for each additional participant. We currently charge \$300 per day for each additional staff member. If we determine that you or any of your personnel cannot complete the Initial Training Program to our satisfaction, then we may require you or your personnel to attend additional training programs at your expense for which we may charge fees (currently \$300 per day per trainer). Training fees are not refundable under any circumstance.

Before you open the Franchised Business for business, you must purchase the initial virtual reality system hardware, including goggles, full-body tracking system, video surveillance, virtual reality experiences and related equipment (including props specific to the initial Experiences offered at the Franchised Business and various replacement parts) (collectively, the "Sandbox VR Start-Up Equipment Package") for each Holodeck at your Franchised Business. As of the date of this Disclosure Document, the price of each Sandbox VR Start-Up Equipment Package is between \$475,000 to \$500,000 (plus shipping, handling and export charges). Included in this cost is the installation fee to install and deploy each Sandbox VR Start-Up Equipment Package at the Franchised Business before opening (the "Installation Fee"). As of the date of this Disclosure Document, the Installation Fee is \$33,000 for a four (4) room store, which is equivalent to \$8,250 per room. You must pay \$125,000 per Holodeck for the Sandbox VR Start-Up Equipment Packages and Installation Fees. We expect that you will pay between \$475,000 to \$500,000 for four (4) rooms at your Franchised Business.

Before you open the Franchised Business for business, you must also spend at least \$20,000, which may be payable to us, on a grand opening marketing program as set forth in Item 7.

Development Rights Agreement

If you sign a Development Rights Agreement, you must pay us a development fee that varies depending upon the number of Sandbox VR Businesses you commit to develop (typically at least 2 and no more than 10) and that is based on the initial franchise fees in effect at the time you execute the Development Rights Agreement. The development fee is 100% of the initial franchise fee for the first 2 franchises and 20% of the initial franchise fee for additional franchises. The initial franchise fee is currently \$50,000, so that currently, the development fee will range between \$100,000 to \$180,000 if you commit to develop between 2 to 10 Sandbox VR Businesses (based on \$50,000 for the first 2 Sandbox VR Businesses and 20% of \$50,000 for each additional

Other than the preceding financial performance representations, we do not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Lee Hebditch, 4695 Chabot Drive, Suite 200, Pleasanton, California 94588, (925) 558-2768, the Federal Trade Commission, and the appropriate state regulatory agencies.

Item 20

OUTLETS AND FRANCHISEE INFORMATION

All numbers appearing in Tables 1 – 5 below are as of December 31 in each year. Our affiliate operates the Sandbox VR Businesses listed as “company-owned.”

Table No. 1
Systemwide Outlet Summary
For years 2021 to 2023

Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised	2021	0	1	+1
	2022	1	1	0
	2023	<u>71</u>	<u>92</u>	<u>2+1</u>
Company-Owned	2021	6	10	+4
	2022	10	23	+13
	2023	<u>2723</u>	<u>3531</u>	<u>+8</u>
Total Outlets	2021	6	11	+5
	2022	11	24	+13
	2023	<u>3424</u>	<u>4433</u>	<u>+109</u>

Table No. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years 2021 to 2023

Column 1 State	Column 2 Year	Column 3 Number of Transfers
All States	2021	0
	2022	0
	2023	0
Total	2021	0
	2022	0
	2023	0

Column 1 State	Column 2 Year	Column 3 Outlets at Start of the Year	Column 4 Outlets Opened	Column 5 Reacquired from Franchisees	Column 6 Outlets Closed	Column 7 Outlets Sold to Franchisees	Column 8 Outlets at End of the Year
Washington	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0
	2022	0	1	0	0	0	1
	2023	1	1	0	0	0	2
Total	2020	3	3	0	0	0	6
	2021	6	4	0	0	0	10
	2022	10	13	0	0	0	23
	2023	23	8	0	0	0	31

Table No. 5
Projected Openings As Of December 31, 2023

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Company- Owned Outlet in the Next Fiscal Year
Virginia	0	0	1
California	0	1	1
Florida	2	2	0
TOTALS	2	3	2

Exhibit F contains a list of the names of all of our franchisees as of July 12, 2024 and the addresses and telephone numbers of their Sandbox VR Businesses. In the future, we will also provide in Exhibit G, a list of the names, cities and states, and last known home or business telephone numbers of the franchisees who had an outlet terminated, transferred, canceled, or not renewed, or who otherwise voluntarily or involuntarily ceased to do business under a franchise agreement with us, during the previous fiscal year or who have not communicated with us within 10 weeks of our then current Disclosure Document's issuance date. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

No franchisees have signed agreements with confidentiality clauses during the last 3 years. There are no trademark-specific franchisee organizations associated with the Sandbox VR Business franchise network.

Table No. 6
Store Openings As Of December 31, 2023

End of the Applicable Year	Company- Owned	Franchised	Total by Year	Cumulative Total
2018	4	4	2	2

End of the Applicable Year	Company- Owned	Franchised	Total by Year	Cumulative Total
2019	5	1	6	8
2020	2	0	2	10
2021	5	1	6	16
2022	14	3	17	33
2023	8	5	13	46

Item 21

FINANCIAL STATEMENTS

Exhibit H contains our audited balance sheets as of December 31, 2023, 2022, and 2021 and the related statements of operations, member's equity, and cash flows for the years ended December 31, 2023, 2022, and 2021.

Item 22

CONTRACTS

The following agreements are exhibits to this Disclosure Document:

1. Franchise Agreement – Exhibit B
2. Development Rights Agreement – Exhibit C
3. Proprietary Software License Agreement – Exhibit D
4. Current Form of Release – Exhibit I
5. State-Specific Riders to Franchise Agreement – Exhibit J

Item 23

RECEIPT

Our and your copies of the Franchise Disclosure Document Receipt are the last pages of this Disclosure Document.