

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, and then if unresolved, litigation, only in the city and state where our principal headquarters is located (currently, Houston, Texas). Out-of-state litigation may force you to accept a less favorable settlement for disputes. It may also cost more to litigate with the franchisor in Houston, Texas than in your own state.
- 1.2. **Supplier Control.** You must purchase all or nearly all of the inventory or supplies that are necessary to operate your business from the franchisor, its affiliates or suppliers that the franchisor designates, at prices the franchisor or they set. These prices may be higher than prices you could obtain elsewhere for the same or similar goods. This may reduce the anticipated profit of your franchise business.

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.

(1) Type of Fee	(2) Amount	(3) Due Date	(4) Remarks
Ongoing Training Fee	Our then-current training fee for such programs, which is currently 2,000 per week	On demand	Payable if we develop additional training programs and require that you, your Operating Principal, and/or other staff or personnel attend such programs.
Annual Franchisee Meeting Fee	Our then-current attendance fee for the annual franchisee meeting, which is currently \$1,500	On demand	We may (but need not) hold annual franchisee meetings and reserve the right to charge our then-current attendance fees for such meetings.
Insurance/Trade Account Fees	Reimbursement of our actual costs Variable	On demand	<p>If you fail to purchase insurance according to the requirements of the Franchise Agreement, and we purchase insurance on your behalf, you will immediately pay or reimburse us for the required premiums. You will also pay us a reasonable fee for the efforts we undertook to obtain such insurance.</p> <p>If you do not maintain your trade accounts, we may pay any or all of the accounts on your behalf, and you will make immediate repayment to us.</p>
Brand Payment Programs	Variable The then-current fees and costs charged by third-party vendors	On demand	We may require you to participate in pre-paid system programs (gift cards, gift certificates, etc.), customer loyalty programs, membership/subscription programs, customer incentive programs, customer online ordering programs, and/or mobile application programs. You will be responsible for the expenses, technology, and equipment required to participate in such programs.
Loyalty Program	The then-current cost, currently: \$110 per month per Shop	As incurred	The fees associated with the Loyalty Program are payable to our third-party designated vendor (currently Paytronix) and subject to change.
Cost of Enforcement or Defense	Variable Reimbursement of our actual costs	On demand	If we are the prevailing party in any action arising out of or relating to the Franchise Agreement or the relationship between you and us, we are entitled to recover from you all damages, costs and expenses, including court costs and reasonable attorneys' fees, incurred by us in successfully enforcing any provision of our agreements with you. If we incur attorneys' fees or other expenses in seeking enforcement of our agreements, you will be required to reimburse us for our reasonable costs and expenses, including attorneys' fees. See Note 4.

ITEM 21 FINANCIAL STATEMENTS

Our audited financial statements as of December 31, 2021, December 31, 2022 and December 31, 2023, and our unaudited interim financial statements as of _____, April 28, 2024, are in Exhibit C.

ITEM 22 CONTRACTS

The following agreements and other required exhibits are attached to this disclosure document in the pages immediately following:

Exhibit A	Franchise Agreement with Exhibits A – Shop Location B – Required Provisions for Lease Rider C – Confidentiality/Non-Competition Agreement D – Statement of Ownership E – Guarantee of Franchise Agreement F – Acknowledgement Addendum G – Electronic Funds Transfer Form H – State Addenda to Franchise Agreement
Exhibit B	Multi-Shop Development Agreement with Exhibits A – Development Schedule and Development Fee B – Development Area C – Statement of Ownership D – Guarantee of Multi-Shop Development Agreement E – Confidentiality/Non-Competition Agreement F – State Addenda to Multi-Shop Development Agreement
Exhibit C	Current Form of General Release
Exhibit I	State Addenda to Disclosure Document

ITEM 23 RECEIPTS

You will find copies of a detachable receipt in Exhibit K at the very end of this disclosure document.

2. Contain no provision which in any way limits or reduces coverage for you if there is a claim by one or more of the Indemnitees.
3. Extend to and provide indemnity for all obligations assumed by you under this Agreement and all other items for which you are required to indemnify us under this Agreement.
4. Be primary to and without right of contribution from any other insurance purchased by the Indemnitees.
5. Provide, by endorsement, that we are entitled to receive at least 30 days prior written notice of any intent to reduce policy limits, restrict coverage, modify, cancel, not renew or otherwise alter or amend the policy.
6. Contain a waiver of subrogation rights against us, the other Indemnitees identified in Article 10, and any of our successors and/or assigns.
7. Be obtained from responsible insurance carriers acceptable to us which possess a Best's Insurance Guide rating of no less than "A- VII".

C. You May Not Reduce Insurance. You agree not to reduce the policy limits, restrict coverage, cancel or otherwise alter or amend any required insurance policy without our specific advance written consent, which may be denied for any or no reason.

D. Claims by Indemnitees. If there is a claim by any one or more of the Indemnitees against you, you must, upon our request, assign to us all rights which you then have or thereafter may have with respect to the claim against the insurer(s) providing the coverages described in this Section 9.01.

E. Our Rights to Modify to Insurance. You agree that we may periodically add to, modify or delete the types and amounts of insurance coverage which you are required to maintain under this Agreement, and all features and elements thereof, by written notice to you (through a Supplement to our Manual, or otherwise). Upon delivery or attempted delivery of this written notice, you agree to immediately purchase insurance conforming to any such newly established standards and limits.

9.02 Purchase of Insurance on Your Behalf. If you fail to purchase insurance conforming to the standards and limits we prescribe, we may (but we are not required to) obtain on your behalf the insurance necessary to meet these standards, through agents and insurance companies that we choose. If we do this, then you must immediately pay the required premiums or reimburse us for the premiums we advanced ~~and must also pay us a reasonable fee for the efforts we undertake to obtain such insurance for you.~~ Nothing contained in this Agreement will impose any duty or obligation on us to obtain or maintain any specific forms, kinds or amounts of insurance on your behalf.

9.03 No Undertaking or Representation. Nothing in this Agreement may be considered our undertaking or representation that the insurance that you are required to obtain or that we may obtain for you will insure you against any or all insurable risks of loss which may arise out of or in connection with the operation of the Shop. We advise you to consult with your insurance agent and other risk advisors regarding any types, amounts or elements of insurance coverage beyond those specified herein which may be prudent to obtain.

9.04 Certificates of Insurance. You agree to promptly provide us with certificates of insurance evidencing the required coverage no later than ten days before the date that the Shop will commence operations. You agree to renew all insurance policies and documents and to furnish a renewal certificate of insurance to us before the expiration date of the expiring policy in question. We may at any time require you to forward to us full copies of all insurance policies.

person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

8. NSF checks are governed by Minnesota Statute 604.113, which puts a cap of \$30 on service charges.

9. The provisions of this Addendum will be effective only to the extent that the jurisdictional requirements of the Minnesota Franchise Act and the Rules and Regulation promulgated thereunder are met independently of this Addendum.

109. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

911. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

FRANCHISEE:

FRANCHISOR:

**SHIPLEY FRANCHISE COMPANY
LLC**

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

ADDITIONAL DISCLOSURES FOR MINNESOTA

1. **Trademarks.** The following statement is added to Item 13:

Notwithstanding the foregoing, we will indemnify you against liability to a third party resulting from claims that your use of a Mark infringes trademark rights of a third party; provided, that we will not indemnify against the consequences of your use of the Marks unless the use is in accordance with the requirements of the Franchise Agreement and the System.

2. **Notice of Termination.** The following statement is added to Item 17:

With respect to franchises governed by Minnesota law, we will comply with Minnesota Statute § 80C.14, subdivisions 3, 4, and 5, which require, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the franchise agreements.

3. **Choice of Forum and Law.** The following statement is added to the State Cover page and Item 17:

Minnesota Statute § 80C.21 and Minnesota Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the disclosure document or agreements can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

4. **General Release.** The following statement is added to Item 17:

Minnesota Rule 2860.4400D prohibits us from requiring you to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statute §§ 80C.01 - 80C.22.

5. **Waiver of Right to Jury Trial.** The following statement is added to Item 17:

Minnesota Rule 2860.4400J, among other things, prohibits us from requiring you to waive your rights to a jury trial.

6. No statement, questionnaire or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship will have the effect of: (a) waiving any claims under any applicable state franchise law, including fraud in the inducement; or (b) 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.

7. NSF checks are governed by Minnesota Statute 60A.113, which puts a cap of \$30 on service charges.

8. Each provision of these Additional Disclosures will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Franchise Act are met independently without reference to these Additional Disclosures.

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

Shipley Franchise Company LLC
Balance Sheet
End of P4 2024

ASSETS

Current Assets

Cash and cash equivalents	1,414,275
Accounts Receivable	446,704
Due from affiliates	12,339,821
Prepays and other assets	245,326
Deferred commissions and costs	74,606
Total current assets	<u>14,520,731</u>

PROPERTY AND EQUIPMENT

1,747,103

NONCURRENT ASSETS

Deferred commissions and costs, net of current portion	459,112
Intangible assets, net	80,037,767
Operating lease right-of-use assets, net	30,769
Total noncurrent assets	<u>80,527,648</u>

TOTAL ASSETS

96,795,481

LIABILITIES AND MEMBERS EQUITY

Current Liabilities

Accounts payable	706,207
Accrued expenses	726,027
Deferred franchise fees	337,080
Current portion of lease liability	30,769
Total current liabilities	<u>1,800,083</u>

DEFERRED FRANCHISE FEES, net of current portion

4,478,342

MEMBER'S EQUITY

90,517,056

TOTAL LIABILITIES AND MEMBER'S EQUITY

96,795,481

Shipley Franchise Company LLC
Income Statement
From P1 2024 to P4 2024

REVENUES

Royalty fees	4,482,799
Marketing cooperative	1,022,274
Franchise fees	702,000
Total revenues	<u>6,207,073</u>

OPERATING EXPENSES

Depreciation and amortization	46,206
General and administrative expenses	4,526,361
Total operating expenses	<u>4,572,567</u>

OTHER (EXPENSES) INCOME

Interest expense	(2,493)
Miscellaneous income	10,944
Total other (expenses) income	<u>8,450</u>

Income before state income taxes 1,642,956

State income taxes 16,111

NET INCOME

1,626,845