**SUN TAN CITY®**

EXHIBIT "I" TO THE DISCLOSURE DOCUMENT

FY ~~2020~~2021 TO ~~2022~~2023 AUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED DECEMBER 31, ~~2022~~2023

[ATTACHED]

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~~GR~~AT H E R
~~&COMPANY~~
COHPAHY

SOLUTION-DRIVEN CPAs and Business Advisors

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**Suife 200**
**9100 Shefbgviffe *Ra.***
**Louisviffe, KY 40222**

CONSENT LETTER

We consent to the use in the Franchise Disclosure Document issued by STC Franchising, LLC on March 31, 2023, as it may be amended, ~~odour~~of our reports of independent auditors related to our audits of STC Franchising, LLC for the years ended December 31, 2023, 2022~~,~~ and 2021 ~~and 2020~~ which were dated March 21, 2024 and March 16, 2023~~ and~~ .

# STC FRANCHISING, LLC

## FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2023 AND 2022 with INDEPENDENT AUDITOR'S REPORT

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Louisville, KY 40222

SOLUTION-DRIVEN CPAs and Business Advisors

# |NDEPENDENTAUD|TOR'S REPORT

The Member
STC Franchising, LLC

## Opinion

We have audited the accompanying financial statements of STC Franchising, LLC (the Company), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, member's capital, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Company's financial position as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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.

## Management's Responsibility 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

March ~~15~~21, ~~2022.~~2024

Mather +

**STC FRANCHISING, LLC**

**BALANCE SHEETS**
**December 31, 2023 and 2022**

| | | 2023 | 2022 |
|---|---|---|---|
| | **ASSETS** | | |
| **Current assets** | | | |
| Cash | | $ 125,089 | $ 89,390 |
| Accounts receivable | | 358,143 | 372,801 |
| Other | | 33,416 | 38,541 |
| Total current assets | | 516,648 | 500,732 |
| Goodwill | | 257,000 | 257,000 |
| **Total assets** | | $ 773,648 | $ 757,732 |

**LIABILITIES AND MEMBER'S CAPITAL**

**Current liabilities**

| | | |
|---|---|---|
| Accounts payable | $ 11,474 | $ 9,953 |
| Current portion of contract liabilities | 19,278 | 37,369 |
| Payables to member and affiliated company | 90,885 | 69,650 |
| Total current liabilities | 121,637 | 116,972 |
| Long-term portion of contract liabilities | 39,834 | 59,112 |
| Member's capital | 612,177 | 581,648 |
| **Total liabilities and member's capital** | $ 773,648 | $ 757,732 |

See accompanying notes.

**STC FRANCHISING, LLC**

**STATEMENTS OF OPERATIONS**

**Years ended December 31, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| **Revenue** | | |
| Royalties and production fees | **$ 5,328,870** | $ 5,442,524 |
| Area development and initial franchise fees | **56,369** | 60,683 |
| Franchisee vendor rebates | **695,065** | 640,255 |
| Total revenue | **6,080,304** | 6,143,462 |
| **Operating expenses** General and administrative | **664,775** | 661,068 |
| Total operating expenses | **664,775** | 661,068 |
| **Net income** | **$ 5,415,529** | $ 5,482,394 |

**STC FRANCHISING, LLC**

**STATEMENTS OF MEMBER'S CAPITAL**

**Years ended December 31, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| Balance at beginning of year | **$ 581,648** | $ 604,182 |
| Net income | **5,415,529** | 5,482,394 |
| Distributions to member | **(5,385,000)** | (5,504,928) |
| **Balance at end of year** | **$ 612,177** | $ 581,648 |

See accompanying notes.

| STC FRANCHISING, LLC<br><br>STATEMENTS OF CASH FLOWS | | |
|---|---|---|
| Years ended December 31, 2023 and 2022 | | |
| | **2023** | 2022 |
| **Cash flows from operating activities** | | |
| Net income | **$ 5,415,529** | $ 5,482,394 |
| Adjustments to reconcile net income to net | | |
| cash provided by operating activities:<br>Changes in operating assets and liabilities: | | |
| Accounts receivable | **14,658** | 45,383 |
| Other current assets | **5,125** | (740) |
| Accounts payable | **1,521** | (5,416) |
| Contract liabilities | **(37,369)** | (50,683) |
| Payables to member and affiliated company | **21,235** | 34,986 |
| Net cash provided by operating activities | **5,420,699** | 5,505,924 |
| **Cash flows from financing activities** | | |
| Distributions to member | **(5,385,000)** | (5,504,928) |
| Net cash used in financing activities | **(5,385,000)** | (5,504,928) |
| **Net increase in cash** | **35,699** | 996 |
| Cash at beginning of year | **89,390** | 88,394 |
| **Cash at end of year** | **$ 125,089** | $ 89,390 |

See accompanying notes.

## 1. Nature of business and summary of significant accounting policies

***Nature of business*** – STC Franchising, LLC (the Company) is a wholly-owned subsidiary of STC Consolidated Operations, LLC (STC Consolidated) and is part of a collection of entities affiliated through ownership and management that invest in, operate, and franchise tanning salons under the name Sun Tan City. The Company is licensed as the franchisor of the Sun Tan City tanning salon brand. Under franchise agreements, the Company is responsible for the performance of various services including provision of operational information and guidance, site location assistance, training, and marketing programs. The Company has franchise agreements in various states with concentrations in Iowa, Maine, Missouri, Nebraska, New Jersey, North Carolina, Tennessee, Virginia, and Wisconsin.

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

***Fair value measurements*** – The Company applies the *Fair Value Measurement* topic of the Accounting Standards Codification (ASC) which requires companies to determine fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The *Fair Value Measurement* topic emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and applies in conjunction with other ASC topics that require or permit fair value measurements and disclosures. Impacted assets and liabilities are measured and disclosed in one of three categories based on the significance and source of the inputs to their valuation. The hierarchy consists of three broad levels: Level 1, Level 2, and Level 3. Level 1 inputs have the highest priority and consist of observable unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access. Level 2 inputs include: a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets or liabilities in inactive markets; c) inputs other than quoted prices that are observable for the asset or liability; and d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs have the lowest priority, are unobservable, and include judgments about the assumptions that market participants would use in pricing the asset or liability.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to its fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. Management uses specific valuation techniques based on the available inputs to measure the fair values of the Company's impacted assets and liabilities. When available, management measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The valuation methods used by the Company may produce fair value calculations that may not be indicative of net realizable values, or reflective of future fair values. Furthermore, while management believes the valuation methods utilized are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair values of certain assets and liabilities could result in different fair value measurements as of December 31, 2023 and 2022.

***Revenue recognition*** – The Company's revenue is comprised of franchise royalty and production fees, initial franchise fees, area development fees; and rebates from certain product suppliers based on product purchases by the Company's franchisees.

Revenue from franchise royalty and production fees, initial franchise fees, and area development fees is recognized in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. Accordingly, such revenue is recognized when promised goods and services are transferred to customers in an amount that reflects consideration to which the Company expects to be entitled in exchange for those goods and services utilizing the following five-step process:

*Identify the contract(s) with a customer* – The Company's management has identified franchise agreements and area development agreements with its franchisees as contracts related to the sources of franchise revenue identified above. A contract with a franchisee is generally considered to occur when the Company agrees to grant certain rights to use its intellectual property to the franchisee over the term of the related agreement. Management has determined collectability of royalty and production fees, and initial franchise fees is probable because such amounts are retained from revenues collected by the Company on behalf of the Company's franchisees before remittance to such franchisees. Collection of area development fees occurs at or near the execution date of an area development agreement and is therefore determined by management to be probable.

*Identify the performance obligations in each contract* – Management has determined the contract types identified above have single performance obligations. Because the Company's granting of certain rights to use its intellectual property over the term of a franchise agreement and substantially all other services the Company provides under such an agreement are highly interrelated and not distinct within the agreement (including insignificant pre-opening services), management has determined they are to be accounted for as a single performance obligation. Management has determined the single performance obligation under an area development agreement to be the granting of exclusive salon development rights within specified geographical areas.

*Determine the transaction price* – Management has determined the transaction prices for the Company's contract types identified above to be the amounts identified in the respective agreements.

*Allocate the transaction price to the performance obligations in each contract* – Allocation of the transaction price to performance obligations is not necessary as management has determined the Company's contracts contain a single performance obligation as described above.

*Recognize revenue when or as a performance obligation is satisfied* – Royalty and production fees are based upon a percentage of monthly franchise salon sales over the term of the related franchise agreement and are recognized at a point in time as franchise salon sales occur. Nonrefundable one-time fees from franchisees in the form of initial franchise fees and area development fees are recognized as revenue on a straight-line basis over the term of the respective agreement. Upon default under an area development agreement, the Company may reacquire the rights pursuant to the agreement, and all remaining unamortized revenue is recognized at that time.

Revenue from franchise vendor rebates is not generated from contracts with customers and therefore is recognized in accordance with ASC Topic 605, *Revenue Recognition*. Accordingly, such revenue is recognized on the accrual basis.

***Accounts receivable*** – Accounts receivable primarily represent royalties and production fees, and unpaid franchisee vendor rebates and are recognized when the Company's right to consideration is unconditional.

For the year ended December 31, 2023, the Company carries its accounts receivable at the amount management considers to be collectible. Credit losses are provided for on the basis of anticipated collection losses. The estimated losses are determined from historical collection experience, review of current period outstanding accounts receivable, and projection of future activity in the allowance for credit losses. As of December 31, 2023, the Company's management does not anticipate any collection losses. Accordingly, no allowance for credit losses is recorded as of December 31, 2023. There was no provision for expected credit losses, no write-offs, or any recoveries collected during the year ended December 31, 2023. The Company does not accrue interest on accounts receivable. Delinquent status for franchisee-related receivables is based on the franchisee's failure to follow the contractual payment terms specified in the related franchise agreement. Accounts receivable are written off when management has exhausted collection attempts and concludes the amounts are uncollectible.

For the year ended December 31, 2022, management provided an allowance for doubtful accounts based on its assessment of collectability of specific accounts. As of December 31, 2022, the Company's management believed all accounts receivable were fully collectible. Accordingly, no allowance for doubtful accounts was recorded as of December 31, 2022.

***Goodwill*** – Goodwill represents the excess of acquisition costs over the amounts allocated to assets acquired. Management has elected to evaluate goodwill annually for possible impairment utilizing qualitative factors to determine whether it is more likely than not that the fair value of a franchise agreement is less than it's carrying amount. If management determines through its qualitative factors analysis that it is more likely than not that the fair value of a franchise agreement is less than it's carrying amount, management compares the fair value of the franchise agreement to its carrying amount, including related goodwill. If this comparison reflects impairment, then the loss is measured as the excess of recorded goodwill over the carrying amount of the related franchise agreement. If quantitative analysis is warranted, management utilizes discounted cash flow analysis. Management's annual goodwill evaluation relies on Level 3 inputs including estimates and assumptions regarding future franchisee operating results, cash flows, changes in market and industry conditions, and profitability, among others. Although management believes the estimates and assumptions used to evaluate goodwill are reasonable, the use of different methodologies or assumptions to perform the evaluations could result in different fair value determinations. No goodwill impairment loss has been recognized for the years ended December 31, 2023 and 2022.

***Income taxes*** – The Company is a disregarded entity for income tax reporting purposes. Accordingly, its results are included with STC Consolidated in its federal and state income tax returns. STC Consolidated is a limited liability company taxed as a partnership in accordance with the Internal Revenue Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements because those taxes are the responsibility of STC Consolidated's members. The Company's allocable portion of local income taxes is paid by STC Consolidated and is not included in the accompanying financial statements. If the Company's allocable portion of local income taxes was included in the accompanying financial statements, its inclusion would not have a significant impact on the Company's financial position as of December 31, 2023 and 2022, or on the results of its operations and its cash flows for the years then ended.

GAAP requires management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) if the Company has taken uncertain tax positions that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken by the Company and STC Consolidated and has concluded that as of December 31, 2023 and 2022, there are no uncertain positions taken, or expected to be taken, that would require recognition of a tax liability (or asset), or disclosure in the financial statements. The Company and STC Consolidated are subject to routine income tax audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Years ended December 31, 2023 through 2020 remain subject to Internal Revenue Service examination, and years ended December 31, 2023 through 2019 remain subject to examination by various states.

***Subsequent events –*** Management has evaluated subsequent events through March 21, 2024, the date which the financial statements were available for issue.

***New accounting pronouncement –*** In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses*, which amends ASC Topic 326. ASU 2016-13 requires financial assets (including receivables) to be measured at amortized cost and presented at the net amount expected to be collected. Thus, the statement of operations will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for years beginning after December 15, 2022. The Company adopted ASU 2016-13 for the year ended December 31, 2023 under the modified-retrospective approach. The adoption of ASU 2016-13 had no impact on the accompanying financial statements other than new/enhanced disclosures.

## 2. Accounts receivable

Accounts receivable as of December 31, 2023 and 2022 consist of the following:

| | 2023 | 2022 |
|---|---|---|
| Royalties and fees | $ 343,613 | $ 356,812 |
| Franchisee vendor rebates | 14,530 | 15,989 |
| Total accounts receivable | $ 358,143 | $ 372,801 |

Accounts receivable related to contracts with customers as of January 1, 2022 totaled $418,184.

## 3. Contract liabilities

Contract liabilities as of December 31, 2023 and 2022 consist of the following:

| | 2023 | 2022 |
|---|---|---|
| Unearned initial franchise fees | $ 59,112 | $ 96,481 |
| Less current portion | 19,278 | 37,369 |
| Long-term portion | $ 39,834 | $ 59,112 |

Contract liabilities as of January 1, 2022 totaled $147,164.

Expected future revenue recognition of contract liabilities for each of the years subsequent to December 31, 2023 is as follows:

| | |
|---|---|
| 2024 | $ 19,278 |
| 2025 | 13,084 |
| 2026 | 12,500 |
| 2027 | 8,750 |
| 2028 | 5,500 |
| Total contract liabilities | $ 59,112 |

## 4. Debt and related commitment and contingency

The Company, STC Consolidated, and certain affiliates (collectively, the Affiliates) have a loan agreement with a financial institution. The Affiliates are subject to certain restrictive covenants under the agreement. These covenants include a minimum financial ratio related to debt service coverage, certain financial reporting requirements, and certain restrictions regarding issuance of additional debt. The agreement also restricts the Affiliates from incurring lease obligations in excess of $1 million. The Affiliates' assets are cross-collateralized on all notes and obligations under the loan and security agreement. In addition, the Affiliates' ownership interests are pledged as security under the agreement. The loan agreement includes a term note and a line-of-credit. As of December 31, 2023, the outstanding balances to the Affiliates related to the term note and the line-of-credit total approximately $17.5 million and $5 million, respectively.

## 5. Franchises and salons

Franchisees operate under the Sun Tan City brand. Franchises total 35 and 32 as of December 31, 2023 and 2022, respectively.

The following table summarizes the franchisee salon activity for the years ended December 31, 2023 and 2022:

| | |
|---|---|
| Salons as of January 1, 2022 | 161 |
| Salons opened<br>Salons closed | -<br>1 |
| Salons as of December 31, 2022 | 160 |
| **Salons opened** | **11** |
| **Salons closed** | **6** |
| **Salons as of December 31, 2023** | **165** |

## 6. Related party transactions and balances

Certain officers and owners of entities affiliated with the Company have equity interests in entities that own franchised salons. Revenue from these related franchise entities total approximately $746,000 and $770,000 for the years ended December 31, 2023 and 2022, respectively, and related accounts receivable total approximately $44,000 and $43,000 as of December 31, 2023 and 2022, respectively.

The Company has a management service agreement with an affiliated entity. The management service agreement calls for fees to be paid to the affiliate to provide the Company certain legal, accounting, and other professional support services. Fees for services provided to the Company under the management service agreement total approximately $554,000 and $550,000 for the years ended December 31, 2023 and 2022, respectively, and are included in general and administrative expenses on the accompanying statements of operations.

## 7. Risks, uncertainties, and concentrations

The Company issues franchises for the Sun Tan City tanning salon brand. As a result, the Company's future revenue is dependent upon the success, growth, and support of the Sun Tan City tanning brand, and the Company's franchisees.

Accounts receivable from one franchisee represents approximately 15% of the Company's total accounts receivable as of December 31, 2023, and three franchisees represent approximately 45% of the Company's total accounts receivable as of December 31, 2022.

The Company's franchisees purchase certain tanning products from two suppliers. Product purchases from these suppliers represent a significant portion of total product purchases by the Company's franchisees. Management believes a reduction in availability from these suppliers would not have a significant adverse impact on the Company's franchisees' future product sales, or the Company's revenues or net income, as other suppliers of similar products exist and could be utilized as either additional product providers or as a replacement for the current primary product suppliers. Approximately 98% of the Company's franchisee vendor rebates revenue relates to franchisee purchases from these two vendors for the years ended December 31, 2023 and 2022.

## 8. Subsequent events

Subsequent to December 31, 2023, the Company renewed franchise agreements with certain of its franchisees related to 34 salons. The franchise agreements have 10-year terms.

# STC FRANCHISING, LLC

## FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021 with INDEPENDENT AUDITOR'S REPORT

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N A T H E R
*fi* CONPANY

Hather S Co. CPAs, LLC
Suite 200
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L.ouisvi\ie, KY 40222

## S REPORT

The Member
STC Franchising, LLC

**Opinion**

We have audited the accompanying financial statements of STC Franchising, LLC (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, member's capital, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Company's financial position 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 of Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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.

**Management's Responsibility 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

March 16, 2023

**STC FRANCHISING, LLC**

**BALANCE SHEETS**
**December 31, 2022 and 2021**

| | 2022 | 2021 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | $ 89,390 | $ 88,394 |
| Accounts receivable | 372,801 | 418,184 |
| Other | 38,541 | 37,801 |
| Total current assets | 500,732 | 544,379 |
| Goodwill | 257,000 | 257,000 |
| **Total assets** | $ 757,732 | $ 801,379 |

**LIABILITIES AND MEMBER'S CAPITAL**

| | 2022 | 2021 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable | $ 9,953 | $ 15,369 |
| Current portion of contract liabilities | 37,369 | 50,683 |
| Payables to member and affiliated company | 69,650 | 34,664 |
| Total current liabilities | 116,972 | 100,716 |
| Long-term portion of contract liabilities | 59,112 | 96,481 |
| Commitments and contingencies | | |
| Member's capital | 581,648 | 604,182 |
| **Total liabilities and member's capital** | $ 757,732 | $ 801,379 |

See accompanying notes.

**STC FRANCHISING, LLC**

**STATEMENTS OF OPERATIONS**

**Years ended December 31, 2022 and 2021**

| | | |
|---|---|---|
| | **2022** | 2021 |
| **Revenue** | | |
| Royalties and production fees | **$ 5,442,524** | $ 5,196,063 |
| Area development and initial franchise fees | **60,683** | 104,317 |
| Franchisee vendor rebates | **640,255** | 861,386 |
| Total revenue | **6,143,462** | 6,161,766 |
| **Operating expenses** General and administrative | **661,068** | 570,584 |
| Total operating expenses | **661,068** | 570,584 |
| **Net income** | **$ 5,482,394** | $ 5,591,182 |

**STC FRANCHISING, LLC**

**STATEMENTS OF MEMBER'S CAPITAL**

**Years ended December 31, 2022 and 2021**

| | | |
|---|---|---|
| | **2022** | 2021 |
| Balance at beginning of year | **$ 604,182** | $ 413,000 |
| Net income | **5,482,394** | 5,591,182 |
| Distributions to member | **(5,504,928)** | (5,400,000) |
| **Balance at end of year** | **$ 581,648** | $ 604,182 |

See accompanying notes.

**STC FRANCHISING, LLC**

**STATEMENTS OF CASH FLOWS**

**Years ended December 31, 2022 and 2021**

| | **2022** | 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | **$ 5,482,394** | $ 5,591,182 |
| Adjustments to reconcile net income to net | | |
| cash provided by operating activities: Changes in operating assets and liabilities: | | |
| Accounts receivable | **45,383** | (1,935) |
| Other current assets | **(740)** | (37,175) |
| Accounts payable | **(5,416)** | 14,213 |
| Contract liabilities | **(50,683)** | (104,317) |
| Payables to member and affiliated company | **34,986** | (12,118) |
| Net cash provided by operating activities | **5,505,924** | 5,449,850 |
| **Cash flows from financing activities** | | |
| Distributions to member | **(5,504,928)** | (5,400,000) |
| Net cash used in financing activities | **(5,504,928)** | (5,400,000) |
| **Net increase in cash** | **996** | 49,850 |
| Cash at beginning of year | **88,394** | 38,544 |
| **Cash at end of year** | **$ 89,390** | $ 88,394 |

See accompanying notes.

## 1. Nature of business and summary of significant accounting policies

***Nature of business*** – STC Franchising, LLC (the Company) is a wholly-owned subsidiary of STC Consolidated Operations, LLC (STC Consolidated) and is part of a collection of entities affiliated through ownership and management that invest in, operate, and franchise tanning salons under the name Sun Tan City. The Company is licensed as the franchisor of the Sun Tan City tanning salon brand. Under franchise agreements, the Company is responsible for the performance of various services including provision of operational information and guidance, site location assistance, training, and marketing programs. The Company has franchise agreements in various states with concentrations in Iowa, Maine, Missouri, Nebraska, North Carolina, Tennessee, Virginia, and Wisconsin.

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

***Fair value measurements*** – The Company applies the *Fair Value Measurement* topic of the Accounting Standards Codification (ASC) which requires companies to determine fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The *Fair Value Measurement* topic emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and applies in conjunction with other ASC topics that require or permit fair value measurements and disclosures. Impacted assets and liabilities are measured and disclosed in one of three categories based on the significance and source of the inputs to their valuation. The hierarchy consists of three broad levels: Level 1, Level 2, and Level 3. Level 1 inputs have the highest priority and consist of observable unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access. Level 2 inputs include: a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets or liabilities in inactive markets; c) inputs other than quoted prices that are observable for the asset or liability; and d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs have the lowest priority, are unobservable, and include judgments about the assumptions that market participants would use in pricing the asset or liability.

An asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to its fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. Management uses specific valuation techniques based on the available inputs to measure the fair values of the Company's impacted assets and liabilities. When available, management measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The valuation methods used by the Company may produce fair value calculations that may not be indicative of net realizable values, or reflective of future fair values. Furthermore, while management believes the valuation methods utilized are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair values of certain assets and liabilities could result in different fair value measurements as of December 31, 2022 and 2021.

***Revenue recognition*** – The Company's revenue is comprised of franchise royalty and production fees, initial franchise fees, area development fees; and rebates from certain product suppliers based on product purchases by the Company's franchisees.

Revenue from franchise royalty and production fees, initial franchise fees, and area development fees is recognized in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. Accordingly, such revenue is recognized when promised goods and services are transferred to customers in an amount that reflects consideration to which the Company expects to be entitled in exchange for those goods and services utilizing the following five-step process:

*Identify the contract(s) with a customer* – The Company's management has identified franchise agreements and area development agreements with its franchisees as contracts related to the sources of franchise revenue identified above. A contract with a franchisee is generally considered to occur when the Company agrees to grant certain rights to use its intellectual property to the franchisee over the term of the related agreement. Management has determined collectability of royalty and production fees, and initial franchise fees is probable because such amounts are retained from revenues collected on behalf of the Company's franchisees before remittance to such franchisees. Collection of area development fees occurs at or near the execution date of an area development agreement and is therefore determined by management to be probable.

*Identify the performance obligations in each contract* – Management has determined the contract types identified above have single performance obligations. Because the Company's granting of certain rights to use its intellectual property over the term of a franchise agreement and substantially all other services the Company provides under such an agreement are highly interrelated and not distinct within the agreement (including insignificant pre-opening services), management has determined they are to be accounted for as a single performance obligation. Management has determined the single performance obligation under an area development agreement to be the granting of exclusive salon development rights within specified geographical areas.

*Determine the transaction price* – Management has determined the transaction prices for the Company's contract types identified above to be the amounts identified in the respective agreements.

*Allocate the transaction price to the performance obligations in each contract* – Allocation of the transaction price to performance obligations is not necessary as management has determined the Company's contracts contain a single performance obligation as described above.

*Recognize revenue when or as a performance obligation is satisfied* – Royalty and production fees are based upon a percentage of monthly franchise salon sales over the term of the related franchise agreement and are recognized at a point in time as franchise salon sales occur. Nonrefundable one-time fees from franchisees in the form of initial franchise fees and area development fees are recognized as revenue on a straight-line basis over the term of the respective agreement. Upon default under an area development agreement, the Company may reacquire the rights pursuant to the agreement, and all remaining unamortized revenue is recognized at that time.

Revenue from franchise vendor rebates is not generated from contracts with customers and therefore is recognized in accordance with ASC Topic 605, *Revenue Recognition*. Accordingly, such revenue is recognized on the accrual basis.

***Accounts receivable*** – Accounts receivable primarily represent royalties and production fees, and unpaid franchisee vendor rebates and are recognized when the Company's right to consideration is unconditional. Management provides an allowance for doubtful accounts based on its assessment of collectability of specific accounts. Delinquent status for franchisee-related receivables is based on the franchisee's failure to follow the contractual payment terms specified in the related franchise agreement. Delinquent status for receivables related to franchisee vendor rebates is based on the vendor's failure to follow agreed-upon payment terms. As of December 31, 2022 and 2021, the Company's management believes all accounts receivable are fully collectible. Accordingly, no allowance for doubtful accounts is recorded as of December 31, 2022 and 2021. Accounts receivable are written-off when management has exhausted collection attempts and concludes the amounts are uncollectible.

***Goodwill*** – Goodwill represents the excess of acquisition costs over the amounts allocated to assets acquired. Management has elected to evaluate goodwill annually for possible impairment utilizing qualitative factors to determine whether it is more likely than not that the fair value of a franchise agreement is less than it's carrying amount. If management determines through its qualitative factors analysis that it is more likely than not that the fair value of a franchise agreement is less than it's carrying amount, management compares the fair value of the franchise agreement to its carrying amount, including related goodwill. If this comparison reflects impairment, then the loss is measured as the excess of recorded goodwill over the carrying amount of the related franchise agreement. If quantitative analysis is warranted, management utilizes discounted cash flow analysis. Management's annual goodwill evaluation relies on Level 3 inputs including estimates and assumptions regarding future franchisee operating results, cash flows, changes in market and industry conditions, and profitability, among others. Although management believes the estimates and assumptions used to evaluate goodwill are reasonable, the use of different methodologies or assumptions to perform the evaluations could result in different fair value determinations. No goodwill impairment loss has been recognized for the years ended December 31, 2022 and 2021.

***Income taxes*** – The Company is a disregarded entity for income tax reporting purposes. Accordingly, its results are included with STC Consolidated in its federal and state income tax returns. STC Consolidated is a limited liability company taxed as a partnership in accordance with the Internal Revenue Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements because those taxes are the responsibility of STC Consolidated's members. The Company's allocable portion of local income taxes is paid by STC Consolidated and is not included in the accompanying financial statements. If the Company's allocable portion of local income taxes was included in the accompanying financial statements, its inclusion would not have a significant impact on the Company's financial position as of December 31, 2022 and 2021, or on the results of its operations and its cash flows for the years then ended.

GAAP requires management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) if the Company has taken uncertain tax positions that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken by the Company and STC Consolidated and has concluded that as of December 31, 2022 and 2021, there are no uncertain positions taken, or expected to be taken, that would require recognition of a tax liability (or asset), or disclosure in the financial statements. The Company and STC Consolidated are subject to routine income tax audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Years ended December 31, 2022 through 2019 remain subject to Internal Revenue Service examination, and years ended December 31, 2022 through 2018 remain subject to examination by various states.

***Subsequent events –*** Management has evaluated subsequent events through March 16, 2023, the date which the financial statements were available for issue.

***New accounting pronouncements –*** In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses*, which amends ASC Topic 326. ASU 2016-13 requires financial assets (including receivables) to be measured at amortized cost and presented at the net amount expected to be collected. Thus, the statement of operations will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for years beginning after December 15, 2022. The Company's management has not determined the impact, if any, the adoption of ASU 2016-13 may have on the Company's future financial statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which amends ASC Topic 350, *Intangibles – Goodwill and Other*. ASU 2017-04 modifies the concept of goodwill impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value, to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. ASU 2017-04 requires an entity to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, limited to the total amount of goodwill allocated to that reporting unit. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform

Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. ASU 2017-04 requires an entity to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments under ASU 2017-04 are to be applied on a prospective basis and are effective for years beginning after December 15, 2021. The Company's management adopted ASU 2017-04 for the year ended December 31, 2022. The adoption of ASU 2017-04 had no impact on the accompanying financial statements.

## 2. Accounts receivable

Accounts receivable as of December 31, 2022 and 2021 consist of the following:

| | **2022** | 2021 |
|---|---|---|
| Royalties and fees | **$ 356,812** | $ 398,668 |
| Franchisee vendor rebates | **15,989** | 19,516 |
| Total accounts receivable | **$ 372,801** | $ 418,184 |

## 3. Contract liabilities

Contract liabilities as of December 31, 2022 and 2021 consist of the following:

| | **2022** | 2021 |
|---|---|---|
| Unearned initial franchise fees | **$ 96,481** | $ 147,164 |
| Less current portion | **37,369** | 50,683 |
| Long-term portion | **$ 59,112** | $ 96,481 |

Expected future revenue recognition of contract liabilities for each of the years subsequent to December 31, 2022 is as follows:

| | |
|---|---|
| 2023 | $ 37,369 |
| 2024 | 19,279 |
| 2025 | 13,083 |
| 2026 | 12,500 |
| 2027 | 8,750 |
| Thereafter | 5,500 |
| Total contract liabilities | $ 96,481 |

## 4. Debt and related commitment and contingency

The Company, STC Consolidated, and certain affiliates (collectively, the Affiliates) have a loan agreement with a financial institution. The Affiliates are subject to certain restrictive covenants under the agreement. These covenants include a minimum financial ratio related to debt service coverage, certain financial reporting requirements, and certain restrictions regarding issuance of additional debt. The agreement also restricts the Affiliates from incurring lease obligations in excess of $1 million. The Affiliates' assets are cross-collateralized on all notes and obligations under the loan and security agreement. In addition, the Affiliates' ownership interests are pledged as security under the agreement. The loan agreement includes a term note and a line-of-credit. As of December 31, 2022, the outstanding balances to the Affiliates related to the term note and the line-of-credit total approximately $24.5 million and $1 million, respectively.

## 5. Franchises and salons

Franchisees operate under the Sun Tan City brand. Franchises total 32 and 33 as of December 31, 2022 and 2021, respectively.

The following table summarizes the franchisee salon activity for the years ended December 31, 2022 and 2021:

| | |
|---|---:|
| Salons as of January 1, 2021 | 167 |
| Salons opened | - |
| Salons closed | 6 |
| Salons as of December 31, 2021 | 161 |
| **Salons opened** | **-** |
| **Salons closed** | **1** |
| **Salons as of December 31, 2022** | **160** |

## 6. Related party transactions and balances

Certain officers and owners of entities affiliated with the Company have equity interests in entities that own franchised salons. Revenue from these related franchise entities total approximately $770,000 and $809,000 for the years ended December 31, 2022 and 2021, respectively, and related accounts receivable total approximately $43,000 and $50,000 as of December 31, 2022 and 2021, respectively.

The Company has a management service agreement with an affiliated entity. The management service agreement calls for fees to be paid to the affiliate to provide the Company certain legal, accounting, and other professional support services. Fees for services provided to the Company under the management service agreement total approximately $550,000 and $471,000 for the years ended December 31, 2022 and 2021, respectively, and are included in general and administrative expenses on the accompanying statements of operations.

## 7. Risks, uncertainties, and concentrations

The Company issues franchises for the Sun Tan City tanning salon brand. As a result, the Company's future revenue is dependent upon the success, growth, and support of the Sun Tan City tanning brand, and the Company's franchisees.

Accounts receivable from three franchisees represents approximately 45% of the Company's total accounts receivable as of December 31, 2022, and two franchisees represent approximately 28% of the Company's total accounts receivable as of December 31, 2021.

The Company's franchisees purchase certain tanning products from two suppliers. Product purchases from these suppliers represent a significant portion of total product purchases by the Company's franchisees. Management believes a reduction in availability from these suppliers would not have a significant adverse impact on the Company's franchisees' future product sales, or the Company's revenues or net income, as other suppliers of similar products exist and could be utilized as either additional product providers or as a replacement for the current primary product suppliers. Approximately 98% and 94% of the Company's franchisee vendor rebates revenue relates to franchisee purchases from these two vendors for the years ended December 31, 2022 and 2021, respectively.

# ~~STC FRANCHISING, LLC~~

## ~~FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020~~
## ~~with~~
## ~~INDEPENDENT AUDITOR'S REPORT~~

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~~Independent Auditor's Report~~ ........ ~~1~~

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~~NATHER~~

~~6 CONPANY~~

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~~L.ouisvitte, KY 40222~~

## ~~INDEPENDENT AUDITOR'S REPORT~~

~~The Member STC Franchising, LLC~~

### ~~Opinion~~

~~We have audited the accompanying financial statements of STC Franchising, LLC (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, member's capital, and cash flows for the years then ended, and the related notes to the financial statements.~~

~~In our opinion, the financial statements referred to above present fairly, in all material respects, the Company's financial position as of December 31, 2021 and 2020, 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 **of Opinion**~~

~~We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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.~~

### ~~Management's Responsibility for the Financial Statements~~

~~Management is responsible for the preparation and fair presentation of these 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.

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Auditor's Responsibilities for the Audit of the Financial Statements

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

Mather

March 15, 2022

~~STC FRANCHISING, LLC~~

~~BALANCE SHEETS~~
~~December 31, 2021 and 2020~~

| | | | |
|---|---|---|---|
| | | ~~2021~~ | ~~2020~~ |
| | ~~ASSETS~~ | | |
| ~~Current assets~~ | | | |
| ~~Cash~~ | | ~~$ 88,394~~ | ~~$ 38,544~~ |
| ~~Accounts receivable~~ | | ~~418,184~~ | ~~416,249~~ |
| ~~Other~~ | | ~~37,801~~ | ~~626~~ |
| ~~Total current assets~~ | | ~~544,379~~ | ~~455,419~~ |
| ~~Goodwill~~ | | ~~257,000~~ | ~~257,000~~ |
| ~~Total assets~~ | | ~~$ 801,379~~ | ~~$ 712,419~~ |

~~LIABILITIES AND MEMBER'S CAPITAL~~

~~Current liabilities~~

| | | |
|---|---|---|
| ~~Accounts payable~~ | ~~$ 15,369~~ | ~~$ 1,156~~ |
| ~~Current portion of contract liabilities~~ | ~~50,683~~ | ~~104,317~~ |
| ~~Payables to member and affiliated company~~ | ~~34,664~~ | ~~46,782~~ |
| ~~Total current liabilities~~ | ~~100,716~~ | ~~152,255~~ |
| ~~Long-term portion of contract liabilities~~ | ~~96,481~~ | ~~147,164~~ |
| ~~Commitments and contingencies~~ | | |
| ~~Member's capital~~ | ~~604,182~~ | ~~413,000~~ |
| ~~Total liabilities and member's capital~~ | ~~$ 801,379~~ | ~~$ 712,419~~ |

~~STC FRANCHISING, LLC~~

~~STATEMENTS OF OPERATIONS~~
~~Years ended December 31, 2021 and 2020~~

| | ~~2021~~ | ~~2020~~ |
|---|---|---|
| ~~Revenue~~ | | |
| ~~Royalties and production fees~~ | ~~$ 5,196,063~~ | ~~$ 3,508,064~~ |
| ~~Area development and initial franchise fees~~ | ~~104,317~~ | ~~119,234~~ |
| ~~Franchisee vendor rebates~~ | ~~861,386~~ | ~~368,209~~ |

~~Total revenue Operating expenses~~

~~6,161,766 3,995,507~~

| | | |
|---|---|---|
| ~~General and administrative~~ | ~~570,584~~ | ~~555,703~~ |
| ~~Total operating expenses~~ | ~~570,584~~ | ~~555,703~~ |
| ~~Net income~~ | ~~$. 5,591,182~~ | ~~$ 3,439,804~~ |

| | | |
|---|---|---|
| ~~STC FRANCHISING, LLC~~<br><br>~~STATEMENTS OF MEMBER'S CAPITAL~~<br>~~Years ended December 31, 2021 and 2020~~ | | |
| | ~~2021~~ | ~~2020~~ |
| ~~Balance at beginning of year~~ | ~~$ 413,000~~ | ~~$ 482,196~~ |
| ~~Net income~~ | ~~5,591,182~~ | ~~3,439,804~~ |
| ~~Distributions to member~~ | ~~(5,400,000)~~ | ~~(3,509,000)~~ |
| ~~Balance at end of year~~ | ~~$ .. _ 60.4.,182~~ | ~~$ 413 000~~ |

p ying

| | | |
|---|---|---|
| ~~STATEMENTS OF CASH FLOWS~~ | | |
| ~~Years ended December 31, 2021 and 2020~~ | | |
| | ~~2021~~ | ~~2020~~ |
| ~~Cash flows from operating activities~~<br>~~Net income~~ | ~~$ 5,591,182~~ | ~~$ 3,439,804~~ |
| ~~Adjustments to reconcile net income to net~~ | | |
| ~~cash provided by operating activities:~~<br>~~Changes in operating assets and liabilities:~~ | | |
| ~~Accounts receivable~~ | ~~(1,935)~~ | ~~165,736~~ |
| ~~Other current assets~~ | ~~(37,175)~~ | ~~3,136~~ |
| ~~Accounts payable~~ | ~~14,213~~ | ~~(1,116)~~ |
| ~~Contract liabilities~~ | ~~(104,317)~~ | ~~(119,234)~~ |
| ~~Payables to member and affiliated company~~ | ~~(12,118)~~ | ~~(14,493)~~ |

~~Net cash provided by operating activities~~ ~~Cash flows from financing activities~~

~~5,449,850~~

~~3,473,833~~

| | | |
|---|---|---|
| ~~Distributions to member~~ | ~~(5,400,000)~~ | ~~(3,509,000)~~ |
| ~~Net cash used in financing activities~~ | ~~(5,400,000)~~ | ~~(3,509,000)~~ |
| ~~Net increase (decrease) in cash~~ | ~~49,850~~ | ~~(35,167)~~ |
| ~~Cash at beginning of year~~ | ~~38,544~~ | ~~73,711~~ |
| ~~Cash at end of year~~ | ~~$ 88,394~~ | ~~$ 38,544~~ |

~~STC FRANCHISING, LLC~~

~~**NOTES** TO **FINANCIAL** STATEMENTS Years ended December 31, 2021 and 2020~~

~~**1.**Nature of **business and summary of significant accounting policies**~~

~~*Nature* **of business** — STC Franchising, LLC (the Company) is a wholly-owned subsidiary of STC Consolidated Operations, LLC (STC Consolidated) and is part of a collection of entities affiliated through ownership and management that invest in, operate, and franchise tanning salons under the name Sun Tan City. The Company is licensed as the franchisor of the Sun Tan City tanning salon brand. Under franchise agreements, the Company is responsible for the performance of various services including provision of operational information and guidance, site location assistance, training, and marketing programs. The Company has franchise agreements in various states with concentrations in Iowa, Maine, Missouri, Nebraska, North Carolina, Tennessee, Virginia, and Wisconsin.~~

~~In March 2020, the World Health Organization declared the global novel coronavirus disease (COVID-19) outbreak as a pandemic. Further, the United States Centers for Disease Control and Prevention confirmed the spread of the disease throughout the United States. The Company's franchisees' 2020 operations were significantly impacted due to various government-imposed COVID-19 operational shut-downs and other significant operational restrictions.~~

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

~~*Fair value* measorements — The Company applies the *Fair Value Measurement* topic of the Accounting Standards Codification (ASC) which requires companies to determine fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The *Fair Value Measurement* topic emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and applies in conjunction with other ASC topics that require or permit fair value measurements and disclosures. Impacted assets and liabilities are measured and disclosed in one of three categories based on the significance and source of the inputs to their valuation. The hierarchy consists of three broad levels: Level 1, Level 2, and Level 3. Level 1 inputs have the highest priority and consist of observable unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access. Level 2 inputs include: a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or~~

~~similar assets or liabilities in inactive markets; c) inputs other than quoted prices that are observable for the asset or~~

~~liability; and d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs have the lowest priority, are unobservable, and include judgments about the assumptions that market participants would use in pricing the asset or liability.~~

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~~The valuation methods used by the Company may produce fair value calculations that may not be indicative of net realizable values, or reflective of future fair values. Furthermore, while management believes the valuation methods utilized are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair values of certain assets and liabilities could result in different fair value measurements as of December 31, 2021 and 2020.~~

~~Revenue *recognition* — The Company's revenue is comprised of franchise royalty and production fees, initial franchise fees, area development fees; and rebates from certain product suppliers based on product purchases by the Company's franchisees.~~

~~Revenue from franchise royalty and production fees, initial franchise fees, and area development fees is recognized in accordance with ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606). Accordingly, such revenue is recognized when promised goods and services are transferred to customers in an amount that reflects consideration to which the Company expects to be entitled in exchange for those goods and services utilizing the following five-step process:~~

~~*Identify the contract(s) with a customer* — The Company's management has identified franchise agreements and area development agreements with its franchisees as contracts related to the sources of franchise revenue identified above. A contract with a franchisee is generally considered to occur when the Company agrees to grant certain rights to use its intellectual property to the franchisee over the term of the related agreement. Management has determined collectability of royalty and production fees, and initial franchise fees is probable because such amounts are retained from revenues collected on behalf of the Company's franchisees before remittance to such franchisees. Collection of area development fees occurs at or near the execution date of an area development agreement and is therefore determined by management to be probable.~~

~~*Identify the performance obligations in each contract* — Management has determined the contract types identified above have single performance obligations. Because the Company's granting of certain rights to use its intellectual property over the term of a~~

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~~franchise agreement and substantially all other services the Company provides under such an agreement are highly interrelated and not distinct within the agreement (including insignificant pre-opening services), management has determined they are to be accounted for as a single performance obligation. Management has determined the single performance obligation under an area development agreement to be the granting of exclusive salon development rights within specified geographical areas.~~

~~*Determine the transaction price* — Management has determined the transaction prices for the Company's contract types identified above to be the amounts identified in the respective agreements.~~

~~*Allocate the transaction price to the performance obligations in each contract* — Allocation of the transaction price to performance obligations is not necessary as management has determined the Company's contracts contain a single performance obligation as described above.~~

~~*Recognize revenue when or as a performance obligation is satisfied* — Royalty and production fees are based upon a percentage of monthly franchise salon sales over the term of the related franchise agreement and are recognized at a point in time as franchise salon sales occur. Nonrefundable one-time fees from franchisees in the form of initial franchise fees and area development fees are recognized as revenue on a straight-line basis over the term of the respective agreement. Upon default under an area development agreement, the Company may reacquire the rights pursuant to the agreement, and all remaining unamortized revenue is recognized at that time.~~

~~Revenue from franchise vendor rebates is not generated from contracts with customers and therefore is recognized in accordance with ASC Topic 605, *Revenue RecognitiO I* (ASC 605). Accordingly, such revenue is recognized on the accrual basis.~~

~~*Accounts receivable* — Accounts receivable primarily represent royalties and production fees, and unpaid franchisee vendor rebates and are recognized when the Company's right to consideration is unconditional. Management provides an allowance for doubtful accounts based on its assessment of collectability of specific accounts. Delinquent status for franchisee-related receivables is based on the franchisee's failure to follow the contractual payment terms specified in the related franchise agreement. Delinquent status for receivables related to franchisee vendor rebates is based on the vendor's failure to follow agreed-upon payment terms. As of December 31, 2021 and 2020, the Company's management believes all accounts receivable are fully collectible. Accordingly, no allowance for doubtful accounts is recorded as of December 31, 2021 and 2020. Accounts receivable are written-off when management has exhausted collection attempts and concludes the amounts are uncollectible.~~

~~*Goodwill* — Goodwill represents the excess of acquisition costs over the amounts allocated to assets acquired in a prior year. Management evaluates goodwill annually for possible impairment, or whenever events or changes in circumstances indicate the carrying value~~

~~may not be recoverable utilizing qualitative factors to determine whether it is more likely than not that the fair value of a franchise agreement is less than its carrying amount. If management determines through its qualitative factors analysis that it is more likely than~~

not that the fair value of a franchise agreement is less than its carrying amount, management compares the fair value of the franchise agreement to its carrying amount, including related goodwill. If this comparison reflects impairment, then the loss is measured as the excess of recorded goodwill over the carrying amount of the related franchise agreement and goodwill, less any related liabilities. If quantitative analysis is warranted, management utilizes discounted cash flow analysis. Management's annual goodwill evaluation relies on Level 3 inputs including estimates and assumptions regarding future franchisee operating results, cash flows, changes in market and industry conditions, and profitability, among others. Although management believes the estimates and assumptions used to evaluate the fair value of goodwill are reasonable, the use of different methodologies or assumptions to perform the evaluations could result in different fair value determinations. No goodwill impairment loss has been recognized for the years ended December 31, 2021 and 2020.

income taxes — The Company is a disregarded entity for income tax reporting purposes. Accordingly, its results are included with STC Consolidated in its federal and state income tax returns. STC Consolidated is a limited liability company taxed as a partnership in accordance with the Internal Revenue Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements because those taxes are the responsibility of STC Consolidated's members. The Company's allocable portion of local income taxes is paid by STC Consolidated and is not included in the accompanying financial statements. If the Company's allocable portion of local income taxes was included in the accompanying financial statements, its inclusion would not have a significant impact on the Company's financial position as of December 31, 2021 and 2020, or on the results of its operations and its cash flows for the years then ended.

GAAP requires management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) if the Company has taken uncertain tax positions that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken by the Company and STC Consolidated and has concluded that as of December 31, 2021 and 2020, there are no uncertain positions taken, or expected to be taken, that would require recognition of a tax liability (or asset), or disclosure in the financial statements. The Company and STC Consolidated are subject to routine income tax audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Years ended December 31, 2021 through 2018 remain subject to Internal Revenue Service examination, and years ended December 31, 2021 through 2017 remain subject to examination by various states.

*Subsequent* evenfs - Management has evaluated subsequent events through March 15, 2022, the date which the financial statements were available for issue.

*New accounting pronouncement* - In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, *Simplifying the Test for Goodwill Impairment,* which amends ASC Topic 350, *Intangibles — Goodwill and Other.* ASU 2017-04 modifies the concept of goodwill impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value, to the

~~condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. ASU 2017-04 requires an entity to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, limited to the total amount of goodwill allocated to that reporting unit. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. ASU 2017-04 requires an entity to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments under ASU 2017-04 are to be applied on a prospective basis and are effective for years beginning after December 15, 2021 with earlier adoption permitted. ,The Company's management has not determined the impact, if any, the adoption of ASU 2017- 04 may have on the Company's future financial statements.~~

## ~~2.Accounts receivable~~

~~Accounts receivable as of December 31, 2021 and 2020 consist of the following:~~

| | 2021 | 2020 |
|---|---|---|
| ~~Royalties and fees~~ | ~~$ 398,668~~ | ~~$ 365,657~~ |
| ~~Franchisee vendor rebates~~ | ~~19,516~~ | ~~50,789~~ |
| ~~Total accounts receivable~~ | ~~**$ 418,184**~~ | ~~$ 416,446~~ |

## ~~**3.Contract liabilities**~~

~~Contract liabilities as of December 31, 2021 and 2020 consist of the following:~~

| | 2021 | 2020 |
|---|---|---|
| ~~Unearned initial franchise fees~~ | ~~$ 147,164~~ | ~~$ 209,931~~ |
| ~~Unearned area development fees~~ | ~~-~~ | ~~41,550~~ |
| ~~Total contract liabilities~~ | ~~147,164~~ | ~~251,481~~ |
| ~~Less current portion~~ | ~~50,683~~ | ~~104,317~~ |
| ~~Long-term portion~~ | ~~$ 96,481~~ | ~~$ 147,164~~ |

~~Expected future revenue recognition of contract liabilities for each of the years subsequent~~

~~to December 31, 2021 is as follows:~~

~~2022~~
~~2023 2024 2025 2026 Thereafter~~

~~Total contract liabilities~~

## ~~4. Debt and related commitment and contingency~~

~~$ 50,683 37,369 19,278 13,084 12,500~~

~~14,250~~

~~$ 147,164~~

~~The Company, STC Consolidated, and certain affiliates (collectively, the Affiliates) have a loan agreement with a financial institution. The Affiliates are subject to certain restrictive covenants under the agreement. These covenants include a minimum financial ratio related to debt service coverage, certain financial reporting requirements, and certain restrictions regarding issuance of additional debt. The agreement also restricts the Affiliates from incurring lease obligations in excess of $1 million. The Affiliates' assets are cross- collateralized on all notes and obligations under the loan and security agreement. In addition, the Affiliates' ownership interests are pledged as security under the agreement. The loan agreement includes a term note and a line-of-credit. As of December 31, 2021, the outstanding balances to STC Consolidated related to the term note and the line-of-credit total $30 million and approximately $1.9 million, respectively.~~

## ~~5. Franchises and salons~~

~~Franchisees operate under the Sun Tan City brand. Franchises total 33 and 36 as of December 31, 2021 and 2020, respectively.~~

~~The following table summarizes the franchisee salon activity for the years ended December 31, 2021 and 2020:~~

~~Salons as of January 1, 2020~~

~~Salons opened Salons closed~~

~~Salons as of December 31, 2020~~

~~Salons opened~~
~~Salons closed~~

~~Salons as of December 31, 2021~~

~~167~~

~~167~~

~~6~~

~~161~~

## ~~6.Related **party transactions** and **balances**~~

~~Certain officers and owners of entities affiliated with the Company have equity interests in entities that own franchised salons. Revenue from these related franchise entities total approximately $809,000 and $580,000 for the years ended December 31, 2021 and 2020, respectively, and related accounts receivable total approximately $50,000 and $41,000 as of December 31, 2021 and 2020, respectively.~~

~~The Company has a management service agreement with an affiliated entity. The management service agreement calls for fees to be paid to the affiliate to provide the Company certain legal, accounting, and other professional support services. Fees for services provided to the Company under the management service agreement total approximately $471,000 and $499,000 for the years ended December 31, 2021 and 2020, respectively, and are included in general and administrative expenses on the accompanying statements of operations.~~

## ~~7.Risks, uncertainties, and concentrations~~

~~COVID-19 operational restrictions continue to impact the Company's franchisees. As of the date the accompanying financial statements were available to be issued, the duration and intensity of those impacts and resulting disruption to the Company's financial position will clepend on future developments which are highly uncertain and cannot be predicted at this time.~~

~~The Company issues franchises for the Sun Tan City tanning salon brand. As a result, the Company's future revenue is dependent upon the success, growth, and support of the Sun Tan City tanning brand, and the Company's franchisees.~~

~~Accounts receivable from one franchisee represents approximately 14% and 12% of the Company's total accounts receivable as of December 31, 2021 and 2020, respectively.~~

~~A significant number of the Company's franchisees' tanning beds are currently purchased from a single manufacturer. Management believes a change in availability from this manufacturer would not have a significant adverse impact on the Company's future revenues or net income as many other tanning bed manufacturers exist and could provide similar tanning beds under similar terms, if necessary.~~

~~The Company's franchisees purchase certain tanning products under a tanning product purchase agreement from a specific supplier. Product purchases from this supplier represent a significant portion of total product purchases by the Company's franchisees. Management believes a reduction in availability from this supplier would not have a significant adverse impact on the Company's franchisees' future product sales, or the Company's revenues or net income, as other suppliers of similar products exist and could be utilized as either additional product providers or as a replacement for the current primary product supplier.~~

~~Approximately 94% of franchisee vendor rebates revenue relates to two vendors for the year ended December 31, 2021, and approximately 60% of franchisee vendor rebates relate to a single vendor for the year ended December 31, 2020.~~

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| **Statistics:** | |
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| Format changes | 0 |
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