

FRANCHISE DISCLOSURE DOCUMENT
HAND AND STONE FRANCHISE LLC
1210 Northbrook Drive, Suite 150
Trevose, Pennsylvania 19053
(215) 259-7540
www.handandstone.com



The franchise offered is for the operation of massage, facial, waxing, skincare, face and body contouring, and face and body sculpting services, and the sale of related retail products under the name Hand and Stone Massage and Facial Spa. We offer our services to the general public in a member and non-member program.

The total investment necessary to begin operation of a Hand and Stone Massage and Facial Spa franchised business is ~~\$603,195~~\$601,695 to ~~\$759,755~~\$760,254. This includes approximately ~~\$51,000 to~~ \$6870,000 that must be paid to the franchisor and/or its affiliate.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Jennifer Durham at 1210 Northbrook Drive, Suite 150, Trevose, Pennsylvania 19053 and (215) 259-7540.

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

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

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

Special Risks to Consider About *This* Franchise

Certain states require that the following risk(s) be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration, and/or litigation only in Pennsylvania. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in Pennsylvania than in your own state.

2. **Financial Condition.** The franchisor's financial condition, as reflected in its financial statements (see Item 21), calls into question the franchisor's financial ability to provide services and support to you.

3. **Unopened Franchises.** The franchisor has signed a significant number of franchise agreements with franchisees who have not yet opened their outlets. If other franchisees are experiencing delays in opening their outlets, you also may experience delays in opening your own outlet.

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.

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Legal & Accounting ¹⁶	\$3,425- \$5,150	As Arranged	Before Beginning Operations	Attorney, Accountant
Additional Funds ¹⁷ (9 months)	\$70,000 - \$90,000	As Arranged	As Necessary	You Determine
TOTAL INVESTMENT¹⁸	\$603,195 - \$759,755 <u>\$601,695 - \$760,254</u>			

In general, none of the expenses listed in the above chart are refundable, except any security deposits you must make may be refundable.

We do not finance any portion of your initial investment.

NOTES

1. Franchise Fee. The Franchise Fee is described in greater detail in ITEM 5 of this Disclosure Document.
2. Real Estate. This range provides estimated amounts for one month's security deposit plus one month's prepaid rent on a triple-net lease in your first year. You must lease or otherwise provide a suitable facility for the operation of the Franchised Business. Typically, a HAND AND STONE franchise will be located within a strip mall or shopping center and should be approximately 2,200-3,200 square feet. Lease costs will vary based upon the square footage leased, the cost per square foot, your geographic area and the required maintenance costs. We assume you will have to pay the first month's rent and a security deposit equal to one month's rent in advance. The amounts you pay are typically not refundable, but in certain circumstances the security deposit may be.
3. Utility Deposits. If you are a new customer of your local utilities, you will generally have to pay deposits in connection with services such as electric, telephone, gas and water. The amount of deposit will vary depending upon the policies of the local utilities.
4. Leasehold Improvements. The facility must be renovated according to our standards and specifications. The cost of the leasehold improvements will vary depending upon the size of the facility you lease, the location of the Franchised Business, local wage rates, whether union labor is required, and the cost of materials. Landlord may provide partial build-out allowance, and this estimate assumes a landlord contribution of between \$78,458 and \$182,449. Landlord contributions include tenant improvement allowances, free rent or any other capital allocation offset. You may or may not receive landlord contributions. This category includes non-movable millwork and retail tables. The estimates above are based upon most recently completed projects which include both union and non-union labor.
5. Furniture, Fixtures & Equipment. You must purchase (or lease) office and reception area furniture, massage tables, water feature, artwork and equipment necessary for providing the various services

Notes to this Item 19:

1. For the purposes of this Item 19, “Gross Sales” means the aggregate of all revenue collected from the sale of products, gift cards, barter or exchange, complimentary services, prepaid services and services from all sources in connection with the franchised business whether for check, cash, credit or otherwise, including all proceeds from any business interruption insurance, but excluding tips received by massage therapists and estheticians, any sales and equivalent taxes that you collect and pay to any governmental taxing authority, and the value of any allowance issued or granted to any of your customers that you credit in full or partial satisfaction of the price of any products and services offered by the franchised business.

2. For Tables 1 through 3, Average Gross Sales is defined as the sum of the Gross Sales of the included outlets, divided by the total number of included outlets.

3. The businesses presented above range in size from 6 to 20 treatment rooms per location.

4. “Average Number of Members” is the average number of members reported by the included franchised outlet who have joined Hand and Stone’s Lifestyle program as monthly, annual or prepaid members (but excluding three-month memberships) and pay a monthly membership fee currently ranging from \$69.95 to \$89.95 per month. The Average Number of Members is defined as the sum of the members reported by the included franchised outlet divided by the total number of included franchised outlets. The Average Number of Members count does not deduct suspended or frozen members who are not currently paying monthly fees.

5. “Year Opened” is defined as the number of outlets that opened in the stated year, provided that the figures for 2008 also include outlets opened in the 2006 and 2007 calendar years.

6. “Facial Sales” are defined as Gross Sales of skin care services and products, including facials, microdermabrasion, and peels and are included in the average gross sales above. The Average Facial Sales is defined as the sum of the Facial Sales of the included outlets divided by the total number of included outlets.

7. “Size” refers to the size of the gross leasable square footage of the outlet. The Average Size is defined as the sum of the Size of the included outlet divided by the number of included outlets.

8. “First Year Net Rent” means the aggregate of all rental costs during the first year of operation to include rent price per square foot, taxes, insurance, and common area maintenance costs while deducting any rental abatements granted by the landlord. The Average First Year Gross Rent is defined as the sum of First Year Gross Rent of the included outlets divided by the total number of included outlets.

9. “Average TI” means the average tenant improvement allowance granted from a landlord to a franchisee to contribute to the tenant's construction build out of leasehold improvements. There were 20 franchised outlets that opened in 2023.

10. “Median” represents the middle number of which half of the included outlets exceeded and half did not.

11. Table #7 reflects certain performance information for the fourteen (14) Subsidiary Outlets that were owned and operated by our affiliates for the entirety of the 2023 Calendar Year. One (1) of the fifteen (15) Subsidiary Outlets were excluded from the results presented in Table #57 because they were acquired by our affiliate in the 2023 Calendar Year. The fourteen (14) Subsidiary Outlets are mature

businesses that have been in operation for between three (3) years and thirteen (13) years. Fourteen of the Subsidiary Outlets are located in Florida and 1 Subsidiary Outlet is located in New Jersey. Table #57 reflects the following average expenses for the 14 Subsidiary Outlets during the 2023 Calendar Year, as reported to us by the 14 Subsidiary Outlets:

- a. “Gross Sales”, or the average of all Gross Sales for the 14 Subsidiary Outlets during the 2023 Calendar Year.
- b. “Labor and Benefit Costs” means the total direct and indirect labor costs of manager and hourly wages, payroll taxes and employment benefits incurred by the 14 Subsidiary Outlets during the 2023 Calendar Year. Labor and Benefits Costs does not include owners’ pay.
- c. “Occupancy Costs” means the total base rent, triple net charges (common area maintenance, insurance and taxes) reported to have been paid by the 14 Subsidiary Outlets during the 2023 Calendar Year.
- d. “Royalties / National Marketing” means the total Royalty Fees and National Marketing Fees paid to us by the 14 Subsidiary Outlets during the 2023 Calendar Year.
- e. “Other Operating Costs” includes the following expenses incurred by the 14 Subsidiary Outlets during the 2023 Calendar Year: local advertising, supplies and linens, equipment, IT/software, promotional and loyalty program expenses, insurance and credit card processing fees. Certain incurred shared expenses that are allocated to the operation of all subsidiary locations have been excluded from this category.
- f. The expenses presented in Table #57 do not include all expenses incurred by the 14 Subsidiary Outlets during the 2023 Calendar Year. You may incur additional costs and expenses.
- g. The performance information presented in Table #57 was included as part of the overall results of Hand and Stone Franchise LLC which are audited. However, these affiliate results are not independently verified or separately audited.

Assumptions

1. With the exception of the limited expense information presented in Table #7 for the 14 Subsidiary Outlets, this analysis does not contain information concerning operating costs or expenses, including royalty and advertising or other costs or expenses that must be deducted from gross sales. Operating costs and expenses may vary substantially from outlet to outlet. Franchisees or former franchisees listed in this franchise disclosure document may be one source of this information.

2. We recommend that you consult with an attorney and other business advisors before purchasing a franchise. We suggest strongly that you consult your financial advisor or personal accountant concerning financial projections and federal, state and local income taxes and any other applicable taxes that you may incur in operating a Franchised Business.

3. **Some outlets have earned this amount. Your individual results may differ. There is no assurance that you will earn as much.**

Other than the preceding financial performance representation, Hand and Stone Franchise LLC does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing

ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION at www.dfpi.ca.gov.

12. **The registration of this franchise offering by the California Department of Financial Protection and Innovation does not constitute approval, recommendation, or endorsement by the commissioner.**
13. Franchisees must sign a personal guarantee, making you and your spouse individually liable for your financial obligations under the agreement if you are married. The guarantee will place your and your spouse's marital and personal assets at risk, perhaps including your house, if your franchise fails.
14. **No disclaimer, questionnaire, clause, or statement signed by a franchisee in connection with the commencement of the franchise relationship shall be construed or interpreted as waiving any claim of fraud in the inducement, whether common law or statutory, or as disclaiming reliance on or the right to rely upon any statement made or information provided by any franchisor, broker or other person acting on behalf of the franchisor that was a material inducement to a franchisee's investment. Any statements or representations signed by a franchisee purporting to understand any fact or its legal effect shall be deemed made only based upon the franchisee's understanding of the law and facts as of the time of the franchisee's investment decision. This provision supersedes any other or inconsistent term of any document executed in connection with the franchise.**
15. The highest interest rate allowed by law for Late Payments in the State of California is 10% annually.
16. You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.
17. Article 23 of the Franchise Agreement is amended to delete Sections 23.1, 23.3, 23.5, and 23.6.
18. California's Franchise Investment Law (Corporations Code Sections 31512 and 31512.1) states that any provision of a franchise agreement or related document requiring the franchisee to waive specific provisions of the law is contrary to public policy and is void and unenforceable. The law also prohibits a franchisor from disclaiming or denying (i) representations it, its employees, or its agents make to you, (ii) your ability to rely on any representations it makes to you, or (iii) any violations of the law.

**ADDENDUM TO HAND AND STONE FRANCHISE LLC
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF HAWAII**

HAWAII APPENDIX

This will serve as the State Addendum for Hand and Stone Franchise LLC for the State of Hawaii for Hand and Stone's Franchise Disclosure Document:

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

THESE FRANCHISES WILL BE/HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF REGULATORY AGENCIES OR A FINDING BY THE DIRECTOR OF REGULATORY AGENCIES THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING. THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, OR SUBFRANCHISOR, AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE, OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE OFFERING CIRCULAR, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE. THIS OFFERING CIRCULAR CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.