

### Special Risks to Consider About This Franchise

Certain states require that the following risks be highlighted:

**Out-of-state dispute resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration, and/or litigation only in Delaware. 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 Delaware than in your own state.

**Delaware law governs.** The franchise agreement states that Delaware law governs the agreement, and this law may not provide the same protections and benefits as local law. You may want to compare these laws.

**Waive right to trial by jury.** The franchise agreement requires you waive any right you may have to a trial by jury.

**Limitation on claims.** You must agree in the franchise agreement that all claims and counterclaims by you or any of your affiliates against the franchisor or its affiliates must be brought before the earlier of the expiration of one year after the act, transaction, or occurrence upon which the claim or counterclaim is based or one year after the agreement expires or is terminated.

**Minimum performance levels.** You must maintain minimum sales performance levels. If you fail to do so, you could lose territorial rights or the franchisor could terminate your agreement and you could lose your investment.

**Spousal liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the franchise agreement, even though your spouse has no ownership interest in the franchise. This guarantee will place both you and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.

**State Specific Addenda.** 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.

**Mandatory Minimum Payments.** You must make minimum royalty and advertising fund payments, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.

~~**Other risks.** There may be other risks concerning this franchise.~~

The franchisor uses the services of one or more franchise brokers or referral sources to assist in selling this franchise. A franchise broker or referral source represents the franchisor, not you. The franchisor pays this broker a fee for selling this franchise or referring you to the franchisor. ~~You should be sure to do your own investigation of the franchise.~~

## Gross Margin

This section estimates that the Open Franchise Centers achieved a 2023 Gross Margin of \$176,493 and a Gross Margin Percent of 31%. Gross Margin is Gross Revenue (\$561,327) less Principal Expenses (\$384,834) and Gross Margin Percent is the ratio of Gross Margin to Gross Revenue.

"Principal Fixed Expenses" are rent, advertising, full-time payroll, Call Center fees, Coaching and Virtual Conferencing fees, and Training and Technology fees. You may consider other expenses to be Principal Fixed Expenses. We excluded Virtual Testing, since we did not offer it in 2023. Fixed expenses are the expenses you can forecast with some confidence, because they typically do not change significantly from month to month. (Note that Call Center fees and Coaching and Virtual Conferencing fees vary from month to month. However, over the course of a year, they tend to total to the figures used in this section). From Table A, these annual expenses average \$51,288 (for rent), \$57,000 (for minimum advertising), and \$53,600 (for full-time payroll for one Center Manager - excluding bonus, payroll tax, and benefits). Using the medians from Table A we estimate these annual expenses as \$11,731 (for Call Center fees), \$7,404 (for Coaching and Virtual Conferencing fees). Training and Technology Fees are \$15,600. Using these figures, 2023 Principal Fixed Expenses totaled \$196,624.

"Principal Variable Expenses" are teacher pay, royalty, and Huntington Ad Fund payments. Variable expenses are expenses that vary depending on many factors, including revenue. You may consider other expenses to be Principal Variable Expenses. Using the average 2023 Open Franchise Center revenue of \$561,327 from Table A, these annual expenses averaged \$123,657 (teacher pay at 22.0% times revenue), \$53,326 (royalty at 9.5% times revenue), and \$11,227 (Huntington Ad Fund at 2% times revenue). ~~Your revenue may be lower than the average revenue in Table A, especially during your start-up period.~~ Using these figures, 2023 Principal Variable Expenses totaled \$188,210.

"Principal Expenses" is the sum of Principal Fixed Expenses and Principal Variable Expenses. Using the above figures, these were \$196,624 and \$188,210, respectively, and totaled \$384,834. ~~Your results may differ. You may have other or different principal fixed or principal variable expenses, especially during your start-up period. These other expenses include those in the following table, which includes some of the expense items that franchisees present on their end-of-year profit and loss statements; your profit and loss statement may contain additional or different items.~~ Some outlets have earned this amount and had expenses of these amounts. Your individual results may differ. There is no assurance that your results will be similar.

1. Paragraph 10.4 of the Development Agreement shall be supplemented by the addition of the following language at the end of the Paragraph:

Pursuant to Minn. Stat. § 80C. 17 (subd.5), this Paragraph 10.4 shall not in any way abrogate or reduce the time period for bringing a civil action under Minn. Stat. § 80C.17.

2. Paragraph 10.5 of the Development Agreement shall be deleted in its entirety and have no force or effect.

Each provision of this Territory Amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Franchise Act, Minn. Stat. §§ 80C.01 through 80C.22, and the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce, Minn. Rules §§ 2860.0100 through 2860.9930, are met independently without reference to this Territory Amendment.

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 with the franchisee.

