

FRANCHISE DISCLOSURE DOCUMENT

TOUCHING HEARTS, INC.
A Minnesota corporation 7900 W 78th Street, Suite 410
Minneapolis, Minnesota 55439
(877) 870-8750
www.touchinghearts.com



The “Touching Hearts” franchise is for the right to use Touching Hearts, Inc.'s trademarks and confidential proprietary information to operate a business that provides affordable high quality personal care, in-home care, non-medical and care management services, together with medical and skilled nursing care services for older adults, persons with disabilities and others with care management service needs.

The total investment necessary to begin operation of a “Touching Hearts” franchise ranges from \$63,885 to \$93,085. This includes \$49,500 that must be paid to the franchisor or any affiliate.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Aaron Stromley at 7900 W 78th St., Suite 410 Minneapolis, MN 55439 and (877) 870-8750.

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. 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, N.W., Washington, D.C. 20580. You can also visit the FTC’s home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: April ~~28~~24, ~~2023~~2024

How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit F.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit E includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Touching Hearts business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be a Touching Hearts franchisee?	Item 20 or Exhibit F lists current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit B.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

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 the state where our corporate headquarters are located, currently Minnesota. 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 Minnesota than in your own state.
2. **Spousal Liability.** We may require your spouse to sign a document that makes your spouse liable for all financial obligations under the franchise agreement even though your spouse has little or no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets at risk if your franchise fails.
3. **Sales Performance Required.** You must maintain minimum sales performance levels. Your inability to maintain these levels may result in loss of any territorial rights you are granted, termination of your franchise, and loss of your investment.

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.

**NOTICE REQUIRED
BY
STATE OF MICHIGAN**

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

(a) A prohibition on the right of a franchisee to join an association of franchisees.

(b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.

(c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.

(d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.

(e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.

(f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

THIS MICHIGAN NOTICE APPLIES ONLY TO FRANCHISEES WHO ARE RESIDENTS OF MICHIGAN OR LOCATE THEIR FRANCHISES IN MICHIGAN.

(g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

(i) The failure of the proposed transferee to meet the franchisor's then-current reasonable qualifications or standards.

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

The fact that there is a notice of this offering on file with the attorney general does not constitute approval, recommendation, or endorsement by the attorney general.

Any questions regarding this notice should be directed to the Department of Attorney General, State of Michigan, 670 Law Building, Lansing, Michigan 48913, telephone (517) 373-7117.

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ITEM 1

THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language in the Disclosure Document, “we,” “us” or “THI” means Touching Hearts, Inc., the Franchisor. “You” means the person who buys the franchise (the “Franchisee”). If you are a corporation, partnership, or other entity, “you” includes your owners.

Franchisor

We are a Minnesota corporation formed in October 2006. We do not do business under another name. Our principal business address is 7900 W 78th St., Suite 410, Minneapolis Minnesota 55439; telephone number is 877-870-8750. We have been offering franchises since 2007. We have never offered franchises in any other line of business.

Our Business Experience

Our Founder and CEO, Renae Kummel, initially began offering non-medical home care assistance to seniors and disabled adults in 1996 under the name “Caring Companions.” Caring Companions changed its name in November 2006 to “Touching Hearts at Home” and operated in the area of St. Paul, Minnesota from November 2006 to September 2009 as a company-owned branch before selling the branch as an individual TOUCHING HEARTS franchise office in September 2009.

Our Business and the Franchise Offered

We own a proprietary system of know-how, procedures and standards for operating TOUCHING HEARTS franchised home healthcare businesses (the “System”). The Franchise Agreement (defined below) and confidential Operations Manual describe the System. This Disclosure Document contains a TOUCHING HEARTS Franchise Agreement attached as Exhibit A (the “Franchise Agreement”). We have no parents, predecessors or affiliates required to be disclosed in this Item.

We offer franchises for the operation of a business (“Business”) providing those “Core Services” and optional “Ancillary Services” described below under the TOUCHING HEARTS trademarks, trade names, service marks, and logos (collectively, the “Marks”) to qualified individuals and entities who desire to operate a franchised business using the Marks and the System. The Business will provide high quality personal care, non-medical care, in-home care assistance, and companionship care and care management services to older adults, seniors, persons with disabilities and others with care service needs and other related services authorized for TOUCHING HEARTS businesses to offer, as we periodically may modify or otherwise approve to provide to customers through your Business (“Core Services”). In addition, you may, but are not required to, provide through your Business certain skilled care and other in-home medical care services and related products that we have or may develop and approve for TOUCHING HEARTS businesses to offer, as we periodically may modify or otherwise approve (“Ancillary Services”). You must obtain our consent before offering any Ancillary Services. Core Services and Ancillary Services collectively are considered “Approved Services.”

Market and Competition

You will compete with other businesses including franchised operations, national chains, and independently owned companies offering similar services to customers. The market for senior home care and related services is well-developed and competitive. You will also face other normal business risks that could have an adverse effect on your Business. These may include industry developments, such as pricing policies of competitors, labor regulations, and supply and demand.

Industry Specific Regulations

You must comply with all federal, state, and local laws and regulations that apply to your operations, including the practice of medicine and the operation and licensing of medical services; the relationship of providers and suppliers of health care services; on the one hand, and physicians and clinicians, on the other, including anti-kickback laws such as the Federal Anti-Kickback Statute and similar state laws; restrictions or prohibition on fee splitting; physician self-referral restrictions; use of medical devices; and advertising of medical services.

There may be specific laws or regulations in your state or municipality governing operation of the Business. You should also familiarize yourself with federal, state, and local laws of a more general nature, which may affect the operation of your Business. You must comply with employment, health and safety, workers' compensation, insurance, licensing, and similar laws and regulations. You should examine these laws before purchasing a franchise from us. You are solely responsible for complying with all applicable laws and regulations.

You must check with your state Department of Health and Human Services and any other department that may regulate this industry. Specific state statutes in your area may require licensing of your Business. To the extent you receive our consent to offer one or more Ancillary Services, you will be solely responsible for obtaining all additional permits and licenses, and employing licensed individuals, necessary to conduct such Ancillary Services. Even if a TOUCHING HEARTS franchise does not provide Ancillary Services, certain state statutes may have a broad definition of "medical services" that includes personal care services. You will need to determine those licensing requirements necessary for the Approved Services that you will offer through your Business. You also must comply with any applicable data protection and privacy laws in operating the Business.

You must obtain and maintain any health care or employment related permits, licenses, certifications or other indications of authority necessary for the operation of your Business, including, for example, a home health agency license, nurse staffing and/or employment agency license and medication management licensing compliance. You cannot provide nursing services or otherwise without complying with the Nurse Practices Act. The Nurse Practices Act varies by state and may include requirements regarding licensing, educational program standards, and supervision by a physician. Some jurisdictions may also require a Certificate of Need. Some states require you to obtain a license to provide employment services. Local law may require you to obtain a particular permit, license or accreditation. Some states have imposed a moratorium on the issuance of home health agency licenses, nurse staffing licenses, and other in-home healthcare licenses or permits. You are responsible for investigating the availability and requirements for obtaining all necessary licenses in your state and compliance with the Nurse Practices Act.

Many states have licensing, certification or registration requirements applicable to the services you will be providing as a TOUCHING HEARTS franchise. You therefore may be required to register as a home health agency, nurse staffing and/or employment agency and to comply with the screening requirements of health care workers. State licensing, certification and registration statutes may require a minimum level of education or related work experience and/or the payment of a fee in order to obtain the license.

In addition to obtaining business licenses, your staff may also need to be licensed, registered, or certified to perform certain services. To the extent we permit you to provide Ancillary Services, you may also be required to have a full-time registered nurse (RN) to comply with regulations in your state governing nursing agencies and/or home health agencies and to provide services through licensed individuals. You should inquire about any applicable laws and your corresponding obligations and cost of compliance.

Some states may have specific record-keeping or other requirements for health care providers. You will be responsible for investigating and complying with any such laws that may apply in your Protected Territory (as defined in Item 12).

Certain provisions of the Social Security Act, commonly referred to as the "Anti-Kickback Statute," prohibit the offer, payment, solicitation or receipt of any form of remuneration either in return for the referral of patients or patient care opportunities paid in whole or in part by a federal health care program, or in return for the recommendation, arrangement, purchase, lease or order of items or services paid in whole or in part by a federal health care program. The Anti-Kickback Statute is broad in scope and has been broadly interpreted by courts in many jurisdictions. Additionally, a number of states have enacted laws which prohibit payment for referrals and other types of "kickback" arrangements. These state laws sometimes apply to all patients regardless of their insurance coverage.

There are a number of federal laws prohibiting certain activities and arrangements relating to services or items that are reimbursable by Medicare or Medicaid. While Medicare and Medicaid laws may not apply to your Business, these laws may apply to those facilities, including laws prohibiting Medicare or Medicaid-participating facilities, from employing providers excluded from those programs. If a practitioner is an excluded provider from Medicare or Medicaid, he or she will be prohibited from receiving payment from that facility. It is your responsibility to determine whether and to what extent employees of your Business need to be screened for their possible excluded status in these or other payment programs.

To the extent your Business accepts reimbursement directly from the VA, it will be required to satisfy the applicable regulatory requirements the VA imposes on its vendors, including but not limited to the Federal Acquisition Regulations and various VA contract requirements. The False Claims Act imposes civil liability on persons or corporations, which submit or cause to be submitted false or fraudulent claims for payment to the government. A violation of the False Claims Act may result in liability for fines, treble damages, attorney's fees and exclusion from federal health care programs.

We require all of our franchisees to comply with all relevant portions of the Health Insurance Portability and Accountability Act ("HIPAA") which require health care providers to submit transactions related to payment in standard electronic formats and regulate the security and privacy of health data, and HIPAA's implementing regulations, including the HIPAA Privacy Rule, HIPAA Breach Notification Rule, HIPAA Security Rule, HITECH Act, and Omnibus Rule. Under HIPAA's privacy and security regulations, you must implement privacy and security

policies and safeguards, designate a privacy and security officer, inform individuals how their health information is used and disclosed, provide access to health information, and give notice of certain breaches of protection data. In addition, to the extent you offer any Ancillary Services or we otherwise determine, you must sign and comply with the terms of the Business Associate Agreement (“Business Associate Agreement”) substantially in the form attached as Exhibit C to the Franchise Agreement. Further, if you engage a third party to perform functions that require access to patients’ personal information, you and such third party also must sign a business associate agreement in a form similar to the Business Associate Agreement.

If we grant you the right to operate a Business, we are not engaging in the practice of medicine, nursing or any other profession that requires specialized training or certification, and you must not engage in the practice of medicine, nursing, or any other profession that requires specialized training or certification, except to the extent we permit you to provide Ancillary Services or applicable laws require you to do so in providing Core Services. The Franchise Agreement will not interfere, affect or limit the independent exercise of medical judgment by the Business and its medical staff. You must research all applicable laws, and we strongly advise that you consult with an attorney and/or contact local, state and federal agencies before signing a Franchise Agreement with us to determine your legal obligations and evaluate the possible effects on your costs and operations.

Agents for Service of Process

Our agents for service of process and their principal business addresses are disclosed in Exhibit C to this Franchise Disclosure Document.

ITEM 2

BUSINESS EXPERIENCE

Founder and Director: Renae Kummel

Renae Kummel founded THI in Minneapolis in October 2006 and has been a director since that date. From October 2006 to December 2021, Ms. Kummel was our Chief Executive Officer.

Chief Executive Officer: Aaron Stromley

Aaron Stromley has been our Chief Executive Officer in Minneapolis since January 2022. Since December 2016, Mr. Stromley has served as an owner/operator of ABS Holdings, Inc., a Bloomington, Minnesota based Touching Hearts® franchisee.

Chief Financial Officer and Director of Information Technology: Andrew Lungstrom

Andrew Lungstrom has held various positions with us in Minneapolis since October 2006, including that of Director of Information Technology since August 2007 and Chief Financial Officer and a director since July 2022.

Director of Leadership & Development: Ramona Hunt

Ramona Hunt has been our Director of Leadership & Development in Minneapolis since May 2012.

Director of Marketing: Ryan Lungstrom

Ryan Lungstrom joined us in October 2006 as Franchise Support Coordinator in Minneapolis and was promoted to Director of Marketing in 2014.

ITEM 3

LITIGATION

No litigation is required to be disclosed in this Item.

ITEM 4

BANKRUPTCY

No bankruptcy information is required to be disclosed in this Item.

ITEM 5

INITIAL FEES

Initial Franchise Fee.

We charge a nonrefundable initial franchise fee of \$49,500 for each Business. You must pay the initial franchise fee to us when you sign the Franchise Agreement. The initial franchise fee is fully earned when paid and is not refundable under any circumstances. The initial franchise fee does not include costs for insurance, leases or payments to other third parties.

A prospective franchisee will pay us a refundable deposit of \$10,000 (the "Deposit") when submitting a franchise application to us for consideration. If you later chose to enter into the Franchise Agreement, the Deposit will be applied to your payment of the initial franchise fee. If, for any reason, either you or we choose not to enter into the Franchise Agreement, the Deposit will be refunded to you in full.

We are a member of the VetFran program and offer a ten percent (10%) discount of the initial franchise fee to individuals who qualify under VetFran. VetFran is a voluntary effort of International Franchise Association member-companies that is designed to encourage franchise ownership by offering financial incentives to honorably discharged veterans.

Except as stated above, the franchise fee is uniform to all franchisees under this offering. ~~We did not sell any franchises in 2022 and, as a result, did not receive any~~ During 2023, we received initial franchise fees ~~during that period~~ ranging from \$39,500 to \$49,500.

You pay us no other fees or payments for services before your Franchise Business opens.

ITEM 6

OTHER FEES

Type of Fee (Note 1)	Amount	Due Date	Remarks
Service Fee	6% of "Gross Revenues" although you will pay a lower amount during	Paid by electronic funds transfer ("EFT")	Paid on Gross Revenues for the preceding semi-monthly period; the

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Type of Fee (Note 1)	Amount	Due Date	Remarks
	the "Start-Up Phase" (See Note 2)	semi-monthly, or as we otherwise describe in the Operations Manual, on such dates as we annually determine	actual rate you pay will depend upon your annual Gross Revenues (See Note 3)
Marketing Fund Fee	If implemented, we may require you to pay up to 2% of Gross Revenues (currently not collected)	If implemented, due and payable by EFT semi-monthly with the Service Fee	See Item 11 for further description.
Advertising Cooperative	Currently not collected	Established by us	We may require you to participate in local or regional advertising cooperatives in the future.
Technology Fee	Our then-current fee (currently \$495/month)	Due and payable by EFT within 10 days of each calendar month or as we otherwise describe in the Operations Manual	We may increase the technology Fee no more than once every 12 months, and will not increase more than 10% in any 12 month period.
Initial Training Program Fee	Our then-current fee (currently \$1,000) plus other costs and expenses we incur	When incurred	If you appoint a new General Manager (as defined in the Franchise Agreement), such individual must attend our initial training program. In addition to our fees, you also must pay any related travel, room and board expenses incurred during training.
Operating Assistance	Currently \$500 per day plus reimbursement of our related travel, room and board expenses	When incurred	We may provide you with additional operating assistance for a fee. You may request such assistance or we may require such assistance.
Mystery Shopper or Compliance Assessment Program Expenses	Cost of third-party mystery shopper services	When incurred	Payable if we establish a mystery shopper program and seek reimbursement for third-party fees related to your Business
Franchise Convention Fee	Our then-current fee, which is currently \$500 per attendee	When incurred	You must pay our then-current convention fee even if you do not attend
Income and Sales Taxes	We may collect from you the cost of all taxes arising from our licensing of intellectual property to you in the state where your Business is located, as well as any assessment on fees and any other income we receive from you.	When applicable, payable within 15 days after invoiced by us	Only imposed if state collects these taxes or assessments
Transfer Fee	40% of our then-current initial franchise fee; transfers to heirs or to other existing partners or members of a franchisee entity only pay 10% of our then-current initial franchise fee	At Closing	Payable by you or the buyer when you transfer your franchise, inclusive of the then-current training fee as designated to a new franchisee.
Costs and Attorneys' Fees	Reasonable costs and expenses	When incurred	We may recover costs and reasonable attorney's fees if you lose in a dispute with us.
Audit	Cost of Audit plus interest on underpayment	Invoiced through us	We have the right to audit your financial records and reports. You must pay the full cost of the audit if you understated Gross Revenues for any month by 2% or more.
Interest On Late Payments	1½% per month or the maximum interest rate allowed by applicable	30 days after due to date	You must pay interest on all late payments.

Type of Fee (Note 1)	Amount	Due Date	Remarks
	law, whichever is less.		
Insufficient Fund Fee	Up to \$50 for each delinquent payment	When due	In addition to interest charges on late fee payments, you must pay to us a service charge of up to \$50 for each payment that we do not receive on or before the date due, or if there are insufficient funds in your bank account to collect the payment by a transfer of funds on or after the date due.
Franchise Renewal Fee	Then-current fee (currently \$5,000)	Upon renewal	
Insurance	Will vary by location and insurer (See Item 7)	When incurred	You must purchase insurance coverage as we require.

Notes:

- 1) Unless otherwise noted fees are imposed by and payable to us. The fees are non-refundable and are uniformly imposed under the current form Franchise Agreement.
- 2) During the first 36 months following commencement of Business operations (the “Start-Up Phase”), you will pay a reduced Service Fee as provided below so long as your Gross Revenues for any one month has not exceeded \$25,000:

Reduced Service Fee Rate During “Start Up Phase”

Period from Commencement of the Business* (Column A)	Monthly Gross Revenues** (Column B)	Service Fee Percentage
Months 1 – 12	Less than \$10,000	1%
Months 13 – 24	\$10,000 to \$19,999	2%
Months 25 – 36	\$20,000 to \$25,000	3%

* - You will be deemed to have commenced operating the Business as of the earlier of: (1) your completion of our Initial Training Program; and (2) you have obtained all necessary licenses and permits to operate the Business.

** - In determining whether you qualify for a reduced Service Fee, the monthly Gross Revenues for purposes of Column B will be the highest recorded Gross Revenues from the commencement of the Business through the most recent month in question.

To qualify for the reduced Service Fee for any given month during the first 36 months of operation, you must satisfy the requirements of both Column A and Column B relating to the percentage of Service Fees. For example, to qualify for a reduced Service Fee of 1% for a specific month, your Business must have been in operation for less than 12 months and your monthly Gross Revenues for the Business during that month (and each preceding month) must be less than \$10,000. If you do not satisfy the requirements of both Column A and Column B, you will pay Service Fees at a rate equal to highest rate corresponding to Column A or Column B. For example, if your Business has been in operation for 13 months and your highest monthly Gross Revenues for the Business is \$22,000, you will pay a reduced Service Fee of 3%. Once your Service Fee percentage increases, it cannot decrease in any subsequent period.

- 3) “Gross Revenues” means the aggregate amount of all sales of all Approved Services and related products and other services, whether for cash, on credit or otherwise, made or provided at or in connection with the Business. The term “Gross Revenues” does not include:

(1) any federal, state, municipal or other sales, value added or retailer's excise taxes you pay or accrue; or (2) adjustments for bona fide refunds, rebates or discounts approved by us. Gross Revenues will not be adjusted for uncollected accounts. For purposes of the Service Fee, the sale is made at the earlier of delivery of the Approved Service or product, or receipt of payment.

ITEM 7

ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount (Note 1)	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fee (Note 2)	\$49,500	Lump Sum	When you sign the Franchise Agreement	Us
Training Expenses	\$500 to \$8000 (Note 3)	As Incurred	During training	Third Parties
Office Equipment and Computer Related Expenses	\$2,600 to \$4,600 (Note 4)	As Incurred	Prior to Opening	Third Parties
Professional / Business License(s) and Miscellaneous Expenses	\$2,000 to \$3,500 (Note 5)	As Incurred	As Incurred	Third Parties
Real Estate and Improvements	\$2,000 to \$5,500 (Note 6)	As Incurred	As Incurred	Third Parties
Insurance	\$2,500 to \$4,500 (See Item 6)	As Incurred	Prior to opening	Insurance Company
Additional Funds - 3 months	\$4,785 to \$17,485 (Note 7)	As Incurred	As Incurred	Advertising, Employees, Supplies, Utilities, Signage
TOTAL	\$63,885 to \$93,085 (Note 8)			

NOTES:

- 1) Except where otherwise noted, all fees that you pay to us are non-refundable. Third-party lessors, contractors and suppliers will decide if payments to them are refundable.
- 2) As disclosed in Item 5, the standard initial franchise fee is \$49,500 with a 10% discount for qualified individuals under the VetFran program. You must pay a refundable \$10,000 deposit against the initial franchise fee before signing the Franchise Agreement. You and we will sign a Franchise Deposit Agreement, a form of which is attached as Exhibit H. If, for any reason, either you or we choose not to enter into the Franchise Agreement, the \$10,000 deposit will be fully refunded to you.
- 3) You will be responsible for travel, lodging, food and other personal expenses while training. Your expenses will vary, depending on the number of people attending training and other factors.
- 4) You may need to purchase office furniture, office fixtures, computer hardware, computer software, broadband internet access, and office decorations. All computer hardware and software must meet the requirements listed in Item 11.

5) You will incur various miscellaneous costs to open your Business. These costs include your business license, miscellaneous deposits, legal and accounting expenses, and an incorporation fee (if you incorporate).

6) If you do not have adequate office space, you must lease an office. Typical locations are light industrial and commercial areas. The typical office for the Business occupies 350 to 800 square feet. The indicated estimate is only for the first 3 months' rent, security deposit, utilities, and improvements.

7) This amount estimates all other required expenses you will incur during the initial period (first 3 months) of Business operations, including initial wages and fringe benefits (for staff only), taxes, repairs, utilities, Technology Fees and interest payments on any business loans.

8) These estimates do not include owner compensation or return on investment. Your costs will depend on factors such as how closely you follow our methods and procedures; your management skill; experience and business acumen; local economic conditions; the local market for the products and services you offer; the prevailing wage rate; competition; and the sales level you reach during the initial period. We have relied on our 25+ years of experience in franchising Touching Hearts Businesses to compile these estimates.

We do not offer financing directly or indirectly for any part of the initial investment.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

We require that you establish and operate your Business in compliance with your Franchise Agreement. You must strictly follow our procedures as stated in the Operations Manual we provide to you or other written materials from us, which we periodically may modify. Our standards and specifications have been presented to maintain a uniform standard of high quality, service, value and customer recognition in connection with our trademarks.

In the development and operation of your Business, you may use only those brands, types of equipment and supplies which meet our specifications and standards we prescribe periodically, which are required in the operation of your Business. We will issue or modify specifications and standards and designation of approved brands and types of equipment and supplies through the Operations Manual or other written communication to you. You may purchase only approved brands, types and models of equipment, signage and supplies which meet our specifications, and only from approved suppliers we designate, in our discretion. We will provide you with a list of approved suppliers who sell items, equipment, and supplies meeting our specifications and standards. The requirement to purchase supplies, equipment and fixtures meeting our specifications and standards from the approved suppliers will include (1) brochures, (2) business cards and stationery, (3) office signage, (4) company forms, and (5) computer software. We may establish specifications and standards for customer satisfaction and require you to provide services which meet our standards and specifications for customer service. We do not make the criteria for approving suppliers available to you and we do not provide material benefits to you for your use of designated or approved suppliers. We do not negotiate purchasing arrangements with suppliers on your behalf.

We currently require you to obtain a computer system, together with the designated software and related hardware and software from our designated supplier or other third party suppliers (if any). See Item 11.

You may purchase any of the required products and services from a supplier of your choosing, provided the products and services meet our standards and specifications and the supplier meets our criteria for approved suppliers. If you desire to purchase any items, services or products from suppliers not previously approved by us, you must submit to us written notice of a proposed supplier. We will have 30 days from receipt of written notice to approve or reject the proposed supplier. As a condition of approval, we may inspect the supplier's facility and the products and services to ensure compliance with our specifications and standards.

You also must use only our approved advertising and promotional materials in promoting the Business. See Item 11 for further information regarding advertising programs.

During the term of the Franchise Agreement, you must purchase and maintain in force at your expense: (1) comprehensive general liability insurance with minimum limits of \$1,000,000 per occurrence and \$2,000,000 annual aggregate; (2) workers' compensation, employer's liability and other insurance to meet the greater of all applicable statutory requirements; (3) commercial property insurance with the minimum levels of coverage we require; (4) sexual abuse/molestation liability insurance with minimum limits of \$1,000,000 per occurrence; (5) automobile liability insurance, including personal injury, wrongful death and property damage, with limits of at least \$1,000,000 per occurrence; (6) employment practices liability insurance; and (7) such other insurance as we periodically require. Your general liability policy must: (i) name us and our affiliates, and their respective officers, directors, and employees and any other person that we designate as an additional insured; (ii) be issued by an insurance carrier(s) acceptable to us and have an A.M. Best rating of A or higher; (iii) contain a waiver of the insurance company's right of subrogation against us; (iv) contain the above-mentioned insurance coverage for each TOUCHING HEARTS business that you operate; and (v) provide that we will receive thirty (3) days' prior written notice of a material change in or termination, expiration or cancellation of any policy (or such shorter period as the insurance carrier may require and as we may approve). We periodically may, with prior written notice to your, increase the minimum liability protection requirements, and require different or additional kinds of insurance to reflect inflation, changes in standards of liability, higher damage awards in the industry, or other relevant changes. You must submit to us annually a copy of the certificate of insurance or evidence of the renewal or extension of each insurance policy or any modifications to any insurance policies. If at any time you fail or refuse to maintain in effect any insurance coverage we require, or to furnish satisfactory evidence of that insurance, we may, at our option and in addition to other rights and remedies we may have, obtain insurance coverage for you and require you to reimburse us for any expenses we incur.

We (directly or through an affiliate) may derive revenue directly or in the form of rebates or other payments from suppliers, based directly or indirectly on sales of products, advertising materials and other items to franchisees, and from other service providers. These payments may range from less than 1% up to 10% or more of the total purchase price of those items. One or more of our officers have an interest in us and our affiliates. No officer owns a material interest in any other supplier.

We do not provide material benefits based on your use of approved sources. We may negotiate prices for numerous products for the benefit of the system, but not for any individual

franchisee. There is no purchasing or distribution cooperative in the system. We may, however, attempt to receive volume discounts for the system.

For the fiscal year ending December 31, ~~2022~~2023, we received \$~~4,774~~8,929 as a result of franchisee purchases of products and services from approved suppliers ~~(0.19, which is less than 0.5%~~ of our total revenue of \$~~2,468,204~~2,831,416, based on our audited financial statements attached as Exhibit E). We estimate the cost of the goods and services you must purchase from us or from approved suppliers or in compliance with our specifications and standards will represent approximately 70% to 90% of the cost to develop the Business and 30% to 50% of the cost to operate your Business.

ITEM 9 FRANCHISEE'S OBLIGATIONS

This table lists your principal obligations under the franchise and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure document.

Obligation	Section(s) in Agreement(s)	Disclosure Document Item
A. Site Selection and Acquisition/Lease	Section 2(C) of Franchise Agreement	Items 7, 8, and 11
B. Pre-opening Purchases and Leases	Not Applicable	Items 7 and 8
C. Site Development and Other Pre-opening Requirements	Sections 2(C) and 6(A) of Franchise Agreement	Items 7 and 11
D. Initial and Ongoing Training	Sections 4(A) and 6(B) of Franchise Agreement	Item 11
E. Opening	Section 6(D) of Franchise Agreement	Item 11
F. Fees	Sections 5, 6, 12(A), 14(B) and 17(D) of Franchise Agreement	Items 5, 6 and 7
G. Compliance with Standards and Policies/Operations Manual	Sections 6 and 8-12 of Franchise Agreement	Items 11 and 16
H. Trademarks and Proprietary Information	Sections 7-9 of Franchise Agreement	Items 13 and 14
I. Restrictions on Products/Services Offered	Section 4 and 6 of Franchise Agreement	Items 8 and 16
J. Warranty and Customer Service Requirements	Section 6 of Franchise Agreement	Item 11
K. Territorial Development and Sales Quotas	Section 6(F) of Franchise Agreement	Item 12
L. Ongoing Product/ Service Purchases	Section 6(L) of Franchise Agreement	Item 8 and 11
M. Maintenance, Appearance and Remodeling Requirements	Sections 6(A) and 8(B) of Franchise Agreement	Items 6 and 11
N. Insurance	Section 13 of Franchise Agreement	Items 6, 7 and 8
O. Advertising	Section 12 of Franchise Agreement	Items 6, 7 and 11
P. Indemnification	Sections 5(J) and 16 of Franchise Agreement	Item 6
Q. Owner's Participation/ Management/Staffing	Section 6 of Franchise Agreement	Item 15
R. Records/Reports	Sections 10 of Franchise Agreement	Item 6
S. Inspections/Audits	Section 11 of Franchise Agreement	Items 6 and 11
T. Transfer	Section 14 of Franchise Agreement	Items 6 and 17
U. Renewal	Section 3(B) of Franchise Agreement	Items 6 and 17
V. Post-termination Obligations	Section 15(E) of Franchise Agreement	Item 17
W. Non-competitive Covenants	Section 9 of Franchise Agreement	Item 17
X. Dispute Resolution	Section 17 of Franchise Agreement	Item 17
Y. Personal Guaranty	Section 14(E) of the Franchise Agreement; Exhibit B	Item 15

ITEM 10
FINANCING

We do not offer direct or indirect financing. We will not guarantee any note, lease or obligation.

ITEM 11
FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

Except as listed below, we are not required to provide you with any assistance.

Pre-Opening Obligations

Before you open your Business, we will:

1. Designate your Protected Territory. (Franchise Agreement Section 2(A))
2. Furnish you with an initial inventory of imprinted advertising materials. See Item 8 for the requirements on the purchase of materials and supplies. (Franchise Agreement – Section 4(E))
3. Provide the initial training program described below for a Principal Owner and a General Manager. (Franchise Agreement – Section 4(A))
4. Provide on loan to you online access to our Operations Manual, which contains both mandatory and suggested specifications and standards. The Operations Manual is confidential and remains our property and we periodically may modify it. The Table of Contents of the Operations Manual is listed in Exhibit D. (Franchise Agreement – Section 4(C))
5. Provide you with access to our computer software management and reporting system for use in operating your Business as further described below (the “Software”) upon your completion of the initial training program (Franchise Agreement – Section 6(C)).

Post-Opening Obligations

We provide the following services and assistance after you open your Business:

1. Periodically provide advisory assistance in the operation of the Business. We may offer these services online and by telephone during normal business hours or at your location as described in Item 6. (Franchise Agreement – Section 4(B).)
2. Periodically inspect your Business and provide advice regarding System standards. (Franchise Agreement – Section 11(A))
3. Include information about your Business on our Website. (Franchise Agreement – Section 12(G))

4. Periodically provide additional training sessions that we may offer or otherwise require you to attend. You must pay all of the travel and living expenses for you and your employees who attend additional training. (Franchise Agreement – Section 4(A))

5. Provide instruction regarding improvements and developments for your general business, administrative, bookkeeping, accounting, and operating systems. (Franchise Agreement – Sections 6 and 8)

6. Periodically hold or sponsor franchise conventions and meetings relating to new Approved Services, new operational procedures or programs, business management and other topics. (Franchise Agreement – Section 4(D))

Advertising. We establish and conduct certain advertising programs as follows:

We reserve the right, following a minimum of ninety (90) days' advance written notice to you, to establish and operate a marketing and promotional fund (the "Marketing Fund" or "Fund") to promote TOUCHING HEARTS businesses in the System and conduct other promotional and marketing activities. As of the date of this Disclosure Document, however, we have not yet established a Marketing Fund. If we establish a Marketing Fund, we can require you to pay a Marketing Fund Fee of up to two percent (2%) of your Gross Revenues for deposit in the Marketing Fund (the "Marketing Fund Fee"). We reserve the right to increase the Marketing Fund Fee upon sixty (60) days' notice to you. If we commence operating a Marketing Fund, we will place all Marketing Fund Fees we receive into the Marketing Fund and will manage the Fund. If applicable, we also will contribute to the Marketing Fund for each TOUCHING HEARTS business that we or our affiliates operate in the United States at the same percentage rate as a majority of the TOUCHING HEARTS businesses located in the United States must pay to the Marketing Fund. If we commence operating a Marketing Fund, disbursements from the Marketing Fund will be made solely to pay reasonable expenses we incur in connection with the general promotion of the Marks and the System, including the cost of formulating, developing and implementing advertising, marketing, promotional and public relations campaigns; the cost of market research and analytics; and the costs of administering the Marketing Fund, including the cost of employing advertising, public relations and other third-party agencies to assist us, as well as accounting expenses and the actual costs of salaries and fringe benefits paid to our employees engaged in administration of the Marketing Fund. The Marketing Fund will not be a trust or escrow account, and we will have no fiduciary obligations regarding the Marketing Fund. If we establish the Marketing Fund, we cannot ensure that you will benefit directly or on a pro rata basis from the future placement of any such advertising or marketing activities in your local market. (Franchise Agreement – Section 12(A))

In addition to the Marketing Fund Fee (if we establish a Marketing Fund), you must actively promote your Business. We reserve the right, upon sixty (60) days' notice, to require you to spend a minimum quarterly amount on approved local marketing and Business promotion not to exceed two percent (2%) of quarterly Gross Revenues. (Franchise Agreement – Section 12(B))

In the future, we may require that you participate in, support and contribute to the cost of regional cooperative advertising programs we designate. We reserve the right to designate regional and local advertising markets, to establish regional advertising councils and to establish the bylaws and other rules under which such councils will operate. Your contributions to regional and local advertising cooperatives will be credited toward your local marketing obligations (if any). (Franchise Agreement – Section 12(C))

You will use only our approved advertising and promotional materials in promoting the Business. If you desire to use any advertising or promotional materials in promoting the Business which we previously have not approved, you must submit all materials to us for our approval before using any such materials, which approval will not be unreasonably withheld. If we do not disapprove those advertising or promotional materials within 15 days after you submit those materials to us, then you may use the materials, although we reserve the right to disapprove those materials at any later time and require you to remove any subsequently disapproved materials. (Franchise Agreement – Section 12(D))

As of the issuance date of this disclosure document, we do not have an advertising council composed of franchisees.

Development Time and Site Selection. Typically, TOUCHING HEARTS franchisees will begin operating their Businesses between 3 and 6 months after signing the Franchise Agreement. City, state or any other required licenses and permits could adversely affect the time it takes to open your Business. You must operate your Business in a retail office, industrial park or other commercial location within your Territory. You are solely responsible for locating and obtaining a site that is acceptable to us. We will consent to the location of the site so long as it is located in your Territory, the lease terms are commercially reasonable and the premises is in good condition. We will respond to your proposed site within 30 days following receipt of your written request (which must include all necessary information respecting the proposed site). We typically do not own the premises which is then leased to you. You must open your Business within 6 months after you sign the Franchise Agreement or 60 days following your receipt of all licenses and permits necessary to operate the Business, whichever is earlier. If you do not open your Business by that deadline, and we otherwise do not grant you an extension, we may terminate the Franchise Agreement. (Franchise Agreement – Sections 2(C), 6(D) and 15(B))

Computer Hardware and Software Requirements. You must obtain a computer system consisting of the Software, a laptop or desktop computer with access to broadband Internet, and Intuit's QuickBooks Pro. The current designated Software is ClearCare, although we are evaluating alternative software. We will provide you with the Software package and you can purchase the other computer hardware or software from any source. We estimate that the initial cost for the computer hardware and Software will range from \$400 to \$1,000. We are not obligated to provide ongoing maintenance, repairs, upgrades or updates respecting the Software or related hardware. We may require you to upgrade or update your hardware and/or the Software during the term of your Franchise Agreement and there are no contractual limits on the frequency and cost of this obligation. We estimate that the cost of updates, upgrades, support or maintenance contracts range from \$50 to \$500. You also currently must pay ClearCare the greater of \$10 per active client (customer) per month, or \$120 per month for use of the ClearCare Software, subject to their third party contract. We reserve the right to change the Software and related requirements.

We will have independent access to the information that is generated or stored on your computer system (collectively the "Customer Data"). During the term of the Franchise Agreement, we reserve the right to own and control the use of the Customer Data that is stored on the Management System, although you will be responsible for obtaining all customer consents necessary to transfer to us or otherwise allow us to use the Customer Data for various purposes as we may identify. We will periodically establish policies respecting the Customer Data. You must comply with all laws and regulations relating to privacy and data protection, and must comply with any privacy policies or data protection and breach response policies we

periodically may establish. You are solely responsible for protecting yourself from viruses, computer hackers, and other communications and computer-related problems, and you may not hold us liable for any harm caused by such computer-related problems. You must notify us immediately of any suspected data breach or cyber-attack at or in connection with the Business. You cannot use the Customer Data for any purpose other than the operation of the Business consistent with our standards of use. There are no contractual limitations on our right to access the information and data.

You will pay us our then-current monthly technology fee (the “Technology Fee”) to offset our costs related to the Computer System, including our expenses relating to website maintenance, the internal franchisee reporting system, license fees we pay on your behalf for certain software programs and other items. We may increase the Technology Fee no more than once every 12 months, and will not increase the Technology Fee by more than 10% in any 12 month period. The Technology Fee is due and payable on or before the 10th day of each month, or as described in the Operations Manual.

Training. We will provide a one week intensive “Initial Training Program” for a Principal Owner and a General Manger (or one other employee if a Principal Owner is the General Manager) at a place and time that we designate. Both individuals must successfully complete the Initial Training Program at least 2 months before commencing operation of the Business. If, during the Initial Training Program, we determine that the Principal Owner and/or the General Manager are not qualified to manage the Business, or fail to meet our then-current requirements, we will notify you and you must select and enroll a substitute Principal Owner and/or General Manager in the Initial Training Program. Those individuals attending the Initial Training Program must successfully complete the Initial Training Program and you must satisfy other training requirements. (Franchise Agreement - Section 6(B)). We do not charge an additional fee for additional persons to attend the Initial Training Program. You are responsible for travel, lodging and living expenses that you and your other attendees incur while attending our initial training program. See Item 7 for additional information on travel and living expenses. All training, except any off-site training, will be held at our corporate headquarters in Minneapolis, Minnesota, or at another location we designate. Additional training may be required at our discretion. The following items will be used in training: Operations Manual (table of contents for this manual is listed in Exhibit D); employee training packet; payroll/human resource/billing specialist and training guide; marketing specialist and training guide; online IT training; insurance specialist and training guide. The training is designed to provide you with the fundamental technical, sales and managerial skills necessary to operate your Business. We generally plan to offer the initial training program at least quarterly or as needed. A brief description of the program is as follows:

TRAINING PROGRAM

Subject	Hours of Classroom Training (Minimum Number of Hours)	Hours of On- the-Job Training	Location
Orientation	2	0	Minneapolis, MN Nashville, TN
Marketing and Promotion	7	0	Minneapolis, MN Nashville, TN
Employee Management	5	0	Minneapolis, MN Nashville, TN
Hiring Practices	4	0	Minneapolis, MN Nashville, TN
Client Services	6	0	Minneapolis,

			MN Nashville, TN
Office Procedures	3	0	Minneapolis, MN Nashville, TN
Office Procedures, Q&A	3	0	Minneapolis, MN Nashville, TN
Software Training	2	0	Minneapolis, MN Nashville, TN
TOTALS	32	0	Nashville, TN

NOTE: Ramona Hunt, our Director of Leadership & Development, oversees ~~all~~ training. Ms. Hunt has been responsible for overseeing our training program for 10 years. She has 18+ years of experience in coaching and instructing and has received a graduate school Master’s Certification in Professional Coaching. ~~Other~~ [Emily Isbell of EI & Company](#) and ~~other~~ staff with at least 6 months of experience will assist. The Operations Manual will be used as the principal instructional material.

ITEM 12

TERRITORY

You will receive a territory (the “Protected Territory”) in which you will operate your Business. We will describe your Protected Territory in [Exhibit A](#) to the Franchise Agreement. The Protected Territory generally will have a senior (individuals over the age of 65) population of at least 20,000.

You will operate your Business in a retail office, industrial park or other commercial location that is centrally located within the Protected Territory and that we have approved (“Office”). You may relocate your premises within your Protected Territory without our prior written approval. You may not operate your Business, or locate your Office, outside of your Protected Territory. Except as we otherwise determine, you must establish an Office within 6 months following the effective date of the Franchise Agreement or 60 days following your receipt of all licenses and permits necessary to operate the Business, whichever is earlier.

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets we own, or from other channels of distribution or competitive brands that we control.

You will receive a “protected” territory in that while your Franchise Agreement is in effect, we will not establish or license another to establish any other TOUCHING HEARTS franchise within your Protected Territory. You cannot advertise or solicit sales or accept orders outside of your Protected Territory except with our consent.

You must at all times use your best efforts to promote and increase the sale and service of the Business throughout the Protected Territory. You must confine all efforts (including any advertising, promotion or solicitation) at sites located in the Protected Territory. If you wish to provide care or companionship services and/or staffing or any other services outside your Protected Territory, in unassigned areas, you first must obtain our written consent and understand that we may withdraw the right to perform services outside of your Protected Territory at any time in our sole discretion.

You retain the rights to your Protected Territory even if the population there increases. Continuation of your Protected Territory is based on maintaining the minimum monthly average gross revenues levels stated below:

Period from Commencement of Business	Minimum Monthly Average Gross Revenues
Months 1-12	No Minimum
Months 13-24	\$10,000
Months 25-36	\$20,000
Months 37-48	\$30,000
Months 49-72	\$50,000
Months 73 and thereafter	\$70,000

You will be deemed to have commenced operating the Business as of the earlier of: (1) your completion of our Initial Training Program; and (2) you have obtained all necessary licenses and permits to operate the Business. We may increase the sales level requirements, in our discretion, in any renewal Franchise Agreement. If you do not meet the minimum monthly average Gross Revenue levels above, we may terminate the Franchise Agreement or terminate your protected rights respecting the Franchise Agreement and grant franchises within your Protected Territory to third parties.

We (for ourselves and our affiliates) reserve the right, without compensation to you:

1. To ourselves operate, or to grant other persons the right to operate, TOUCHING HEARTS businesses outside the Protected Territory, although we or another franchisee periodically may service particular customers in the Protected Territory if you are unwilling or unable to service such customers as further described in the "Operations Manual" (as defined in the Franchise Agreement);
2. To sell the Approved Services and related products authorized for sale from TOUCHING HEARTS businesses under trademarks other than the Marks through similar or dissimilar channels of distribution;
3. To sell the Approved Services and related products authorized for sale through businesses under the Marks through dissimilar channels of distribution (i.e., other than the operation of TOUCHING HEARTS businesses), including by electronic means such as the Internet, by websites we establish, pursuant to conditions we deem appropriate within and outside the Protected Territory;
4. To advertise the System on the Internet (or any other existing or future form of electronic commerce) and to create, operate, maintain and modify, or discontinue the use of websites using the Marks; and
5. To acquire businesses that are the same as or similar to the Business or other TOUCHING HEARTS businesses and operate such businesses regardless of whether such businesses are located within or outside the Protected Territory, and to be acquired by any third party operating businesses that are the same as or similar to the Business or other TOUCHING HEARTS businesses regardless of whether such businesses are located within or outside the Protected Territory.

You will receive no right of first refusal or similar rights to acquire additional franchises. We or our affiliates currently have no plans to operate or franchises a business under a different trademark that sells similar goods and services as the Business.

ITEM 13

TRADEMARKS

We grant you the right to operate your Business under the mark “Touching Hearts,” a federally registered service mark and other trademarks or service marks (the “Marks”). Those rights are granted under the Franchise Agreement.

The following schedule list only the principal Marks that you are licensed to use. We have filed all required affidavits and renewal registrations for those Marks listed below.

Principal Trademarks	U.S. Registration Or Serial No.	Registration Or Application Date	Principal/Supplemental Register
Touching Hearts	Reg. No. 3,406,039	Reg. Date: April 1, 2008	Principal

We have the right to periodically change the list of Marks. Your use of the Marks and any goodwill is to our exclusive benefit and you retain no rights in the Marks. You also retain no rights in the Marks when the Franchise Agreement expires or terminates. You are not permitted to make any changes or substitutions respecting the Marks unless we direct in writing. You may not use any Mark or portion of any Mark as part of any corporate or any trade name, or any modified form or in the sale of any unauthorized product or service, or in any unauthorized manner. You may not use any Mark or portion of any Mark on any website without our prior written approval.

There are currently no effective material determinations by the U.S. Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court, or any pending infringement, opposition or cancellation proceeding, or any pending material litigation, involving the principal Marks that are relevant to your use in any state. There are currently no agreements in effect that significantly limit our rights to use or license the use of any principal Marks in any manner material to the franchise.

You must immediately notify us of any apparent infringement of or challenge to your use of any Marks, and we have sole discretion to take any action we deem appropriate. We are unaware of any infringing uses or superior rights that could materially affect your use of the principal Marks.

We are not obligated to protect you against infringement or unfair competition claims arising out of your use of the Marks, or to participate in your defense or indemnify you. We reserve the right to control any litigation relating to the Marks and we will have the sole right to decide to pursue or settle any infringement actions relating to the Marks. You must notify us promptly of any infringement or unauthorized of the Marks of which you become aware. If we determine that a trademark infringement action requires changes or substitutions to the Marks, you will make these changes or substitutions at your own expense.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

There are no patents or copyrights currently registered that are material to the franchise. We do claim copyright ownership and protection for the Operations Manual as well as our advertising copy and design, written training materials and for certain other written materials we provide to assist you in operating your Business. In addition, we treat certain portions of our training curriculum as trade secrets.

We own certain proprietary or confidential information relating to the operation of TOUCHING HEARTS businesses, including information in the Operations Manual (“Confidential Information”). You must keep confidential during and after the term of the Franchise Agreement the Confidential Information. When your Franchise Agreement expires or terminates, you must return to us all Confidential Information and all other copyright material. You must notify us immediately if you learn of an unauthorized use of the Confidential Information. We are not obligated to take any action and we will have the sole right to decide the appropriate response to any unauthorized use of the Confidential Information. You must comply with all changes to the Operations Manual at your cost. We reserve the right to own and control the Customer Data stored on your Management System and grant you a license to use the Customer Data during the term of your Franchise Agreement. As the Customer Data is Confidential Information, you must cease to use it when your Franchise Agreement expires or terminates. We will periodically establish policies respecting the Customer Data.

All ideas, concepts, techniques, or materials relating specifically and solely to a TOUCHING HEARTS Business, whether or not protectable intellectual property and whether created by or for you or your owners or employees, must be promptly disclosed to us and will be deemed to be our sole and exclusive property, part of the System, and works made-for-hire for us. You must take whatever action we request to show our ownership, including obtaining all necessary consents under applicable data privacy laws or to help us obtain intellectual property rights in the item.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

You must designate an individual we approve and who successfully completes our Initial Training Program and other required training as the general manager of the Business (“General Manager”). If the General Manager is not a “Principal Owner” (as defined below), a Principal Owner also must attend and successfully complete the Initial Training Program. The General Manager is responsible for day-to-day Business operations, and must devote his/her personal full time and attention to the management of your Business. The General Manager assumes his/her responsibilities on a full-time basis and may not engage in any other business or other activity that requires any significant management responsibility or time commitments, or that otherwise may conflict with his/her obligations. If the General Manager is not a Principal Owner, the General Manager must sign a written agreement to maintain confidentiality of the proprietary information described in Item 14 and to comply with a covenant not to compete, similar to that described in Item 17, in a form acceptable to us. The General Manager is not required to possess an equity interest in the Business.

Each individual who owns a 10% or greater interest in the franchisee entity is considered a “Principal Owner” and must sign the Guaranty and Assumption of Obligations attached to the Franchise Agreement. These people agree to discharge all obligations of the franchisee entity to us under the Franchise Agreement (see Exhibit B) and are bound by all of its provisions, including maintaining the confidentiality of Confidential Information described in Item 14 and complying with the non-compete covenants described in Item 17. In addition, we may require each spouse of a Principal Owner to sign a Personal Guaranty.

If at any time the General Manager is not managing the Business or no longer serves as the General Manager, you must promptly appoint a successor General Manager who attends and successfully completes our Initial Training Program.

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You agree to sell (provide) or offer for sale only such Core Services and Ancillary Services as we periodically direct and that meet our uniform standards of quality and performance for the System as we provide in the Operations Manual or otherwise in writing (collectively, the “Approved Services”). You must offer and sell in your Business all Core Services that we periodically direct. In addition, you may, but are not required to, sell or offer to sell Ancillary Services through your Business. You must obtain our consent before offering any Ancillary Services and must comply with all laws, rules and regulations in advance of offering any Ancillary Services. You must not deviate from our standards and specifications in providing the Approved Services and you must discontinue selling and offering for sale any such services as we may, in our discretion, disapprove in writing at any time.

You must focus your marketing and advertising of the Business within your Protected Territory and cannot advertise or solicit sales outside of your Protected Territory unless you receive our prior written consent. You will not service any customers outside your Protected Territory unless we, in our sole discretion, agree in writing to permit you to do so and you understand that we may withdraw that approval at any time.

ITEM 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this Disclosure Document.

THE FRANCHISE RELATIONSHIP

	Provision	Section in Franchise or Other Agreement	Summary
A a 1	Term of Franchise	3	10 years.
B b 2	Renewal or Extension of Term	3	If you have substantially complied with the agreement and comply with our System standards, you may extend the franchise for up to two additional 5 year terms.
C c	Requirements for You to Renew or Extend	3	You must notify us of your intention to renew at least 180 days prior to the expiration of the Franchise Agreement. You must

	Provision	Section in Franchise or Other Agreement	Summary
			satisfy all requirements of your Franchise Agreement; pay a renewal fee; sign a general release; not be in default; retain right to the Office premises; update or upgrade your Office; replace and modernize supplies, fixtures, signs, and equipment; sign the then-current Franchise Agreement, which may contain terms and conditions substantially different from those stated in the original franchise agreement.
	Termination by You	Not applicable	Not applicable
	Termination by THI without Cause	Not applicable	Not applicable.
	Termination by THI with Cause	15(B)	We can terminate your Franchisee Agreement only for cause.
	"Cause" Defined-Defaults Which Can be Cured	15(B)	30 days to cure any breach of the Franchise Agreement (except for non-curable defaults listed below).
	"Cause" Defined-Defaults Which Cannot be Cured	15(A)	You, the General Manager or a Principal Owner pleads guilty or no contest to or is convicted of a felony, crime involving moral turpitude or violation of law that we believe will adversely affect the Business or the System; disclosure of confidential information; 3 or more defaults within a 12 month period; material misrepresentation or omission in franchise application; default which is not curable; unauthorized transfer; understatement of Gross Sales of 5% or more; insolvency or bankruptcy; any conduct that poses an imminent threat to public health or safety; abandonment of the Business; or conduct that materially impairs the goodwill associated with the name "Touching Hearts," the Marks or the System.
	Your Obligations on Termination/Non-renewal	15(E)	Obligations include ceasing operation of the Business and use of the Marks; return all materials supplied by us, assign to us or disconnect phone numbers; remove all signs and other materials distinctive of a TOUCHING HEARTS business; pay all amounts due; comply with post-term provisions of any software license agreement; cancel all assumed name filings; cease use of all Confidential Information; and at our option, sell to us all the tangible assets relating to the Business (see also R below).
	Assignment of Contract by THI	14(A)	We have the right to or assign the Franchise Agreement in whole or in part. Assignee must assume our obligations under the Franchise Agreement.
	"Transfer" by You-Definition	14(B) and (C)	Includes direct or indirect transfers of Franchise Agreement to a wholly-owned entity or otherwise; transfers of the Business or its assets; or transfer of a controlling interest in you.
	Our Approval of Transfer	14(B) and (C)	We have the right to approve all transfers but will not unreasonably withhold approval, if transfer conditions are satisfied.
	Conditions of Approval of Transfer	14(B) and (C)	You may transfer to a wholly owned entity if you own all interests in the entity; the Business is actively managed by the General Manager; the Principal Owners of the assignee entity sign the Guaranty Agreement; provide us 15 days' written notice before assignment; provide certified copy of organizational documents and list of all owners; and entity organizational documents bear a restrictive legend.

	Provision	Section in Franchise or Other Agreement	Summary
			New franchisee must qualify and complete any required training; you pay a transfer fee; all amounts owed are paid and you are in good standing; you sign a release and agree to comply with all post-term obligations; new franchisee must assume your obligations under the existing franchise agreement or, at our option, sign our then-current franchise agreement (see also R below).
N n.	Our Right of First Refusal to Acquire Your Business	14(E)	We have a right of first refusal to acquire your Business which is for sale and for which you have received a good faith offer to purchase. We have 30 days from a written notice of the offer to enter into a contract to purchase the franchise or its assets at the same terms as those contained in the offer.
O o.	Our Option to Purchase Your Business Assets	Not applicable	Not applicable
P p.	Your Death or Disability	14(D)	Franchise must be assigned by estate to an approved buyer within reasonable time not exceeding 12 months.
Q q.	Non-Competition Covenants During the Term of the Franchise	9(B)	No involvement in a competing business (any business offering any Approved Services).
R r.	Non-Competition Covenants After the Franchise is Terminated or Expires	9(C)	No involvement in a competing business for two years within a 30 mile radius of the outside boundary of your Protected Territory or the protected territory of any other franchisee.
S s.	Modification of Agreement	18(F)	The Franchise Agreement may be amended by mutual written consent. We retain the right to unilaterally change our Operations Manual.
T t.	Integration/Merger Clause	18(O)	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to federal and state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable. Nothing in this or any related agreement is intended to disclaim the express representations made in the Franchise Disclosure Document, its exhibits and amendments.
U u.	Dispute Resolution by Arbitration or Mediation	17(A) and (B)	Except for actions we bring for monies owed or injunctive relief, all disputes first will be subject to non-binding mediation in the county where our headquarters is located, then (if not resolved) to binding arbitration in the county where our headquarters is located (subject to applicable law).
V v.	Choice of Forum	17(E)	Litigation (to the extent permitted) must be in state or federal court in the in the county where our headquarters is located at the time the suit is commenced (subject to applicable law). We also have the right to file suit where the Business is located (subject to applicable law).
W w.	Choice of Law	17(D)	Laws of the state where the Business is located applies (subject to applicable law).

ITEM 18

PUBLIC FIGURES

We do not use any public figure to promote or manage our franchise.

ITEM 19

FINANCIAL PERFORMANCE REPRESENTATIONS

The Federal Trade Commission's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

The financial performance representation below is a historic financial performance representation based on certain historical financial performance information experienced by our franchisees that have owned and operated their Touching Hearts® Business for at least one year as of December 31, ~~2022~~2023. ~~The source of the data used in this Item 19 are our 64 franchisees who~~There were 64 franchised Businesses operated by 44 franchisees as of December 31, 2023. Of the 64 franchised Businesses, 62 franchised Businesses were open a full year as of December 31, ~~2022~~2023 and these 62 franchised Businesses are the source of the data used in this Item 19. We have not audited or independently verified this information and do not know whether the information was prepared consistent with generally accepted accounting principles.

Table 1

Table 1 reflects average annual "Gross Revenues" (as defined below) information for all 62 franchised Businesses for calendar year ~~2022~~2023 that were open at least one year as of December 31, ~~2022~~. ~~As of December 31, 2022, there were 44 franchisees operating 64 Businesses. The data below in Table 1 includes information from~~2023 (the "Participating Franchised Businesses"). "Gross Revenues" means the aggregate amount of all ~~64~~sales of the ~~Businesses as all Businesses were open a full year as of December 31, 2022~~. Approved Services and related products and other services, whether for cash, on credit or otherwise, made or provided at or in connection with the Business. The term "Gross Revenues" does not include: (1) any federal, state, municipal or other sales, value added or retailer's excise taxes you pay or accrue; or (2) adjustments for bona fide refunds, rebates or discounts approved by us. Gross Revenues are not adjusted for uncollected accounts."

Statement of Annual Gross Revenues – All <u>Participating</u> Franchised Businesses				
Number of Franchised Businesses	Average Annual Gross Revenues	Number and Percentage of Franchised Businesses Above Average	Median Gross Revenues	Range
<u>62</u>	<u>\$1,012,846</u>	<u>21 (34%)</u>	<u>\$801,254</u>	<u>\$60,024 to \$5,975,645</u>
64	\$897,289	17 (27%)	\$637,880	\$70,753 to \$6,331,653

Table 2

Table 2 reflects average annual Gross Revenues information for the ~~top 25% and bottom 25% of franchised~~ Participating Franchised Businesses by quartile for calendar year 2022 that were open at least one year as of December 31, 2022. ~~As of December 31, 2022, there were 44 franchisees operating 64 Businesses. The data below in Table 2 includes information from 32 of the 64 Businesses as the remaining 32 Businesses were either not open a full year as of December 31, 2022, or were not in the top 25% or bottom 25% of franchised Businesses for the relevant measurement period~~ 2023.

Statement of Annual Gross Revenues Top 25% and Bottom 25% of <u>for Participating Franchised Businesses By Quartile</u>					
Quartile	Number of Franchised Businesses	Average Annual Gross Revenues	Number and Percentage of Franchised Businesses Above Average	Median Gross Revenues	Range
Top 25%	<u>4615</u>	\$2,207,105 <u>2,313,332</u>	6 (38%) <u>4 (27%)</u>	\$1,515,195 <u>1,703,678</u>	\$1,018,788 to \$6,331,654 <u>1,275,645 to 975,645</u>
Bottom <u>Upper Middle</u> 25%	16	\$195,136 <u>999,761</u>	9 (56%)	\$213,420 <u>1,009,912</u>	\$70,753 to \$306,370 <u>382,633 to 1,257,970</u>
<u>Lower Middle</u> 25%	<u>16</u>	<u>\$546,297</u>	<u>3 (19%)</u>	<u>\$516,864</u>	<u>\$442,316 to \$776,174</u>
<u>Bottom 25%</u>	<u>15</u>	<u>\$223,971</u>	<u>5 (33%)</u>	<u>\$216,510</u>	<u>\$60,024 to \$400,917</u>

Table 3

~~Table 3 reflects average annual~~
The same-store sales growth figures below compare the Gross Revenues information for all earned by franchised Businesses for (by territory vs. franchise owner) over the course of a calendar year 2022 that were open at least one year as of December 31, 2022, as separated into four categories based on the number of years in which each Business has been in operation. As of December 31, 2022, there were 44 franchisees operating 64 Businesses. The data below in Table 4 includes information from all 64 with the Gross Revenues earned by the same franchised Businesses during the prior calendar year. We used information from sales reports submitted by the franchised Businesses in calculating royalties, and data obtained from our franchisee scheduling and billing software. Same store sales for franchised Businesses as all Businesses were open a full year as of December 31, 2022.

Statement of Annual Gross Revenues— All Franchised Businesses Segregated by Years of Business Operations					
Months of Business Operations	Number of Franchised Businesses	Average Annual Gross Revenues	Number and Percentage of Stores Above Average	Median Gross Revenues	Range
12-24 months	2	\$238,207	1 (50%)	\$238,207*	\$87,386 to \$389,027
25-36 months	3	\$389,385	1 (33%)	\$265,138	\$265,138 to \$637,880
37-60 months	12	\$824,165	3 (25%)	\$369,388	\$70,753 to \$3,622,850
61-156 months	47	\$976,425	13 (28%)	\$684,797	\$165,498 to \$6,331,654

~~* As there are only 2~~ for at least 12 months is measured each year. Over the last 10 years, franchised Businesses in ~~this category~~, the ~~Median Gross Revenues is the average of the two~~. Touching Hearts System have experienced same store sales growth that breaks down as follows:

Historic Same-Store Net Sales Growth Over Prior Year – Franchised Businesses

Period	Franchised Same-Store Sales Growth Over Prior Year	Total No. of Operating Franchised Businesses Whose Data Were Used	Total No. of Operating Franchised Businesses Existing During Period	No. and Percentage of Operating Franchised Businesses that Attained or Exceeded Avg.
2022-2023	+9%	60	64	27 / 45%
2021-2022	+14%	60	64	19 / 32%
2020-2021	+41%	58	69	19 / 33%
2019-2020	+18%	53	72	17 / 32%
2018-2019	+13%	47	68	25 / 53%
2017-2018	+28%	44	68	12 / 27%
2016-2017	+18%	37	57	19 / 51%
2015-2016	+35%	28	50	5 / 18%
2014-2015	+25%	24	45	9 / 38%
2013-2014	+6%	22	41	3/14%

Additional Notes Applicable to Tables 1 through 3 Above:

(1) All of the franchised Businesses (Participating Franchised Businesses) whose data were used in the tables above were open for at least a full year during the measured period. The franchised Businesses that were excluded from the tables above were not open for at least a full year during the measured period. There is no guarantee you will stay in business that long or that you will achieve the stated levels of same-store sales growth within that time period. In addition, many of the Participating Franchised Businesses represented in this Item 19 have been in business for more than 5 years. As a result, their results are likely to be significantly higher than a franchisee in its first year of operation.

(2) ~~(4)~~ Ten franchisees operate more than one Business. Each of these franchisees submit only one Gross Revenues report for their combined Businesses. In each of these situations, the Gross Revenues for each Participating Franchised Business was determined by dividing Gross Revenues reported by the franchisee by the number of Participating Franchised Businesses operated by the franchisee.

(23) The term “Gross Revenues” means all of the franchisee’s billings, whether or not collected, including cash sales and sales on account, monies billed for companion and ancillary services whether performed by the franchisee or subcontracted, monies billed in connection with trade or barter agreements, or monies billed for any other service performed using the Proprietary Marks, but does not include any bona fide refunds, rebates or discounts approved by us.

(34) The term “Average Gross Revenues” means the cumulative Gross Revenues of the number of Participating Franchised Businesses identified in each category divided by the number of Participating Franchised Businesses identified for that category. The term “Median Gross Revenue” means the Gross Revenue of the Participating Franchised Business lying at the midpoint of the total number of Participating Franchised Businesses identified in a category with the number of Participating Franchised Businesses having more Gross Revenue than the

Median Gross Revenue equal to the number of [Participating](#) Franchised Businesses having less Gross Revenue.

~~(4) — Each of the 64 franchisees represented in this Item 19 were open at least one full year and many of them have been in business for more than 5 years. As a result, their results are likely to be significantly higher than a franchisee in its first year of operation.~~

(5) We recommend that you make your own independent investigation to determine whether or not to purchase this franchise, and consult with an attorney and other advisors before signing any Franchise Agreement. You should conduct an independent investigation of the costs and expenses in operating a Business.

(6) Written substantiation for the financial performance representation will be made available to the prospective franchisee upon reasonable request.

Some Businesses have sold this amount. Your individual results may differ. There is no assurance that you'll sell as much.

Other than the preceding financial performance representation, we do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Aaron Stromley at 7900 W 78th St., Suite 410, Minneapolis, Minnesota 55439, (877) 870-8750, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20 OUTLETS AND FRANCHISEE INFORMATION

**TABLE NUMBER ONE
SYSTEM-WIDE OUTLET SUMMARY
FOR YEARS ~~2020~~2021 TO ~~2022~~2023**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Company-Owned	2020	0	0	0
	2021	0	0	0
	2022	0	0	0
	2023	0	0	0
Franchised	2020	68	72	+4
	2021	72	69	-3
	2022	69	64	-5
	2023	64	64	0
Total Outlets	2020	68	72	+4
	2021	72	69	-3
	2022	69	64	-5
	2023	64	64	0

TABLE NUMBER TWO
TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS
(OTHER THAN THE FRANCHISOR)
FOR YEARS ~~2020~~2021 TO ~~2022~~2023

State	Year	Number of Transfers
<u>Florida</u>	<u>2021</u>	<u>1</u>
	<u>2022</u>	<u>0</u>
	<u>2023</u>	<u>0</u>
<u>Colorado</u>	<u>2021</u>	<u>0</u>
	<u>2022</u>	<u>0</u>
	<u>2023</u>	<u>1</u>
<u>Illinois</u>	<u>2021</u>	<u>0</u>
	<u>2022</u>	<u>1</u>
	<u>2023</u>	<u>0</u>
<u>New York</u>	<u>2021</u>	<u>0</u>
	<u>2022</u>	<u>1</u>
	<u>2023</u>	<u>0</u>
Total	2020	4
	2021	1
	2022	2
	<u>2023</u>	<u>1</u>

TABLE NUMBER THREE
STATUS OF FRANCHISED OUTLETS
FOR YEARS ~~2020~~2021 TO ~~2022~~2023

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operations Other Reasons	Outlets at End of Year
Alabama	2020	4	0	0	0	0	0	4
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	<u>2023</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Arizona	2020	4	0	0	0	0	0	4
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	<u>2023</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Colorado	2020	4	0	0	0	0	0	4
	2021	4	0	0	0	0	0	4
	2022	4	0	0	0	0	0	4
	<u>2023</u>	<u>4</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5</u>
Connecticut	2020	4	0	0	0	0	0	4
	2021	1	0	0	0	0	1	0
	2022	0	0	0	0	0	0	0
	<u>2023</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Florida	2020	9	2	0	0	0	0	11
	2021	11	0	0	0	0	0	11
	2022	11	0	0	0	0	1	10
	<u>2023</u>	<u>10</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10</u>
Georgia	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	1	1
	2022	1	0	0	0	0	0	1

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operations Other Reasons	Outlets at End of Year
	2023	1	0	0	0	0	0	1
Idaho	2020	0	0	0	0	0	0	0
	2021	0	1	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Illinois	2020	3	2	0	0	0	0	5
	2021	5	0	0	0	0	0	5
	2022	5	0	0	0	0	3	2
	2023	2	0	0	0	0	0	2
Kansas	2020	4	0	0	0	0	0	4
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Massachusetts	2020	0	4	0	0	0	0	4
	2021	1	1	0	0	0	1	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Minnesota	2020	9	4	0	0	0	0	10
	2021	10	0	0	0	0	0	10
	2022	10	0	0	0	0	1	9
	2023	9	0	0	0	0	0	9
Nebraska	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	1	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
New Jersey	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
New York	2020	9	4	0	0	0	0	10
	2021	10	0	0	0	0	0	10
	2022	10	0	0	0	0	0	10
	2023	10	0	0	0	0	0	10
Ohio	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
Oregon	2020	4	0	0	0	0	0	4
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	1	0
Pennsylvania								

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operations Other Reasons	Outlets at End of Year
	2020	5	0	0	0	0	0	5
	2021	5	0	0	0	0	0	5
	2022	5	0	0	0	0	0	5
	2023	5	0	0	0	0	1	4
Tennessee	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
	2023	2	1	0	0	0	0	3
Texas	2020	7	0	0	0	0	4	6
	2021	6	0	0	0	0	1	5
	2022	5	0	0	0	0	0	5
	2023	5	0	0	0	0	0	5
Utah	2020	4	0	0	0	0	4	0
	2021	0	0	0	0	0	4	0
	2022	0	0	0	0	0	0	0
Virginia	2020	4	0	0	0	0	0	4
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Wisconsin	2020	5	0	0	0	0	0	5
	2021	5	0	0	0	0	0	5
	2022	5	0	0	0	0	0	5
	2023	5	0	0	0	0	0	5
Total								
Totals	2020	68	6	0	0	0	2	72
	2021	72	2	0	0	0	5	69
	2022	69	0	0	0	0	5	64
	2023	64	2	0	0	0	2	64

**TABLE NUMBER FOUR
STATUS OF COMPANY-OWNED OUTLETS
FOR YEARS ~~2020~~2021 TO ~~2022~~2023**

State	Year	Outlets at Start of Year	Outlet Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
TOTAL	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2023	0	0	0	0	0	0

TABLE NUMBER FIVE
PROJECTED OPENINGS AS OF DECEMBER 31, ~~2022~~2023

State	Franchise Agreements Signed but Outlet Not Opened	Projected New Franchised Outlet in the Next Fiscal Year	Projected New Company-Owned Outlet in the Next Fiscal Year
Arizona	0	2	0
Colorado	0	3	0
Florida	0	2	0
Illinois	0	1	0
Massachusetts	0	4	0
New Jersey	0	2	0
New Mexico	0	2	0
New York	0	1	0
Texas	0	3	0
Virginia	0	1	0
Total	0	18 12	0

The name, business address, and business telephone number of each current franchisee as of December 31, ~~2022~~2023, is attached as Exhibit F. Also attached as Exhibit F is the name, city, state and telephone number of every franchisee who was terminated, not renewed, reacquired, ceased operations or otherwise left the system during our ~~2022~~2023 fiscal year or has failed to communicate with us within 10 weeks of the date of this disclosure document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

There are no instances during the last three fiscal years where a former franchisee signed provisions restricting their ability to speak openly about their experience with us due to a confidentiality clause agreement.

We are not aware of any trademark specific franchisee organizations.

ITEM 21

FINANCIAL STATEMENTS

Our audited financial statements, dated December 31, ~~2022~~2023, December 31, ~~2021~~2022 and December 31, ~~2020~~2021, are included in this Disclosure Document at Exhibit E.

ITEM 22

CONTRACTS

The Franchise Agreement and exhibits are included as Exhibit A. The Franchise Deposit Agreement is attached as Exhibit H. The Disclosure Acknowledgement Agreement is attached as Exhibit I.

ITEM 23

RECEIPTS

The last two pages of this Disclosure Document (Exhibit J) are documents acknowledging receipt of this Disclosure Document by you (one copy for you and one copy for

us). The Receipt must be signed and dated and delivered to us at least 14 calendar days, or earlier if required by state law, before the signing of the Franchise Agreement or payment of any fee by you.

EXHIBIT A
FRANCHISE AGREEMENT



**TOUCHING HEARTS, INC.
FRANCHISE AGREEMENT**

FRANCHISEE

DATE OF AGREEMENT

Touching Hearts, Inc.
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EXHIBITS

A – PROTECTED TERRITORY

B – GUARANTY AND ASSUMPTION OF OBLIGATIONS

C –BUSINESS ASSOCIATE AGREEMENT

TOUCHING HEARTS, INC. FRANCHISE AGREEMENT

THIS AGREEMENT is made and entered into this _____ day of _____, 20____ between Touching Hearts, Inc., a Minnesota corporation, with a principal place of business at 7900 W 78th St. Suite 410, Minneapolis, Minnesota 55439 (“we” or “us”) and _____, a _____ formed and operating under the laws of the State of _____ (“you”).

INTRODUCTION

A. We developed, own and continue to improve a “System” (as defined in Section 1(J) below) for providing affordable high quality personal care, in-home care, non-medical and care management services, together with medical and skilled nursing care services for older adults, persons with disabilities and others with care management service needs.

B. We own the “Touching Hearts” trademark, and certain other “Marks” (as defined in Section 1(F) below) used in operating the System.

C. We grant qualified persons the right to develop, own and operate a Touching Hearts® business within a specific territory.

D. You desire to obtain the right to develop and operate a Touching Hearts® business under the System within a specific territory.

In consideration of the mutual covenants and agreements stated below, the parties agree as follows:

AGREEMENTS

1. DEFINITIONS

A. “Ancillary Services” means those skilled care and other in-home medical care services and related products that we have or may develop and implement that franchisees are authorized, but not required, to provide in Touching Hearts® businesses, as we periodically may modify or otherwise approve.

B. “Approved Services” means the Core Services and the Ancillary Services, as we periodically may modify or otherwise approve.

C. “Business” means the Touching Hearts® business developed and operated under this Agreement, and which offers the Approved Services and related products.

D. “Confidential Information” means the methods, techniques, formats, marketing and promotional techniques and procedures, specifications, information, the “Operations Manual” (as defined in Section 4(C)), systems, and knowledge of and experience in the operation and franchising of Touching Hearts® businesses that we communicate to you or that you otherwise acquire in operating the Business under the System (as defined in Section 1(J) below). Confidential Information does not include information, processes or techniques that are generally known to the public, other than through disclosure (whether deliberate or inadvertent) by you.

E. “Core Services” means those high quality personal care, non-medical care, in-home care assistance, and companionship care and care management services provided to older adults, persons with disabilities and others with care management service needs and other related services authorized for Touching Hearts® businesses, as we periodically may modify or otherwise approve to provide to customers through your Business.

F. “Customer Data” means any name, address, email address, telephone number, date of birth, demographic data, behavioral data, customer service history, financial data, transaction data, correspondence, and other information about any potential, current or former customer whether stored in electronic, physical or other forms or formats.

G. “General Manager” means the Principal Owner or other person that you designate as the general manager of the Business, has completed our Initial Training Program and all mandatory follow-up training programs, and meets our then-current requirements for general managers (as described in the Operations Manual).

H. “Gross Revenues” means the aggregate amount of all sales of all Approved Services and related products and other services, whether for cash, on credit or otherwise, made or provided at or in connection with the Business. The term “Gross Revenues” does not include: (1) any federal, state, municipal or other sales, value added or retailer’s excise taxes you pay or accrue; or (2) adjustments for bona fide refunds, rebates, expense reimbursements or discounts approved by us. Gross Revenues will not be adjusted for uncollected accounts. For purposes of the Service Fee described in Section 4(B) below, the sale is made at the earlier of delivery of the Approved Service or product, or receipt of payment.

I. “Marks” means the Touching Hearts® trademark and service mark, the related design logo, and other trademarks, service marks, domain names, logos, slogans, and commercial symbols that we have designated, or may in the future designate, for use in the System.

J. “Principal Owner” means any person or entity who directly or indirectly owns a ten percent (10%) or greater interest in you. If any corporation or other entity other than a partnership is a Principal Owner, a “Principal Owner” also will mean a shareholder or owner of a ten percent (10%) or greater interest in such corporation or other entity. If a partnership is a Principal Owner, a “Principal Owner” also will mean each general partner of such partnership and, if such general partner is an entity, each owner of a ten percent (10%) or greater interest in such general partner.

K. “Protected Territory” means the geographic area, identified in Exhibit A, which is an area surrounding the location of the Business that we designate.

L. “System” means the Touching Hearts® system which includes providing Approved Services and related products to individuals under the Marks at Touching Hearts® businesses, using certain distinctive business techniques, methods and procedures, types of equipment (including the Computer System (as defined in Section 6(C) below)), Confidential Information, and sales promotion programs, as we periodically may modify and further improve.

2. FRANCHISE RIGHTS

A. Grant. We grant you a non-exclusive license during the term of this Agreement to use our System and Marks under the terms of this Agreement to operate a Touching

Hearts® franchise (the “Business”) at a site we authorize (the “Office”) within the territory identified in Exhibit A (the “Protected Territory”). Subject to Section 1(B) below, during the term of your Agreement and so long as you are not in default hereunder, we will not directly, or grant another person a license to, operate a Touching Hearts® (“TH”) business within the Protected Territory.

B. Rights Reserved To Us. We (for us self and our affiliates) retain the right:

1. To ourselves operate, or to grant other persons the right to operate, TH businesses outside the Protected Territory, although we or another franchisee periodically may service particular customers in the Protected Territory if you are unwilling or unable to service such customers as further described in the Operations Manual;

2. To sell the Approved Services and related products authorized for sale from TH businesses under trademarks other than the Marks through similar or dissimilar channels of distribution

3. To sell the Approved Services and related products authorized for sale through TH businesses under the Marks through dissimilar channels of distribution (i.e., other than the operation of TH businesses), including by electronic means such as the Internet, by websites we establish, pursuant to conditions we deem appropriate within and outside the Protected Territory;

4. To advertise the System on the Internet (or any other existing or future form of electronic commerce) and to create, operate, maintain and modify, or discontinue the use of websites using the Marks; and

5. To acquire businesses that are the same as or similar to the Business or other TH businesses and operate such businesses regardless of whether such businesses are located within or outside the Protected Territory, and to be acquired by any third party operating businesses that are the same as or similar to the Business or other TH businesses regardless of whether such businesses are located within or outside the Protected Territory.

C. Site Selection. You must operate your Business in a retail office, industrial park or other commercial location that is centrally located within the Protected Territory and that we have approved (“Office”). You may not operate your Business, or locate your Office, outside of your Territory. Except as we otherwise determine, you must establish an Office within six (6) months following the Effective Date or sixty (60) days following your receipt of all licenses and permits necessary to operate the Business, whichever is earlier.

D. Territory Rights and Restrictions. You must focus your marketing and advertising of the Business within your Protected Territory and cannot advertise or solicit sales outside of your Protected Territory unless you receive our prior written consent. You will not service any customers outside your Protected Territory unless we, in our sole discretion, agree in writing to permit you to do so and you understand that we may withdraw that approval at any time. The license granted to you under this Agreement is personal in nature, may not be used at any location other than at the Business, and does not include the right to provide or sell any Approved Services or related products identified by the Marks at any location other than from the Business. This Agreement does not include the right to provide or sell any Approved Services or related products identified by the Marks through any other channels of distribution, including the Internet (or any other existing or future form of electronic commerce). You will not

open any other TH business or office in the Protected Territory unless we permit you to do so under a separate franchise agreement. You will not have the right to subfranchise or sublicense any of your rights under this Agreement. You will not use the Business for any purposes other than the operation of a TH business.

3. TERM AND RENEWAL

A. Term. This Agreement is for a term of ten (10) years, beginning on the date of this Agreement (the "Effective Date").

B. Renewal. You will have the right to enter into a successor agreement for the franchise granted herein for two (2) additional renewal terms of five (5) years each, provided you satisfy the following conditions respecting each renewal term:

1. You provide us with written notice of your intent to renew at least one hundred eighty (180) days but no more than three hundred sixty-five (365) days prior to the end of the term (or renewal term, if applicable) of this Agreement;

2. You are not in default of any provision of this Agreement or any other agreement between you and us or any of our affiliates, and you have substantially complied with all the terms and conditions of the foregoing agreements, including the payment of all monetary obligations owed to us or our affiliates;

3. At the time of renewal, you have met or exceeded the minimum monthly Gross Revenues levels stated in Section 6(E) below for the prior six (6) months;

4. Both a Principal Owner and General Manager (if the General Manager is not a Principal Owner) must complete, to our satisfaction, any new training and refresher programs as we may reasonably require. You are responsible for travel, living and compensation costs of attendees;

5. You maintain possession of the Office premises and, if we then so require, have at your expense made such reasonable capital expenditures necessary to remodel, modernize and redecorate the Office premises and to replace and modernize the supplies, fixtures, signs, and equipment used in your Business so that it reflects the then-current physical appearance of new TH businesses;

6. You sign our then-current form of franchise agreement which may contain terms and conditions substantially different from the provisions of this Agreement;

7. You pay to us a fee equal to Five Thousand Dollars (\$5,000) (the "Renewal Fee") when you provide notice of your intent to renew the Franchise Agreement; and

8. You and each Principal Owner sign a general release, in a form satisfactory to us, of any and all claims against us and our partners, directors, shareholders, agents, and employees.

4. FRANCHISOR SERVICES

A. Training. We will provide a one week intensive “Initial Training Program” for a Principal Owner and a General Manager (or one other employee if a Principal Owner is not the General Manager) at a place and time that we designate. The Initial Training Program may include online tutorials, classroom instruction and on-site training relating to Business operations, providing Approved Services, marketing and sales programs and methods of controlling operating costs. If, during the Initial Training Program, we determine that the Principal Owner and/or the General Manager are not qualified to manage the Business, or fail to meet our then-current requirements, we will notify you and you must select and enroll a substitute Principal Owner and/or General Manager in the Initial Training Program. Those individuals attending the Initial Training Program must successfully complete the Initial Training Program and you must satisfy other training requirements as described in Section 5 below. If at any time we determine that one of the persons who were initially trained are not qualified to continue to manage the Business or the General Manager is no longer acting as a full-time manager of the Business, you must pay for his or her replacement to attend the Initial Training Program. We will provide such training to the replacement officer or manager for a fee we determine.

B. Operating Assistance. We will advise you on operational issues and provide assistance in operating the Business as we deem appropriate. Operating assistance may include advice regarding the following:

1. additional Approved Services and products authorized for sale at TH businesses;
2. selecting, purchasing and marketing products, equipment and other approved materials and supplies;
3. marketing assistance and sales promotion programs; and
4. establishing and operating administrative, bookkeeping, accounting, and general operating procedures for the proper operation of a TH business.

We will provide such guidance, in our discretion, through our Operations Manual, bulletins or other written materials, telephone conversations and/or meetings at our office or at the Business in conjunction with an inspection of the Business. We will provide you with additional assistance at the Business location for a fee, plus reimbursement of our travel, accommodation and meal expenses.

C. Operations Manual. We will provide on loan to you, during the term of this Agreement, electronic (Internet) access to an Operations Manual, which may include other handbooks, manuals and written materials (collectively, the “Operations Manual”) for TH businesses. The Operations Manual will contain mandatory and suggested specifications, standards and operating procedures that we develop for TH businesses and information relating to your other obligations. Any required specifications, standards and operating procedures exist to protect our interests in the System and the Marks and to create a uniform customer experience, and not to establish any control or duty to take control over those matters that are reserved to you. We may supplement, modify or remove information to or from the Operations Manual to reflect changes in the System, the Approved Services and related products, and specifications, standards and operating procedures of a TH business. You must

implement any changes to your Business that we require in the Operations Manual within the specified time frames. The master copy of the Operations Manual that we maintain on our website, and make available to you by electronic access, will control if there is a dispute involving the contents of the Operations Manual.

D. Conventions and Meetings. We may periodically hold or sponsor, and you must attend, franchise conventions and meetings relating to new Approved Services, new operational procedures or programs, recognition of successful franchisees, training, business management, sales and sales promotion or similar topics. We may require your General Manager to attend the convention and pay our then-current registration fee. You must pay the then-current registration even if you do not attend. You are responsible for all expenses you incur during the convention, including your and your employees' transportation, lodging, meals and salaries. We may use the monies from the Marketing Fund for purposes related to the convention.

E. Initial Imprinted Materials Package. We will furnish you with a one-time initial inventory of imprinted materials for advertising.

5. FEES PAID TO FRANCHISOR

A. Initial Franchise Fee. You will pay us an "Initial Franchise Fee" of Forty-Nine Thousand Five Hundred Dollars (\$49,500). We will apply the deposit of Ten Thousand Dollars (\$10,000) previously received from you to the Initial Franchise Fee and the balance of Thirty-nine Thousand Five Hundred Dollars (\$39,500) is payable when you sign this Agreement. The Initial Franchise Fee is fully earned by us upon receipt of the balance due and is not refundable.

B. Service Fee. You will pay us a non-refundable service fee equal to six percent (6%) of your Gross Revenues ("Service Fee") on a semi-monthly basis, or as we otherwise describe in the Operations Manual; provided, however, that you will pay a reduced Service Fee during the initial "Start-Up Phase" as described below:

Reduced Service Fee Rate During "Start Up Phase"

Period from Commencement of the Business* (Column A)	Monthly Gross Revenues** (Column B)	Service Fee Percentage
Months 1 – 12	Less than \$10,000	1%
Months 13 – 24	\$10,000 to \$19,999	2%
Months 25 – 36	\$20,000 to \$25,000	3%

* - You will be deemed to have commenced operating the Business as of the earlier of: (1) your completion of our Initial Training Program; and (2) you have obtained all necessary licenses and permits to operate the Business.

** - In determining whether you qualify for a reduced Service Fee, the monthly Gross Revenues for purposes of Column B will be the highest recorded Gross Revenues from the commencement of the Business through the most recent month in question.

To qualify for the reduced Service Fee for any given month during the first 36 months of operation, you must satisfy the requirements of both Column A and Column B relating to the percentage of Service Fees. For example, to qualify for a reduced Service Fee of one percent (1%) for a specific month, your Business must have been in operation for less than twelve (12) months and your monthly Gross Revenues for the Business during that month (and each

preceding month) must be less than \$10,000. If you do not satisfy the requirements of both Column A and Column B, you will pay Service Fees at a rate equal to highest rate corresponding to Column A or Column B. For example, if your Business has been in operation for 13 months and your highest monthly Gross Revenues for the Business is \$22,000, you will pay a reduced Service Fee of three percent (3%). Once your Service Fee percentage increases, it cannot decrease in any subsequent period. You will commence paying the standard Service Fee of six percent (6%) of Gross Revenues upon the earlier of 36 months following the Effective Date

C. Marketing Fee. As further described in Section 12(A) below, we may require you to pay us in the future a non-refundable "Marketing Fund Fee" for deposit into a "Marketing Fund." If implemented, the Marketing Fund Fee will be due and payable at the same time and in the same manner as the Service Fee.

D. Technology Fee. You will pay us our then-current monthly technology fee (the "Technology Fee") to offset our costs related to the Computer System, including our expenses relating to website maintenance, the internal franchisee reporting system and other items. We may increase the Technology Fee no more than once every twelve (12) months, and will not increase the Technology Fee by more than ten percent (10%) in any twelve (12) month period. The Technology Fee is due and payable on or before the tenth (10th) day of each month, or as described in the Operations Manual.

E. Electronic Transfer of Funds. We will require you to sign electronic funds transfer (EFT) authorizations and other documents as we periodically designate to authorize your bank to transfer, either electronically or through some other method of payment we designate, directly to our account and to charge your account for all Service Fees, Technology Fees and other amounts you owe us. Your authorization will permit us to designate the amount to be transferred from your account. You must maintain a balance in your accounts sufficient to allow us to collect the amounts owed to us when due. You will be responsible for any penalties, fines or similar expenses associated with the transfer of funds described herein. We may change the frequency with which we collect fees under this Agreement, although we will not collect fees more frequently than once a week. You agree to comply with our payment instructions as we periodically may modify them.

F. Insufficient Funds. In addition to interest charges on late fee payments, you must pay to us a service charge of up to Fifty Dollars (\$50) ("Insufficient Fund Fee") for each delinquent payment that you owe to us under this Agreement. A payment is delinquent if: (1) we do not receive the payment on or before the date due; or (2) there are insufficient funds in your bank account to collect the payment by a transfer of funds on or after the date due.

G. Interest on Late Payments. All Service Fees, Technology Fees and other amounts which you owe to us or our affiliates will bear interest after the due date at the lesser of: (1) eighteen percent (18%) per year; or (2) the maximum contract rate of interest permitted by law in the state in which the Business is located.

H. Application of Payments. We have discretion to apply any payments received from you to any amounts due to us or any of our affiliates. Moreover, we have discretion to apply any amounts we pay you to any amounts that may be due to you.

I. Withholding Payments Unlawful. You agree that you will not withhold payment of any Service Fees, Technology Fees or any other amount due us, and that the alleged

non-performance or breach of any of our obligations under this Agreement or any other agreement does not establish a right at law or in equity to withhold payments due us for Service Fees, Technology Fees or any other amounts due.

J. Tax Indemnification. You will indemnify us and reimburse us for all income, capital, gross receipts, sales and other taxes that the state in which the Business is located imposes on us as a result of your operation of the Business or the license of any of our intangible property in the jurisdiction in which the Business is located. If more than one TH business is located in such jurisdiction, then those businesses will share the liability in proportion to their Gross Revenues from the Business, except in the case of sales taxes and gross receipts taxes, which will be divided in proportion to taxable sales to you. If applicable, this payment is in addition to the Service Fee payments described above.

6. DUTIES OF FRANCHISEE

A. Development of the Business. Once you have identified a site for the Office and received our consent to that site, you will:

1. obtain all required building, utility, sign, health, sanitation and business permits and licenses, and any other required permits and licenses to operate the Business and provide each of the Approved Services. You acknowledge and agree that you will be required to satisfy additional licensing and personnel requirements imposed by applicable laws, rules and regulations to provide certain Approved Services, including skilled nursing services, at the Business;

2. construct all required improvements to the Business premises, purchase and install all required fixtures and equipment and decorate the premises in compliance with all applicable specifications described in the Operations Manual or as we otherwise approve and in compliance with all applicable ordinances, building codes, permit requirements and lease or deed requirements and restrictions; and

3. establish filing, accounting and inventory control systems complying with our requirements.

B. Initial Training. No less than two (2) months before the opening of the Business, the "General Manager" (as defined below) and one other full-time employee must attend and successfully complete the Initial Training Program on the operation of a TH business. If the General Manager is not a Principal Owner, a Principal Owner must also attend and successfully complete the Initial Training Program. The Principal Owner and the General Manager may be the same person so long as the Principal Owner meets the then-current requirements for general managers (as described in the Operations Manual. The Initial Training Program will be held in Minneapolis, Minnesota or at such other location as we may designate. We do not charge a fee for additional persons to attend the Initial Training Program. You are solely responsible for the compensation, travel, lodging and living expenses you and your employees incur in attending the Initial Training Program, as well as any supplemental or refresher training programs. You also are solely responsible for paying your employees and providing all necessary insurance, including worker's compensation insurance, for you and your employees, while you and your employees attend training.

C. Computer System. In your Business, you will use the computer software and hardware management and reporting system, including all existing or future communication or

data storage systems, components thereof and associated service, which we have developed or selected for the System (the “Computer System”). The Computer System may include one or more proprietary or other software programs developed or customized by or for us (the “Designated Software”). You must use the Designated Software (if applicable) and the Designated Software will remain the confidential property of us or our third-party supplier. You must enter into our or our designee’s standard form software license agreement in connection with your use of any Designated Software and pay the initial license fee and any ongoing fees related to your use of the Designated Software. In addition, you must pay us a Technology Fee as described in Section 4(D). We reserve the right to assign our rights, title and interest in any Designated Software to a third-party we designate or to replace the Designated Software with software that we or a third party may provide. You must participate in our designated Payment Card Industry (“PCI”) compliance program if we establish such a program and pay the then-current fee associated with such program. If we do not designate a separate PCI compliance program, you must take all necessary steps to comply with all applicable PCI data security standards. You must maintain a secure technology infrastructure that meets our then-current requirements. All technology used to support the Computer System must comply with the then-current regulations of the Payment Card Industry Data Security Standards (PCI-DSS) council or its successor and other regulations and industry standards applicable to the protection of customer privacy and credit card information, including the Fair and Accurate Credit Transaction Act (FACTA). You will use one or more e-mail addresses we designate for communication with us. The computer hardware component of the Computer System must comply with specifications we develop. We have the right to designate a single source from which you must purchase the Computer System, including any software or hardware components or associated service, and we or our affiliates may be that single source. You will be required to use and, at our discretion, pay for all future updates, supplements and modifications to the Computer System. It is your responsibility to protect yourself from disruptions, Internet access failures, Internet content failures, and attacks by hackers and other unauthorized intruders and you waive any and all claims you may have against us as the direct or indirect result of such disruptions, failures and attacks.

D. Opening. You must comply with any Business opening requirements we periodically describe in the Operations Manual. You will not open the Business for business without our prior written approval. You agree to complete the development and open the Business for business within six (6) months following the Effective Date or within sixty (60) days following your receipt of all necessary licenses required to operate the Business, whichever is sooner.

E. General Manager. You will designate a general manager who will devote his or her best efforts and personal full time and attention to the management of your Business and who has successfully completed the Initial Training Program and all other training requirements we impose (the “General Manager”). The General Manager must sign a confidentiality agreement in a form we approve. If the General Manager no longer fulfils his/her duties at the Business, you agree to have the replacement manager attend and successfully complete our Initial Training Program at your expense within one (1) month of such replacement.

F. Minimum Performance Requirements. The rights granted to you under this Agreement are dependent on you achieving certain minimum performance requirements regarding the minimum Gross Revenues. During the term of this Agreement, you must maintain the following minimum Gross Revenues (the “Minimum Performance Requirement”):

Period from Commencement of the Business*	Minimum Monthly Average Gross Revenues
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Months 1 – 12	No Minimum
Months 13 – 24	\$10,000
Months 25-36	\$20,000
Months 37 – 48	\$30,000
Months 49 – 72	\$50,000
Months 73 and thereafter	\$70,000

* - You will be deemed to have commenced operating the Business as of the earlier of: (1) your completion of our Initial Training Program; and (2) you have obtained all necessary licenses and permits to operate the Business.

If you fail to satisfy the Minimum Performance Requirement for any twelve (12) month period, we may (a) require your General Manager to attend and complete additional training, at your sole expense, (b) reduce the size of your Protected Territory, (c) terminate this Agreement pursuant to Section 15 below, or (d) exercise any other rights provided to us under this Agreement or available to us at law.

G. Additional Training. The General Manager, Principal Owner(s) and other employees, as we designate, must attend and complete to our satisfaction, all supplemental and refresher training programs that we designate each calendar year. We may charge you our then-current fee, plus any costs and expenses we incur, for these supplemental and refresher training programs, and you will reimburse us for any costs and expenses we incur.

H. Services to be Offered. You agree to sell or offer for sale only the Approved Services as we periodically direct in the Operations Manual or otherwise in writing. In addition, we will designate certain Approved Services that you must provide at the Business and may periodically designate other Approved Services that you may, but will not be required to, provide at the Business. You must not deviate from our standards and specifications in providing the Approved Services and you must discontinue selling and offering for sale any such services as we may, in our discretion, disapprove in writing at any time. You must notify us in writing in advance of offering any Ancillary Services.

I. Performance of Services. You agree that all Approved Services provided at the Business will be performed solely by you or your employees. In providing the Approved Services, you must satisfy all requirements stated in the Operations Manual, or otherwise in writing, including the hours and operations of the Business, scheduling customer service, marketing and financial reporting techniques, and controls. You and your employees must at all times present a neat and clean appearance and provide competent, sober, and courteous service to all customers of the Business.

J. Restriction on Use of Premises. You agree that you will not, without our prior written approval, offer at the Business any services or products we have not then authorized for use or sale for TH businesses, nor will the Business or the premises which it occupies be used for any purpose other than the operation of a TH business in compliance with this Agreement.

K. Your Hiring and Training of Employees. You will hire all employees of the Business, and you will be exclusively responsible for the terms of their employment, scheduling, benefits, disciplining, compensation, and all other personnel decisions. You must complete a background check of all of your potential employees, by a vendor approved by us. You will implement a training program for Business employees in compliance with our requirements. You will maintain at all times a staff of trained employees sufficient to operate the Business in

compliance with our standards. You must ensure that all Business employees comply with all licenses and certifications respecting the Business as we may require or as federal, state and/or local authorities may require. At all times, the Business must be under the supervision of the General Manager. Any employees you hire will be solely your employees and will not be deemed our employees or subject to our control.

L. Authorized Products, Supplies and Equipment. You agree to offer and sell at the Business only the Services and related products which we have approved as being suitable to provide and meeting the standards of quality and uniformity for the System. In addition, you agree to use in the operation of the Business only such products, supplies, equipment and brands that we have approved as being suitable for use and meeting the standards of quality and uniformity for the System and are purchased from suppliers we have approved (which may include us and/or our affiliates). We periodically may modify the lists of approved and designated products, supplies, equipment, brands and suppliers. If you propose to use in operating the Business, any products, supplies, equipment or brand, or use any supplier that we have not approved, you must first notify us in writing and provide sufficient information, specifications and samples concerning the proposed item and/or supplier to permit us to determine whether the proposed item complies with our specifications and standards and/or the supplier meets our approved supplier criteria. You must pay our then-current evaluation fee for each item or supplier you request that we evaluate, plus the costs we incur in connection with testing, inspecting and evaluating the proposed item or supplier. We will notify you within a reasonable time whether the proposed item and/or supplier is approved. If we revoke our approval of a supplier or products, you will have thirty (30) days to stop offering, selling or using those suppliers, products or other items or services in your Business. We may impose limits on the number of suppliers and/or brands for any products, supplies or equipment sold or used in the Business, and we may require that you use only one designated supplier for any products, supplies or equipment. You agree that certain products, supplies, equipment, and other items may only be available from one source, and we or our affiliates may be that source. WE AND OUR AFFILIATES MAKE NO WARRANTY AND EXPRESSLY DISCLAIM ALL WARRANTIES, INCLUDING WARRANTIES OF MERCHANTABILITY AND FITNESS FOR ANY PARTICULAR PURPOSE, RESPECTING PRODUCTS, EQUIPMENT (INCLUDING ANY REQUIRED PART OF THE MANAGEMENT SYSTEM), SUPPLIES, FIXTURES, FURNISHINGS OR OTHER ITEMS THAT ARE MANUFACTURED OR DISTRIBUTED BY THIRD PARTIES AND THAT WE APPROVE FOR USE IN THE SYSTEM

M. Specifications, Standards and Procedures. You acknowledge that each and every detail of the operation of the Business is important to us and other TH businesses. You agree to maintain the highest standards of quality and service and comply with all mandatory specifications, standards and operating procedures (whether contained in the Operations Manual or any other written or oral communication to you) relating to the operation of a TH business. You agree to promptly comply with all modifications and updates we may make to the System standards in the Operations Manual or otherwise in writing.

N. Compliance with Laws and Good Business Practices. You must secure and maintain in force all required licenses, permits and certificates relating to the operation of the Business, and must operate the Business in full compliance with all applicable laws, ordinances and regulations, including all labor and employment laws. In addition, to the extent you offer any Ancillary Services, you will be solely responsible for obtaining all additional permits and licenses, and employing licensed individuals, necessary to conduct such Ancillary Services. You must notify us in writing within five (5) days of the commencement of any action, suit, proceeding or investigation, and of the issuance of any order, injunction, or award of decree, by

any court, agency, or other governmental instrumentality that may adversely affect the operation or financial condition of you or the Business. You will not conduct any business or advertising practice which injures our business, the System or the goodwill associated with the Marks and other TH businesses. You agree to remain in compliance with all local, state, and federal laws, rules and regulations in connection with the operation of your Business, including the prompt payment of required licenses, surveys, permits, assessments, taxes, fees, and fines. You agree to perform all services and conduct your Business in compliance with all Health Insurance Portability and Accountability Act (HIPAA) laws and regulations.

You must comply with all relevant portions of HIPAA which require health care providers to submit transactions related to payment in standard electronic formats and regulate the security and privacy of health data, and HIPAA's implementing regulations, including the HIPAA Privacy Rule, HIPAA Breach Notification Rule, HIPAA Security Rule, HITECH Act, and Omnibus Rule. To comply with HIPAA's privacy and security regulations, you must implement privacy and security policies and safeguards, designate a privacy and security officer, inform individuals how their health information is used and disclosed, provide access to health information, and give notice of certain breaches of protected data. You are solely responsible for training your employees on all such policies and procedures. In addition, to the extent you offer any Ancillary Services or we otherwise determine, you and we agree to sign and comply with the terms of the Business Associate Agreement ("Business Associate Agreement") substantially in the form of Exhibit C attached hereto, regarding Customer Data. You agree to sign an amended Business Associate Agreement to the extent we determine such an amended agreement is necessary. Further, if you engage a third party to perform functions that require access to patients' personal information, you and such third party also must sign a business associate agreement in a form similar to the Business Associate Agreement.

O. Customer Data. You acknowledge and agree that we reserve the right to own and control the use of Customer Data, and we grant you a license to use the Customer Data during the term of this Agreement. You have no right to sell, transfer, sublicense or otherwise share Customer Data to or with any third party unless you obtain our prior written approval. You will only use Customer Data for approved uses related to your Business, unless you obtain our prior written approval. Upon reasonable request, you will transfer all Customer Data to us or our affiliate in accordance with the Operations Manual. You must provide to us usernames and passwords to access the Computer System, and we have the right to access Customer Data on the Computer System and at the Office. It is your sole responsibility to protect Customer Data from cyber-attacks or unauthorized intruders, and you waive any claim you may have against us as the direct or indirect result of such attacks and intrusions. You are solely responsible for complying with all federal, state, and local laws and regulations concerning the storage, handling, use and protection of Customer Data. In addition, you must comply with any privacy policies or data protection and breach response policies we periodically may establish. You must notify us immediately of any suspected data breach or cyber-attack at or in connection with the Business.

P. Management of the Business/Conflicting Interests. The General Manager will be responsible for the day-to-day supervision of the Business, must at all times faithfully, honestly and diligently perform his or her obligations, and must continuously use their best efforts to promote and enhance the business of the Business. The General Manager must assume their responsibilities on a full-time basis and must not engage in any other business or other activity, directly or indirectly, that requires any significant management responsibility, time commitments, or otherwise may conflict with your obligations.

7. TRADEMARK STANDARDS

A. Ownership and Goodwill of Marks. You acknowledge that you have no interest in or to the Marks and that your right to use the Marks is derived solely from this Agreement and is limited to the conduct of business in compliance with this Agreement and all applicable specifications, standards and operating procedures that we require during the term of this Agreement. You agree that the use of the Marks and any goodwill established exclusively benefits us, and that you receive no interest in any goodwill related to your use of the Marks or the System. You must not, at any time during the term of this Agreement or after your termination or expiration, contest or assist any other person in contesting the validity or ownership of any of the Marks.

B. Limitations on Your Use of Marks. You agree to use the Marks as the sole identification of the Business, but you must identify yourself as the independent owner in the manner we direct. You must not use any Mark as part of any corporate or trade name or in any modified form, nor may you use any Mark in selling any unauthorized product or service or in any other manner we do not expressly authorize in writing. You agree to display the Marks prominently and in the manner we direct on all signs and forms. Subject to our rights described in this Agreement, you agree to obtain fictitious or assumed name registrations as may be required under applicable law.

C. Restrictions on Internet and Website Use. We retain the sole right to advertise the System on the Internet and to create, operate, maintain and modify, or discontinue the use of, a website using the Marks. You will have the right to participate in our TH website as further described in Section 12(G) below. Except as we may authorize in writing, however, you will not: (1) duplicate our website; (2) conduct any business or offer to sell or advertise any Services or similar services or products on the Internet (or any other existing or future form of electronic communication); (3) create or register any Internet domain name in any connection with your franchise; and (4) use any e-mail address which we have not authorized for use in operating the Business. You will not register, as Internet domain names, any of the Marks that we now or hereafter may own or any abbreviation, acronym or variation of the Marks, or any other name that could be deemed confusingly similar.

D. Notification of Infringements and Claims. You must notify us immediately in writing of any apparent infringement of or challenge to your use of any Mark, or any claim by any person of any rights in any Mark or any similar trade name, trademark or service mark of which you become aware. You must not communicate with any person other than us and our counsel regarding any infringement, challenge or claim. We may take any action we deem appropriate and have the right to exclusively control any litigation or other proceeding arising out of any infringement, challenge or claim relating to any Mark. You will sign all documents, provide assistance and take all action as we may reasonably request to protect and maintain our interests in any litigation or other proceeding or to otherwise protect and maintain our interests in the Marks.

E. Litigation. You will have no obligation to and will not, without our prior written consent, defend or enforce any of the Marks in any court or other proceedings for or against imitation, infringement, any claim of prior use, or for any other allegation. You will, however, immediately notify us of any claims or complaints made against you respecting the Marks and will, at your expense, cooperate in all respects with us in any court or other proceedings involving the Marks. We will pay the cost and expense of all litigation we incur, including

attorneys' fees, specifically relating to the Marks. We and our legal counsel will have the right to control and conduct any litigation relating to the Marks.

F. Changes. You cannot make any changes or substitutions to the Marks unless we so direct in writing. We reserve the right, in our discretion, to modify or discontinue use of any Mark, or to use one or more additional or substitute trademarks or service marks. In such event, you will, at your expense, comply with such modification or substitution within a reasonable time after notice by us.

8. CONFIDENTIAL INFORMATION/IMPROVEMENTS

A. Confidential Information. You acknowledge and agree that you do not acquire any interest in the Confidential Information, other than the right to use it in developing and operating the Business pursuant to this Agreement, and that the use or duplication of the Confidential Information in any other business constitutes an unfair method of competition. You acknowledge and agree that the Confidential Information is proprietary and is our trade secret and is disclosed to you solely on the condition that you agree that you: (1) will not use the Confidential Information in any other business or capacity; (2) will maintain the absolute confidentiality of the Confidential Information during and after the term of this Agreement; (3) will not make unauthorized copies of any Confidential Information disclosed in written form; (4) will adopt and implement all reasonable procedures we direct to prevent unauthorized use or disclosure of the Confidential Information, including restrictions on disclosure to Business employees; and (5) will sign a Confidentiality Agreement and will require the General Manager and other managers, employees and agents with access to Confidential Information to sign such an agreement in a form we approve. The restrictions on your disclosure and use of the Confidential Information will not apply to disclosure of Confidential Information in judicial or administrative proceedings to the extent you are legally compelled to disclose this information, if you use your best efforts to maintain the confidential treatment of the Confidential Information, and provide us the opportunity to obtain an appropriate protective order or other assurance satisfactory to us of confidential treatment for the information required to be so disclosed.

B. Improvements. You must fully and promptly disclose to us all ideas, concepts, products, process methods, techniques, improvements, additions and Customer Data relating to the development and/or operation of a TH business or the System, or any new trade names, service marks or other commercial symbols, or associated logos relating to the operation of the Business, or any advertising or promotion ideas related to the Business (collectively, the "Improvements") that you, your owners or your employees or agents conceive or develop during the term of this Agreement. You and your owners, agents and employees acknowledge and agree that any Improvement is our property, and you and your owners, agents or employees must sign all documents necessary to evidence the assignment of the Improvement to us without any additional compensation. You acknowledge and agree that we may use the Improvement and disclose and/or license the Improvement for use by others. You must not introduce any Improvement or any additions or modifications of or to the System into the Business without our prior written consent.

9. COVENANTS

A. Organization. You and each Principal Owner covenants that:

1. You are organized and validly exist under the laws of the state where you were formed and are qualified and authorized to do business in the jurisdiction where the Protected Territory and the Business is located;

2. Your articles of incorporation, bylaws, operating agreement or other organizational documents (collectively, "Authorizing Documents") at all times will provide that your business activities will be limited exclusively to the ownership and operation of the Business, unless you otherwise obtain our written consent;

3. You have the power under the Authorizing Documents to sign this Agreement and comply with the provisions of this Agreement;

4. You will provide us copies of all Authorizing Documents and any other documents, agreements or resolutions we request in writing;

5. The names of all Principal Owners are accurately stated on the Guaranty attached hereto as Exhibit B; and

6. You will maintain a current schedule of the Principal Owners and their ownership interests (including the Principal Owners' names, address and telephone numbers) at all times and will immediately provide us with an updated ownership schedule if there is any change in ownership.

B. In-Term Non-Compete. You (and each Principal Owner) will not, during the term of this Agreement, directly or as an employee, agent, consultant, partner, officer, director or owner of any other person, partnership, firm, entity or business:

1. Divert or attempt to divert any business or customer of the Business hereunder to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and System; or

2. Own, maintain, engage in, or have any interest in any other business which performs any of the Approved Services or any services substantially similar to any of the Approved Services anywhere in the United States; provided, that this provision will not apply to any ownership of less than one percent (1%) of the outstanding equity securities of any publicly held entity.

C. Post-Term Non-Compete. You covenant that, for two (2) years after the termination or expiration of this Agreement or the date on which you cease to operate the Business (whichever is later), you will not, directly or as an employee, agent, consultant, partner, officer, director or owner of any other person, partnership, firm, entity or business:

3. Divert or attempt to divert any business or customer of the Business hereunder to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and System;

4. Own, maintain, engage in, or have any interest in any other business which performs any of the Approved Services or any services substantially similar to any of the Approved Services within thirty (30) miles of the outside boundary of the former Protected Territory or the protected territory of any other TH franchisee; or

5. Use any reproduction, copy or similar imitation of the Marks subject to this Agreement in any trade or business.

You agree that the covenants contained in this Section are reasonable and will not impose undue hardship on you. You understand that your willingness to agree to such covenants is an important inducement and consideration for our entering into this Agreement.

D. Injunctive Relief. You agree that damages alone cannot adequately compensate us if there is a violation of any covenant in this Section 9, and that injunctive relief is essential for our protection. You therefore agree that, to the greatest extent permitted by applicable law, we may seek injunctive relief without posting any bond or security, and without the need to prove irreparable harm, in addition to the remedies that may be available to us at equity or law, if you or anyone acting on your behalf violates any covenant in this Section 9. The covenants stated in this Section 9 will survive the termination or expiration of this Agreement.

10. RECORDS AND REPORTS

A. Accounting and Records. During the term of this Agreement, you will, at your expense, establish and maintain at the Business premises and retain for a minimum of six (6) years from the date of their preparation, an accounting and record keeping system we designate that will generate complete and accurate books, records, and accounts relating to the Business (the "Records"). The accounting and record keeping system will include accounting and reporting software that we periodically direct. The Records must be prepared in the form and manner we direct in the Operations Manual or otherwise in writing. You must preserve the Records and submit reports electronically, consistent with our requirements described in the Operations Manual or otherwise in writing. You will ensure that we have electronic access at all times to the Records, accounting systems and other information and supporting documents as we designate. If at any time you fail to fully comply with your obligations under this Section 10, we may require that you engage, at your expense, a third-party accounting firm or other service provider that we designate to satisfy the requirements of this Section 10.

B. Reports and Tax Returns. You will deliver or allow us access to the following: (1) all accounting software used in connection with the Business; (2) daily statements relating to Gross Revenues accompanying your payment of semi-monthly Service Fees; (3) monthly income statements in a format we require; (4) profit and loss statements for the Business at such intervals as we periodically may require; (5) an annual profit and loss statement and source and use of funds statement for the Business for the year and a balance sheet for the Business as of the end of the year, reviewed by an independent certified public accountant; and (6) at our request, all tax returns relating to the Business and each of its Principal Owners. All financial statements, reports and information must be in the form we approve and that you independently have verified.

11. INSPECTION AND AUDITS

A. Our Right to Inspect the Business. To determine whether you are complying with this Agreement, we may, at any time during business hours and without prior notice to you, inspect the Business and observe the provision of the Approved Services. You will fully cooperate with our representatives making any inspection and will permit our representatives to take photographs or videotapes of the Business and to interview employees and customers of the Business. If we establish a mystery shopper or compliance assessment program, we may require you to pay for the reasonable expense of mystery shopper visits or the completion of any compliance assessments at your Business.

B. Our Right to Examine Books and Records. We may, at all reasonable times and without prior notice to you, examine, audit, or request copies of the Records, including the books, records and state and/or federal income tax records and returns of any Principal Owner. You must maintain all Records and supporting documents at all times at the Business premises. You will make financial and other information available at a location we reasonably request, and will allow us (and our agents) full and free access to any such information at the Business. You otherwise will fully cooperate with our representative and independent accountants hired to conduct any examination or audit.

C. Result of Audit; Unreported Gross Revenues. If any examination or audit discloses an understatement of Gross Revenues, you will pay to us, within fifteen (15) days after receipt of the examination or audit report, the Service Fees and any other fees due on the amount of the understatement, plus interest (at the rate provided in Section 5(G) above) from the date originally due until the date of payment. You must reimburse us for the cost of the audit or examination, including the charges of any independent accountants and the travel expenses, room and board and compensation of our employees, if: (1) we determine that an examination or audit is necessary because you failed to timely provide required information; or (2) any examination or audit results in a determination that Gross Revenues for any month are understated by greater than two percent (2%). The foregoing remedies are in addition to all of our other remedies and rights under applicable law.

12. ADVERTISING

A. Marketing and Promotional Fund. We reserve the right, following a minimum of ninety (90) days' advance written notice to you, to commence operation of a Marketing Fund and require you to pay a Marketing Fund Fee of up to two percent (2%) of your Gross Revenues for deposit in the Marketing Fund. If we commence operating a Marketing Fund, we will place all Marketing Fund Fees we receive into the Marketing Fund and will manage the Fund. If applicable, we also will contribute to the Marketing Fund for each TH business that we or our affiliates operate in the United States at the same percentage rate as a majority of TH businesses located in the United States must pay to the Marketing Fund. If we commence operating a Marketing Fund, disbursements from the Marketing Fund will be made solely to pay reasonable expenses we incur in connection with the general promotion of the Marks and the System, including the cost of formulating, developing and implementing advertising, marketing, promotional and public relations campaigns; the cost of market research and analytics; and the costs of administering the Marketing Fund, including the cost of employing advertising, public relations and other third-party agencies to assist us, as well as accounting expenses and the actual costs of salaries and fringe benefits paid to our employees engaged in administration of the Marketing Fund. The Marketing Fund will not be a trust or escrow account, and we will have no fiduciary obligations regarding the Marketing Fund. If we establish the Marketing Fund, we cannot ensure that you will benefit directly or on a pro rata basis from the future placement of any such advertising or marketing activities in your local market.

B. Local Marketing and Business Promotion. In addition to the Marketing Fund Fee due under Section 12(A) above if we establish a Marketing Fund, you must actively promote the Business and Approved Services. We reserve the right to require you to spend a minimum quarter amount on approved local marketing and Business promotion not to exceed two percent (2%) of quarter Gross Revenues upon sixty (60) days' notice to you.

C. Cooperative Advertising. In the future, we may require that you participate in, support and contribute to the cost of regional cooperative advertising programs we designate.

We reserve the right to designate regional and local advertising markets, to establish regional advertising councils and to establish the bylaws and other rules under which such councils will operate. Your contributions to regional and local advertising cooperatives will be credited toward your local marketing obligations (if any) described in Section 12(B) above.

D. Approved Advertising and Business Promotion Materials. You will use only our approved advertising and promotional materials in promoting the Business. If you desire to use any advertising or promotional materials in promoting the Business which we previously have not approved, you must submit all materials to us for our approval before using any such materials, which approval will not be unreasonably withheld. If we do not disapprove those advertising or promotional materials within fifteen (15) days after you submit those materials to us, then you may use the materials, although we reserve the right to disapprove those materials at any later time and require you to remove any subsequently disapproved materials.

E. Participation in Certain Programs and Promotions. You must use your best efforts to promote and advertise your Business and must participate in all advertising and promotional programs we establish in the manner we direct. We may set minimum and maximum prices on all Approved Services and related services and products provided or sold at or in connection with the Business, subject to applicable law.

F. Telephone Service Requirements. You must maintain a full-time telephone line with a 24-hour answering service and/or paging system.

G. Participation in Internet Website. You will participate in a TH website listed on the Internet or other online communications and participate in any intranet system we operate. We will, at our discretion, determine the content and use of a TH website and intranet system and will establish rules under which you may or will participate. We will retain all rights relating to the TH website and intranet system and may alter or terminate the website or intranet system upon thirty (30) days' notice to you. Your general conduct on the Internet and the TH intranet system, and specifically your use of the Marks or any advertising on the Internet (including the domain name and any other Marks we may develop as a result of participation in the Internet), will be subject to the provisions of this Agreement. You acknowledge that certain information obtained through your online participation in the website or intranet system is considered Confidential Information, including access codes and identification codes. Your right to participate in the TH website or intranet system or otherwise use the Marks or the System on the Internet will terminate when this Agreement expires or terminates.

13. INSURANCE

A. Requirements. You agree to purchase and maintain in force, at your expense, insurance at a minimum in the types of coverage and amounts we specify in the Operations Manual or otherwise in writing. All insurance policies will: (1) be issued by an insurance carrier(s) acceptable to us and that have an A.M. Best rating of A or higher; (2) will name us and our affiliates, and their respective officers, directors and employees, as an additional insured; (3) contain a waiver of the insurance company's right of subrogation against us; (4) contain the above-mentioned insurance coverage for each TH business that you operate; and (5) provide that we will receive thirty (30) days' prior written notice of a material change in or termination, expiration or cancellation of any policy (or such shorter period as the insurance carrier may require and as we may approve).

B. Additional Insurance Terms. We periodically may, with prior written notice to you, increase the minimum liability protection requirements, and require different or additional kinds of insurance to reflect inflation or changes in standards of liability. If at any time you fail to maintain in effect any insurance coverage we require, or to furnish satisfactory evidence thereof, we, at our option, may obtain insurance coverage for you. You agree to promptly sign any applications or other forms or instruments required to obtain any insurance and pay to us, on demand, any costs and premiums we incur. You will provide us with copies of the certificate of insurance, insurance policy endorsements and other evidence of compliance with these requirements as we periodically require at least two (2) weeks before you commence operation of the Business and at such other times as we may require. In addition, you will provide to us a copy of the evidence of the renewal or extension of each insurance policy in a form we require. Your obligation to obtain and maintain these insurance policies in the amounts specified will not be limited by any insurance that we may maintain, nor does your procurement of required insurance relieve you of liability under the indemnity obligations described in Section 16. Your insurance procurement obligations under this Section 13(B) are separate and independent of your indemnity obligations. We do not represent or warrant that any insurance that we require you to purchase will provide you with adequate coverage. The insurance requirements specified in this Agreement are for our protection. You should consult with your own insurance agents, attorneys and other insurance advisors to determine the level of insurance protection you need and desire, in addition to the coverage and limits we require.

14. ASSIGNMENT

A. Transfer by Us. We may assign or transfer this Agreement without providing to you any notice and without requiring any consent from you. Any such assignment will require the assignee to fulfill our obligations under this Agreement. Separately, we may assign or delegate to an affiliate or other third party certain of our obligations under this Agreement without assigning our interest in this Agreement.

B. Transfer to a Wholly Owned Corporation or Limited Liability Company. You (as one or more individuals may assign your interests herein to an entity that conducts no business other than the Business (or other TH businesses under franchise agreements with us), provided:

1. You own all of the voting stock or all of the membership interests, as applicable, in the entity or, if you comprise more than one individual, each such individual has the same proportionate ownership interest in the entity as he/she held in the Business before the contemplated transfer;
2. the Business is actively managed by the General Manager;
3. all Principal Owners of the assignee entity sign the Guaranty Agreement attached hereto as Exhibit B;
4. you provide us fifteen (15) days' written notice before the proposed date of assignment of this Agreement to the entity;
5. you provide to us a certified copy of the articles of incorporation, operation agreement, organizational documents, a list of all shareholders or members having beneficial ownership, reflecting their respective interest in the assignee entity;

6. the organizational documents of the entity and all issued and outstanding stock or membership certificates will bear a legend, in form acceptable to us, reflecting or referring to the assignment restrictions stated in Section 14(C) below; and

7. A transfer under this Section 14(B) may only occur once and is not subject to our right of first refusal as described in Section 14(D) below. You will remain liable under this Agreement as if the transfer to the entity did not occur.

C. Transfer by Franchisee. You understand and acknowledge that the rights and duties stated in this Agreement are personal to you, and that we have granted this license in reliance on your (and your owners' and managers') business skill and financial capacity. Accordingly, except to the extent permitted under (and subject to) Section 14(B) above, you will not transfer (voluntarily or involuntarily), sell, assign, pledge or otherwise dispose of, in one or more transactions, the Business, substantially all or all of the assets of the Business, or this Agreement, and you will not permit the transfer of any controlling interest in you ("controlling interest" to include a proposed transfer, whether in one single transaction or a series of transactions occurring after the Effective Date, of fifty percent (50%) or more of the voting equity interests in a corporation, limited liability company or partnership) unless you obtain our prior written consent. We will not unreasonably withhold our consent to an assignment of this Agreement, provided you comply with any or all of the following conditions which we may, in our discretion, deem necessary:

1. All of your accrued monetary obligations to us or our affiliates and all other outstanding obligations related to the Business have been satisfied and you otherwise are in good standing under this Agreement and any other agreement with us or our affiliates;

2. The transferee demonstrates to our satisfaction that it meets our managerial and business standards; possesses a good moral character, business reputation, and credit rating; has the aptitude and ability to conduct the Business (as may be evidenced by prior related business experience or otherwise); and has adequate financial resources and capital to operate the business. You understand that we may communicate directly with the transferee during the transfer process to respond to inquiries, as well as to ensure that the transferee and Principal Owners meet our qualifications;

3. The transferee, a Principal Owner and the new General Manager (if not a Principal Owner) successfully complete the Initial Training Program required of new TH businesses;

4. The transferee enters into a written agreement, in form satisfactory to us, assuming and agreeing to discharge all of your obligations and covenants under this Agreement for the remainder of your term or, at our option, signs our then-current standard form of franchise agreement (which may contain materially different terms and conditions than this Agreement) and each new Principal Owner signs a personal guaranty in the form attached to the franchise agreement;

5. You pay us a transfer fee equal to: (i) forty percent (40%) of our then-current standard initial franchise fee applicable to new Touching Hearts® franchisees if the transferee is a new Touching Hearts® franchisee, or (ii) ten percent (10%) of our then-current standard initial franchise fee applicable to new Touching

Hearts® franchisees if the transferee is an existing Touching Hearts® franchisee or an immediate family member of the Principal Owner of a controlling interest in you (including specifically a spouse, parent, sibling or child);

6. We approve the material provisions of the assignment or sale of assets, which assignment or sale cannot permit you to retain a security interest in this Agreement or any other intangible asset;

7. You (and each Principal Owners, if applicable) sign an agreement, in form satisfactory to us, in which you and each Principal Owner covenant to observe the post-termination non-solicitation covenant and covenant not to compete contained herein and all other applicable post-termination obligations; and

8. You and each Principal Owner signs a general release, in a form satisfactory to us, of any and all claims against us and our partners, officers, directors, shareholders, and employees.

D. Transfer Upon Death or Permanent Incapacity. If the General Manager (including a Principal Owner who also serves as the General Manager) dies or is permanently disable, the remaining Principal Owners (or if none, the executor, administrator, personal representative, or trustee of such person or entity) must appoint (if necessary) a competent General Manager acceptable to us within a reasonable time, not to exceed thirty (30) days, from the date of death or permanent disability. The appointed General Manager must satisfactorily complete our Initial Training Program. If the Principal Owner who also serves as the General Manager dies or is permanently disabled, his/her executor, administrator, or other personal representative must transfer his/her interest within a reasonable time, not to exceed twelve (12) months from the date of death or permanent disability, to a person we approve. Such transfers, including transfers by devise or inheritance, will be subject to conditions contained in Section 14(C) above.

E. Our Right of First Refusal. If you or your Principal Owners (each individual who owns twenty percent (20%) or more of the total voting capital stock in Franchisee) at any time desire to sell or assign this Agreement, the Business, an ownership interest representing (in the aggregate) fifty percent (50%) or more of the ownership in you or all or substantially all of your assets, you or your Principal Owners must obtain a bona fide, executed written offer from a responsible and fully disclosed purchaser and must deliver a copy of the offer to us. We have the right, exercisable by written notice delivered to you or your Principal Owners within thirty (30) days following receipt of the proposed offer, to purchase the interest in the Business or ownership interest in you for the price and on terms contained in the offer. We may substitute cash for any non-cash form of payment proposed in the offer and will have a minimum of sixty (60) days to prepare for closing. If we do not exercise our right of first refusal, you or your Principal Owners may complete the sale to the proposed purchaser under the terms of the offer, provided you and the Principal Owners otherwise comply with this Section 14. If the sale to the proposed purchaser is not completed within one hundred twenty (120) days after delivery of the offer to us, or if there is a material change in the terms of the sale, we again will have the right of first refusal.

F. Guaranty. All of your Principal Owners will sign the Guaranty and Assumption Agreement substantially in the form attached to this Agreement as Exhibit B (the "Guaranty Agreement"). We may also require the spouse of any Principal Owner to sign the Guaranty Agreement. Any person or entity that at any time after the date of this Agreement becomes a

Principal Owner of yours under the provisions of this Section 14 or otherwise will, as a condition to becoming a Principal Owner, sign the Guaranty Agreement, and you must ensure that any proposed new Principal Owner signs the Guaranty Agreement.

15. DEFAULT AND TERMINATION

A. Termination without Opportunity to Cure. You will be in default and we may, at our option, terminate this Agreement and all rights granted hereunder, without affording you any opportunity to cure the default, effective immediately upon the mailing of notice by us, if:

1. If you, the General Manager or a Principal Owner pleads guilty, pleads non contendere or is convicted of a felony, a crime involving moral turpitude, or a violation of any law relating to this Business that is reasonably likely, in our sole opinion, to adversely affect the Business, the System, the Marks or the goodwill associated therewith;

2. If you disclose the contents of the Operations Manual or other Confidential Information we provided to you or fail to comply with the covenants in Sections 8 or 9;

3. You fail to comply with one or more material requirements of this Agreement on three (3) separate occasions within any twelve (12) month period;

4. You or any of your managers, directors, officers or any Principal Owner makes a material misrepresentation or omission in the application for the franchise granted hereunder;

5. You file for bankruptcy, are insolvent within the meaning of any applicable state or federal law, or make an assignment for the benefit of creditors or enter into any similar arrangement to dispose of your assets for the benefit of creditors;

6. You breach any obligation of this Agreement, the nature of which makes it not curable;

7. If you misuse or are involved in any act or conduct that materially impairs or otherwise is prejudicial to the goodwill associated with the name "Touching Hearts" or any of the Marks or the System;

8. You or a Principal Owner transfer or attempt to make an unauthorized transfer without our consent;

9. You perform any act, or fail to prevent or immediately cure any situation, which poses an imminent threat to the public health or safety or which may cause injury to any of your customers or employees;

10. the result of an audit discloses an understatement of Gross Sales of five percent (5%) or more; or

11. You abandon the Business or otherwise forfeit the right to do or transact business in the Protected Territory.

B. Termination with Opportunity to Cure. You will be in default and we may, at our option, terminate this Agreement and all rights granted hereunder, effective thirty (30) days following your receipt of written notice of termination (or such longer period as applicable law

may require), if you default under any provision of this Agreement not described in Section 15(A) above and fail to cure the default during such thirty (30) day notice (or such longer period as applicable law may require) and provide evidence thereof to us. If you fail to correct an alleged default within the applicable cure time stated above, this Agreement will terminate without further notice to you, effective immediately when the applicable cure period expires, or such longer period as applicable law may require.

C. Suspension of Rights Upon Default. If you default under this Agreement, in addition to any other rights or remedies we may have hereunder, we may suspend performing our obligations under this Agreement.

D. Applicable Law. If the provisions of this Section 15 are inconsistent with applicable law, the applicable law will apply.

E. Obligations Upon Termination. If this Agreement expires or is terminated for any reason, you will:

1. immediately cease operating the Business and using the Marks as well as any confusingly similar trademarks or service marks;
2. within ten (10) days after termination, pay all amounts due and owing to us or our affiliates, including all Service Fees, Technology Fees, any other amounts, and accrued interest due under this Agreement;
3. discontinue using, and return to us by priority United States mail with a tracking number, any hard copies of, the Operations Manuals and any other manuals, advertising materials, and all other printed materials relating to the operation of the Business;
4. assign to us or, at our discretion, disconnect the telephone number for the Business. You acknowledge that we have the sole right to and interest in all telephone numbers and directory listings associated with the Marks, and you authorize us, and appoint us as your attorney-in-fact, to direct the telephone company and all listing agencies to transfer such numbers and listings to us;
5. remove from the Business premises all signs, posters, fixtures, wall coverings and other materials that are distinctive of a TH business or bear the name "Touching Hearts" or other Marks;
6. comply with all post-termination obligations under any software license agreement, including the return of all materials relating to any Designated Software;
7. take all necessary action to cancel all fictitious or assumed name or equivalent registrations relating to your use of any of the Marks;
8. immediately cease using Confidential Information (including all Customer Data) and return to us all documents in your possession that contain Confidential Information;
9. At our option, and upon thirty (30) days' written notice from the date of expiration or termination, you will sell to us all the tangible assets relating to the Business,

(excluding any unsalable inventory, cash, short-term investments and accounts receivable) (collectively, the "Purchased Assets"). The purchase price for the Purchased Assets will be the book value of the Purchased Assets as last reported to us; provided that we may exclude from the Purchased Assets any products or other items that were not acquired in compliance with this Agreement. If the parties cannot agree on book value within a reasonable time, we will designate an independent appraiser to determine the book value of the Purchased Assets. The determination of such appraiser will be binding on you and us, and the costs of such appraisal will be divided equally between you and us; and

10. comply with all other applicable provisions of this Agreement, including the non-compete provisions.

F. Continuing Obligations. All obligations of us and you which expressly or by their nature survive the expiration or termination of this Agreement will continue in full force and effect following its expiration or termination and until they are satisfied or expire.

16. RELATIONSHIP OF THE PARTIES

A. Relationship of the Parties. We and you are independent contractors. Neither you nor we are the agent, legal representative, partner, subsidiary, joint venturer, partner, employee, joint employer or servant of the other for any reason. Neither party will independently obligate the other to any third parties or represent any right to do so. This Agreement does not reflect or create a fiduciary relationship or a relationship of special trust or confidence. You must conspicuously identify yourself at the premises of the Business and in all dealings with customers, lessors, contractors, suppliers, public officials and others as an independent contractor, and must place other notices of independent ownership on signs, forms, stationery, advertising and other materials as we require.

B. Control Over Operations. You agree that you alone are to exercise day-to-day control over all operations, activities and elements of your Business, and that we will not do so or be deemed to do so. You further acknowledge and agree that the various restrictions, prohibitions, specifications and procedures of the System which you must comply with under this Agreement, whether stated in our Operations Manual or otherwise, do not directly or indirectly represent or suggest that we control any aspect or element of the day-to-day operations of your Business, but only represent standards you must comply with when exercising your control of the day-to-day operations of your Business.

C. Your Indemnification Obligations. You agree to indemnify and hold us and our subsidiaries, affiliates, stockholders, members, directors, officers, employees and agents harmless against, and to reimburse us or them for, any loss, liability or damages arising out of or relating to your ownership or operation of the Business, and all reasonable costs of defending any claim brought against us or any of them or any action in which us or any of them is named as a party (including reasonable attorneys' fees) unless the loss, liability, damage or cost is solely due to our breach of this Agreement, gross negligence or willful misconduct. You must pay all losses, liability or damages we incur pursuant to your obligations of indemnity under this Section 16(C) regardless of any settlement, actions or defense we undertake or the subsequent success or failure of any settlement, actions or defense. Further, you agree to give us immediate notice of any such action, proceeding, demand or investigation brought against you or the Business. We may, at our option, designate counsel, at your expense, to defend or

settle such action, proceeding, demand or investigation brought against you or the Business. This obligation does not diminish your indemnification obligations under this Section 16(C).

D. Our Indemnification Obligations. We agree to indemnify and hold you and your officers, directors and agents harmless against, and to reimburse you and them for, any loss, liability or damage solely arising from or relating to our breach of this Agreement, gross negligence or willful misconduct, and all reasonable costs of defending any third party claim brought against you or them or any action in which you or they are named as a party (including reasonable attorneys' fees).

E. Survival. The indemnities and assumptions of liabilities and obligations continue in full force and effect after the expiration or termination of this Agreement.

17. DISPUTE RESOLUTION

A. Mediation. Except as otherwise stated in this Section 17(A), the parties agree to submit any claim, controversy or dispute arising out of or relating to this Agreement (and attachments) or the relationship created by this Agreement to non-binding mediation before bringing such claim, controversy or dispute to arbitration or to a court. The mediation will be conducted either through an individual mediator or a mediator appointed by a mediation services organization, experienced in the mediation of disputes between you and us, agreed upon by the parties. If the parties do not agree on a mediator or mediation services organization within fifteen (15) days after either party has notified the other of its desire to seek mediation, the dispute will be mediated by the American Arbitration Association pursuant to its rules governing mediation, in the county where our headquarters is located. The costs and expenses of mediation, including compensation of the mediator, will be borne equally by the parties. If the parties cannot resolve the claim, controversy or dispute within sixty (60) days after conferring with the mediator, either party may submit such claim, controversy or dispute to arbitration as described in Section 17(B) below. We may bring an action under the applicable provisions of this Section 17, without first submitting the action to mediation under this Section 17(A), for injunctive relief or for monies you owe us.

B. Arbitration. Except to the extent we elect to enforce the provisions of this Agreement by injunction as provided in Section 17(C) below, all disputes, claims and controversies between the parties arising under or in connection with this Agreement or the making, performance or interpretation thereof (including claims of fraud in the inducement and other claims of fraud in the arbitrability of any matter) that have not been settled by or are not otherwise subject to mediation as described in Section 17(A) above will be resolved by arbitration on an individual basis under the authority of the Federal Arbitration Act in the city in which our corporate headquarters is located at the time the arbitration is commenced. The arbitrator(s) will have a minimum of five (5) years' experience in franchising or distribution law and will have the right to award specific performance of this Agreement. The proceedings will be conducted under the Commercial Arbitration Rules of the American Arbitration Association, or the rules of such other arbitration services organization as the parties otherwise may agree upon in writing, to the extent such rules are not inconsistent with the provisions of this arbitration provision or the Federal Arbitration Act. The decision of the arbitrator(s) will be final and binding on all parties; provided, however, the arbitrator(s) may not under any circumstances: (1) stay the effectiveness of any pending termination of this Agreement; (2) assess punitive or exemplary damages; or (3) make any award which extends, modifies or suspends any lawful term of this Agreement or any reasonable standard of business performance we establish. Any arbitration proceeding will be limited to controversies between

you and us, and will not be expanded to include any other Touching Hearts® franchisee or include any class action or multi-party claims. This Section 17 will survive termination or nonrenewal of this Agreement under any circumstances. Judgment upon the award of arbitrator(s) may be entered in any court having jurisdiction thereof. During any arbitration proceeding, we and you will fully perform our respective obligations under this Agreement.

C. Injunctive Relief. Notwithstanding Sections 17(A) and 17(B) above, you recognize that a single franchisee's failure to comply with the terms of its agreement could cause irreparable damage to us and/or to some or all other TH businesses. Therefore, if you breach or threaten to breach any of the terms of this Agreement, then, to the greatest extent permitted by applicable law, we will be entitled to an injunction restraining such breach and/or a decree of specific performance, without showing or proving any actual or irreparable damage and without the need to post bond for security, together with recovery of reasonable attorneys' fees and other costs incurred in obtaining such equitable relief, until such time as a final and binding determination is made by the arbitrator.

D. Attorneys' Fees. The non-prevailing party will pay all costs, expenses, and interest including reasonable attorneys' fees, the prevailing party incurs in any action brought to enforce any provision of this Agreement or to enjoin any violation of this Agreement.

18. MISCELLANEOUS PROVISIONS

A. Severability. All provisions of this Agreement are severable and this Agreement will be interpreted and enforced as if all completely invalid or unenforceable provisions were not contained herein and partially valid and enforceable provisions will be enforced to the extent valid and enforceable. If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of or non-renewal of this Agreement than is required, or the taking of some other action not required, or if under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by us are invalid or unenforceable, the prior notice and/or other action required by law or rule will be substituted for the comparable provisions.

B. Waiver of Obligations. Our waiver of any breach by you, or our delay or failure to enforce any provision of this Agreement, will not be deemed to be a waiver of any other or subsequent breach or be deemed an estoppel to enforce our rights respecting that or any other breach. No waiver by us of any rights under this Agreement will be valid or binding upon us unless we provide that waiver in writing and sign it.

C. Rights of Parties are Cumulative. The rights of us and you are cumulative and no exercise or enforcement by either party of any right or remedy precludes the exercise or enforcement by such party of any other right or remedy to which such party is entitled by law or equity to enforce.

D. Governing Law. Subject to our rights under federal trademark laws and the parties' rights under the Federal Arbitration Act, this Agreement will be governed by and construed under the laws of the state in which the Business is located, without regard to any conflict of laws principles of such state. You waive, to the fullest extent permitted by law, the rights and protections that might be provided through any state franchise or business opportunity laws, other than those of the state in which the Business is located.

E. Venue. Subject to the provisions of Sections 17(A) and 17(B) above, any cause of action, claim, suit or demand allegedly arising from or related to this Agreement or the

relationship of the parties must be brought exclusively in any state or federal court of competent jurisdiction in the county where our headquarters is located. We also have the right to file any such suit against you in the federal or state court where the Business is located. Any such action will be conducted on an individual basis, and not as part of a consolidated, common, or class action, and you and your Principal Owners waive any and all rights to proceed on a consolidated, common, or class basis. Each of us and you irrevocably consent to the jurisdiction of such courts and waive all rights to challenge personal jurisdiction and venue.

F. Binding Effect. This Agreement is binding on us and you and our and your respective executors, administrators, heirs, beneficiaries, permitted assigns, and permitted successors in interest. Subject to our right to modify the Operations Manual and the System, this Agreement may not be modified except by a written agreement signed by both our and your authorized officers. Except as provided above, this Agreement is not intended, and will not be deemed, to confer any rights or remedies upon any person or legal entity not a party to this Agreement.

G. References. If you consist of two or more individuals, such individuals will be jointly and severally liable, and references to you in this Agreement will include all such individuals.

H. Interpretation of Rights and Obligations. The following provisions will apply to and govern the interpretation of this Agreement, the parties' rights under this Agreement and the relationship between the parties:

1. Our Rights. Whenever this Agreement provides that we have or reserve (retain) a certain right, that right is absolute and the parties intend that our exercise of that right will not be subject to any limitation or review. We have the right to operate, administrate, develop and change the System in any manner that is not specifically precluded by the provisions of this Agreement.

2. Our Reasonable Business Judgment. Whenever we reserve discretion in a particular area or where we agree or are required to exercise our rights reasonably or in good faith, we will satisfy our obligations whenever we exercise reasonable business judgment in making our decision or exercising our rights. A decision or action by us will be deemed to be the result of reasonable business judgment, even if other reasonable or even arguably preferable alternatives are available, if our decision or action is intended to promote or benefit the System generally even if the decision or action also promotes a financial or other individual interest of ours. Examples of items that will promote or benefit the System include enhancing the value of the Marks, improving customer service and satisfaction, improving product quality, improving uniformity, enhancing or encouraging modernization, and improving the competitive position of the System. Neither you nor any third party (including a trier of fact), will substitute their judgment for our reasonable business judgment.

I. **WAIVER OF PUNITIVE DAMAGES. YOU AND WE AND OUR AFFILIATES AGREE TO WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO OR A CLAIM FOR ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER AND AGREE THAT IN THE EVENT OF ANY DISPUTE BETWEEN US, EACH WILL BE LIMITED TO THE RECOVERY OF ACTUAL DAMAGES SUSTAINED BY US.**

J. **WAIVER OF JURY TRIAL.** YOU AND WE IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER OF THEM AGAINST THE OTHER, WHETHER OR NOT THERE ARE OTHER PARTIES IN SUCH ACTION OR PROCEEDING.

K. Notices. All written notices and reports permitted or required to be delivered by the provisions of this Agreement are deemed so delivered at the time delivered by hand one (1) business day after having been sent by a recognized overnight delivery service requiring a written receipt, three (3) business days after having been placed in the U.S. Mail by registered or certified mail, return receipt requested, or by such other means which provides the sender with evidence of delivery, or of rejected delivery, and addressed to the party to be notified at the address stated herein or at such other address as may have been designated in writing to the other party. Any notice by a means which provides the sender with evidence of delivery, or rejected delivery, will be deemed to have been given at the date and time of receipt or rejected delivery.

L. Force Majeure. If any party fails to perform any obligation under this Agreement due to a cause beyond the control of and without the negligence of such party, such failure will not be deemed a breach of this Agreement, provided such party uses reasonable best efforts to perform such obligations as soon as possible under the circumstances. Such causes include strikes, wars, riots, civil commotion, and acts of government, except as may be specifically provided for elsewhere in this Agreement.

M. Notice of Potential Profit. We advise you that we and/or our affiliates periodically may make available to you goods, products and/or services for use in the Business on the sale of which we and/or our affiliates may make a profit. We further advise you that we and our affiliates periodically may receive consideration from suppliers and manufacturers respecting sales of goods, products or services to you or in consideration for services provided or rights licensed to such persons. You agree that we and our affiliates will be entitled to such profits and consideration.

N. Limitation of Actions. Subject to any applicable statute of limitations, you and we agree that neither party will have the right to bring any claim or action against the other party unless the action or claim is commenced within one (1) year after the offended party has knowledge of the facts giving rise to the action or claim.

O. Entire Agreement. The Introduction, exhibit(s) to this Agreement, and Disclosure Acknowledgment Agreement signed contemporaneously with this Agreement are a part of this Agreement, which represents the entire agreement of the parties, and there are no other oral or written understandings or agreements between us and you relating to the subject matter of this Agreement. Nothing in the Agreement is intended to disclaim the representations we made in the franchise disclosure document that we furnished to you.

P. Franchise Disclosure Document. You acknowledge receipt of our Franchise Disclosure Document at least fourteen (14) calendar days prior to execution of this Agreement. You acknowledge receipt of this Agreement with all applicable blanks completed and with all applicable Attachments, Addendums, and Appendices at least seven (7) calendar days prior to execution of this Agreement. You also acknowledge that we have recommended, and that you have had opportunity to obtain and review this Agreement and our Franchise Disclosure Document with your lawyer, accountant, or other business advisor prior to the execution of this Agreement.

19. ACKNOWLEDGEMENTS

A. Success of the Business. The success of the business venture you intend to undertake under this Agreement is speculative and depends, to a large extent, upon your (or the Principal Owners’) ability as an independent businessman, and your active participation in the daily affairs of the Business as well as other factors. We do not make any representation or warranty, express or implied, as to the potential success of the business venture.

B. Independent Investigation. You acknowledge that you have entered into this Agreement after making an independent investigation of our operations and not upon any representation as to gross sales, volume, potential earnings or profits which you might be expected to realize, nor has anyone made any other representation, which is not expressly stated herein, to induce you to accept and sign this Agreement.

C. Receipt of Documents. Except for filling in the blank provisions and changes made as a result of negotiations that you initiated, you acknowledge that you received a copy of the complete Franchise Agreement, and exhibits attached hereto, at least seven (7) calendar days before the date on which this Agreement was signed. You further acknowledge that you received the disclosure document required by the trade regulation rule of the Federal Trade Commission entitled “Franchise Disclosure Document” at least fourteen (14) calendar days prior to the date on which this Agreement was signed. You represent that you have read this Agreement in its entirety and that you have been given the opportunity to clarify any provisions that you did not understand and to consult with any attorney or other professional advisor. You further represent that you understand the provisions of this Agreement and agree to be bound.

D. Other Franchises. You acknowledge that other TH businesses have or will be granted franchises at different times and in different situations, and further acknowledge that the provisions of such franchises may vary substantially from those contained in this Agreement

The parties have signed this Agreement on the date stated in the first paragraph.

WE:

YOU:

TOUCHING HEARTS, INC.

Name of corporation or limited liability company

By _____
Its _____

By _____
Its _____

EXHIBIT A
TERRITORY

EXHIBIT B

GUARANTY AND ASSUMPTION OF OBLIGATIONS

In consideration of the execution of that certain franchise agreement of even date herewith (the "Franchise Agreement") by Touching Hearts, Inc. ("we" or "us"), each of the undersigned (a "Guarantor"), each of whom has a significant economic stake in _____ (the "Franchisee") by virtue of holding equity interests in the Franchisee, hereby personally, irrevocably and unconditionally guarantees to us, and our successors and assigns, for the term of the Franchise Agreement and thereafter as provided in the Franchise Agreement, that the Franchisee will timely pay and perform each and every undertaking, agreement and covenant stated in the Franchise Agreement; and agrees to be personally bound by, and personally liable for the breach of, each and every such undertaking, agreement and covenant, and other provision in the Franchise Agreement.

Each of the undersigned waives: (1) acceptance and notice of acceptance by us of the foregoing undertaking; (2) notice of demand for payment of any obligation or indebtedness hereunder; (3) protest, demand, presentment, notice of protest, default, notice of intent to accelerate, and notice of acceleration, to any party respecting the obligation or indebtedness hereunder; and (4) any right he or she may have to require that an action be brought against the Franchisee or any other person as a condition of liability hereunder.

Each Guarantor consents and agrees that:

(1) Guarantor's liability under this guaranty will be direct and independent of the liability of, and will be joint and several with, the Franchisee and the other Guarantors of the Franchisee.

(2) Guarantor will make any payment or perform any obligation required under the Franchise Agreement upon our demand if the Franchisee fails to do so.

(3) Guarantor's liability hereunder will not be diminished or relieved by bankruptcy, insolvency or reorganization of the Franchisee or any assignee or successor of the Franchisee.

(4) Guarantor's liability will not be diminished, relieved or otherwise affected by any extension of time or credit that we may grant to the Franchisee, including the acceptance of any partial payment or performance, any delay on our part in enforcing our rights under the Franchise Agreement, or any waiver, compromise or release of any claims.

(5) We may proceed against Guarantor and the Franchisee jointly and severally, or we may, at our option, proceed against Guarantor, without having commenced any action, or having obtained any judgment against the Franchisee or any other Guarantor.

(6) Guarantor's liability hereunder will be an open and continuing guarantee and will continue in force notwithstanding any subsequent amendment to the Franchise Agreement or any renewal, expiration or termination of the Franchise Agreement. Our rights hereunder are transferable without the Guarantor's consent, and will benefit our successors and assigns.

(7) Guarantor will pay all reasonable attorneys' fees and all costs and other expenses we incur in enforcing this guaranty against Guarantor or any negotiations relative to the obligations hereby guaranteed.

(8) The dispute resolution and related enforcement provisions contained in Section 15 of the Franchise Agreement are incorporated herein by reference. Guarantor irrevocably consents to the jurisdictional requirements outlined in such Sections and waives all rights to challenge personal jurisdiction and venue.

(9) If any provision of this Guaranty and Assumption of Obligations is construed by a court of competent jurisdiction to be unenforceable, then the offending provision will be severed from this undertaking and the remainder of this undertaking will be unaffected thereby.

The undersigned Guarantor has signed this Guaranty and Assumption of Obligations as of the following date: _____.

GUARANTOR(S)

PERCENTAGE OWNERSHIP IN YOU

EXHIBIT C

BUSINESS ASSOCIATE AGREEMENT

This Business Associate Agreement (“Agreement”) is made and effective _____, (“Effective Date”) between _____ (the “Covered Entity”) and Touching Hearts, Inc. (the “Business Associate”) (collectively the “Parties”).

RECITALS

A. Pursuant to Sections 261 through 264 of the federal Health Insurance Portability and Accountability Act of 1996, Public Law 104-191, (“HIPAA”), the Department of Health and Human Services (“HHS”) has issued regulations at 45 C.F.R. Parts 160 and 164 (the HIPAA Security Rule, HIPAA Privacy Rule, the HIPAA Enforcement Rule and the HIPAA Breach Notification Rule, referred to collectively herein as the “Regulations”) to protect the security, confidentiality and integrity of health information.

B. The Parties have entered into an engagement whereby Business Associate will provide certain services to Covered Entity (the “Engagement”), and, pursuant to such Engagement, Business Associate may be considered a “business associate” of Covered Entity as defined in the Regulations.

In consideration of the mutual covenants herein contained, the Parties agree to the provisions of this Agreement in order to comply with the Regulations.

I. Definitions and Term

The following terms are defined as stated below. Any terms used but not otherwise defined in this Agreement have the definitions set forth in the Regulations and the Health Information Technology for Economic and Clinical Health Act (“HITECH”), found in Title XIII of the American Recovery and Reinvestment Act of 2009, Public Law 111-005, and any regulations promulgated thereunder.

- a. “Breach” shall have the meaning set forth in 45 C.F.R. § 164.402.
- b. “Designated Record Set” shall have the meaning set forth in 45 C.F.R. § 164.501 and shall include, but not be limited to, medical records and billing records about Individuals.
- c. “Electronic Protected Health Information” or “EPHI” shall have the same meaning as the term “electronic protected health information” in 45 C.F.R. § 160.103.
- d. “Individual” shall have the same meaning as the term “individual” in 45 C.F.R. § 160.103 and shall include a person who qualifies as a personal representative in accordance with 45 C.F.R. § 164.502(g).
- e. “Protected Health Information” or “PHI” means, subject to the definition provided at 45 C.F.R. § 160.103, individually identifiable health information that Business Associate receives from Covered Entity or creates, receives, transmits or maintains on behalf of Covered Entity for purposes of performing the services under the

Engagement. Unless otherwise stated in this Agreement, any provision, restriction or obligation in this Agreement related to the use of PHI shall apply equally to EPHI.

- f. "Required by Law" shall have the same meaning as the term "required by law" in 45 C.F.R. § 164.103.
- g. "Secretary" shall mean the Secretary of the Department of Health and Human Services or their designee.
- h. "Security Incident" means the attempted or successful unauthorized access, use, disclosure, modification or destruction of information or interference with the system operations in an information system.
- i. "Subcontractor" means a person to whom a business associate delegates a function, activity or service, other than in the capacity of a member of the workforce of such business associate.
- j. "Unsecured PHI" shall have the same meaning as the term "Unsecured PHI" in 45 C.F.R. § 164.402.

Business Associate acknowledges and agrees that all PHI that is created or received by Covered Entity and disclosed or made available in any form by Covered Entity to Business Associate, or is created, received, maintained or transmitted by Business Associate on Covered Entity's behalf, will be subject to this Agreement. This Agreement will commence upon the Effective Date and will continue as long as Business Associate has use, custody or access to PHI subject to this Agreement, and thereafter for the period required by the Regulations.

II. Obligations and Activities of Business Associate

- a. Use and Disclosure. Business Associate will not use or further disclose PHI other than as permitted or required by this Agreement or as Required by Law. Business Associate will not use or disclose PHI in a manner that would violate the Regulations if done by Covered Entity.
- b. HIPAA Security Rule. Business Associate will develop, implement, maintain and use appropriate safeguards, and comply with the Security Rule at Subpart C of 45 C.F.R. Part 164, with respect to EPHI, to prevent use or disclosure of the PHI other than as provided for by this Agreement.
- c. HIPAA Privacy Rule. Business Associate will comply with all requirements of the Privacy Rule at Subpart E of 45 C.F.R. Part 164 that apply to business associates.
- d. Mitigation. Business Associate will mitigate, to the extent practicable, any harmful effect that is known to Business Associate of a use or disclosure of PHI by Business Associate in violation of the requirements of this Agreement.
- e. Subcontractors. In accordance with the requirements of the Regulations, Business Associate will ensure that any Subcontractor that creates, receives, maintains or transmits PHI on behalf of Business Associate agrees in writing to the same restrictions that apply to Business Associate with respect to that PHI.

- f. Reports of Impermissible Use or Disclosure of PHI; Security Incident. Business Associate will report to Covered Entity any use or disclosure of PHI not provided for or permitted by this Agreement of which it becomes aware, or any Security Incident of EPHI of which it becomes aware, within five (5) days of the date on which Business Associate first discovers the use, disclosure or Security Incident. In addition to its other obligations under this Agreement, Business Associate will take prompt action to correct any Security Incident or use or disclosure of PHI not permitted under this Agreement and any action pertaining to such Security Incident or unauthorized use or disclosure as required by applicable federal or state laws and regulations. Notwithstanding the foregoing, the Parties acknowledge and agree that Business Associate need not report all attempted but unsuccessful Security Incidents to Covered Entity, and that this Agreement constitutes notice to Covered Entity that such unsuccessful Security Incidents occur periodically. Unsuccessful Security Incidents include, but are not limited to, pings and other broadcast attacks on Business Associate's firewall, port scans, unsuccessful log-on attempts, denials of service, and any combination of the above, so long as such incidents do not result in actual unauthorized access, use, or disclosure of PHI.
- g. Breaches of Unsecured PHI. Business Associate will report to Covered Entity any Breach of Unsecured PHI by Business Associate or any of its officers, directors, employees, Subcontractors or agents. All notifications of Breach of Unsecured PHI will be made by Business Associate to Covered Entity without unreasonable delay and in no event later than five (5) days of discovery. Business Associate will use the standard at 45 C.F.R. § 164.410(a) to determine when the Breach is treated as discovered. All notifications will comply with Business Associate's obligations under, and include the information specified in, 45 C.F.R. § 164.410 and include any other available information that Covered Entity is required to include in its notification to individuals pursuant to 45 C.F.R. § 164.404(c). In the event of a Breach by Business Associate, Business Associate will cooperate with Covered Entity to notify, (i) individuals whose Unsecured PHI has been, or is reasonably believed by Business Associate to have been, accessed, acquired, used or disclosed, and (ii) the media, as required pursuant to 45 C.F.R. § 164.406, if the legal requirements for media notification are triggered by the circumstances of such Breach.
- h. Access. In the event an Individual requests access to PHI in a Designated Record Set from Business Associate, Business Associate will provide Covered Entity with notice of the same within five (5) days. Business Associate will provide access, within ten (10) days of a request of Covered Entity and in the manner designated by Covered Entity, to PHI in a Designated Record Set to Covered Entity, or, as directed by Covered Entity, to an Individual or the Individual's designee in order to meet the requirements under 45 C.F.R. § 164.524 (Access). If the PHI that is the subject of a request is maintained by the Business Associate in a Designated Record Set electronically, Business Associate will provide an electronic copy of such information to the Covered Entity, or, as directed by the Covered Entity, to the Individual or the Individual's designee, in the format required by the Regulations and as directed by Covered Entity, in order to meet the Covered Entity's obligations under 45 C.F.R. § 164.524.
- i. Amendment. In the event Business Associate receives a request from an Individual for an amendment to PHI in a Designated Record Set, Business Associate will provide Covered Entity with notice of the same within five (5) days. Business

Associate will make any amendments to PHI in a Designated Record Set that Covered Entity directs or agrees to pursuant to 45 C.F.R. § 164.526 (Amendment) within ten (10) days of a request of Covered Entity or an Individual and in the manner designated by Covered Entity, in order to meet the Covered Entity's obligations under 45 C.F.R. § 164.526. Business Associate will incorporate any amendments to PHI it receives from Covered Entity and will notify Covered Entity of any amended PHI that it receives from third parties relating to Covered Entity's PHI.

- j. Accounting of Disclosures. Business Associate will document such disclosures of PHI and information related to such disclosures as would be required for Covered Entity to fulfill its obligations under the Regulations, including, but not limited to, responding to a request by an Individual for an accounting of disclosures in accordance with 45 C.F.R. § 164.528, and will provide such information to Covered Entity or an Individual, in the time and manner designated by Covered Entity. Except in the case of a direct request from an Individual for an accounting related to treatment, payment or healthcare operations disclosures through an electronic health record, if the request for an accounting is delivered directly to Business Associate or its agents or subcontractors, Business Associate will, within five (5) days of a request, notify Covered Entity of the request. Covered Entity will either inform Business Associate to provide such information directly to the Individual, or it will request the information to be immediately forwarded to Covered Entity for compilation and distribution to such Individual, and Business Associate will provide such information in its possession within ten (10) days of Covered Entity's request. In the case of a direct request for an accounting from an Individual related to treatment, payment or healthcare operations disclosures through electronic health records, Business Associate will provide such accounting to the Individual in accordance with Section 13405(c) of HITECH and such regulations as are adopted thereunder. Covered Entity and Business Associate agree that the provisions of this section related to accounting of disclosures for treatment, payment and healthcare operations purposes from an electronic health record will only be effective as of such date such accountings of disclosures are required under HITECH. Business Associate and any agent or Subcontractors will maintain the information required for purposes of complying with this section for such period of time as is required under the Regulations and HITECH.
- k. Covered Entity's Obligations Under Privacy Rule. To the extent that Business Associate is to carry out one or more of Covered Entity's obligations under Subpart E of 45 C.F.R. Part 164, Business Associate will comply with the requirements of Subpart E that apply to Covered Entity in the performance of such obligations.
- l. Records. Business Associate will make its internal practices, books, and records relating to the use and disclosure of PHI available to the Covered Entity or to the Secretary for purposes of determining Covered Entity's compliance with the Regulations. Business Associate will notify Covered Entity regarding any PHI that Business Associate provides to the Secretary concurrently with providing such PHI to the Secretary, and upon request by Covered Entity, will provide Covered Entity with a duplicate copy of such PHI.
- m. Inspections; Audits. Within five (5) days of a written request by Covered Entity, Business Associate will allow Covered Entity to conduct a reasonable inspection of the books and records relating to the use or disclosure of PHI pursuant to this

Agreement for the purpose of determining whether Business Associate has complied with this Agreement and the requirements of the Regulations; provided, however, that Covered Entity will protect the confidentiality of all proprietary information of Business Associate to which Covered Entity has access during the course of such inspection and Business Associate and Covered Entity will mutually agree in advance upon the scope, location and timing of such an inspection. The costs of the audit will be covered by Covered Entity in the event the audit determines that Business Associate is in compliance with this Agreement and the Regulations and covered by Business Associate in the event the audit determines that Business Associate has violated this Agreement or the Regulations. Covered Entity is permitted to engage in the inspections and audits set forth in this Section no more often than one time during each calendar year during which this Agreement is in effect.

- n. Minimum Necessary. Business Associate and its Subcontractors, if any, will only request, use and disclose the minimum amount of PHI necessary to accomplish the intended purpose of the request, use or disclosure. Business Associates agrees, and it will ensure that its Subcontractors agree, to comply with Section 13405(b) of HITECH, any regulations issued thereunder or any guidance from the Secretary regarding what constitutes the definition of minimum necessary.
- o. Compliance with HITECH. Business Associate will comply with all requirements of Title XIII, Subtitle D of HITECH which are applicable to business associates, and will comply with all regulations issued by the Secretary to implement these referenced statutes, as of the date by which business associates are required to comply with such referenced statutes and regulations.

III. Permitted Uses and Disclosures by Business Associate

- a. Required by Law. Business Associate may use or disclose PHI as Required by Law.
- b. To Carry Out Engagement. Except as otherwise limited in this Agreement, for purposes of the services provided as part of the Engagement, Business Associate may use or disclose PHI solely to perform functions, activities, or services for, or on behalf of, Covered Entity, provided that such use or disclosure would not violate the Regulations if done by Covered Entity.
- c. Management and Administration. Except as otherwise limited in this Agreement, Business Associate may use PHI for the proper management and administration of Business Associate or to carry out the legal responsibilities of Business Associate, as provided in 45 C.F.R. § 164.504(e)(4). In addition, Business Associate may disclose PHI for the proper management and administration of Business Associate or to carry out the legal responsibilities of Business Associate, provided that such disclosures are Required by Law or Business Associate obtains, prior to the disclosure, reasonable assurances from the person to whom it is disclosed that such PHI will be held secure and confidential as provided pursuant to this Agreement and only disclosed as Required by Law or for the purposes for which it was disclosed to the third party, and that any breaches of confidentiality of the PHI which becomes known to such third party will be immediately reported to Business Associate.

- d. Data Aggregation. Business Associate may use PHI to provide data aggregation services related to the health care operations of the Covered Entity as permitted by 45 C.F.R. § 164.504(e)(2)(i)(B).
- e. De-Identification. Business Associate may use PHI to create information that is de-identified. Any such de-identification by Business Associate will be done in compliance with 45 C.F.R. § 164.514(b). Covered Entity agrees that de-identified information may be used and disclosed on Business Associate's own behalf. Covered Entity agrees that any de-identified information is and will remain the sole property of Business Associate and, due to the regulatory treatment of de-identified information, is no longer PHI and not subject to this Agreement or the Regulations.

IV. Provisions for Covered Entity to Inform Business Associate of Privacy Practices and Restrictions

- a. Notice of Privacy Practices. Covered Entity will provide Business Associate, upon request, with Covered Entity's Notice of Privacy Practices in effect at the time of the request.
- b. Revocation of Permission. Covered Entity will provide Business Associate with any changes in or revocation of permission by an Individual to use or disclose PHI to the extent such changes may affect Business Associate's permitted or required uses and disclosures.
- c. Restrictions on Use and Disclosure. Covered Entity will notify Business Associate of any material restriction to the use or disclosure of PHI that Covered Entity has agreed to in accordance with 45 C.F.R. § 164.522, to the extent such restrictions may affect Business Associate's use and disclosure of PHI.

V. Obligations of the Covered Entity

Covered Entity will not request Business Associate to use or disclose PHI in any manner that would not be permissible under the Regulations if done by Covered Entity.

VI. Termination

- a. Termination for Cause by Covered Entity. Notwithstanding any contrary termination provision of any other agreement between the Parties, Covered Entity is authorized to terminate this Agreement and the Engagement as described in this Section if Covered Entity determines that Business Associate has violated a material term of this Agreement. Upon Covered Entity's knowledge of a material breach of this Agreement by Business Associate, Covered Entity will provide written notice of such breach to Business Associate and provide an opportunity for Business Associate to cure the breach or end the violation. If Business Associate does not cure the breach or end the violation within the time specified by the Covered Entity, then Covered Entity may immediately terminate this Agreement; or Covered Entity may immediately terminate this Agreement if Business Associate has breached a material term of this Agreement and Covered Entity determines that cure is not possible.

b. Effect of Termination.

1. Except as provided in paragraph 2 of this section, upon termination of the Engagement, Business Associate will return or destroy all PHI received from Covered Entity or created, received, maintained or transmitted by Business Associate on behalf of Covered Entity. This provision will apply to PHI that is in the possession of subcontractors or agents of Business Associate. Business Associate will retain no copies of PHI.
2. In the event that Business Associate determines that returning or destroying the PHI is infeasible, Business Associate will provide to Covered Entity notification of the conditions that make return or destruction infeasible. Upon mutual agreement of the Parties that return or destruction of PHI is infeasible, Business Associate will extend the protections of this Agreement to such PHI and limit further uses and disclosures of such PHI to those purposes that make the return or destruction infeasible for so long as Business Associate maintains such PHI.

VII. Indemnification

Each Party (the "Indemnifying Party") shall defend, hold harmless and indemnify the other Party (the "Indemnified Party") against any and all claims, liabilities, damages, judgments, costs and expenses (including reasonable attorney's fees and costs) asserted against, imposed upon or incurred by the Indemnified Party that arises out of, or in connection with, the Indemnifying Party's default under or failure to perform any contractual or other obligation, commitment or undertaking under this Agreement, or the negligence of the Indemnifying Party or its employees, agents, or representatives in the discharge of its or their responsibilities, or any other act or omission of the Indemnifying Party or its employees, agents or representatives. This provision will survive termination of the Agreement with respect to any claim, action, or proceeding by a third party that relates to acts or omissions occurring during the term of this Agreement.

VIII. Miscellaneous

- a. Survival. The respective rights and obligations of Business Associate and Covered Entity under Sections II, VI, VII, and VIII of this Agreement shall survive the termination of this Agreement.
- b. Notification. Except as otherwise agreed to in this Agreement, any notice required or permitted under this Agreement will be given in writing and delivered personally or sent by certified mail, return receipt requested, or by reputable overnight delivery service, such as Federal Express, to the following addresses:

Covered Entity
Touching Hearts, Inc. ____
7900 West 78th Street, Suite 410
Minneapolis, MN 55439

Business Associate

Such addresses may be changed by either Party by written advice as to the new address given as above provided.

- c. Interpretation. Any ambiguity in this Agreement will be resolved in favor of a meaning that permits Covered Entity and Business Associate to comply with HIPAA, the Regulations, and HITECH. In the event of any inconsistency between the provisions of this Agreement, the Engagement and the Regulations, the Regulations will control.
- d. No Third Party Beneficiaries. This Agreement is intended for the sole benefit of the Business Associate and Covered Entity and does not create any third party beneficiary rights.
- e. Unenforceability. In the event that any provision of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, the remainder of the provisions of this Agreement will remain in full force and effect. In addition, in the event either Party believes in good faith that any provision of the Agreement fails to comply with the then-current requirements of HIPAA, the Regulations, and other applicable law, including but not limited to HITECH and all regulations promulgated thereunder, that Party will notify the other Party in writing. For a period of up to thirty (30) days, the Parties will address in good faith such concern and will amend the terms of this Agreement if necessary to bring it into compliance. If after such thirty (30) day period either Party in good faith believes that this Agreement fails to comply with HIPAA, the Regulations, and other applicable law, including but not limited to HITECH and all regulations promulgated thereunder, then that Party has the right to terminate this Agreement upon written notice to the other Party.
- f. Independent Contractors. Business Associate is not the agent of Covered Entity and Covered Entity does not control, supervise or instruct Business Associates or any Subcontractors. The Parties are independent contractors and nothing in this Agreement will be deemed to make them partners or joint venturers or make Business Associate an agent of Covered Entity.
- g. Entire Agreement. This Agreement is the entire agreement of the Parties related to its subject matter and supersedes all prior agreements between the Parties that were designated or qualified as business associate agreements and replaces all previous drafts, understandings and communications.

The Parties have executed this Agreement to be effective as of the Effective Date.

COVERED ENTITY:

By: _____

Title: _____

BUSINESS ASSOCIATE:

TOUCHING HEARTS, INC.

By: _____

Title: _____

EXHIBIT B

LIST OF STATE FRANCHISE ADMINISTRATORS

STATE	STATE ADMINISTRATOR/AGENT	ADDRESS
California	Commissioner of Financial Protection and Innovation California Department of Financial Protection and Innovation	320 West 4 th Street, Suite 750 Los Angeles, CA 90013-2344 1-866-275-2677
Hawaii	Commissioner of Securities Dept. of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch	335 Merchant Street Room 203 Honolulu, HI 96813
Illinois	Illinois Attorney General	500 South Second Street Springfield, IL 62706
Indiana	Indiana Securities Commissioner Securities Division	302 West Washington Street, Room E111 Indianapolis, IN 46204
Maryland	Office of the Attorney General Division of Securities	200 St. Paul Place Baltimore, MD 21202-2020
Michigan	Michigan Department of Attorney General Consumer Protection Division	G. Mennen Williams Building, 1 st Floor 525 West Ottawa Street Lansing, MI 48933
Minnesota	Commissioner of Commerce Minnesota Department of Commerce	85 7 th Place East, Suite 280 St. Paul, MN 55101-2198
New York	NYS Department of Law Investor Protection Bureau	28 Liberty Street, 21 st Floor New York, NY 10005 212-416-8222
North Dakota	Securities Commissioner North Dakota Securities Department	600 East Boulevard Avenue State Capitol, 14th Floor, Dept. 414 Bismarck, ND 58505-0510
Rhode Island	Director, Department of Business Regulation, Securities Division	1511 Pontiac Avenue John O. Pastore Complex – Building 68-2 Cranston, RI 02920
South Dakota	Department of Labor and Regulation Division of Insurance – Securities Regulation	124 S. Euclid, Suite 104 Pierre, SD 57501
Virginia	State Corporation Commission Division of Securities and Retail Franchising	1300 East Main Street, 9 th Floor Richmond, VA 23219 804-371-9051
Washington	Department of Financial Institutions Securities Division	150 Israel Road SW Tumwater, WA 98501 360-902-8760
Wisconsin	Commissioner of Securities	Department of Financial Institutions Division of Securities 4822 Madison Yards Way, North Tower Madison, WI 53705

EXHIBIT C
AGENTS FOR SERVICE OF PROCESS

STATE	STATE ADMINISTRATOR/AGENT	ADDRESS
California	Commissioner of Financial Protection and Innovation California Department of Financial Protection and Innovation	320 West 4 th Street, Suite 750 Los Angeles, CA 90013-2344 1-866-275-2677
Illinois	Illinois Attorney General	500 South Second Street Springfield, IL 62706
Indiana	Indiana Secretary of State	302 West Washington Street, Room E018 Indianapolis, IN 46204
Maryland	Maryland Securities Commissioner	200 St. Paul Place Baltimore, MD 21202-2020
Michigan	Michigan Department of Attorney General Consumer Protection Division	G. Mennen Williams Building, 1 st Floor 525 West Ottawa Street Lansing, MI 48933
Minnesota	Commissioner of Commerce Minnesota Department of Commerce	85 7 th Place East, Suite 280 St. Paul, MN 55101-2198
New York	New York Department of State	One Commerce Plaza 99 Washington Avenue, 6th Floor Albany, NY 12231-0001 518-473-2492
North Dakota	Securities Commissioner North Dakota Securities Department	600 East Boulevard Avenue State Capitol, 14th Floor, Dept. 414 Bismarck, ND 58505-0510
Rhode Island	Director, Department of Business Regulation, Securities Division	1511 Pontiac Avenue John O. Pastore Complex – Building 68-2 Cranston, RI 02920
South Dakota	Department of Labor and Regulation Division of Insurance – Securities Regulation	124 S. Euclid, Suite 104 Pierre, SD 57501
Virginia	Clerk of the State Corporation Commission	1300 East Main Street, 1st Floor Richmond, VA 23219-3630
Washington	Department of Financial Institutions Securities Division	150 Israel Road SW Tumwater, WA 98501 360-902-8760
Wisconsin	Commissioner of Securities	Department of Financial Institutions Division of Securities 4822 Madison Yards Way, North Tower Madison, WI 53705

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FINANCIAL STATEMENTS



Financial Statements
December 31, 2023, 2022, and 2021
Touching Hearts, Inc.

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Independent Auditor's Report

To the Stockholders
Touching Hearts, Inc.
Minneapolis, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Touching Hearts, Inc. (the Company), which comprise the balance sheets as of December 31, 2023, 2022, and 2021, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023, 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 for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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.

Responsibilities of Management 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 for 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 GAAS 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 GAAS, 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.

Eide Bailly LLP

Minneapolis, Minnesota
April 18, 2024

Touching Hearts, Inc.
Balance Sheets
December 31, 2023, 2022, and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Current Assets			
Cash	\$ 87,291	\$ 37,127	\$ 185,695
Accounts receivable, net of allowance for credit losses of \$0 in 2023, 2022, and 2021	133,550	120,795	116,431
Prepaid expenses	34,050	7,343	29,245
Current portion of notes receivable	2,817	19,400	19,400
Inventory	18,925	20,298	-
Total current assets	<u>276,633</u>	<u>204,963</u>	<u>350,771</u>
Security Deposit	4,583	4,583	4,583
Intangible Assets, Net	58,357	99,550	77,681
Property and Equipment, Net	4,437	6,498	3,703
Operating Lease Right-of-Use Assets	66,096	94,982	-
Notes Receivable, Net of Current Portion	16,200	7,017	14,417
Total assets	<u>\$ 426,306</u>	<u>\$ 417,593</u>	<u>\$ 451,155</u>

Touching Hearts, Inc.
Balance Sheets
December 31, 2023, 2022, and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts payable	\$ 95,326	\$ 65,434	\$ 7,458
Accrued salaries, benefits, and payroll taxes	33,318	119,855	44,826
Deferred revenue	19,800	-	-
Due to stockholder	31,000	100,000	-
Line of credit	35,570	-	-
Current portion of note payable	18,958	17,859	-
Current portion of operating lease liabilities	34,367	32,312	-
Total current liabilities	<u>268,339</u>	<u>335,460</u>	<u>52,284</u>
Deferred Rent	-	-	16,915
Note Payable, Net of Current Portion	60,299	79,257	-
Operating Lease Liabilities, Net of Current Portion	42,814	77,181	-
Total liabilities	<u>371,452</u>	<u>491,898</u>	<u>69,199</u>
Stockholders' Equity (Deficit)			
Common stock, \$.01 par value, 10,000 shares authorized; 1020, 1000, and 100 shares issued and outstanding at December 31, 2023, 2022, and 2021, respectively	10	10	1
Additional paid-in capital	207,276	87,276	87,285
Retained earnings (deficit)	(152,432)	(161,591)	294,670
Total stockholders' equity (deficit)	<u>54,854</u>	<u>(74,305)</u>	<u>381,956</u>
Total liabilities and stockholders' equity	<u>\$ 426,306</u>	<u>\$ 417,593</u>	<u>\$ 451,155</u>

Touching Hearts, Inc.
 Statements of Income
 Years Ended December 31, 2023, 2022, and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenues			
Royalty income	\$ 2,729,519	\$ 2,423,308	\$ 2,225,012
Franchise fee income	92,968	15,000	79,000
Other income	8,929	5,398	-
Paycheck Protection Plan (PPP) loan forgiveness	-	-	119,176
	<u>2,831,416</u>	<u>2,443,706</u>	<u>2,423,188</u>
Total revenues			
Expenses			
Personnel salaries and benefits	889,743	962,789	931,828
Franchisee training and seminars	259,169	178,389	131,597
Advertising and promotion	368,408	265,917	139,769
General and administrative expenses	390,906	515,168	284,734
Rent expense	67,248	63,493	62,129
Depreciation and amortization	43,254	25,663	3,446
Interest expense	12,444	2,653	-
	<u>2,031,172</u>	<u>2,014,072</u>	<u>1,553,503</u>
Total expenses			
Net Income	<u>\$ 800,244</u>	<u>\$ 429,634</u>	<u>\$ 869,685</u>

Touching Hearts, Inc.
Statements of Changes in Stockholders' Equity
Years Ended December 31, 2023, 2022, and 2021

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balances, January 1, 2021	100	\$ 1	\$ 87,285	\$ 137,864	\$ 225,150
Net Income	-	-	-	869,685	869,685
Distributions	-	-	-	(712,879)	(712,879)
Balances, December 31, 2021	100	1	87,285	294,670	381,956
Stock split 10:1	900	9	(9)	-	-
Net Income	-	-	-	429,634	429,634
Distributions	-	-	-	(885,895)	(885,895)
Balances, December 31, 2022	1,000	10	87,276	(161,591)	(74,305)
Stock based compensation	20	-	120,000	-	120,000
Net Income	-	-	-	800,244	800,244
Distributions	-	-	-	(791,085)	(791,085)
Balances, December 31, 2023	1,020	\$ 10	\$ 207,276	\$ (152,432)	\$ 54,854

Touching Hearts, Inc.
Statements of Cash Flows
Years Ended December 31, 2023, 2022, and 2021

	2023	2022	2021
Operating Activities			
Net income	\$ 800,244	\$ 429,634	\$ 869,685
Adjustments to reconcile net income to net cash from (used for) operating activities			
Depreciation and amortization	43,254	25,663	3,446
PPP loan forgiveness	-	-	(119,176)
Stock based compensation	60,000	60,000	-
Changes in operating assets and liabilities			
Accounts receivable	(12,755)	(4,364)	4,373
Prepaid expenses	(26,707)	21,902	(22,215)
Notes receivable	7,400	7,400	17,710
Inventory	1,373	(20,298)	-
Operating lease assets and liabilities	(3,426)	(2,404)	-
Accounts payable	29,892	57,976	3,621
Accrued salaries and benefits	(26,537)	15,029	3,975
Deferred revenue	19,800	-	-
Deferred rent	-	-	(1,414)
Net Cash from Operating Activities	<u>892,538</u>	<u>590,538</u>	<u>760,005</u>
Investing Activities			
Purchases of property and equipment	-	(4,193)	-
Purchases of intangibles	-	(46,134)	(77,446)
Net Cash used for Investing Activities	<u>-</u>	<u>(50,327)</u>	<u>(77,446)</u>
Financing Activities			
Borrowings from line of credit	88,000	-	-
Repayments on line of credit	(52,430)	-	-
Proceeds from note payable	-	100,000	-
Advances from stockholder	-	100,000	-
Payments on stockholder advance	(69,000)	-	-
Principal payments on notes payable	(17,859)	(2,884)	-
Distributions	(791,085)	(885,895)	(712,879)
Net Cash used for Financing Activities	<u>(842,374)</u>	<u>(688,779)</u>	<u>(712,879)</u>
Net Change in Cash	50,164	(148,568)	(30,320)
Cash, Beginning of Year	<u>37,127</u>	<u>185,695</u>	<u>216,015</u>
Cash, End of Year	<u>\$ 87,291</u>	<u>\$ 37,127</u>	<u>\$ 185,695</u>
Supplemental Disclosure of Cash Flow Information			
Cash payments for interest	\$ 12,444	\$ 2,653	\$ -

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

Touching Hearts, Inc. (the Company) is a franchisor, selling franchises to provide non-medical home care services to seniors and people with disabilities.

The Company filed a Uniform Franchise Offering Circular with the state of Minnesota and was authorized to sell franchises as of December 31, 2006. As of December 31, 2023, the Company is authorized to sell franchises in approximately twenty-two states. Overall changes to operating franchisees are as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Franchises operating, beginning of year	64	69	72
Franchises opened during the year	2	-	-
Franchises discontinued during the year	<u>(2)</u>	<u>(5)</u>	<u>(3)</u>
Franchises operating, end of year	<u><u>64</u></u>	<u><u>64</u></u>	<u><u>69</u></u>

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 these estimates.

Adoption of New Accounting Standards

Current Expected Credit Losses

As of January 1, 2023, the Company adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including trade and loan receivables, and held to maturity debt securities. CECL requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The update also requires that credit losses on available-for-sale debt securities be presented as an allowance rather than a write-down of the security. This standard provides financial statement users with more decision-useful information about the expected losses on financial instruments.

The Company adopted ASU 2016-13 using the modified retrospective review method for all financial assets measured at amortized cost. Results for reporting periods beginning after January 1, 2023, are presented under Topic 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. There was no effect on retained earnings due to the adoption of the new credit loss guidance. The adoption of the new standard did not materially impact the Company's statements of income or statements of cash flows and primarily resulted in new/enhanced disclosures only.

Leases

Effective January 1, 2022, the Company adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (Topic 842). The Company elected to apply the guidance as of January 1, 2022, the beginning of the adoption period. The 2021 financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The new standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the income statement as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Company has elected the package of practical expedients permitted in Topic 842. Accordingly, the Company accounted for its existing leases as either finance or operating leases under the new guidance without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2022, the beginning of the adoption period, a cumulative effect adjustment to deferred rent of \$16,915 operating lease liabilities of \$139,855 and operating right-of-use assets of \$122,940. The adoption of the new standard did not materially impact the Company's statements of income or statements of cash flows. See Note 8 for further disclosure of the Company's lease contracts.

Concentrations, Risks, and Uncertainties

The Company maintains its cash balances with primarily one financial institution. The Company has not experienced any losses in the accounts, but the balances, at times, may exceed the \$250,000 insurance limit established through the Federal Deposit Insurance Corporation (FDIC). At December 31, 2023, 2022, and 2021, the Company had no uninsured balances.

Financial instruments that potentially subject the Company to concentrations of credit risk as defined by current accounting guidance consist primarily of trade accounts receivable. The Company extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral. The Company monitors its exposure to credit losses on receivables and maintains an allowance as considered necessary.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable from franchisees are generally secured by the rights to the franchise. Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company performs continuing credit evaluations of its customers. Accounts receivable are considered past due when payment has not been received by the stated due date on the invoice. The Company has tracked historical loss information for its trade receivables and believes its most recent four-year period is a reasonable period on which to base its expected credit loss rate calculation after considering the composition of their customer base. The Company's historical credit loss rate over the most recent four-year period is approximately 0.28%.

Management believes that the historical loss information it has compiled is a reasonable base on which to determine expected credit losses for trade receivables held at December 31, 2023 because the composition of the trade receivables at those dates are consistent with that used in developing the historical credit-loss percentages (i.e., the similar risk characteristics of its customers and its lending practices have not changed significantly over time). Additionally, management has determined that the current and reasonable and supportable forecasted economic conditions are consistent with the economic conditions included in the historical information. As a result, the historical loss rates have not been adjusted for differences in current conditions or forecasted changes. Management considers accounts receivable to be fully collectible; accordingly, no allowance for credit losses is provided at December 31, 2023, 2022, and 2021. Changes in the allowance for credit losses for receivables are as follows for the year ended December 31:

	2023
Allowance for Credit Losses, Beginning of Year	\$ -
Impact of adopting Topic 326	-
Provision for credit losses	10,856
Charge-offs	(10,856)
Recoveries	-
	-
Allowance for Credit Losses, End of Year	\$ -

Inventory

Inventory consists of promotional items for sale to franchisees. It is stated at the lower of cost or net realizable value. Cost is determined on an average cost basis.

Property and Equipment

Property and equipment are carried at cost. Depreciation expense is computed using the straight-line method over estimated useful lives ranging from five to seven years for property and equipment. Significant additions or improvements extending asset lives are capitalized, while maintenance and repairs are charged to expense as incurred. The cost and related accumulated depreciation or amortization on asset disposals are removed from the accounts, and the resulting gain or loss is included in operating expenses.

Intangible Assets

Intangible assets consist of franchising costs that are carried at cost and amortized using the straight-line method over estimated lives of 15 years.

The Company capitalizes website development costs related to software in the application development stage. All other costs related to website development are expensed as incurred. These costs are amortized using the straight-line method over an estimated life of three years.

Impairment of Long-Lived Assets

Long-lived assets, such as property, equipment, and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairment charges recognized during the years ended December 31, 2023, 2022, and 2021.

Revenue Recognition

Revenue recognition is governed by Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, which requires that five basic criteria must be met before revenue can be recognized: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company derives its revenues primarily from royalties and franchise fees collected from franchisees. Revenues are recognized when control of these products or services is transferred to its customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products and services.

The Company's primary performance obligations under the franchise license is granting certain rights to use the Company's intellectual property and pre-opening services. The Company has elected to account for the pre-opening services as a single distinct performance obligation in accordance with the practical expedient, ASU 2021-02, *Franchisors — Revenue from Contracts with Customers*. Franchise agreements generally provide for an initial franchise fee of between \$39,500 and \$49,500 per franchise unit and require that franchisees pay royalty fees based on a percentage of their gross revenue, as defined by the franchise agreement. Sales tax and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

Initial franchise fees in excess of estimated pre-opening costs are deferred and recognized over the life of the franchise agreement, typically ten years. Franchise renewal fees, transfer fees, and fees charged to existing franchisees for another franchise or territory are also deferred and recognized over their respective contract lives. Initial franchise fees collected prior to the opening of the franchise are deferred and recognized when the franchise is ultimately opened.

Costs incurred to obtain a contract, if significant, are capitalized and amortized over the estimated life of a franchisee.

Revenue from inventory sales is recognized when the item is shipped and is recorded as other income in the statements of income.

Advertising Expenses

Advertising expenses are recognized in the period incurred, and were \$368,408, \$265,917, and \$139,769 for the years ended December 31, 2023, 2022, and 2021, respectively.

Income Tax

The Company has elected to be taxed as an S-corporation under applicable federal and state regulations. Accordingly, a provision for income taxes has not been provided on these financial statements, as any liability or benefit generally accrues to the stockholders.

The Company accounts for income taxes pursuant to Financial Accounting Standards Board guidance. This guidance prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken, or expected to be taken, in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The Company believes its income tax filing positions and deductions will be sustained upon examination and, accordingly, no reserves or related accruals for interest and penalties have been recorded at December 31, 2023, 2022, and 2021.

In accordance with the guidance, the Company has adopted a policy under which, if required to be recognized in the future, interest related to the underpayment of income taxes will be classified as a component of interest expense and any related penalties will be classified in operating expenses in the statements of income.

Stock Based Compensation

Stock-based compensation expense reflects the fair value of stock-based awards measured at the grant date. The Company estimates the fair value of each stock-based award on the measurement date using a methodology which encompasses prior stock transactions and adjusts for current operations.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or stockholders' equity.

Subsequent Events

The Company has evaluated subsequent events through April 18, 2024, the date which the financial statements were available to be issued.

Note 2 - Revenue

The following table disaggregates the Company's revenue based on the timing of satisfaction of performance obligations for the years ended December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Performance obligations satisfied at a point in time	\$ 92,968	\$ 15,000	\$ 79,000
Performance obligations satisfied over time	<u>2,729,519</u>	<u>2,423,308</u>	<u>2,225,012</u>
	<u>\$ 2,822,487</u>	<u>\$ 2,438,308</u>	<u>\$ 2,304,012</u>

Revenue from performance obligations satisfied at a point in time consist of franchise fees allocated to pre-opening services provided to new franchisees.

Revenue from performance obligations satisfied over time consist of royalty revenue allocated to the right to use the Company's intellectual property.

The only contract assets and liabilities on the balance sheets as of December 31, 2023, 2022, and 2021, consist of accounts and notes receivable, and deferred revenue. Accounts receivable at January 1, 2021, were \$120,804, notes receivable at January 1, 2021, were \$51,527, and deferred revenue at January 1, 2021 was \$0.

Note 3 - Intangible Assets

Intangible assets consist of the following as of December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Franchising costs	\$ 27,177	\$ 27,177	\$ 27,177
Website development costs	123,580	123,580	77,446
Less accumulated amortization	<u>(92,400)</u>	<u>(51,207)</u>	<u>(26,942)</u>
Intangible assets, net	<u>\$ 58,357</u>	<u>\$ 99,550</u>	<u>\$ 77,681</u>

Amortization expense was \$41,193, \$24,265, and \$1,811 for the years ended December 31, 2023, 2022, and 2021, respectively. Amortization expense is estimated to be as follows for the:

<u>Years ending December 31,</u>	<u>Amount</u>
2024	\$ 41,193
2025	<u>17,164</u>
	<u>\$ 58,357</u>

Note 4 - Property and Equipment

Property and equipment consist of the following as of December 31:

	2023	2022	2021
Furniture and equipment	\$ 19,727	\$ 19,727	\$ 15,534
Less accumulated depreciation	(15,290)	(13,229)	(11,831)
Property and equipment, net	\$ 4,437	\$ 6,498	\$ 3,703

Depreciation expense was \$2,061, \$1,398, and \$1,635 for the years ended December 31, 2023, 2022, and 2021, respectively.

Note 5 - Notes Receivable

The Company occasionally executes notes receivable with franchisees for the payment of a portion of the initial franchise fee. These notes typically span a period of twelve to thirty-six months and are interest free. The Company routinely assesses the financial ability of the franchisee to pay the note prior to execution of the franchise agreement, and therefore, believes note receivable credit risk is limited. No allowance for credit losses was deemed necessary at December 31, 2023, 2022, and 2021.

Note 6 - Debt

Line of Credit

In March of 2022, the Company entered into a revolving line of credit with its primary bank that provides for borrowings up to \$100,000. The agreement has no maturity date but may be canceled by either the borrower or lender with a 30-day written notice. Borrowings under the line of credit bear interest at the prime rate + 4.5% with a minimum floor of 6% (effective rate of 13% at December 31, 2023). All borrowings are collateralized by certain assets of the Company and is personally guaranteed by a shareholder. Amounts outstanding on the line totaled \$35,570, and \$0 as of December 31, 2023 and 2022, respectively.

Long-Term Debt

Long-term debt consists of the following at December 31:

	2023	2022
Term note payable with bank dated October 2022 with interest at a fixed rate of 5.99%; payable in monthly installments of \$1,933 through October 2027; secured by substantially all assets of the Company and a personal guaranty of one of the stockholders.	\$ 79,257	\$ 97,116
Less current portion	(18,958)	(17,859)
Long-term debt, net of current portion	\$ 60,299	\$ 79,257

Future maturities of long-term debt are as follows:

Years Ending December 31,	Amount
2024	\$ 18,958
2025	20,126
2026	21,365
2027	18,808
	\$ 79,257

Paycheck Protection Program Loan

In April 2020, the Company was granted a \$119,176 loan under the Paycheck Protection Program (PPP) administered by Tradition Capital Bank, a Small Business Administration (SBA) approved partner. The loan was uncollateralized and was fully guaranteed by the Federal government. The Company initially recorded a note payable in 2020 and subsequently recorded forgiveness in 2021 when the loan obligation was legally released by the SBA. The Company recognized \$119,176 of loan forgiveness income for the year ended December 31, 2021, which is included as PPP loan forgiveness in the statements of income. The Company may be audited by the SBA for a period of up to six years after the date it was forgiven to determine whether the Company met the qualifications for the loan.

Note 7 - Related Party Transactions

During 2022, a stockholder loaned the Company \$100,000 for short term liquidity needs. There is no formal agreement and repayment terms have not been established. At December 31, 2023 and 2022, the outstanding balance due was \$31,000 and \$100,000, respectively, and is recorded as due to stockholder on the balance sheet.

During 2022, the Company hired a new CEO who also is a franchisee. The Company recognized \$51,412 and \$72,717 of royalty revenue from this franchise for the years ended December 31, 2023 and 2022, respectively.

Note 8 - Operating Leases

The Company leases an office under a long-term, non-cancelable operating lease. The lease expires on February 28, 2026. The office lease provides for increases in future minimum annual rental payments. The office lease also requires the Company to pay a proportionate share of real estate taxes and operating expenses.

The weighted average discount rate is based on the discount rate implicit in the lease. The Company has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Company has applied the risk-free rate option to the building class of assets.

The Company has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Total lease costs for the years ended December 31, 2023 and 2022, were as follows:

	2023	2022
Operating lease cost	\$ 31,646	\$ 31,646
Variable lease cost	30,804	27,553
Short-term lease cost	4,798	4,294
	\$ 67,248	\$ 63,493

Total lease expense under noncancelable leases was \$62,129 for the year ended December 31, 2021.

The following table summarizes the supplemental cash flow information for the years ended December 31, 2023 and 2022:

	2023	2022
Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Operating cash flows from operating leases	\$ 35,072	\$ 34,051

The following summarizes the weighted-average remaining lease term and weighted-average discount rate at December 31, 2023 and 2022:

	2023	2022
Weighted-average remaining lease term:		
Operating leases	2.16 years	3.16 years
Weighted-average discount rate:		
Operating leases	2.96%	2.96%

The future minimum lease payments under non-cancelable operating leases with terms greater than one year are listed below as of December 31, 2023:

Years Ending December 31,	Amount
2024	\$ 36,133
2025	37,211
2026	6,308
Total lease payments	79,652
Less interest	(2,471)
Present value of lease liabilities	\$ 77,181

Note 9 - Equity

Activity

During 2022, the sole stockholder sold 66% of their shares; 33% each to two related parties. The transaction occurred outside of the Company and, therefore, had no effect on total stockholders' equity.

In order to effectuate the sale, the Company declared a ten to one stock split immediately prior to the sale, which increased the number of shares outstanding from 100 to 1,000.

Buy-Sell Agreement

In conjunction with the sale of stock, the stockholders subsequently agreed to restrict the transfer of shares whether voluntarily, involuntarily, or upon death. Generally, before stock can be sold to any outside party, the Company has the right to repurchase the shares first, then the remaining stockholders have the right to purchase the shares second. The agreement also addresses the purchase price and payment methodology.

Stock Bonus Plan

A key employee was granted the right to common shares upon the attainment of certain performance goals tied to revenues; a total of 1% per year for the next five years for a maximum 5% of outstanding common shares. At December 31, 2022, the first annual performance goal for 2022 was determined to have been met. Accordingly, a \$60,000 accrued bonus was recorded based on the estimated fair value of the Company as determined by management.

At December 31, 2023, the second annual performance goal for 2023 was determined to have been met. Accordingly, a \$60,000 bonus was recorded based on the estimated fair value of the Company as determined by management.

In December 2023, 20 shares of common stock, valued at \$120,000, were issued to the key employee to satisfy both the 2022 and 2023 obligations.

EXHIBIT F

**LIST OF FRANCHISEES AND FORMER FRANCHISEES
EXISTING FRANCHISES
AS OF ~~DECEMBER~~JANUARY 31, ~~2022~~2024**

Owners	Address	City	State	Zip	Phone
Tremaine Davis	3004 Clairmont Ave S.	Birmingham	AL	35205	205.413.6354
Debra Maiella	2990 N Litchfield Rd	Goodyear	AZ	85395	623.207.9391
Stacey Tabor & Franny Schmidt	2851 South Parker Rd. Suite 114	Aurora	CO	80014	303.632.8786
Stacey Tabor & Franny Schmidt	1125 Kelly Johnson Blvd #340	Colorado Springs	CO	80920	719.888.6535
Ryan Fensler	3333 South Bannock St. #210	Englewood	CO	80110	303.962.1276
Tara Gaynor Rosie Masterson	406 Depee Street	Kit Carson	CO	80825	719.962.3203
Chris Greene	1331 West 121 st Avenue	Westminster	CO	80234	303.255.4071
Jim Haskins	PO Box 265	Belleview	FL	34421	352.414.5316
Jim Haskins	PO Box 265	Belleview	FL	34421	352.414.5316
Ruben Ramos	5109 N.W. 39 th Ave Suite F	Gainesville	FL	32606	352.225.3727
Terri White & Sonya Weathers	120 Broadway Suite 101	Kissimmee	FL	34741	407.483.7815
Terri White & Sonya Weathers	120 Broadway Suite 101	Kissimmee	FL	34741	407.483.7815
Flavio Vivas	11125 Park Blvd Suite 104-156	Seminole	FL	33772	727.262.1212
Flavio Vivas	11125 Park Blvd Suite 104-156	Seminole	FL	33772	727.262.1212
Flavio Vivas	11125 Park Blvd Suite 104-156	Seminole	FL	33772	727.262.1212
Flavio Vivas	11125 Park Blvd Suite 104-156	Seminole	FL	33772	727.262.1212
Flavio Vivas	11125 Park Blvd Suite 104-156	Seminole	FL	33624	727.262.1212
Dianna Anderson	101 Old Sandy Creek Rd Suite B	Fayetteville	GA	30214	770.356.6805
Jeri & Roy Pleticha	2005 Ironwood Pkwy Ste 224	Coeur D'Alene	ID	83814	208.601.8300
Jeffrey Bryk	110 Schiller St. Suite 230	Elmhurst	IL	60126	630.359.3040
Jeffrey Bryk	110 Schiller St. Suite 230	Elmhurst	IL	60126	630.359.3040
David & Anita Settle	820 E. Ave South	Lyons	KS	67554	785.656.0010
Justin McDermott	1600 Providence Hwy Suite 222	Walpole	MA	02081	781.619.8644
Cindy Huseby	318 Minneapolis Avenue	Duluth	MN	55803	218.724.4743
Aaron & Breanne Stromley	4895 Woods Court	Eagan	MN	55122	651.452.7900
Aaron & Breanne Stromley	4895 Woods Court	Eagan	MN	55122	651.452.7900
Aaron & Breanne Stromley	4895 Woods Court	Eagan	MN	55122	651.452.7900
Aaron & Breanne Stromley	4895 Woods Court	Eagan	MN	55122	651.452.7900
Aaron & Breanne Stromley	4895 Woods Court	Eagan	MN	55122	651.452.7900
Jarrold Peterson	14 4 th Avenue SE	New London	MN	56273	320.354.4663
Jarrold Peterson	1612 Randolph Ave. Suite 2	Saint Paul	MN	55105	651.452.6825
Shannon Vargas	10730 Pacific Street Suite 25	Omaha	NE	68114	402.934.3303
Voula Liacopulos	450 Tilton Road Suite 201	Northfield	NJ	08225	609.241.0899
Mary Lindewirth & Lorraine Frankel	PO Box 115	Stirling	NJ	07980	908.607.1945
Justin McDermott	251 New Karner Road	Albany	NY	12205	518.250.6867
Justin McDermott	6311 Fly Road Suite 106	East Syracuse	NY	13057	315.503.4896
Scott Smith	2 Maplewood Ave	Farmingdale	NY	11735	516.737.1618
Craig Sendach	733 3 rd Avenue, Floor 16	New York	NY	10017	212.201.6139
Craig Sendach	733 3 rd Avenue, Floor 16	New York	NY	10017	212.201.6139
Craig Sendach	733 3 rd Avenue, Floor 16	New York	NY	10017	212.201.6139
Mark McDermott	50 Prince Street Suite 317	Rochester	NY	14607	585.271.7390
Mark McDermott	50 Prince Street Suite 317	Rochester	NY	14607	585.271.7390
Mark McDermott	50 Prince Street Suite 317	Rochester	NY	14607	585.271.7390
Justin McDermott	6311 Fly Road Suite 106	East Syracuse	NY	13057	315.503.4896
Mark McDermott	2813 Wehrle Drive Suite 8	Williamsville	NY	14221	716.898.8566
Kelly George	4625 Far Hills Ave	Kettering	OH	45429	937.558.9394

Owners	Address	City	State	Zip	Phone
Jenni Blake	342 Columbus Ave	Lebanon	OH	45036	513.433.3737
Steve Pine	2510 NE Ocker Drive	Bend	OR	97701	541.633.9214
Dan Wilson	257 West Uwchlan Ave. Office 229	Downingtown	PA	19335	610.557.0270
Diane Ferry	1130 Agnew Drive	Drexel Hill	PA	19026	610.853.8145
Kira Rudolph	501 Valleybrook Rd Suite 106	McMurray	PA	15317	724.941.8860
Joe Greco	212 W Main St, Ste #102	Trappe	PA	19426	484.854.9300
Dave Wollman	1669 Edgewood Rd, Suite 206	Yardley	PA	19067	215.741.1030
Haley & Bryan Johnson	783 Old Hickory Blvd Suite 360	Brentwood	TN	37027	629.203.7925
Haley & Bryan Johnson	783 Old Hickory Blvd Suite 360	Brentwood	TN	37027	629.203.7925
Steve & Donna Smith	1043A E. Van Hook St.	Milan	TN	38358	731.613.2526
Steve & Shanie Cunningham	4601 Buffalo Gap Road, B-3	Abilene	TX	79602	325.704.4474
Holly Hill	2201 Long Prairie Rd Suite 107-842	Flower Mound	TX	75022	972.900.3635
Allan Hunt	4606 FM 1960 Rd W Suite 698	Houston	TX	77069	281.781.8077
Terri & Keith Van Stavern	5900 Lake Forest Drive Suite 300	McKinney	TX	75070	469.342.8750
Don & Debbie Heath	104 Industrial Blvd, Suite 210	Sugar Land	TX	77478	281.235.4075
Jessica Waller	PO Box 1573	Louisa	VA	23093	540.603.2626
Brandon Briesath	245 Regency Court #L105	Brookfield	WI	53045	262.787.1803
Brandon Briesath	245 Regency Court #L105	Brookfield	WI	53045	262.787.1803
Brandon Briesath	245 Regency Court #L105	Brookfield	WI	53045	262.787.1803
Chad & April Sutkay	PO Box 70	Burlington	WI	53105	262.212.3596
Skip Ballard	808 Heggen St. #245	Hudson	WI	54016	715.245.1944

LIST OF FORMER FRANCHISEES WHO TRANSFERRED, TERMINATED, NOT RENEWED OR OTHERWISE VOLUNTARILY OR INVOLUNTARILY CEASED DOING BUSINESS

AS OF ~~DECEMBER~~JANUARY 31, ~~2022~~2024

TRANSFERS – STILL FRANCHISEES

~~None~~

Tara Gaynor	406 Depee Street	Kit Carson	CO	80825	719.962.3203
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TRANSFERS – NO LONGER FRANCHISEES

~~None~~

Mary & Barron-Brillo	5508 Old Mill Lane	Rolling Meadows	IL	60008	847.651.3594
Suzanne Defosses-Gilliam	2813 Wehrle Drive Suite 8	Williamsville	NY	14224	716.898.8566

TERMINATIONS

None

NOT RENEWED

None

VOLUNTARILY OR INVOLUNTARILY CEASED DOING BUSINESS

Mark Blyn & Renae Ligon	12627 San Jose Blvd Suite 504-C	Jacksonville	FL	32223	904.379.4024
Angel Brewster	2420 W. Johnsborg Rd, Suite A	Johnsborg	IL	60054	815.669.1616
Dan & Cindy Jeffries	26 Woodhead Drive	Lake Villa	IL	60046	847.856.9994
Ron Stein & Rachel Sumrall	7801 Gross Point Road	Skokie	IL	60077	224.269.4302
Renita & Dave Thonvold	615 Anne Street NW Suite B	Bemidji	MN	56604	218.333.8509

Steve Pine	2510 NE Ocker Drive	Bend	OR	97701	541.633.9214
Joe Greco	212 W Main St, Ste #102	Trappe	PA	19426	484.854.9300

EXHIBIT G
STATE ADDENDA

ILLINOIS ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT

This Addendum relates to franchises sold in the state of Illinois and is intended to comply with Illinois statutes and regulations.

Illinois law governs the Franchise Agreement.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, arbitration may take place outside of Illinois.

Franchisees' rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.

In conformance with section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

No statement, questionnaire, or acknowledgment 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.

**ILLINOIS ADDENDUM TO
FRANCHISE AGREEMENT**

This Addendum relates to franchises sold in Illinois and is intended to comply with Illinois statutes and regulations. In consideration of the execution of the Franchise Agreement, we and you agree to amend the Franchise Agreement as follows:

Illinois law governs the Franchise Agreement.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, arbitration may take place outside of Illinois.

Franchisees' rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.

In conformance with section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

No statement, questionnaire, or acknowledgment 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.

WE:

YOU:

TOUCHING HEARTS, INC.

By _____
Its _____

By _____
Its _____

MINNESOTA ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT

This Addendum relates to franchises sold in the state of Minnesota and is intended to comply with Minnesota statutes and regulations.

1. Item 5. Payment of the initial franchise fee is deferred until such time as the franchisor completes its initial obligations and franchisee is open for business.

2. Item 13. Item 13 of the disclosure document is amended to include the following language:

We will indemnify you for damages for which you are held liable in any proceeding arising out of the use of the "Touching Hearts" mark, provided you have used the Marks properly and have notified us of any claim against you within 10 days of your knowledge of the claim. We will have sole control of any litigation involving the Marks. Our indemnification obligation will not apply to any franchisee residing outside the state of Minnesota who purchases a franchise to be located outside of Minnesota.

3. Item 17. Item 17 of the disclosure document is amended to include the following:

Minnesota Statutes, Section 80C.21 and Minnesota Rules 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce

(1) any of the franchisee's rights as provided for in Minnesota Statutes, Chapter 80C or
(2) franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statutes, Section 80C.14, Subd. 3-5, which require (except in certain specified cases) (1) that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the franchise agreement and (2) that consent to the transfer of the franchise will not be unreasonably withheld.

3. Exhibit I. Exhibit I of the disclosure document is amended to include the following:

No statement, questionnaire, or acknowledgment 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.

**MINNESOTA ADDENDUM TO
FRANCHISE AGREEMENT**

This Addendum relates to franchises sold in Minnesota and is intended to comply with Minnesota statutes and regulations. In consideration of the execution of the Franchise Agreement, we and you agree to amend the Franchise Agreement as follows:

1. Marks – Indemnification. Section 7 of the Franchise Agreement is amended to include the following language:

We will indemnify you (if you are a Minnesota franchisee) for damages for which such you are held liable in any proceeding arising out of the use of the “Touching Hearts” mark, provided that you have used the mark properly and have notified us of any claim against you within ten (10) days of your knowledge of such claim. We will have sole control of any litigation involving the Marks. Our indemnification obligation will not apply to any franchisee residing outside the state of Minnesota who purchases a franchise to be located outside of Minnesota.

2. Application of Minnesota Law.

A. Sections 3(B) and 15 of the Franchise Agreement are amended by adding the following sentences at the end of each Section: “Minnesota law provides franchisees with certain termination and nonrenewal rights. Minnesota Statutes, Section 80C.14, Subds. 3, 4 and 5 require, except in certain specified cases, that a franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice for nonrenewal of the Franchise Agreement.”

B. Section 18 of the Franchise Agreement is amended by adding the following sentences at the end of each Section: “Minnesota Statutes, Section 80C.21 and Minnesota Rules 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee’s rights as provided for in Minnesota Statutes, Chapter 80C or (2) franchisee’s rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.”

3. No statement, questionnaire, or acknowledgment 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.

4. Construction. In all other respects, the Franchise Agreement will be construed and enforced with its terms.

5. Payment of the initial franchise fee is deferred until such time as the franchisor completes its initial obligations and franchisee is open for business.

WE:

YOU:

TOUCHING HEARTS, INC.

By _____
Its _____

By _____
Its _____

NEW YORK ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT

To the extent the New York General Business Law, Article 33, §§680 - 695 applies, the terms of this Addendum apply.

Cover Page, Additional Disclosure.

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT B OR YOUR PUBLIC LIBRARY FOR ~~SOURCES OF SERVICES OR~~ INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN ~~THAT~~ ANYTHING IN ~~THE THIS~~ FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND ~~NEW YORK THE APPROPRIATE STATE DEPARTMENT OF LAW, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 28 LIBERTY STREET, 21ST FLOOR, NEW YORK, NEW YORK 10005 OR~~ PROVINCIAL AUTHORITY. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR ~~CANNOT~~ CAN NOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS ~~WHICH THAT~~ ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.

Item 3, Additional Disclosure

1. The ~~last sentence in Item 3 is deleted and replaced with the following~~ is to be added at the end of Item 3:

~~Neither we, nor any~~

With the exception of our predecessors what is stated above, the following applies to the franchisor, its predecessor, nor any person identified in Item 2 ~~above, nor any or an~~ affiliate offering franchises under our the franchisor's principal trademark.;

A. No such party has any an administrative, criminal, or ~~a material~~ civil ~~or arbitration~~ action pending against ~~him that person~~ alleging: a felony, a violation of any a franchise, antitrust, or securities law, fraud, embezzlement, fraudulent conversion, ~~restraint~~ misappropriation of trade property, unfair or deceptive practices, misappropriation of property, or comparable civil or misdemeanor allegations.

~~Neither we, nor any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark,~~

B. No such party has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature, or financial condition of the franchise system or its business operations.

C. No such party has been convicted of a felony or pleaded nolo contendere to ~~any other a~~ felony charge or, during within the ~~ten~~ 10-year period immediately preceding the application for registration, has been convicted of ~~a misdemeanor~~ or pleaded nolo contendere to any a misdemeanor charge or ~~been found liable in an arbitration proceeding or a civil action by final judgment, or has~~ been the subject of ~~any other material complaint or legal or arbitration proceeding if such misdemeanor conviction or charge, a~~ civil action, ~~complaint, or other such~~

~~proceeding involved a alleging:~~ violation of ~~any~~ franchise law, ~~antifraud, or~~ securities law, ~~fraud, embezzlement, fraudulent conversion, restraint of trade, or misappropriation of property;~~ ~~or~~ unfair or deceptive practices, ~~misappropriation of property,~~ or comparable ~~allegation~~ allegations.

~~Neither we, nor any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark,~~ D. No such party is subject to ~~any~~ currently effective injunctive or restrictive order or decree relating to ~~franchises~~ the franchise, or under ~~any federal, state~~ a Federal, State, or Canadian franchise, securities, antitrust, trade regulation, or trade practice law ~~as a result of,~~ resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

~~Item 4, Additional Disclosure.~~ ~~Item 4 is deleted and replaced with the following:~~

~~Neither we nor any of our predecessors, affiliates, or officers, during the 10-year period immediately before the date of the Disclosure Document: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the Bankruptcy Code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within one year after the officer or general partner of the franchisor held this position in the company or partnership.~~

Item 5, Additional Disclosures.

The initial franchise fee constitutes part of our general operating funds and will be used as such in our discretion.

~~Item 17, Additional Disclosures.~~

2. The following is added to the end of the "Summary" sections of Item 17(c), titled "Requirements for a franchisee to renew or extend," and Item 17(m), entitled "Conditions for franchisor approval of transfer": ~~—To~~

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law ~~Section 687.4~~ Sections 687(4) and ~~687.5~~ 687(5) be satisfied.

3. The following language replaces the "Summary" section of Item 17(d) ~~is deleted and replaced with the following language, titled "Termination by franchisee":~~

You may terminate the agreement on any grounds available by law.

~~The following is added to the Summary section of Item 17(j): No assignment will be made except to an assignee who in good faith and judgment of the franchisor is willing and financially able to assume the franchisor's obligations under the Franchise Agreement.~~

4. The following is added to the end of the "Summary" sections of ~~Items~~Item 17(v), titled "Choice of forum," and Item 17(w), titled "Choice of law":

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or ~~upon~~ the franchisee by Article 33 of the General Business Law of the State of New York

5. Franchise Questionnaires and Acknowledgements--No statement, questionnaire, or acknowledgment 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.

6. Receipts--Any sale made must be in compliance with § 683(8) of the Franchise Sale Act (N.Y. Gen. Bus. L. § 680 et seq.), which describes the time period a Franchise Disclosure Document (offering prospectus) must be provided to a prospective franchisee before a sale may be made. New York law requires a franchisor to provide the Franchise Disclosure Document at the earlier of the first personal meeting, ten (10) business days before the execution of the franchise or other agreement, or the payment of any consideration that relates to the franchise relationship.

**NEW YORK ADDENDUM TO
FRANCHISE AGREEMENT**

To the extent the New York General Business Law, Article 33, §§680 - 695 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

Any provision in the Franchise Agreement that is inconsistent with the New York General Business Law, Article 33, Section 680 - 695 may not be enforceable.

Any provision in the Franchise Agreement requiring franchisee to sign a general release of claims against franchisor does not release any claim franchisee may have under New York General Business Law, Article 33, Sections 680-695.

The New York Franchise Law shall govern any claim arising under that law.

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

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

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date Franchisor signs below.

WE:

TOUCHING HEARTS, INC.

By _____
Its _____

YOU:

By _____
Its _____

NORTH DAKOTA ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT

To the extent the North Dakota Franchise Investment Law, N.D. Cent. Code, §§51-19-01 – 51-19-17 applies, the terms of this Addendum apply.

Item 17, Additional Disclosures. The following statements are added to Item 17:

Any provision requiring franchisees to consent to the jurisdiction of courts outside North Dakota or to consent to the application of laws of a state other than North Dakota may be unenforceable under North Dakota law. Any mediation or arbitration will be held at a site agreeable to all parties. If the laws of a state other than North Dakota govern, to the extent that such law conflicts with North Dakota law, North Dakota law will control.

Any general release the franchisee is required to assent to as a condition of renewal is not intended to nor shall it act as a release, estoppel or waiver of any liability franchisor may have incurred under the North Dakota Franchise Investment Law.

Covenants not to compete during the term of and upon termination or expiration of the franchise agreement are enforceable only under certain conditions according to North Dakota law. If the Franchise Agreement contains a covenant not to compete that is inconsistent with North Dakota law, the covenant may be unenforceable.

The Franchise Agreement includes a waiver of exemplary and punitive damages. This waiver may not be enforceable under North Dakota law.

The Franchise Agreement stipulates that the franchisee shall pay all costs and expenses incurred by franchisor in enforcing the agreement. For North Dakota franchisees, the prevailing party is entitled to recover all costs and expenses, including attorneys' fees.

The Franchise Agreement requires the franchisee to consent to a waiver of trial by jury. This waiver may not be enforceable under North Dakota law.

The Franchise Disclosure Document and Franchise Agreement state that franchisee must consent to the jurisdiction of courts outside that State of North Dakota. That requirement may not be enforceable under North Dakota law.

The Franchise Disclosure Document and Franchise Agreement may require franchisees to consent to termination or liquidated damages. This requirement may not be enforceable under North Dakota law.

NORTH DAKOTA ADDENDUM TO FRANCHISE AGREEMENT

To the extent the North Dakota Franchise Investment Law, N.D. Cent. Code, §§51-19-01 – 51-19-17 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

Any release executed in connection with a renewal shall not apply to any claims that may arise under the North Dakota Franchise Investment Law.

Covenants not to compete during the term of and upon termination or expiration of the franchise agreement are enforceable only under certain conditions according to North Dakota law. If the Franchise Agreement contains a covenant not to compete that is inconsistent with North Dakota law, the covenant may be unenforceable.

The choice of law other than the State of North Dakota may not be enforceable under the North Dakota Franchise Investment Law. If the laws of a state other than North Dakota govern, to the extent that such law conflicts with North Dakota law, North Dakota law will control.

The waiver of punitive or exemplary damages may not be enforceable under the North Dakota Franchise Investment Law.

The waiver of trial by jury may not be enforceable under the North Dakota Franchise Investment Law.

The requirement that arbitration be held outside the State of North Dakota may not be enforceable under the North Dakota Franchise Investment Law. Any mediation or arbitration will be held at a site agreeable to all parties.

The requirement that a franchisee consent to termination or liquidated damages has been determined by the Commissioner to be unfair, unjust and inequitable within the intent of the North Dakota Franchise Investment Law. This requirement may not be enforceable under North Dakota law.

The Franchise Agreement states that franchisee must consent to the jurisdiction of courts located outside the State of North Dakota. This requirement may not be enforceable under North Dakota law.

Franchise Agreement stipulates that the franchisee shall pay all costs and expenses incurred by Franchisor in enforcing the agreement. For North Dakota franchisees, the prevailing party is entitled to recover all costs and expenses, including attorneys' fees.

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

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

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

The undersigned have executed this Addendum as of the date Franchisor signs below.

WE:

TOUCHING HEARTS, INC.

By _____
Its _____

YOU:

By _____
Its _____

VIRGINIA ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT

To the extent the Virginia Retail Franchising Act, Va. Code §§13.1-557 – 13.1-574 applies, the terms of this Addendum apply.

Item 5, Initial Franchise Fees:

Payment of the initial franchise fee is deferred until such time as we complete our initial obligations and you open for business.

Item 17, Additional Disclosures:

Any provision in any of the contracts that you sign with us which provides for termination of the franchise upon the bankruptcy of the franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. 101 et. seq.).

“According to Section 13.1 – 564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the franchise agreement does not constitute “reasonable cause,” as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.”

Exhibit I, Additional Disclosure:

No statement, questionnaire, or acknowledgment 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.

**VIRGINIA ADDENDUM TO
FRANCHISE AGREEMENT**

To the extent the Virginia Retail Franchising Act, Va. Code §§13.1-557 – 13.1-574 applies, the terms of this Addendum apply.

1. Notwithstanding anything to the contrary contained in the Franchise Agreement, to the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

“According to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any ground for default or termination stated in the franchise agreement does not constitute “reasonable cause,” as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.”

No statement, questionnaire, or acknowledgment 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.

Payment of the initial franchise fee is deferred until such time as we complete our initial obligations and you open for business.

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

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

This Addendum is being entered into in connection with the Franchise Agreement. In the event of any conflict between this Addendum and the Franchise Agreement, the terms and conditions of this Addendum shall apply.

The undersigned have executed this Addendum as of the date Franchisor signs below.

WE:

YOU:

TOUCHING HEARTS, INC.

By _____
Its _____

By _____
Its _____

WASHINGTON ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT

To the extent the Washington Franchise Investment Protection Act, Wash. Rev. Code §§19.100.010 – 19.100.940 applies, the terms of this Addendum apply.

Item 17, Additional Disclosure:

RCW 19.100.180 may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act such as a right to a jury trial, may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

Exhibit I, Additional Disclosure:

No statement, questionnaire, or acknowledgment 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.

WASHINGTON ADDENDUM TO FRANCHISE AGREEMENT, FRANCHISEE COMPLIANCE QUESTIONNAIRE, AND RELATED AGREEMENTS

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.

RCW 19.100.180 may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act such as a right to a jury trial, may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

No statement, questionnaire, or acknowledgment 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.

The undersigned does hereby acknowledge receipt of this addendum.

Dated this _____ day of _____ 20_____.

FRANCHISOR

FRANCHISEE

EXHIBIT H

FRANCHISE DEPOSIT AGREEMENT

This Franchise Deposit Agreement is signed and submitted this ____ day of _____, ~~2020~~ to Touching Hearts, Inc., a Minnesota corporation with its principal address at 7900 W 78th ~~St.~~Street, Suite 410, Minneapolis, Minnesota 55439 (the "Franchisor") by _____, whose principal address is _____ (the "Applicant").

1. The Applicant hereby applies to enter into a franchise agreement ("Franchise Agreement") with the Franchisor for the operation of a Touching Hearts® franchise in _____ (Territory) upon the terms and conditions contained in the Franchisor's standard franchise agreement.

2. The Applicant understands that before signing the Agreement, he/she may be given information and material which will be of a confidential nature concerning the Franchisor and the franchise system. The Applicant agrees to keep all this information and material confidential and not to disclose it to any other person or use same or obtain any benefit from it, directly or indirectly, without the Franchisor's prior written consent.

3. The Applicant encloses a deposit in the amount of Ten Thousand Dollars (\$10,000) (the "Deposit"). If the Franchisor and the Applicant enter into the Franchise Agreement, the Deposit will be credited toward payment of the initial franchise fee without interest or deduction. If either party notifies the other that it elects not to enter into the Franchise Agreement, the Franchisor will promptly refund the Deposit.

4. If the Deposit is returned for any reason, the Franchisor will have no further obligation or liability to the Applicant.

5. Applicant acknowledges that Applicant received a copy of Franchisor's current applicable Franchise Disclosure Document at or before the earlier of: (i) fourteen (14) days before the date of this Agreement; and (ii) fourteen (14) days before the payment of any consideration by Applicant.

APPLICANT

By: _____

Date: _____

Touching Hearts, Inc. acknowledges the foregoing together with the receipt of the amount of Deposit referred to above.

TOUCHING HEARTS, INC.

By: _____

Date: _____

EXHIBIT I

DISCLOSURE ACKNOWLEDGMENT AGREEMENT

Applicant _____ (If corporation) State of Incorporation _____ Address of Applicant _____ Location (Territory) Applied For _____.

1. I have received all appropriate disclosure documents for the State(s) of _____ at least fourteen (14) calendar days, exclusive of the day I received them and the day I signed them, before signing the Franchise Agreement and/or payment of any monies.

2. I have signed and returned to Touching Hearts, Inc. (you) the acknowledgment of receipt for each disclosure document given me.

3. I have had an opportunity to read the Franchise Agreement thoroughly and understand all of your covenants and obligations and my obligations as a franchisee of the TH system. I understand that the Franchise Agreement contains all obligations of the parties and that you do not grant to me under the Franchise Agreement any right of first refusal.

4. I understand that this franchised business, as in all business ventures, involves risk. Despite assistance and support programs I may receive from you, the success of my business will depend largely upon me, my ability and the economic, political, competitive and social environment in which I operate the franchised business.

5. Except for negotiated changes that I initiated, I received a copy of the revised Franchise Agreement or related agreement at least seven (7) calendar days before the date on which the Franchise Agreement or related agreement was signed.

6. I understand that you have or may establish a national marketing and promotional program which is not directed towards any specific franchise territory but is intended to benefit the entire TH system nationwide. I further understand that amounts from the national marketing and promotional fund (if established) will be used to offset any in-house expenses you incur in providing marketing services, media planning, and network marketing support.

7. I have had no promises, guarantees or assurances made to me and no information provided to me relative to earnings, revenues, profits, expenses or projected revenues for this franchise, except as disclosed in the disclosure document. If I believe that I have received any such promises, guarantees, assurances or information, I agree to describe it below (otherwise write "None").

Applicants' Acknowledgment:

By: _____

By: _____

Name: _____

Name: _____

Its: _____

Its: _____

Date: _____

Date: _____

EXHIBIT J

STATE EFFECTIVE DATES AND RECEIPT

State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This franchise document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

State	Effective Date
California	See separate FDD Pending
Illinois	See separate FDD Pending
Indiana	May 2, 2023 Pending
Michigan	April 28, 2023 Pending
Minnesota	June 20, 2023 Pending
New York	June 23, 2023 Pending
Virginia	June 6, 2023 Pending
Washington	June 16, 2023 Pending
Wisconsin	April 28, 2023 Pending

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If we offer you a franchise, we must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us or our affiliate in connection with the proposed franchise sale. Iowa and New York require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days (or 14 calendar days in Iowa) before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If we do not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and those state administrators listed on Exhibit B.

The franchisor is Touching Hearts, Inc. located at 7900 West 78th Street, Suite 410 Edina, MN 55439. Our telephone number is (877) 870-8750.

Issuance Date: April ~~28~~24, ~~2023~~2024

Our franchise sellers involved in offering and selling the franchise to you are Aaron Stromley and Andrew Lungstrom, 7900 West 78th Street, Suite 410, Edina, MN 55439, (877) 870-8750, and Breanne Stromley, (952) 698-5422, or are listed below (with address and telephone number), or will be provided to you separately before you sign a franchise agreement:

We authorize the respective state agencies identified on Exhibit C to receive service of process for us in the particular state.

I have received a franchise disclosure document dated April ~~28~~24, ~~2023~~2024, that included the following Exhibits:

- A. Franchise Agreement
- B. State Franchise Administrators
- C. Agents for Service of Process
- D. Confidential Operations Manual Table of Contents
- E. Financial Statements
- F. Existing Franchises and Former Franchises
- G. State Specific Addenda
- H. Franchise Deposit Agreement
- I. Disclosure Acknowledgement Agreement
- J. State Effective Dates and Receipt

Date: _____
(Do not leave blank)

Signature of Prospective Franchisee

Print Name

Copy for Franchisee

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If we offer you a franchise, we must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us or our affiliate in connection with the proposed franchise sale. Iowa and New York require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days (or 14 calendar days in Iowa) before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

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- H. Franchise Deposit Agreement
- I. Disclosure Acknowledgement Agreement
- J. State Effective Dates and Receipt

Date: _____
(Do not leave blank)

Signature of Prospective Franchisee

Print Name

Copy for Touching Hearts, Inc.

Please sign and date both copies of this receipt, keep one copy (the previous page) for your records, and mail one copy (this page) to the address listed on the front page of this disclosure document or send to Aaron Stromley by email to astromley@touchinghearts.com.