

## FRANCHISE DISCLOSURE DOCUMENT

### CANDY CLOUD FRANCHISING LLC

An Illinois limited liability company

9934 N Alpine Road, Suite 100

Machesney Park, IL 61115

815-264-2168

info@candycloudcompany.com

Candycloudcompany.com



Candy Cloud franchisees provide a unique offering of providing a unique offering of specialty drinks, coffee, tea, ice cream, and boba. The total investment necessary to begin operation of a Candy Cloud franchise is \$389,100 to \$724,350. This includes \$48,000 that must be paid to the franchisor or its affiliate(s).

If you enter into a Multi-Unit Development Agreement to develop multiple franchised businesses, you will pay a development fee when you sign the Multi-Unit Development Agreement. You must commit to open a minimum of 2 franchised businesses. The total investment necessary to begin operations under a Candy Cloud Multi-Unit Development Agreement for 2 franchised businesses, including the costs to build and equip the 1<sup>st</sup> franchised business, is \$421,100 to \$756,350 for a required minimum of 2 Candy Cloud franchised businesses to be developed. This includes a development fee of \$72,000 that must be paid to the franchisor or an affiliate.

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

The terms of your contract will govern your franchise relationship. Don't 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 accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "A Consumer's Guide to Buying a Franchise", which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC 20580. You can also visit the FTC's home page at [www.ftc.gov](http://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: December 19, 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                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>How much can I earn?</b>                                                              | 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. |
| <b>How much will I need to invest?</b>                                                   | 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.                                                                  |
| <b>Does the franchisor have the financial ability to provide support to my business?</b> | Item 21 or Exhibit D includes financial statements. Review these statements carefully.                                                                                                                                                                    |
| <b>Is the franchise system stable, growing, or shrinking?</b>                            | Item 20 summarizes the recent history of the number of company-owned and franchised outlets.                                                                                                                                                              |
| <b>Will my business be the only Candy Cloud business in my area?</b>                     | Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.                                                                                                             |
| <b>Does the franchisor have a troubled legal history?</b>                                | Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.                                                                                                                      |
| <b>What's it like to be a Candy Cloud franchisee?</b>                                    | Item 20 or Exhibit F lists current and former franchisees. You can contact them to ask about their experiences.                                                                                                                                           |
| <b>What else should I know?</b>                                                          | 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 A.

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 Illinois. 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 Illinois than in your own state.
2. **Short Operating History.** The franchisor is at an early stage of development and has a limited operating history. This franchise is likely to be a riskier investment than a franchise in a system with a longer operating history.
3. **Financial Condition.** The Franchisor's financial condition as reflected in its financials statements (See Item 21) calls into question the Franchisor's financial ability to provide service and support to you.
4. **Supplier Control.** You must purchase all or nearly all of the inventory or supplies that are necessary to operate your business from the franchisor, its affiliates, or suppliers that the franchisor designates, at prices the franchisor or they set. These prices may be higher than prices you could obtain elsewhere for the same or similar goods. This may reduce the anticipated profit of your franchise business.
5. **Mandatory Minimum Payments.** You must make minimum royalty or advertising fund payments, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.

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.

**CANDY CLOUD FRANCHISING LLC**  
**Franchise Disclosure Document**

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**LIST OF EXHIBITS**

- EXHIBIT A: State Agencies/Agents for Service of Process
- EXHIBIT B: Franchise Agreement
- EXHIBIT C: Multi-Unit Development Agreement
- EXHIBIT D: Financial Statements
- EXHIBIT E: Operations Manual Table of Contents
- EXHIBIT F: Franchised Outlets as of August 31, 2024
- EXHIBIT G: State Addenda
- EXHIBIT H: Acknowledgment Statement

- State Effective Dates -
- Receipts -

## **ITEM 1: THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES**

To simplify the language in this disclosure document, the terms “Franchisor”, or “we” or “us” means Candy Cloud Franchising LLC the Franchisor. The terms “we”, “us” and “Franchisor” do not include you, the “Franchisee”. We refer to the purchaser(s) of a Candy Cloud franchise, as “you” or “Franchisee”, whether an individual, a partnership, corporation, or limited liability company. If you are a corporation, partnership or other entity, our Franchise Agreement also will apply to your owners, officers and directors. If you are married and your spouse is not a partner in the franchise business, certain provisions of our Franchise Agreement will also apply to that spouse.

We were formed as a limited liability company in the State of Illinois on July 12, 2022. Our principal business address is 9934 N Alpine Road, Suite 100, Machesney Park, IL 61115, and our telephone number is 815-264-2168. We do business under our operating name, “Candy Cloud” and its associated design (the “Marks”). We do not own or operate any businesses of the type you will be operating, but our affiliate does. We have not offered franchises in any other line of business. We are the required supplier of Internet advertising and other grand opening campaign marketing products that must be used in the grand opening marketing campaign. We began offering franchises in October 2022.

The principal business addresses of our agents for service of process are shown on Exhibit A.

### **Our Parents, Predecessors and Affiliates**

We have no parent or predecessor company.

We have an affiliated company, Candy Cloud IP LLC, an Illinois limited liability company with a principal place of business at 9934 N Alpine Road, Suite 100, Machesney Park, Illinois 61115. Candy Cloud IP LLC was formed on August 5, 2022 and is the owner of the Marks and has exclusively licensed use of the Marks to us. Candy Cloud IP LLC has not offered franchises in this or in any other lines of business previously.

We have operated, through our affiliate, an outlet similar to the franchise offered by this Disclosure Document since 2022. We may operate other Candy Cloud concepts, including additional Candy Cloud outlets, or other concepts in the future.

### **The Franchise Offered:**

We grant franchises for the right to operate a business providing a unique offering of specialty drinks, coffee, shakes, and bubble tea drinks (the “Franchised Business”). The distinguishing characteristics of the Franchised Business include, but are not limited to, the Candy Cloud menus, recipes, distinctive exterior and interior design, décor, color scheme, fixtures and furnishings, methods, uniform trade dress standards, sales techniques, inventory, procedures for management control and training, assistance, advertising, and promotional programs, all of which may be changed, improved or further developed by us at any time (the “System”).

We also offer qualified individuals the right to open a minimum of 2 Candy Cloud outlets in a designated area under the terms of a multi-unit development agreement. You must sign the then-current form of franchise agreement for each Franchised Business to be developed under the multi-unit development agreement, which may differ from the current Franchise Agreement included with this Franchise Disclosure Document.

### **Market and Competition:**

The market for your Franchised Business consists of members of the general public seeking customizable unique beverages. Our retail locations will be located in shopping malls, shopping centers, amusement

parks, sport stadiums, military bases and/or are situated in central city, suburban or other high traffic locations and strip centers.

Food services businesses are highly competitive with constantly changing market conditions. You will compete with businesses, including national, regional and local businesses, offering services similar to those offered by your Candy Cloud Franchised Business, including other specialty drink restaurants. There are other specialty dessert and coffee restaurants franchises, as well as independent businesses throughout the United States, that may offer similar products and services. The demand for the products and services offered by you Franchised Business are also affected by changes in consumer tastes, demographics, traffic patterns and economic conditions, and may be affected by seasonal demand.

### **Industry Specific Regulations:**

At all times during the operation of your Franchised Business, you must comply with all laws and regulations for proper food storage, preparation and service.

You and your employees must obtain a ServSafe® Food Handler certification and comply with all laws and regulations for proper food storage, preparation and service.

The U.S. Food and Drug Administration, the U.S. Department of Agriculture and state and local health departments administer and enforce laws and regulations that govern food preparation and service and foodservice establishment sanitary conditions. State and local agencies inspect food service establishments to ensure that they comply with these laws and regulations. Some state and local authorities have adopted, or are considering adopting, laws or regulations that could affect: the content or make-up of food served at or by your Candy Cloud outlet; general requirements or restrictions on advertising containing false or misleading claims, or health and nutrient claims on menus or otherwise, such as “low calorie” or “fat free”; and the posting of calorie and other nutritional information.

You must also comply with all local, state and federal laws and regulations that relate to business operations, land use, insurance, discrimination, employment and workplace safety. Your advertising of the Franchised Business is regulated by the Federal Trade Commission. There may be federal, state and local laws which affect your Franchised Business in addition to those listed here.

You should investigate whether there are any state or local regulations or requirements that may apply in the geographic area in which you intend to conduct business. You should consider both their effect on your business and the cost of compliance. You are responsible for obtaining all licenses and permits which may be required for your business.

## **ITEM 2: BUSINESS EXPERIENCE**

**Chief Executive Officer: Alex Edwards**

| <i>Employer</i>              | <i>Start Date - End Date</i> | <i>Titles</i>         | <i>City, State</i> |
|------------------------------|------------------------------|-----------------------|--------------------|
| Candy Cloud Franchising LLC  | 08/2022 to present           | CEO                   | Machesney Park, IL |
| Candy Cloud                  | 04/2020 to present           | Owner/CEO             | Rockford, IL       |
| City of Rockford Firefighter | 10/2015 to 04/2020           | Firefighter/Paramedic | Rockford, IL       |

**Training Coordinator: Tiffany Learn**

| <i>Employer</i>             | <i>Start Date - End Date</i> | <i>Titles</i>        | <i>City, State</i> |
|-----------------------------|------------------------------|----------------------|--------------------|
| Candy Cloud Franchising LLC | 01/2023 to present           | Training Coordinator | Rockford, IL       |
| Candy Cloud LLC             | 01/2023 to present           | General Manager      | Machesney Park, IL |
| Aero Ale House              | 06/2021 to 08/2022           | Server               | Loves Park, IL     |
| Texas Roadhouse             | 08/2016 to 07/2020           | Server               | Rockford, IL       |

**Franchise Operational Assistant: Alejandro Haro**

| <i>Employer</i>             | <i>Start Date - End Date</i> | <i>Titles</i>                   | <i>City, State</i> |
|-----------------------------|------------------------------|---------------------------------|--------------------|
| Candy Cloud Franchising LLC | 05/2024 to present           | Franchise Operational Assistant | Rockford, IL       |
| Aldi Corporate              | 07/2022 to 05/2024           | Supply Chain Assistant          | Batavia, IL        |
| Karla Bakery                | 10/2020 to 07/2022           | Operations Manager              | Miami, FL          |
| Delta Sonic Car Wash        | 06/2013 to 09/2020           | Car Wash Manager                | Joliet, IL         |

**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**

We will charge you an initial franchise fee ("Initial Franchise Fee") when you sign the Franchise Agreement. The Initial Franchise Fee is \$40,000.00. This payment is fully earned by us and due in lump sum when you sign the Franchise Agreement and is not refundable under any circumstance.

We will collect a payment in the amount of \$8,000 from you 2 months prior to scheduled opening date to develop the grand opening marketing campaign, including but not limited to internet advertising and other marketing efforts for the opening of the Franchised Business.

You will pay us a non-refundable development fee ("Development Fee") in a lump sum when you sign the Multi-Unit Development Agreement. The Development Fee is calculated as 100% of the initial franchise fee for the first unit and the reduced initial franchise fee for each additional unit to commit to develop under the Multi-Unit Development Agreement. The reduced initial franchise fee is calculated as 80% of the initial franchise fee.

| <b>Number of Outlets to be Developed</b> | <b>Development Fee due on signing the Multi-Unit Development Agreement</b> |
|------------------------------------------|----------------------------------------------------------------------------|
| 2                                        | *\$72,000                                                                  |
| 3 or more                                | \$72,000 + \$32,000 for each additional outlet you commit to open          |

\*Calculated as \$40,000 (Outlet #1) + \$32,000 (Outlet #2)

The Development Fee is fully earned by us and due in lump sum when you sign the Multi-Unit Development Agreement. The Development Fee is not refundable under any circumstance.

From time to time, we may offer special incentive programs as part of our franchise development activities. We reserve the right to offer, modify or withdraw any incentive program without notice to you. We currently offer a 20% discount on the Initial Franchise Fee for franchisees in good standing who open a second or subsequent outlet. We currently offer a 15% discount on the Initial Franchise Fee for the first location only to the following individuals: a member of the U.S. Armed Services or an honorably discharged Veteran of the U.S. Armed Services. Discounts may not be combined.

**ITEM 6: OTHER FEES**

| Type of Fee                                                      | Amount                                                                                                                                                                                          | Due Date                                                               | Remarks                                                                                                                                                                                                                                                                                                                                                                                             |
|------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Continuing Royalty Fee                                           | 6% of weekly Gross Revenue,                                                                                                                                                                     | Weekly on Tuesday for Gross Revenue of the prior week.                 | Payable to us. See footnote 1.                                                                                                                                                                                                                                                                                                                                                                      |
| Brand Fund Contribution                                          | Up to 4% of weekly Gross Revenue. The current Brand Fund Contribution is 2% of weekly Gross Revenue.                                                                                            | Weekly on Tuesday for Gross Revenue of the prior week.                 | Brand Fund Contributions are paid directly to the Brand Fund. See footnote 2.                                                                                                                                                                                                                                                                                                                       |
| Required Minimum Expenditure for Local Marketing and Advertising | No minimum current required spend after the initial \$8,000 grand opening marketing campaign is paid to us.<br><br>Maximum of 2% of the average Gross Revenue per territory per month annually. | As required by advertising suppliers                                   | We reserve the right to require you to advertise the Franchised Business locally. All advertising must be pre-approved by us. We reserve the right to collect some or all the local advertising expenditure and implement local advertising on your behalf.                                                                                                                                         |
| Internal System Fee                                              | Currently \$200 per month, subject to increase up to \$450, upon 30 days' notice to you. Franchisor has the right to increase the maximum fee by 10% annually.                                  | Paid with the first Royalty and Brand Fund Contribution of each month. | Payable to us for new or improved technology for the benefit of the System and the Franchised Business, including, but not limited to, assigned phone numbers and email addresses, a franchise portal, benchmarking platform, or other operations or communications systems. We may increase the fee based on supplier pricing increases, introduction of new technology and/or changes in vendors. |

| Type of Fee                  | Amount                                                                                                                                                                                                 | Due Date                                                                                                                             | Remarks                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Initial Training             | No charge for initial training of up to 3 individuals which may include franchise owner(s), general manager(s) and manager(s). You pay all travel and other related expenses incurred by all trainees. | Travel and related expenses are due as incurred. Fees for training for your personnel are due prior to the commencement of training. | Initial training takes place in the headquarters or area designated by the Franchisor See Item 11.                                                                                                                                                                                                                                                               |
| Additional Training          | Currently \$300 per person per day. You pay all travel and other related expenses incurred by you and your personnel to attend training.                                                               | As incurred.                                                                                                                         | Training is provided for up to 3 people at no cost. If additional personnel are to be trained or retraining is required, you must pay an additional training fee.                                                                                                                                                                                                |
| Additional Onsite Assistance | Then applicable per diem fee (currently \$400) plus travel and living expenses.                                                                                                                        | As incurred.                                                                                                                         | Paid to us if you request additional assistance or if we require additional training in the event your location is operating below required standards.                                                                                                                                                                                                           |
| Remedial Training            | Our then-current trainer per diem rate plus expenses. Our current per diem rate is \$400 per trainer per day plus travel and other expenses.                                                           | As incurred.                                                                                                                         | We may impose this fee, payable to us, if you request additional training at your premises from time-to-time, or if you are operating below our standards and we require you to have additional training. You must also pay all costs of our trainer, which include but are not limited to, airfare, transportation, hotel and meals.                            |
| Advertising Cooperative      | Your share of actual cost of advertising.                                                                                                                                                              | As determined by cooperative.                                                                                                        | No cooperatives have been established as of the date of this Disclosure Document. You are required to join an advertising cooperative if one is formed. Cooperatives will be comprised of all franchised Candy Cloud outlets in a designated geographic area. Any affiliate owned outlets may participate in an advertising cooperative, in our sole discretion. |
| Late Fee                     | \$100 per occurrence.                                                                                                                                                                                  | As incurred.                                                                                                                         | If you fail to pay us the Continuing Royalty Fee, Brand Fund Contribution, Internal System Fee or if you fail to submit your Gross Revenue report when due, we may charge you \$100 for each late submission in addition to interest charges explained below.                                                                                                    |
| Interest                     | 18% per annum, from due date, or maximum allowed                                                                                                                                                       | As incurred.                                                                                                                         | If you fail to pay us any amount when due, we may charge you                                                                                                                                                                                                                                                                                                     |

| Type of Fee                                     | Amount                                                                                                                                                                                                                                                                                                                                                                                             | Due Date                        | Remarks                                                                                                                                                                              |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                 | by law.                                                                                                                                                                                                                                                                                                                                                                                            |                                 | interest on the unpaid balance until the payment is received.                                                                                                                        |
| Non-Sufficient Funds Fee                        | \$150 per violation.                                                                                                                                                                                                                                                                                                                                                                               | As incurred.                    | If your check is returned or an electronic funds transfer from your bank account is denied for insufficient funds, for each occurrence we may charge you a Non-Sufficient Funds Fee. |
| Non-Compliance Fee                              | \$500 per incident per day.                                                                                                                                                                                                                                                                                                                                                                        | As incurred.                    | If you are not in compliance with the Franchise Agreement or the Operations Manual.                                                                                                  |
| Transfer Fee                                    | 50% of the then-current franchise fee.<br>20% of the then-current franchise fee for transfers to existing franchisee in good standing.<br>\$2,500 for transfers to an entity owned and controlled by the franchisee for convenience purposes or for transfers among owners that do not change management control or adding shareholders that do not change the majority ownership in the franchise | Upon application to transfer.   | Payable to us. See Item 17.                                                                                                                                                          |
| Transfer Fee – Multi-Unit Development Agreement | 50% of the then-current initial franchise fee.<br>20% of the then-current initial franchise fee for transfers to an existing developer or franchisee in good standing.<br>For transfers among existing owners, the transfer fee is \$2,500. The transfer fee is multiplied by the number of outlets for which a development right has been granted but not yet exercised.                          | Before we approve the transfer. | Payable to us. See Item 17.                                                                                                                                                          |
| Relocation Fee                                  | 50% of the then-current franchise fee.                                                                                                                                                                                                                                                                                                                                                             | As Incurred                     | Payable to us.                                                                                                                                                                       |
| Testing or Supplier Approval Fee                | \$750 and any additional cost that may be incurred by the Franchisor.                                                                                                                                                                                                                                                                                                                              | As incurred.                    | Payable to us.                                                                                                                                                                       |
| Audit and Quality Assurance Fees                | \$100 - \$400 per visit                                                                                                                                                                                                                                                                                                                                                                            | As required by provider         | Payable to third-party providers. See footnote 3.                                                                                                                                    |

| Type of Fee                                            | Amount                                                                                                                                                                                | Due Date                                                | Remarks                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Conference Fee                                         | \$750.                                                                                                                                                                                | As incurred.                                            | Required for each annual meeting, conference or convention we schedule. See footnote 4.                                                                                                                                                                                                                                                                       |
| Temporary Management Fee                               | Currently \$500 per representative per day plus reimbursement of our expenses.                                                                                                        | As incurred.                                            | If you breach your Franchise Agreement, the franchisor may temporarily manage your franchised business.                                                                                                                                                                                                                                                       |
| Customer Resolution Fee                                | \$250 plus reimbursement of our expenses.                                                                                                                                             | As incurred.                                            | If you request or we require our assistance in resolving a customer dispute. The expenses you may be required to reimburse may include any payment we make to the customer including a refund.                                                                                                                                                                |
| Reimbursement of Legal Fees and Expenses               | Our costs and expenses, including but not limited to attorneys' fees, incurred for your failure to pay amounts when due or failure to comply in any way with the Franchise Agreement. | As incurred.                                            | Payable to us.                                                                                                                                                                                                                                                                                                                                                |
| Successor Agreement Fee                                | 25% of the then-current Initial Franchise Fee or the minimum of \$7,500                                                                                                               | Upon signing the then-current form franchise agreement. | Payable to us. See Item 17.                                                                                                                                                                                                                                                                                                                                   |
| Examination of Books and Records                       | Costs of examination plus related expenses.                                                                                                                                           | As incurred.                                            | We have the right under the Franchise Agreement to examine your books, records, and tax returns. If an examination reveals that you have understated any Gross Revenue report by two percent (2%) or more, you must pay to us the cost of the audit and all travel and related expenses, in addition to repaying monies owed and interest on the monies owed. |
| Accounting Services                                    | Actual costs.                                                                                                                                                                         | As incurred.                                            | We reserve the right to require you to use an external accounting service if (i) you do not keep your books and records in accordance with our requirements or (ii) we determine that use of an external service by all franchisees is beneficial to the System.                                                                                              |
| Indemnification                                        | Amount of loss or damages plus costs.                                                                                                                                                 | As incurred.                                            | See footnote 5.                                                                                                                                                                                                                                                                                                                                               |
| Reimbursement of Costs and Expenses for Non-Compliance | Actual costs and expenses.                                                                                                                                                            | As incurred.                                            | See footnote 6.                                                                                                                                                                                                                                                                                                                                               |

| Type of Fee                                  | Amount                                                                                                     | Due Date       | Remarks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------------------------|------------------------------------------------------------------------------------------------------------|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Site Selection Extension Fee                 | \$5,000                                                                                                    | As incurred.   | Payable to us. See footnote 7.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Post-Termination or Post-Expiration Expenses | Costs and expenses.                                                                                        | As incurred.   | Payable to us.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Insurance Reimbursement                      | Amount paid by us for your insurance obligations, plus an additional ten percent (10%) administrative fee. | As incurred.   | You must reimburse us for any insurance costs and other fees we incur due to your failure to meet the insurance obligations required by the Franchise Agreement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Lost Revenue Damages                         | Varies.                                                                                                    | As incurred.   | Payable if we terminate the Franchise Agreement with cause or you terminate it without cause. An amount equal to the net present value of royalty fees that would have become due over the next 104 weeks or the remaining weeks in the term of the Franchise Agreement, whichever is less, if the Franchise Agreement had not been terminated. Calculated based on the average royalty paid over the previous 52 weeks before termination, or if the Candy Cloud had not been in operation for at least 52 weeks, then based on the average royalty fee of all Candy Clouds in operation during the 52 weeks immediately preceding the termination. |
| Taxes                                        | Amount of taxes.                                                                                           | When incurred. | You must reimburse us for any taxes that we must pay on account of either the operation of your Franchised Business or payments that you make to us, including, but not limited to any sales taxes or income taxes imposed by any authority.                                                                                                                                                                                                                                                                                                                                                                                                         |

All fees and expenses described in this Item 6 are nonrefundable and are uniformly imposed. Except as otherwise indicated in the preceding chart, we impose all fees and expenses listed and you must pay them to us.

<sup>1</sup> "Gross Revenue" includes all revenues and income from any source derived or received by you from, by or on account of the operation of the Franchised Business or made pursuant to the rights granted hereunder, including but not limited to, any and all other revenues received using our methods, operations and/or trade secrets whether received in cash, in services, in kind, from barter and/or exchange, on credit (whether or not payment is actually received) or otherwise. Gross Revenue includes the full amount payable by your customers, without deduction for write-offs; however, Gross Revenue does not include (i) any sales tax or similar taxes collected from customers and turned over to the governmental authority imposing the tax, (ii) properly documented refunds to customers, (iii) properly documented promotional discounts (i.e.,

coupons) or (iv) Franchisee's delivery costs or third-party delivery fees. Gross Revenue does not include gift card purchases, at the time of purchase, but Gross Revenue does include the redemption amount of purchases made by gift card. If you do not report revenues for any week, then we will collect 120% of the last Royalty Fee collected and settle the balance the next period in which you report revenue. You are required to set up authorization at your bank to allow us to electronically transfer funds from your bank account to our bank account. Interest and late fees will apply to any late payments or electronic funds transfer requests denied due to insufficient funds.

<sup>2</sup> You must pay directly to our Brand Fund a Brand Fund Contribution of 2% of weekly Gross Revenue, subject to increases not to exceed 4% of weekly Gross Revenue, generated by your Franchised Business. Payments are due at the same time and in the same manner as the Royalty Fee. You may be required to set up authorization at your bank to allow the Brand Fund to electronically transfer funds from your bank account to the Brand Fund's bank account. Interest and late fees will apply to any late payments or electronic funds transfer requests denied due to insufficient funds. If you do not report your revenues for the week, then we will collect 120% of the last Brand Fund collected and settle the balance the next period in which you report revenue.

<sup>3</sup> We may establish audit and quality assurance programs conducted by third-party providers, such as, by way of example only, mystery shop programs and periodic quality audits or assurance inspections, to monitor the operations of your Franchised Business. If we require it, you must subscribe and pay the fees for any such program. Up to two visits per year for each program. If you receive an unacceptable review, you will undergo additional mystery shops, audits or inspections at your expense until your Candy Cloud receives a satisfactory review.

<sup>4</sup> We may offer mandatory and/or optional additional training programs or a national business meeting or annual convention. The total amount of required ongoing training and/or annual meetings will be five (5) days or less per year and will be held at locations we designate. We reserve the right to impose a reasonable fee for the national business meeting, conference or annual convention. Currently, we charge \$750 per person for our national business meeting, conference or annual convention. You are responsible for any and all incidental expenses incurred by you and your personnel in connection with additional training or attendance at Franchisor's national business meeting, conference or annual convention, including, without limitation, costs of travel, lodging, meals and wages.

<sup>5</sup> You must indemnify and hold us, our affiliates, and all of our respective officers, directors, agents and employees harmless from and against any and all claims, losses, costs, expenses, liability and damages arising directly or indirectly from, as a result of, or in connection with your business operations under the Franchise Agreement, as well as the costs, including attorneys' fees, of defending against them.

<sup>6</sup> If you fail to do so, in our sole discretion, we may correct any deficiency in the Franchised Business and/or your operation of the Franchised Business or take steps to modify, alter or de-identify the Franchised Business location upon the termination or expiration of the Franchise Agreement. You will reimburse us for our costs and expenses incurred to correct any deficiency or to modify, alter or de-identify the Franchised Business location.

<sup>7</sup> If you desire to extend the timeline to locate a site by an additional 60 days, you shall request in writing and pay the Site Selection Extension Fee.

## **ITEM 7: ESTIMATED INITIAL INVESTMENT**

### **YOUR ESTIMATED INITIAL INVESTMENT**

**In Minnesota the payment of Initial Franchise Fees owed shall be deferred until the Franchised Business has commenced doing business.**

| <u>Type of Expenditure</u>                 | <u>Estimated Amount</u> |           | <u>Method of Payment</u>                    | <u>When Due</u>                         | <u>To Whom Payment is Made</u>        |
|--------------------------------------------|-------------------------|-----------|---------------------------------------------|-----------------------------------------|---------------------------------------|
|                                            | Low                     | High      |                                             |                                         |                                       |
| Initial Franchise Fee <sup>1</sup>         | \$40,000                | \$40,000  | Lump sum payment in cash or available funds | Upon signing the Franchise Agreement    | Payable to us                         |
| Leasehold Improvements <sup>2</sup>        | \$150,000               | \$350,000 | As required by suppliers                    | Before opening as required by suppliers | Suppliers, contractor and/or landlord |
| Lease Deposits <sup>3</sup>                | \$4,000                 | \$20,000  | As required by landlord                     | As required by landlord                 | Landlord                              |
| Rent (3 months)                            | \$8,000                 | \$30,000  | As required by landlord                     | As incurred                             | Landlord                              |
| Utilities (3 months)                       | \$2,100                 | \$2,700   | As required by suppliers                    | As required by utility companies        | Utility providers                     |
| Utility Deposit <sup>4</sup>               | \$0                     | \$900     | As required by suppliers                    | As required by utility companies        | Utility providers                     |
| Architect & Engineer Fees                  | \$7,000                 | \$20,000  | As required by suppliers                    | Before opening                          | Architect & Engineer                  |
| Design Service <sup>5</sup>                | \$2,500                 | \$3,000   | As required by suppliers                    | Before opening                          | Interior Designer                     |
| Furniture and Fixtures                     | \$3,000                 | \$15,000  | As required by suppliers                    | Before opening                          | Suppliers                             |
| Equipment <sup>6</sup>                     | \$100,000               | \$135,000 | As required by suppliers                    | Before opening                          | Suppliers                             |
| Computer Equipment <sup>7</sup>            | \$10,000                | \$13,000  | As required by suppliers                    | Before opening                          | Suppliers                             |
| Software – 3 months <sup>7</sup>           | \$1,800                 | \$1,800   | As incurred                                 | Before opening                          | Suppliers                             |
| Internal System Fee - 3 months             | \$600                   | \$600     | As incurred                                 | Before opening                          | Suppliers                             |
| Misc. Equipment & Supplies                 | \$3,500                 | \$4,000   | As required by suppliers                    | Before opening                          | Suppliers                             |
| Accounting Service – 3 months <sup>8</sup> | \$1,000                 | \$1,500   | As required by supplier                     | As required by the supplier             | Suppliers                             |
| Signage <sup>9</sup>                       | \$8,000                 | \$20,000  | As incurred                                 | Before opening                          | Suppliers                             |

| <u>Type of Expenditure</u>                                                | <u>Estimated Amount</u> |                  | <u>Method of Payment</u>                  | <u>When Due</u>           | <u>To Whom Payment is Made</u>                  |
|---------------------------------------------------------------------------|-------------------------|------------------|-------------------------------------------|---------------------------|-------------------------------------------------|
|                                                                           | Low                     | High             |                                           |                           |                                                 |
| Smallware                                                                 | \$4,000                 | \$6,000          | As incurred                               | Before opening            | Suppliers                                       |
| Initial Inventory <sup>10</sup>                                           | \$10,000                | \$15,000         | As required by suppliers                  | Before opening            | Approved Vendors                                |
| Insurance <sup>11</sup>                                                   | \$2,100                 | \$2,850          | As required by insurer                    | Before opening            | Insurance providers                             |
| Your Training Expenses (transportation, lodging, and meals) <sup>12</sup> | \$5,000                 | \$7,000          | As required for travel, lodging and meals | As incurred               | Third-party providers                           |
| Grand Opening Marketing Campaign <sup>13</sup>                            | \$8,000                 | \$8,000          | As incurred                               | 2 Months Prior to opening | Us                                              |
| Professional Fees <sup>14</sup>                                           | \$3,000                 | \$6,000          | As required by providers                  | As incurred               | Attorneys, other professional service providers |
| Business Permits and Licenses <sup>15</sup>                               | \$500                   | \$2,000          | As required by licensing authorities      | Before opening            | Licensing Authorities                           |
| Additional Funds-3 months <sup>16</sup>                                   | \$15,000                | \$20,000         | As incurred                               | After opening             | Various                                         |
| <b>Total</b>                                                              | <b>\$389,100</b>        | <b>\$724,350</b> |                                           |                           |                                                 |

<sup>1</sup> Initial Franchise Fee. The amount stated in the Table is for one outlet operated pursuant to a single Franchise Agreement.

<sup>2</sup> Leasehold Improvements. This estimate is for the costs for improvements to your Franchised Business location without a tenant improvement allowance from the landlord. We have based our estimates on the historical experience of our affiliate. These estimates are applicable to a site which has been obtained in the “vanilla box” stage, which refers to an interior condition with existing heating/cooling with delivery systems, electrical switches and outlets, a finished ceiling, walls that are prepped for painting and a concrete slab floor.

<sup>3</sup> Lease Deposits. This estimate represents a one-month deposit of rent for a 1,400 to 2,000 square foot location. Real estate costs vary widely from place to place. This estimate is based on the experience of our affiliate-owned outlet. Rental rates may be more or less than this range depending on the location of your Franchised Business. You may also incur real estate broker fees, additional prepayments (e.g., first and/or last month’s rent), common area maintenance (CAM) fees, real estate taxes and insurance costs, advertising or promotional fund fees or other costs, depending on the terms of your lease. Pre-paid rent is generally non-refundable while security or other deposits may be refundable either in full or in part depending upon your lease or rental contract.

<sup>4</sup> Utility Deposits. Utility providers set the amounts of the utility deposits. A credit check may be required by the issuing utility company prior to the initiation of services, or a higher deposit required for first time customers. These costs will vary depending on the type of services required for the facility and the municipality or utility provider from which they are being contracted. We have based our estimate on the

experiences of our affiliate. The figures in the chart include deposits that may be refundable to you at a later time. In most cases, your lease will require you to pay electric, gas, water, and other utilities directly; however, some landlords cover some utility charges through operating fees.

<sup>5</sup> Design Service. This estimate is paid an approved interior designer who will consult with the architect on the interior design of the Franchised Business so meets System specifications and standards.

<sup>6</sup> Equipment. This estimate includes the equipment required for your Franchised Business, including kitchen equipment, at-counter equipment, refrigeration equipment, soft serve machine, can seamers, condiment stations, refrigerated units, stainless tables, espresso machine, drink dispensers, Boba cooker, Zumex juicer, sinks, refrigerators, ventless oven, shelving, a prep sink, and any other equipment we require in the operation of the Franchised Business.

<sup>7</sup> Computer Equipment / Software (3 months). We require you to purchase computer systems, hardware and software meeting our minimum specifications for use at your Franchised Business. We estimate the monthly ongoing fees for this software to be \$600. We reserve the right to change your requirements for computer hardware and software at any time. Please see Item 11 for computer and POS System requirements.

<sup>8</sup> Accounting Service. We require you to use a third-party accounting service to provide bookkeeping, payroll and accounting services for your Franchised Business.

<sup>9</sup> Signage. This estimate is for the cost to produce and mount storefront signage on the exterior of the premises as well as all interior window and wall graphics.

<sup>10</sup> Initial Inventory. This estimate is for the cost of the initial inventory sufficient for the first weeks of operation. Your initial inventory will include food and beverage products, paper, and plastic products, containers, accessories, merchandise, staff uniforms, cleaning supplies and other products utilized in the operation of the store.

<sup>11</sup> Insurance. Before you open for business, you must purchase and maintain at your sole cost and expense the insurance coverage that we specify. Insurance costs and requirements may vary widely in different localities. The estimate is for the first semi-annual premium for required minimum insurance coverage. We reserve the right to require additional types of insurance and coverage as provided in the Franchise Agreement.

<sup>12</sup> Your Training Expenses. The cost of the Initial Management Training Program for up to one (1) majority franchise owner and two (2) general managers, assistant managers, or additional franchise owners are included in the Initial Franchise Fee. The chart estimates the costs for transportation, lodging, and meals for your trainees. These incidental costs are not included in the Initial Franchise Fee. Your costs will depend on the number of people attending training, their point of origin, method of travel, class of accommodation and living expenses. The duration of the training program in Rockford, Illinois is up to ten (10) days, which may include weekend and evening hours.

<sup>13</sup> Grand Opening Marketing Campaign. You will pay us the nonrefundable amount of \$8,000 to develop the grand opening marketing campaign, including but not limited to internet advertising and other marketing efforts for the opening of the Franchised Business.

<sup>14</sup> Professional Fees. You may incur professional fees depending on the scope of work performed, which may include, legal and other professionals to review franchise documents and costs of forming a separate legal entity and/or obtaining zoning approval. This amount will vary greatly depending on your specific needs and location. We strongly recommend that you seek the assistance of professional advisors when evaluating this franchise opportunity, this disclosure document and the Franchise Agreement. It is also

advisable to consult these professionals to review any lease or other contracts that you will enter into as part of starting your franchise.

<sup>15</sup> Business Permits and Licenses. This is an estimate of the costs of building permits, sign permits and a certificate of occupancy for your premises. Not all locations will require all of these permits, depending on the prior use of the premises and the requirements of local ordinances. This estimate also includes the cost of a local business license. The costs of permits and licenses will vary by location. We cannot estimate the cost of this license because requirements and fees vary widely. Please contact your local governing agency for this information.

<sup>16</sup> Additional Funds – 3 months. We relied on our affiliates' experience in operating a Candy Cloud business in Rockford, Illinois since March 2022 when preparing this estimate. This is an estimate of the minimum recommended levels of additional funds that may be required to cover operating expenses during the first 3 months after commencing operations. This estimate includes such items as initial payroll and payroll taxes, repairs and maintenance, bank charges, initial staff recruiting expenses, and other miscellaneous items. These estimates do not include any compensation to you and does not include debt service costs.

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

All fees and payments are non-refundable, unless otherwise stated or permitted by payee.

**YOUR ESTIMATED INITIAL INVESTMENT  
(Multi-Unit)**

| Type of Expenditure                                  | Amount                       | Method of Payment                 | When Due                                          | To Whom Payment is to be Made     |
|------------------------------------------------------|------------------------------|-----------------------------------|---------------------------------------------------|-----------------------------------|
| Development Fee (for 2 Outlets) <sup>1</sup>         | \$72,000                     | Lump Sum                          | Upon signing the Multi-Unit Development Agreement | Us                                |
| Other Expenditures for the First Outlet <sup>2</sup> | \$349,100 - \$684,350        | As Disclosed in Single Unit Table | As Disclosed in Single Unit Table                 | As Disclosed in Single Unit Table |
| <b>Total</b>                                         | <b>\$421,100 - \$756,350</b> |                                   |                                                   |                                   |

In general, none of the expenses listed in the above chart are refundable.

<sup>1</sup> Please see Item 5 for information on the Development Fee.

<sup>2</sup> These are the estimates for development of your first outlet. Costs associated with building out additional outlets are subject to factors that we cannot estimate or control, such as inflation, increased labor costs or increased materials costs.

**ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

We have identified various suppliers, distributors and manufacturers of equipment, fixtures, inventory and supplies that your Franchised Business must use or provide which meet our standards and requirements. You must purchase all items outlined in the Operations Manual, and any equipment or materials bearing the Marks in accordance with our specifications. You must also purchase your ingredients, any prepped and/or packaged foods required, cans and lids, paper/disposable goods, equipment, and furnishings from our designated suppliers and contractors. We maintain written lists of approved items of equipment, fixtures, inventory and suppliers (by brand name and/or by standards and specifications) and a list of designated

suppliers and contractors for those items. We update these lists periodically and issue the updated lists to all franchisees.

We approve suppliers after careful review of the quality of the products they provide to use and our franchisees. If you would like us to consider another supplier, you must make such request in writing to use and have the supplier give us samples or its product or service and such other information that we may require. The written request shall include a payment by check of Seven Hundred and Fifty Dollars (\$750.00), and the Franchisor may charge the Franchisee with additional costs due to any research, product testing, administrative or any other expenses incurred by the Franchisor from the alternative supplier request. We do not maintain written criteria for approving suppliers, and this information is not available to franchisees. If the supplier meets our specifications, as we determine in our sole discretion, we will approve it as an additional supplier. We will make a good-faith effort to notify you whether we approve or disapprove of the proposed supplier within 60 days after we receive all required information to evaluate the product or service. If we do not approve any request within 30 days, it is deemed unapproved. We reserve the right to revoke approval of any supplier that does not continue to meet our then-current standards.

The monthly cost of music is estimated to be \$50/month and payable to approved suppliers.

We are the designated supplier of internet advertising, merchandise and banners that you are required to purchase for the grand opening marketing campaign of your Franchised Business. Alex Edwards has ownership interest in us. None of our owners has an ownership interest in any other approved or designated supplier for any product, good or service that you are required to purchase for the operation of your Franchised Business. We and our affiliate reserve the right to earn a profit from the sale of products to our franchisees. During the fiscal year ended August 31, 2024, neither we nor our affiliate earned any revenue from the sale of required purchases.

We estimate that your purchase or lease of products, supplies and services from approved suppliers (or those which meet our specifications) will represent approximately 80% - 90% of your costs to establish your Franchised Business and approximately 100% of your costs for ongoing operation.

We have the right to collect and retain any and all allowances, rebates, credits, incentives, or benefits (collectively, "Allowances") offered by manufacturers, suppliers, and distributors to you, to us, or to our affiliate, based upon your purchases of products (including proprietary products) and services from manufacturers, suppliers, and distributors. We or our affiliates will have all right, title, and interest in and to any and all of these Allowances. We or our affiliate may collect and retain any or all of these Allowances without restriction (unless otherwise instructed by the manufacturer, supplier, or distributor). During the fiscal year ended August 31, 2024, we and our affiliate did not earn any Allowances.

Currently, there are no purchasing or distribution cooperatives. However, we can require that you make your purchases through a cooperative if one is formed.

From time to time, we may negotiate purchase arrangements, including price terms, with designated and approved suppliers on behalf of all franchisees. As of the date of this Disclosure Document, we have not created any purchasing arrangements with suppliers.

You must obtain and maintain, at your expense, insurance coverage. Our system may regulate the types, amounts, terms and conditions of insurance coverage for your franchise and standards for underwriters of policies providing required insurance coverage; our protection and rights under the policies as an additional named insured; required or impermissible insurance contract provisions; assignment of policy rights to us; periodic verification of insurance coverage that must be furnished to us; our right to obtain insurance coverage at your expense if you fail to obtain required coverage; our right to defend claims; and similar matters relating to insured and uninsured claims. Our standards and requirements for insurance coverages will be included in the Franchise Agreement and our Operations Manual and will be periodically updated.

The following are the current insurance requirements: commercial general liability insurance in the amount of at least \$2,000,000 per occurrence and \$4,000,000 general aggregate, including coverage for public liability, personal injury in the amount of at least \$5,000, personal and advertising injury in the amount of at least \$2,000,000, and products liability/completed operation coverage in the amount of at least \$4,000,000; worker's compensation coverage in the limits required by state law and employer's liability insurance in the amount of \$100,000 per accident shall be carried on all of Franchisee's employees, as well as such other insurance as may be required by statute or rule of the state in which the Franchised Business is located and operated; fire, vandalism, and extended coverage insurance for property damage with primary and excess limits of not less than \$300,000 or such higher amount to cover the full replacement value of the leasehold improvements, equipment, furniture, fixtures, inventory, computer systems, and other personal property of the Franchised Business; employee dishonesty in the amount of at least \$10,000 per loss; and cyber liability insurance in the amount of at least \$250,000 for all first and third-party data breaches including identity theft, ransomware and data response/crisis management expenses.

Each policy must be written by a responsible carrier or carriers acceptable to us, with an A.M. Best rating of not less than A-VII, and must name us and our respective officers, directors, partners, agents and employees as additional insured parties. We reserve the right to require additional types of insurance and coverage as provided in the Franchise Agreement. We provide no material benefits (such as the grant of additional franchises) based on your use of designated sources; however, failure to use approved items or designated suppliers and contractors may be a default under the Franchise Agreement. Additionally, when there is any default under the Franchise Agreement, we reserve the right, in addition to other remedies available under the Franchise Agreement, to direct suppliers to withhold furnishing products and services to you.

We provide no material benefits (such as the grant of additional franchises) based on your use of designated sources; however, failure to use approved items or designated suppliers and contractors may be a default under the Franchise Agreement. Additionally, when there is any default under the Franchise Agreement, we reserve the right, in addition to other remedies available under the Franchise Agreement, to direct suppliers to withhold furnishing products and services to you.

#### **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.**

| <b>Obligation</b>                                    | <b>Section or Article in Franchise Agreement</b> | <b>Section or Article in Multi-Unit Development Agreement</b> | <b>Item in Franchise Disclosure Document</b> |
|------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------------|----------------------------------------------|
| a. Site Selection and Acquisition/Lease              | 8.1                                              | Not Applicable                                                | 11                                           |
| b. Pre-Opening Purchase/Leases                       | 8.1.3, 10.5, 12.3.1                              | Not Applicable                                                | 7, 11                                        |
| c. Site Development & other Pre-Opening Requirements | 8.2, 8.3                                         | Article 5                                                     | 11                                           |
| d. Initial and Ongoing Training                      | Article 7                                        | Not Applicable                                                | 11                                           |

| <b>Obligation</b>                                          | <b>Section or Article in Franchise Agreement</b>                                        | <b>Section or Article in Multi-Unit Development Agreement</b> | <b>Item in Franchise Disclosure Document</b> |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------|
| e. Opening                                                 | 8.3                                                                                     | Not Applicable                                                | 11                                           |
| f. Fees                                                    | 5.2.5, Article 6, 7.4, 7.5, 8.4, 11.4.3, 12.3.7, 12.6, 12.7, 15.6, 16.4, 18.1.4, 18.1.5 | Article 4                                                     | 5, 6, 7                                      |
| g. Compliance with Standards and Policies/Operating Manual | Article 9, 12.1, 19.1.1                                                                 | Not Applicable                                                | 8, 11                                        |
| h. Trademarks and Proprietary Information                  | 9.4, Article 14, 19.2, 19.3, 19.4                                                       | Not Applicable                                                | 13, 14                                       |
| i. Restrictions on Products/Services Offered               | 12.1.6, 12.6, 16                                                                        | Not Applicable                                                | 8                                            |
| j. Warranty and Customer Service Requirements              | N/A                                                                                     | Not Applicable                                                | N/A                                          |
| k. Territorial Development and Sales Quotas                | 3.1                                                                                     | Article 5                                                     | 12                                           |
| l. Ongoing Product/Service Purchases                       | 12.3.4, 12.3.5                                                                          | Not Applicable                                                | 8                                            |
| m. Maintenance, Appearance and Remodeling Requirements     | Article 9, 12.1.6, 12.1.7                                                               | Not Applicable                                                | 11,17                                        |
| n. Insurance                                               | Article 15                                                                              | Not Applicable                                                | 7                                            |
| o. Advertising                                             | Article 13                                                                              | Not Applicable                                                | 6, 11                                        |
| p. Indemnification                                         | 15.6, 16.3.6, 21.1.1                                                                    | Article 9                                                     | 14                                           |
| q. Owner's Participation, Management, Staffing             | 11.1, 11.4, 12.1.5                                                                      | Not Applicable                                                | 11, 15                                       |
| r. Records /Reports                                        | 12.2                                                                                    | Not Applicable                                                | 6                                            |
| s. Inspections and Audits                                  | 12.1.6, 12.2.5                                                                          | Not Applicable                                                | 6, 11                                        |
| t. Transfer                                                | Article 16                                                                              | Article 6                                                     | 17                                           |
| u. Renewal                                                 | Article 5                                                                               | Not Applicable                                                | 17                                           |
| v. Post-Termination Obligations                            | Article 18                                                                              | Section 7.4                                                   | 17                                           |
| w. Non-Competition Covenants                               | 19.5                                                                                    | Article 8                                                     | 17                                           |

| Obligation            | Section or Article in Franchise Agreement | Section or Article in Multi-Unit Development Agreement | Item in Franchise Disclosure Document |
|-----------------------|-------------------------------------------|--------------------------------------------------------|---------------------------------------|
| x. Dispute Resolution | Article 20                                | Article 10                                             | 17                                    |
| y. Spouse Guaranty    | 11.3, Attachment 7                        | Not Applicable                                         | 15                                    |

#### **ITEM 10: FINANCING**

We do not offer direct or indirect financing. We do not guarantee any note, lease, or obligation on your behalf.

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

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

##### **1. Pre-Opening Obligations**

Before you open your Franchised Business, we will:

- a. approve the territory for your Franchised Business. Your territory will consist of a minimum population or geographic radius defined by Zip Codes or other readily ascertainable geographic boundaries. (Franchise Agreement, Section 3.1, 10.1).
- b. provide you with our then-current site selection guidelines and, at our discretion, provide you with site selection assistance (Franchise Agreement, Section 10.1).
- c. approve or disapprove the site for your Franchised Business. Within sixty (60) days of signing the Franchise Agreement, you must submit a written request for approval to us describing the proposed location and providing other information about the site that we reasonably request. We will respond within ten (10) business days, either accepting or rejecting the proposed location. We consider the following factors in approving a site: general location and neighborhood, distance from neighboring franchise territories, proximity to major roads and residential areas, traffic patterns, condition of premises, tenant mix, and demographic characteristics of the area (Franchise Agreement, Sections 8.1.2). If you do not identify a site that meets our approval within 60 days of signing the Franchise Agreement, we reserve the right to terminate the Franchise Agreement. If you are a Multi-Unit Operator, you must submit each proposed site to be developed under the minimum performance schedule to us for our approval within sixty (60) days of signing the Franchise Agreement for the outlet, which approval will be based on our then-current standards (Multi-Unit Development Agreement Section 5.3)
- d. We will not own and/or lease a site to you. You are responsible for negotiating a purchase or lease with the owner of a site we approve. Prior to signing your lease, you are required to submit it to us for our review and approval. Our review is for inclusion of terms for the protection of the System and Marks only. We will respond within ten (10) days, either approving or disapproving the lease or sales contract. The lease for any location must include our Conditional Assignment of Lease Agreement which is included as a part of the Franchise Agreement. You must acquire the site within thirty (30) days after our approval of the lease or sales contract. Failure to acquire the site within this time period is a default of the Franchise Agreement (Franchise Agreement Section 8.1.3).

- e. provide you with our then-current prototypical plans and specifications for the layout, design, appearance, and signage for your Candy Cloud Franchise. You, your architect and your contractor are required to adapt our prototypical plans and specifications for the construction of your premises and obtain permits. We do not adapt plans or obtain permits for you. We will review your adapted final construction plans and specifications. We review and approve your construction plans as they relate to compliance with our standards only. (Franchise Agreement, Sections 8.2.2, 10.2).
- f. provide you access to the Candy Cloud Operations Manual and other manuals and training aids we designate for use in the operation of your Candy Cloud Franchise, as they may be revised from time to time (Franchise Agreement, Section 10.3).
- g. approve or disapprove of all advertising, direct mail, and other promotional material and campaigns, including your grand opening campaign, that you propose in writing to us. We will respond within 10 business days, either accepting or rejecting the proposed material and/or campaign; however, if we do not respond within 10 business days, the proposed material and/or campaign is deemed “disapproved” (Franchise Agreement, Section 13.6)
- h. develop a grand opening advertising campaign (Section 13.2.3)
- i. provide you with our then-current written list of equipment, fixtures, furnishings, signage, supplies and products that will be required to open the Franchised Business. We and our affiliates do not deliver or install any of these items (Franchise Agreement, Section 10.5).
- j. recommend or set maximum prices for products and services at your Candy Cloud outlet, we do not determine the minimum prices that you must charge (Franchise Agreement, Section 12.5).
- k. provide you with initial training at an affiliate-owned outlet in Rockford Illinois or another location. We will determine, in our sole discretion, whether you satisfactorily complete the initial training (Franchise Agreement, Sections 7.1, 7.2).
- l. provide a trainer at your premises for on-site training, supervision and assistance for up to 6 days during the opening of your Franchised Business. (Franchise Agreement, Section 7.3).
- m. provide you with standards for qualifications and training of your employees. We do not otherwise assist you with employee hiring and training. (Franchise Agreement, Sections 12.1.6, 12.9).

## **2. Time to Open**

We estimate the typical length of time between the signing of the Franchise Agreement and the time you open your Franchised Business is approximately 270 days. Factors that may affect this time period include your ability to acquire a site, financing, zoning or other permits; compliance with local ordinances and restrictions; shortages for construction; delivery and installation of fixtures, signs and equipment, and completion of required training. If you have not obtained possession of your Candy Cloud premises within 150 days after signing the Franchise Agreement or if you have not opened your Franchised Business within 270 days after signing the Franchise Agreement, you must obtain our consent to extend the time to open, which we may or may not grant, at our discretion. Failure to open your Franchised Business within the original time as extended is a default of the Franchise Agreement. (Franchise Agreement, Sections 8.3, 8.4). If you are a Developer, you must submit each proposed site to be developed under the mandatory development schedule to us for our approval, which approval will be based on our then-current standards. (Multi-Unit Development Agreement Section 5.2).

## **3. Obligations After Opening**

During the operation of your franchise, we will:

- a. offer from time to time, in our discretion, mandatory or optional additional training programs. If we require it, you must attend mandatory additional training and/or an annual business meeting or franchisee conference offered by us for up to five (5) days each year at a location we designate. Failure to attend mandatory additional training or an annual business meeting or conference is a default of the Franchise Agreement. We reserve the right to impose a reasonable fee for tuition and/or attendance for all additional training programs, including the annual business meeting or conference. You must also pay for your transportation, lodging, meals and other expenses to attend any mandatory training program. If you fail to attend any mandatory training program, you are required to obtain the training at a location we designate, at your sole cost, which includes tuition at the then-current rate, plus all of your travel costs and our trainer's travel costs. (Franchise Agreement, Section 7.4).
- b. upon your request, or as we determine to be appropriate, provide remedial on-site training and assistance at your premises. For any on-site remedial training, you must reimburse all costs for the services of our trainer, including but not limited to the trainer's then-current per diem fee and all travel-related expenses, such as transportation, meals and lodging. The current fee is \$400 per trainer per day for on-site training (Franchise Agreement, Section 7.5).
- c. upon your request, provide individualized assistance to you within reasonable limits by telephone, video conference, electronic mail or postage service, subject at all times to availability of our personnel and in reasonable limits (Franchise Agreement, Section 7.6).
- d. from time to time, as may become available, provide you with samples or camera-ready advertising and promotional materials (Franchise Agreement, Section 10.6).
- e. conduct inspections of your Franchised Business, at the frequency and duration that we deem advisable. Such inspections include evaluating your products, services, and premises to ensure that they meet our standards (Franchise Agreement, Section 10.4).
- f. provide you with our then current written specifications for required equipment, fixtures, products and services and provide you with updated lists of any approved suppliers of these items (Franchise Agreement, Section 10.7).
- g. approve or disapprove of all advertising, direct mail, and other promotional material and campaigns you propose in writing to us. We will respond within 10 business days, either accepting or rejecting the proposed material and/or campaign; however, if we do not respond within 10 business days, the proposed material and/or campaign is deemed "disapproved". (Franchise Agreement, Section 13.6).
- h. recommend or set maximum prices for products and services at your Candy Cloud outlet, we do not determine the minimum prices that you must charge (Franchise Agreement, Section 12.5).

#### **4. Advertising**

##### **Local Advertising** (Franchise Agreement, Sections 13.2 and 13.6)

You will pay us a nonrefundable fee of \$8,000 to develop the grand opening marketing campaign, including but not limited to internet advertising and other marketing efforts for the opening of the Franchised Business. You will pay this amount 2 months prior to the scheduled opening date of the Franchised Business. There

is currently no minimum spend requirement per year on Local Advertising to promote your Franchised Business.

We reserve the right to establish a Local Advertising spend requirement, and the maximum will be 2% of the average Gross Revenue per territory per month annually. We reserve the right to collect some or all of your Local Advertising expenditure and implement Local Advertising on your behalf.

You may develop advertising materials for your own use at your own cost, and you may use marketing materials that we may offer to you from time to time. You may not use any advertising or marketing materials, including press releases, unless they have been approved in advance in writing by us, which approval may be withheld in our discretion. We will respond to your request for approval within 10 business days; however, if we do not respond within 10 business days, the proposed advertising or marketing material is deemed “disapproved”.

Except for the Grand Opening Advertising Campaign, we do not provide for placement of local advertising on your behalf, and we have no obligation to spend any amount on advertising in your area or territory. If feasible, you may do cooperative advertising with other Candy Cloud franchisees in your area, with our prior written approval. You may not maintain any business profile on Facebook, Twitter, X, LinkedIn, Instagram, TikTok, YouTube or any other social media and/or networking site without our prior written approval.

#### **System-wide Brand Fund (Franchise Agreement, Section 13.3)**

You are required to contribute to the Brand Fund 2% of weekly Gross Revenue, subject to increases not to exceed 4% of weekly Gross Revenue, generated by your Franchised Business. Each Candy Cloud outlet operated by our affiliates or us may contribute to the Brand Fund, in our discretion, but has no obligation to do so. For the fiscal year ended August 31, 2024, the Systemwide Brand Fund spent 100% of the expenditures on marketing.

The Brand Fund is administered by us. We may use Brand Fund contributions to pay any and all costs for the development, production and placement of advertising, marketing, promotional and public relations materials and programs. We may also use Brand Fund contributions to pay any and all costs of marketing seminars and training programs, market research, services of advertising and/or public relations agencies, and website development and maintenance. We may further use Brand Fund contributions to pay our costs (including personnel and other administrative costs) for advertising that is administered by us or prepared by us, as well as for administration and direction of the Brand Fund.

The Brand Fund will not be used to defray any of our other general operating expenses. Brand Fund contributions will not be used to solicit new franchise sales; provided however, we reserve the right to include “Franchises Available” or similar language and contact information in advertising produced with Brand Fund contributions.

The Brand Fund collects and expends the Brand Fund contributions for the benefit of the System as a whole. We reserve the right to use the Brand Fund contributions to place advertising in national, regional or local media (including broadcast, print, or other media) and to conduct marketing campaigns through any channel, in our discretion, including but not limited to, Internet and direct-mail campaigns. We have no obligation, however, to place advertising or conduct marketing campaigns in any particular area, including the Territory where your Franchised Business is located.

The Brand Fund and its earnings shall not otherwise be to our benefit except that any resulting technology and intellectual property shall be deemed our property.

We have no obligation to make expenditures that are equivalent or proportionate to your Brand Fund contribution or to ensure that you benefit directly or pro rata from the production or placement of advertising from the Brand Fund.

An annual unaudited financial statement of the Brand Fund is available to any franchisee upon written request.

If we spend more or less than the total of all contributions to the Brand Fund in any fiscal year, we may carry-forward any surplus or deficit to the next fiscal year.

No Brand Fund contributions were required, made or expended in our most recently concluded fiscal year. Although the Brand Fund is intended to be of perpetual duration, we may terminate it at any time and for any reason or no reason. We will not terminate the Brand Fund, however, until all monies in the Brand Fund have been spent for advertising or promotional purposes or returned to contributors, without interest, on the basis of their respective contributions.

#### **Regional Advertising** (Franchise Agreement, Section 13.4)

Currently, our System has no regional advertising fund or cooperative. However, we may decide to establish a regional fund or cooperative in the future and your participation may be mandatory, in our sole discretion. A regional cooperative will be comprised of all franchised Candy Cloud outlets in a designated geographic area. Our affiliate-owned outlets may participate in a regional cooperative, in our sole discretion. Each Candy Cloud outlet will have one vote in the cooperative. We will determine in advance how each cooperative will be organized and governed. We have the right to form, dissolve, merge or change the structure of the cooperatives. If a cooperative is established during the term of your Franchise Agreement, you must sign all documents we request and become a member of the cooperative according to the terms of the documents.

If we establish a regional advertising fund or cooperative, you must contribute amounts we require. Your contributions to a regional advertising fund or cooperative will be in addition to your required contributions to the Brand Fund; however, contributions made by you to a regional advertising fund or cooperative will be credited against your required expenditures for local advertising.

#### **Advertising Council** (Franchise Agreement, Section 9.6)

We do not have an advertising council composed of franchisees that advises us on advertising policies. The Franchise Agreement gives us the right, in our discretion, to create a franchisee advisory council to communicate ideas, including proposed advertising policies. If created, we will determine in advance how franchisees are selected to the council, which may include factors such as a franchisee's level of success, superior performance and studio profitability. We reserve the right to change or dissolve the council at any time.

### **5. Computer Systems** (Franchise Agreement, Section 12.3)

You must purchase the hardware, software, system tools and processes as stated in the Operations Manual. Currently, you are required to have the following hardware and software:

**Hardware:** General purpose laptop, multi-function laser printer/scanner/copier, High Speed Internet, a point of sale system with cash drawer ("POS System"), 4 label printers, 2 kiosks, 1 KDS, and 5-7 menu/advertising displays (which will depend on store needs). The current approximate cost of the required hardware is between \$7,000 and \$10,000.

You are required to use all software and applications that we specify and pay any subscription fees associated with them. We estimate the cost of this software is around \$3,000 and the monthly ongoing fees for this software is around \$600.

| Software             | Function                                                                                                     |
|----------------------|--------------------------------------------------------------------------------------------------------------|
| Toast                | POS, credit card processing, calculate payroll, provide paychecks, file tax payments and payroll tax returns |
| Approved Supplier    | Self-ordering kiosk system and kitchen display                                                               |
| Approved Supplier    | Word processing, spreadsheets and presentations                                                              |
| Approved Supplier    | Store surveillance                                                                                           |
| Approved Supplier    | Store phone system                                                                                           |
| Inventory Management | Manage store inventory and track COGS                                                                        |

The POS System performs a variety of functions, including order management, gift card and loyalty program management, payment processing, bookkeeping, and sales report generation.

We may in the future modify or establish other sales reporting systems as we deem appropriate, for the accurate and expeditious reporting of Gross Revenue and delivery of our products and services. You must fully cooperate in implementing any such modifications at your expense.

There are no contractual limitations on the frequency and cost of upgrades and/or updates to the above-described systems or programs. We have no obligation to maintain, repair, update or upgrade your computer and software.

At your cost, you must provide on-going maintenance and repairs to your computer and software. You must upgrade your smart device, computer hardware and software as necessary to operate the most current version of our POS System and design software. We cannot estimate the cost of maintaining, updating and upgrading your smart device or computer hardware and software because it will depend on the make and model of your device and computer, repair history, usage, local cost of computer maintenance services in your area and technological advances that we cannot predict.

The POS System allows us to access all of your sales data independently and remotely, including your Gross Revenue, through the Internet. There are no contractual limitations on our right to have full access to this information. We may retrieve, download, analyze and store such information and data at any time. Upon our request, you must sign any documents we require to allow us to access and retrieve the information stored on the POS System independently and electronically. We own all customer data stored in the POS System.

## **6. Table of Contents of Operations Manual**

The Table of Contents of our Candy Cloud Operations Manual, current as of the date of this Disclosure Document is attached as Exhibit E. The Operations Manual has a total of 201 pages.

## **7. Training** (Franchise Agreement, Article 7)

You (if the franchisee is an individual) or your majority owner (if the franchisee is a business entity) and your general manager must complete our Initial Training Program, to our satisfaction, before opening your Franchised Business. We will train you at our location in Rockford, Illinois, or another location as we specify: Trainees must satisfactorily complete the Initial Training Program 6 weeks prior to the scheduled opening date of the Franchised Business

| Column 1<br><b>Subject</b>              | Column 2<br><b>Hours of Classroom Instruction</b> | Column 3<br><b>Hours of On-the-Job Training</b> | Column 4<br><b>Location</b> |
|-----------------------------------------|---------------------------------------------------|-------------------------------------------------|-----------------------------|
| <b>History of Candy Cloud</b>           | 30 minutes                                        | 0                                               | Rockford, IL                |
| <b>Use of the Manuel</b>                | 30 minutes                                        | 0                                               | Rockford, IL                |
| <b>Tour of Candy Cloud</b>              | 1                                                 | 0                                               | Rockford, IL                |
| <b>Pre-Opening Procedures</b>           | 1                                                 | 0                                               | Rockford, IL                |
| <b>Personnel Issues</b>                 | 1                                                 | 2                                               | Rockford, IL                |
| <b>Advertising</b>                      | 1                                                 | 2                                               | Rockford, IL                |
| <b>Franchise Reporting Requirements</b> | 1                                                 | 2                                               | Rockford, IL                |
| <b>Management Procedures</b>            | 1                                                 | 7                                               | Rockford, IL                |
| <b>Accounting/Record Keeping</b>        | 1                                                 | 2                                               | Rockford, IL                |
| <b>Customer Service Procedures</b>      | 1                                                 | 7                                               | Rockford, IL                |
| <b>Manager Duties</b>                   | 1                                                 | 7                                               | Rockford, IL                |
| <b>Back of House Procedures</b>         | 1                                                 | 35                                              | Rockford, IL                |
| <b>Inventory Management</b>             | 1                                                 | 2                                               | Rockford, IL                |
| <b>POS System</b>                       | 1                                                 | 5                                               | Rockford, IL                |
| <b>Cleaning Procedures</b>              | 1                                                 | 7                                               | Rockford, IL                |
| <b>Safety Procedures</b>                | 1                                                 | 2                                               | Rockford, IL                |
| <b>Totals</b>                           | 15                                                | 80                                              |                             |
| <b>Total Hours: 95</b>                  |                                                   |                                                 |                             |

We periodically conduct our Initial Training Program throughout the year, as needed, approximately every 4 weeks. Training is currently provided under the supervision of our CEO, Alex Edwards.

Our Initial Training program is managed by Alex Edwards, whose biographical information is in Item 2. Each of our instructors has up to 5 years of experience relevant to the subject being taught, and at least 1 year of experience with us and/or our affiliate-owned outlets. We reserve the right to make changes to our training staff as we deem necessary and advisable without prior notice.

Our training materials consist of the operations manual, classroom instruction and on the job training.

The cost of our instructors and training materials for up to 3 individuals, 1 of which must be the majority owner in the franchise and the 2 can be the manager, assistant manager, or additional owner. You must pay for all travel and personal expenses, including, but not limited to, all costs for your transportation, meals, and lodging for yourself and your personnel. Our current fee to provide initial training to additional trainees that attend the same training session as you is \$300 per person per day.

If you do not complete our Initial Management Training Program to our satisfaction, we reserve the right to terminate the franchise agreement.

We will provide you with on-site training, supervision and assistance for up to 10 days during the soft opening of your Franchised Business.

We may conduct mandatory or optional additional training programs, including an annual conference or national business meeting. If we require it, you must attend mandatory training programs and or an annual

conference or national business meeting that we offer for up to 5 days each year at a location we designate. Failure to attend mandatory training, including an annual conference or business meetings, are a default under the Franchise Agreement. We reserve the right to impose a reasonable fee for tuition and/or attendance for all additional training programs, including the annual business meeting or conference. The current fee for additional and mandatory training is \$300 per person per day. Currently, we charge \$750 per person for our national business meeting, conference or annual convention. These fees are subject to increase. You must also pay for your transportation, lodging, meals, and other expenses to attend any mandatory training program. If you fail to attend any mandatory training program, you are required to obtain the training at a location we designate, at your sole cost, which includes tuition at the then-current rate, plus all of your travel costs and our trainer's travel costs.

## **ITEM 12: TERRITORY**

Under the Franchise Agreement, you have the right to establish and operate one (1) Candy Cloud outlet within a territory that will be defined after the location of your Franchised Business is identified and approved by us (the "Territory"). You are required to find and obtain possession of a specific location in your Territory for your Franchised Business that meets our site selection standards and our approval. The Territory is located in all or a portion of a listed town, city, or county, and is identified by a group of contiguous zip codes. The Territory is determined on an individual basis taking into account population or geographic radius and will be further defined by political boundaries, zip codes, natural boundaries, competition and other factors we deem pertinent. There is no minimum territory size for a given Territory, and the exact size of each Territory we award varies based on the factors we have identified above. The Territory will be a minimum of a 2 mile radius around the address of the Franchised Business; Your Territory will be defined and attached to your Franchise Agreement as Attachment 2. If you do not yet have a location at the signing of the Franchise Agreement, you will receive a mutually agreeable non-exclusive site search area in Attachment 2.

If you are a unit franchisee or multi-unit developer, you will receive not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

During the term of your Franchise Agreement, and provided that you are not in default of your Franchise Agreement, we will not open another Candy Cloud outlet or grant the right to anyone else to open a Candy Cloud outlet within the Territory. However, notwithstanding this limited protection right we grant to you, we reserve all rights to sell our products and services under the Marks in the Territory through alternative distribution channels, as discussed below.

There is no minimum sales requirement, market penetration or other contingency that will affect your limited protected right to operate in the Territory during the term of your Franchise Agreement, unless you are in default of your obligations to us.

You may not change the location of your Franchised Business, without our written consent, which we may withhold in our sole discretion. If you wish to relocate, you must identify a new location for the Franchised Business that meets our approval, in accordance with our then-current site selection procedures, within 90 days. If you do not identify a site within this time period, we or you may terminate the Franchise Agreement. While you are closed for relocation, you must continue to pay us a minimum Royalty and Brand Fund contribution equal to the average paid during the four (4) calendar quarters immediately preceding the loss of your premises.

Unless you have signed our Multi-Unit Development Agreement, we may, but have no obligation to, consider granting to you the right to establish additional Candy Cloud outlets under other franchise agreements if you are in compliance with the Franchise Agreement and propose to open another Candy

Cloud outlet in an area and at a location we approve. The Franchise Agreement grants you no options, rights of first refusal or similar rights to acquire additional franchises.

If you are a Multi-Unit Developer, each Franchised Business and its Territory will be located within your Development Area. The designated geographical territory for each Franchised Business will depend on whether your Restaurant will be located in an urban or a suburban setting. There is no minimum territory size for a given Territory, and the exact size of each Territory we award varies based on the factors we have identified above.

We reserve all rights not expressly granted in the Franchise Agreement. For example, we or our affiliates may own, operate, or authorize others to own or operate Candy Cloud outlets outside of the Territory and may operate other kinds of businesses within the Territory. Although we do not currently do so and have no plans to do so, we and our affiliates may own, acquire, conduct, or authorize others to conduct, any form of business at any location selling any type of product or service not offered under the Marks, including a product or service similar to those you will sell at your Franchised Business. We reserve the right to merge with, acquire, or be acquired by, an existing competitive or non-competitive franchise network, chain, or other business; however, we will not convert any acquired business in your Territory to a franchise using our primary trademarks during the Term of your Franchise Agreement.

We and our affiliates may sell products and services under the Marks within or outside the Territory through any method of distribution other than a dedicated Candy Cloud outlet location, including, licensing our designs for use in other formats, and sales through such channels of distribution such as grocery stores, co-branding within other food outlets; in captive market locations and non-traditional retail locations, such as such as shopping centers, amusement parks, sports stadiums, transportation centers, military bases, and the Internet ("Alternative Distribution Channels"). You will receive no compensation for our sales through Alternative Distribution Channels in the Territory.

You may not use Alternative Distribution Channels to make sales inside or outside your Territory; however, we will include a listing on our website with a link to your Candy Cloud outlet location. You may only solicit sales from customers in your Territory. Your local advertising must target customers in your Territory, although the reach of your local advertising may extend beyond your Territory.

The Franchise Agreement does not grant you any right to participate in franchises, licensing programs or other business proposals for the sale and distribution of Candy Cloud products or services through Alternate Distribution Channels.

#### **ITEM 13: TRADEMARKS**

Candy Cloud IP LLC ("Licensor") is the owner of the Marks and has granted us the exclusive right to use the Marks and license to others the right to use the Marks in the operation of a Candy Cloud outlet in accordance with the System. The Franchise Agreement will license to you the right to operate your Franchised Business under the Candy Cloud service marks, as described below ("Principal Mark"):

| Mark                                                                              | Serial Number | Application Date | Registration Number | Registration Date | Register  |
|-----------------------------------------------------------------------------------|---------------|------------------|---------------------|-------------------|-----------|
|  | 97/538,623    | August 7, 2022   | 7,199,782           | October 24, 2023  | Principal |
| CANDY CLOUD                                                                       | 90/795,725    | June 25, 2021    | 6,786,540           | July 12, 2022     | Principal |

We expect and intend to work with the Licensor to file all required affidavits with the USPTO for the Principal Marks above, as and when they become due and have filed all required affidavits to date.

You must notify us immediately when you learn about an infringement of or challenge to your use of the Principal Mark or other Marks. Licensor and we will take any action we think appropriate and, if you have given us timely notice and are in full compliance with the Franchise Agreement, we will indemnify you for all expenses and damages arising from any claim challenging your authorized use of the Principal Mark or other Marks. Licensor and we have the right to control any administrative proceedings or litigation involving the Principal Mark or other Mark licensed by us to you. You must cooperate fully with Licensor and us in defending and/or settling the litigation.

We reserve the right to substitute different Marks if we can no longer use the current Marks, or if we determine that substitution of different Marks will be beneficial to the System. In such event, we may require you, at your expense, to modify or stop using any Mark, including the Principal Mark, or to use one or more additional or substitute Marks.

You must not directly or indirectly contest Licensor's right, or our right, to the Principal Mark or other Marks.

There are no currently effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeals Board, the Trademark Administration of any state, or any court relating to the Marks. There is no pending infringement, opposition or cancellation. There is no pending material federal or state court litigation involving the Principal Mark or other Marks.

There are no currently effective agreements that significantly limit Licensor's or our rights to use or license the use of the Principal Mark or other Marks in a manner material to the franchise.

As of the date of this Disclosure Document, we know of no superior prior rights or infringing uses that could materially affect your use of the Principal Mark.

#### **ITEM 14: PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

**Patents and Copyrights:** We do not have an ownership interest in any patents or copyrights that are material to the franchise. We have no pending patents or copyrights.

**Confidential Operations Manual:** You must operate the Franchised Business in accordance with the standards and procedures specified in the Manual. One copy of the Manual will be loaned to you or provided to you virtually by us for the term of the Franchise Agreement.

You must treat the Manual and any other manuals we create or approve for use in your operation of the Franchised Business, and the information contained in them, as confidential. You must also use all reasonable efforts to maintain this information as secret and confidential and you must not duplicate, copy, record or otherwise reproduce these materials, in whole or in part, or make them available to any

unauthorized person. The Manual remains our sole property and must be kept in a secure place on the Franchised Business premises.

We may revise the contents of the Manual and you must comply with each new or changed standard. You must also make sure that the Manual is kept current at all times. If there is a dispute regarding the contents of the Manual, the terms of the master copy maintained by us at our home office will be controlling.

**Confidential Information:** We claim proprietary rights in certain of our recipes which are included in the Manual and which are our trade secrets. You and each of your Principals are prohibited, during and after the term of your Agreement, from communicating, or using for the benefit of any other person or entity, and, after the term of your Agreement, from using for your or their own benefit, any confidential information, knowledge or know-how concerning the methods of operation of the Franchised Business that may be communicated to you or any of your Principals or that you may learn about, including these trade secrets. You and each of your Principals may divulge this confidential information only to your employees who must have access to it to operate the Franchised Business. Neither you nor your Principals are permitted at any time, without first obtaining our written consent, to copy, record or otherwise reproduce the materials or information nor make them available to any unauthorized person. Any and all information, knowledge, know-how and techniques related to the System that we communicate to you, including the Manual, recipes, plans and specifications, marketing information and strategies and site evaluation, selection guidelines and techniques, are considered confidential.

You must have your staff, management and any other individuals that have received or will have access to confidential information sign confidentiality covenants similar to the ones described above. We will be a third-party beneficiary of these covenants with the independent right to enforce them.

If you, Principals or employees develop any new concept, process or improvement in the operation or promotion of the Franchised Business, you must promptly notify us and give us all necessary information, free of charge. You and the Principals acknowledge that any of these concepts, processes or improvements will become our property and we may give the information to other franchisees.

#### **ITEM 15: OBLIGATIONS OF THE FRANCHISEE TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

The Franchise Agreement does not require that you personally supervise your Candy Cloud outlet after 60 days of operation, although we recommend it. If you choose not to personally supervise your outlet your Candy Cloud outlet must be directly supervised by a general manager. Your general manager can either be you or someone appointed by you who is acceptable to us. Your general manager must successfully complete our Initial Management Training Program and all other training courses we require. Your general manager must devote full time to the job and cannot have an interest or business relationship with any of our competitors. If the franchisee is a business entity, your general manager is not required to have an equity interest in the franchisee entity.

Your manager and all other personnel who will have access to our proprietary and Confidential Information and training must sign our Non-Disclosure/Non-Competition Agreement, which is attached to our Franchise Agreement as Attachment 8. If your Franchised Business is owned by an entity, all owners of the entity must personally sign the Franchise Agreement as a Principal. If you are a married individual, your spouse must sign our Guaranty, which is attached to our Franchise Agreement as Attachment 7.

#### **ITEM 16: RESTRICTION ON WHAT FRANCHISEE MAY SELL**

You must offer and sell all products and services that are part of the System, and all services and products which we incorporate into the System in the future. You may only offer products and services that we have previously approved.

You may not use our Marks for any other business, and you may not conduct any other business from your Franchised Business location. You cannot engage in any other business that competes with your Franchised Business, with us or our affiliates, or with Candy Cloud outlets owned by other franchisees, whether such business is inside or outside of the Territory.

We may add to, delete from or modify the products and services that you can and must offer. You must abide by any additions, deletions and modifications, but only if the changes do not materially and unreasonably increase your obligations under the Franchise Agreement. There are no other limits on our rights to make these changes.

You may only sell products and services in the manner we prescribe. You may only solicit sales from customers in your Territory. Your local advertising must target customers in your Territory, although the reach of your local advertising may extend beyond your Territory. See Item 12 for restrictions on sales within and outside the Territory.

## ITEM 17: **RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

### THE FRANCHISE RELATIONSHIP

**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.**

|    | Provision                                      | Section in Franchise Agreement | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----|------------------------------------------------|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. | Length of the franchise term                   | Article 4                      | Term is 10 years.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| b. | Renewal or extension of the Term               | Section 5.1                    | If you are in good standing as defined below, you can sign a successor agreement for 1 additional term of 10 years, unless we have determined, in our sole discretion, to withdraw from the geographical area where your Franchise is located.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| c. | Requirements for franchisee to renew or extend | Sections 5.2 and 5.3           | Be in full compliance, have no more than 3 events of default during current term, provide written notice to us at least nine months before the end of the term, execute a new franchise agreement, pay us the Successor Agreement Fee equal to 10% of the then-current initial franchise fee, continue to have the right to occupy the premises or have received approval from us to relocate, remodel your Franchised Business location, execute a general release, comply with then-current qualifications and training requirements, including completion of additional training.<br><br>You may be asked to sign a new Franchise Agreement with materially different terms and conditions than your original Franchise Agreement. |
| d. | Termination by franchisee                      | None                           | You may seek termination upon any grounds available by state law.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

|    | <b>Provision</b>                        | <b>Section in Franchise Agreement</b> | <b>Summary</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|----|-----------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| e. | Termination by franchisor without cause | Section 16.7                          | The Franchise Agreement will terminate upon your death or permanent disability and the Franchise must be transferred within 6 months to a replacement franchisee that we approve.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| f. | Termination by franchisor with cause    | Article 17                            | We may terminate only if you default. The Franchise Agreement describes defaults throughout. Please read it carefully.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| g. | “Cause” defined – curable defaults      | Section 17.3                          | You have 5 days to cure non-payments and any other defaults (except for non-curable defaults listed in the Franchise Agreement and described in h. immediately below).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| h. | “Cause” defined - non-curable defaults  | Sections 17.1 and 17.2                | <p>The Franchise Agreement will terminate automatically, without notice for the following defaults: insolvency; bankruptcy; written admission of inability to pay debts; receivership; levy; composition with creditors; unsatisfied final judgment for more than 30 days; or foreclosure proceeding that is not dismissed within 30 days.</p> <p>We may terminate the Franchise Agreement upon notice to you if you: do not acquire a site, do not complete construction and/or open the Franchised Business within required time frames; falsify any report to us; cease operations for 5 days or more, unless the premises are damaged and you apply to relocate; lose possession of the premises, unless you are not at fault for loss and you timely apply to relocate; fail to restore and re-open the Franchised Business within 120 days after a casualty; fail to comply with applicable laws; default under any lease for the premises; understate Gross Revenue 2 or more times; fail to comply with insurance and indemnification requirements; attempt a transfer in violation of the Franchise Agreement; fail, or your legal representative fails to transfer as required upon your death or permanent disability; misrepresent or omit a material fact in applying for the Franchise; are convicted or plead no contest to a felony or crime that could damage the goodwill or reputation of the Marks or the System; receive an adverse judgment in any proceeding involving allegations of fraud, racketeering or improper trade practices or similar claim that could damage the goodwill or reputation of the Marks or the System; conceal revenues or maintain false books; create a threat or danger to public health or safety; refuse an inspection or audit by us; use the Marks, copyrighted material or Confidential Information in an unauthorized manner; make an unauthorized disclosure of Confidential Information; fail to comply with non-competition covenants; default in the performance of your obligations 3 or more times during the term or receive 2 or more default notices in any 12-month period; default under any other agreement with us or our affiliate; have insufficient funds to honor a check or EFT 2 or more times within any 12-month period; or terminate the Franchise Agreement without cause. Default under the multi-unit development agreement will not grant us the right to terminate your franchise agreement.</p> |

|    | <b>Provision</b>                                                     | <b>Section in Franchise Agreement</b> | <b>Summary</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|----|----------------------------------------------------------------------|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| i. | Franchisee's obligations on termination/ non-renewal                 | Article 18                            | Upon termination, you must: cease operations; cease to identify yourself as a Candy Cloud franchisee; cease to use the Marks; cancel any assumed name registration that contains any Mark; pay us and our affiliates all sums owing; pay us any damages, costs or expenses we incur in obtaining any remedy for any violation of the Franchise Agreement by you, including, but not limited to attorneys' fees; deliver to us all Confidential Information, the Operations Manual and all records and files related to your Franchised Business; comply with the non-disclosure and non-competition covenants; pay liquidated damages; sell to us, at our option, all furnishing, fixtures, equipment, inventory and supplies of your Franchised Business; and assign, at our option, your telephone numbers, directory and internet listings, and social media and software accounts and the lease for the location.                                                                                                                                                                                                                                                                                                      |
| j. | Assignment of contract by franchisor                                 | Section 16.1.1                        | No restrictions on our right to assign.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| k. | "Transfer" by franchisee defined                                     | Section 16.2 and 16.3                 | Any assignment, sale, transfer, gift, devise or encumbrance of any interest in the Franchise Agreement, the Franchised Business, any assets of the Franchised Business, or in the Franchisee (if the Franchisee is a business entity).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| l. | Franchisor approval of transfer by franchisee                        | Section 16.3                          | No transfer is allowed without our consent, which we will not unreasonably withhold.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| m. | Conditions for franchisor approval of a transfer                     | Section 16.3 and 16.4                 | Conditions include: our decision not to exercise our right of first refusal; transferee meets our then-current standards for qualifying franchisees; transferee signs our then-current form of Franchise Agreement, which may have materially different terms from your Franchise Agreement; transferee and its general manager successfully complete our Initial Management Training Program; you have paid us and third-party creditors all amounts owed; you and the transferee sign a General Release in the form of we require; you shall subordinate any claims you have against the transferee to us; you will indemnify us for a period of 3 years following the transfer; our approval of the material terms and conditions of the transfer; landlord's consent of a lease assignment, if applicable; payment of a transfer fee equal to 50% of the then-current initial franchise fee. For transfers to an existing franchisee in good standing, the transfer fee is 20% of the then-current initial franchise fee. For transfers to an entity owned and controlled by the franchisee for convenience purposes or for transfers among owners that do not change management control, the transfer fee is \$2,500. |
| n. | Franchisor's right of first refusal to acquire franchisee's business | Section 16.6                          | You must promptly notify us of any written offer to purchase your Franchise. We have 30 days to exercise our first right to buy it on the same terms and conditions, provided that (a) we may substitute cash for any other consideration (b) we may pay the entire purchase price at closing, (c) our credit is deemed as                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

|    | <b>Provision</b>                                                       | <b>Section in Franchise Agreement</b> | <b>Summary</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----|------------------------------------------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    |                                                                        |                                       | good as the proposed purchaser, (d) we have at least 60 days to close and (e) you shall give us all customary seller's representations and warranties.                                                                                                                                                                                                                                                                                                                                                                                                                         |
| o. | Franchisor's option to purchase franchisee's business                  | Section 18.2                          | Upon termination of the Franchise Agreement, we have the option to purchase your furniture, equipment, signs, advertising materials, supplies and inventory at your cost or fair market value, whichever is less.                                                                                                                                                                                                                                                                                                                                                              |
| p. | Death or disability of franchisee                                      | Sections 6.9, 16.7                    | The Franchise Agreement will terminate upon your death or permanent disability, and the Franchise must be transferred within 6 months to a replacement franchisee that we approve.                                                                                                                                                                                                                                                                                                                                                                                             |
| q. | Non-competition covenants during the term of the franchise             | Section 19.5.1                        | You may not: divert, or attempt to divert, customers of any Candy Cloud outlet (including yours) to any competitor, participate in any capacity, including, but not limited to as an owner, investor, officer, director, employee, or agent, in any competing business; do any act that could damage the goodwill of the Marks or System, or disrupt or jeopardize our business or that of our franchisees.                                                                                                                                                                    |
| r. | Non-competition covenants after the franchise is terminated or expires | Section 19.5.2                        | For 24 months after the termination of the Franchise Agreement, you may not: divert, or attempt to divert, customers of any Candy Cloud outlet (including yours) to any competitor, participate in any capacity, including, but not limited to as an owner, investor, officer, director, employee or agent, in any competing business within 25 miles of your former Candy Cloud outlet location or any other Candy Cloud outlet location; do any act that could damage the goodwill of the Marks or System, or disrupt or jeopardize our business or that of our franchisees. |
| s. | Modification of the agreement                                          | Sections 9.4, 14.6, 19.1.4            | No oral modifications generally, but we may change the Operations Manual and System standards at any time. You may be required to implement these changes at your own costs. We have the right to modify our Marks at any time upon written notice to you.                                                                                                                                                                                                                                                                                                                     |
| t. | Integration/merger clause                                              | Section 21.4                          | Only the terms of the Franchise Agreement and other related written agreements are binding (subject to applicable state law.) Any representations or promises outside of the disclosure document and Franchise Agreement may not be enforceable.                                                                                                                                                                                                                                                                                                                               |
| u. | Dispute resolution by arbitration or mediation                         | Sections 20.1 and 20.2                | At our option, claims that are not resolved internally may be submitted to non-binding mediation at our headquarters. Subject to state law.                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| v. | Choice of forum                                                        | Section 20.3                          | Litigation takes place in Illinois, subject to applicable state law.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| w. | Choice of law                                                          | Section 20.3                          | Illinois law applies, subject to applicable state law.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

**THE FRANCHISE RELATIONSHIP  
(UNDER THE MULTI-UNIT DEVELOPMENT AGREEMENT)**

**This table lists certain important provisions of the multi-unit development agreement. You should read these provisions in the agreement attached to this disclosure document.**

|    | <b>Provision</b>                               | <b>Section in Multi-Unit Development Agreement</b> | <b>Summary</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----|------------------------------------------------|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. | Length of the franchise term                   | Art. 3                                             | As determined by you and us based on the number of Candy Cloud outlets you are to develop.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| b. | Renewal or extension of the Term               | Not Applicable                                     | Not Applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| c. | Requirements for franchisee to renew or extend | Not Applicable                                     | Not Applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| d. | Termination by franchisee                      | Not Applicable                                     | You may seek termination upon any grounds available by state law.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| e. | Termination by franchisor without cause        | Section 6.6                                        | The Multi-Unit Development Agreement will terminate automatically upon your death or permanent disability, unless prohibited by law and the Development Rights are transferred within 6 months to a replacement developer that we approve.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| f. | Termination by franchisor with cause           | Article 7                                          | We may terminate only if you default. The Multi-Unit Development Agreement describes defaults throughout. Please read it carefully.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| g. | “Cause” defined – curable defaults             | Section 7.3                                        | You have 5 days to cure non-payments, any non-monetary obligations imposed by the Multi-Unit Development Agreement and any other defaults (except for non-curable defaults listed in the Multi-Unit Development Agreement and described in h. immediately below).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| h. | “Cause” defined - non-curable defaults         | Sections 7.1 and 7.2                               | The Multi-Unit Development Agreement will terminate automatically, without notice for the following defaults: insolvency; making a general assignment for the benefit of creditors; bankruptcy; written admission of inability to pay debts; receivership; levy; composition with creditors; unsatisfied final judgment for more than 30 days; if your entity is dissolved; or foreclosure proceeding that is not dismissed within 30 days. We may terminate the Multi-Unit Development Agreement upon notice to you if you: misrepresent or omit a material fact in applying for the Development Rights; falsify any report to us; fail to comply with any federal, state or local law, rule or regulation, applicable to the development and operations of your Candy Cloud outlets, including, but not limited to, the failure to pay taxes; fail to develop the Candy Cloud outlets in accordance with the Mandatory Development Schedule; attempt a transfer in violation of the Multi-Unit Development Agreement; are convicted or plead no contest to a felony or crime that could damage the goodwill or reputation of our trademarks or the System; receive an adverse judgment or a |

|    | <b>Provision</b>                                                     | <b>Section in Multi-Unit Development Agreement</b> | <b>Summary</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----|----------------------------------------------------------------------|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    |                                                                      |                                                    | consent decree in any proceeding involving allegations of fraud, racketeering or unfair or improper trade practices or similar claim that could damage the goodwill or reputation of our trademarks or the System; fail to comply with non-disclosure and non-competition covenants; default, or your affiliate defaults, under any other agreement, including any Franchise Agreement, with us or any of our affiliates, your suppliers or landlord, and you do not cure such default within the time period provided in such other agreement; or terminate the Multi-Unit Development Agreement without cause. Termination of a franchise agreement under the multi-unit development agreement is grounds for termination of the multi-unit development agreement. This is known as a cross-default provision.                                                                                                                                                                                                                                                                      |
| i. | Franchisee's obligations on termination/ non-renewal                 | Section 7.4                                        | Upon termination, you must: cease all development operations and comply with the non-disclosure and non-competition covenants.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| j. | Assignment of contract by franchisor                                 | Section 6.1                                        | No restrictions on our right to assign.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| k. | "Transfer" by franchisee defined                                     | Section 6.3                                        | Any assignment, sale, transfer, gift, devise, convey or encumbrance of any interest in the Multi-Unit Development Agreement or Development Rights.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| l. | Franchisor approval of transfer by franchisee                        | Sections 6.2, 6.3                                  | No transfer is allowed without our consent, which we will not unreasonably withhold.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| m. | Conditions for franchisor approval of a transfer                     | Section 6.3 and 6.4                                | Conditions include: our decision not to exercise our right of first refusal; transferee meets our then-current standards for qualifying developers; transferee agrees to complete our Initial Management Training Program to our satisfaction; you have paid us all amounts owed; transferee signs our then-current form of Multi-Unit Development Agreement, which may have materially different terms from your Multi-Unit Development Agreement; you and the transferee sign a General Release in the form of we require; you shall subordinate any claims you have against the transferee to us; our approval of the material terms and conditions of the transfer; payment of a transfer fee equal to 50% of the then-current initial franchise fee. For transfers to an existing franchisee in good standing, the transfer fee is 20% of the then-current initial franchise fee. For transfers among existing owners the transfer fee is \$2,500. The transfer fee is multiplied by the number of outlets for which a development right has been granted but not yet exercised. |
| n. | Franchisor's right of first refusal to acquire franchisee's business | Section 6.5                                        | You must promptly notify us of any written offer to purchase your Development Rights. We have 30 days to exercise our first right to buy your Development Rights on the same terms and conditions, provided that (a) we may substitute cash for any other consideration (b) we may pay the entire purchase price at                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

|    | <b>Provision</b>                                                       | <b>Section in Multi-Unit Development Agreement</b> | <b>Summary</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|----|------------------------------------------------------------------------|----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    |                                                                        |                                                    | closing, (c) our credit is deemed as good as the proposed purchaser, (d) we have at least 60 days to close and (e) you shall give us all customary seller's representations and warranties.                                                                                                                                                                                                                                                                                                                                                                                                                                |
| o. | Franchisor's option to purchase franchisee's business                  | Not Applicable                                     | Not Applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| p. | Death or disability of franchisee                                      | Section 6.6                                        | The Multi-Unit Development Agreement will terminate automatically upon your death or permanent disability, unless prohibited by law and the Development Rights are transferred within 6 months to a replacement developer that we approve.                                                                                                                                                                                                                                                                                                                                                                                 |
| q. | Non-competition covenants during the term of the franchise             | Section 8.3.1                                      | You may not: divert, or attempt to divert, customers of any Candy Cloud outlet (including yours) to any competitor, participate in any capacity, including, but not limited to as an owner, investor, officer, director, employee or agent, in any competing business; do any act that could damage the goodwill of the Marks or System, or disrupt or jeopardize our business or that of our franchisees.                                                                                                                                                                                                                 |
| r. | Non-competition covenants after the franchise is terminated or expires | Section 8.3.2                                      | For 24 months after the termination of the Franchise Agreement, you may not: divert, or attempt to divert, customers of any Candy Cloud outlet (including yours) to any competitor, participate in any capacity, including, but not limited to as an owner, investor, officer, director, employee or agent, in any competing business within twenty-five (25) miles of your former Candy Cloud outlet location or any other Candy Cloud outlet location (franchised or company owned); do any act that could damage the goodwill of the Marks or System, or disrupt or jeopardize our business or that of our franchisees. |
| s. | Modification of the agreement                                          | Section 11.4                                       | No oral modifications. No amendment of the provisions will be binding upon either party unless the amendment has been made in writing and executed by all interested parties.                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| t. | Integration/merger clause                                              | Section 11.4                                       | Only the terms of the Multi-Unit Development Agreement and other related written agreements are binding (subject to applicable state law.) Any representations or promises outside of Multi-Unit Development Agreement may not be enforceable. Notwithstanding the foregoing, nothing in the Multi-Unit Development Agreement is intended to disclaim the express representations made in this Franchise Disclosure Document.                                                                                                                                                                                              |
| u. | Dispute resolution by arbitration or mediation                         | Sections 10.2, 10.3, and 10.4                      | At our option, claims that are not resolved internally may be submitted to non-binding mediation at our headquarters, and then to binding arbitration, excluding claims related to injunctive relief, anti-trust, the trademarks, and post-termination obligations. Subject to state law.                                                                                                                                                                                                                                                                                                                                  |
| v. | Choice of forum                                                        | Section 10.5                                       | Illinois, subject to applicable state law.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| w. | Choice of law                                                          | Section 10.5                                       | Illinois law applies, subject to applicable state law.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

See the state addenda to this Franchise Disclosure Document and the Franchise Agreement for special state disclosures.

**ITEM 18: PUBLIC FIGURES**

We do not currently use any public figures to promote our franchise.

**ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS**

The FTC’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.

We have one Candy Cloud outlet that is owned and operated by our affiliate. This unit has been in operation since March 2022 in Rockford, Illinois. We have four (4) franchised outlets that have been open and operating at least six (6) months located in Glenview, Illinois, South Elgin, Illinois, Willoughby, Ohio, and Middleton, Wisconsin. The below historical financial performance representations do not include the Royalty and Brand Fund Contributions that a franchisee-operated outlet would be expected to pay. We have included the financial performance representations for these outlets from November 1, 2023 through November 1, 2024 (the “Measurement Period”). The Average Monthly Revenue was calculated using the total months that the outlet was open and operating during this Measurement Period. The following are the opening dates for the individual outlets:

| Location              | Opening Date      |
|-----------------------|-------------------|
| Rockford, Illinois *  | March 5, 2022     |
| South Elgin, Illinois | November 10, 2023 |
| Willoughby, Ohio      | March 8, 2024     |
| Glenview, Illinois    | March 29, 2024    |
| Madison, Wisconsin    | June 14, 2024     |

\* Corporate outlet

The reasonable basis for inclusion of this Financial Performance Representation is the affiliate-owned and franchised outlets are similar to the franchise being offered under this Disclosure Document in terms of operations and product offerings. There are no material financial or operational characteristics of the below affiliate-owned and franchised outlets that are reasonably anticipated to differ materially from future franchise outlet operations. The affiliate-owned outlet is different from the franchise being offered in that it does not pay any Royalty Fees or Brand Fund Contribution to us and is not subject to territorial advertising or service restrictions.

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

**Some outlets have earned these amounts. Your individual results may differ. There is no assurance you will earn as much.**

| Average Monthly Revenue                                                                                                                                                                                                                                                                                                                                                         |            |              |           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------|-----------|
| Average                                                                                                                                                                                                                                                                                                                                                                         | High Store | Median Store | Low Store |
| \$ 75,691                                                                                                                                                                                                                                                                                                                                                                       | \$ 114,082 | \$ 76,995    | \$ 43,443 |
| <p>*Five Candy Cloud® units that have operated for 6+ months are represented in the data above, (A) 3 locations (approx. 60%) met or surpassed the average monthly revenue.</p> <p>**“Average Monthly Revenue” refers to the respective average-monthly Total Revenue, of all 5 Candy Cloud® locations that operated continuously for 6+ months for the 2024 calendar year.</p> |            |              |           |

“Revenue” includes all revenues and income from any source derived or received by the outlets, including but not limited to, any and all other revenues received using our methods, operations and/or trade secrets whether received in cash, in services, in kind, from barter and/or exchange, on credit (whether or not payment is actually received) or otherwise.

Other than the preceding financial performance representation, we do not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing 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 our management by contacting Alex Edwards, 9934 N Alpine Road, Suite 100, Machesney Park, IL 61115, 815-264-2168, the Federal Trade Commission, and the appropriate state regulatory agencies.

**ITEM 20:      OUTLETS AND FRANCHISEE INFORMATION**

Table No. 1  
System-wide Outlet Summary  
For Years 2022 to 2024

| Column 1<br>Outlet Type | Column 2<br>Year | Column 3<br>Outlets at the<br>Start of the Year | Column 4<br>Outlets at the<br>End of the Year | Column 5<br>Net Change |
|-------------------------|------------------|-------------------------------------------------|-----------------------------------------------|------------------------|
| Franchised              | 2022             | 0                                               | 0                                             | 0                      |
|                         | 2023             | 0                                               | 0                                             | 0                      |
|                         | 2024             | 0                                               | 5                                             | +5                     |
| Company –<br>Owned*     | 2022             | 0                                               | 1                                             | +1                     |
|                         | 2023             | 1                                               | 1                                             | 0                      |
|                         | 2024             | 1                                               | 1                                             | 0                      |
| Total Outlets           | 2022             | 0                                               | 1                                             | +1                     |
|                         | 2023             | 1                                               | 1                                             | 0                      |
|                         | 2024             | 1                                               | 5                                             | +5                     |

\*Company-owned outlets are operated by affiliated entities.

Table No. 2  
Transfers of Outlets from Franchisees to New Owners (Other than the Franchisor)  
For Years 2022 to 2024

| Column 1<br>State | Column 2<br>Year | Column 3<br>Number of Transfers |
|-------------------|------------------|---------------------------------|
| None              | 2022             | 0                               |
|                   | 2023             | 0                               |
|                   | 2024             | 0                               |
| Total             | 2022             | 0                               |
|                   | 2023             | 0                               |
|                   | 2024             | 0                               |

Table No. 3  
Status of Franchised Outlets  
For Years 2022 to 2024

| Column 1<br>State | Column 2<br>Year | Column 3<br>Outlets at<br>Start of<br>Year | Column 4<br>Outlets<br>Opened | Column 5<br>Terminatio<br>ns | Column 6<br>Non-<br>renewals | Column 7<br>Reacquired<br>by<br>Franchisor | Column 8<br>Ceased<br>Operations<br>-<br>Other<br>Reasons | Column 9<br>Outlets<br>at End<br>of the<br>Year |
|-------------------|------------------|--------------------------------------------|-------------------------------|------------------------------|------------------------------|--------------------------------------------|-----------------------------------------------------------|-------------------------------------------------|
| IL                | 2022             | 0                                          | 0                             | 0                            | 0                            | 0                                          | 0                                                         | 0                                               |
|                   | 2023             | 0                                          | 0                             | 0                            | 0                            | 0                                          | 0                                                         | 0                                               |
|                   | 2024             | 0                                          | 2                             | 0                            | 0                            | 0                                          | 0                                                         | 2                                               |
| OH                | 2022             | 0                                          | 0                             | 0                            | 0                            | 0                                          | 0                                                         | 0                                               |
|                   | 2023             | 0                                          | 0                             | 0                            | 0                            | 0                                          | 0                                                         | 0                                               |
|                   | 2024             | 0                                          | 1                             | 0                            | 0                            | 0                                          | 0                                                         | 1                                               |
| TN                | 2022             | 0                                          | 0                             | 0                            | 0                            | 0                                          | 0                                                         | 0                                               |
|                   | 2023             | 0                                          | 0                             | 0                            | 0                            | 0                                          | 0                                                         | 0                                               |

|       |      |   |   |   |   |   |   |   |
|-------|------|---|---|---|---|---|---|---|
|       | 2024 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| WI    | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
|       | 2023 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
|       | 2024 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| Total | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
|       | 2023 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
|       | 2024 | 0 | 5 | 0 | 0 | 0 | 0 | 5 |

Table No. 4  
Status of Company Owned\* Outlets  
For Years 2022 to 2024

| Column 1<br>State | Column 2<br>Year | Column 3<br>Outlets<br>at Start<br>of Year | Column 4<br>Outlets<br>Opened | Column 5<br>Outlets<br>Reacquired<br>from<br>Franchisees | Column 6<br>Outlets<br>Closed | Column 7<br>Outlets Sold<br>to<br>Franchisees | Column 8<br>Outlets<br>at End<br>of the<br>Year |
|-------------------|------------------|--------------------------------------------|-------------------------------|----------------------------------------------------------|-------------------------------|-----------------------------------------------|-------------------------------------------------|
| Illinois          | 2022             | 0                                          | 1                             | 0                                                        | 0                             | 0                                             | 1                                               |
|                   | 2023             | 1                                          | 0                             | 0                                                        | 0                             | 0                                             | 1                                               |
|                   | 2024             | 1                                          | 0                             | 0                                                        | 0                             | 0                                             | 1                                               |
| Total             | 2022             | 0                                          | 1                             | 0                                                        | 0                             | 0                                             | 1                                               |
|                   | 2023             | 1                                          | 0                             | 0                                                        | 0                             | 0                                             | 1                                               |
|                   | 2024             | 1                                          | 0                             | 0                                                        | 0                             | 0                                             | 1                                               |

Table No. 5  
Projected Openings as of August 31, 2024

| Column 1<br>State | Column 2<br>Franchise<br>Agreements<br>Signed but Outlet<br>Not Opened | Column 3<br>Projected New<br>Franchised Outlets<br>in the Next Fiscal<br>Year | Column 4<br>Projected New<br>Company Owned<br>Outlets in the Next<br>Fiscal Year |
|-------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| Illinois          | 9                                                                      | 2                                                                             | 0                                                                                |
| North Carolina    | 1                                                                      | 1                                                                             | 0                                                                                |
| Ohio              | 2                                                                      | 1                                                                             | 0                                                                                |
| Tennessee         | 3                                                                      | 1                                                                             | 0                                                                                |
| Wisconsin         | 5                                                                      | 2                                                                             | 0                                                                                |
| Colorado          | 3                                                                      | 1                                                                             | 0                                                                                |
| Florida           | 2                                                                      | 2                                                                             | 0                                                                                |
| New Jersey        | 1                                                                      | 1                                                                             | 0                                                                                |
| Louisiana         | 1                                                                      | 1                                                                             | 0                                                                                |
| Nevada            | 1                                                                      | 1                                                                             | 0                                                                                |
| Texas             | 1                                                                      | 1                                                                             | 0                                                                                |
| Total             | 29                                                                     | 14                                                                            | 0                                                                                |

\* Company-owned stores are operated by affiliated entities.

A list of the names of all franchisees and the addresses and telephone numbers of the franchises will be provided in Exhibit F to this disclosure document when applicable.

During our last fiscal year, no franchisee has had an outlet terminated, canceled, not renewed, or has otherwise voluntarily or involuntarily ceased to do business under the franchise agreement or has not communicated 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.

During the last 3 fiscal years, no current or former franchisees have signed confidentiality clauses that restrict them from discussing with you their experiences as a franchisee in our franchise system.

There are no trademark-specific franchisee organizations associated with the franchise system being offered in this Disclosure Document.

**ITEM 21:      FINANCIAL STATEMENTS**

Our audited financial statements for August 31, 2022, August 31, 2023, and August 31, 2024, are included in Exhibit D.

Our fiscal year end is August 31.

**ITEM 22:      CONTRACTS**

|                                  |           |
|----------------------------------|-----------|
| Franchise Agreement              | Exhibit B |
| Multi-Unit Development Agreement | Exhibit C |
| Franchisee Acknowledgment        | Exhibit H |

**ITEM 23:      RECEIPT**

A receipt in duplicate is attached to the end of this Disclosure Document. You should sign both copies of the receipt. Keep one copy for your records and return the other signed copy to Alex Edwards, Candy Cloud Franchising LLC, 9934 N Alpine Road, Suite 100, Machesney Park, IL 61115.

## EXHIBIT A

### **STATE AGENCIES/AGENTS FOR SERVICE OF PROCESS**

This list includes the names, addresses and telephone numbers of state agencies having responsibility for franchising disclosure/registration laws, and serving as our agents for service of process (to the extent that we are registered in their states). This list also includes the names, addresses and telephone numbers of other agencies, companies or entities serving as our agents for service of process.

| State       | State Agency                                                                                                                                                                                                               | Agent for Service of Process                                                                         |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| CALIFORNIA  | Commissioner Financial Protection and Innovation<br>Department of Financial Protection and Innovation<br>320 West 4 <sup>th</sup> Street, Suite 750<br>Los Angeles, CA 90013<br>(213) 576-7505<br>Toll-free (866-275-2677) | Commissioner of Financial Protection and Innovation                                                  |
| CONNECTICUT | State of Connecticut<br>Department of Banking<br>Securities & Business Investments Division<br>260 Constitution Plaza<br>Hartford, CT 06103-1800<br>(860) 240-8230                                                         | Banking Commissioner                                                                                 |
| HAWAII      | Business Registration Division<br>Department of Commerce and Consumer Affairs<br>335 Merchant Street, Room 203<br>Honolulu, HI 96813<br>(808) 586-2722                                                                     | Commissioner of Securities of the State of Hawaii                                                    |
| ILLINOIS    | Office of Attorney General<br>Franchise Division<br>500 South Second Street<br>Springfield, IL 62706<br>(217) 782-4465                                                                                                     | Illinois Attorney General                                                                            |
| INDIANA     | Indiana Secretary of State<br>Securities Division<br>302 West Washington St., Room E-111<br>Indianapolis, IN 46204<br>(317) 232-6681                                                                                       | Indiana Secretary of State<br>201 State House<br>Indianapolis, IN 46204                              |
| MARYLAND    | Office of the Attorney General<br>Division of Securities<br>200 St. Paul Place<br>Baltimore, MD 21202-2020<br>(410) 576-6360                                                                                               | Maryland Securities Commissioner<br>200 St. Paul Place<br>Baltimore, MD 21202-2020<br>(410) 576-6360 |
| MICHIGAN    | Michigan Department of Attorney General<br>Consumer Protection Division<br>Antitrust and Franchise Unit<br>670 Law Building<br>Lansing, MI 48913<br>(517) 373-7117                                                         | Michigan Department of Commerce, Corporations and Securities Bureau                                  |

| <b>State</b> | <b>State Agency</b>                                                                                                                                                          | <b>Agent for Service of Process</b>                                                                                           |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| MINNESOTA    | Minnesota Department of Commerce<br>85 7 <sup>th</sup> Place East, Suite 280<br>St. Paul, MN 55101-2198<br>(651) 539-1500                                                    | Minnesota Commissioner of Commerce                                                                                            |
| NEW YORK     | New York State Department of Law<br>Investor Protection Bureau, Franchise Section<br>28 Liberty Street, 21 <sup>st</sup> Floor<br>New York, NY 10005<br>(212) 416-8222 Phone | Secretary of State<br>99 Washington Avenue<br>Albany, NY 12231                                                                |
| NORTH DAKOTA | Division of Insurance<br>600 East Boulevard, State Capitol, 14th Floor, Dept. 414, Bismarck, ND<br>58505-0510 (701) 328-4712                                                 | North Dakota Securities Commissioner                                                                                          |
| OREGON       | Department of Consumer and Business Services<br>Division of Finance and Corporate Labor and Industries Building<br>Salem, Oregon 97310<br>(503) 378-4387                     | Director of the Department of Consumer and Business Services                                                                  |
| RHODE ISLAND | Department of Business Regulation<br>Division of Securities<br>1511 Pontiac Avenue, Building 69-1<br>Cranston, RI 02920<br>(401) 462-9585                                    | Director of Rhode Island<br>Department of Business Regulation                                                                 |
| SOUTH DAKOTA | Division of Insurance<br>Securities Regulation<br>124 South Euclid, Suite 104<br>Pierre, SD 57501<br>(605) 773-3563                                                          | Director of Insurance-Securities Regulation                                                                                   |
| VIRGINIA     | State Corporation Commission<br>Division of Securities and Retail Franchising<br>1300 East Main Street, 9 <sup>th</sup> Floor<br>Richmond, VA 23219<br>(804) 371-9051        | Clerk of State Corporation Commission<br>1300 East Main Street, 1 <sup>st</sup> Floor<br>Richmond, VA 23219<br>(804) 371-9733 |
| WASHINGTON   | Department of Financial Institutions<br>Securities Division<br>P.O. Box 41200<br>Olympia, WA 98504-1200 (360) 902-8760                                                       | Director of Washington Financial Institutions<br>Securities Division<br>150 Israel Road, SW<br>Tumwater, WA 98501             |
| WISCONSIN    | Wisconsin Securities Commissioner<br>Securities and Franchise Registration<br>345 W. Washington Avenue<br>Madison, WI 53703<br>(608) 266-8559                                | Commissioner of Securities of Wisconsin                                                                                       |

**EXHIBIT B**  
**FRANCHISE AGREEMENT**

**CANDY CLOUD FRANCHISING LLC  
FRANCHISE AGREEMENT**

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**ATTACHMENTS**

Attachment 1: TRADEMARKS

Attachment 2: TERRITORY DESCRIPTION AND FRANCHISED BUSINESS LOCATION

Attachment 3: AUTHORIZATION AGREEMENT AUTOMATIC DEPOSITS (ACH  
WITHDRAWALS)

Attachment 4: CONDITIONAL ASSIGNMENT OF LEASE

Attachment 5: STATEMENT OF OWNERSHIP INTERESTS IN FRANCHISEE/ENTITY

Attachment 6: INTERNET ADVERTISING, SOCIAL MEDIA, SOFTWARE, AND TELEPHONE  
LISTING AGREEMENT

Attachment 7: CONFIDENTIALITY AND NON-COMPETE AGREEMENT

## **FRANCHISE AGREEMENT**

THIS FRANCHISE AGREEMENT (this "Agreement") is being entered into on \_\_\_\_\_, (the "Effective Date") by and between CANDY CLOUD FRANCHISING LLC, an Illinois limited liability company with its principal place of business at 9934 N Alpine Road, Suite 100, Machesney Park, Illinois 61115, (herein "Franchisor") and \_\_\_\_\_, a(n) \_\_\_\_\_, with its principal place of business located at \_\_\_\_\_ and \_\_\_\_\_'s principal(s) \_\_\_\_\_, an individual residing at \_\_\_\_\_ and \_\_\_\_\_, an individual residing at \_\_\_\_\_ ("Principal(s)"). \_\_\_\_\_ and \_\_\_\_\_ Principal(s) shall be individually and collectively referred to, and each is, the "Franchisee".

### **RECITATIONS**

Through the expenditure of considerable time, effort and money, Franchisor has developed and established unique and distinctive businesses which feature, among other things unique offering of specialty drinks, coffee, shakes, and bubble tea drinks under the Candy Cloud trademarks and using Franchisor's confidential operations manual (the "Manual") of business practices and policies, and Franchisor's distinctive recipes, décor, fixtures and furnishings, operations methods, sales techniques, inventory, procedures for management control and training assistance, advertising, and promotional programs, all of which may be changed, improved or further developed by Franchisor at any time (taken together herein, the "System").

The System is identified by certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including but not limited to the Candy Cloud service marks, as set forth in Attachment 1, and such other trade names, service marks, and trademarks as are now designated and may hereafter be designated or substituted by Franchisor for use in connection with the System (the "Marks").

Franchisor continues to develop, use, and control the use of such Marks in order to identify for the public the source of services and products marketed under the Marks and the System and to represent the System's high standards of quality, appearance, and service.

Franchisee understands and acknowledges the importance of Franchisor's high and uniform standards of quality, service, and appearance, and the necessity of operating the business franchised hereunder in conformity with Franchisor's standards and specifications.

NOW, THEREFORE, the parties, in consideration of the promises, undertakings and commitments of each party to the other set forth herein, and intending to be legally bound hereby, mutually agree as follows:

1. **RECITATIONS.** The Recitations set out above form part of this Agreement.
2. **GRANT OF FRANCHISE.** Franchisor hereby grants to Franchisee and Franchisee accepts, upon the terms and conditions contained in this Agreement, the license to operate a Candy Cloud franchise (the "Franchise" or "Franchised Business"), using only the Marks licensed hereunder, in strict conformity with the System, which may be changed, improved and further developed by Franchisor from time to time. This grant applies only to a single location within a territory that is designated in Attachment 2 attached hereto and incorporated herein (the "Territory").

### 3. TERRITORY.

3.1 Territory. This Agreement grants Franchisee the right to operate the Franchised Business at a single location and from within the Territory. Subject to Section 3.2 below, Franchisor agrees that during the Term of this Agreement, Franchisor will not operate, and will not authorize any other franchisees to operate, a Candy Cloud outlet in the Territory using the same Marks as licensed to Franchisee in this Agreement so long as Franchisee is not in default under this Agreement or this Agreement has not been terminated. Except as otherwise specified in this Agreement, Franchisor reserves the right to open, operate or franchise Candy Cloud franchises bordering and adjacent to the Territory. Except as set forth in this Agreement, Franchisee is prohibited from serving and soliciting customers outside of the Territory and from alternative methods of distribution as more fully specified herein.”

3.2 Reservation of Rights. Franchisee understands and agrees that all rights to any businesses, other than as specified in this Agreement, are fully reserved to Franchisor within or outside of the Territory. By way of example only, Franchisor reserves the rights to offer (i) other products or services not offered under the Marks, (ii) other food or beverage concepts under the Marks or other trademarks, (iii) products or services through any other channel of distribution in the Territory other than a dedicated Candy Cloud® outlet such as distribution through retail outlets, including but not limited to, grocery stores; co-branding within other food outlets; in captive market locations; and the Internet (“Alternative Distribution Channels”). Franchisee will receive no compensation for Franchisor’s sales through Alternate Distribution Channels. Franchisee agrees that such implementation of Franchisor’s rights pursuant to this Section 3.2 is deemed not to impair or injure Franchisee’s rights pursuant to Section 2 hereof.

4. **TERM**. Unless terminated earlier in accordance with the terms set forth herein, this Agreement and the Franchise granted hereunder shall commence upon the date hereof and terminate on the date that is ten (10) years following the Opening Date, as defined in Section 8 hereof (the “Term”).

5. **SUCCESSOR OPTION**. Subject to the terms and conditions of this Agreement, Franchisee shall have the right, but not the obligation, following the expiration of the Term hereof, to enter into a new franchise agreement and other agreements and legal instruments and documents then customarily employed by Franchisor and in the form then generally being offered to prospective franchisees in the state in which the Territory is located (the “Successor Franchise Agreement”) for one (1) additional terms of ten (10) years. The term of such Successor Franchise Agreement shall commence upon the date of expiration of the immediately preceding term. Franchisee shall be charged a successor agreement fee equal to twenty five percent (25%) of the then-current Initial Franchise Fee or a minimum of Seven Thousand Five Hundred Dollars (\$7,500) (“Successor Agreement Fee”). In the event Franchisee is not in full compliance with Section 5.2 below at the time Franchisee notifies Franchisor of Franchisee’s desire to enter into a successor agreement, it shall be in Franchisor’s sole and absolute discretion whether to permit the successor agreement.

5.1 Form and Manner of Successor Franchise Agreement. If Franchisee desires to exercise Franchisee’s option to enter into a Successor Franchise Agreement, it shall be done in the following manner:

5.1.1 Not less than nine (9) months prior to the expiration of the Term of this Agreement, Franchisee shall request from Franchisor in writing, a copy of Franchisor’s then current Disclosure Document (including Franchisor’s then current franchise agreement).

- 5.1.2 Franchisee must execute and return to Franchisor all required documents, including any and all ancillary documents, within thirty (30) days after receipt by Franchisee of a copy of Franchisor's then current Disclosure Document.
- 5.1.3 The Successor Franchise Agreement shall supersede this Agreement in all respects, and Franchisee understands and acknowledges that the terms of such new agreement may differ from the terms of this Agreement, including, without limitation, higher or lower royalty and other fees.
- 5.1.4 If Franchisee fails to perform any of the acts, or deliver any of the notices required pursuant to this Paragraph 5 in a timely fashion, such failure shall be deemed an election by Franchisee not to exercise Franchisee's option to enter into the Successor Franchise Agreement, and such failure shall cause Franchisee's right and option to automatically lapse and expire, without further notice by Franchisor.
- 5.1.5 Franchisee acknowledges that the initial Term of this Agreement provides Franchisee more than a sufficient opportunity to recoup Franchisee's investment in the Franchise, as well as a reasonable return on such investment.
- 5.2 Conditions of Successor Agreement. Franchisee's right to enter into a Successor Franchise Agreement is conditioned upon the following:
- 5.2.1 Franchisee shall be in full compliance with this Agreement and shall have materially performed Franchisee's obligations under this Agreement, the Manual and under all other agreements that may be in effect between Franchisee and Franchisor, including but not limited to all monetary obligations.
- 5.2.2 Franchisee shall not have committed three (3) or more events constituting default during the Term of this Agreement, whether or not such defaults were cured.
- 5.2.3 Franchisee will have completed any required additional training to Franchisor's reasonable satisfaction.
- 5.2.4 Franchisee shall have obtained the right to continue to occupy the Franchised Business location following the expiration of the Term hereof for the full term of the Successor Franchise Agreement and/or have received Franchisor's approval regarding locating the Franchised Business at a new location.
- 5.2.5 Franchisee shall execute a general release of all claims Franchisee may have against Candy Cloud Franchising LLC its parent, subsidiaries and affiliates, its officers, directors, shareholders, agents, and employees, whether in their corporate and/or individual capacities, in the form we require. This release will include all claims arising under any federal, state, or local law, rule, or ordinance.
- 5.2.6 Franchisee performs such remodeling, repairs, replacements, and redecoration as Franchisor may require in order to cause the Franchised Business premises and equipment, fixtures, furnishings and/or furniture to conform to the plans and specifications being used for new or remodeled franchised businesses on the renewal date.
- 5.2.7 Franchisee shall pay the required Successor Agreement Fee and sign the Successor Franchise Agreement.

- 5.3 Notice Required by Law. If applicable law requires Franchisor to give notice to Franchisee prior to the expiration of the Term, this Agreement shall remain in effect on a month-to-month basis until Franchisor has given the notice required by such applicable law. If Franchisor is not offering new Candy Cloud® franchises, is in the process of revising, amending or renewing Franchisor's form of franchise agreement or disclosure document, or Franchisor is not lawfully able to offer Franchisee the then current form of Successor Franchise Agreement at the time Franchisee advises Franchisor pursuant to Paragraph 5.2 hereof that Franchisee desires to renew, Franchisor may, in Franchisor's sole discretion, (i) offer to renew this Agreement upon the same terms set forth herein for the appropriate successor term or (ii) offer to extend the Term hereof on a month-to-month basis following the expiration of the Term for as long as Franchisor deems necessary or appropriate so that Franchisor may lawfully offer the then- current form of Successor Franchise Agreement. Any timeframes specified in this Paragraph 5 shall be inclusive of any state mandated notice periods.
- 5.4 Additional Reservation of Rights. Notwithstanding anything herein to the contrary, Franchisor reserves the right not to enter into a successor franchise agreement for this Franchise as a result of a decision to withdraw from a marketing area or the Territory in which Franchisee's Franchised Business is located.

## 6. FEES.

Initial Franchise and Royalty Fee. As part of the consideration for the right to operate the Franchise granted herein, Franchisee shall pay to Franchisor the following fees:

- 6.1 Initial Franchise Fee. Franchisee acknowledges and agrees that the grant of this Franchise and the rights and obligations of the parties under this Agreement constitute the sole and only consideration for the initial franchise fee of Forty Thousand Dollars (\$40,000.00) (the "Initial Franchise Fee"). **The Initial Franchise Fee is fully earned at the time this Franchise Agreement is signed and is not refundable under any circumstances.** Franchise shall pay the full amount of the Initial Franchise Fee to Franchisor upon Franchisee's execution of this Agreement. In the event this Agreement is for an outlet being developed pursuant to a multi-unit development agreement, then the Initial Franchise Fee shall be reduced by any amount applied by Franchisor from the development fee paid by Franchisee pursuant to the terms of such multi-unit development agreement. Any remaining portion of the Initial Franchise Fee due shall be due and payable as provided for in the multi-unit development agreement.
- 6.1.1 Royalty Fee. Franchisee agrees to pay Franchisor weekly, throughout the Term, a royalty fee equal to six percent (6%) of the Gross Revenue, as hereinafter defined, realized from the Franchised Business and from any other revenues received using Franchisor's methods, operations and/or trade secrets (the "Royalty Fee"). The term "Gross Revenue" includes all revenues and income from any source derived or received by Franchisee from, through, by or on account of the operation of the Franchised Business or made pursuant to the rights granted hereunder, including but not limited, any and all other revenues received using Franchisor's methods, operations and/or trade secrets whether received in cash, in services, in kind, from barter and/or exchange, on credit (whether or not payment is actually received) or otherwise. Gross Revenue shall include the full amount payable by Franchisee's customers, without deduction for write-offs; however, Gross Revenue shall not include (i) any sales tax or similar taxes collected from customers and turned over to the governmental authority imposing the tax, (ii) properly documented refunds to customers, (iii) properly documented promotional discounts (i.e., coupons) and Franchisee's delivery costs or third-party delivery fees. Gross Revenue does not include gift card purchases, at

the time of purchase, but Gross Revenue does include the redemption amount of purchases made by gift card.

- 6.1.2 Gross Revenue Reports. Franchisee shall, on Tuesday of each week, furnish Franchisor with a report showing Franchisee's Gross Revenue at or from the Franchised Business and/or made pursuant to the rights granted hereunder during such period (the "Gross Revenue Report"). The Gross Revenue Report shall be in such form and shall contain such information as Franchisor may from time to time prescribe. Franchisor reserves the right to establish a point-of-sale system ("POS System") that Franchisor may require Franchisee to use in the operation of the Franchised Business. At Franchisor's option, Franchisee shall submit, or grant Franchisor access to, the Gross Revenue Report by an electronic transfer of data via the POS System at the times and interims then specified by Franchisor.
- 6.1.3 Method of Payment. Franchisee shall, together with the submission of the Gross Revenue Report, pay Franchisor the Royalty Fee and the Brand Fund Contribution, as defined and more particularly described in Article 13, then due. At Franchisor's request, Franchisee must execute documents, including but not limited to, the Authorization attached as Attachment 3, that allow Franchisor to automatically take the Royalty Fee and Brand Fund Contribution due as well as other sums due Franchisor, from business bank accounts via electronic funds transfers or Automated Clearing House ("ACH") payments. Franchisee's failure to allow electronic funds transfers or ACH payments on an ongoing basis is a material breach of this Agreement. If Franchisee fails to timely report Gross Revenue, then, in addition to a late fee and interest pursuant to Sections 6.2 and 6.3 hereof, Franchisor shall collect one hundred twenty percent (120%) of the last Royalty Fee payable. Franchisor shall reconcile amounts when Gross Revenues are reported. Franchisor reserves the right to modify the method and frequency of collection of the Royalty Fee and Brand Fund Contribution upon forty-five (45) days' prior notice to Franchisee.
- 6.2 Late Fee. If the Royalty Fee, Brand Fund Contribution, Internal System Fee, or any Gross Revenue Reports are not received by Franchisor as required by this Agreement, Franchisee shall pay to Franchisor, in addition to the overdue amount, a late fee of One Hundred Dollars (\$100.00). This late fee is reasonably related to Franchisor's costs resulting from the delay in payment and/or receipt of any report, is not a penalty, and is in addition to any other remedy available to Franchisor under this Agreement for Franchisee's failure to pay the Royalty Fee, the Brand Fund Contribution, and/or submit Gross Revenue Reports in accordance with the terms of this Agreement.
- 6.3 Interest. Any and all amounts that shall become due and owing from Franchisee to Franchisor under the terms hereof shall bear interest from the date due until paid at the rate of 18% per annum or at the highest rate permitted by law, whichever is lower.
- 6.4 Internal System Fee. Franchisee agrees to pay Franchisor, throughout the term of the Agreement, an internal system fee equal to Two Hundred Dollars (\$200.00) per month ("Internal System Fee"). Franchisor holds the right to increase the Internal System Fee to no more than Four Hundred and Fifty Dollars (\$450.00). In Franchisor's sole discretion, Franchisor may (i) increase the amount of the internal systems fees with thirty (30) written notice or (ii) replace the technology with different technology, developed by Franchisor or a third-party, and Franchisee shall pay the then-current fees for the replacement technology and for continuous access thereto. Franchisee shall pay the Internal System Fee monthly, together with the first payment of each month of the Royalty Fee and Brand Fund Contribution, as defined and more particularly described in Article 13, for the development, adoption and/or use of new or improved internal systems technology for

the benefit of the System and Franchised Business, including but not limited to, assigned phone numbers and email addresses required for use in the Franchised Business, a franchise portal, benchmarking platform software, website hosting and/or maintenance or other operations or communications systems.

- 6.5 Non-Sufficient Funds Fee. In the event any of Franchisee's checks are returned, or an electronic funds transfer from Franchisee's bank account is denied, for insufficient funds, Franchisee shall pay Franchisor, in addition to the amount due, a non-sufficient funds fee of One Hundred Fifty Dollars (\$150.00) per occurrence. This non-sufficient funds fee is reasonably related to Franchisor's costs resulting from the delayed and declined payment, is not a penalty, and is in addition to any other remedy available to Franchisor under this Agreement.
- 6.6 Taxes. If any sales, excise, use, or privilege tax is imposed or levied by any government or governmental agency on Franchisor for any Royalty Fee, Brand Fund Contribution, or other fees due and payable to Franchisor under this Agreement, Franchisee shall pay Franchisor a sum equal to the amount of such tax.
- 6.7 Customer Resolution Fee. If (i) the Franchisor must step in to resolve an issue between the customer and Franchisee or (ii) the Franchisee request the Franchisor step in and resolve the dispute between the Franchisee and the customer, the Franchisee must pay the Franchisor a Two Hundred and Fifty Dollar (\$250.00) flat fee, in addition to any cost incurred by the Franchisor for the assistants (the "Customer Resolution Fee").
- 6.8 Non-Compliance Fee. In the event Franchisee is not in compliance with any terms of this Agreement or the Manual, Franchisee shall pay to Franchisor a non-compliance fee equal to Five Hundred Dollars (\$500.00) per incident per day ("Non-Compliance Fee").
- 6.9 Temporary Management Fee. In the event that you breach your Franchise Agreement or following the death or incapacity of an owner of the franchise, the franchisor may temporarily manage your franchised business. If this occurs, the Franchisee shall pay the Franchisor Five Hundred Dollars (\$500.00) per representative per day plus reimbursement any Franchisor's expenses.

## **7. TRAINING.**

- 7.1 Initial Management Training Program. Franchisee (specifically including all Franchisee's principals) and Franchisee's general manager shall attend and complete to Franchisor's sole and absolute satisfaction, Franchisor's initial management training program ("Initial Management Training Program") prior to the opening of the Franchised Business. The Initial Management Training Program consists of a course, providing both classroom and hands-on training, conducted at Franchisor's headquarters and/or an affiliate-owned or franchised outlet. Franchisor reserves the right to designate an alternate location for the any component of the Initial Management Training Program. Franchisee must at all times during the term of this Agreement have principals who have successfully completed the Initial Management Training Program to Franchisor's sole and complete satisfaction. No charge shall be made for up to three (3) individuals, which may include franchise owners, general managers, and managers, to take the Initial Management Training Program prior to opening the Franchised Business ("Initial Trainees"). Notwithstanding the foregoing, Franchisee shall be required to pay all of the expenses of the Initial Trainees, including, without limitation, costs of travel, lodging, meals, and wages. Any additional trainees added to the Initial Management Training Program shall come at an additional cost to the Franchisee at Three Hundred Dollars (\$300.00) per additional trainee.

- 7.2. Satisfactory Completion. Franchisor shall determine, in Franchisor's sole discretion, whether the Initial Trainees have satisfactorily completed the Initial Management Training Program. If the Initial Management Training Program is not satisfactorily completed or if Franchisor, in Franchisor's reasonable business judgment based upon the performance of the Initial Trainees, determines that the Initial Management Training Program cannot be satisfactorily completed by Franchisee and Franchisee's Principal(s), Franchisor may terminate this Agreement.
- 7.3. Opening Assistance. During the opening of the Franchised Business, Franchisor shall provide Franchisee with opening assistance by a trained representative of Franchisor. The trainer will provide on-site opening training, supervision, and assistance to Franchisee for up to six (6) days beginning two (2) days before the Opening Date at no charge to Franchisee.
- 7.4. Additional Training. Franchisor may offer mandatory and/or optional additional training programs from time to time. If required by Franchisor, Franchisee, or Franchisee's principals shall participate in the following additional training:
- (i) on-going training at a location designated by Franchisor.
  - (ii) a national business meeting or annual convention at a location designated by Franchisor. The total amount of required ongoing training and/or annual meetings will be five (5) days or less per year. Franchisor reserves the right to impose a reasonable fee for all additional training programs. Franchisee shall be responsible for any and all incidental expenses incurred by Franchisee or Franchisee's personnel in connection with additional training or attendance at Franchisor's national business meeting or annual convention, including, without limitation, costs of travel, lodging, meals, and wages. Franchisee's failure to attend and/or complete mandatory additional training or failure to attend Franchisor's national business meeting or annual convention is a default of this Agreement. Franchisee or Franchisee's principal(s) shall be required to obtain any missed mandatory additional training at a location Franchisor designates. Franchisee shall pay all costs and expenses for such additional training, including but not limited to, tuition at the then-current rate and any and all transportation, meals and lodging of Franchisee, Franchisee's principal, and Franchisor's training personnel. Franchisee shall pay to Franchisor any incurred expenses by Franchisor's training personnel within ten (10) days of Franchisor's billing thereof to Franchisee.
- 7.5. On-Site Remedial Training. Upon Franchisee's reasonable request or as Franchisor shall deem appropriate, Franchisor shall, during the term hereof, subject to the availability of personnel, provide Franchisee with additional trained representatives who shall provide on-site remedial training and assistance to Franchisee's personnel at the Franchised Business location. For any additional on-site training and assistance, Franchisee shall pay the per diem fee then being charged to franchisees under the System for the services of such trained representatives, plus their costs of travel, lodging, and meals.
- 7.6. Counseling and Assistance. In addition to visits by Franchisor's field representatives, as Franchisor deems appropriate, Franchisor shall, within reasonable limits and subject to the availability of Franchisor's personnel, upon Franchisee's request and at no charge, unless such assistance is provided at the Franchised Business pursuant to Section 7.5, furnish consultation and assistance to Franchisee, either in person or by telephone, video conference, electronic mail or postal service, as determined by Franchisor, in Franchisor's sole discretion, with respect to the operation of the Franchised Business, including consultation and advice regarding employee training, marketing, operation issues, purchasing and inventory control, bookkeeping and System improvements.

## **8. FRANCHISED BUSINESS SITE LOCATION REQUIREMENTS.**

### **8.1 Site Selection.**

- 8.1.1 Franchisee assumes all cost, liability, expense, and responsibility for obtaining and developing a site for the Franchised Business within the Territory and for constructing and equipping the Franchised Business at such site. Franchisee shall not make any binding commitment to a prospective vendor or lessor of real estate with respect to a site for the Franchised Business unless the site location is approved by Franchisor. While Franchisor may render assistance to Franchisee in the selection of a site, as set forth in Section 8.1.2 below, Franchisee has sole responsibility for procuring and developing a site for the Franchised Business. If Franchisee is utilizing a real estate broker, then such real estate broker must hold a real estate license in the state or territory in which the sale/lease is taking place. Franchisee acknowledges that Franchisor's approval of a prospective site location is permission only, does not constitute a representation, promise, warranty, or guarantee, express or implied, by Franchisor that the Franchised Business operated at that site will be profitable or otherwise successful, and cannot, and does not, create a liability for Franchisor. Franchisee releases Franchisor from any claims over the site location selection and evaluation by Franchisor, and Franchisee shall hold Franchisor harmless with respect to Franchisee's selection of the site for the Franchisee's Franchised Business.
- 8.1.2 Franchisor, in Franchisor's discretion, may require Franchisee to use Franchisor's designated broker and/or consultant for the purposes of locating a site for the Franchised Business. In such case, Franchisee shall pay all fees required by such broker or consultant for site selection assistance.
- 8.1.3 Franchisee shall locate a site that satisfies the site selection guidelines provided to Franchisee by Franchisor and shall submit to Franchisor, in writing, a description of the site, together with written certification the site complies with Franchisor's site selection guidelines, and such other information and materials as Franchisor may reasonably require no later than ninety (90) days after the execution of this Agreement. Franchisor shall have ten (10) business days after receipt of this information and materials to consent, in its sole and absolute discretion, to the proposed site as the location for the Franchised Business. If Franchisor fails to respond to Franchisee's submission within ten (10) business days, such proposed site shall be deemed "disapproved". No site may be used for the location of the Franchised Business unless it is consented to in writing by Franchisor. If Franchisee desires to extend the timeline to locate a site for an additional sixty (60) days, Franchisee shall request in writing and submit to Franchisor an extension fee of Five Thousand Dollars (\$5,000.00) (the "Site Selection Extension Fee").
- 8.1.4 Within sixty (60) days after Franchisor has consented to the site for the Franchised Business (or such longer period as Franchisor consents to in writing), Franchisee shall execute a lease therefor and obtain physical possession of the premises. Any lease must include Franchisor's Collateral Assignment of Lease Agreement, a copy of which is attached hereto as Attachment 4. Failure by Franchisee to acquire the site for the Franchised Business within the time and in the manner required herein shall constitute a material event of default under this Agreement.
- 8.1.5 Upon consent by Franchisor to the location for the Franchised Business, Franchisor shall set forth the location and Territory on Attachment 2 of this Agreement and shall provide a copy thereof to Franchisee. Attachment 2, as completed by Franchisor, shall be incorporated herein and made a part hereof. Franchisee shall notify Franchisor within

fifteen (15) days of any error or rejection of Attachment 2; otherwise, Attachment 2 provided to Franchisee shall be deemed final.

## 8.2 Construction.

8.2.1 Franchisee shall be responsible for obtaining clearances that may be required by state or local laws, ordinances, or regulations or that may be necessary as a result of any restrictive covenants relating to the Franchised Business location, including but not limited to, the availability of potable water. Prior to beginning the construction of the Franchised Business, Franchisee shall (a) obtain all permits, licenses, insurance, and certifications required for the lawful construction or remodeling and operation of the Franchised Business, including permits for the installation of signage, and (b) certify in writing to Franchisor that all required approvals, clearances, permits, insurance and certifications have been obtained.

8.2.2 Franchisee must obtain all architectural, engineering, design, fabrication, and installation services necessary for the construction and/or remodeling of the Franchised Business, including the installation of signage, at its own expense from vendor(s) designated or otherwise approved in writing by Franchisor. Franchisor shall provide layout and design guidance to Franchisee, as Franchisor deems appropriate. Franchisee acknowledges that Franchisor's or its representative's review of construction plans relates only to compliance with the System and that acceptance by Franchisor of such plans does not constitute a representation, warranty, or guarantee, express or implied, by Franchisor or its representative, including, but not limited to, any representation, warranty or guarantee that such plans are accurate or free of error, concerning their design or structural application.

8.2.3 During the time of construction or remodeling, Franchisee shall provide Franchisor, or its designated representative, with such periodic reports regarding the progress in obtaining all licenses and permits; and of the construction or remodeling as may be reasonably requested by Franchisor or its representative. In addition, Franchisor or its representative may make such on-site inspections as it may deem reasonably necessary to evaluate such progress. At least thirty (30) days prior to completion of the construction or remodeling, Franchisee shall notify Franchisor of the scheduled date for completion of construction or remodeling. Within a reasonable time after the date of completion of construction or remodeling, Franchisor or its representative may, at its option, conduct an inspection of the completed Franchised Business site.

8.2.4 Franchisee acknowledges and agrees that it will not open the Franchised Business for business without the written authorization of Franchisor and that authorization to open shall be conditioned upon Franchisee's strict compliance with this Agreement.

8.3 Time to Open. Franchisee acknowledges that time is of the essence in this Agreement. Franchisee shall diligently obtain a site, complete site improvements, and commence operation. The date the Franchised Business opens for business to the public shall be defined herein as the "Opening Date". Prior to the Opening Date, Franchisee shall (i) complete all exterior and interior preparations for the Franchised Business, including installation and cleaning of equipment, fixtures, furnishings, décor and signs, in accordance with System requirements and the plans and specifications consented to by Franchisor, (ii) satisfactorily complete Franchisor's Initial Management Training Program, as further set forth in Article 7, (iii) hire and train staff, (iv) obtain all required licenses to operate the Franchised Business, (v) purchase and stock initial inventory, (vi) enter into contracts, as required, with approved vendors and suppliers, and (vii) otherwise complete all aspects of developing the Franchised Business location. If Franchisee fails to comply with any of such obligations, or if Franchisee is otherwise in default of Franchisee's obligations under this

Agreement, Franchisor shall have the right to prohibit Franchisee from opening for business. Franchisee's failure to open the Franchised Business and commence business (i) in accordance with the foregoing and (ii) two hundred seventy (270) days following the date of this Agreement, which is earlier, shall be deemed a material event of default under this Agreement.

- 8.4 No Relocation. Franchisee's rights to operate the Franchised Business shall be limited to the location set forth in Attachment 2, and no other. Franchisee shall not relocate the Franchised Business at any time without Franchisor's written approval, which approval shall be granted only in the sole and complete discretion of Franchisor, and if permitted, shall be at Franchisee's sole expense and subject to the following:

8.4.1 Franchisee shall continue to operate at the original Franchised Business site, where feasible, until construction of the new site is complete and ready to commence operation;

8.4.2 Franchisee shall construct and develop the new site to conform to Franchisor's then-current specifications for design, appearance, and leasehold improvements for new Franchised Businesses;

8.4.3 Franchisee shall remove any signs or other property from the original Franchised Business location which identified the original Franchise Business location as part of the System;

8.4.4 If Franchisee is required to suspend operations at the original Franchised Business location, Franchisee agrees that, during the build-out, decorating and furnishing of the new site, and at Franchisor's sole and absolute discretion: (i) the term of this Agreement shall not be abated, and (ii) Franchisee shall remain liable to pay a minimum Royalty Fee and Brand Fund Contribution that is equal to the average amount paid by Franchisee during the four (4) calendar quarters immediately preceding the date that operations cease or the shorter period that Franchisee had been in business at the original Franchised Business location; and

8.4.5 Franchisor shall issue a revised Attachment 2, in accordance with Section 8.1.5, to reflect the address of the new Franchised Business location.

8.4.6 If a relocation site acceptable to Franchisor is not identified within ninety (90) days following Franchisee's request to relocate, Franchisor may terminate this Agreement.

8.4.7 If relocation site is acceptable the Franchisee will pay the Franchisor fifty percent (50%) of the then-current initial franchise fee.

## **9. SYSTEM MAINTENANCE AND IMPROVEMENT**

- 9.1 Maintenance of Franchised Business Site and Equipment. Franchisee shall equip and maintain the Franchised Business site to the standards of décor, sanitation, repair, and condition required by Franchisor, which standards are specified in the Manual and other written directives, standards, and specifications. Franchisee, at Franchisee's expense, shall make such additions, alterations, repairs, refurbishing and replacements as may be required to comply with Franchisor's standards, including, without limitation, periodic repainting and repairs or replacement of worn or impaired décor, materials, furniture, fixtures, equipment, and/or signage as Franchisor may direct.

- 9.2 Inspections. Franchisee shall operate and maintain the Franchised Business and Franchised Business location in conformance with best practices for food and beverage storage, handling, preparation, service, and disposal and in a manner that will ensure the highest rating possible for

businesses of like kind from the governmental authorities that may inspect such businesses in the Territory. Franchisee shall submit to Franchisor a copy of any inspection reports. It shall be a default of this Agreement if, upon inspection, Franchisee does not obtain such rating or if Franchisee fails to operate in accordance with the general standards of quality, maintenance, repairs, and sanitation required by the System, and Franchisor may, at its option, terminate this Agreement.

- 9.3 Equipment and Technology Updates. Franchisee shall make any and all upgrades to equipment, including but not limited to, design, display and storage equipment, POS Systems, and computer hardware and software, and any technology used in conjunction therewith, as Franchisor requires in its sole and absolute discretion.

9.4 Trade Dress Modifications.

9.4.1 Franchisee is aware that to maintain and improve the image and reputation of the System, Franchisor, in its sole and absolute discretion, may change and modify identifying elements of the System, including but not limited to, the adoption and use of new exterior store designs, new interior decors, new color schemes, new or modified marks, and new furnishings (collectively, “Trade Dress Modifications”).

9.4.2 Upon Franchisor’s request, no more frequently than every five (5) years, Franchisee shall refurbish the Franchised Business location at Franchisee’s sole expense, as required by Franchisor, to conform to Trade Dress Modifications. This includes, without limitation, structural changes, remodeling, redecoration, and modifications to existing improvements. Notwithstanding the foregoing restriction on the frequency of Trade Dress Modifications, Franchisee, upon notice by Franchisor and in accordance with Section 14.6 hereof, shall immediately discontinue the use of any Mark that is no longer desirable or available to Franchisor and substitute a different Mark or Marks as Franchisor directs.

9.4.3 Franchisee will accept, use, and display any such Trade Dress Modifications as if they were a part of this Franchise Agreement at the time of execution hereof.

- 9.5 No Liability/Waiver of Claims. Franchisor shall not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any of the modifications, including Trade Dress Modifications, required by this Article 9. Franchisee hereby covenants not to commence or join in any litigation or other proceeding against Franchisor or any third party, complaining of any such or seeking expenses, losses or damages caused thereby. Further, Franchisee expressly waives any claims, demands or damages arising from or related to the modifications contemplated by this Article 9, including, without limitation, any claim of breach of contract, breach of fiduciary duty, fraud, and/or breach of the implied covenant of good faith and fair dealing.

- 9.6 Franchisee Advisory Council. Franchisor reserves the right to create (and, if created, the right to change or dissolve) a franchisee advisory council as a formal means for System franchisees to communicate ideas. In the event a franchisee advisory council is created, Franchisor may invite Franchisee to participate in council-related activities and meetings, which invitation may be based on a franchisee’s level of success, superior performance, and profitability. Franchisee shall attend advisory council programs, at Franchisee’s expense. Franchisor further reserves the right to assess a reasonable administrative fee for advisory council programming, which fee shall be payable by Franchisee upon written notice from Franchisor.

## **10. FRANCHISOR'S OBLIGATIONS.**

Franchisor and/or its designated representative will provide the services described below:

- 10.1 Site Selection Guidelines. Site selection criteria, as Franchisor may deem advisable. Franchisor shall also approve the site in accordance with Section 8.1.1 and 8.1.2.
- 10.2 Construction. Provide to Franchisee criteria and specifications for a Candy Cloud® outlet. Such criteria and specifications include, but are not necessarily limited to, criteria with respect to required food storage and preparation and ventilation systems. Franchisee shall independently, and at Franchisee's expense, have such criteria and specifications incorporated into the construction of the Franchised Business in accordance with Article 8. Franchisor will also designate or otherwise approve vendors for architectural, design, fabrication, and installation services for the Franchised Business.
- 10.3 Manual. Provide Franchisee access to the Confidential Operations Manual and such other manuals and written materials as Franchisor may hereafter develop for use by franchisees, as the same may be revised by Franchisor from time to time. Such documents may be provided electronically or via the Internet, at Franchisor's sole and absolute discretion.
- 10.4 Inspection. Inspection of the Franchised Business and evaluations of the products sold and services rendered therein whenever reasonably determined by Franchisor.
- 10.5 Pre-Opening Requirements. Provide a written list of equipment, fixtures, furnishings, signage, supplies and products that will be required and/or recommended to open the Franchised Business for business.
- 10.6 Advertising Materials. Provide samples or digital artwork of certain advertising and promotional materials and information developed by Franchisor from time to time for use by Franchisee in marketing and conducting local advertising for the Franchised Business. All marketing materials must be preapproved by Franchisor.
- 10.7 List of Supplies/Suppliers. Make available from time to time, and amend as deemed appropriate by Franchisor, a list of required and/or recommended products and services for System franchisees and a list of approved and/or recommended suppliers of such items. Franchisee acknowledges that Franchisor or Franchisor's affiliate(s) may be the sole approved supplier(s) of certain products and services that Franchisee is required to purchase to operate the Franchised Business.
- 10.8 Training. The training programs specified in Article 7 herein.
- 10.9 On-Site Assistance. On-site post-opening assistance at the Franchised Business location in accordance with the provisions of Article 7.
- 10.10 Brand Fund. Administer a Brand Fund in accordance with Section 13.3.

## **11. FRANCHISEE'S REPRESENTATIONS, WARRANTIES AND COVENANTS.**

- 11.1 Best Efforts. Franchisee, including each Principal, covenants and agrees that he or she shall make all commercially reasonable efforts to operate the Franchised Business so as to achieve optimum sales.

11.2 Corporate Representations. If Franchisee is a corporation, partnership, limited liability company, or other legal entity, Franchisee and each Principal represent, warrant and covenant that:

11.2.1 The Franchisee entity is duly organized and validly existing under the state law of its formation;

11.2.2 Attachment 5 of this Agreement accurately reflects all individuals with an ownership interest, whether direct or beneficial, in the Franchisee entity;

11.2.3 The Franchisee entity is duly qualified and is authorized to do business in the jurisdiction of the Territory;

11.2.4 The Franchisee entity's organizational documents shall at all times provide that the activities of Franchisee are confined exclusively to the operation of the Franchise granted herein, unless otherwise consented to in writing by Franchisor, which consent may be withheld by Franchisor in Franchisor's sole discretion;

11.2.5 The execution of this Agreement and the consummation of the transactions contemplated hereby are within Franchisee's power and have been duly authorized by Franchisee; and

11.2.6 Any financial statements and tax returns provided to Franchisor shall be certified as true, complete, and correct and shall have been prepared in conformity with generally accepted accounting principles applicable to the respective periods involved and, except as expressly described in the applicable notes, applied on a consistent basis. No material liabilities, adverse claims, commitments, or obligations of any nature exist as of the date of the statements or returns, whether accrued, unliquidated, absolute, contingent, or otherwise, that are not reflected as liabilities; and

11.4 Appointment of Manager.

11.4.1 Franchisee may, after sixty (60) days of operation, designate and retain at all times a general manager ("General Manager") to direct the operation and management of the Franchised Business location. Franchisee shall designate its General Manager prior to attending the Initial Management Training Program. The General Manager shall be responsible for the daily operation of the Franchised Business location.

11.4.2 The General Manager shall, during the entire period he or she serves as General Manager, meet the following qualifications:

11.4.2.1 The General Manager shall meet Franchisor's standards and criteria for such individual, as set forth in the Manual or otherwise in writing by Franchisor and shall be an individual otherwise acceptable to Franchisor in its sole discretion.

11.4.2.2 The General Manager shall devote his or her full time and best efforts to the supervision and management of the Franchised Business, and may not engage in any other competitive business activity without the Franchisor's consent, which may be withheld in Franchisor's sole discretion.

11.4.2.3 The General Manager shall satisfy the training requirements set forth in Article 7.

- 11.4.3 If the General Manager is not able to continue to serve in such capacity, or no longer qualifies to act as such in accordance with this Agreement, Franchisee shall promptly notify Franchisor and designate a replacement within thirty (30) days after the General Manager ceases to serve, such replacement being subject to the same qualifications required by this Agreement. Franchisee's replacement General Manager shall attend and satisfactorily complete the Initial Management Training Program, at Franchisee's sole cost and expense, including the payment of the then-current tuition. Until such replacement is designated and trained, Franchisee shall provide interim management of the Franchised Business, who shall act in accordance with the terms of this Agreement. Any failure to comply with the requirements of this Section shall be deemed a material event of default under this Agreement. Franchisor, in Franchisor's sole discretion, may provide interim management support and charge Franchisee Five Hundred Dollars (\$500.00) per representative per day plus reimbursement of any Franchisor incurred expenses during Franchisor's operation thereof until such General Manager is properly trained or certified in accordance with Franchisor's requirements, plus any and all costs of travel, lodging, meals and other expenses reasonably incurred by Franchisor, and shall be withdrawn from Franchisee's designated bank account in accordance with Section 6.1.3.
- 11.5 Legal Compliance. Franchisee shall comply with all federal, state, and local laws, rules and regulations and shall timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the Franchised Business. Such laws, rules and regulations shall include, without limitation, licenses to do business, health and sanitation inspections, if required, fictitious name registrations, sales and other tax permits, fire and police department clearances, Americans With Disability Act compliance, certificates of occupancy, any permits, certificates or licenses required by any environmental federal, state or local law, rule or regulation and any other requirement, rule, law or regulation of any federal, state or local jurisdiction. Franchisee shall further comply with all industry best practices with respect to the handling, storage, preparation, service and disposal of food and beverage products.
- 11.6 Claims and Potential Claims. Franchisee shall notify Franchisor in writing within three (3) days of any incident or injury that could lead to, or the actual commencement of, any action, suit or proceeding and of the issuance of any order, writ, injunction, award or decree of any court, agency, or other governmental instrumentality, which in any way relating to or affecting the operation or financial condition of the Franchised Business. Any and all media inquiries concerning the Franchised Business or Franchised Business location, including, but not limited to, the business operation and incidents and occurrences related to a customer or employee, shall be referred to Franchisor. Neither Franchisee, Franchisee's employees nor anyone on Franchisee's behalf may comment to any broadcast medium, except as directed by Franchisor.
- 11.7 Assignment of Numbers and Listings. At Franchisor's request, Franchisee shall execute such forms and documents as Franchisor deems necessary to appoint Franchisor its true and lawful attorney-in-fact, with full power and authority, for the sole purpose of assigning to Franchisor, Franchisee's telephone numbers and listings; and provide Franchisor with passwords and administrator rights for all email, software, social media, or other such accounts used or created by Franchisee in order to operate the Franchised Business. Upon the expiration or termination of this Agreement, Franchisor may exercise its authority, pursuant to such documents, to obtain any and all of Franchisee's rights to the telephone numbers of the Franchised Business and all related telephone directory listings and other business listings, and all Internet listings, domain names, Internet advertising, websites, listings with search engines, electronic mail addresses, social media, or any other similar listing or usages related to the Franchised Business.

- 11.8 Access to Tax Filings. Upon execution of this Agreement, and at any time thereafter upon Franchisor's request, Franchisee shall execute such forms and documents as Franchisor deems necessary, to appoint Franchisor its true and lawful attorney-in-fact with full power and authority, for the sole purpose of obtaining any and all tax returns and reports related to the Franchised Business filed by Franchisee with any state or federal taxing authority.
- 11.9 Continuing Obligation. Franchisee and each Principal acknowledge and agree that the representations, warranties, and covenants set forth in this Article 11 are continuing obligations of Franchisee and each Principal, as applicable, and that any failure to comply with such representations, warranties and covenants shall constitute a material event of default under this Agreement. Franchisee and each Principal shall cooperate with Franchisor in any efforts made by Franchisor to verify compliance with such representations, warranties, and covenants.

## **12. FRANCHISEE'S OPERATIONS.**

- 12.1 Operation of Franchised Business Location. To maintain the highest degree of quality and service on a uniform System-wide basis, Franchisee shall operate the Franchised Business in conformity with the methods, standards and specifications prescribed by Franchisor. Franchisee agrees to comply with the Manual, as it is modified from time to time, and all directives, rules and procedures specified by Franchisor, and will, among other things:
- 12.1.1 Use only those furnishings, fixtures, décor, equipment, ingredients, recipes, supplies and signage that conform with Franchisor's specifications and/or which shall be purchased from only those vendors designated and approved by Franchisor. Franchisee acknowledges and agrees that any use by Franchisee of an unauthorized lesson plan or recipe is extremely damaging to the goodwill of the System and the Marks and are a material default of this Agreement. Franchisee acknowledges and agrees that: (i) Franchisor and/or Franchisor's affiliate may be a designated supplier or sole approved supplier of any product or service that Franchisee is required to lease or purchase, (ii) Franchisor and/or Franchisor's affiliate may receive payment from supplier(s) related to Franchisee's required purchases or leases, and (iii) any payments so received are for Franchisor's benefit only and may be used or applied in any manner determined by Franchisor in Franchisor's sole and absolute discretion;
- 12.1.2 Maintain and operate the Franchised Business location in attractive condition, good working order and good repair, using Franchisee's best efforts to maintain a clean, enjoyable and inviting atmosphere thereabout in accordance with System standards, the Manual and all other directives and requirements of Franchisor, and do such redecoration, repairing, refurbishing and restoration as from time to time may be reasonably required to meet System standards and Franchisor's requirements as they may be modified from time to time.
- 12.1.3 Procure the necessary licenses or permits to allow food and beverage preparation and service and otherwise comply with all applicable governmental laws, ordinances, rules, and regulations including those related to health and sanitation;
- 12.1.4 Maintain sufficient inventories of ingredients and supplies, as prescribed by Franchisor;
- 12.1.5 Conduct sales in accordance with Franchisor's standards and specifications, as set forth in the Manual and other directives of Franchisor. Franchisee acknowledges and accepts that Franchisee may only engage in providing food and beverage service to end-consumers. Franchisee is expressly prohibited from selling products on the internet, to dealers and/or

to distributors for subsequent re-sale, and engaging in such sales shall be a material default of this Agreement;

12.1.6 Employ only qualified individuals who are trained in accordance with Franchisor's standards, including but not limited to the protection of Franchisor's confidential and proprietary information, and who will at all times enhance Franchisor's brand and conduct themselves in a competent and courteous manner in accordance with this Agreement and the image and reputation of the System. Franchisee shall use its best efforts to ensure that Franchisee's employees maintain a neat and clean appearance and render competent and courteous service to patrons of the Franchised Business. Franchisee acknowledges and agrees that poorly trained employees, sloppy or unclean appearances and incompetent or discourteous service are extremely damaging to the goodwill of the System and the Marks and are a material default of this Agreement;

12.1.7 Permit Franchisor or its agents, to inspect the Franchised Business location and any services, products, or equipment, to determine whether they meet Franchisor's then-current standards, specifications, and requirements. In addition to any other remedies Franchisor may have, Franchisee shall reimburse Franchisor for Franchisor's inspection costs of any item that does not conform to the System standards and specifications;

12.1.8 Prominently display signs in and upon the Franchised Business location using the Marks and/or other advertising and/or signs of such nature, form, color, number, location and size, and containing such material, as Franchisor may from time to time reasonably direct or approve in writing; and to not display in or upon the Franchised Business location or elsewhere any sign or advertising media or interior décor of any kind to which Franchisor reasonably objects, including signs, advertising media or interior décor which are outdated. Upon giving Franchisee notice of its objection to same or upon termination hereof, Franchisor may at any time enter upon the Franchised Business location or elsewhere and remove any objectionable or non-approved signs, advertising media or interior décor and keep or destroy same without paying or without being deemed guilty of trespass or any other tort;

12.1.9 Conduct all advertising programs in a manner consistent with Franchisor's standards and specification, in a manner satisfactory to Franchisor and that will not detract from the reputation of the System or the Marks.

## 12.2 Bookkeeping and Reports.

12.2.1 Franchisee agrees to keep and maintain complete and accurate books and records of its transactions and business operations using the accounting procedures and chart of accounts specified by Franchisor. Franchisee agrees to purchase the Computer Systems specified in Section 12.3 to maintain the records and accounts of the Franchisee to the standards of the Franchisor. Franchisee acknowledges and agrees that the financial data of Franchisee's Franchised Business (i) is owned by Franchisor, (ii) is Franchisor's Proprietary Information, (iii) may be published in franchise disclosure document(s) issued by Franchisor following the Effective Date hereof, and (iv) may be shared with other franchisees in the System.

12.2.2 Within thirty (30) days after the close of each calendar quarter and within ninety (90) days after the close of each fiscal year, Franchisee will furnish Franchisor a full and complete written statement of income and expense and a profit and loss statement for the operation of the Franchised Business during said period, together with a balance sheet for the Franchised Business, all of which shall be prepared in accordance with generally accepted accounting

principles. Franchisee's annual statements and balance sheets shall be prepared by an independent certified public accountant and certified to be correct.

- 12.2.3 The financial statements required hereunder shall be in such form and contain such information as Franchisor may from time to time reasonably designate.
- 12.2.4 Franchisor reserves the right to require Franchisee, at Franchisee's expense, to engage the services of a third-party accounting services firm for bookkeeping, payroll and accounting services, which Franchisor reserves the right to designate and/or approve, to keep books and records in accordance with Franchisor's standards.
- 12.2.5 Franchisor shall have the right at all reasonable times to examine, at its expense, Franchisee's books, records, and tax returns. If Franchisor's examination finds that any Gross Revenue Report was understated by two percent (2%) or more, Franchisee shall reimburse Franchisor for the cost of such examination. Franchisee shall pay Franchisor any amounts due for understated Gross Revenue together with interest thereon at a rate equal to the lesser of (i) eighteen percent (18%) per annum, or (ii) the maximum commercial contract interest allowed by law. Such understatement may be considered a material default hereunder. Two (2) such understatements during the term of this Agreement may, at the option of Franchisor, be considered an incurable default and thereby subject to termination as provided herein.

### 12.3 Computer Systems.

- 12.3.1 Franchisee, at Franchisee's sole expense, shall install and maintain the POS System, computer hardware and software and web-based applications Franchisor requires for the operation of the Franchised Business and shall follow the procedures related thereto that Franchisor specifies in the Manual or otherwise in writing.
- 12.3.2 Franchisee, at Franchisee's sole expense, shall install and maintain systems, software, and web-based payment processing and bookkeeping accounts that permit Franchisor to independently and electronically access and retrieve any information stored in Franchisee's POS System, other computer systems and web-based payment processing and bookkeeping accounts, including, without limitation, information concerning Gross Revenue. Upon Franchisor's request, Franchisee shall execute such documents as Franchisor may deem necessary to permit Franchisor to independently and electronically access and retrieve all information stored on Franchisee's POS System, other computer systems and web-based payment processing and bookkeeping accounts.
- 12.3.3 Any and all customer data collected or provided by Franchisee, retrieved from Franchisee's POS System, or otherwise collected from Franchisee by Franchisor or provided to Franchisor, is and will be owned exclusively by Franchisor and will be considered to be Franchisor's proprietary and Confidential Information. Franchisor has the right to use such data in any manner without compensation to Franchisee. Franchisor licenses to Franchisee the use of such data solely for the purpose of operating the Franchised Business; provided that, this license shall automatically and irrevocably terminate, without any additional action or notice required by Franchisor, upon the expiration or earlier termination of this Agreement.
- 12.3.4 Franchisor may require Franchisee, at Franchisee's sole expense, to enter into software license agreements in the form that Franchisor requires for software Franchisor develops or acquires for use in the System.

- 12.3.5 Franchisee shall have and maintain adequate hardware and software in order to access the Internet at the speed required by Franchisor from time to time. Franchisee shall utilize the electronic mail account that may be provided by Franchisor. Franchisee shall promptly read and respond to all electronic mail related to the Franchised Business no less often than on a daily basis and shall accept and acknowledge receipt of all electronic mail sent by Franchisor. Franchisee shall not establish any website or other listing on the Internet except as provided and specifically permitted herein.
- 12.3.6 Franchisor has established a website that provides information about the System and the products and services offered by the Candy Cloud® System (the “Website”). Franchisor has sole discretion and control over the Website. Franchisor shall include a listing on its Website with Franchisee’s Franchised Business location. Franchisee has no ownership or other proprietary rights to Franchisor’s website and Franchisee will lose all rights to such listing of Franchisee’s location upon expiration or termination of this Agreement for any reason.
- 12.3.7 In addition to the requirements of Section 6.4, Franchisee shall pay all fees, whether to Franchisor or to third party vendor(s), and expenses for technology required by this Agreement for operation of the Franchised Business, including but not limited to, the costs of computer hardware and software and applications, installation costs and regularly recurring fees for software and digital menu displays, Internet access, license fees, help desk fees, and licensing or user-based fees.
- 12.3.8 Franchisee is solely responsible for maintaining the security and integrity of the computer and payment processing systems used in the Franchised Business and the customer and other data stored therein. Franchisee, at Franchisee’s sole cost and expense, shall implement all computer hardware, software, and Internet security procedures, including required updates or upgrades thereto, that are reasonably necessary to protect Franchisee’s computer and payment processing systems and the data stored therein from viruses, malware, privacy breaches or other unauthorized access.
- 12.4 Safety and Security of Premises. Franchisee is solely responsible for the safety and security of the Franchised Business location for Franchisee, Franchisee’s personnel, customers, agents, and the general public. Any suggestions by Franchisor on such matters are for guidance only and not binding on Franchisee. All matters of safety and security are within Franchisee’s discretion and control, and Franchisee’s indemnification obligations set forth in Section 15.6 hereof shall apply to any claims made against Franchisor regarding safety or security.
- 12.5 Prices. Subject to applicable law, Franchisor may recommend or set maximum prices for services and products offered by Franchisee, which may vary depending on geographic and other market conditions. Franchisee acknowledges that Franchisor has made no guarantee or warranty that offering services or products at any particular price will enhance Franchisee’s sales or profits.
- 12.6 Unapproved Item/Suppliers. If Franchisee desires to purchase, lease, or use any unapproved equipment, product, or service or to purchase, lease or use any equipment, product or service from an unapproved supplier, Franchisee shall submit to Franchisor a written request for such approval prior to using such product, service or supplier. The written request shall include a payment by check of Seven Hundred and Fifty Dollars (\$750.00), additionally the Franchisor may charge the Franchisee with additional costs due to any research, administrative or any other cost incurred by the Franchisor from the alternative supplier request. Franchisee shall not purchase or lease any item or use any supplier until and unless such item or supplier has been approved in writing by Franchisor. Franchisor shall have the right to require that its

representatives be permitted to inspect the supplier's facilities and to test or otherwise evaluate samples from the supplier. Franchisor reserves the right to charge Franchisee a fee equal to the actual cost and expense to Franchisor for inspection and testing. Franchisor shall notify Franchisee whether Franchisor approves or disapproves of the proposed item or supplier within thirty (30) days after Franchisor receives all required information to evaluate the product, service, or supplier. Franchisor reserves the right, at its option, to re-inspect from time to time the facilities and products of any such approved supplier and to revoke its approval upon the supplier's failure to continue to meet any of Franchisor's then-current criteria. Nothing in the foregoing shall be construed to require Franchisor to approve any particular item or supplier.

- 12.7 External Quality Assurance Services. Franchisor reserves the right to establish quality assurance programs conducted by third-party providers, including, but not limited to, mystery shop programs and periodic quality assurance audits ("Quality Review Services"). Upon Franchisor's request and at Franchisee's sole cost and expense, Franchisee shall subscribe to any such third-party provider for Quality Review Services to monitor the operations of the Franchised Business as directed by Franchisor.
- 12.8 Variations in Standards. Notwithstanding anything to the contrary contained in this Agreement and this Section 12 in particular, Franchisee acknowledges and agrees that because complete and detailed uniformity under many varying conditions may not be possible or practical, Franchisor specifically reserves the right and privilege, at its sole discretion and as it may deem in the best interests of all concerned in any specific instance, to vary performance standards for some franchisees based upon the peculiarities and characteristics of the particular site or circumstance, business potential, existing business practices or any other condition which Franchisor deems to be of importance to the successful operation of such particular franchise business. Franchisor has full rights to vary standard specifications and practices for any other franchisee at any time without giving Franchisee comparable rights. Franchisee shall not be entitled to require Franchisor to disclose or grant to Franchisee a like or similar variation.

### **13. ADVERTISING, PROMOTIONS AND RELATED FEES.**

- 13.1 Advertising Programs. Franchisor may from time to time develop and administer advertising and sales promotion programs designed to promote and enhance the collective success of all Franchised Businesses operating under the System. Franchisee shall participate in all such advertising and sales promotion programs in accordance with the terms and conditions established by Franchisor from time to time for each program. In all aspects of these programs, including, without limitation, the type, quantity, timing, placement and choice of media, market areas and advertising agencies, the standards and specifications established by Franchisor, as modified from time to time, shall be final and binding upon Franchisee.
- 13.2 Local Advertising.
- 13.2.1 In addition to the ongoing advertising contributions set forth herein, and following the expenditures set forth in Section 13.2.3 below, there is currently no yearly minimum required spend, subject to reasonable increases upon notice by Franchisor, on advertising for the Franchised Business in the Territory ("Local Advertising"). Franchisor reserves the right to establish a Local Advertising minimum required spend per year throughout the Term of this Agreement with a maximum of two percent (2%) of the average Gross Revenue per territory per month annually. Franchisor may require Franchisee to allocate to a regional advertising cooperative, as described in Section 13.4, some or all of Franchisee's required Local Advertising expenditures. Such allocation will be in partial or full satisfaction of Franchisee's obligations pursuant to this Section 13.2.1.1. Franchisor

reserves the right to collect some or all of Franchisee's Local Advertising expenditure and implement Local Advertising on Franchisee's behalf.

13.2.2. If a Local Advertising spend by the Franchisee is required then within ten (10) business days of Franchisor's request, Franchisee shall provide a quarterly expenditure report accurately reflecting Franchisee's expenditures in the Territory for the preceding quarterly period. The following costs and expenditures incurred by Franchisee shall **not** be included in Franchisee's expenditures on Local Advertising for purposes of this Section, unless approved in advance by Franchisor in writing: (i) incentive programs for employees or agents of Franchisee; (ii) research expenditures; (iii) salaries and expenses of any of Franchisee's personnel to attend advertising meetings, workshops or other marketing activities; (iv) charitable, political or other contributions or donations.

13.2.3. In addition to the requirements of Section 13.2.1, two (2) months prior to the scheduled Opening Date of the Franchised Business, Franchisee shall pay to the Franchisor the non-refundable fee of Eight Thousand Dollars (\$8,000) to develop the grand opening marketing campaign, including but not limited to internet advertising and other marketing efforts for the opening of the Franchised Business.

### 13.3 Brand Fund.

13.3.1 Franchisor has established a national fund on behalf of the System for national advertising, marketing, and brand development (the "Brand Fund"). Franchisee is required to contribute up to two percent (2%) of the Gross Revenue generated monthly by Franchisee's Franchised Business to the Brand Fund ("Brand Fund Contribution"). Franchisor reserves the right, in Franchisor's sole discretion and at any time and from time to time, to increase the amount of the Brand Fund Contribution to any amount not to exceed four percent (4%) of the Gross Revenue. Payments will be made in the same manner as the Royalty Fees. If Franchisee fails to timely report Gross Revenue, then, in addition to a late fee and interest pursuant to Sections 6.2 and 6.3 hereof, Franchisor shall collect one hundred twenty percent (120%) of the last Brand Fund Contribution payable. Franchisor shall reconcile amounts when Gross Revenues are reported.

13.3.2 Franchisor shall direct the Brand Fund and shall have sole discretion to approve or disapprove the creative concepts, materials and media used in such programs and the placement and allocation thereof. Franchisee agrees and acknowledges that the Brand Fund is intended to maximize general public recognition and acceptance of the Marks and enhance the collective success of all Franchised Businesses operating under the System.

13.3.3 Franchisor may, but has no obligation to, contribute to the Brand Fund on the same basis as Franchisee with respect to Candy Cloud<sup>®</sup> outlets operated by Franchisor or Franchisor's affiliates.

13.3.4 Franchisor may use the Brand Fund to satisfy any and all costs of developing, preparing, producing, directing, administering, conducting, maintaining and disseminating advertising, marketing, promotional and public relations materials, programs, campaigns, sales and marketing seminars and training programs of every kind and nature, through media now existing or hereafter developed (including, without limitation, the cost of television, radio, magazine, social media, newspaper and electronic advertising campaigns; direct mail and outdoor billboard advertising; public relations activities; conducting marketing research, employing advertising agencies to assist therein; developing, enhancing and maintaining the Website; and personnel and other departmental costs for

advertising that Franchisor internally administers or prepares). While Franchisor does not intend that any part of the Brand Fund will be used for advertising which is principally a solicitation for franchisees, Franchisor reserves the right to use the Brand Fund for public relations, to explain the franchise system, and/or to include a notation in any advertisement indicating "Franchises Available."

13.3.5 The Brand Fund will not be used to defray any of Franchisor's general operating expenses, except for reasonable administrative costs, staff salaries of Brand Fund personnel and overhead that Franchisor may incur in activities related to the administration and direction of the Brand Fund and such costs and expenses pursuant Section 13.3.4. The Brand Fund and its earnings shall not otherwise inure to Franchisor's benefit except that any resulting technology and intellectual property shall be deemed the property of Franchisor.

13.3.6 Franchisor will prepare an unaudited annual statement of the Brand Fund's operations and will make it available to Franchisee upon request. In administering the Brand Fund, Franchisor undertakes no obligation to make expenditures for Franchisee that are equivalent or proportionate to Franchisee's contribution or to ensure that any particular franchisee benefits directly or pro rata from the production or placement of advertising.

13.3.7 Although the Brand Fund is intended to be of perpetual duration, Franchisor may terminate it at any time and for any reason or no reason. Franchisor will not terminate the Brand Fund, however, until all monies in the Brand Fund have been spent for advertising or promotional purposes or returned to contributors, without interest, on the basis of their respective contributions.

13.4 Regional Advertising. Franchisor reserves the right to establish, in Franchisor's sole discretion, a regional advertising cooperative. If a regional cooperative is established during the Term of this Agreement, Franchisee agrees to sign all documents Franchisor requests to become a member of the cooperative according to the terms of the documents. If Franchisor establishes a regional cooperative, Franchisee agrees to contribute amounts equal to Franchisee's share of the total cost of cooperative advertising, in addition to required Brand Fund Contributions.

13.5 Directory Listings. At Franchisee's sole cost and expense, Franchisee must list the Franchised Business in local business directories in the Territory and on the Internet. Franchisor reserves the right to establish online accounts on Franchisee's behalf. If feasible, and with Franchisor's prior written approval, Franchisee may do cooperative listings with other System franchisees. Notwithstanding the foregoing, Franchisee may not maintain any business profile on Facebook, Twitter, X, LinkedIn, Instagram, TikTok, YouTube, or any other social media and/or networking site without Franchisor's prior written approval and use of any social media accounts shall be in strict accordance with Franchisor's requirements. Franchisee shall provide Franchisor with all passwords and administrative rights to any and all social media accounts for the Franchised Business, and Franchisee hereby appoints Franchisor its true and lawful agent and attorney-in-fact with full power and authority, for the sole purpose of taking whatever action as is necessary for the best interest of the System, if Franchisee fails to maintain such accounts in accordance with Franchisor's standards.

13.6 Approval of Advertising. All advertising and promotion by Franchisee, in any medium, shall be conducted in a professional manner and shall conform to the standards and requirements of Franchisor as set forth in the Manual or otherwise. Franchisee shall submit to Franchisor for its approval samples of all advertising, press releases, promotional plans and materials and public relations programs that Franchisee desires to use, including, without limitation, any materials in digital, electronic, or computerized form, or in any form of media now or hereafter developed

that have not been either provided or previously approved by Franchisor. Franchisor shall approve or disapprove such plans and materials within five (10) business days of Franchisor's receipt thereof. If Franchisor fails to respond to Franchisee's submission within five (10) business days, such plans and materials shall be deemed "disapproved". Franchisee shall not use such unapproved plans or materials until they have been approved by Franchisor in writing, and shall promptly discontinue use of any advertising or promotional plans or materials, whether or not previously approved, upon notice from Franchisor. Any advertising, marketing or sales concepts, programs or materials proposed or developed by Franchisee for the Candy Cloud® brand and approved by Franchisor may be used by other System franchisees without any compensation to Franchisee.

## **14. INTELLECTUAL PROPERTY.**

### **14.1 Ownership.**

14.1.1 Franchisee expressly understands and acknowledges that Candy Cloud IP LLC or its successor, ("Licensor") is the record owner of the Marks. Franchisor holds the exclusive right to license the Marks to franchisees of the System for use pursuant to the System. Franchisee further expressly understands and acknowledges that Franchisor and/or Licensor claims copyrights on certain material used in the System, including but not limited to its website, documents, advertisements, promotional materials, and the Manual, whether or not Franchisor has filed for copyrights thereto with the U.S. Copyright Office. The Marks and copyrights, along with Franchisor's trade secrets, service marks, trade dress and proprietary systems are hereafter collectively referred to as the "Intellectual Property".

14.1.2 As between Franchisor and Franchisee, Licensor and Franchisor are the owner of all right, title and interest in and to the Intellectual Property and the goodwill associated with and symbolized by them.

14.2 No Interference. Neither Franchisee nor any Principal shall take any action that would prejudice or interfere with the validity of Franchisor's or Licensor's rights with respect to the Intellectual Property. Nothing in this Agreement shall give the Franchisee any right, title, or interest in or to any of the Intellectual Property or any of Franchisor's or Licensor's service marks, trademarks, trade names, trade dress, logos, copyrights or proprietary materials, except the right to use the Intellectual Property and the System in accordance with the terms and conditions of this Agreement for the operation of the Franchised Business and only at or from the Franchised Business location or in approved advertising related to the Franchised Business.

14.3 Goodwill. Franchisee understands and agrees that any and all goodwill arising from Franchisee's use of the Intellectual Property and the System shall inure solely and exclusively to the benefit of Franchisor and Licensor, and upon expiration or termination of this Agreement and the license herein granted, no monetary amount shall be assigned as attributable to any goodwill associated with Franchisee's use of the Intellectual Property.

14.4 Validity. Franchisee shall not contest the validity of, or Franchisor's or Licensor's interest in, the Intellectual Property or assist others to contest the validity of, or Franchisor's or Licensor's interest in, the Intellectual Property.

14.5 Infringement. Franchisee acknowledges that any unauthorized use of the Intellectual Property shall constitute an infringement of Franchisor's or Licensor's rights in the Intellectual Property and a material event of default hereunder. Franchisee shall provide Franchisor or Licensor with all assignments, affidavits, documents, information and assistance Franchisor or Licensor

reasonably requests to fully vest in Franchisor or Licensor all such rights, title, and interest in and to the Intellectual Property, including all such items as are reasonably requested by Franchisor or Licensor to register, maintain, and enforce such rights in the Intellectual Property.

- 14.6 Substitution. Franchisor reserves the right to substitute different Marks for use in identifying the System and the Franchised Business, if it in its sole discretion, determines that substitution of different Marks will be beneficial to the System. Franchisor will not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any additions, modifications, substitutions, or discontinuation of the Marks. Franchisee covenants not to commence or join in any litigation or other proceeding against Franchisor for any of these expenses, losses, or damages.
- 14.7 Franchisee's Use of the Intellectual Property. With respect to Franchisee's use of the Intellectual Property pursuant to this Agreement, Franchisee further agrees that:
- 14.7.1 Unless otherwise authorized or required by Franchisor, Franchisee shall advertise the Franchised Business only under the Marks "Candy Cloud" and design. Franchisee shall not use the Marks, or any portions, variations, or derivatives thereof, as part of its corporate or other legal name. All fictitious names used by Franchisee shall bear the designation "a franchisee of Candy Cloud Franchising LLC."
- 14.7.2 Franchisee shall identify itself as the owner of the Franchised Business and as an independent Candy Cloud® franchisee in conjunction with any use of the Intellectual Property, including, but not limited to, uses on invoices, order forms, receipts, and contracts, as well as the display of a notice in such content and form and at such conspicuous locations on the premises of the Franchised Business as Franchisor may designate in writing.
- 14.7.3 Franchisee shall not use the Intellectual Property to incur any obligation or indebtedness on behalf of Franchisor.
- 14.7.4 Any item offered by Franchisee that contains the Marks, must be approved by Franchisor in writing prior to being distributed or sold by Franchisee and such approval may be granted or denied in Franchisor's sole and absolute discretion.
- 14.8 Claims. Franchisee shall notify Franchisor immediately via both email and telephone, of any apparent infringement of or challenge to Franchisee's use of any Intellectual Property and of any claim by any person of any rights in any Intellectual Property. Franchisee shall not communicate with any person other than Franchisor or any designated affiliate thereof, their counsel and Franchisee's counsel in connection with any such infringement, challenge, or claim. Franchisor shall have complete discretion to take such action as it deems appropriate in connection with the foregoing, and the right to control exclusively, or to delegate control to any of its affiliates of, any settlement, litigation or other proceeding arising out of any such alleged infringement, challenge, or claim or otherwise relating to any Intellectual Property. Franchisee agrees to execute any and all instruments and documents, render such assistance, and do such acts or things as may, in the opinion of Franchisor, reasonably be necessary or advisable to protect and maintain the interests of Franchisor or any other person or entity in any litigation or other proceeding or to otherwise protect and maintain the interests of Franchisor or any other interested party in the Intellectual Property. Franchisor will indemnify and defend Franchisee against and reimburse Franchisee for actual damages (including settlement amounts) for which Franchisee is held liable in any proceeding arising out of Franchisee's use of any of the Intellectual Property that infringes on the rights of any other party, provided that the conduct of Franchisee with respect to such

proceeding and use of the Intellectual Property is in full compliance with the terms of this Agreement.

14.9 Franchisor may use and grant franchises and licenses to others to use the Intellectual Property and the System and to establish, develop and franchise other systems, different from the System licensed to Franchisee herein, without offering or providing Franchisee any rights in, to or under such other systems and Franchisor may modify or change, in whole or in part, any aspect of the Intellectual Property or the System, so long as Franchisee's rights thereto are in no way materially harmed thereby.

14.10 Franchisee shall not register or attempt to register the Intellectual Property in Franchisee's name or that of any other person, firm, entity, or corporation.

## **15. INSURANCE AND INDEMNIFICATION.**

15.1 Procurement. Franchisee shall procure, prior to the commencement of any operations under this Agreement, and thereafter maintain in full force and effect during the term of this Agreement at Franchisee's sole cost and expense and to Franchisor's sole satisfaction, insurance policies protecting Franchisee and Franchisor, and naming Franchisor, its officers, directors, partners, owners, employees and affiliates as additional insureds as their interests may appear, in the following minimum limits (except as additional coverage and higher policy limits may reasonably be specified from time to time in the Manual or otherwise in writing):

15.1.1 Liability. Commercial general liability insurance, including public liability, personal injury, advertising injury, liquor liability (when applicable) and products liability/completed operation coverage in the amount of at least Two Million Dollars (\$2,000,000) per occurrence and at least Two Million Dollars per occurrence and Four Million Dollar (\$4,000,000) general aggregate;

15.1.2 Employment. Worker's compensation coverage in the limits required by state law and employer's liability insurance in the amount of One Hundred Thousand Dollars (\$100,000) per accident shall be carried on all of Franchisee's employees, as well as such other insurance as may be required by statute or rule of the state in which the Franchised Business is located and operated;

15.1.3 Property. Fire, vandalism, and extended coverage insurance for property damage with primary and excess limits of not less than Three Hundred Thousand Dollars (\$300,000) or such higher amount to cover the full replacement value of the leasehold improvements, equipment, furniture, fixtures, inventory, computer systems, and other personal property of the Franchised Business;

15.1.4 Personal Injury Coverage. Require coverage is a minimum of Five Thousand Dollars (\$5,000.00);

15.1.5 Personal and Advertising Injury. Require coverage is a minimum of Two Million Dollars (\$2,000,000.00);

15.1.6 Products Completed Operations. Require coverage is a minimum of Four Million Dollars (\$4,000,000.00) aggregate limit;

15.1.7 Employee Dishonesty. Require coverage is a minimum of Ten Thousand Dollars (\$10,000.00) per one loss;

15.1.8 Cyber Liability Insurance. Required coverage is a minimum of Two Hundred and Fifty Thousand Dollars (\$250,000.00) for all first and third-party data breaches including identity theft, ransomware and data response/crisis management expenses.

15.2 Evidence of Insurance. Franchisee shall deliver to, and maintain at all times with Franchisor, current Certificates of Insurance evidencing the existence and continuation of the required coverages. Franchisee shall deliver the initial Certificate of Insurance no later than ten (10) days before Franchisee opens the Franchised Business. In addition, if requested by Franchisor, Franchisee shall deliver to Franchisor a copy of the insurance policy or policies required hereunder.

15.3 Failure to Procure. If, for any reason, Franchisee should fail to procure or maintain the insurance required by this Agreement as revised from time to time for all franchisees by the Manual or otherwise in writing, Franchisor shall have the right and authority (without, however, any obligation) to immediately procure such insurance and to charge Franchisee for the cost thereof together with a reasonable fee for Franchisor's expenses in so acting, including all attorneys' fees. Franchisee shall pay Franchisor immediately upon notice by Franchisor to Franchisee that Franchisor has undertaken such action and the cost thereof.

15.4 Increase in Coverage. The levels and types of insurance stated herein are minimum requirements. Franchisor reserves the right to raise the required minimum requirements for any type of insurance or add additional types of insurance requirements as Franchisor deems reasonably prudent to require. Within thirty (30) days of any such required new limits or types of coverage, Franchisee must submit proof to Franchisor of Franchisee's coverage pursuant to Franchisor's requirements.

15.5 Additional Insured. All required insurance policies shall name Franchisor and their affiliates and their members, officers, agents, and employees as additional insureds as their interests may appear. All public liability policies shall contain a provision that the additional insureds, although named as insureds, shall nevertheless be entitled to recover under such policies on any loss caused by Franchisee or Franchisee's servants, agents, or employees.

15.6 Indemnification. TO THE FULLEST EXTENT PERMITTED BY LAW, FRANCHISEE AGREES TO EXONERATE AND INDEMNIFY AND HOLD HARMLESS CANDY CLOUD FRANCHISING LLC, CANDY CLOUD LLC, CANDY CLOUD IP LLC AND ANY OF THESE COMPANIES' PARENT COMPANY, SUBSIDIARIES, DIVISIONS, AFFILIATES, SUCCESSORS, ASSIGNS AND DESIGNEES AS WELL AS THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SHAREHOLDERS, SUCCESSORS, DESIGNEES AND REPRESENTATIVES (COLLECTIVELY REFERRED TO AS THE "CANDY CLOUD INDEMNITEES"), FROM ALL CLAIMS BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATED TO THE OPERATION, CONDITION, OR ANY PART OF FRANCHISEE'S CANDY CLOUD® FRANCHISE, THE FRANCHISED BUSINESS, THE PRODUCTS, THE PREMISES, OR ANY ASPECT OF THE REAL ESTATE CONNECTED TO FRANCHISEE'S FRANCHISED BUSINESS, WHETHER CAUSED BY FRANCHISEE, FRANCHISEE'S AGENTS OR EMPLOYEES, OR ARISING FROM FRANCHISEE'S ADVERTISING OR BUSINESS PRACTICES. FRANCHISEE AGREES TO PAY FOR ALL THE CANDY CLOUD INDEMNITEES' LOSSES, EXPENSES (INCLUDING, BUT NOT LIMITED TO ATTORNEYS' FEES) OR CONCURRENT OR CONTRIBUTING LIABILITY INCURRED IN CONNECTION WITH ANY ACTION, SUIT, PROCEEDING, INQUIRY (REGARDLESS OF WHETHER THE SAME IS REDUCED TO JUDGMENT OR DETERMINATION), OR ANY SETTLEMENT THEREOF FOR THE INDEMNIFICATION GRANTED BY

FRANCHISEE HEREUNDER. THE CANDY CLOUD INDEMNITEES SHALL HAVE THE RIGHT TO SELECT AND APPOINT INDEPENDENT COUNSEL TO REPRESENT ANY OF THE CANDY CLOUD INDEMNITEES IN ANY ACTION OR PROCEEDING COVERED BY THIS INDEMNITY. FRANCHISEE AGREES THAT TO HOLD THE CANDY CLOUD INDEMNITEES HARMLESS, FRANCHISEE WILL REIMBURSE THE CANDY CLOUD INDEMNITEES AS THE COSTS AND EXPENSES ARE INCURRED BY THE CANDY CLOUD INDEMNITEES.

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## 16. TRANSFERS.

### 16.1 Transfers by Franchisor.

16.1.1 Franchisor shall have the right to assign this Agreement, and all of Franchisor's rights and privileges hereunder, to any person, firm, corporation, or other entity, without Franchisee's permission or prior knowledge, provided that, with respect to any assignment resulting in the subsequent performance by the assignee of Franchisor's obligations, the assignee shall expressly assume and agree to perform Franchisor's obligations hereunder. Specifically, and without limitation to the foregoing, Franchisee expressly affirms and agrees that Franchisor may: (i) sell Franchisor's assets and Franchisor's rights to the Marks and the System outright to a third party; (ii) engage in a public or private placement of some or all of Franchisor's securities; (iii) merge, acquire other corporations, or be acquired by another corporation, including competitors; (iv) undertake a refinancing, recapitalization, leveraged buy-out or other economic or financial restructuring; and (v) with regard to any or all of the above sales, assignments and dispositions, Franchisee expressly and specifically waives any claims, demands or damages arising from or relating to the loss of association with or identification of Franchisor. Nothing contained in this Agreement shall require Franchisor to remain in the business franchised herein or to offer the same products and services, whether or not bearing the Marks, in the event that Franchisor exercises its prerogative hereunder to assign Franchisor's rights in this Agreement.

16.1.2 Franchisee agrees that Franchisor has the right, now or in the future, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of that chain's or business' facilities, and to operate, franchise or license those businesses and/or facilities operating under the Marks or any other marks following Franchisor's purchase, merger, acquisition or affiliation, regardless of the location of the facilities (which Franchisee acknowledges may be within the Territory, proximate thereto, or proximate to any of Franchisee's locations). However, Franchisor represents that it will not convert any such acquired facilities that are operating within the Territory to a Candy Cloud franchise during the Term of this Agreement.

16.1.3 If Franchisor assigns its rights in this Agreement, nothing herein shall be deemed to require Franchisor to remain in the food and beverage business or to offer or sell any products or services to Franchisee.

16.2 Restrictions on Transfers by Franchisee. Franchisee's rights and duties under this Agreement are personal to Franchisee as it is organized and with the Principal(s) of the business as they exist on the date of execution of this Agreement, and Franchisor has made this Agreement with Franchisee in reliance on Franchisor's perceptions of the individual and collective character, skill, aptitude, attitude, business ability, and financial capacity of Franchisee or Principal(s). Thus, no transfer,

as hereafter defined, may be made without Franchisor's prior written approval. Franchisor may void any transfer made without such approval.

16.3 Transfers by Franchisee. Franchisee shall not directly or indirectly sell, assign, transfer, give, devise, convey or encumber this Agreement or any right or interest herein or hereunder (a "Transfer"), the Franchise, the Franchised Business, or any assets thereof (except in the ordinary course of business) or suffer or permit any such assignment, transfer, or encumbrance to occur by operation of law unless it first obtains the written consent of Franchisor. The transfer of any stock in the Franchisee if it is a corporation or the transfer of any ownership rights in Franchisee if it is a partnership, a limited liability company or limited partnership shall be considered a Transfer restricted hereunder. If Franchisee has complied fully with this Agreement and subject to Franchisor's Right of First Refusal set forth in Section 16.6, Franchisor will not unreasonably withhold its consent of a Transfer that meets the following requirements:

16.3.1 The proposed transferee and all its principals must have the demeanor, and be individuals of good character and otherwise meet Franchisor's then-applicable standards for franchisees.

16.3.2 The transferee must have sufficient business experience, aptitude, and financial resources to operate the Franchised Business and to comply with this Agreement;

16.3.3 The transferee has agreed to complete Franchisor's Initial Training Program to Franchisor's satisfaction;

16.3.4 Franchisee has paid all amounts owed to Franchisor and third-party creditors;

16.3.5 The transferee has executed Franchisor's then-standard form of Franchise Agreement, which may have terms and conditions different from this Agreement, except that the transferee shall not be required to pay the Initial Franchise Fee;

16.3.6 The transferee agrees to renovate, refurbish, remodel, or replace, at the transferee's own cost, the real and personal property and equipment used in operating the Franchised Business within the timeframe specified by Franchisor in order to comply with Franchisor's then current specifications;

16.3.7 Franchisee and the transferee and each of Franchisee's and the transferee's Principals shall have executed a general release under seal, in a form satisfactory to Franchisor, of any and all claims against Franchisor and Franchisor's officers, directors, shareholders, members and employees in their corporate and individual capacities, including, without limitation, claims arising under federal, state, and local laws, rules and ordinances.

16.3.8 Franchisor has granted written approval of the material terms and conditions of the Transfer, including, without limitation, that the price and terms of payment will not adversely affect the Franchised Business's operation. However, Franchisor's approval of a Transfer is not in any way a representation or warranty of the transferee's success or the soundness of transferee's decision to purchase the Franchise on such terms and conditions. Franchisee shall provide Franchisor all proposed transfer documents for Franchisor's review at least thirty (30) days prior to a closing of the proposed Transfer;

16.3.9 If Franchisee or any Principal finances any part of the sale price of the Transfer, Franchisee or its Principal have agreed that all obligations of the transferee under any notes,

agreements or security interests to Franchisee or its Principal will be subordinate to the transferee's obligations to Franchisor; and

16.3.10 If consent is required, the lessor of the Franchised Business's premises consents to the assignment or further sublet of the premises to the transferee.

16.4 Transfer Fee. As a condition to any Transfer, Franchisee shall pay Franchisor a transfer fee equal to fifty percent (50%) of the then-current initial franchise fee; provided however, for transfers of ownership interest among existing System member, the transfer fee shall be twenty percent (20%) of the then-current initial franchise fee. If the Franchisee is transferring shares between the existing owners that have already been approved by the Franchisor or are adding a new shareholder that does not change the majority ownership in the franchisee entity, the transfer fee shall be Two Thousand and Five Hundred Dollars (\$2,500.00).

16.5 Entity Formation Documents. The By-Laws of a corporation or Operating Agreement of a limited liability company of a Franchisee that is an entity must state that (i) the issuance and assignment of any interest in Franchisee are restricted by this Article 16; (ii) Franchisee may conduct no business except the operation of a Franchised Business pursuant to the terms of this Agreement; (iii) transfers of interests in Franchisee are subject to the terms of this Agreement governing transfers; and (iv) stock or member certificates will contain a legend so indicating.

16.6 Franchisor's Right of First Refusal.

16.6.1 If Franchisee wishes to transfer all or part of its interest in the Franchised Business or this Agreement or if a Principal wishes to transfer any ownership interest in Franchisee, pursuant to any bona fide offer to purchase such interest, then Franchisee or such Principal shall promptly notify Franchisor in writing of each such offer, and shall provide such information and documentation relating to the offer as Franchisor may require.

16.6.2 Franchisor has the right, exercisable by written notice to Franchisee within thirty (30) days after receipt of written notification and copies of all documentation required by Franchisor describing such offer, to buy the interest in this Agreement and the Franchised Business or the Principal's interest in Franchisee for the price and on the terms and conditions contained in the offer, subject to Section 16.6.3.

16.6.3 Franchisee further agrees, in the event Franchisor exercises its right of first refusal, notwithstanding anything to the contrary contained in the offer, that (i) Franchisor may substitute cash for any other form of consideration contained in the offer; (ii) at Franchisor's option, Franchisor may pay the entire purchase price at closing; (iii) Franchisor's credit will be deemed equal to the credit of any proposed transferee; (vi) Franchisor will have at least sixty (60) days to close the purchase; and (v) Franchisor will be entitled to receive from the Franchisee all customary representations and warranties given by a seller of the assets of a business or equity interest in an entity, as applicable.

16.6.4 If Franchisor does not exercise its right to buy within thirty (30) days, Franchisee may thereafter transfer the interest to the transferee on terms no more favorable than those disclosed to Franchisor, provided that such transfer is subject to Franchisor's prior written approval pursuant to Section 16.3 hereof. However, if (i) the sale to the transferee is not completed within one hundred twenty (120) days after the offer is given to Franchisor or (ii) there is any material change in the terms of the offer, the offer will again be subject to Franchisor's right of first refusal.

- 16.7 Death or Permanent Disability. The grant of rights under this Agreement is personal to Franchisee, and on the death or permanent disability of Franchisee or any of Franchisee's Principals, the executor, administrator, conservator or other personal representative of Franchisee or Principal, as the case may be, shall be required to transfer Franchisee's or Principal's interest in this Agreement within six (6) months from the date of death or permanent disability to a third party approved by Franchisor. Failure to transfer in accordance with the forgoing will constitute a material default and the Franchise granted by this Agreement will terminate. A transfer under this Section 16.7, including without limitation, transfer by devise or inheritance, is subject to the conditions for Transfers in this Article 16 and unless transferred by gift, devise, or inheritance, subject to the terms of Section 16.6 above. For purposes of this Agreement, the term "permanent disability" means a mental or physical disability, impairment or condition that is reasonably expected to prevent or actually does prevent such person from providing continuous and material supervision of the operation of Franchisee's Franchised Business during the six (6)-month period from its onset.

Immediately after the death or permanent disability of such person, or while the Franchise is owned by an executor, administrator, guardian, personal representative or trustee of that person, the Franchised Business shall be supervised by an interim successor manager satisfactory to Franchisor, or Franchisor, in its sole discretion, may provide interim management at a fee equal to Five Hundred Dollars (\$500.00) per representative per day plus reimbursement any Franchisor's expenses during Franchisor's operation thereof, plus any and all costs of travel, lodging, meals and other expenses reasonably incurred by Franchisor, pending transfer of the Franchise to the deceased or disabled individual's lawful heirs or successors.

- 16.8 Effect of Consent to Transfer. Franchisor's consent to a Transfer will not waive any claims Franchisor may have against the Franchisee or any Franchisee's Principals nor waive its right to demand that the transferee comply strictly with this Agreement.
- 16.9 Security Interests to Lender. If Franchisee is in full compliance with this Agreement, Franchisee may pledge or give a security interest in Franchisee's interest in the Assets and the Franchised Business to a lender of the funds needed by Franchisee for Franchisee's initial investment, provided that the security interest is subordinate to Franchisee's obligations to Franchisor, that a foreclosure on such a pledge or security interest and/or any Transfer resulting from such a foreclosure shall be subject to all provisions of this Agreement, and that Franchisee obtains from the lender a written acknowledgement to Franchisor of these restrictions. Notwithstanding the foregoing, in the event Franchisee obtains financing whereby funding is provided with the assistance of the United States Small Business Administration ("SBA Financing"), Franchisee shall be permitted to grant the lender of such SBA Financing a senior lien on any Uniform Commercial Code collateral Franchisee uses to secure the SBA Financing, and Franchisor agrees to (i) subordinate its interest in any lien on Franchisee's Uniform Commercial Code collateral to that of the lender of the SBA Financing and (ii) waive the requirement of the written acknowledgement referenced in this Section.

## 17. DEFAULTS.

- 17.1 Default and Automatic Termination. Franchisee shall be deemed to be in material default under this Agreement, and all rights granted herein shall automatically terminate without notice to Franchisee, if Franchisee shall become insolvent or makes a general assignment for the benefit of creditors; or if Franchisee files a voluntary petition under any section or chapter of federal bankruptcy law or under any similar law or statute of the United States or any state thereof, or admits in writing its inability to pay its debts when due; or if Franchisee is adjudicated a bankrupt or insolvent in proceedings filed against Franchisee under any section or chapter of federal

bankruptcy laws or under any similar law or statute of the United States or any state; or if a bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is filed and consented to by Franchisee; or if a receiver or other custodian (permanent or temporary) of Franchisee's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; or if proceedings for a composition with creditors under any state or federal law should be instituted by or against Franchisee; or if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); or if Franchisee is dissolved; or if execution is levied against Franchisee's business or property; or if suit to foreclose any lien or mortgage against the Franchised Business premises or equipment is instituted against Franchisee and not dismissed within thirty (30) days.

17.2 Defaults with No Opportunity to Cure. Franchisee shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, without affording Franchisee any opportunity to cure the default, effective immediately upon notice to Franchisee, if Franchisee, or any Principal, as the case may be:

- 17.2.1 has misrepresented or omitted material facts in applying for the Franchise;
- 17.2.2 fails to acquire a site for the Franchised Business, complete construction of the Franchised Business, obtain all licenses and permits before opening, or open the Franchised Business within the time and in the manner specified in Article 8.
- 17.2.3 falsifies any report required to be furnished Franchisor hereunder;
- 17.2.4 ceases to operate the Franchised Business for a period of five (5) days or more; provided, however, that this provision shall not apply if through no fault of Franchisee, the premises are damaged or destroyed by a casualty and Franchisee applies within thirty (30) days after such event, for Franchisor's approval to relocate or reconstruct the premises (which approval shall not be unreasonably withheld) and Franchisee diligently pursues such reconstruction or relocation.
- 17.2.5 loses for any cause whatsoever the right of possession of the real property on which the Franchised Business is located; provided, however, that this provision shall not apply if through no fault of Franchisee, Franchisee loses right of possession and Franchisee applies within thirty (30) days after such event, for Franchisor's approval to relocate the Franchised Business (which approval shall not be unreasonably withheld) and Franchisee diligently pursues such relocation in accordance with Section 8.4.
- 17.2.6 fails to restore the Franchised Business location to full operation within a reasonable period time but not more than one hundred twenty (120) days from the date the Franchised Business location is rendered inoperable by any casualty, as may be extended by Franchisor in Franchisor's reasonable discretion;
- 17.2.7 fails to comply with any federal, state, or local law, rule or regulation, applicable to the operation of the Franchised Business, including, but not limited to, the failure to pay taxes;
- 17.2.8 defaults under any lease or sublease of the real property on which the Franchised Business is located;
- 17.2.9 understates Gross Revenue on two (2) occasions or more, whether or not cured on any or all of those occasions;

- 17.2.10 fails to comply with the covenants in Article 15;
  - 17.2.11 permits a Transfer in violation of the provisions of Article 16 of this Agreement;
  - 17.2.12 fails, or Franchisee's legal representative fails, to transfer the interests in this Franchise Agreement and the Franchised Business upon death or permanent disability of Franchisee or any Principal of Franchisee as required by Section 16.7.
  - 17.2.13 is convicted of, or pleads no contest to, a felony or to a crime that could damage the goodwill associated with the Marks or engages in any other conduct that may harm the reputation of the System or the goodwill associated with the Marks;
  - 17.2.14 receives an adverse judgment or a consent decree in any case or proceeding involving allegations of fraud, racketeering, unfair or improper trade practices or similar claim which is likely to have an adverse effect on the System, or the Marks, the goodwill associated therewith or Franchisor's interest therein, in Franchisor's sole opinion;
  - 17.2.15 conceals revenues, knowingly maintains false books or records, or knowingly submits any false reports;
  - 17.2.16 creates a threat or danger to public health or safety from the construction, maintenance, or operation of the Franchised Business;
  - 17.2.17 refuses to permit Franchisor to inspect or audit Franchisee's books or records;
  - 17.2.18 makes any unauthorized use of the Marks or copyrighted material or any unauthorized use or disclosure of Confidential Information (as defined in Section 19.2);
  - 17.2.19 fails to comply with the non-competition covenants in Section 19.5;
  - 17.2.20 defaults in the performance of Franchisee's obligations under this Agreement three (3) or more times during the term of this Agreement or has been given at least two (2) notices of default in any consecutive twelve (12)-month period, whether or not the defaults have been corrected;
  - 17.2.21 has insufficient funds to honor a check or electronic funds transfer two (2) or more times within any consecutive twelve (12)-month period;
  - 17.2.22 defaults, or an affiliate of Franchisee defaults, under any other agreement, including any other franchise agreement, with Franchisor or any of its affiliates, or with Franchisee's suppliers or landlord and does not cure such default within the time period provided in such other agreement; or
  - 17.2.23 terminates this Agreement without cause.
- 17.3 Curable Defaults. Franchisee shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, if Franchisee fails to cure the default within the time period set forth in this Section 17.3, effective immediately upon notice to Franchisee, if Franchisee, or any Principal, as the case may be:

- 17.3.1 fails to pay when due any amounts due to Franchisor under this Agreement or any related agreement and does not correct the failure within five (5) days after written notice; provided, however, Franchisor has no obligation to give written notice of a late payment more than two (2) times in any twelve (12)-month period, and the third such late payment in any twelve (12)-month period shall be a non-curable default under Sections 17.2.20 and/or 17.2.21;
- 17.3.2 fails to perform any non-monetary obligation imposed by this Agreement (excepting those defaults of obligations set forth in Sections 17.1 and 17.2 for which there is no opportunity to cure) and such default shall continue for five (5) days after Franchisor has given written notice of such default, or if the default cannot be reasonably corrected within said five (5)-day period, then if it is not corrected within such additional time as may be reasonably required assuming Franchisee proceeds diligently to cure; provided, however, Franchisor has no obligation to give written notice of a non-monetary default more than two (2) times in any twelve (12)-month period, and the third such default, whether monetary or non-monetary, in any twelve (12) – month period shall be a non-curable default under Section 17.2.20.
- 17.4 Franchisor's Cure of Franchisee's Defaults. In the event of a default by Franchisee, in addition to Franchisor's right to terminate the Franchise Agreement, and not in lieu thereof, Franchisor may, but has no obligation to:
- 17.4.1 effect a cure on Franchisee's behalf and at Franchisee's expense, and Franchisee shall immediately pay Franchisor the costs incurred by Franchisor upon demand; or
- 17.4.2 enter upon the Franchised Business location and exercise complete authority with respect to the operation thereof until such time as Franchisor determines that the default of Franchisee has been cured and that Franchisee is complying with the requirements of this Agreement. Franchisee specifically agrees that a designated representative of Franchisor may take over, control, and operate the Franchised Business. In addition to all other fees paid under this Agreement, Franchisee shall pay Franchisor twenty percent (20%) of the Gross Revenue generated by the Franchised Business during Franchisor's operation thereof as compensation therefor. Further, Franchisee shall reimburse Franchisor for the full compensation paid to such representative including the cost of all fringe benefits plus all travel expenses, lodging, meals, and other expenses reasonably incurred by such representative until the default has been cured and Franchisee is complying with the terms of this Agreement.
- 17.5 Notice to Suppliers. In the event of a default by Franchisee, in addition to Franchisor's right to terminate the Franchise Agreement, and not in lieu thereof, Franchisor reserves the right with five (5) days' prior written notice to Franchisee to direct suppliers to stop furnishing any and all products and supplies until such time as Franchisee's default is cured. In no event shall Franchisee have recourse against Franchisor for loss of revenue, customer goodwill, profits or other business arising from Franchisor's actions and the actions of suppliers.

## 18. POST-TERMINATION.

- 18.1 Franchisee's Obligations. Upon termination or expiration of this Agreement, all rights and licenses granted hereunder to Franchisee shall immediately terminate and Franchisee and each Principal, if any, shall:

- 18.1.1 immediately cease to operate the Franchised Business, and shall not thereafter, directly or indirectly identify himself, herself or itself as a current Candy Cloud<sup>®</sup> owner, franchisee or licensee;
- 18.1.2 immediately and permanently cease to use the Marks, any imitation of any Mark, Franchisor's designs, copyrighted material, or other intellectual property, confidential or proprietary material or indicia of the Franchised Business, or use any trade name, trade or service mark or other commercial symbol that suggests an association with Franchisor, Licensor, or the System. In particular, Franchisee shall cease to use, without limitation, all signs, billboards, advertising materials, displays, stationery, forms, and any other articles, which display the Marks;
- 18.1.3 take such action as may be necessary to cancel any assumed name or equivalent registration that contains the Mark or any other service mark or trademark of Franchisor, and Franchisee shall furnish Franchisor with evidence of compliance with this obligation which are satisfactory to Franchisor, within five (5) days after termination or expiration of this Agreement;
- 18.1.4 promptly pay all sums owing to Franchisor and its affiliates. Such sums shall include all damages, costs, and expenses, including reasonable attorneys' fees, incurred by Franchisor as a result of any default by Franchisee. The payment obligation herein shall give rise to and remain, until paid in full, a lien in favor of Franchisor against any and all of the personal property, furnishings, equipment, fixtures, and inventory owned by Franchisee and located at the Franchised Business location at the time of default;
- 18.1.5 pay to Franchisor all damages for any breach or early termination of this Agreement, plus costs, and expenses, including reasonable attorneys' fees, incurred by Franchisor in connection with obtaining any remedy available to Franchisor and, subsequent to the termination or expiration of this Agreement, in obtaining injunctive or other relief for the enforcement of any provisions of this Agreement that survive its termination;
- 18.1.6 immediately deliver at Franchisee's sole cost and expense, to Franchisor the Manual and all records, files, instructions, correspondence, invoices, agreements, advertising material, all confidential, proprietary and copyrighted material and all other materials related to operation of the Franchised Business, including but not limited to customer lists and records, (all of which are acknowledged to be Franchisor's property), delete all electronic copies and retain no copy or record of any of the foregoing, except Franchisee's copy of this Agreement and of any correspondence between the parties and any other documents that Franchisee reasonably needs for compliance with any provision of law;
- 18.1.7 comply with the non-disclosure and non-competition covenants contained in Article 19; and
- 18.1.8 in the event this Agreement is terminated due to Franchisee's default, pay Franchisor a lump sum payment (as liquidated damages and not as a penalty) in an amount equal to: (a) the average weekly Royalty Fee payable by Franchisee over the fifty two (52) week period immediately prior to the date of termination (or such shorter time period if the Franchised Business has been open less than fifty two (52) weeks; (b) multiplied by the lesser of (i) one hundred and four (104) weeks or (ii) the number of weeks then remaining in the then-current term of this Agreement. Franchisee acknowledges that a precise calculation of the full extent of the damages Franchisor will incur in the event of termination of this Agreement as a result of Franchisee's default is difficult to determine and that this lump sum payment is reasonable in light thereof. The liquidated damages payable by Franchisee pursuant to this Section 18.1.8 shall be in addition to all other amounts payable under this Agreement and shall not affect Franchisor's right to obtain appropriate injunctive relief and remedies pursuant to any other provision of this Agreement.

## 18.2 Right to Purchase.

18.2.1 Franchisor shall have the option, to be exercised within thirty (30) days after termination or expiration of this Agreement, to purchase from Franchisee any or all of the furnishings, equipment (including any point-of-sale system, computer systems), signs, fixtures, advertising materials, supplies, and inventory of Franchisee related to the operation of the Franchised Business, at Franchisee's cost or fair market value, whichever is less. Franchisor shall purchase Franchisee's assets free and clear of any liens, charges, encumbrances or security interests and Franchisor shall assume no liabilities whatsoever, unless otherwise agreed to in writing by the parties. If the parties cannot agree on the fair market value within thirty (30) days of Franchisor's exercise of its option, fair market value shall be determined by two (2) appraisers, with each party selecting one (1) appraiser, and the average of their determinations shall be binding. In the event of such appraisal, each party shall bear its own legal and other costs and shall split the appraisal fees equally. If Franchisor elects to exercise its option to purchase herein provided, it shall have the right to set off (i) all fees for any such independent appraiser due from Franchisee, (ii) all amounts due from Franchisee to Franchisor or any of its affiliates and (iii) any costs incurred in connection with any escrow arrangement (including reasonable legal fees), against any payment therefor and shall pay the remaining amount in cash. Closing of the purchase shall take place no later than thirty (30) days after determination of the fair market value.

18.2.2 With respect to the options described in Sections 18.2.1, Franchisee shall deliver to Franchisor in a form satisfactory to Franchisor, such warranties, releases of lien, bills of sale, assignments and such other documents and instruments that Franchisor deems necessary in order to perfect Franchisor's title and possession in and to the assets being purchased or assigned and to meet the requirements of all tax and government authorities. If, at the time of closing, Franchisee has not obtained all of these certificates and other documents, Franchisor may, in its sole discretion, place the purchase price in escrow pending issuance of any required certificates or documents.

18.2.3 Franchisor shall be entitled to assign any and all of its option in Section 18.2.1 to any other party, without the consent of Franchisee.

18.3 Assignment of Communications. Franchisee, at the option of Franchisor, shall assign to Franchisor all rights to the telephone numbers of the Franchised Business and any related public directory listing or other business listings and execute all forms and documents required by Franchisor and any telephone company at any time, to transfer such service and numbers to Franchisor. Further, Franchisee shall assign to Franchisor any and all social media accounts and internet listings, domain names, internet advertising, websites, listings with search engines, electronic mail addresses or any other similar listing or usage related to the Franchised Business. Notwithstanding any forms and documents that may have been executed by Franchisee under Section 11.6, Franchisee shall provide Franchisor with all passwords and administrative rights, and hereby appoints Franchisor its true and lawful agent and attorney-in-fact with full power and authority, for the sole purpose of taking such action as is necessary to complete such assignment. This power of attorney shall survive the expiration or termination of this Agreement. Franchisee shall thereafter use different telephone numbers, social media accounts, electronic mail addresses or other listings or usages at or in connection with any subsequent business conducted by Franchisee.

18.4 Survival. The rights and obligations of the parties contained in this Article 18 shall survive the expiration or sooner termination of this Agreement.

## **19. NON-DISCLOSURE AND NON-COMPETITION COVENANTS.**

### **19.1 Operations Manual.**

- 19.1.1 Franchisor has provided to Franchisee, on loan, a current copy of the Manual. The Manual may be in hard copy or made available to Franchisee in digital, electronic, or computerized form or in some other form now existing or hereafter developed that would allow Franchisee to view the contents thereof. If the Manual (or any changes thereto) are provided in a form other than physical copy, Franchisee shall pay any and all costs to retrieve, review, use or access the Manual. To protect the reputation and goodwill of Franchisor and to maintain high standards of operation under Franchisor's Marks, Franchisee shall operate all aspects of the Franchised Business in accordance with the Manual, as they may from time to time be modified by Franchisor, other written directives that Franchisor may issue to Franchisee from time to time, whether or not such directives are included in the Manual, and any other manual and materials created or approved for use in the operation of the Franchised Business.
- 19.1.2 Franchisee and Principal(s) shall at all times treat the Manual, written directives, and other materials and any other confidential communications or materials, and the information contained therein, as confidential and shall maintain such information as trade secret and confidential in accordance with this Article and this Agreement. Franchisee and Principal(s), if any, shall not divulge and make such materials available to anyone other than those of Franchisee's employees who require the information contained therein to operate the Franchised Business. Franchisee shall, prior to disclosure, fully train and inform its employees on all the restrictions, terms, and conditions under which it is permitted to use Franchisor's intellectual, proprietary, and confidential information; and shall ensure its employees' compliance with such restrictions, terms and conditions. Franchisee, Principal(s), and any person working with Franchisee shall agree not, at any time to use, copy, duplicate, record or otherwise reproduce these materials, in whole or in part, or otherwise make the same available to any person other than those authorized above, without Franchisor's prior written consent.
- 19.1.3 The Manual, written directives, and other materials and any other confidential communications provided or approved by Franchisor shall at all times remain the sole property of Franchisor. Franchisee shall maintain the Manual and all Franchisor's confidential and proprietary materials at all times in a safe and secure location, shall take all reasonable measures to prevent unauthorized access thereto, whether any attempted unauthorized access takes the form of physical access or access via computer or telecommunications networks or otherwise, and shall report the theft or loss of the Manual, or any portion thereof, immediately to Franchisor. At a minimum, Franchisee shall, in the case of computer and telecommunications networks, use the latest available firewall, encryption and similar technology to prevent unauthorized access. Franchisee shall delete all electronic copies, and return and cease using any physical copy of the Manual and other confidential and proprietary materials to Franchisor immediately upon request or upon transfer, termination or expiration of this Agreement.
- 19.1.4 Franchisor may from time to time revise the contents of the Manual and other materials created or approved for use in the operation of the Franchised Business. Franchisee expressly agrees to comply with each new or changed policy, standard or directive. In the

event of any dispute as to the contents of the Manual, the terms of the master copy of the Manual maintained by Franchisor shall control.

19.1.5 If Franchisee loses, misplaces, or otherwise requests a physical copy of the Manual, Franchisor, in its discretion, may provide such physical copy and Franchisee shall pay Franchisor the then-current replacement fee. The replacement fee as of the date of this Agreement is One Hundred Dollars (\$100.00).

19.2 Confidential Information. Franchisee and Principal(s) acknowledge and accept that during the term of this Agreement, Franchisee and any Principal will have access to Franchisor's trade secrets, including, but not limited to, formulas, recipes, methods, processes, customer lists, vendor partnerships and/or relationships, sales and technical information, financial information, costs, product prices and names, software tools and applications, website and/or email design, products, services, equipment, technologies and procedures relating to the operation of the Franchised Business; the Manual; methods of advertising and promotion; instructional materials; any other information which Franchisor may or may not specifically designate as "confidential" or "proprietary"; and the components of the System, whether or not such information is protected or protectable by patent, copyright, trade secret or other proprietary rights (collectively referred to herein as the "Confidential Information"). Neither Franchisee nor any Principal shall, during the term of this Agreement and thereafter, communicate or divulge to, or use for the benefit of, any other person or entity, and, following the expiration or termination of this Agreement, shall not use for their own benefit, any Confidential Information that may be communicated to Franchisee or any Principal or of which Franchisee or any Principal may be apprised in connection with the operation of the Franchised Business under the terms of this Agreement. Franchisee and any Principal shall not divulge and make any Confidential Information available to anyone other than those of Franchisee's employees who require the Confidential Information to operate the Franchised Business and who have themselves entered into confidentiality and non-compete agreements containing the same provisions as contained in this Agreement, in accordance with Section 19.10 hereof. Franchisee and any Principal shall not at any time copy, duplicate, record or otherwise reproduce any Confidential Information, in whole or in part, or otherwise make the same available to any person other than those authorized above, without Franchisor's prior written consent. The covenant in this Section 19.2 shall survive the expiration, termination or transfer of this Agreement or any interest herein and shall be perpetually binding upon Franchisee and each Principal.

19.3 Protection of Information. Franchisee shall take all steps necessary, at Franchisee's own expense, to protect the Confidential Information and shall immediately notify Franchisor if Franchisee finds that any Confidential Information has been divulged in violation of this Agreement.

19.4 New Concepts. If Franchisee or any Principal develops any new concept, process, product, recipe, design, or improvement in the operation or promotion of the Franchised Business ("Improvements"), Franchisee is required to promptly notify Franchisor and provide Franchisor with all related information, processes, products, design or other improvements, and sign any and all forms, documents and/or papers necessary for Franchisor to obtain full proprietary rights to such Improvements, without compensation and without any claim of ownership or proprietary rights to such Improvements. Franchisee and any Principal acknowledge that any such Improvements will become the property of Franchisor, and Franchisor may use or disclose such information to other franchisees as it determines to be appropriate.

19.5 Noncompetition Covenants. Franchisee and Principal(s) specifically acknowledge that, pursuant to this Agreement, Franchisee and Principal(s) will receive valuable training, trade secrets and Confidential Information of the System that are beyond the present knowledge, training and

experience of Franchisee and Principal(s). Franchisee and Principal(s) acknowledge that such specialized training, trade secrets and Confidential Information provide a competitive advantage and will be valuable to them in the development and operation of the Franchised Business, and that gaining access to such specialized training, trade secrets and Confidential Information is, therefore, a primary reason why Franchisee and Principal(s) are entering into this Agreement. In consideration for such specialized training, trade secrets, Confidential Information and rights, Franchisee and Principal(s) covenant that, except as otherwise approved in writing by Franchisor:

- 19.5.1 During the term of this Agreement, Franchisee and Principal(s) shall not, either directly or indirectly, for themselves or through, on behalf of, or in conjunction with, any person or entity (i) divert, or attempt to divert, any business or customer of the Franchised Business or of other franchisees in the System to any competitor, by direct or indirect inducement or otherwise; (ii) participate as an owner, partner, director, officer, employee, consultant or agent or serve in any other capacity in any restaurant or eatery business similar to the System ("Competitive Business"); or (iii) do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System; or (iv) in any manner interfere with, disturb, disrupt, decrease or otherwise jeopardize the business of the Franchisor or any Candy Cloud<sup>®</sup> franchisees or Franchisor-affiliated outlets.
- 19.5.2 Upon the expiration or earlier termination of this Agreement or upon a Transfer and continuing for twenty-four (24) months thereafter, Franchisee and Principals, if any, shall not, either directly or indirectly, for themselves or through, on behalf of or in conjunction with any person or entity (i) divert, or attempt to divert, any business or customer of the Franchised Business or of other franchisees in the System to any competitor, by direct or indirect inducement or otherwise; or (ii) participate as an owner, partner, director, officer, employee, consultant or agent or serve in any other capacity in any Competitive Business within twenty-five (25) miles of the Territory or any Candy Cloud<sup>®</sup> location; or (iii) do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System; or (iv) in any manner interfere with, disturb, disrupt, decrease or otherwise jeopardize the business of the Franchisor or any Candy Cloud<sup>®</sup> franchisees.
- 19.6 Reasonableness of Restrictions. Franchisee and Principal(s) acknowledge and agree that the covenants not to compete set forth in this Agreement are fair and reasonable and will not impose any undue hardship on Franchisee or Principal(s), since Franchisee or Principal(s), as the case may be, have other considerable skills, experience and education which afford Franchisee or Principal(s), as the case may be, the opportunity to derive income from other endeavors.
- 19.7 Reduction of Time or Scope. If the period of time or the geographic scope specified above, should be adjudged unreasonable in any proceeding, then the period of time will be reduced by such number of months or the geographic scope will be reduced by the elimination of such portion thereof, or both, so that such restrictions may be enforced for such time and scope as are adjudged to be reasonable. In addition, Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Paragraph 19 or any portion thereof, without Franchisee's consent, effective immediately upon receipt by Franchisee of written notice thereof, and Franchisee agrees to forthwith comply with any covenant as so modified.
- 19.8. Injunctive Relief. Franchisee and Principal(s) acknowledge that a violation of the covenants not to compete contained in this Agreement would result in immediate and irreparable injury to Franchisor for which no adequate remedy at law will be available. Accordingly, Franchisee and Principal(s) hereby consent to the entry of an injunction prohibiting any conduct by Franchisee

or any Principal in violation of the terms of the covenants not to compete set forth in this Agreement.

19.9. No Defense. Franchisee and Principal(s) expressly agree that the existence of any claims they may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Section.

19.10 Covenants of Employees, Agents and Third Persons. Franchisee shall require and obtain execution of covenants similar to those set forth in this Section (including covenants applicable upon the termination of a person's employment with Franchisee) from all employees, contractors or third persons who will have access to Franchisor's confidential and proprietary information, and Franchisee shall provide Franchisor with executed versions thereof. Such covenants shall be substantially in the form set forth in Attachment 7 as revised and updated from time to time and contained in the Manual. Franchisee shall indemnify and hold Franchisor harmless from any and all liability, loss, attorneys' fees, or damage Franchisor may suffer as a result of Franchisee's failure to obtain executed restricted covenants by employees, agents and third persons as required by this Section.

## **20. DISPUTE RESOLUTION.**

20.1 Internal Dispute Resolution. Franchisee shall first bring any claim, controversy or dispute arising out of or relating to this Agreement, the Attachments hereto or the relationship created by this Agreement to Franchisor's president and/or chief executive officer for resolution by providing notice as set forth in Section 21.7 below. Franchisee must exhaust this internal dispute resolution procedure before Franchisee may bring Franchisee's dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Agreement.

20.2 Mediation. At Franchisor's option, any claim, controversy, or dispute that is not resolved pursuant to Section 20.1 hereof shall be submitted to non-binding mediation. Franchisee shall provide Franchisor with written notice of Franchisee's intent to pursue any unresolved claim, controversy, or dispute, specifying in sufficient detail the nature thereof, prior to commencing any legal action. Franchisor shall have thirty (30) days following receipt of Franchisee's notice to exercise Franchisor's option to submit such claim, controversy, or dispute to mediation. Mediation shall be conducted through a mediator or mediators in accordance with the American Arbitration Association Commercial Mediation Rules. Such mediation shall take place in the then-current location of Franchisor's corporate headquarters. The costs and expenses of mediation, including compensation and expenses of the mediator (and except for the attorneys' fees incurred by either party), shall be borne by the parties equally. Franchisor may specifically enforce Franchisor's rights to mediation, as set forth herein.

20.3 Arbitration.

20.3.1 Except disputes not subject to alternative dispute resolution as set forth in Section 20.4, any dispute between Franchisor and Franchisee and/or any Principal arising out of or relating to this Agreement, the Exhibits hereto or any breach thereof, including any claim that this Agreement or any of its parts, is invalid, illegal or otherwise voidable or void, which has not been resolved in accordance with Sections 20.1 or 20.2, will be resolved by submission to the American Arbitration Association or its successor organization to be settled by a single arbitrator in accordance with the Commercial Arbitration Rules then in effect for such Association or successor organization.

- 20.3.2 All issues relating to arbitrability or the enforcement of the agreement to arbitrate contained in this Article 20 will be governed by the Federal Arbitration Act (9 U.S.C. §1 *et seq.*) and the federal common law of arbitration. All hearings and other proceedings will take place in Winnebago County, Illinois, or the offices of the American Arbitration Association, or, if Franchisor so elects, in the county where the principal place of business of Franchisee is then located.
- 20.3.3 This arbitration provision is self-executing and will remain in full force and effect after expiration or termination of this Agreement. Any arbitration will be conducted on an individual, and not a class-wide or multiple plaintiffs, basis. If either party fails to appear at any properly noticed arbitration proceeding, an award may be entered against the party by default or otherwise, notwithstanding the failure to appear. Judgment upon an arbitration award may be entered in any court having jurisdiction and will be binding, final and not subject to appeal. No punitive or exemplary damages will be awarded against Franchisor, Franchisee, or entities related to either of them, in an arbitration proceeding or otherwise, and are hereby waived.
- 20.3.4 The provisions of this Section 20.3 are independent of any other covenant or provision of this Agreement; provided, however, that if a court of competent jurisdiction determines that any of the provisions are unlawful in any way, the court will modify or interpret the provisions to the minimum extent necessary to have them comply with the law.
- 20.3.5 In proceeding with arbitration and in making determinations hereunder, no arbitrator shall extend, modify, or suspend any terms of this Agreement or the reasonable standards of business performance and operation established by Franchisor in good faith. No notice, request or demand for arbitration shall stay, postpone, or rescind the effectiveness of any termination of this Agreement.
- 20.3.6 Except as expressly required by law, Franchisor, Franchisee and any Principal shall keep all aspects of any mediation and/or arbitration proceeding in confidence, and shall not disclose any information about the proceeding to any third party other than legal counsel who shall be required to maintain the confidentiality of such information.
- 20.4 Exceptions. Notwithstanding the requirements of Sections 20.2 or 20.3, the following claims shall not be subject to mediation or arbitration:
- 20.4.1 Franchisor's claims for injunctive or other extraordinary relief;
- 20.4.2 disputes and controversies arising from the Sherman Act, the Clayton Act or any other federal or state antitrust law;
- 20.4.3 disputes and controversies based upon or arising under the Lanham Act, as now or hereafter amended, relating to the ownership or validity of the Marks;
- 20.4.4 disputes and controversies relating to actions to obtain possession of the premises of the Franchised Business; and
- 20.4.5 enforcement of Franchisee's post-termination obligations, including but not limited to, Franchisee's non-competition covenants.
- 20.5 Governing Law and Venue. This Agreement is made in, and shall be substantially performed, in the State of Illinois. Any claims, controversies, disputes, or actions arising out of this Agreement

shall be governed, enforced, and interpreted pursuant to the laws of the State of Illinois. Franchisee and Principal(s), except where specifically prohibited by law, hereby irrevocably submit themselves to the sole and exclusive jurisdiction of the state and federal courts in Illinois. Franchisee and Principal(s), hereby waive all questions of personal jurisdiction for the purpose of carrying out this provision.

- 20.6 Mutual Benefit. Franchisee, Principal(s) and Franchisor acknowledge that the parties' agreement regarding applicable state law and forum set forth in Section 20.5 provide each of the parties with the mutual benefit of uniform interpretation of this Agreement and any dispute arising hereunder. Each of Franchisee, Principal(s), and Franchisor further acknowledge the receipt and sufficiency of mutual consideration for such benefit and that each party's agreement regarding applicable state law and choice of forum have been negotiated in good faith and are part of the benefit of the bargain reflected by this Agreement.
- 20.7 Waiver of Jury Trial and Certain Damages. Franchisee and Principal(s) hereby waive, to the fullest extent permitted by law, any right to or claim for (i) a trial by jury in any action, proceeding or counterclaim brought by or against Franchisor, and (ii) any punitive, exemplary, incidental, indirect, special, consequential or other damages (including, without limitation, loss of profits) against Franchisor, its affiliates, and their respective officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees, in their corporate and individual capacities, arising out of any cause whatsoever. Franchisee and Principal(s) agree that in the event of a dispute, Franchisee and Principal(s) shall be limited to the recovery of any actual damages sustained.
- 20.8 Injunctive Relief. Nothing herein contained (including, without limitation, Sections 20.1 through 20.4 above) shall bar Franchisor from the right to obtain immediate injunctive relief from any court of competent jurisdiction against threatened conduct by Franchisee that may cause Franchisor loss or damage, under the usual equity rules, including the applicable rules for obtaining specific performance, restraining orders, and preliminary injunctions.
- 20.9 Limitations of Claims. Any and all claims asserted by Franchisee and Principal(s) arising out of or relating to this Agreement or the relationship among the parties will be barred unless a proceeding for relief is commenced within one (1) year from the date on which Franchisee and Principal(s) knew or should have known of the facts giving rise to such claims.
- 20.10 Attorneys' Fees. In the event of any action in law or equity by and between the parties concerning the operation, enforcement, construction or interpretation of this Agreement, the prevailing party in such action shall be entitled to recover reasonable attorneys' fees and court costs incurred.
- 20.11 Survival. The provisions of this Article 20 shall continue in full force and effect notwithstanding the expiration or termination of this Agreement or a transfer by Franchisee and any Principal of their respective interests in this Agreement.

## **21. GENERAL.**

### **21.1 Relationship of the Parties.**

- 21.1.1 Independent Licensee. Franchisee is and shall be an independent licensee under this Agreement, and no partnership shall exist between Franchisee and Franchisor. This Agreement does not constitute Franchisee as an agent, legal representative, or employee of Franchisor for any purpose whatsoever, and Franchisee is not granted any right or authority to assume or create any obligation for or on behalf of, or in the name of, or in any way to bind Franchisor.

Franchisee agrees not to incur or contract any debt or obligation on behalf of Franchisor or commit any act, make any representation, or advertise in any manner which may adversely affect any right of Franchisor or be detrimental to Franchisor or other franchisees of Franchisor. Franchisor does not assume any liability, and will not be considered liable, for any agreements, representations, or warranties made by Franchisee and Principal(s) which are not expressly authorized under this Agreement. Franchisor will not be obligated for any damages to any person or property which directly or indirectly arise from or relate to Franchisee's operation of the Franchised Business. Pursuant to the above, Franchisee agrees to indemnify Franchisor and hold Franchisor harmless from any and all liability, loss, attorneys' fees, or damage Franchisor may suffer as a result of claims, demands, taxes, costs, or judgments against Franchisor arising out of any allegation of an agent, partner, or employment relationship.

21.1.2 No Relationship. Franchisee acknowledges and agrees that Franchisee alone exercises day-to-day control over all operations, activities, and elements of the Franchised Business, and that under no circumstance shall Franchisor do so or be deemed to do so. Franchisee further acknowledges and agrees, and will never claim otherwise, that the various restrictions, prohibitions, specifications, and procedures of the System which Franchisee is required to comply with under this Agreement, whether set forth in the Manual or otherwise, do not directly or indirectly constitute, suggest, infer or imply that Franchisor controls any aspect or element of the day-to-day operations of the Franchised Business, which Franchisee alone controls, but only constitute standards in which Franchisee must adhere to when exercising control of the day-to-day operations of the Franchised Business.

21.1.3 Franchisee's Employees. Franchisor has no authority to control, either directly or indirectly, the essential terms and conditions of employment of Franchisee's employees. Franchisee acknowledges and agrees that Franchisee, in Franchisee's sole and absolute discretion, shall determine all such essential terms and conditions of employment, which are defined in the Manual. Franchisee specifically and agrees that any training Franchisor provides for Franchisee's employees is geared to impart to those employees, with Franchisee's ultimate authority, the various procedures, protocols, systems, and operations of a Candy Cloud outlet and in no fashion reflects any employment relationship between Franchisor and such employees. If ever it is asserted that Franchisor is the employer, joint employer or co-employer of any of Franchisee's employees in any private or government investigation, action, proceeding, arbitration or other setting, Franchisee irrevocably agree to assist Franchisor in defending said allegation, appearing at any venue requested by Franchisor to testify on Franchisor's behalf participate in depositions, other appearances or preparing affidavits rejecting any assertion that Franchisor is the employer, joint employer or co-employer of any of Franchisee's employees.

21.2 Successors. This Agreement shall bind and inure to the benefit of the successors and assigns of Franchisor and shall be personally binding on and inure to the benefit of Franchisee (including the individuals executing this Agreement on behalf of the Franchisee entity) and its or their respective heirs, executors, administrators and successors or assigns; provided, however, the foregoing provision shall not be construed to allow a transfer of any interest of Franchisee or Principal(s) in this Agreement or the Franchised Business, except in accordance with Article 16 hereof.

- 21.3 Invalidity of Part of Agreement. Should any provisions in this Agreement, for any reason, be declared invalid, then such provision shall be invalid only to the extent of the prohibition without in any way invalidating or altering any other provision of this Agreement.
- 21.4 Entire Agreement. This Agreement, including all attachments, is the entire agreement of the parties, superseding all prior written or oral agreements of the parties concerning the same subject matter, and superseding all prior written or oral representations made to Franchisee, except nothing herein is intended to disclaim the representations made to Franchisee in Franchisor's Franchise Disclosure Document. No agreement of any kind relating to the matters covered by this Agreement and no amendment of the provisions hereof shall be binding upon either party unless and until the same has been made in writing and executed by all interested parties.
- 21.5 Construction. All terms and words used in this Agreement, regardless of the number and gender in which they are used, shall be deemed, and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context or sense of this Agreement or any provision herein may require, as if such words had been fully and properly written in the appropriate number and gender. All covenants, agreements and obligations assumed herein by Franchisee and Principal(s) shall be deemed to be joint and several covenants, agreements, and obligations of each of the persons named as Franchisee, if more than one person is so named.
- 21.6 Captions. Captions and section headings are used herein for convenience only. They are not part of this Agreement and shall not be used in construing it.
- 21.7 Notices. Whenever notice is required or permitted to be given under the terms of this Agreement, it shall be given in writing, and be delivered personally or by certified mail or courier, postage prepaid, addressed to the party for whom intended, and shall be deemed given on the date of delivery or delivery is refused. All such notices shall be addressed to the party to be notified at their respective addresses as set forth in the introductory paragraph of this Agreement, or at such other address or addresses as the parties may from time to time designate in writing.
- 21.8 Effect of Waivers. No waiver, delay, omission, or forbearance on the part of Franchisor to exercise any right, option, duty or power arising from any default or breach by Franchisee shall affect or impair the rights of Franchisor with respect to any subsequent default of the same or of a different kind. Any use by Franchisee of the System or any part thereof at any place other than at the Franchised Business location shall not give Franchisee any rights not specifically granted hereunder. Failure to take action to stop such use shall not in any event be considered a waiver of the rights of Franchisor at any time to require Franchisee to restrict said use to the Franchised Business location.
- 21.9 Remedies Cumulative. All rights and remedies of the parties to this Agreement shall be cumulative and not alternative, in addition to and not exclusive of any other rights or remedies that are provided for herein or that may be available at law or in equity in case of any breach, failure or default or threatened breach, failure or default of any term, provision or condition of this Agreement or any other agreement between Franchisee or any of its affiliates and Franchisor or any of its affiliates. The rights and remedies of the parties to this Agreement shall be continuing and shall not be exhausted by any one or more uses thereof, and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration, earlier termination, or exercise of Franchisor's rights pursuant to Article 17 shall not discharge or release Franchisee or any Principal from any liability or obligation then accrued, or

any liability or obligation continuing beyond, or arising out of, the expiration, the earlier termination, or the exercise of such rights under this Agreement.

- 21.10. Consent to Do Business Electronically. The parties to the Franchise Agreement hereby consent to do business electronically. Pursuant to the Uniform Electronic Transactions Act as adopted by the State of Illinois, the parties hereby affirm to each other that they agree with the terms of the Franchise Agreement and its Addenda, and by attaching their signature electronically to the Franchise Agreement, they are executing the document and intending to attach their electronic signature to it. Furthermore, the parties acknowledge that the other parties to the Franchise Agreement can rely on an electronic signature as the respective party's signature.
- 21.11 Counterparts. This Agreement may be executed in multiple counterparts, each of which when so executed shall be an original, and all of which shall constitute one and the same instrument.
- 21.12 Survival. Any obligation of Franchisee or any Principal that contemplates performance of such obligation after termination or expiration of this Agreement or the transfer of any interest of Franchisee or any Principal therein shall be deemed to survive such termination, expiration or transfer.

The parties hereto have executed this Franchise Agreement on the day and year first above written.

FRANCHISEE (Entity):

\_\_\_\_\_

FRANCHISOR:

CANDY CLOUD FRANCHISING LLC

By:\_\_\_\_\_

Name:\_\_\_\_\_

Title:\_\_\_\_\_

By:\_\_\_\_\_

Name: Alex Edwards

Title: CEO

FRANCHISEE (Principal):

\_\_\_\_\_

Name:\_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_

Name:\_\_\_\_\_

## ATTACHMENT 1

### TRADEMARKS

Marks –

**CANDY CLOUD**



## ATTACHMENT 2

### **TERRITORY DESCRIPTION AND FRANCHISED BUSINESS LOCATION**

(If there is no Approved Location on the Effective Date, insert: \*\*TERRITORY AND ADDRESS TO BE DETERMINED AND INSERTED AFTER A CANDY CLOUD PREMISES IS IDENTIFIED BY FRANCHISEE AND APPROVED BY FRANCHISOR, IN ACCORDANCE WITH SECTION 8.1 OF THE FRANCHISE AGREEMENT, IN THE SITE SEACH AREA OF \_\_\_\_\_.)

Territory (insert map and/or define by zip codes):

---

Franchised Business Address:

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**ATTACHMENT 3**

**AUTHORIZATION AGREEMENT**  
**AUTOMATIC DEPOSITS (ACH WITHDRAWALS)**

Franchisor Name: **Candy Cloud Franchising LLC**

I (We) hereby authorize Candy Cloud Franchising LLC, hereinafter called Franchisor, to initiate debit entries to my (our) Checking Account/Savings Account (Select One) indicated below at the depository financial institution named below, and to debit the same to such account. I (We) acknowledge that the origination of ACH transactions to my (our) account must comply with the provisions of U.S. Law, and that I will be responsible for any banking fees that my institution charges.

Financial Institution Name: \_\_\_\_\_ Branch: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_ Phone: \_\_\_\_\_

ACH/Routing Number: \_\_\_\_\_ Account Number: \_\_\_\_\_  
(Nine Digits)

This authorization is to remain in full force and effect until Franchisor has received a written replacement ACH Withdrawal Form notification from me. I (We) understand that revocation of this Authorization Agreement by me (us) may constitute an event of Default under the Franchise Agreement.

I (We) understand that the amount to be withdrawn by Franchisor will not be the same each month and I (We) therefore authorize all monetary transfers pursuant to Articles 6 and 18 of the Franchise Agreement.

\_\_\_\_\_  
Print Franchisee / Account Holder Name

\_\_\_\_\_  
Print Franchisee/Co-Account Holder Name

\_\_\_\_\_  
Franchisee/ Account Holder Signature-Date

\_\_\_\_\_  
Franchisee/Co-Account Holder Signature-Date

\_\_\_\_\_  
Daytime Phone Number

\_\_\_\_\_  
Email Address

**PLEASE ATTACH A VOIDED CHECK TO THIS FORM**

**Please return form to: Candy Cloud Franchising LLC**  
**9934 N Alpine Road, Machesney Park, IL 61115**  
**Phone #: 815-264-2168**

## ATTACHMENT 4

### CONDITIONAL ASSIGNMENT OF LEASE

**FOR VALUE RECEIVED**, the undersigned \_\_\_\_\_ ("Assignor") hereby assigns and transfers to Candy Cloud Franchising LLC, an Illinois limited liability company with a notice address of 9934 N Alpine Road, Machesney Park, IL 61115 ("Assignee"), all of Assignor's right, title and interest as tenant in, to and under that certain lease, a copy of which shall be attached hereto (the "Lease") respecting premises commonly known as \_\_\_\_\_. This Assignment is for collateral purposes only and except as specified herein, Assignee shall have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment or the Lease unless Assignee takes possession of the premises demised by the Lease pursuant to the terms hereof and assumes the obligations of Assignor thereunder.

Assignor represents and warrants to Assignee that Assignor has full power and authority to so assign the Lease and Assignor's interest therein and that Assignor has not previously assigned or transferred, and is not obligated to assign or transfer, any of Assignor's interest in the Lease or the premises demised thereby.

Upon a default by Assignor under the Lease or under the franchise agreement for a Candy Cloud outlet between Assignee and Assignor (the "Franchise Agreement"), or in the event of a default by Assignor under any document or instrument securing the Franchise Agreement, Assignee shall have the right and is hereby empowered to take possession of the Premises demised by the Lease, expel Assignor therefrom, and, in such event, Assignor shall have no further right, title or interest in the Lease.

Assignor agrees that it will not suffer or permit any surrender, termination, amendment, or modification of the Lease without the prior written consent of Assignee. Throughout the term of the Franchise Agreement and any renewals thereto, Assignor agrees that it shall elect and exercise all options to extend the term of or renew the Lease not less than thirty (30) days prior to the last day that the option must be exercised, unless Assignee otherwise agrees in writing. If Assignee does not otherwise agree in writing, and upon failure of Assignor to so elect to extend or renew the Lease as aforesaid, Assignor hereby appoints Assignee as its true and lawful attorney-in-fact to exercise such extension or renewal options in the name, place, and stead of Assignor for the purpose of effecting such extension or renewal.

ASSIGNOR:

DATED: \_\_\_\_\_

\_\_\_\_\_

DATED: \_\_\_\_\_

\_\_\_\_\_

## **CONSENT AND AGREEMENT OF LANDLORD**

to that Conditional Assignment of Lease from \_\_\_\_\_ (Assignor) to Candy Cloud Franchising LLC (Assignee) dated \_\_\_\_\_ for the property known as \_\_\_\_\_  
\_\_\_\_\_.

The undersigned Landlord under the aforescribed Lease further hereby:

- (a) Agrees to notify Assignee in writing of and upon the failure of Assignor to cure any default by Assignor under the Lease;
- (b) Agrees that Assignee shall have the right, but shall not be obligated, to cure any default by Assignor under the Lease within 30 days after delivery by Landlord of notice thereof in accordance with paragraph (a) above;
- (c) Consents to the foregoing Conditional Assignment and agrees that if Assignee takes possession of the Premises demised by the Lease and confirms to Landlord the assumption of the Lease by Assignee as tenant thereunder, Landlord shall recognize Assignee as tenant under the Lease, provided that Assignee cures within the 30-day period the non-monetary defaults, if any, of Assignor under the Lease;
- (d) Agrees that Assignee may further assign the Lease to a person, firm or corporation who shall agree to assume the tenant's obligations under the Lease and who is reasonably acceptable to Landlord and upon such assignment Assignee shall have no further liability or obligation under the Lease as assignee, tenant or otherwise.
- (e) Permits Assignee to enter upon the Premises without being guilty of trespass or any other crime or tort to de-identify the Premises as a Candy Cloud outlet if Tenant fails to do so following termination of the Franchise Agreement or Lease, provided that Assignee shall repair any damage caused thereby.

DATED: \_\_\_\_\_

LANDLORD:

\_\_\_\_\_  
\_\_\_\_\_

**ATTACHMENT 5**

**STATEMENT OF OWNERSHIP INTERESTS**  
**IN FRANCHISEE ENTITY**

**Name**

**Percentage of Ownership**

## ATTACHMENT 6

### **INTERNET ADVERTISING, SOCIAL MEDIA, SOFTWARE, AND TELEPHONE LISTING AGREEMENT**

**THIS INTERNET ADVERTISING, SOCIAL MEDIA, SOFTWARE, AND TELEPHONE ACCOUNT AGREEMENT** (the “Agreement”) is made and entered into this day of \_\_\_\_\_ (the “Effective Date”) by and between Candy Cloud Franchising LLC, an Illinois limited liability company with its principal place of business at 9934 N Alpine Road Suite 100, Machesney Park, IL 61115 (the “Franchisor”), and \_\_\_\_\_, a(n) \_\_\_\_\_, with its principal place of business located at \_\_\_\_\_ and \_\_\_\_\_ ‘s principal(s) \_\_\_\_\_, an individual residing at \_\_\_\_\_ and \_\_\_\_\_, an individual residing at \_\_\_\_\_ (“Principal(s)”). \_\_\_\_\_ and Principal(s) shall be collectively referred to in this Agreement as the “Franchisee”.

**WHEREAS**, Franchisee desires to enter into a franchise agreement with Franchisor for a Candy Cloud business (“Franchise Agreement”) which will allow Franchisee to conduct internet-based advertising, maintain social media accounts, and use telephone listings linked to the Candy Cloud brand.

**WHEREAS**, Franchisor would not enter into the Franchise Agreement without Franchisee’s agreement to enter into, comply with, and be bound by all the terms and provisions of this Agreement;

**NOW, THEREFORE**, for and in consideration of the foregoing and the mutual promises and covenants contained herein, and in further consideration of the Franchise Agreement and the mutual promises and covenants contained therein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

#### **1. Definitions**

All terms used but not otherwise defined in this Agreement shall have the meanings set forth in the Franchise Agreement. “Termination” of the Franchise Agreement shall include, but shall not be limited to, the voluntary termination, involuntary termination, or natural expiration thereof.

#### **2. Internet Advertising and Telephone Accounts**

2.1 Interest in Web Sites, Social Media Accounts and Other Electronic Listings. Franchisee may acquire (whether in accordance with or in violation of the Franchise Agreement) during the term of Franchise Agreement, certain right, title, or interest in and to certain domain names, social media accounts, hypertext markup language, uniform resource locator addresses, access to corresponding internet web sites, and the right to hyperlink to certain web sites and listings on various internet search engines (collectively, “Electronic Advertising”) related to the Franchised Business or the Marks.

2.2 Interest in Telephone Numbers and Listings. Franchisee has or will acquire during the term of the Franchise Agreement, certain right, title, and interest in and to those certain telephone numbers and regular, classified, internet page, and other telephone directory listings (collectively, the “Telephone Listings”) related to the Franchised Business or the Marks.

2.3 Transfer. On Termination of the Franchise Agreement, or on periodic request of Franchisor, Franchisee will immediately:

2.3.1 direct all internet service providers, domain name registries, internet search engines, and other listing agencies (collectively, the “Internet Companies”) with which Franchisee has Internet Web Sites, Social Media Accounts and other Listings: (i) to transfer all of Franchisee’s Interest in such Internet Web Sites, Social Media Accounts and other Listings to Franchisor; and (ii) to execute such documents and take such actions as may be necessary to effectuate such transfer. In the event Franchisor does not desire to accept any or all such Internet Web Sites, Social Media Accounts and other Listings, Franchisee will immediately direct the Internet Companies to terminate such Internet Web Sites, Social Media Accounts and other Listings or will take such other actions with respect to the Internet Web Sites, Social Media Accounts and other Listings as Franchisor directs; and

2.3.2 direct all telephone companies, telephone directory publishers, and telephone directory listing agencies (collectively, the “Telephone Companies”) with which Franchisee has Telephone Numbers and Listings: (i) to transfer all Franchisee’s Interest in such Telephone Numbers and Listings to Franchisor; and (ii) to execute such documents and take such actions as may be necessary to effectuate such transfer. In the event Franchisor does not desire to accept any or all such Telephone Numbers and Listings, Franchisee will immediately direct the Telephone Companies to terminate such Telephone Numbers and Listings or will take such other actions with respect to the Telephone Numbers and Listings as Franchisor directs.

2.4 Appointment; Power of Attorney. Franchisee hereby constitutes and appoints Franchisor and any officer or agent of Franchisor, for Franchisor’s benefit under the Franchise Agreement and this Agreement or otherwise, with full power of substitution, as Franchisee’s true and lawful attorney-in-fact with full power and authority in Franchisee’s place and stead, and in Franchisee’s name or the name of any affiliated person or affiliated company of Franchisee, to take any and all appropriate action and to execute and deliver any and all documents that may be necessary or desirable to accomplish the purposes of this Agreement. Franchisee further agrees that this appointment constitutes a power coupled with an interest and is irrevocable until Franchisee has satisfied all of its obligations under the Franchise Agreement and any and all other agreements to which Franchisee and any of its affiliates on the one hand, and Franchisor and any of its affiliates on the other, are parties, including without limitation this Agreement. Without limiting the generality of the foregoing, Franchisee hereby grants to Franchisor the power and right to do the following:

2.4.1 Direct the Internet Companies to transfer all Franchisee’s Interest in and to the Internet Web Sites, Social Media Accounts and/or other Listings to Franchisor, or alternatively, to direct the Internet Companies to terminate any or all of the Internet Web Sites, Social Media Accounts and/or other Listings;

2.4.2 Direct the Telephone Companies to transfer all Franchisee’s Interest in and to the Telephone Numbers and Listings to Franchisor, or alternatively, to direct the Telephone Companies to terminate any or all of the Telephone Numbers and Listings; and

2.4.3 Execute such standard assignment forms or other documents as the Internet Companies and/or Telephone Companies may require in order to affect such transfers or terminations of Franchisee’s Interest.

2.5 Certification of Termination. Franchisee hereby directs the Internet Companies and Telephone Companies to accept, as conclusive proof of Termination of the Franchise Agreement, Franchisor’s written statement, signed by an officer or agent of Franchisor, that the Franchise Agreement has terminated.

2.6 Cessation of Obligations. After the Internet Companies and the Telephone Companies have duly transferred all Franchisee’s Interests as described in paragraph 2.3 above to Franchisor, as

between Franchisee and Franchisor, Franchisee will have no further interest in, or obligations with respect to the particular Electronic Advertising and/or Telephone Listing. Notwithstanding the foregoing, Franchisee will remain liable to each and all of the Internet Companies and Telephone Companies for the respective sums Franchisee is obligated to pay to them for obligations Franchisee incurred before the date Franchisor duly accepted the transfer of such Interests, or for any other obligations not subject to the Franchise Agreement or this Agreement.

### 3. **Miscellaneous**

3.1 **Release.** Franchisee hereby releases, remises, acquits, and forever discharges each and all of the Internet Companies and/or Telephone Companies and each and all of their parent corporations, subsidiaries, affiliates, directors, officers, stockholders, employees, and agents, and the successors and assigns of any of them, from any and all rights, demands, claims, damage, losses, costs, expenses, actions, and causes of action whatsoever, whether in tort or in contract, at law or in equity, known or unknown, contingent or fixed, suspected or unsuspected, arising out of, asserted in, assertible in, or in any way related to this Agreement.

3.2 **Indemnification.** Franchisee is solely responsible for all costs and expenses related to its performance, its nonperformance, and Franchisor's enforcement of this Agreement, which costs and expenses Franchisee will pay Franchisor in full, without defense or setoff, on demand. Franchisee agrees that it will indemnify, defend, and hold harmless Franchisor and its affiliates, and its and their directors, officers, shareholders, partners, members, employees, agents, and attorneys, and the successors and assigns of any and all of them, from and against, and will reimburse Franchisor and any and all of them for, any and all loss, losses, damage, damages, claims, debts, claims, demands, or obligations that are related to or are based on this Agreement.

3.3 **No Duty.** The powers conferred on Franchisor hereunder are solely to protect Franchisor's interests and shall not impose any duty on Franchisor to exercise any such powers. Franchisee expressly agrees that in no event shall Franchisor be obligated to accept the transfer of any or all of Franchisee's Interest in any matter hereunder.

3.4 **Further Assurances.** Franchisee agrees that at any time after the date of this Agreement, Franchisee will perform such acts and execute and deliver such documents as may be necessary to assist in or accomplish the purposes of this Agreement.

3.5 **Successors, Assigns, and Affiliates.** All Franchisor's rights and powers, and all Franchisee's obligations, under this Agreement shall be binding on Franchisee's successors, assigns, and affiliated persons or entities as if they had duly executed this Agreement.

3.6 **Effect on Other Agreements.** Except as otherwise provided in this Agreement, all provisions of the Franchise Agreement and exhibits and schedules thereto shall remain in effect as set forth therein.

3.7 **Survival.** This Agreement shall survive the Termination of the Franchise Agreement.

3.8 **Governing Law.** This Agreement shall be governed by and construed under the laws of the State of Illinois, without regard to the application of Illinois conflict of law rules.

(Signatures appear on the following page)

The undersigned have executed or caused their duly authorized representatives to execute this Agreement as of the Effective Date.

FRANCHISEE (Entity):

\_\_\_\_\_

FRANCHISOR:

CANDY CLOUD FRANCHISING LLC

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: Alex Edwards

Title: CEO

FRANCHISEE (Principal):

\_\_\_\_\_

Name: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_

Name: \_\_\_\_\_

## ATTACHMENT 7

### **CONFIDENTIALITY AND NON-COMPETE AGREEMENT**

This Confidentiality and Non-Compete Agreement (the "Agreement") is made and entered into this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by \_\_\_\_\_, a(n) \_\_\_\_\_ ("Franchisee"), a franchisee of Candy Cloud Franchising LLC an Illinois limited liability company ("Franchisor"), and \_\_\_\_\_, an individual ("Covenantor") in connection with a Franchise Agreement dated \_\_\_\_\_.

**WHEREAS**, Franchisee and Franchisor are parties to a franchise agreement dated \_\_\_\_\_ (the "Franchise Agreement"), whereby Franchisor has granted Franchisee the right to use certain trademarks, including, the registered trademark "Candy Cloud" and design mark, and certain proprietary products, services, promotions and methods (the "System") for the establishment and operation of Franchised Business outlets;

**WHEREAS**, in connection with his or her duties, it will be necessary for Covenantor to have access to some or all of the confidential information, knowledge, know-how, techniques, contents of the Candy Cloud® operations manual and other materials used in or related to the System and/or concerning the methods of operation of the System (collectively referred to as "Confidential Information");

**WHEREAS**, the Confidential Information provides economic advantages to Franchisor and licensed users of the System, including Franchisee;

**WHEREAS**, Franchisee has acknowledged the importance of restricting the use, access and dissemination of the Confidential Information, and Franchisee therefore has agreed to obtain from Covenantor a written agreement protecting the Confidential Information and further protecting the System against unfair competition; and

**WHEREAS**, Covenantor acknowledges that receipt of and the right to use the Confidential Information constitutes independent valuable consideration for the representations, promises and covenants made by Covenantor herein.

**NOW, THEREFORE**, in consideration of the mutual covenants and obligations contained herein, the parties agree as follows:

#### **1. Confidentiality Agreement.**

**a.** Covenantor shall, at all times, maintain the confidentiality of the Confidential Information and shall use such Confidential Information only in the course of his or her employment by or association with Franchisee in connection with the operation of a Franchised Business under the Franchise Agreement.

**b.** Covenantor shall not at any time make copies of any documents or compilations containing some or all of the Confidential Information without Franchisor's express written permission.

**c.** Covenantor shall not at any time disclose or permit the disclosure of the Confidential Information except, and only then to the limited extent necessary, to those employees of Franchisee for training and assisting such employees in the operation of the Franchised Business.

**d.** Covenantor shall surrender any material containing some or all of the Confidential Information to Franchisee or Franchisor, upon request, or upon termination of employment or association with Franchisee.

**e.** Covenantor shall not at any time, directly or indirectly, do any act or omit to do any act that would or would likely be injurious or prejudicial to the goodwill associated with the System.

**f.** Covenantor agrees that no Confidential Information may be reproduced, in whole or in part, without written consent.

## **2. Covenants Not to Compete.**

**a.** In order to protect the goodwill and unique qualities of the System, and in consideration for the disclosure to Covenantor of the Confidential Information, Covenantor further agrees and covenants that during Covenantor's employment or association with Franchisee, Covenantor shall not, for Covenantor or through, on behalf of or in conjunction with any person or entity:

- (i) divert, or attempt to divert, any business or customer of the Candy Cloud® outlet or of other franchisees in the System to any competitor, by direct or indirect inducement or otherwise, and/or
- (ii) participate as an owner, partner, director, officer, employee, consultant, or agent or serve in any other capacity in any restaurant or eatery business substantially similar to the System (a "Competitive Business").

**b.** In further consideration for the disclosure to Covenantor of the Confidential Information and to protect the goodwill and unique qualities of the System, Covenantor further agrees and covenants that, upon the termination of Covenantor's employment or association with Franchisee and continuing for twenty-four (24) months thereafter, Covenantor shall not, for Covenantor or through, on behalf of or in conjunction with any person or entity:

- (i) divert, or attempt to divert, any business or customer of the Franchised Business or of other franchisees in the Candy Cloud® System to any competitor, by direct or indirect inducement or otherwise, and/or
- (ii) participate as an owner, partner, director, officer, employee, or consultant or serve in any other managerial, operational, or supervisory capacity in any Competitive Business within twenty-five (25) miles of Franchisee's Territory or any Candy Cloud® location.

**c.** The parties acknowledge and agree that each of the covenants contained herein are reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Franchisor.

**d.** If the period of time or the geographic scope specified Section 2.b. above, should be adjudged unreasonable in any proceeding, then the period of time will be reduced by such number of months or the geographic scope will be reduced by the elimination of such portion thereof, or both, so that such restrictions may be enforced for such time and scope as are adjudged to be reasonable. In addition, Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Agreement or any portion thereof, without Covenantor's or Franchisee's consent, effective immediately upon receipt by Covenantor of written notice thereof, and Covenantor agrees to forthwith comply with any covenant as so modified.

## **3. General.**

**a.** Franchisee shall take full responsibility for ensuring that Covenantor acts as required by this Agreement.

**b.** Covenantor agrees that in the event of a breach of this Agreement, Franchisor would be irreparably injured and be without an adequate remedy at law. Therefore, in the event of such a breach, or threatened or attempted breach of any of the provisions hereof, Franchisee is obligated to enforce the provisions of this Agreement and shall be entitled, in addition to any other remedies that are made available to it at law or in equity, to a temporary and/or permanent injunction and a decree for the specific performance of the terms of this Agreement, without the necessity of showing actual or threatened harm and without being required to furnish a bond or other security.

**c.** Covenantor agrees to pay all expenses (including court costs and reasonable attorneys' fees) incurred by Franchisor and Franchisee in enforcing this Agreement.

**d.** Any failure Franchisee to object to or take action with respect to any breach of any provision of this Agreement by Covenantor shall not operate or be construed as a waiver of or consent to that breach or any subsequent breach by Covenantor.

**e.** THIS AGREEMENT SHALL BE INTERPRETED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF WHERE THE FRANCHISED BUSINESS IS LOCATED. COVENANTOR HEREBY IRREVOCABLY SUBMITS HIMSELF OR HERSELF TO THE JURISDICTION OF THE STATE AND FEDERAL COURTS OF SUCH STATE. COVENANTOR HEREBY WAIVES ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. COVENANTOR HEREBY AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON COVENANTOR IN ANY PROCEEDING RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY THE LAWS OF SUCH STATE OR FEDERAL LAW. COVENANTOR FURTHER AGREES THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE IN THE STATE OF WHERE THE FRANCHISED BUSINESS IS LOCATED; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION THAT INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF, FRANCHISOR OR FRANCHISEE MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE THAT HAS JURISDICTION.

**f.** The parties agree that each of the foregoing covenants contained herein shall be construed as independent of any other covenant or provision of this Agreement.

**g.** Covenantor acknowledges and agrees that each of the covenants contained herein will not impose any undue hardship on Covenantor since Covenantor has other considerable skills, experience and education which affords Covenantor the opportunity to derive income from other endeavors.

**h.** This Agreement contains the entire agreement of the parties regarding the subject matter hereof. This Agreement may be modified only by a duly authorized writing executed by all parties.

**i.** All notices and demands required to be given hereunder shall be in writing, and shall be delivered personally or by certified or registered mail, postage prepaid, addressed to the party for whom intended, and shall be deemed given on the date of delivery or the date delivery is refused. All such notices shall be addressed to the party to be notified at the following addresses:

If directed to Franchisee:

\_\_\_\_\_  
\_\_\_\_\_

If directed to Covenantor:

\_\_\_\_\_  
\_\_\_\_\_

Any change in the foregoing addresses shall be effected by giving written notice of such change to the other parties.

**j.** Franchisor is an intended third-party beneficiary of this Agreement, and Franchisor may take whatever action it deems necessary to enforce Covenantor's obligations hereunder. The rights and remedies of Franchisor under this Agreement are fully assignable and transferable and shall inure to the benefit of its respective affiliates, successors, and assigns.

**k.** The respective obligations of Franchisee and Covenantor hereunder may not be assigned by Franchisee or Covenantor, without the prior written consent of Franchisor.

The undersigned have entered into this Confidentiality and Non-Compete Agreement as witnessed by their signatures below.

FRANCHISEE:

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

COVENANTOR:

\_\_\_\_\_

Name: \_\_\_\_\_:

\_\_\_\_\_

## EXHIBIT C

### MULTI-UNIT DEVELOPMENT AGREEMENT

**CANDY CLOUD FRANCHISING LLC  
MULTI-UNIT DEVELOPMENT AGREEMENT**

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**ATTACHMENTS:**

Attachment 1: Trademarks

Attachment 2: Development Area

Attachment 3: Development Fee and Mandatory Development Schedule

## MULTI-UNIT DEVELOPMENT AGREEMENT

THIS MULTI-UNIT DEVELOPMENT AGREEMENT (this "Agreement") is being entered into on \_\_\_\_\_, (the "Effective Date") by and between CANDY CLOUD FRANCHISING LLC, an Illinois limited liability company with a principal business address of 9934 N Alpine Road Suite 100, Machesney Park, IL 61115 (herein "Franchisor") and \_\_\_\_\_, an individual residing at \_\_\_\_\_ and \_\_\_\_\_, an individual residing at \_\_\_\_\_ (herein "Developer").

### RECITATIONS

Through the expenditure of considerable time, effort and money, Franchisor has developed and established distinctive businesses which feature, among other things, a unique offering of specialty drinks, coffee, shakes, and bubble tea drinks under the Candy Cloud trademarks and using Franchisor's confidential operations manual (the "Manual") of business practices and policies, and Franchisor's distinctive recipes, décor, fixtures and furnishings, operations methods, sales techniques, inventory, procedures for management control and training assistance, advertising, and promotional programs, all of which may be changed, improved, or further developed by Franchisor at any time (taken together herein the "System").

The System is identified by certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including but not limited to the Candy Cloud service mark, as set forth in Attachment 1, and such other trade names, service marks, and trademarks as are now designated and may hereafter be designated or substituted by Franchisor for use in connection with the System (the "Marks").

Franchisor continues to develop, use, and control the use of such Marks in order to identify for the public the source of services and products marketed under the Marks and the System and to represent the System's high standards of quality, appearance, and service.

Pursuant to franchise agreements, Franchisor licenses to others the right to operate Candy Cloud outlets, using the Marks and System, in strict conformity therewith, which may be changed, improved and further developed by Franchisor from time to time (each a "Franchise Agreement").

Developer understands and acknowledges the importance of Franchisor's high and uniform standards of quality, service, and appearance, and the necessity of operating franchised businesses of the System in conformity with Franchisor's standards and specifications.

Developer desires to obtain the right to further develop and expand the System in accordance with the development schedule described in Section 5.2 hereof (the "Mandatory Development Schedule") within the development area described in Attachment 2 (the "Development Area"), under the System and Marks, on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties, in consideration of the promises, undertakings and commitments of each party to the other set forth herein, and intending to be legally bound hereby, mutually agree as follows:

**1. RECITATIONS.** The Recitations set out above form part of this Agreement.

**2. GRANT OF DEVELOPMENT RIGHTS.**

2.1 Grant. Franchisor hereby grants to Developer, and the Developer hereby accepts from the Franchisor, on the terms and conditions set forth in this Agreement, which include, but are not limited to, the execution of a Franchise Agreement pursuant to Section 4.1 hereof, the right to

develop, construct, open and operate one (1) Candy Cloud outlet within the Development Area set forth in Attachment 2. Developer shall be granted rights to establish additional Candy Cloud outlets in the Development Area, up to the total number of outlets set forth in the Mandatory Development Schedule set forth in Section 5.2 hereof, subject to Developer's full compliance with all conditions precedent to the grant of such rights outlined below, which rights shall be exercised in accordance with Section 4.1 hereof.

2.2 Reservation of Rights. Notwithstanding the provisions of Section 2.1 above, Developer understands and agrees Franchisor fully reserves all other rights, other than as specified in this Agreement, for sales, solicitation, and distribution of Candy Cloud products and services within or outside of the Development Area. This reservation of Franchisor's rights includes, but is not limited to, Franchisor's right to offer (i) other products or services not offered under the Marks, (ii) other food or beverage concepts under the Marks or other trademarks, (iii) products or services through any other channel of distribution in the Development Area other than a dedicated Candy Cloud ® outlet such as distribution through retail outlets, including but not limited to, grocery stores; co-branding within other food outlets; in captive market locations; and the Internet.

2.3 No License to System and Marks. Developer expressly acknowledges that this Agreement is not a Franchise Agreement and does not grant to Developer any right or license to operate a Candy Cloud outlet, distribute any product or service, or use the Marks. This Agreement sets forth conditions which, if fully satisfied, confer upon Developer the rights to enter a Franchise Agreement with Franchisor to establish one or more Candy Cloud outlets in the Development Area only. Developer's rights to open and operate a Candy Cloud outlet and use the System and Marks shall be derived only through the execution of a Franchise Agreement for each Candy Cloud outlet to be established in the Development Area.

### 3. TERM.

Unless sooner terminated in accordance with this Agreement, the term of this Agreement and all rights granted by Franchisor under this Agreement shall expire on the date on which Developer successfully and in a timely manner has complied with all of Developer's obligations hereunder and has completed the development obligations in accordance with the Development Schedule.

### 4. DEVELOPMENT AND FRANCHISE FEES.

4.1 Multi-Unit Development Fee. In consideration of the rights granted under this Agreement, Multi-Unit Operator shall pay Franchisor a development fee (the "Development Fee") as outlined in Attachment 3 hereto. The Development Fee is fully earned at the time this Multi-Unit Operator Agreement is signed and is not refundable under any circumstances. Multi-Unit Operator shall pay the full amount of the Development Fee to Franchisor upon Multi-Unit Operator's execution of this Agreement.

**The Development Fee is fully earned at the time this Multi-Unit Development Agreement is signed and is not refundable under any circumstances.** Developer shall pay the full amount of the Development Fee to Franchisor upon Developer's execution of this Agreement. The Development Fee is calculated as one hundred percent (100%) of the initial franchise fee for each outlet established pursuant to the Mandatory Development Schedule. The Initial Franchise Fee is discounted by twenty percent (20%) for the second and each additional outlet. Franchisor will grant Franchisee a Fee Per Outlet credit against the Initial Franchise Fee payable for each Franchise Agreement it signs for each Candy Cloud outlet to be develop hereunder.

- 4.2 Application of Development Fee. Contemporaneous with the execution of this Agreement, Developer shall execute the initial Franchise Agreement for the first Candy Cloud outlet to be established pursuant to the Mandatory Development Schedule. Developer shall receive a corresponding credit from the Development Fee, which shall be applicable to the Initial Franchise Fee due under the initial Franchise Agreement. Upon the execution of each of additional Franchise Agreement for outlets to be developed hereunder, Developer shall receive a corresponding credit from the Development Fee, which shall be applicable to the Initial Franchise Fee payable pursuant to each such additional Franchise Agreement. Upon Franchisor's approval, Multi-Unit Operator may enter into the Franchise Agreement as required under this Agreement using a newly formed entity, such as a limited liability company, corporation or partnership, for the sole purpose of entering into a Franchise Agreement and operating the Candy Cloud outlet pursuant thereto, provided that Developer shall also personally sign such Franchise Agreement as a principal.

## **5. EXERCISE OF DEVELOPMENT RIGHTS.**

- 5.1 Valid Exercise. Developer shall exercise the development rights granted hereunder only by entering into a separate Franchise Agreement with Franchisor for each Candy Cloud outlet for which a development right is granted. Developer shall execute and deliver to Franchisor, concurrently with the execution and delivery of this Agreement, Franchisor's current form of Franchise Agreement for the first Candy Cloud outlet to be established by Developer pursuant to the Mandatory Development Schedule. For each subsequent Candy Cloud outlet to be established hereunder, Developer shall execute and deliver to Franchisor Franchisor's then-current form of Franchise Agreement, which shall be presented to Developer together with Franchisor's then-current Franchise Disclosure Document. The then-current form of Franchise Agreement may differ from the current form of Franchise Agreement; provided however, the initial franchise fee for each additional outlet shall be the applicable amount set forth in in Section 4.1 hereof. Further, Developer acknowledges and agrees that Developer shall not receive any initial training related to each additional Candy Cloud outlet. Developer hereby waives all obligations by Franchisor to provide any training to Developer contained in each Franchise Agreement, other than the initial Franchise Agreement executed concurrently with this Agreement, by and between Franchisor and Developer. Developer hereby acknowledges and agrees that the training Developer receives pursuant to the initial Franchise Agreement executed concurrently with this Agreement is sufficient to allow Developer to construct, equip, open, and operate each of Developer's Candy Cloud outlets in the Development Area.
- 5.2 Mandatory Development Schedule. Subsequent to Developer's signing of this Agreement and the initial Franchise Agreement, and provided that all conditions in Section 5.4 hereof are satisfied or waived, upon the execution of a lease for Developer's first Candy Cloud outlet, Developer shall execute an additional Franchise Agreement for the development of the second Candy Cloud outlet to be opened under the Mandatory Development Schedule. Provided that all conditions in Section 5.4 hereof are satisfied or waived, upon the execution of a lease for each subsequent Candy Cloud outlet to be developed by Developer, Developer shall execute an additional Franchise Agreement for the development of the next Candy Cloud outlet to be opened under the Mandatory Development Schedule. Notwithstanding the foregoing, Developer shall open the Candy Cloud outlets in accordance with the Mandatory Development Schedule in Attachment 3 hereto. Developer acknowledges and agrees that the terms of the Mandatory Development Schedule are reasonable and viable based upon Developer's independent investigation and analysis. Failure by Developer to adhere to the Mandatory Development Schedule (including any extensions thereof approved by Franchisor in writing pursuant to Section 5.3 below) shall constitute a material event of default under this Agreement.

- 5.3 Extension of Mandatory Development Schedule. If Developer is unable to meet the Mandatory Development Schedule for any outlet, Developer may seek a reasonable extension from Franchisor. Any request for an extension must be in writing and submitted to Franchisor at least sixty (60) days prior to the Mandatory Open Date for such outlet. Franchisor shall not unreasonably withhold consent for such reasonable extension provided that Developer has (i) submitted its extension request in a timely manner; (ii) demonstrated diligent efforts to meet the original Mandatory Open Date; and (iii) has at all times acted in good faith and is otherwise fulfilling its obligations under this Agreement.
- 5.4 Conditions to Exercise Developer's Rights. All of the following conditions must be satisfied or waived, in Franchisor's sole discretion, before Franchisor grants Developer the right to develop an additional Candy Cloud outlet in accordance with Section 4.1 hereof and pursuant to a Franchise Agreement:
- 5.4.1 Developer shall (i) request Franchisor's then-current Franchise Disclosure Document, (ii) submit to Franchisor all information and other documents requested by Franchisor prior to and as a basis for the issuance of Franchise Agreements in the System, (iii) submit to Franchisor all financial statements reasonably requested by Franchisor, and (iv) satisfy Franchisor's then-current financial criteria.
- 5.4.2 Developer shall be in full compliance with this Agreement, the Mandatory Development Schedule, and all Franchise Agreements with Franchisor and any other agreement with Franchisor or Franchisor's affiliates;
- 5.4.3 Developer has demonstrated the management skills necessary for competent operation, organization, customer service and record keeping of an additional Candy Cloud outlet as determined by Franchisor, in Franchisor's sole discretion.
- 5.5 Termination for Failure of Condition. Notwithstanding anything to the contrary contained herein, in the event that Franchisor determines, in Franchisor's sole and absolute discretion, that any condition set forth in Section 5.4 hereof cannot be satisfied, Franchisor may terminate this Agreement upon written notice to Developer. Termination of this Agreement in accordance with this Section 5.5 shall have no effect on the validity of any other agreement between Franchisor and Developer, provided that Developer is in full compliance therewith.

## 6. TRANSFER

### 6.1 Transfers by Franchisor.

- 6.1.1 Franchisor shall have the right to assign this Agreement, and all of Franchisor's rights and privileges hereunder, to any person, firm, corporation or other entity, without Developer's permission or prior knowledge, provided that, with respect to any assignment resulting in the subsequent performance by the assignee of Franchisor's obligations, the assignee shall expressly assume and agree to perform Franchisor's obligations hereunder. Specifically, and without limitation to the foregoing, Developer expressly affirms and agrees that Franchisor may: (i) sell Franchisor's assets and Franchisor's rights to the Marks and the System outright to a third party; (ii) engage in a public or private placement of some or all of Franchisor's securities; (iii) merge, acquire other corporations, or be acquired by another corporation, including competitors; (iv) undertake a refinancing, recapitalization, leveraged buy-out or other economic or financial restructuring; and (v) with regard to any or all of the above sales, assignments and dispositions, Developer expressly and

specifically waives any claims, demands or damages arising from or relating to the loss of association with or identification of Franchisor. Nothing contained in this Agreement shall require Franchisor to remain in the business franchised herein or to offer the same products and services, whether or not bearing the Marks, in the event that Franchisor exercises its prerogative hereunder to assign Franchisor's rights in this Agreement.

6.1.2 Developer agrees that Franchisor has the right, now or in the future, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of that chain's or business' facilities, and to operate, franchise or license those businesses and/or facilities operating under the Marks or any other marks following Franchisor's purchase, merger, acquisition or affiliation, regardless of the location of the facilities (which Developer acknowledges may be within the Development Area, proximate thereto, or proximate to any of Developer's locations).

6.1.3 If Franchisor assigns its rights in this Agreement, nothing herein shall be deemed to require Franchisor or any of its affiliates to remain in any line of business or to offer or sell any products or services to Developer.

6.2 Restrictions on Transfers by Developer. Developer's rights and duties under this Agreement are personal to Developer, and Franchisor has made this Agreement with Developer in reliance on Franchisor's perceptions of the individual and collective character, skill, aptitude, attitude, business ability, and financial capacity of Developer. Thus, no transfer, as hereafter defined, may be made without Franchisor's prior written approval. Franchisor may void any transfer made without such approval.

6.3 Transfers by Developer. Developer shall not directly or indirectly sell, assign, transfer, give, devise, convey or encumber this Agreement or any right granted or interest herein or hereunder (a "Transfer") or suffer or permit any such assignment, transfer, or encumbrance to occur by operation of law unless Developer first obtains the written consent of Franchisor, which Franchisor may or may not grant in Franchisor's sole discretion, and subject to the following:

6.3.1 The proposed transferee must be an individual of good moral character and otherwise meet Franchisor's then-applicable standards for multi-unit franchisees;

6.3.2 The transferee must have sufficient business experience, aptitude, and financial resources to operate multiple Candy Cloud outlets and to comply with this Agreement;

6.3.3 The transferee has agreed to complete Franchisor's Initial Training Program to Franchisor's satisfaction;

6.3.4 Developer has paid all amounts owed to (i) Franchisor pursuant to this Agreement and all Franchise Agreements and other agreements between Franchisor and/or Franchisor's affiliates and Developer and (ii) third-party creditors;

6.3.5 The transferee has executed Franchisor's then-standard form of Multi-Unit Development Agreement, which may have terms and conditions different from this Agreement, for a term no less than the unexpired term of future development obligations due pursuant to the Mandatory Development Schedule of this Agreement;

6.3.6 Developer and the transferee shall have executed a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor and Franchisor's officers, directors,

shareholders, members and employees in their corporate and individual capacities, including, without limitation, claims arising under federal, state, and local laws, rules and ordinances. Developer agrees to subordinate any claims Developer may have against the transferee to Franchisor and indemnify Franchisor against any claims by the transferee relating to misrepresentations in the transfer process, specifically excluding those representations made by Franchisor in the Franchise Disclosure Document given to the transferee;

6.3.7 Franchisor has granted written approval of the material terms and conditions of the Transfer, including, without limitation, that the price and terms of payment will not adversely affect the transferee's development obligations. However, Franchisor's approval of a Transfer is not in any way a representation or warranty of the transferee's success or the soundness of transferee's decision to purchase the Developer's development rights on such terms and conditions. Developer shall provide Franchisor all proposed transfer documents for Franchisor's review at least thirty (30) days prior to a closing of the proposed Transfer; and

6.3.8 If Developer, through Developer or any entity, finances any part of the sale price of the Transfer, Developer agrees that all obligations of the transferee under any notes, agreements or security interests to Developer or Developer's entity will be subordinate to the transferee's obligations to Franchisor.

6.4 Transfer Fee. As a condition to any Transfer, Developer shall pay Franchisor a transfer fee equal to fifty percent (50%) of the then-current initial franchise fee; provided however, (i) for transfers to an existing Candy Cloud developer or franchisee, who is in good standing with Franchisor, the transfer fee is twenty percent (20%) of the then-current initial franchise fee, and (ii) for transfers among the individuals named as Developer in the introductory paragraph of this Agreement, the transfer fee is Two Thousand Five Hundred Dollars (\$2,500.00). The transfer fee shall be multiplied by the number of outlets for which a development right has been granted but not yet exercised.

#### 6.5 Franchisor's Right of First Refusal.

6.5.1 If Developer wishes to transfer all or part of his or her interest in this Agreement pursuant to any bona fide offer received from a third party to purchase such interest, then Developer shall promptly notify Franchisor in writing of each such offer, and shall provide such information and documentation relating to the offer as Franchisor may require.

6.5.2 Franchisor has the right, exercisable by written notice to Developer within thirty (30) days after receipt of written notification and copies of all documentation required by Franchisor describing such offer, to buy the interest in this Agreement for the price and on the terms and conditions contained in the offer.

6.5.3 Developer further agrees, in the event Franchisor exercises its right of first refusal, notwithstanding anything to the contrary contained in the third-party offer, that (i) Franchisor may substitute cash for any other form of consideration contained in the offer; (ii) at Franchisor's option, Franchisor may pay the entire purchase price at closing; (iii) Franchisor's credit will be deemed equal to the credit of any proposed transferee; (iv) Franchisor will have at least sixty (60) days to close the purchase; and (v) Franchisor will be entitled to receive from Developer all customary representations and warranties given by a seller of franchise development rights.

6.5.4 If Franchisor does not exercise its right to buy within thirty (30) days, Developer may thereafter transfer the interest to the transferee on terms no more favorable than those disclosed to Franchisor, provided that such transfer is subject to Franchisor's prior written approval pursuant to Section 6.3 hereof. However, if (i) the sale to the transferee is not completed within one hundred twenty (120) days after the offer is given to Franchisor or (ii) there is any material change in the terms of the offer, the offer will again be subject to Franchisor's right of first refusal.

6.6 Death or Permanent Disability. The grant of rights under this Agreement is personal to Developer, and on the death or permanent disability of Developer, the executor, administrator, conservator, or other personal representative of Developer shall be required to transfer Developer's interest in this Agreement within six (6) months from the date of death or permanent disability to a third party approved by Franchisor. Failure to transfer in accordance with the forgoing will constitute a material default and all that is granted by this Agreement will terminate. A transfer under this Section 6.6, including without limitation, transfer by devise or inheritance, is subject to the conditions for Transfers in this Article 6 and unless transferred by gift, devise, or inheritance, subject to the terms of Section 6.5 above. For purposes of this Agreement, the term "permanent disability" means a mental or physical disability, impairment or condition that is reasonably expected to prevent or actually does prevent such person from providing continuous and material supervision of the operation of Developer's Candy Cloud outlet(s) and remaining development schedule during the six (6)-month period from its onset.

## **7. DEFAULT AND TERMINATION.**

7.1 Default and Automatic Termination. Developer shall be deemed to be in material default under this Agreement, and all rights granted herein shall automatically terminate without notice to Developer, if Developer shall become insolvent or makes a general assignment for the benefit of creditors; or if Developer files a voluntary petition under any section or chapter of federal bankruptcy law or under any similar law or statute of the United States or any state thereof, or admits in writing his or her inability to pay debts when due; or if Developer is adjudicated a bankrupt or insolvent in proceedings filed against Developer under any section or chapter of federal bankruptcy laws or under any similar law or statute of the United States or any state; or if a bill in equity or other proceeding for the appointment of a receiver of Developer or other custodian for Developer's business or assets is filed and consented to by Developer; or if a receiver or other custodian (permanent or temporary) of Developer's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; or if proceedings for a composition with creditors under any state or federal law should be instituted by or against Developer; or if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); or if Developer is dissolved; or if execution is levied against Developer's business or property; or if suit to foreclose any lien or mortgage against any of Developer's Candy Cloud outlet premises or equipment is instituted against Developer and not dismissed within thirty (30) days.

7.2 Defaults with No Opportunity to Cure. Developer shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, without affording Developer any opportunity to cure the default, effective immediately upon notice to Developer, if Developer:

7.2.1 has misrepresented or omitted material facts in applying for the development rights granted hereunder;

- 7.2.2 falsifies any report required to be furnished Franchisor hereunder;
  - 7.2.3 fails to comply with any federal, state, or local law, rule or regulation, applicable to the development and operations of Developer's Candy Cloud outlets, including, but not limited to, the failure to pay taxes;
  - 7.2.4 fails to develop the Candy Cloud outlets in accordance with the Mandatory Development Schedule.
  - 7.2.5 attempts a Transfer in violation of the provisions of Article 6 of this Agreement;
  - 7.2.6 is convicted of, or pleads no contest to, a felony or to a crime that could damage the goodwill associated with the Marks or does anything that may harm the reputation of the System or the goodwill associated with the Marks;
  - 7.2.7 receives an adverse judgment or a consent decree in any case or proceeding involving allegations of fraud, racketeering, unfair or improper trade practices or similar claim which is likely to have an adverse effect on the System, or the Marks, the goodwill associated therewith or Franchisor's interest therein, in Franchisor's sole opinion;
  - 7.2.8 fails to comply with the non-disclosure and non-competition covenants in Article 8 hereof;
  - 7.2.9 defaults, or an affiliate of Developer defaults, under any other agreement, including any Franchise Agreement, with Franchisor or any of its affiliates, suppliers or landlord and does not cure such default within the time period provided in such other agreement; or
  - 7.2.10 terminates this Agreement without cause.
- 7.3 Curable Defaults. Developer shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, if Developer fails to cure the default within the time period set forth in this Section 7.3, effective immediately upon notice to Developer, if Developer:
- 7.3.1 fails to pay when due any amounts due to Franchisor under this Agreement or any related agreement and does not correct the failure within five (5) days after written notice; provided, however, Franchisor has no obligation to give written notice of a late payment more than two (2) times in any twelve (12)-month period, and the third such late payment in any twelve (12)-month period shall be a non-curable default under Section 7.2;
  - 7.3.2 fails to perform any non-monetary obligation imposed by this Agreement (excepting those defaults of obligations set forth in Sections 7.1 and 7.2 for which there is no opportunity to cure) and such default shall continue for five (5) days after Franchisor has given written notice of such default, or if the default cannot be reasonably corrected within said five (5) - day period, then if it is not corrected within such additional time as may be reasonably required assuming Developer proceeds diligently to cure; provided, however, Franchisor has no obligation to give written notice of a non-monetary default more than two (2) times in any twelve (12) - month period, and the third such default, whether monetary or non-monetary, in any twelve (12) - month period shall be a non-curable default under Section 7.2.
- 7.4. Post-Termination Obligations. Upon termination or expiration of this Agreement, all rights and licenses granted hereunder to Developer shall immediately terminate and Developer shall (i)

immediately cease all development operations pursuant to this Agreement; and (ii) comply with the non-disclosure and non-competition covenants contained in Article 8.

## **8. NON-DISCLOSURE AND NON-COMPETITION COVENANTS.**

- 8.1 Confidential Information. Developer acknowledges and accepts that during the term of this Agreement, Developer will have access to Franchisor's trade secrets, including, but not limited to, recipes, methods, processes, customer lists, vendor partnerships and/or relationships, sales and technical information, financial information, costs, product prices and names, software tools and applications, website and/or email design, products, services, equipment, technologies and procedures relating to the operation of the Franchised Business; the Manual; methods of advertising and promotion; instructional materials; any other information which Franchisor may or may not specifically designate as "confidential" or "proprietary"; and the components of the System, whether or not such information is protected or protectable by patent, copyright, trade secret or other proprietary rights (collectively referred to herein as the "Confidential Information"). Developer shall not, during the term of this Agreement and thereafter, communicate or divulge to, or use for the benefit of, any other person or entity, and, following the expiration or termination of this Agreement, shall not use for Developer's own benefit, any Confidential Information that may be communicated to Developer or of which Developer may be apprised in connection with the development of Candy Cloud outlets under the terms of this Agreement. Developer shall not at any time copy, duplicate, record or otherwise reproduce any Confidential Information, in whole or in part, or otherwise make the same available to any person, without Franchisor's prior written consent. The covenant in this Section 8.1 shall survive the expiration, termination or transfer of this Agreement or any interest herein and shall be perpetually binding upon Developer.
- 8.2 Protection of Information. Developer shall take all steps necessary, at Developer's own expense, to protect the Confidential Information and shall immediately notify Franchisor if Developer finds that any Confidential Information has been divulged in violation of this Agreement.
- 8.3 Noncompetition Covenants. Developer acknowledges that, pursuant to this Agreement, Developer will receive valuable training, trade secrets and Confidential Information of the System that are beyond the present knowledge, training, and experience of Developer. Developer acknowledges that such specialized training, trade secrets and Confidential Information provide a competitive advantage and will be valuable to him or her in the development and operation of Candy Cloud outlets, and that gaining access to such specialized training, trade secrets and Confidential Information is, therefore, a primary reason why Developer is entering into this Agreement. In consideration for such specialized training, trade secrets, Confidential Information and rights, Developer covenants that, except as otherwise approved in writing by Franchisor:
- 8.3.1 During the term of this Agreement, Developer shall not, either directly or indirectly, for himself or herself or through, on behalf of, or in conjunction with, any person or entity (i) divert, or attempt to divert, any business or customer of the Developer's Candy Cloud outlets or of other developers or franchisees in the System to any competitor, by direct or indirect inducement or otherwise; (ii) participate as an owner, partner, director, officer, employee, consultant, or agent or serve in any other capacity in any restaurant or food service business featuring any restaurant or eatery business similar to the System; or (iii) do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System; or (iv) in any manner interfere with, disturb, disrupt, decrease or otherwise jeopardize the business of the Franchisor or any Candy Cloud developers or franchisees or Franchisor-affiliated outlets.

8.3.2 Upon the expiration or earlier termination of this Agreement or upon a Transfer and continuing for twenty-four (24) months thereafter, Developer shall not, either directly or indirectly, for himself or herself or through, on behalf of or in conjunction with any person or entity (i) divert, or attempt to divert, any business or customer of Developer's Candy Cloud outlets or of other franchisees in the System to any competitor, by direct or indirect inducement or otherwise; or (ii) participate as an owner, partner, director, officer, employee, consultant, or agent or serve in any other capacity in any restaurant or food service business featuring any restaurant or eatery business similar to the System within twenty five (25) miles of the Development Area or any Candy Cloud location; or (iii) do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System; or (iv) in any manner interfere with, disturb, disrupt, decrease or otherwise jeopardize the business of the Franchisor or any Candy Cloud developers or franchisees.

8.4 Reasonableness of Restrictions. Developer acknowledges and agrees that the covenants not to compete set forth in this Agreement are fair and reasonable and will not impose any undue hardship on Developer since Developer has other considerable skills, experience and education which afford Developer the opportunity to derive income from other endeavors.

8.5 Reduction of Time or Scope. If the period of time or the geographic scope specified above, should be adjudged unreasonable in any proceeding, then the period of time will be reduced by such number of months or the geographic scope will be reduced by the elimination of such portion thereof, or both, so that such restrictions may be enforced for such time and scope as are adjudged to be reasonable. In addition, Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Article 8 or any portion thereof, without Developer's consent, effective immediately upon receipt by Developer of written notice thereof, and Developer agrees to forthwith comply with any covenant as so modified.

8.6 Injunctive Relief. Developer acknowledges that a violation of the covenants not to compete contained in this Agreement would result in immediate and irreparable injury to Franchisor for which no adequate remedy at law will be available. Accordingly, Developer hereby consents to the entry of an injunction prohibiting any conduct by Developer in violation of the terms of the covenants not to compete set forth in this Agreement.

8.7 No Defense. Developer expressly agrees that the existence of any claims he or she may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Section.

**9. INDEMNIFICATION.** TO THE FULLEST EXTENT PERMITTED BY LAW, DEVELOPER AGREES TO EXONERATE AND INDEMNIFY AND HOLD HARMLESS CANDY CLOUD FRANCHISING LLC, CANDY CLOUD IP LLC, AND ANY OF THE ABOVE'S PARENT COMPANY, SUBSIDIARIES, DIVISIONS, AFFILIATES, SUCCESSORS, ASSIGNS AND DESIGNEES, AS WELL AS THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SHAREHOLDERS, SUCCESSORS, DESIGNEES AND REPRESENTATIVES (COLLECTIVELY REFERRED TO AS THE "CANDY CLOUD INDEMNITEES"), FROM ALL CLAIMS BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATED TO THE DEVELOPMENT, OPERATION, CONDITION, OR ANY PART OF ANY OF DEVELOPER'S CANDY CLOUD OUTLETS TO BE DEVELOPED HEREUNDER, THE PRODUCTS, THE PREMISES, OR ANY ASPECT OF THE REAL ESTATE CONNECTED TO ANY OF SUCH CANDY CLOUD OUTLETS, WHETHER CAUSED BY DEVELOPER'S AGENTS OR EMPLOYEES, OR ARISING FROM DEVELOPER'S ADVERTISING OR BUSINESS PRACTICES.

DEVELOPER AGREES TO PAY FOR ALL THE CANDY CLOUD INDEMNITEES' LOSSES, EXPENSES (INCLUDING, BUT NOT LIMITED TO ATTORNEYS' FEES) OR CONCURRENT OR CONTRIBUTING LIABILITY INCURRED IN CONNECTION WITH ANY ACTION, SUIT, PROCEEDING, INQUIRY (REGARDLESS OF WHETHER THE SAME IS REDUCED TO JUDGMENT OR DETERMINATION), OR ANY SETTLEMENT THEREOF FOR THE INDEMNIFICATION GRANTED BY DEVELOPER HEREUNDER. THE CANDY CLOUD INDEMNITEES SHALL HAVE THE RIGHT TO SELECT AND APPOINT INDEPENDENT COUNSEL TO REPRESENT ANY OF THE CANDY CLOUD INDEMNITEES IN ANY ACTION OR PROCEEDING COVERED BY THIS INDEMNITY. DEVELOPER AGREES THAT TO HOLD THE CANDY CLOUD INDEMNITEES HARMLESS, DEVELOPER WILL REIMBURSE THE CANDY CLOUD INDEMNITEES AS THE COSTS AND EXPENSES ARE INCURRED BY THE CANDY CLOUD INDEMNITEES.

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Initial

## 10. DISPUTE RESOLUTION

10.1 Internal Dispute Resolution. Developer shall first bring any claim, controversy or dispute arising out of or relating to this Agreement, the Attachments hereto or the relationship created by this Agreement to Franchisor's president and/or chief executive officer for resolution. After providing notice as set forth in Section 12.7 below. Developer must exhaust this internal dispute resolution procedure before Developer may bring Developer's dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Agreement.

10.2 Mediation. At Franchisor's option, any claim, controversy, or dispute that is not resolved pursuant to Section 10.1 hereof shall be submitted to non-binding mediation. Developer shall provide Franchisor with written notice of Developer's intent to pursue any unresolved claim, controversy, or dispute, specifying in sufficient detail the nature thereof, prior to commencing any legal action. Franchisor shall have thirty (30) days following receipt of Developer's notice to exercise Franchisor's option to submit such claim, controversy, or dispute to mediation. Mediation shall be conducted through a mediator or mediators in accordance with the American Arbitration Association Commercial Mediation Rules. Such mediation shall take place in the then-current location of Franchisor's corporate headquarters. The costs and expenses of mediation, including compensation and expenses of the mediator (and except for the attorneys' fees incurred by either party), shall be borne by the parties equally. Franchisor may specifically enforce Franchisor's rights to mediation, as set forth herein.

10.3 Arbitration.

10.3.1 Except disputes not subject to alternative dispute resolution as set forth in Section 10.4, any dispute between Franchisor and Developer arising out of or relating to this Agreement, the Attachments hereto or any breach thereof, including any claim that this Agreement or any of its parts, is invalid, illegal or otherwise voidable or void, which has not been resolved in accordance with Sections 10.1 or 10.2, will be resolved by submission to the American Arbitration Association or its successor organization to be settled by a single arbitrator in accordance with the Commercial Arbitration Rules then in effect for such Association or successor organization.

- 10.3.2 All issues relating to arbitrability or the enforcement of the agreement to arbitrate contained in this Article 10 will be governed by the Federal Arbitration Act (9 U.S.C. §1 *et seq.*) and the federal common law of arbitration. All hearings and other proceedings will take place in Winnebago County, Illinois, or the offices of the American Arbitration Association, or, if Franchisor so elects, in the county where the principal place of business of Developer is then located.
- 10.3.3 This arbitration provision is self-executing and will remain in full force and effect after expiration or termination of this Agreement. Any arbitration will be conducted on an individual, and not a class-wide or multiple plaintiffs, basis. If either party fails to appear at any properly noticed arbitration proceeding, an award may be entered against the party by default or otherwise, notwithstanding the failure to appear. Judgment upon an arbitration award may be entered in any court having jurisdiction and will be binding, final and not subject to appeal. No punitive or exemplary damages will be awarded against Franchisor, Developer, or entities related to either of them, in an arbitration proceeding or otherwise, and are hereby waived.
- 10.3.4 The provisions of this Section 10.3 are independent of any other covenant or provision of this Agreement; provided, however, that if a court of competent jurisdiction determines that any of the provisions are unlawful in any way, the court will modify or interpret the provisions to the minimum extent necessary to have them comply with the law.
- 10.3.5 In proceeding with arbitration and in making determinations hereunder, no arbitrator shall extend, modify, or suspend any terms of this Agreement or the reasonable standards of business performance and operation established by Franchisor in good faith. No notice, request or demand for arbitration shall stay, postpone, or rescind the effectiveness of any termination of this Agreement.
- 10.3.6 Except as expressly required by law, Franchisor and Developer shall keep all aspects of any mediation and/or arbitration proceeding in confidence and shall not disclose any information about the proceeding to any third party other than legal counsel who shall be required to maintain the confidentiality of such information.
- 10.4 Exceptions. Notwithstanding the requirements of Sections 10.2 or 10.3, the following claims shall not be subject to mediation or arbitration:
- 10.4.1 Franchisor's claims for injunctive or other extraordinary relief;
- 10.4.2 disputes and controversies arising from the Sherman Act, the Clayton Act or any other federal or state antitrust law;
- 10.4.3 disputes and controversies based upon or arising under the Lanham Act, as now or hereafter amended, relating to the ownership or validity of the Marks; and
- 10.4.4 enforcement of Developer's post-termination obligations, including but not limited to, Developer's non-competition covenants.
- 10.5 Governing Law and Venue. This Agreement is made in, and shall be substantially performed in, the State of Illinois. Any claims, controversies, disputes, or actions arising out of this Agreement shall be governed, enforced and interpreted pursuant to the laws of the State of Illinois. Developer, except where specifically prohibited by law, hereby irrevocably submit themselves

to the sole and exclusive jurisdiction of the state and federal courts in Illinois. Developer hereby waives all questions of personal jurisdiction for the purpose of carrying out this provision.

- 10.6 Mutual Benefit. Developer and Franchisor acknowledge that the parties' agreement regarding applicable state law and forum set forth in Section 10.5 provide each of the parties with the mutual benefit of uniform interpretation of this Agreement and any dispute arising hereunder. Each of Developer and Franchisor further acknowledge the receipt and sufficiency of mutual consideration for such benefit and that each party's agreement regarding applicable state law and choice of forum have been negotiated in good faith and are part of the benefit of the bargain reflected by this Agreement.
- 10.7 Waiver of Jury Trial and Certain Damages. Developer hereby waives, to the fullest extent permitted by law, any right to or claim for (i) a trial by jury in any action, proceeding or counterclaim brought by or against Franchisor, and (ii) any punitive, exemplary, incidental, indirect, special, consequential or other damages (including, without limitation, loss of profits) against Franchisor, its affiliates, and their respective officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees, in their corporate and individual capacities, arising out of any cause whatsoever. Each of Developer agrees that in the event of a dispute, Developer shall be limited to the recovery of any actual damages sustained.
- 10.8 Limitations of Claims. Any and all claims asserted by Developer arising out of or relating to this Agreement or the relationship among the parties will be barred unless a proceeding for relief is commenced within one (1) year from the date on which Developer knew or should have known of the facts giving rise to such claims.
- 10.9 Attorneys' Fees. In the event of any action in law or equity by and between Franchisor and Developer concerning the operation, enforcement, construction or interpretation of this Agreement, the prevailing party in such action shall be entitled to recover reasonable attorneys' fees and court costs incurred.
- 10.10 Survival. The provisions of this Article 10 shall continue in full force and effect notwithstanding the expiration or termination of this Agreement or a transfer by Developer of his/her respective interests in this Agreement.

## 11. GENERAL

- 11.1 Independent Licensee. Developer is and shall be an independent licensee under this Agreement, and no partnership shall exist between Developer and Franchisor. This Agreement does not constitute Developer as an agent, legal representative, or employee of Franchisor for any purpose whatsoever, and Developer is not granted any right or authority to assume or create any obligation for or on behalf of, or in the name of, or in any way to bind Franchisor. Developer agrees not to incur or contract any debt or obligation on behalf of Franchisor or commit any act, make any representation, or advertise in any manner which may adversely affect any right of Franchisor or be detrimental to Franchisor or other developers or franchisees of Franchisor. Pursuant to the above, Developer agrees to indemnify Franchisor and hold Franchisor harmless from any and all liability, loss, attorneys' fees, or damage Franchisor may suffer as a result of claims, demands, taxes, costs or judgments against Franchisor arising out of the relationship hereby established which specifically, but not exclusively, includes costs, losses, expenses, attorneys fees relative to assignment or the transfer of right to develop and transactional costs relative thereto, defaults under any leases, subleases, notes, receipt of revenues or any other relationships arising directly or indirectly out of the development and operation of the Candy Cloud outlets.

- 11.2 Successors. This Agreement shall bind and inure to the benefit of the successors and assigns of Franchisor and shall be personally binding on and inure to the benefit of Developer and his or her respective heirs, executors, administrators and successors or assigns; provided, however, the foregoing provision shall not be construed to allow a transfer of any interest of Developer in this Agreement, except in accordance with Article 6 hereof.
- 11.3 Invalidity of Part of Agreement. Should any provisions in this Agreement, for any reason, be declared invalid, then such provision shall be invalid only to the extent of the prohibition without in any way invalidating or altering any other provision of this Agreement.
- 11.4 Entire Agreement. This Agreement, including all attachments, is the entire agreement of the parties, superseding all prior written or oral agreements of the parties concerning the same subject matter, and superseding all prior written or oral representations made to Developer, except the representations made to Developer in Franchisor's Franchise Disclosure Document. No agreement of any kind relating to the matters covered by this Agreement and no amendment of the provisions hereof shall be binding upon either party unless and until the same has been made in writing and executed by all interested parties.
- 11.5 Construction. All terms and words used in this Agreement, regardless of the number and gender in which they are used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context or sense of this Agreement or any provision herein may require, as if such words had been fully and properly written in the appropriate number and gender. All covenants, agreements and obligations assumed herein by Developer shall be deemed to be joint and several covenants, agreements, and obligations of each of the persons named as Developer, if more than one person is so named.
- 11.6 Captions. Captions and section headings are used herein for convenience only. They are not part of this Agreement and shall not be used in construing it.
- 11.7 Notices. Whenever notice is required or permitted to be given under the terms of this Agreement, it shall be given in writing, and be delivered personally or by certified or registered mail, postage prepaid, addressed to the party for whom intended, and shall be deemed given on the date of delivery or delivery is refused. All such notices shall be addressed to the party to be notified at their respective addresses as first above written, or at such other address or addresses as the parties may from time to time designate in writing.
- 11.8 Effect of Waivers. No waiver, delay, omission, or forbearance on the part of Franchisor to exercise any right, option, duty or power arising from any default or breach by Developer shall affect or impair the rights of Franchisor with respect to any subsequent default of the same or of a different kind.
- 11.9 Remedies Cumulative. All rights and remedies of the parties to this Agreement shall be cumulative and not alternative, in addition to and not exclusive of any other rights or remedies that are provided for herein or that may be available at law or in equity in case of any breach, failure or default or threatened breach, failure or default of any term, provision or condition of this Agreement or any other agreement between Developer or any of its affiliates and Franchisor or any of its affiliates. The rights and remedies of the parties to this Agreement shall be continuing and shall not be exhausted by any one or more uses thereof, and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration, earlier termination, or exercise of Franchisor's rights pursuant to Article 7 shall not discharge or

release Developer from any liability or obligation then accrued, or any liability or obligation continuing beyond, or arising out of, the expiration, the earlier termination, or the exercise of such rights under this Agreement.

- 11.10 Consent to Do Business Electronically. The parties to this Agreement hereby consent to do business electronically. Pursuant to the Uniform Electronic Transactions Act as adopted by the State of Illinois, the parties hereby affirm to each other that they agree with the terms of this Agreement, and by attaching their signature electronically to this Agreement, they are executing the document and intending to attach their electronic signature to it. Furthermore, the parties acknowledge that the other parties to this Agreement can rely on an electronic signature as the respective party's signature.
- 11.11 Counterparts. This Agreement may be executed in multiple counterparts, each of which when so executed shall be an original, and all of which shall constitute one and the same instrument.
- 11.12 Survival. Any obligation of Developer that contemplates performance of such obligation after termination, expiration or transfer of this Agreement shall be deemed to survive such termination, expiration or transfer.

The parties hereto have executed this Multi-Unit Development Agreement in on the day and year first above written.

DEVELOPER:

FRANCHISOR:

CANDY CLOUD FRANCHISING LLC

\_\_\_\_\_  
Name: \_\_\_\_\_

By: \_\_\_\_\_  
Name: Alex Edwards  
Title: CEO

**ATTACHMENT 1**

**TRADEMARKS**

Service Mark:

CANDY CLOUD



**ATTACHMENT 2**

**DEVELOPMENT AREA**

(insert map and/or define by zip codes):

ACCEPTED:

DEVELOPER:

FRANCHISOR:

CANDY CLOUD FRANCHISING LLC

\_\_\_\_\_  
Name: \_\_\_\_\_

By: \_\_\_\_\_

Name: Alex Edwards

Title: CEO

Date: \_\_\_\_\_

### ATTACHMENT 3

#### **DEVELOPMENT FEE AND MANDATORY DEVELOPMENT SCHEDULE**

A. The Agreement authorizes and obligates the Developer to establish and operate \_\_\_\_\_ (\_\_\_\_) “Candy Cloud” outlet, pursuant to a Franchise Agreement for each outlet in the Development Area.

B. The following is Developer’s Mandatory Development Schedule:

| Outlet Number | Outlet Open and Operating by (“Development Deadline”) | \$ _____<br>Development Fee,<br>per Section 4.1, paid on<br>_____<br>(“Effective Date”) |
|---------------|-------------------------------------------------------|-----------------------------------------------------------------------------------------|
| One (1)       |                                                       | \$40,000                                                                                |
| Two (2)       |                                                       | \$32,000                                                                                |

#### **ACCEPTED:**

DEVELOPER:

FRANCHISOR:  
CANDY CLOUD FRANCHISING LLC

\_\_\_\_\_  
Name: \_\_\_\_\_

By: \_\_\_\_\_  
Name: Alex Edwards  
Title: CEO  
Date: \_\_\_\_\_

**EXHIBIT D**

**FINANCIAL STATEMENTS**



# CANDY CLOUD FRANCHISING LLC

FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT

AUGUST 31, 2024, 2023 AND 2022



# CANDY CLOUD FRANCHISING LLC

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## *Independent Auditor's Report*

To the Member  
Candy Cloud Franchising LLC  
Machesney Park, IL

### ***Opinion***

We have audited the accompanying financial statements of Candy Cloud Franchising LLC, which comprise the balance sheets as of August 31, 2024, 2023 and 2022, and the related statements of operations, member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Candy Cloud Franchising LLC as of August 31, 2024, 2023, and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

***Restrictions on Use***

The use of this report is restricted to inclusion within the Company's Franchise Disclosure Document (FDD) and is not intended to be, and should not be, used or relied upon by anyone for any other use.

Kezas & Dunlavy

St. George, Utah  
December 16, 2024

# CANDY CLOUD FRANCHISING LLC

## BALANCE SHEETS

As of August 31, 2024, 2023 and 2022

|                                          | 2024                     | 2023                     | 2022                     |
|------------------------------------------|--------------------------|--------------------------|--------------------------|
| <b>Assets</b>                            |                          |                          |                          |
| Current assets                           |                          |                          |                          |
| Cash and cash equivalents                | \$ 152,861               | \$ 64,517                | \$ 12,280                |
| Deferred commissions                     | 121,000                  | 67,000                   | -                        |
| Total current assets                     | <u>273,861</u>           | <u>131,517</u>           | <u>12,280</u>            |
| Non-current assets                       |                          |                          |                          |
| Right-of-use assets                      | 121,901                  | 153,025                  | 184,148                  |
| Other non-current assets                 | 3,020                    | 3,020                    | 3,020                    |
| Total non-current assets                 | <u>124,921</u>           | <u>156,045</u>           | <u>187,168</u>           |
| Total assets                             | <u><u>\$ 398,782</u></u> | <u><u>\$ 287,562</u></u> | <u><u>\$ 199,448</u></u> |
| <b>Liabilities and Member's Equity</b>   |                          |                          |                          |
| Current liabilities                      |                          |                          |                          |
| Accounts payable                         | \$ -                     | \$ 3,600                 | \$ -                     |
| Credit card liability                    | 10,573                   | 10,907                   | 4,699                    |
| Gift card liability                      | 1,040                    | -                        | -                        |
| Payroll tax liability                    | 8,606                    | -                        | -                        |
| Operating lease liabilities, current     | 30,270                   | 28,583                   | 21,187                   |
| Deferred franchise fee revenue           | 599,400                  | 126,400                  | -                        |
| Deferred marketing fee revenue           | 12,000                   | -                        | -                        |
| Total current liabilities                | <u>661,889</u>           | <u>169,490</u>           | <u>25,886</u>            |
| Non-current liabilities                  |                          |                          |                          |
| Operating lease liabilities, non-current | 107,480                  | 140,822                  | 166,333                  |
| Total liabilities                        | <u>769,369</u>           | <u>310,312</u>           | <u>192,219</u>           |
| Member's equity (deficit)                | (370,587)                | (22,750)                 | 7,229                    |
| Total liabilities and member's equity    | <u><u>\$ 398,782</u></u> | <u><u>\$ 287,562</u></u> | <u><u>\$ 199,448</u></u> |

The accompanying notes to the financial statements are integral part of these financial statements

**CANDY CLOUD FRANCHISING LLC**  
**STATEMENTS OF OPERATIONS**  
For the years ended August 31, 2024, 2023 and 2022

|                            | <u>2024</u>         | <u>2023</u>         | <u>2022</u>        |
|----------------------------|---------------------|---------------------|--------------------|
| <b>Operating revenues</b>  |                     |                     |                    |
| Franchise fees             | \$ 154,000          | \$ -                | \$ -               |
| Royalties                  | 96,346              | -                   | -                  |
| Marketing fees             | 46,264              | -                   | -                  |
| Technology fees            | 4,160               | -                   | -                  |
| Other revenue              | 1,429               | -                   | -                  |
| Total operating revenues   | <u>\$ 302,199</u>   | <u>\$ -</u>         | <u>\$ -</u>        |
| <b>Operating expenses</b>  |                     |                     |                    |
| Salaries and wages         | \$ 217,558          | -                   | -                  |
| Professional fees          | 98,532              | 57,395              | 48,507             |
| Advertising and marketing  | 152,408             | 35,765              | -                  |
| Software expenses          | 61,661              | 27,235              | -                  |
| General and administrative | 174,480             | 81,766              | 10,071             |
| Total operating expenses   | <u>704,639</u>      | <u>202,161</u>      | <u>58,578</u>      |
| Net loss                   | <u>\$ (402,440)</u> | <u>\$ (202,161)</u> | <u>\$ (58,578)</u> |

The accompanying notes to the financial statements are integral part of these financial statements

**CANDY CLOUD FRANCHISING LLC**  
**STATEMENTS OF MEMBER'S EQUITY**  
For the years ended August 31, 2024, 2023 and 2022

|                                  | <u>2024</u>         | <u>2023</u>        | <u>2022</u>     |
|----------------------------------|---------------------|--------------------|-----------------|
| Beginning member's equity        | \$ (22,750)         | \$ 7,229           | \$ -            |
| Member contributions             | 108,673             | 181,042            | 65,807          |
| Member distributions             | (54,070)            | (8,861)            | -               |
| Net loss                         | (402,440)           | (202,161)          | (58,578)        |
| Ending member's equity (deficit) | <u>\$ (370,587)</u> | <u>\$ (22,750)</u> | <u>\$ 7,229</u> |

The accompanying notes to the financial statements are integral part of these financial statements

**CANDY CLOUD FRANCHISING LLC**  
**STATEMENTS OF CASH FLOWS**  
For the years ended August 31, 2024, 2023 and 2022

|                                                   | <u>2024</u>       | <u>2023</u>      | <u>2022</u>      |
|---------------------------------------------------|-------------------|------------------|------------------|
| Cash flows from operating activities:             |                   |                  |                  |
| Net loss                                          | \$ (402,440)      | \$ (202,161)     | \$ (58,578)      |
| Adjustments to reconcile net income to            |                   |                  |                  |
| net cash provided (used) by operating activities: |                   |                  |                  |
| Changes in operating assets and liabilities:      |                   |                  |                  |
| Deferred commissions                              | \$ (54,000)       | \$ (67,000)      | \$ -             |
| Right-of-use assets                               | 31,124            | 31,123           | (184,148)        |
| Credit card liability                             | (334)             | 6,208            | 4,699            |
| Gift card liability                               | 1,040             | -                | -                |
| Payroll tax liability                             | 8,606             | -                | -                |
| Deferred revenue                                  | 473,000           | 126,400          | -                |
| Deferred marketing revenue                        | 12,000            | -                | -                |
| Accounts payable                                  | (3,600)           | 3,600            | -                |
| Operating lease liabilities                       | (31,655)          | (18,115)         | 187,520          |
| Net cash used by operating activities             | <u>33,741</u>     | <u>(119,945)</u> | <u>(50,507)</u>  |
| Cash flows from investing activities              |                   |                  |                  |
| Lease deposit                                     | <u>-</u>          | <u>-</u>         | <u>(3,020)</u>   |
| Net cash used by investing activities             | <u>-</u>          | <u>-</u>         | <u>(3,020)</u>   |
| Cash flows from financing activities              |                   |                  |                  |
| Member contributions                              | 108,673           | 181,042          | 65,807           |
| Member distributions                              | (54,070)          | (8,861)          | -                |
| Net cash provided by financing activities         | <u>54,603</u>     | <u>172,181</u>   | <u>65,807</u>    |
| Net change in cash and cash equivalents           | 88,344            | 52,236           | 12,280           |
| Cash and cash equivalents at beginning of period  | <u>64,517</u>     | <u>12,280</u>    | <u>-</u>         |
| Cash and cash equivalents at end of period        | <u>\$ 152,861</u> | <u>\$ 64,517</u> | <u>\$ 12,280</u> |
| Supplemental disclosures of cash flow             |                   |                  |                  |
| Cash paid for interest and taxes                  | \$ -              | \$ -             | \$ -             |

The accompanying notes to the financial statements are integral part of these financial statements

**CANDY CLOUD FRANCHISING LLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2024, 2023 AND 2022**

(1) Nature of Business and Summary of Significant Accounting Policies

*(a) Nature of Business*

Candy Cloud Franchising LLC (the "Company") was formed on July 12, 2022, as a limited liability company under the laws of the State of Illinois. The Company is headquartered in Machesney Park, Illinois, offering a unique beverage franchise model.

The Company uses the accrual basis of accounting, and their accounting period is the 12-month period ending August 31 of each year.

*(b) Accounting Standards Codification*

The Financial Accounting Standards Board ("FASB") has issued the FASB Accounting Standards Codification ("ASC") that became the single official source of authoritative U.S. generally accepted accounting principles ("GAAP"), other than guidance issued by the Securities and Exchange Commission (SEC), superseding existing FASB, American Institute of Certified Public Accountants, emerging Issues Task Force and related literature. All other literature is not considered authoritative. The ASC does not change GAAP; it introduces a new structure that is organized in an accessible online research system.

*(c) Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

*(d) Financial Instruments*

For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities.

*(e) Advertising Costs*

The Company expenses advertising costs as incurred. Advertising expenses for the year ended August 31, 2024, 2023 and 2022 were \$152,408, \$35,765, and \$0, respectively.

*(f) Concentration of Risk*

The Company maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risks on cash or cash equivalents.

*(g) Cash and Cash Equivalents*

Cash equivalents include all highly liquid investments with maturities of three months or less at the date of purchase. Also included within cash equivalents are deposits in-transit and outstanding checks. As of August 31, 2024, 2023 and 2022, the Company had cash and cash equivalents of \$152,861, \$64,517, and \$12,280, respectively.

*(h) Accounts Receivable*

Accounts receivable are recorded for amounts due based on the terms of executed franchise agreements for franchise sales, royalties and other sales transactions. These accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of outstanding amounts.

# CANDY CLOUD FRANCHISING LLC

## NOTES TO THE FINANCIAL STATEMENTS

### AUGUST 31, 2024, 2023 AND 2022

When determining the allowance for doubtful receivable, the Company has adopted ASC 326, *Financial Instruments—Credit Losses*. This standard requires that management utilize the Current Expected Credit Losses (“CECL”) model to recognize the appropriate allowance for doubtful receivables. This model requires entities to estimate and recognize expected credit losses over the life of the financial instrument. For trade receivables, management has elected to apply a simplified approach, based on historical loss experience and adjustments for current and forecasted economic conditions. Management regularly evaluates individual customer receivables, considering their financial condition, credit history and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. As of August 31, 2024, 2023 and 2022 the Company had no allowance for uncollectible accounts.

#### *(i) Long-Lived Assets*

Long-lived assets, such as property and equipment, 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 for the difference between the carrying amount of the asset and the fair value of the asset.

#### *(j) Revenue Recognition*

Upon inception, the Company adopted ASC 606, *Revenue from Contracts with Customers*. ASC 606 provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the considerations expected to be received for those goods or services. In implementing ASC 606, the Company evaluated all revenue sources using the five-step approach: identify the contract, identify the performance obligations, determine the transaction price, allocate the transaction price, and recognize revenue. For each franchised location, the Company enters into a formal franchise agreement that clearly outlines the various components of the transaction price and the Company’s performance obligations.

The Company’s revenues consist of initial franchise fees, royalties and marketing fees based on a percentage of gross revenues, technology fees and product sales.

#### *Royalties and marketing fees*

Upon evaluation of the five-step process, the Company has determined that royalties and marketing fees are to be recognized in the same period as the underlying sales.

#### *Technology fees*

The Company charges its franchises for the cost of website development and hosting, and for sales related technology programs. These revenues are recognized as the services are provided.

#### *Product sales*

Product sales are recognized when control transfers to the customer, which is generally upon shipment.

#### *Initial franchise fees*

The Company is required to allocate the transaction price associated with initial franchise fees between the franchise license and associated performance obligations. In identifying the associated performance obligations, the Company has elected to adopt the practical expedient for private company franchisors outlined in ASC 952-606, *Franchisors—Revenue from Contracts with Customers*. The practical expedient allows franchisors to account for pre-opening services as a single distinct performance obligation.

# CANDY CLOUD FRANCHISING LLC

## NOTES TO THE FINANCIAL STATEMENTS

### AUGUST 31, 2024, 2023 AND 2022

These pre-opening services include the following services (which the Company may or may not provide):

- Assistance in the selection of a site.
- Assistance in obtaining facilities and preparing the facilities for their intended use, including related financing, architectural, and engineering services, and lease negotiation.
- Training of the franchisee's personnel or the franchisee.
- Preparation and distribution of manuals and similar material concerning operations, administration, and record keeping.

In determining the allocation of transaction price (the initial franchise fee) to either the license or to the pre-opening services, the Company has determined that the fair value of pre-opening services exceeds the initial franchise fee received; as such, the Company allocates the entire initial franchise fees to pre-opening services, which is then recognized as revenue when those pre-opening services have been completed (which generally occurs upon commencement of the associated franchised location's operations).

#### *(k) Income Taxes*

The Company is structured as a limited liability company under the laws of the state of Illinois. Accordingly, the income or loss of the Company will be included in the income tax returns of the member. Therefore, there is no provision for federal and state income taxes.

The Company follows the guidance under Accounting Standards Codification ("ASC") Topic 740, Accounting for Uncertainty in Income Taxes. ASC Topic 740 prescribes a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in the tax return. If taxing authorities were to disallow any tax positions taken by the Company, the additional income taxes, if any, would be imposed on the member rather than the Company. Accordingly, there would be no effect on the Company's financial statements.

The Company's income tax returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of August 31, 2024, the 2023 and 2022 tax years were subject to examination.

#### *(l) Leasing*

The Company adopted ASC 842, *Leases* upon inception. The Company has operating leases for office space, for which it has recorded a right-of-use asset and lease liability. The lease liability reflects the present value of the Company's estimated future minimum lease payments over the lease term, discounted using a collateralized incremental borrowing rate.

The Company has elected to record leases with an initial term of 12 months or less as an expense as incurred, with no corresponding right-of-use asset or lease liability. These types of leases primarily relate to leases of office equipment and are not significant in comparison to the Company's overall lease portfolio. Payments related to those leases will continue to be recognized in the statement of operations over the lease term.

#### *(2) Franchise Agreements*

The Company's franchise agreements generally provide for payment of initial fees as well as continuing royalty fees to the Company based on a percentage of sales. Under the franchise agreement, franchisees are granted the right to operate a location using the Candy Cloud system for a fixed number of years. Under the Company's revenue recognition policy, franchise fees and any corresponding commissions are recognized when the franchisee begins operations. For any franchisees that have not yet begun operations as of year-end, the Company defers both the revenues and commissions. All locations that are expected to begin operations within the following year are categorized as current, while all others are classified as non-current.

# CANDY CLOUD FRANCHISING LLC

## NOTES TO THE FINANCIAL STATEMENTS

### AUGUST 31, 2024, 2023 AND 2022

As of August 31, 2024, 2023 and 2022, the Company's deferred revenue and deferred commissions consisted of the following balances:

|                      | 2024       | 2023       | 2022 |
|----------------------|------------|------------|------|
| Deferred revenue     | \$ 599,400 | \$ 126,400 | \$ - |
| Deferred commissions | 121,000    | 67,000     | -    |

#### (3) Leasing Arrangement

The Company is the lessee in an operating lease for office space with a remaining term of four years with escalation terms in place. As of August 31, 2024, 2023 and 2022, the Company had right-of-use assets of \$121,901, \$153,025, and \$184,148, respectively. As August 31, 2024, 2023 and 2022, the Company had operating lease liabilities of \$137,750, \$169,405, and \$187,520, respectively.

As of August 31, 2024, the maturities of operating lease liabilities were as follows:

|                                 |                   |
|---------------------------------|-------------------|
| For the period ended August 31, |                   |
| 2025                            | 30,270            |
| 2026                            | 34,356            |
| 2027                            | 36,114            |
| 2028                            | 37,010            |
|                                 | <u>\$ 137,750</u> |

#### (4) Commitments and Contingencies

The Company may be subject to various claims, legal actions and complaints arising in the ordinary course of business. In accounting for legal matters and other contingencies, the Company follows the guidance in ASC Topic 450 Contingencies, under which loss contingencies are accounted for based upon the likelihood of incurrence of a liability. If a loss contingency is "probable" and the amount of loss can be reasonably estimated, it is accrued. If a loss contingency is "probable" but the amount of loss cannot be reasonably estimated, disclosure is made. If a loss contingency is "reasonably possible," disclosure is made, including the potential range of loss, if determinable. Loss contingencies that are "remote" are neither accounted for nor disclosed.

In the opinion of management, all matters are of such kind, or involve such amounts, that unfavorable disposition, if any, would not have a material effect on the financial position of the Company.

#### (5) Subsequent Events

Management has reviewed and evaluated subsequent events through December 16, 2024, the date on which the financial statements were issued.

## EXHIBIT E

### OPERATIONS MANUAL TABLE OF CONTENTS



### CANDY CLOUD FRANCHISE OPERATIONS MANUAL

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**Appendix:   Forms**  
**Recipes**

## EXHIBIT F

### FRANCHISED OUTLETS AS OF AUGUST 31, 2024

| Franchisee                                                                              | Location              |
|-----------------------------------------------------------------------------------------|-----------------------|
| WRAGE VENTURES LLC<br>Tara Wrage<br>tarawrage@candycloudcompany.com.                    | South Elgin, Illinois |
| NEXTGEN 2023 LLC<br>Rahim Matani<br>Naveed Lakhani<br>cc4@candycloudcompany.com         | Glenview, Illinois    |
| Melo Standing LLC<br>Clarissa Standing<br>Richard Standing<br>cc5@candycloudcompany.com | Willoughby, Ohio      |
| M&P PARTNERS, LLC<br>Ankit Patel<br>Michael Murray<br>cc6@candycloudcompany.com         | Smyrna, Tennessee     |
| JAPN LLC<br>Nishesh Patel<br>Himanshu Patel<br>cc7@candycloudcompany.com                | Madison, Wisconsin    |

**Franchise Agreements Signed but Outlet Not Open as of August 31, 2024**

| <b>Franchisee</b>                                                                                | <b>Location</b>        |
|--------------------------------------------------------------------------------------------------|------------------------|
| Dame Good Drinks LLC<br>Joey Dame<br>Johnathan Dame<br>cc11@candycloudcompany.com                | Colorado               |
| Thomas and Clark Investments LLC:<br>Christopher Thomas<br>cc8@candycloudcompany.com             | Florida                |
| Nicole Mendez<br>Vanessa Salas<br>cc16@candycloudcompany.com                                     | Florida                |
| Cloud 9 Sips LLC<br>Scott Bedows<br>Kevin Bedows<br>kevin@cloud9sips.com<br>scott@cloud9sips.com | Illinois and Wisconsin |
| Next Gen 2023 LLC<br>Rahim Matani<br>Naveed Lakhani<br>cc15@candycloudcompany.com                | Illinois               |
| GEAUX GLOBAL OPERATIONS LLC<br>Antonio Rachal<br>Darlecca Rachal<br>cc14@candycloudcompany.com   | Louisiana              |
| Damaris Olmo<br>cc17@candycloudcompany.com                                                       | New Jersey             |
| Vegas Clouds, Inc.<br>Duy Pham<br>Edith Corona<br>cc18@candycloudcompany.com                     | Nevada                 |
| Samp 7 LLC<br>Nimita Patel<br>Nilesh Patel<br>cc3@candycloudcompany.com                          | North Carolina         |
| Zachary Tietjen<br>Meredith Harrah<br>cc12@candycloudcompany.com                                 | Ohio                   |
| Andrew Zimmerman<br>Ché Zimmerman<br>cc13@candycloudcompany.com                                  | Texas                  |
| CCMad LLC<br>Nishesh Patel<br>Himanshu Patel<br>cc19@candycloudcompany.com                       | Wisconsin              |

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

### **Former Franchisees**

Franchisees that had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during the most recently completed fiscal year or has not communicated with the franchisor within the 10 weeks preceding the Issuance Date of this Disclosure Document:

None.

**EXHIBIT G**  
**STATE ADDENDA**

**ILLINOIS AMENDMENT TO THE FRANCHISE DISCLOSURE DOCUMENT, FRANCHISE  
AGREEMENT AND MULTI-UNIT DEVELOPMENT AGREEMENT**

In recognition of the requirements of the Illinois Franchise Disclosure Act, 815 ILCS §§ 705/1 et seq. (1987) (the “Act”), which govern the Candy Cloud Franchising LLC Franchise Agreement (the “Franchise Agreement”) and Multi-Unit Development Agreement (the “Multi-Unit Development Agreement”) the parties thereto agree as follows:

1. To the extent of any inconsistencies, the Franchise Agreement is hereby amended to further state:  
  
“Section 4 of the Act provides that no franchisee shall be required to litigate any cause of action, with the exception of arbitration proceedings, arising under the Franchise Agreement or the Act outside of the State of Illinois.”
2. To the extent of any inconsistencies, the Franchise Agreement is hereby amended to further state:  
  
“Illinois law governs the Franchise Agreement.”
3. To the extent of any inconsistencies, the Franchise Agreement is hereby amended to further state:  
  
“Section 41 of the Act provides that any condition, stipulation, or provision purporting to bind Franchisee to waive compliance with any provision of the Act, or any other Illinois law is void. The foregoing requirement, however, shall not prevent Franchisee from entering into a settlement agreement or executing a general release regarding a potential or actual lawsuit filed under any of the provisions of the Act, and shall not prevent the arbitration of any claim pursuant to the provisions of Title 9 of the United States Code.”
4. To the extent of any inconsistencies, the Franchise Agreement is hereby amended to further state:  
  
“To the extent any provision regarding termination or renewal of the Franchise Agreement is inconsistent with the Illinois Franchise Disclosure Act §§ 815 ILCS §§ 705/19 and 705/20, the provisions of these sections of the Act will control.”
5. 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, a franchise agreement may provide for arbitration to take place outside Illinois.
6. Your rights upon Termination and Non-Renewal are set forth in section 19 and 20 of the Illinois Franchise Disclosure Act.
7. In conformance with Section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provisions 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.
8. To the extent any provision regarding termination or renewal of the Franchise Agreement is inconsistent with the Illinois Franchise Disclosure Act §§ 815 ILCS §§ 705/19 and 705/20, the provisions of these sections of the Act will control.
9. No franchisee shall be required to litigate any cause of action, with the exception of arbitration proceedings, arising under the Franchise Agreement or the Act outside of the State of Illinois, nor shall the Franchise Agreement provide for a choice of law provision for any state other than Illinois.
10. Any condition, stipulation, or provision purporting to bind a franchisee to waive compliance with any provision of the Act, or any other Illinois law is void. The foregoing requirement, however, shall not prevent

a franchisee from entering into a settlement agreement or executing a general release regarding a potential or actual lawsuit filed under any of the provisions of the Act, and shall not prevent the arbitration of any claim pursuant to the provisions of Title 9 of the United States Code.

**11. In Illinois, payment of Initial Franchise Fees owed to Franchisor/affiliate will be deferred until Franchisor has met its initial obligations to franchisee, and franchisee has commenced doing business. The Illinois Attorney General's Office imposed this deferral requirement due to the Franchisor's financial condition.**

12. Each provision of this Amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Act are met independently without reference to this Amendment.

13. No statement, questionnaire or acknowledgement signed or agreed to by a developer 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 behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

The parties hereto have duly executed this Illinois Amendment to the Franchise and Multi-Unit Development Agreement on the same date as that on which the Franchise Agreement was executed.

FRANCHISEE (Entity):

\_\_\_\_\_

FRANCHISOR:

CANDY CLOUD FRANCHISING LLC

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: Alex Edwards

Title: CEO

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

## **INDIANA ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT**

The Indiana Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with Indiana law, including the Indiana Franchises Act, Ind. Code Ann. §§ 1 - 51 (1994) and the Indiana Deceptive Franchise Practices Act, Ind. Code Ann. § 23-2-2.7 (1985) (collectively referred to as the “Acts”). To the extent that (a) the jurisdictional requirements of the Acts are met and (b) this Franchise Disclosure Document and Franchise Agreement contain provisions that are inconsistent with the following, such provisions are hereby amended:

(a) To the extent the Franchise Agreement contains provisions allowing the establishment of franchisor-owned outlets that are inconsistent with the Indiana Deceptive Franchise Practices Act § 23-2-2.7(2), the requirements of this section of the Indiana Act will control.

(b) The franchisor may not make any substantial modification of the Franchise Agreement without the franchisee’s written consent.

(c) To the extent any provision regarding renewal or termination of the Franchise Agreement is inconsistent with the Indiana Deceptive Franchise Practices Act §§ 23-2-2.7(7) and (8), the provisions of these sections of the Indiana Act will control.

(d) Any requirement in the Franchise Agreement that requires the franchisee to prospectively assent to a release, assignment, novation, wavier or estoppel shall not relieve any person from liability arising under the Acts.

(e) To the extent the covenants not to compete upon expiration or termination of the Franchise Agreement are inconsistent with the Indiana Deceptive Franchise Practices Act § 23-2-2.7(9), the provisions of this section of the Indiana Act will control.

(f) To the extent that any provision of the Franchise Agreement would be deemed unenforceable pursuant to the Indiana Deceptive Franchise Practices Act § 23-2-2.7(10), as this section of the Indiana Act is interpreted and applied, such provision of the Franchise Agreement shall be so deleted therefrom.

The parties hereto have duly executed this Indiana Amendment to the Franchise Agreement on the same date as that on which the Franchise Agreement was executed.

FRANCHISEE (Entity):

\_\_\_\_\_

FRANCHISOR:

CANDY CLOUD FRANCHISING LLC

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: Alex Edwards

Title: CEO

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

## **ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT PURSUANT TO THE MICHIGAN FRANCHISE INVESTMENT LAW**

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:

- (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 the Michigan Franchise Investment 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.
- (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.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, the franchisor shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

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: Michigan Attorney General's Office, Consumer Protection Division, Attention: Franchise Section, G. Mennen Williams Building, 1st Floor, 525 West Ottawa Street, Lansing, Michigan 4893, Telephone Number: 517-373-7117.

## **MINNESOTA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

The Commissioner of Commerce for the State of Minnesota requires that certain provisions contained in franchise documents be amended to be consistent with Minnesota Franchise Act, Minn. Stat. Section 80.01 et seq., and of the Rules and Regulations promulgated under the Act (collectively the "Franchise Act"). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

1. Item 6, Non-Sufficient Funds Fee, is amended to state:

Pursuant to Minn. Stat. § 604.113, the Non-Sufficient Funds Fee is \$30.00 per occurrence.

2. Item 17 is amended to state:

(a) Minn. Stat. § 80C.21 and Minnesota Rules § 2860.4400(J) prohibit us from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring you to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in this Franchise Disclosure Document or agreement(s) shall abrogate or reduce (1) any of your rights as provided for in Minn. Stat. Chapter 80C or (2) your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

(b) In accordance with Minn. Stat. § 80C.14 subd. 3-5, except in certain specified cases, we will give you 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the Franchise Agreement. Additionally, we will not unreasonably withhold our consent to a transfer of your Board and Brush Creative Studio.

(c) In accordance with Minnesota Rules 2860.4400(D), we cannot require you to assent to a general release.

(d) In accordance with Minnesota Rules 2860.4400(J), we cannot require you to consent to liquidated damages.

(e) Minn. Stat. § 80C.17 subd. 5 requires that an action be commenced pursuant to the Franchise Act within three (3) years after the cause of action accrues.

(f) You cannot consent to us obtaining injunctive relief. We may seek injunctive relief. See Minnesota Rules 2860.4400(J).

(g) In accordance with Minnesota law. Minn. Stat. §80C.14, Franchisor shall share in Franchisee's loss, costs or expenses in the event Franchisor rebrands the franchised business during the term of the franchise agreement.

3. **In Minnesota the payment of Initial Franchise Fees owed shall be deferred until the Franchised Business has commenced doing business.**

## MICHIGAN NOTICE

**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:**

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assents to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in the Michigan Franchise Investment Law. 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 before 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.
- (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 sell 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 3<sup>rd</sup> 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 that permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to franchisee unless provision has been made for providing the required contractual services.

**The fact that there is a notice of this offer 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 Michigan Department of Attorney General, Consumer Protection Division, 670 Law Building, Lansing, MI 48913, telephone: (517) 373-7117.

**MINNESOTA ADDENDUM TO THE FRANCHISE AGREEMENT**  
**AND MULTI-UNIT DEVELOPMENT AGREEMENT**

In recognition of the requirements of the Minnesota Statutes Chapter 80C, the parties to the attached Candy Cloud Franchise Agreement (the "Franchise Agreement") agree as follows:

1. Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee's assent to a release other than as part of a voluntary settlement of disputes. To the extent of any inconsistencies with the Minnesota Rules requirement contained in Sections 5.2.5 or 16.3.6 of the Franchise Agreement, such inconsistent provisions are hereby deleted.

2. To the extent of any inconsistencies, Section 5.1.1 of the Franchise Agreement is hereby amended to state:

"Except in certain specified cases as set forth in Minn. Stat. § 80C.14 subd. 4, Franchisor will give Franchisee 180 days' notice for non-renewal of the Franchise Agreement."

3. To the extent of any inconsistencies, Section 6.4 of the Franchise Agreement is hereby amended to state that the non-sufficient funds fee is Thirty Dollars (\$30.00) per occurrence.

4. To the extent of any inconsistencies, Sections 17.1 through 17.3 of the Franchise Agreement are hereby amended to state:

"Except in certain specified cases as set forth in Minn. Stat. § 80C.14 subd. 3, Franchisor will give Franchisee 90 days notice of termination (with 60 days to cure)".

5. To the extent of any inconsistencies, Article 20, Dispute Resolution, of the Franchise Agreement is hereby amended to state:

"Franchisor cannot require Franchisee to: (i) conduct litigation outside Minnesota, (ii) waive a jury trial, or (iii) consent to liquidated damages, termination penalties or judgment notes. Nothing in this Franchise Agreement shall abrogate or reduce (1) any of Franchisee's rights as provided for in Minn. Stat. Chapter 80C or (2) Franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction. Franchisee cannot consent to Franchisor obtaining injunctive relief. Franchisor may seek injunctive relief."

6. In accordance with Minnesota law. Minn. Stat. §80C.14, Franchisor shall share in Franchisee's loss, costs or expenses in the event Franchisor rebrands the franchised business during the term of the franchise agreement.

7. Each provision of this Amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Statutes Chapter 80C are met independently without reference to this Amendment.

8. Sections 6.2, 6.7, 6.8, 18.1.8 of the Franchise Agreement are amended by addition of the following language: "These provisions are not enforceable under Minnesota law."

9. The Franchisor's right to the primary trademark may have infringing use by a non-competitive and unrelated business operating in South Dakota, this could adversely affect franchisees use of those primary trademarks in Minnesota.

10. Minnesota Rules 2860.4400(G) prohibits a franchisor from imposing on a franchisee by contract or rule, whether written or oral, any standard of conduct that is unreasonable.

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

12. **In Minnesota the payment of Initial Franchise Fees owed shall be deferred until the Franchised Business has commenced doing business.**

The parties hereto have duly executed this Minnesota Amendment to the Franchise and Multi-Unit Development Agreement on the same date as that on which the Franchise Agreement was executed.

FRANCHISEE (Entity):

\_\_\_\_\_

FRANCHISOR:

CANDY CLOUD FRANCHISING LLC

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: Alex Edwards

Title: CEO

FRANCHISEE (Principal):

\_\_\_\_\_

Name: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_

Name: \_\_\_\_\_

**VIRGINIA ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT,  
FRANCHISE AGREEMENT AND MULTI-UNIT OPERATOR AGREEMENT**

1. The following statements are added to Item 17.h.

Pursuant 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.

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a Franchisor to use undue influence to induce a franchisee to surrender any right given to him under the franchise. If any provision of the Franchise Agreement involves the use of undue influence by the franchisor to induce a franchisee to surrender any rights given to him under the franchise, that provision may not be enforceable.

2. Each provision of this Amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Virginia Retail Franchising Act are met independently without reference to this Amendment.

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. The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise agreement.

The parties hereto have duly executed this Virginia Amendment to the Franchise Disclosure Documents, Franchise Agreement and Multi-Unit Development Agreement on the same date as that on which Agreement was executed.

FRANCHISEE (Entity):

\_\_\_\_\_

FRANCHISOR:

CANDY CLOUD FRANCHISING LLC

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: Alex Edwards

Title: CEO

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_  
Name: \_\_\_\_\_

## **NORTH CAROLINA LAW DISCLOSURES**

The State of North Carolina has not reviewed and does not approve, recommend, endorse or sponsor any business opportunity. The information contained in this disclosure has not been verified by the State. If you have any questions about this investment, see an attorney before you sign a contract or agreement.

If the seller fails to deliver the product(s), equipment or supplies necessary to begin substantial operation of the business within 45 days of the delivery date stated in your contract, you may notify the seller in writing and demand that the contract be cancelled. (N.C.G.S. §66-95)

THE PARTIES hereto have duly executed, sealed and delivered this Addendum dated this

\_\_\_\_\_.

FRANCHISEE (Entity):

\_\_\_\_\_

FRANCHISOR:

CANDY CLOUD FRANCHISING LLC

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: Alex Edwards

Title: CEO

FRANCHISEE (Principal):

\_\_\_\_\_

Name: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_

Name: \_\_\_\_\_

## **SOUTH CAROLINA LAW DISCLOSURES**

If the seller fails to deliver the product, equipment or supplies necessary to begin substantial operation of the business within forty-five days of the delivery date stated in your contract, you may notify the seller in writing and demand that the contract be cancelled.

The parties hereto have duly executed, sealed and delivered this Addendum dated \_\_\_\_\_.

FRANCHISEE (Entity):

\_\_\_\_\_

FRANCHISOR:

CANDY CLOUD FRANCHISING LLC

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: Alex Edwards

Title: CEO

FRANCHISEE (Principal):

\_\_\_\_\_

Name: \_\_\_\_\_

FRANCHISEE (Principal):

\_\_\_\_\_

Name: \_\_\_\_\_

## EXHIBIT H

### ACKNOWLEDGEMENT STATEMENT

Acknowledgement of the truthfulness of the statements below are an inducement for the Franchisor to enter into a Franchise Agreement (or Multi-Unit Development Agreement). Notify Franchisor immediately, prior to acknowledgment, if any statement below is incomplete or incorrect.

**No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee (or developer) 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.**

1. Franchisee (or Developer) has conducted an independent investigation of all aspects relating to the financial, operational, and other aspects of the business of operating the Franchised Business. Franchisee (or Developer) further acknowledges that, except as may be set forth in Franchisor's Disclosure Document, no representations of performance (financial or otherwise) for the Franchised Business provided for in this Agreement has been made to Franchisee (or Developer) by Franchisor and Franchisee (or Developer) and any and all Principals hereby waive any claim against Franchisor for any business failure Franchisee (or Developer) may experience as a franchisee (or developer) under this Agreement.

\_\_\_\_\_  
Initial

2. Franchisee (or Developer) has conducted an independent investigation of the business contemplated by this Agreement and understands and acknowledges that the business contemplated by this Agreement involves business risks making the success of the venture largely dependent upon the business abilities and participation of Franchisee (or Developer) and its efforts as an independent business operation.

\_\_\_\_\_  
Initial

3. Franchisee (or Developer) agrees that no claims of success or failure have been made to it or him or her prior to signing the Franchise Agreement (or Multi-Unit Development Agreement) and that it/she/he understands all the terms and conditions of the Franchise Agreement (or Multi-Unit Development Agreement). Franchisee (or Developer) further acknowledges that the Franchise Agreement (or Multi-Unit Development Agreement) contains all oral and written agreements, representations, and arrangements between the parties hereto, and any rights which the respective parties hereto may have had under any other previous contracts are hereby cancelled and terminated, and that this Agreement cannot be changed or terminated orally.

\_\_\_\_\_  
Initial

4. Franchisee (or Developer) has no knowledge of any representations by Franchisor or its officers, directors, shareholders, employees, sales representatives, agents or servants, about the business contemplated by the Franchise Agreement (or Multi-Unit Development Agreement) that are contrary to the terms of the Franchise Agreement (or Multi-Unit Development Agreement) or the documents incorporated herein. Franchisee (or Developer) acknowledges that no representations or warranties are made or implied, except as specifically set forth in the Franchise Agreement (or Multi-Unit Development Agreement). Franchisee

(or Developer) represents, as an inducement to Franchisor's entry into this Agreement, that it has made no misrepresentations in obtaining the Franchise Agreement (or Multi-Unit Development Agreement).

\_\_\_\_\_  
Initial

5. Franchisor expressly disclaims the making of, and Franchisee (or Developer) acknowledges that it has not received or relied upon, any warranty or guarantee, express or implied, as to the potential volume, profits or success of the business venture contemplated by the Franchise Agreement (or Multi-Unit Development Agreement).

\_\_\_\_\_  
Initial

6. Franchisee (or Developer) acknowledges that Franchisor's approval or acceptance of Franchisee's (or Developer's) Business location does not constitute a warranty, recommendation, or endorsement of the location for the Franchised Business, nor any assurance by Franchisor that the operation of the Franchised Business at the premises will be successful or profitable.

\_\_\_\_\_  
Initial

7. Franchisee (or Developer) acknowledges that it has received the CANDY CLOUD FRANCHISING LLC Franchise Disclosure Document with a complete copy of the Franchise Agreement (and Multi-Unit Development Agreement) and all related Attachments and agreements at least fourteen (14) calendar days prior to the date on which the Franchise Agreement (or Multi-Unit Development Agreement) was executed. Franchisee (or Developer) further acknowledges that Franchisee (or Developer) has read such Franchise Disclosure Document and understands its contents.

\_\_\_\_\_  
Initial

8. Franchisee (or Developer) acknowledges that it has had ample opportunity to consult with its own attorneys, accountants, and other advisors and that the attorneys for Franchisor have not advised or represented Franchisee (or Developer) with respect to the Franchise Agreement (or Multi-Unit Development Agreement) or the relationship thereby created.

\_\_\_\_\_  
Initial

9. Franchisee (or Developer), together with Franchisee's (or Developer's) advisers, has sufficient knowledge and experience in financial and business matters to make an informed investment decision with respect to the Franchise granted by the Franchise Agreement (or Multi-Unit Development Agreement).

\_\_\_\_\_  
Initial

10. Franchisee (or Developer) is aware of the fact that other present or future franchisees (or developers) of Franchisor may operate under different forms of agreement(s), and consequently that Franchisor's obligations and rights with respect to its various franchisees may differ materially in certain circumstances.

\_\_\_\_\_  
Initial

11. It is recognized by the parties that Franchisor is also (or may become) a manufacturer or distributor of certain products under the Marks licensed herein; and it is understood that Franchisor does not warrant that such products will not be sold within the Franchisee's (or Developer's) Territory by others who may have purchased such products from Franchisor.

\_\_\_\_\_  
Initial

12. BY EXECUTING THE FRANCHISE AGREEMENT (OR MULTI-UNIT DEVELOPMENT AGREEMENT), FRANCHISEE (OR DEVELOPER) AND ANY PRINCIPAL, INDIVIDUALLY AND ON BEHALF OF FRANCHISEE'S (OR DEVELOPER'S) AND SUCH PRINCIPAL'S HEIRS, LEGAL REPRESENTATIVES, SUCCESSORS AND ASSIGNS, HEREBY FOREVER RELEASE AND CANDY CLOUD FRANCHISING LLC, CANDY CLOUD IP LLC, AND ANY OF THE ABOVE'S PARENT COMPANY, SUBSIDIARIES, DIVISIONS, AFFILIATES, SUCCESSORS, ASSIGNS AND DESIGNEES, AND THE FOREGOING ENTITIES' DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SHAREHOLDERS, SUCCESSORS, DESIGNEES AND REPRESENTATIVES FROM ANY AND ALL CLAIMS, DEMANDS AND JUDGMENTS RELATING TO OR ARISING UNDER THE STATEMENTS, CONDUCT, CLAIMS OR ANY OTHER AGREEMENT BETWEEN THE PARTIES EXECUTED PRIOR TO THE DATE OF THE FRANCHISE AGREEMENT (OR MULTI-UNIT DEVELOPMENT AGREEMENT), INCLUDING, BUT NOT LIMITED TO, ANY AND ALL CLAIMS, WHETHER PRESENTLY KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, ARISING UNDER THE FRANCHISE, SECURITIES, TAX OR ANTITRUST LAWS OF THE UNITED STATES OR OF ANY STATE OR TERRITORY THEREOF. THIS RELEASE SHALL NOT APPLY TO ANY CLAIMS ARISING FROM REPRESENTATIONS MADE BY FRANCHISOR IN FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENT RECEIVED BY FRANCHISEE (OR DEVELOPER).

\_\_\_\_\_  
Initial

FRANCHISEE (Entity)

FRANCHISEE (Principal):

\_\_\_\_\_

Name: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

FRANCHISEE (Principal):

DEVELOPER:

\_\_\_\_\_  
Name: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_

## STATE EFFECTIVE DATES

The following states 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 Disclosure Document is registered, on file or exempt from registrations in the following states having franchise disclosure laws, with the following effective dates:

| <b><u>STATE</u></b> | <b><u>EFFECTIVE DATE</u></b> |
|---------------------|------------------------------|
| Illinois            | <i>Pending</i>               |
| Indiana             | <i>Pending</i>               |
| Michigan            | <i>Pending</i>               |
| Minnesota           | <i>Pending</i>               |
| Virginia            | <i>Pending</i>               |
| Wisconsin           | <i>Pending</i>               |

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 Franchise Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Franchise Disclosure Document and all exhibits carefully.

If Candy Cloud Franchising LLC offers you a franchise, it must provide this Disclosure Document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

New York requires you to receive this Franchise Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If Candy Cloud Franchising LLC does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580 and to your state authority listed on Exhibit A.

The name and principal business address and telephone number of each franchise seller offering the franchise is:

|                                                                                           |
|-------------------------------------------------------------------------------------------|
| Alex Edwards<br>9934 N Alpine Road, Suite 100<br>Machesney Park, IL 61115<br>815-264-2168 |
|-------------------------------------------------------------------------------------------|

Issuance Date: December 19, 2024

I received a Disclosure Document dated December 19, 2024 that included the following Exhibits:

EXHIBIT A: State Agencies/Agents for Service of Process  
EXHIBIT B: Franchise Agreement  
EXHIBIT C: Multi-Unit Development Agreement  
EXHIBIT D: Financial Statements  
EXHIBIT E: Operations Manual Table of Contents  
EXHIBIT F: Franchised Outlets as of August 31, 2024  
EXHIBIT G: State Addenda  
EXHIBIT H: Acknowledgment Statement

Date Received: \_\_\_\_\_  
(If other than date signed)

DATE: \_\_\_\_\_

Print Name: \_\_\_\_\_

Print Address: \_\_\_\_\_

City, State: \_\_\_\_\_

\_\_\_\_\_  
(Signature of recipient)

Please return signed receipt to Candy Cloud Franchising LLC,  
9934 N Alpine Road, Suite 100, Machesney Park, IL 61115.

## **RECEIPT**

This Franchise Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Franchise Disclosure Document and all exhibits carefully.

If Candy Cloud Franchising LLC offers you a franchise, it must provide this Disclosure Document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

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Date Received: \_\_\_\_\_  
(If other than date signed)

DATE: \_\_\_\_\_

Print Name: \_\_\_\_\_

Print Address: \_\_\_\_\_

City, State: \_\_\_\_\_

\_\_\_\_\_  
(Signature of recipient)

**KEEP FOR YOUR RECORDS**