

The Area Director Agreement provides for an initial 10-year term with perpetual 10-year renewals. To renew your rights under the Area Director Agreement, we must first agree to a new development schedule for your Territory. If at the end of the initial term of any renewal term we do not agree or you decide not to renew, and if you continue to support franchisees in your Territory, you will continue to receive the Service Commissions for franchisees in your Territory through the remaining term of their franchise agreements.

Market and Competition

The market for franchise sales is well developed and very competitive. As an area director, you will compete with other franchise development professionals (including inhouse sales personnel and third-party franchise brokers and consultants) who are seeking qualified franchise candidates for all types of franchise opportunities, including other pizza restaurant franchises, other types of restaurant franchises, sandwich franchises, specialty food franchises, retail franchises, fitness franchises, and service businesses.

Industry-Specific Laws and Regulations

California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin require that we register the franchise or make an annual filing before we can offer and sell franchises in the state. Some of these states require us to wait for state approval before we begin offering or selling franchises. If your Territory is in any of these states, you could experience a short “dark” period during which we cannot grant a franchise while waiting on state approval.

If your Territory is in a state that requires us to register the HAPPY JOE'S franchise opportunity, we may include your personal information as part of our registration application. New York and Washington require franchise brokers and sellers to maintain their own registrations.

ITEM 2 BUSINESS EXPERIENCE

President and Chief Executive Officer and Director: Thomas Sacco

Thomas Sacco was named our President and Chief Executive Officer in October 2020. From October 2020 to the present, he has been President and CEO of Dynamic Restaurant Acquisition, Inc., Dynamic Restaurant Franchising, Inc., HJ Dynamic Holdings, LLC, Dynamic Restaurant Holdings, LLC, TS Dynamic Holdings, LLC and TS Dynamic Acquisition, Inc. From July 2017 to the present, he has been a Restaurant Management Consultant for New Century Dynamics, Inc. d/b/a In The Black Partners in Atlanta, Georgia. From January 2018 to the present, he has been an Advisory Board Member of BGMXX, Inc. d/b/a Blue Goose Cantina and RAPXX, LP d/b/a Aw Shucks Oyster Bar in Addison, Texas. From January 2000 to present, he has been President of DALMS, Inc. in Austin, Texas, a restaurant consulting firm offering “C Level” and Board of Directors advisory consultation.

Chief Financial Officer: Aaron Huber

Aaron Huber has been our Chief Financial Officer since October 2024. From March 2023 to September 2024, he was Director of Accounting for Sagemark Ltd. d/b/a The Hungry Hobo in Rock Island, Illinois. From October 2022 to February 2023, he was Controller of Dahl Ford in Davenport, Iowa. From July 2018 to October 2022, he was Accountant for Padgett Business Services in Moline, Illinois.

Vice President of Franchise Development: Kathy Davidson

Kathy Davidson has been our Vice President of Franchise Development since February 2020, and has been Vice President of Franchise Development of TS Dynamic Acquisition since February 2020. From August 2020 to the present, she has been self-employed as a franchise consultant in Dallas, Texas.

Vice President of Training & Culinary Development: Ashley Balluff

Ashley Balluff has been Vice President of Training & Culinary Development of our affiliate, Dynamic Restaurant Holdings, LLC since January 2025. From April 2022 to January 2025, she was Director of Training & Culinary Development of Dynamic Restaurant Holdings LLC. From September 2019 until April 2022, Ms. Balluff was Director of Field Training. ~~From August 2010 to August 2019, she was a District Coach/Manager for Max Brewer Corporation, a Happy Joe's franchisee, in Muscatine, Iowa. Prior to 2010, Ms. Balluff worked in corporate-owned HAPPY JOE'S PIZZA locations starting in 1999.~~

Vice President of Purchasing & Supply Chain: Jenny Culp

Jenny Culp has been Vice President of Purchasing & Supply Chain for our affiliate, Dynamic Restaurant Holdings, LLC since January 2025. From October 2022 to January 2025, she was Director of Purchasing & Supply Chain for Dynamic Restaurant Holdings, LLC. She was Director of Operations for Happy Joe's Company owned and operated restaurants from 2018 to October 2022. ~~Prior to 2018, Ms. Culp worked in corporate-owned HAPPY JOE'S PIZZA locations starting in 2007.~~

Vice President of Operations: Christopher Anschutz

Christopher Anschutz has been Vice President of Operations for our affiliate, Dynamic Restaurant Holdings, LLC since January 2025. From October 2020 to January 2025, he was Director of Operations for Dynamic Restaurant Holdings, LLC.

Director of Community & Public Relations: Kristel Whitty Ersan

Kristel Whitty Ersan has been with Happy Joe's Pizza & Ice Cream in various roles since 1980. Kristel has been the Secretary/Treasurer, Vice President of Marketing, and Director of Marketing at various times for Happy Joe's Pizza & Ice Cream, and Happy Joe's Franchising, Inc. In Kristel's current role she is the local, Quad Cities media spokesperson, and wears a variety of hats supporting numerous functions, such as the annual Franchise Operators Conference, Special Events, such as the Quad Cities Mini-Marathon, and is the Chairperson who heads up the annual Happy Joe's Kids Foundation Christmas Party.

Director of Special Projects: Phil Pendleton

Phil Pendleton has been Director of Special Projects for our affiliate, Dynamic Restaurant Holdings, LLC since May 2023. Prior to this role, he has held various roles for Dynamic Restaurants Holdings, LLC. ~~From November 2019 to March 2020, he was an Amusement Tech. Beginning in March 2020, his role expanded to a multi-role position, including Website Administrator.~~ Beginning in April 2023, his role expanded into Special Projects for the Chief Executive Officer. Beginning in February 2024, his role with Dynamic Restaurants expanded to include Menu Coordinator for all locations.

Vice President of Marketing: Abigail "Abby" Rock

Abigail Rock has been Vice President of Marketing for our affiliate, Dynamic Restaurants Holdings, LLC since August 2025. From May 2013 to April 2024, she served as Director of Marketing for Necker's Jewelers in DeWitt and Davenport, Iowa. From March 2016 to August 2025, she has also been self-employed as a marketing consultant for B.A.M. Consulting in the Quad Cities area of Iowa and Illinois.

**ITEM 3
LITIGATION**

No litigation is required to be disclosed in this Item.

**ITEM 4
BANKRUPTCY**

Our President and CEO, Thomas Sacco, was CEO of Flipdaddy's, LLC, a Cincinnati, Ohio based burger and craft beer bar chain from April 2018 to June 2020. On December 6, 2018, Flipdaddy's LLC filed a Voluntary Petition for Bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. In re Flipdaddy's LLC No. 18-14408 (S.D. Ohio 2018). On February 9, 2021, the court issued an order dismissing the case.

On September 2, 2022, four of our operating affiliates, HJ Dynamic Holdings, LLC, TS Dynamic Holdings, LLC, Dynamic Restaurant Acquisition, Inc. and TS Dynamic Acquisition, Inc., filed for protection under Chapter 11 of the U.S. Bankruptcy Code, primarily seeking protection from lease liability: In re HJ Dynamic Holdings, LLC No. 22-10837 (JKS) (Delaware 2022), In re TS Dynamic Holdings, LLC No. 22-10838 (JKS) (Delaware 2022), In re Dynamic Restaurant Acquisition, Inc. No. 22-10839 (JKS) (Delaware 2022), and In re TS Dynamic Acquisition, Inc. No. 22-10840 (JKS) (Delaware 2022). These cases had their Plan of Reorganization approved by The United States Bankruptcy Court for the District of Delaware, and by the Honorable J. Kate Stickles, United States Bankruptcy Judge, on April 26, 2023. The affiliates have a

Totals	0	3	0
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Note: The term “Franchise Agreements” means Area Director Agreements relating to the Area Director Business. “Franchised Outlets” means Area Director Businesses and “Company-Owned Outlets” means Area Director Businesses.

A list of HAPPY JOE'S Area Director Businesses as of September 30, 2025, are attached as Exhibit F. Also attached as Exhibit F are the names, city and state, and telephone numbers of every area director who has had an Area Director Agreement terminated, canceled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the Area Director Agreement during the year ending September 30, 2025, or who has not communicated with the franchisor 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 three fiscal years, no current or former area directors have signed agreements restricting their ability to speak openly about the Happy Joe's franchise system.

The following is a trademark-specific franchisee association that was created and is sponsored by us: Happy Joe's National Franchise Board, 5239 Grand Avenue, Davenport, Iowa, 52807, Kari White, President, (563)-212-9922. There are no franchisee organizations that have asked to be disclosed in our disclosure document.

**ITEM 21
FINANCIAL STATEMENTS**

Also Attached as Exhibit A are our ~~audited~~:

1. Unaudited balance sheets as of October 1, 2025, to December 31, 2025, and the related statements of operations, stockholder's equity, and cash flows for October 1, 2025, to December 31, 2025.
2. Audited balance sheets as of September 30, 2025, 2024 and 2023 and the related statements of operations, stockholder's equity, and cash flows for the years ended September 30, 2025, 2024 and 2023. Our fiscal year end is September 30.

**ITEM 22
CONTRACTS**

The following contracts are included in this disclosure document:

Exhibit B – Area Director Agreement and state addenda

**ITEM 23
RECEIPTS**

Attached as the last two pages of this disclosure document are duplicative Receipts. Please sign and date both copies of the Receipt. Keep on signed copy of the Receipt for your file and return to us the other signed copy of the Receipt. The Receipt contains the names of our franchise sellers or brokers.

of the Minnesota Franchises Law.

Minnesota Statutes, Section 80C.21 and Minnesota Rule 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce any of franchisee's rights as provided for in Minnesota Statutes, Chapter 80C, or franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

Minnesota Rule 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.

The Contractual Limitations Period (Section 21.7) must comply with Minnesota Statutes, Section 80C.17, Subd. 5.

5. 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 franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE MINNESOTA FRANCHISE ACT. REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE COMMISSIONER OF COMMERCE OF MINNESOTA OR A FINDING BY THE COMMISSIONER THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

THE MINNESOTA FRANCHISE ACT MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WHICH IS SUBJECT TO REGISTRATION WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, AT LEAST 7 DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST 7 DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION, BY THE FRANCHISEE, WHICHEVER OCCURS FIRST, A COPY OF THIS PUBLIC OFFERING STATEMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE FRANCHISE. THIS PUBLIC OFFERING STATEMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR AN UNDERSTANDING OF ALL RIGHTS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

FOR THE STATE OF NORTH DAKOTA

1. The Securities Commissioner for the State of North Dakota has determined that the following types of provisions are deemed to be contrary to North Dakota law:

- (a) A provision in a Franchise Disclosure Document or Area Director Agreement specifying that the agreement is to be governed by the laws of a state other than North Dakota.
- (b) A provision in a Franchise Disclosure Document or Area Director Agreement requiring a North Dakota franchisee to consent to the jurisdiction of courts outside the state of North Dakota;
- (c) A provision in a Franchise Disclosure Document or Area Director Agreement requiring a North Dakota franchisee to sign a general release upon renewal of the Area Director Agreement;
- (d) A provision in a Franchise Disclosure Document or Area Director Agreement requiring a North Dakota franchisee to consent to termination penalties or liquidated damages;

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.

HAPPY JOE'S FRANCHISING, INC.
FINANCIAL STATEMENTS
EXHIBIT A TO THE FRANCHISE DISCLOSURE DOCUMENT

Profit & Loss - Location Side by Side - Period

Period Ending 10/31/2025

	Bettendorf	Locust	W 50th	Total
REVENUES				
Food Sales	142,357	96,382	119,068	372,806
Tap Room Sales	698		1,783	2,480
Other Operating Revenue	6,440	2,970	10,274	19,684
Total REVENUES	149,495	99,352	131,124	394,971
DISCOUNTS				
Sales Discounts	-12,794	-12,484	-10,931	-51,209
Total DISCOUNTS	-12,794	-12,484	-10,931	-51,209
Net Sales After Discounts	136,700	86,868	120,194	343,762
COST OF SALES				
Food Cost	39,014	23,237	34,568	96,819
Tap Room Cost	1,107		1,831	2,938
Other Cost of Sales	8,146	5,943	6,911	15,057
Total COST OF SALES	48,267	29,181	43,310	120,758
GROSS PROFIT	88,433	57,687	76,884	223,004
Payroll Expense				
Payroll - Controllable	36,567	22,117	33,955	92,639
Other Payroll	9,569	6,081	9,616	25,265
Total Payroll Expense	46,136	28,197	43,570	117,904
Expense				
VARIABLE EXPENSES	22,152	13,638	20,193	17
Fixed Expense	15,800	6,926	10,150	41,880
Total Expense	37,952	20,564	30,343	88,859
Total Operating Income	4,345	8,926	2,971	16,242
FUN CENTER				
Sales Redemption Games			3,843	3,843
Jungle Admission			3,120	3,120
C/S Redemption Game Prizes	-1,976		-5,123	-7,099
Non-redemption, Non-owned Game Inc	2,022		6,321	8,343
Total FUN CENTER	46	0	8,162	8,208
SHIPPED PIZZAS				
Shipping & Handling Income		-5,580		-5,580
Shipping & Handling Labor		1,823		1,823
Shipping & Handling Expense		5,335		5,335
Total SHIPPED PIZZAS	0	1,577	0	1,577
OTHER INCOME/EXPENSE				
Cost of Sales - Concession	-138			-138
Other Income	-11,557	-5,454	-9,796	-26,807
Delivery Income	5,678	5,050	5,100	15,828

Total OTHER INCOME/EXPENSE

-6,017	-404	-4,696	-11,117
10,408	7,753	15,829	33,990

Net Profit

Profit & Loss - Location Side by Side - Period

Period Ending 11/30/2025

	Bettendorf	Locust	W 50th	Total
REVENUES				
Food Sales	122,892	77,756	109,697	310,344
Tap Room Sales	958		2,245	3,203
Other Operating Revenue	5,377	2,413	10,563	18,353
Total REVENUES	129,226	80,169	122,505	331,900
DISCOUNTS				
Sales Discounts	-11,432	-12,679	-8,193	-32,304
Total DISCOUNTS	-11,432	-12,679	-8,193	-32,304
Net Sales After Discounts	117,794	67,490	114,312	299,595
COST OF SALES				
Food Cost	30,523	17,248	27,669	75,440
Tap Room Cost	-592		292	-300
Other Cost of Sales	-1,459	-3,353	-2,746	-7,559
Total COST OF SALES	28,471	13,895	25,215	67,581
GROSS PROFIT	89,323	53,595	89,096	232,014
Payroll Expense				
Payroll - Controllable	32,606	18,451	33,255	84,312
Other Payroll	8,829	6,926	10,150	25,905
Total Payroll Expense	41,435	25,377	43,405	110,217
Expense				
VARIABLE EXPENSES	11,620	7,719	14,493	33,832
Fixed Expense	21,331	14,199	19,775	55,305
Total Expense	32,951	21,918	34,268	89,136
Total Operating Income	14,937	6,300	11,423	32,661
FUN CENTER				
Sales Redemption Games			2,814	2,814
Jungle Admission			2,754	2,754
C/S Redemption Game Prizes	1,414		4,813	6,228
C/S Redemption Game Supplies			-153	-153
Redemption Game Maintenance	-29		-133	-162
Fun Center Wages			-1,218	-1,218
Fixed Expense Allocation			-7,000	-7,000
Non-redemption, Non-owned Game Inc	-248		4,243	3,995
Total FUN CENTER	1,138	0	6,119	7,257
SHIPPED PIZZAS				
Shipping & Handling Income		-1,705		-1,705
Shipping & Handling Labor		1,114		1,114
Shipping & Handling Expense		-897		-897
Total SHIPPED PIZZAS	0	-1,488	0	-1,488

OTHER INCOME/EXPENSE

Other Income	-9,480	-4,293	-8,633	-22,406
Supervisory Managment	-1,885	-1,465	-1,651	-5,000
Delivery Income	4,776	4,482	4,609	13,867
Total OTHER INCOME/EXPENSE	-6,589	-1,276	-5,674	-13,539
Net Profit	9,486	6,512	11,868	27,866

Profit & Loss - Location Side by Side - Period

Period Ending 12/31/2025

	Bettendorf	Locust	W 50th	Total
REVENUES				
Food Sales	142,357	96,382	119,068	372,806
Tap Room Sales	698		1,783	2,480
Other Operating Revenue	6,440	2,970	10,274	19,684
Total REVENUES	149,495	99,352	131,124	394,971
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Total OTHER INCOME/EXPENSE

-6,017	-404	-4,696	-11,117
10,408	7,753	15,829	33,990

Net Profit

HAPPY JOE'S FRANCHISING, INC.

AUDITED FINANCIAL STATEMENTS

Years Ended September 30, 2025, 2024, and 2023

HAPPY JOE'S FRANCHISING, INC.

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements	
Balance Sheets	3
Statements of Operations	4
Statements of Stockholder's Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7



INDEPENDENT AUDITOR'S REPORT

To the Stockholder
Happy Joe's Franchising, Inc.

Opinion

We have audited the financial statements of Happy Joe's Franchising, Inc. (the Company), which comprise the balance sheets as of September 30, 2025, 2024 and 2023, and the related statements of operations, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2025, 2024 and 2023, 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 (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

UHY LLP

West Des Moines, Iowa
January 27, 2026

HAPPY JOE'S FRANCHISING, INC.

BALANCE SHEETS

	September 30,		
	2025	2024	2023
Assets (Note 3)			
Current assets:			
Cash	\$ 15,591	\$ 366,800	\$ 9,691
Accounts receivable, net	60,605	71,431	98,967
Inventory	19,684	22,908	31,506
Prepaid expenses	266,077	285,568	138,469
Due from affiliates	571,198	374,913	357,587
Total current assets	<u>933,155</u>	<u>1,121,620</u>	<u>636,220</u>
Intangible assets, net	730,123	1,088,293	1,446,463
Property and equipment	162,385	-	-
Total assets	<u>\$ 1,825,663</u>	<u>\$ 2,209,913</u>	<u>\$ 2,082,683</u>
Liabilities and stockholder's equity			
Current liabilities:			
Accounts payable	\$ 18,818	\$ 13,598	\$ 32,738
Income tax payable	9,735	-	-
Deferred revenue	907,816	1,019,046	486,045
Total current liabilities	<u>936,369</u>	<u>1,032,644</u>	<u>518,783</u>
Commitments and contingency (Note 3)			
Stockholder's equity:			
Common stock, no par value; 100,000 shares authorized, 10,000 shares issued and outstanding	50,000	50,000	50,000
Additional paid-in capital	3,191,000	3,191,000	3,191,000
Accumulated deficit	(2,351,706)	(2,063,731)	(1,677,100)
Total stockholder's equity	<u>889,294</u>	<u>1,177,269</u>	<u>1,563,900</u>
Total liabilities and stockholder's equity	<u>\$ 1,825,663</u>	<u>\$ 2,209,913</u>	<u>\$ 2,082,683</u>

HAPPY JOE'S FRANCHISING, INC.
STATEMENTS OF OPERATIONS

	Years Ended September 30,		
	2025	2024	2023
Revenues:			
Royalties and franchise fees	\$ 1,403,017	\$ 1,330,679	\$ 1,357,335
Commissary sales	10,893	12,981	20,736
Total revenues	<u>1,413,910</u>	<u>1,343,660</u>	<u>1,378,071</u>
Costs and expenses:			
Cost of commissary sales and commissions	27,089	39,199	23,321
Payroll and related costs	531,003	539,651	462,424
Operating expenses	775,888	805,665	702,586
Amortization	358,170	358,170	356,028
Total costs and expenses	<u>1,692,150</u>	<u>1,742,685</u>	<u>1,544,359</u>
Other income	-	12,394	54,857
Loss before income tax	<u>(278,240)</u>	<u>(386,631)</u>	<u>(111,431)</u>
Income tax expense	(9,735)	-	-
Net loss	<u>\$ (287,975)</u>	<u>\$ (386,631)</u>	<u>\$ (111,431)</u>

HAPPY JOE'S FRANCHISING, INC.
STATEMENTS OF STOCKHOLDER'S EQUITY
Years Ended September 30, 2025, 2024 and 2023

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at September 30, 2022	\$ 50,000	\$ 3,191,000	\$ (1,565,667)	\$ 1,675,333
Net loss	-	-	(111,433)	(111,433)
Balance at September 30, 2023	<u>50,000</u>	<u>3,191,000</u>	<u>(1,677,100)</u>	<u>1,563,900</u>
Net loss	-	-	(386,631)	(386,631)
Balance at September 30, 2024	<u>50,000</u>	<u>3,191,000</u>	<u>(2,063,731)</u>	<u>1,177,269</u>
Net loss	-	-	(287,975)	(287,975)
Balance at September 30, 2025	<u>\$ 50,000</u>	<u>\$ 3,191,000</u>	<u>\$ (2,351,706)</u>	<u>\$ 889,294</u>

See accompanying notes to financial statements.

HAPPY JOE'S FRANCHISING, INC.
STATEMENTS OF CASH FLOWS

	Years Ended September 30,		
	2025	2024	2023
Operating activities			
Net loss	\$ (287,975)	\$ (386,631)	\$ (111,433)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Amortization	358,170	358,170	356,028
Changes in working capital components:			
Accounts receivable	10,826	27,536	18,243
Inventory	3,224	8,598	(5,701)
Prepaid expenses	19,491	(147,099)	(14,869)
Accounts payable	5,220	(19,140)	11,218
Income tax payable	9,735	-	-
Deferred revenue	(111,230)	533,001	(18,938)
Due from affiliates	(196,285)	(17,326)	(245,715)
Net cash provided by (used in) operating activities	<u>(188,824)</u>	<u>357,109</u>	<u>(11,167)</u>
Investing activities			
Purchase of intangible assets	-	-	(14,364)
Purchase of property and equipment	(162,385)	-	-
Net cash used in investing activities	<u>(162,385)</u>	<u>-</u>	<u>(14,364)</u>
Net increase (decrease) in cash	<u>(351,209)</u>	<u>357,109</u>	<u>(25,531)</u>
Cash at beginning of year	366,800	9,691	35,222
Cash at end of year	<u>\$ 15,591</u>	<u>\$ 366,800</u>	<u>\$ 9,691</u>

See accompanying notes to financial statements.

HAPPY JOE'S FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2025, 2024 and 2023

NOTE 1 — NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Happy Joe's Franchising, Inc. (the Company) was incorporated on August 29, 2000. The operations of the Company consist of franchisor rights for 34 (as of September 30, 2025) franchised and licensed pizza and ice cream stores located in the Midwest region of the United States and the granting of franchises for future Happy Joe's restaurants. On October 24, 2017, the Company's shareholder sold the outstanding common stock of the Company to Dynamic Restaurant Franchising, Inc. (DRF), a subsidiary of Dynamic Restaurant Holdings, LLC (DRH), with the intent of growing the franchising operations of the Happy Joe's brand in collaboration with other current and future regional pizza concepts owned by DRH.

Cash

Cash consists of deposits in federally insured financial institutions with original maturities of less than three months.

The Company maintains cash in bank accounts which, at times, may exceed Federal Deposit Insurance Corporation limits. The Company believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate for allowance for credit losses. The allowance for credit losses is determined by evaluating the anticipated impact on the balance of current economic conditions, changes in the character and size of the balance, past and expected future loss experience, reasonable and supportable forecasts, and other pertinent factors. Accounts receivable are written off when deemed uncollectible, and recoveries of written off accounts are recorded when received. The allowance for credit losses balance was as follows at September 30:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Beginning Balance	\$ 5,686	\$ 7,636	\$ 4,700
Write-offs	(4,963)	(2,950)	-
Provision	-	1,000	2,936
Ending Balance	<u>\$ 723</u>	<u>\$ 5,686</u>	<u>\$ 7,636</u>

Inventory

Inventory consists of commissary products and is stated at the lower of cost or net realizable value. Cost has been determined for substantially all inventory under the average cost method.

Property and Equipment

Property and equipment consists of a food truck and is recorded at cost, net of accumulated depreciation. Depreciation is computed by the straight-line method over an estimated useful life of five years.

HAPPY JOE'S FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2025, 2024 and 2023

NOTE 1 — NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets, Net

Intangible assets represent franchise rights and prototype development costs. Intangible assets are reported at cost (measured at fair value on the acquisition date), net of accumulated amortization, and are amortized on a straight-line basis over the estimated useful life, which is ten years for franchise rights and five for prototype development costs. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. No impairments were identified for the years ending September 30, 2025, 2024, and 2023.

Revenue Recognition

Revenues consist primarily of franchise revenue, which includes franchisee royalties.

Royalties and Franchise Fees

Revenues the Company receives from franchise and license agreements include sales-based royalties, franchisee fees, and area development fees. The Company recognizes sales-based royalties from franchisees and licensees as the underlying sales occur. The Company also provides its franchisees with services associated with opening new restaurants and operating them under franchise and development agreements in exchange for area development and franchise fees. The Company has adopted the accounting standards update (ASU) ASU 2021-02, *Franchisors – Revenue from Contracts with Customers (Practical Expedient)*, as of October 1, 2020, which allows these activities to be recognized as revenue when performed, typically at the point the franchise is opened. Upfront fees collected that represent a franchise license fee are capitalized and recognized over the contracted franchise term as the services comprising the performance obligations are satisfied, typically over 10 to 15 years. Revenues for area development agreements are recognized as new franchises within the area are opened. All franchise license fees and fees collected under area development agreements that have not yet been earned are recorded as deferred revenue. Deferred revenue was \$504,983 as of October 1, 2022.

Trademark Fees

The Company receives fees in connection with the use of the Happy Joe's trademarks and logos, which are recorded as income when earned, generally on a straight-line basis over the term of the contract.

Other Revenues

Revenues for commissary sales, exclusivity rebates, annual franchise meeting, and other revenue are recognized when earned, which is usually a point-in-time when the products are sold or service is provided. Revenues from the annual franchise meeting are presented net of related costs and are recognized once the annual meeting occurs. The Company presents all sales net of sales-related taxes.

HAPPY JOE'S FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2025, 2024 and 2023

NOTE 1 — NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

For the years ending September 30, 2025, 2024 and 2023, income taxes are accounted for using a liability method and provide for the tax effects of transactions reported in the financial statements. Deferred taxes are adjusted to reflect deferred tax consequences at current enacted tax rates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible, when the assets and liabilities are recovered or settled. The Company has evaluated its income tax positions and has determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at September 30, 2025, 2024 and 2023.

Use of Estimates

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

NOTE 2 — INTANGIBLE ASSETS

Intangible assets consist of franchise rights and prototype costs summarized as follows at September 30:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Franchise agreements	\$ 3,191,000	\$ 3,191,000	\$ 3,191,000
Prototype	195,349	195,349	195,349
Intangible assets, cost	3,386,349	3,386,349	3,386,349
Accumulated amortization	<u>2,656,226</u>	<u>2,298,056</u>	<u>1,939,886</u>
	<u>\$ 730,123</u>	<u>\$ 1,088,293</u>	<u>\$ 1,446,463</u>

Amortization expense for future years is expected to be as follows:

Fiscal year ending:	
2026	\$ 358,170
2027	343,220
2028	<u>28,733</u>
	<u>\$ 730,123</u>

HAPPY JOE'S FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2025, 2024 and 2023

NOTE 3 — PLEDGE AGREEMENT AND TRANSACTIONS WITH AFFILIATES

DRH and its affiliates entered into a subordinated loan and investment arrangement with a member of DRH. All issued and outstanding ownership interests in the Company and its affiliates are pledged in connection with the agreement in addition to providing a security interest in substantially all assets of the Company, DRH and its affiliates, which is subordinate to the bank security interest. The balance of the member note was \$6,017,545 at September 30, 2025 and 2024, and is included in the DRH financial statements.

The Company shares certain administrative and overhead expenses with DRH and other affiliates under common ownership. The Company's share of these expenses was \$881,245, \$982,217, and \$796,463 for the years ended September 30, 2025, 2024 and 2023, respectively. These costs are recorded as a component of both payroll and related costs and operating expenses in the statements of operations.

The Company sold \$3,564, \$4,668, and \$7,945 of commissary items to affiliates for the years ended September 30, 2025, 2024, and 2023, respectively.

NOTE 4 — INCOME TAX

Total income taxes for the years ended September 30, 2025, 2024 and 2023, differed from the amount of income taxes computed by applying the United States federal income tax rate. The reasons for such differences are as follows:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Computed "expected" taxes (benefit)	\$ (58,400)	\$ (81,200)	\$ (23,400)
State income tax effect, net of federal tax benefit	(12,800)	(12,700)	2,600
Other	1,900	(4,100)	(21,200)
Change in valuation allowance	<u>79,000</u>	<u>98,000</u>	<u>42,000</u>
Net income tax expense (benefit)	<u>\$ 9,700</u>	<u>\$ -</u>	<u>\$ -</u>

For the years ending September 30, income tax expense consists of the following:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Current federal income tax expense	\$ 7,900	\$ -	\$ -
Current state income tax expense	<u>1,800</u>	<u>-</u>	<u>-</u>
Income tax expense	<u>\$ 9,700</u>	<u>\$ -</u>	<u>\$ -</u>

The Company applies the provisions of FASB ASC 740, Income Taxes, which requires the Company to assess its tax positions and determine if any positions are uncertain.

The Company has analyzed its filing positions open to review and believes all significant positions have a "more-likely-than-not" likelihood of being upheld based on its technical merits.

HAPPY JOE'S FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2025, 2024 and 2023

NOTE 4 — INCOME TAX (Continued)

Temporary differences between the financial statement basis and the income tax basis of assets and liabilities of the Company and the related deferred tax assets (liabilities) at September 30, 2025, 2024 and 2023 are as follows:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Net operating loss carryforwards	\$ 158,000	\$ 242,000	\$ 174,000
Intangible assets	209,000	172,000	135,000
Deferred revenue	226,000	97,000	100,000
Other	9,000	12,000	16,000
Valuation allowance	<u>(602,000)</u>	<u>(523,000)</u>	<u>(425,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The net deferred tax assets are reduced by a valuation allowance as management has determined it is more likely than not that some portion or all of the deferred tax assets will not be realized. At September 30, 2025, the Company had a federal net operating loss carryforward of \$631,000 with an unlimited carryforward period and subject to an 80% utilization against future taxable earnings. State net operating loss carryforwards are approximately \$517,000 as of September 30, 2025.

NOTE 5 — LIQUIDITY

The Company has incurred net losses of approximately \$278,000, \$387,000, and \$111,000 for the years ended September 30, 2025, 2024, and 2023, respectively. Due to the transition to new management, activities initiated to reduce expenses, and amortization of intangible assets. Management plans to continue to reduce expenses and increase revenues from new branding strategies to bring the Company stable, positive cash flows from operations in the future.

NOTE 6 — SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through January 27, 2026, the date which the financial statements were available to be issued.

THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE MINNESOTA FRANCHISE ACT. REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE COMMISSIONER OF COMMERCE OF MINNESOTA OR A FINDING BY THE COMMISSIONER THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

THE MINNESOTA FRANCHISE ACT MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WHICH IS SUBJECT TO REGISTRATION WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, AT LEAST 7 DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST 7 DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION, BY THE FRANCHISEE, WHICHEVER OCCURS FIRST, A COPY OF THIS PUBLIC OFFERING STATEMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE FRANCHISE. THIS PUBLIC OFFERING STATEMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR AN UNDERSTANDING OF ALL RIGHTS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20_____.

HAPPY JOE'S FRANCHISING, INC.:

By: _____

Title: _____

AREA DIRECTOR:

By: _____

Title: _____