

## **Special Risks to Consider About This Franchise**

Certain states require that the following risk be highlighted:

1. **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.
2. **Out-of-State Dispute Resolution.** The Franchise Agreement and Area Development Agreement require you to resolve disputes with the franchisor by mediation, arbitration and litigation only in Florida. Out-of-state mediation and arbitration 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 Florida than in your own state.
3. **Supplier Control.** You must purchase all or nearly all of the inventory and supplies necessary to operate your business from Franchisor, its affiliates, or from suppliers that Franchisor designates at prices that 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 franchised business.
4. **Financial Condition.** The Franchisor's financial condition, as reflected in its financial statements (see ITEM 21), calls into question the Franchisor's financial ability to provide services and support to you.
5. **Spousal Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the franchise agreement even though your spouse has no ownership interest in the franchise. This guaranty will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.
6. **Unopened Franchises.** The franchisor has signed a significant number of franchise agreements with franchisees who have not yet opened their outlets. If other franchisees are experiencing delays in opening their outlets, you also may experience delays in opening your own outlet.
- ~~6-7.~~ **Sales performance required.** You must maintain minimum sales performance levels. Your inability to maintain these levels may result in loss of any territorial rights you are granted, termination of your franchise, and loss of your investment.

Certain states may require other risks to be highlighted. If so, check the "State Specific Addenda" pages for your state.

**ITEM -6 OTHER FEES**

Column 1 <b>Type of Fee</b>	Column 2 <b>Amount</b>	Column 3 <b>Due Date</b>	Column 4 <b>Remarks</b>
Royalty Fee <sup>1</sup>	7% of Gross Revenues  Beginning on the first full calendar month, however, you must pay a minimum monthly Royalty Fee of \$900.	Deducted from ClubReady remittances twice weekly <sup>2</sup>	“Gross Revenues” means the entire amount of all your revenues generated from the ownership or operation of the Franchise Business as defined in the Franchise Agreement.
Technology Fee <sup>1</sup>	Currently \$385 per month	Prior to the opening of the Franchise Business, monthly (currently, on the 25 <sup>th</sup> day of each month) via EFT  After the Franchise Business opens, deducted from ClubReady remittances monthly <sup>2</sup>	Beginning the month in which the Franchise Agreement is executed by you and us, you must pay us the Technology Fee. The fee includes a listing on our Website, a store location e-mail address per location, and use of Stretch Net (our Intranet access), Career Plug, QuickBooks, Microsoft Office 365, KnetK, Predictive Index, Canva, and Perkvile.  <u>We collect the Technology Fee on behalf of third-party providers as a pass-through fee for the technology services described above. If any third-party service provider increases its fee for the technology services that it provides to franchisees, we have the right to increase the Technology Fee proportionally.</u>
Advertising Contributions to the Media Fund <sup>1</sup>	Initial Contribution of \$500 and 2% of monthly Gross Revenues thereafter	Deducted from ClubReady remittances <sup>2</sup>	We have created the Media Fund.  We define “Gross Revenues” under Royalty Fee above.
Advertising Contributions to an Advertising Cooperative <sup>3</sup>	Not to exceed 2% of monthly Gross Revenues, which counts towards Local Advertising requirement	Within 10 days of the end of the previous calendar month	You agree that we have the right to establish a regional advertising cooperative in any DMA. Upon our request, you will immediately become a member of the Cooperative for the DMA that includes your Limited Protected Territory. Your Franchise Business does not have to be a member of more than one Cooperative.
Supplier Approval Cost <sup>1</sup>	Actual Costs to Us (estimated to be \$250 to \$1,500)	Immediately upon receipt of invoice	You will pay a charge not to exceed the reasonable cost of the inspection and the actual cost of the testing

**<sup>9</sup> Indoor Signage and Graphics.** You must purchase from our Designated Supplier, the indoor signs and graphics. You may prepare, construct and erect the signs and graphics after obtaining approval from the applicable governmental authority and the landlord. You will maintain the interior signs and graphics in a condition acceptable to us.

**<sup>10</sup> Utility Deposits.** You will incur certain deposits with local utilities (for example, electric, telephone, gas, water, etc.). These will vary depending on the policies of the local utilities.

**<sup>11</sup> Supplies.** We will only allow office and store supplies that support the image and positioning of the Business System in the marketplace. Supplies of this nature include the format, type, decoration and style as they relate to store and office supplies, particularly in the area of stationery and forms. You agree to the importance of image and positioning to the Business System and agree to use only the supplies we specify or otherwise approve. These costs are based upon our estimate of the initial supplies.

**<sup>12</sup> Stretching Tables and Accessories.** You must purchase from our Designated Supplier, Stretch Equipment, LLC, the Stretch Zone stretching tables and the related accessories of kits, bolsters and wedges. The purchase price is not refundable, except for defective items.

**<sup>13</sup> Insurance.** As discussed in ITEM 8, we require that you carry certain insurance specified in the Operations Manual. The method and timing of payments is between you and your insurer. We require you to use R.V. Johnson Insurance as your Insurance Agent. Because the selection of the carrier, size of the Premises, location of the Premises, value of the leasehold improvements, amount of inventory, amount of wages and other related conditions vary considerably, it is difficult to estimate the ultimate cost for any given franchisee. We base this estimate on the rates in effect in Florida. The cost of workers' compensation insurance varies from state to state.

**<sup>14</sup> Licenses and Permits.** Local, municipal, county and state regulations vary on what licenses and permits you must obtain to operate the Franchise Business. In Florida, you must obtain city and county occupational licenses and a city retail license.

**<sup>15</sup> Attorney's Fees.** You may decide to form a Business Entity to operate the Franchise Business before beginning operations. You will have to comply with the fictitious, assumed, or trade name statutes of the state in which the Franchise Business will be located. These estimates include attorneys' fees, publication fees, filing fees and other costs for business entity formation, ~~compliance with your state's fictitious or assumed name statute and review of this Franchise Disclosure Document,~~ and lease review and negotiation, depending on the scope of representation. These fees may vary from state to state depending on each state's laws and the prevailing rates of attorneys' fees.

**<sup>16</sup> Accountant's Fees.** We recommend that you retain an accountant to advise you, including for the preparation of a business plan, tax advice on business entity formation, set up of accounting system, tax planning and compliance.

**<sup>17</sup> Travel, Lodging, Meals, Etc. During Franchisee Training and Regional Manager Training Programs.** You will be responsible for your and your personnel's traveling, living, and other expenses (including local transportation expenses), and compensation incurred in connection with attending our training programs. We assume no responsibility for your human resource-related liabilities or costs during this training. We will provide our Franchisee Training Program to you (if you are one or more individuals) or Franchise Owners (if you are

a business entity) prior to opening. We also will provide our Regional Manager Training Program (which includes our Stretch Practitioner Training Program) to your Regional Manager prior to opening. We anticipate that you or your Designated Representative will serve as your Regional Manager, although you may elect to hire another individual to serve as your Regional Manager. The typical costs of training that you will bear are for transportation, lodging, compensation and meals for the Trainees. The estimate is for items that are non-discretionary in nature. Generally, these costs vary widely as a function of the distance traveled, the accommodations and restaurants selected, the distance between the hotel and the training center and the transportation selected.

**<sup>18</sup> Contribution to Media Fund.** You must make an initial Advertising Contribution to the Media Fund when your location opens. This Advertising Contribution will be deducted from your ClubReady Remittances.

**<sup>19</sup> Opening Support Fee.** During the, approximately, three weeks before and the three weeks after the opening of the Franchise Business, we will assist you with the grand opening plan, as outlined in the Operations Manual, to introduce your Franchise Business to the community. We will provide you with promotional support, such as social media scheduling and posting, email scheduling and sending, photography, press release writing and promotion, print assets, grand opening assets, such as ribbon and scissors, and tools to assist in the capture of content – tripod, Bluetooth microphone, etc. This fee also includes travel-related expenses for the training representative during your Initial On-Site Training and the training fees associated with your initial hires for grand opening. This fee does not include your required digital media spend.

**<sup>20</sup> Required Pre-Opening Digital Media Spend.** Prior to opening the Franchise Business, you must spend in your Limited Protected Territory a minimum of \$5,000 for digital media marketing and lead generation for the Franchise Business. This amount is in addition to the Opening Support Fee.

**<sup>21</sup> Additional Funds.** The franchise disclosure laws require us to include this estimate of any other required expenses you will incur to operate your franchise business during the “initial phase of operations,” which is defined as a minimum of 3 months or a longer period if “reasonable for the industry.” You should have adequate working capital before beginning operating the Franchise Business. You must be able to meet your operating expenses from pre-opening, including hiring and training expenses, until the Franchise Business develops sufficient cash flow to cover all costs. These figures do not include any payments to you during the initial phase of operations. You must have sufficient personal resources to cover your living expenses. ~~You should work with your accountant to develop a personal/family cash flow budget and determine if there is sufficient revenue on the personal level to provide for your family through the initial phase of operations.~~

## **REFUNDABILITY**

To the best of our knowledge, except as described above, these expenditures are not refundable.

Provision	Section in Franchise Agreement	Summary
l. Our approval of transfer by you	Sections 10.2 and 10.3	We have the right to approve or disapprove of any transfers.
m. Conditions for our approval of transfer	Sections 10.2 and 10.3	<ol style="list-style-type: none"> <li>1. You must give us written notice</li> <li>2. We do not exercise our right of first refusal;</li> <li>3. You are not in default under any agreement you have with us or any Affiliate;</li> <li>4. The transferee must satisfactorily complete our application procedures;</li> <li>5. We must interview and approve the transferee;</li> <li>6. The transferee must sign a new franchise agreement that may impose materially different terms and conditions than those in your original Franchise Agreement but the transferee will not have to pay a new initial franchise fee;</li> <li>7. You or the transferee must pay the transfer fee;</li> <li>8. The transferee must properly assume all your obligations, including your lease;</li> <li>9. You must sign a Franchise Termination and Release Agreement of us attached as Exhibit N;</li> <li>10. The transferee must successfully complete our Franchisee Training Program and our other then-current training requirements.</li> <li>11. The parties must sign our transfer form.</li> </ol> <p style="margin-left: 40px;">Your buyer will be asked to sign a contract with materially different terms and conditions than your original contract.</p>
n. Our right of first refusal to acquire your business	Section 10.5	We have the option to purchase on the same terms as contained in the Offer. We will give you written notice of election within 30 days after our receipt of the Offer notice and all required information.
o. Our option to purchase your business	Section 12.4	We have the right (but not the duty), exercisable upon written notice to you given within 30 days after termination of the Franchise Agreement, to purchase for cash any assets of your Franchise Business at the fair market value.
p. Your death or disability	Section 10.4	Must transfer to an approved transferee within six months.
q. Non-competition covenants during the term of the franchise <sup>1</sup>	Subsection 13.1(a)(i)	<p>You may not:</p> <ol style="list-style-type: none"> <li>1. Influence any Business Associate of us to modify its relationship with us;</li> <li>2. Have any involvement with any Competitive Business;</li> </ol> <p>or</p> <ol style="list-style-type: none"> <li>3. Interfere with our business or any of our other Franchise Businesses.</li> </ol> <p>These provisions are subject to <a href="#">applicable</a> state law.</p>

Provision	Section in Franchise Agreement	Summary
r. Non-competition covenants after the franchise is terminated or expires <sup>1</sup>	Subsection 13.1(a)(ii)	<p>You may not, for 24 months after the end of your Franchise Agreement:</p> <ol style="list-style-type: none"> <li>1. Influence any Business Associate of us to modify its relationship with us;</li> <li>2. Have any involvement with any Competitive Business, within 50 miles of any Franchise Business then in operation or under contract; or</li> <li>3. Interfere with our business or any of our other Franchise Businesses.</li> </ol> <p>These provisions are subject to <a href="#">applicable</a> state law.</p>
s. Modification of the agreement	Sections 6.3, 13.1(e) and 19.2	<p>Your Franchise Agreement may not be modified without the consent of both you and us except:</p> <ol style="list-style-type: none"> <li>1. We may change the contents of the Operations Manual;</li> <li>2. We may modify the Business System; and</li> <li>3. A court may modify any provision of your Franchise Agreement in accordance with applicable law.</li> </ol>
t. Integration/merger clause	Section 19.14	<p>Only the terms of the Franchise Agreement and other written agreements are binding (subject to applicable state law). Nothing in the Franchise Agreement or in any other related written agreement is intended to disclaim the representations we made in this FDD. Any representations or promises outside the FDD and Franchise Agreement may not be enforceable.</p>
u. Dispute resolution by arbitration or mediation <sup>1</sup>	ARTICLE 17	<p>All disputes must be resolved first by informal dispute resolution and, if unsuccessful, by mediation and, if mediation is not successful, then by arbitration except claims involving:</p> <ol style="list-style-type: none"> <li>1. The Intellectual Property;</li> <li>2. Any lease or sublease of real property;</li> <li>3. Your obligations upon termination or expiration of your Franchise Agreement;</li> <li>4. Any transfers;</li> <li>5. Matters involving claims of danger, health or safety; and</li> <li>6. Requests for restraining orders, injunctions or similar procedures.</li> </ol> <p>You waive your rights to a jury trial and claims for punitive damages.</p>
v. Choice of forum <sup>1</sup>	Section 17.5	<p>Subject to state law, any informal dispute resolution, mediation or arbitration proceeding must be conducted where our principal office is located when the demand is requested. Any litigation to enforce the Franchise Agreement must be filed in the courts where our principal office is located when litigation is filed (currently Broward County, Florida).</p>