



A Place to Create!

HAWAII FLUID ART FRANCHISING, LLC

FRANCHISE DISCLOSURE DOCUMENT

ISSUANCE DATE: MAY 17, 2023

FRANCHISE DISCLOSURE DOCUMENT



Hawaii Fluid Art Franchising, LLC

A Texas limited liability company

438 Johnson Lane

Ovilla, TX 75154

(808) 344-4878

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www.HawaiiFluidArt.com

Hawaii Fluid Art Franchising, LLC (“**Hawaii Fluid Art**”) offers franchises for studios that offer art classes to groups and individuals featuring acrylic pour and resin art (a “**Studio**” or “**Franchised Business**”).

The total investment necessary to begin operation of a new Franchised Business ranges from \$148,500 to \$242,300. This includes \$59,500 to \$67,500 that must be paid to the franchisor or its affiliates.

If you enter into a Development Agreement, the total investment necessary to begin operation of one new Studio and to have the right to develop between a total of two and five Studios ranges from \$193,000 to \$417,800. This includes \$104,000 to \$243,000 that must be paid to the franchisor or its affiliates. You must open a minimum of 2 Franchised Businesses under a Development Agreement with us.

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 this Disclosure Document at least 14 calendar days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

You may wish to receive your Disclosure Document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Maya Ratcliff at 438 Johnson Lane, Ovilla TX 75154, (808) 344-4878, info@hawaiifluidart.com

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

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

Issuance Date: May 17, 2023

State Cover Sheet

How to Use This Franchise Disclosure Document

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

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

What You May 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 a 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 F.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement or area development 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 and area development agreement require you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Texas. 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 Texas than in your own state.
2. **Mandatory Minimum Payments.** You must make minimum royalty fee 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.

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EXHIBITS

- A. FINANCIAL STATEMENTS
- B. FRANCHISE AGREEMENT AND EXHIBITS
- C. AREA DEVELOPMENT AGREEMENT AND EXHIBITS
- D. STATE SPECIFIC ADDENDA AND RIDERS
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ITEM 1.
THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

General. To simplify the language in this Disclosure Document, “**Hawaii Fluid Art**”, “**HFA**” or “**we**” means Hawaii Fluid Art Franchising, LLC, the franchisor. “**You**” or “**Franchisee**” means the person or entity who buys the franchise, including all equity owners of a corporation, general partnership, limited partnership, limited liability, or any other type of entity (an “**Entity**”). If you are an Entity, each individual with direct or indirect ownership interest shall be referred to as an “**Owner.**”

Hawaii Fluid Art Franchising, LLC is a Texas Limited liability company organized on March 21, 2022, with a principal place of business at 438 Johnson Lane, Ovilla TX 75154. To the extent that we have designated agents for service of process in other states, they are listed in Exhibit F. We conduct business under the name “Hawaii Fluid Art”. We began offering Franchised Businesses in July 2021. We do not offer other franchises in any other line of business. We do not conduct any other business activities other than selling and supporting Franchised Businesses. We do not have any predecessors or parents.

The following affiliates operate Hawaii Fluid Art businesses in the United States, and they share our principal business address: Hawaii Fluid Art Dallas, LLC (“**HFA Dallas**”), Hawaii Fluid Art, LLC (“**HFA Waikoloa**”), and Hawaii Fluid Art KC, LLC (“**HFA KC**”). We refer to these Hawaii Fluid Art locations each as an “**Affiliate-Owned Business**” in this Disclosure Document. None of these affiliates offers franchises in any other line of business, and none of them will provide products or services to you, though one or more of the Affiliate-Owned Businesses may host portions of our training programs, or be available to you for viewing as part of the franchise awarding process.

Other than as described above, none of our affiliates will provide products or services to our franchisees. None of our affiliates offer franchises in any line of business.

The Business and Franchises Offered. We are offering, under the terms of this Disclosure Document, the opportunity to become a franchisee to develop and operate a Hawaii Fluid Art Franchised Business. Franchised Businesses offer: (i) group art classes focused on acrylic poured art techniques; (ii) individual art lessons in fluid art techniques and pour painting; (iii) the sale of artwork to retail customers; (iv) event space for exhibit customer art and small events; and (v) and other similar services that we may approve and modify from time to time (collectively the “**Approved Products and Services**”).

A Franchised Business operates under the “Hawaii Fluid Art” mark and certain other trademarks, service marks, trade names, signs, associated designs, artwork, and logos (collectively, the “**Marks**”). We may designate other trade names, service marks, and trademarks as Marks and may change the Marks at any time.

A Franchised Business operates under a prescribed system of specifications and operating procedures that we have developed and will continue to develop (the “**System**”). The distinguishing characteristics of the System include, but are not limited to, our designs, layouts, and identification schemes (collectively, the “**Trade Dress**”), our specifications for equipment, inventory, and accessories; our website or series of websites for the Franchised Businesses (the “**System Website**”); our relationships with vendors; our software and computer programs; the accumulated experience reflected in our training program, operating procedures, customer service standards methods, and marketing techniques; and the mandatory and suggested policies, procedures, standards, specifications, rules, and requirements (“**System Standards**”) set out in our operations manuals (“**Manuals**”) and otherwise in writing. We may change, improve, add to, and further develop the elements of the System from time to time.

You may purchase a Hawaii Fluid Art Franchised Business which grants you the right to develop and operate one Franchised Business at a mutually agreed upon site (“**Site**”) within an area (“**Site Selection Area**”) that we will specify in the Franchise Agreement that we and you will execute (the “**Franchise**”).

Agreement”). Our current form of Franchise Agreement is included as Exhibit B to this Disclosure Document. You will have no obligation, nor any right, to open any additional Franchised Businesses. Under the Franchise Agreement, you have no right to use the Marks or the System at any location other than the Site or to use the Marks or the System in any wholesale, e-commerce, or other channel of distribution other than the operation of the Franchised Business within the Territory. See Item 12 for more details about your Territory and certain rights that we retain.

You may, if we approve, convert an existing business offering similar services to a Franchised Business by entering into a Franchise Agreement with us. If you convert an existing business to a Franchised Business, you will be required to operate under the Marks and System and in accordance with all other terms of the Franchise Agreement and may not continue to operate under your prior business name.

You must designate an Owner with at least a 10% ownership interest in your Entity as the “**Operating Principal**.” The Operating Principal must have authority over all business decisions related to your Franchised Business and must have the power to bind you in all dealings with us. In addition, you must appoint a trained manager (the “**Key Manager**”) to manage the day-to-day business of your Franchised Business, who may also be the Operating Principal.

In the future, we may offer qualified parties the opportunity to operate as a Hawaii Fluid Art area representative (“**Area Representative**”). Area Representatives will recruit individuals interested in purchasing Franchises and assist us in providing certain support and services to Franchises located in a designated area. Area Representatives will also be required to operate at least one Franchised Business under a Franchise Agreement. We do not currently offer the opportunity to become an Area Representative under this Disclosure Document or any other disclosure document.

If we have appointed, or appoint in the future, an Area Representative to operate in the area in which your Franchised Business is located, such Area Representative may provide training, support, marketing, and other services to you on our behalf and will have the authority to exercise many of our rights and perform many of our obligations under the Franchise Agreement. We may, without your consent, appoint an Area Representative or a substitute for the Area Representative at any time.

Development Agreement. If we determine that you are financially and operationally qualified to develop multiple Studios, we may offer you the opportunity to enter into a “**Development Agreement**”, in which you will commit to develop a certain number of Studios in a defined geographic area (“**Development Area**”) that you and we determine to be appropriate over a set period time set forth in a “**Development Schedule**”. If you enter into a Development Agreement, you must pay us a development fee that is based upon the number of Studios set forth in your Development Schedule (the “Development Fee”). The Development Fee will be credited towards the initial Franchise Fee for each Studio developed under the Development Agreement. When signing a Development Agreement, you will execute an initial Franchise Agreement for your first franchise Studio, and you will be required to develop these additional units within a fixed time period. The initial Franchise Agreement will count as the first unit developed as part of your Development Schedule. You must sign our then-current franchise agreement for each additional Studio opened under the terms of the Development Agreement. These franchise agreements may not be the same as the initial Franchise Agreement that you will sign for your first Studio.

Competition. The general market for the products and services offered by Franchised Businesses is well developed, and there will be competition from other national and local businesses that offer the same or similar services. The market for our services is year-round, but it will fluctuate to some degree depending on the time of year. The success of your Franchised Business will depend in large measure on the demographics of the residents of your Territory, the competition surrounding your Franchised Business, local labor conditions and wage rates, the local costs of advertising, the availability of suitable facilities in convenient locations and at affordable rents, and your management, marketing, and selling skills and work

ethic. Your competitive advantage in the marketplace will be based largely on your adherence to our System Standards, as well as your entrepreneurial and managerial abilities and focus on customer service.

Industry-Specific Regulations. You will have to comply with federal, state, and local laws and regulations that are applicable to business generally (such as employment, workers' compensation, OSHA, insurance, and health and safety requirements). In some areas, you may be required to obtain certain business and trade licenses in order to perform the services. It is your responsibility to comply with all applicable laws in the operation of your Franchised Business. We urge you to make further inquiries about these laws in the area in which you intend to operate your Franchised Business.

Federal, state, and local governmental laws, ordinances and regulations periodically change. It will be your responsibility to ascertain and comply with all federal, state, and local governmental requirements in your jurisdiction. We do not assume any responsibility for advising you on these regulatory matters. You should consult with your attorney about laws and regulations that may affect your Franchised Business.

ITEM 2. BUSINESS EXPERIENCE

Maya Ratcliff – Founder & CEO

Ms. Ratcliff has served as our Founder and CEO since April 2021, and is located in Ovilla, Texas. Since May 2019 Ms. Ratcliff has been owner and CEO of HFA Waikoloa. From April 2016 to April 2019 was an independent insurance inspector for major insurance carriers with Independent Inspection Services of Hawaii. Ms. Ratcliff has over 15 years of experience as a mortgage banker for several large lending institutions.

Jason Paradis – Director of Operations

Mr. Paradis has served as our Director of Operations since January 2023. From January 2014 to May 2019, he served as a Senior Manager of Project Management with Marriott International Inc. in Bethesda, Maryland. From May 2019 to December 2020, he served as an Assistant General Manager for Marriott International Inc. in San Diego, California. From December 2020 to January 2023, he served as a Director of Operations for Marriott International Inc. in Waikoloa Beach, Hawaii. Mr. Paradis serves in his current capacity in Dallas, Texas.

Trinity Kirk – Director of Real Estate Acquisition & Strategic Growth

Ms. Kirk has served as our Director of Real Estate Acquisition & Strategic Growth since December 2022. From March 2022 to November 2022, Ms. Kirk served as an Accounting Manager for Mississippi Tank Co. in Hattiesburg, Mississippi. From January 2019 to January 2021, she served as owner/operator of Tinker Tots Childcare in Weaverville, California. From February 2013 to April 2019, she was an independent real estate agent in Shasta and Trinity counties California. Ms. Kirk serves in her current capacities in Ovilla, Texas.

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

The initial franchise fee (the “**Franchise Fee**”) for a single Franchised Business is \$49,500 and is due upon execution of the Franchise Agreement. The Franchise Fee is deemed earned upon receipt and is not refundable under any circumstances.

If you enter into a Development Agreement, you must pay us a development fee based upon the number of Studios that you agree to develop (the “**Development Fee**”). You may purchase multiple units in a group of two (2) or more units with our prior approval. You will be required to sign our Development Agreement and agree to open your additional Studios upon a set schedule. The Development Fee is deemed fully earned upon receipt and there are no refunds of the Development Fee under any circumstances. If you execute a Development Agreement, you will be required to execute a Franchise Agreement for the first unit in your Development Agreement concurrently with your execution of the Development Agreement.

The Development Fee you must pay to us depends upon the number of Studios we grant you the right to develop in your Development Area in accordance with the Development Schedule set forth in the Development Agreement, and is calculated as follows:

| Number of Franchised Businesses | Initial Franchise Fee | Cumulative Development Fee |
|--|------------------------------|-----------------------------------|
| 1 | \$49,500 | \$49,500 |
| 2 | \$47,000 | \$94,000 |
| 3 | \$45,000 | \$135,000 |
| 4 | \$45,000 | \$180,000 |
| 5 | \$45,000 | \$225,000 |

The Development Fee will be credited towards the initial Franchise Fee for each Studio developed under the Development Agreement.

If you are an honorably discharged veteran of the United States military that purchases a Franchised Business through the VetFran program, we will discount your Franchise Fee for your first Franchised Business by \$5,000.

Training & Studio Setup Fee

You must pay us an initial training and studio setup fee (“**Training Fee**”) for the cost of one or more of our personnel to assist with the setup of your Studio, and for providing our in-person training to you, your Operating Principal, and your Key Manager at your Studio prior to your grand opening. We will provide a minimum of 5 days and a maximum of 10 days of in-person training at your Studio location as we and you determine to be appropriate. The Training Fee ranges from \$5,000 to \$10,000 at a rate of \$1,000 per day of in-person training. We are responsible for the travel and living expenses of our personnel who provide Studio setup and training for you. You must pay us \$5,000 of the Training Fee upon execution of the Franchise Agreement and the remaining balance for any additional days of training that we provide (if any) must be paid upon invoice to be delivered upon completion of training. Our initial training is described in greater detail in Item 11. We do not require you to travel to our facilities for training. If you enter into a Development Agreement with us, you must pay us the then-current Training Fee for each Studio that you develop under the Development Agreement at the time each then-current Franchise Agreement is signed.

Opening Inventory Package

You must purchase an initial opening inventory of our proprietary pouring medium and specialty resin for use in your Studio (the “**Opening Inventory Package**”). The cost for an approximately six-month supply of these materials is \$5,000 to \$8,000 and is based upon the size of your Studio and your anticipated sales volume. Payment for the Opening Inventory Package is due upon invoice, which will be sent approximately six weeks prior to your grand opening. The Opening Inventory Package does not include all of the materials you will need in inventory prior to opening your Studio. See Item 7 for additional information about inventory and materials you must purchase prior to opening.

Except as described above, the fees described in this Item 5 are non-refundable, uniform for all franchisees, and must be paid in a lump sum.

ITEM 6. OTHER FEES

| Type of Fee ¹ | Amount | Due Date | Remarks |
|--------------------------------------|--|--|--|
| Royalty Fees ² | The greater of (i) 8% of your Gross Revenue for the preceding month; or (ii) \$500 per month | Currently due on the tenth of each month | See Note 2 for the definition of Gross Revenue. Your first Royalty Fee payment is due on the fifteenth of the following month after the date the Franchised Business opens and shall be paid based on all Gross Revenue accrued prior to the opening date and during your first full or partial month of operations |
| Marketing Fee | 2% of Gross Revenue | Currently due on the tenth of each month | You must contribute the Marketing Fee to our established Marketing Fund. See Note 2 for the definition of Gross Revenue. |
| Local Marketing Spending Requirement | A minimum of \$500 per month. | Payable by the end of each month. As incurred. | In addition to your Marketing Fee, beginning in the first full month after the date the Franchised Business opens, you must spend a minimum of \$500 per month on a combination of digital marketing, local advertising, and promotional activities, which shall be payable directly to third party vendors. You must spend a minimum of \$350 of this amount on digital marketing through channels that we determine. You may contribute this \$350 directly to us to spend on your behalf on digital marketing for your Studio. If you fail to pay the required amount in any quarter, we may require you to pay us the shortfall as an additional Marketing Fee or to pay us the shortfall for us to spend on local marketing for your Franchised Business. |

| Type of Fee ¹ | Amount | Due Date | Remarks |
|---|---|--|---|
| Technology Fee | \$500 per month | Currently due on the tenth of each month. | The Technology Fee currently includes fees related to your access to and usage of our reservation system, our intranet, any mobile applications we develop, and the System Website. We may add, delete, or otherwise modify the products and services that are included in the Technology Fee. The first month will be assessed pro rata from the date on which you begin receiving services. |
| Account Setup Fee | The cost of establishing each new account with a designated supplier of products or services. Currently \$750. | Upon invoice. | If we incur account setup fees on your behalf for any services or products that we require, we will pass the cost of account setup fee for each account onto you. |
| Renewal Fee | Our actual costs for review and preparation of renewal agreements, up to a maximum of \$3,000. | Upon execution of successor franchise agreement | |
| Transfer Fee | \$10,00 for any transfer resulting in a change of control to a third-party; \$5,000 for any transfer resulting in a change of control to an immediate family member; our administrative costs and expenses for non-control transfers and transfers to entities for the convenience of ownership | \$3,000 deposit due with written notice of proposed transfer; balance due at closing | No Transfer Fee is due for transfers upon death or incapacity. |
| Late Fee and Interest | 18% per annum or maximum interest rate allowed by law (whichever is less) from due date to date of payment, plus \$25 for each day that a payment is paid after the due date for the payment specified | When amount owed becomes past due | Required whenever a payment to us is made after its due date. |
| Relocation Fee | \$2,500 plus our administrative and legal costs in evaluating the relocation | Upon demand | Payable if you relocate your Franchised Business from the Site to a new location |
| Initial Training Fee for Additional or Replacement Trainees | Currently, \$1,000 per trainee for additional trainees who attend a scheduled training class at our headquarters. (Subject to change without limitation upon written notice to you). \$1,000 per day for | Within 10 days of receipt of an invoice | We will provide Initial Training in the System for a minimum of 5 days in your Studio as part of the Training Fee. For additional training, we reserve the right to charge a reasonable fee for training (i) more than one trainee, even if they attend |

| Type of Fee ¹ | Amount | Due Date | Remarks |
|---|--|--|---|
| | additional on-sight training at your Site. | | the same training session, (ii) persons who are repeating the course or replacing a person who did not pass, and (iii) subsequent Operating Principals, Key Managers, or employees who attend the course. |
| Additional Training Programs | Varies based on program | Within 10 days of receipt of an invoice | We may charge you a reasonable fee for optional or required training programs that we may provide. |
| In-Person Operational and Consulting Services | Currently, \$500 per employee or agent for each full or partial day, plus their travel and living expenses | Within 10 days of receipt of an invoice | Payable if we provide requested operational or consulting services in person. We may change this fee without limitation from time to time upon written notice to you. |
| Temporary Key Manager | Currently, \$500 per employee or agent for each full or partial day, plus their travel and living expenses plus our actual costs and expenses | Within 10 days of receipt of an invoice | Payable if we provide a Key Manager to work at your Franchised Business, after the departure of your previous manager, until a new Key Manager is hired and trained |
| Temporary Management | 3% of the Franchised Business's Gross Revenue during the period of management, plus any direct out of pocket costs and expenses | Within 10 days of receipt of an invoice | Payable if we exercise our right to manage your Franchised Business after a default |
| Annual Convention | Currently \$0. | Prior to attending the event | You are responsible for the travel and living expenses of you and your employees. |
| Product, Service, Supplier, and Service Provider Review | Our reasonable cost of the inspection and our actual cost of testing the proposed product or evaluating the proposed service or service provider, including personnel and travel costs | Upon demand | Payable if you wish to offer products or use any supplies, equipment, or services that we have not approved or wish to purchase from a supplier or service provider that we have not approved, whether or not we approve the item, service, supplier, or service provider. |
| Insurance | Cost of the premium plus a 10% administrative fee for our services in procuring the insurance | Upon demand | Payable only if you fail to maintain the minimum insurance we require and we choose to procure the required insurance for you. |
| Grand Opening Advertising | A minimum of \$2,500 for grand opening advertising and promotion | Between the four weeks prior to opening the Franchised Business and the four weeks after opening the Franchised Business | In connection with the opening of the Franchised Business, you must submit a grand opening plan to us for our approval. We have the right to modify your grand opening plan, in our sole discretion, and may require you to use a public relations firm to assist with your grand opening. You must spend a minimum of \$500 of this budget during the two weeks that |

| Type of Fee ¹ | Amount | Due Date | Remarks |
|--------------------------|--|--------------------------|--|
| | | | precede your grand opening on digital marketing that we approve |
| Audit | Our costs and expenses, including costs for an independent accountant and attorneys' fees and related travel and living expenses | Within 10 days of demand | Payable if audit or review shows an understatement of Gross Sales for the audited or reviewed period of 2% or more. |
| Inspection | Our reasonable expenses incurred in inspecting your business (ourselves, through our employees or agents), including travel and living expenses, wages, and other expenses for our employees | Upon demand | Payable only if inspection is necessitated by your repeated or continuing failure to comply with any provision of the Franchise Agreement. |
| Remedial Expenses | Our reasonable expenses incurred in correcting your operational deficiencies | Upon demand | Payable if we correct deficiencies that we have identified during a Site inspection and that you failed to correct within a reasonable time after notice from us. |
| Indemnification | Amount of our liabilities, fines, losses, damages, costs and expenses (including reasonable attorneys' fees) | Upon demand. | Payable if we incur losses due to your breach of the Franchise Agreement or any other action or inaction by you or any other person relating to your Franchised Business |
| Enforcement Expenses | Our reasonable cost of de-identifying your Franchised Business | Upon demand | Payable if your Franchise Agreement expires or is terminated, you fail to de-identify your Franchised Business and we take steps to do so. |

Notes:

1. Except as described in the remarks above, all of the fees in the table above are imposed by us, payable to us, non-refundable, and are uniformly imposed. You must use the payment methods we designate. You must furnish us and your bank with any necessary authorizations to make payment by the methods we require.

2. **“Gross Revenue”** means all revenue that you receive or otherwise derive from operating the Franchised Business, including the sale of commissioned art pieces, and any revenue derived from organizing and hosting off-site events, whether from cash, check, credit or debit card, gift card or gift certificate, or other credit transactions, and regardless of collection or when you actually provide the products or services in exchange for the revenue. If you receive any proceeds from any business interruption insurance applicable to loss of revenue at the Franchised Business, there shall be added to Gross Revenue an amount equal to the imputed gross revenue that the insurer used to calculate those proceeds. Gross Revenue includes promotional allowances or rebates paid to you in connection with your purchase of products or supplies or your referral of customers. Gross Revenue does not include (i) any bona fide returns and credits that are actually provided to customers, (ii) any bone fide shipping charges that you collect from a customer and actually pay to a third-party shipping or logistics company for the delivery of items to customers, and (iii) any sales or other taxes that you collect from customers and pay directly to the appropriate taxing authority. You may not deduct payment provider fees (i.e., bank or credit card company fees and gift card vendor fees) from your Gross Revenue calculation.

**ITEM 7.
ESTIMATED INITIAL INVESTMENT**

**YOUR ESTIMATED INITIAL INVESTMENT
(SINGLE UNIT UNDER OUR FRANCHISE AGREEMENT)**

| Type of Expenditure¹ | Low Estimate | High Estimate | Method of Payment | When Due | To Whom Payment Is Made |
|---|---------------------|----------------------|--------------------------|-------------------------------|--|
| Franchise Fee ² | \$49,500 | \$49,500 | Lump sum | When sign Franchise Agreement | Us |
| Training Fee ³ | \$5,000 | \$10,000 | As incurred | As incurred | Airlines, hotels, and restaurants |
| Security Deposits for Lease and/or Utilities ⁴ | \$4,000 | \$11,000 | As incurred | As incurred | Landlord, utility company |
| Rent (3 Months) ⁵ | \$12,000 | \$22,000 | As incurred | As incurred | Landlord |
| Design/ Architecture/ Engineering ⁶ | \$1,000 | \$3,800 | As incurred | As incurred | Construction Project Manager |
| Net Leasehold Improvements ⁷ | \$20,000 | \$45,000 | As incurred | As incurred | Third party vendors |
| Furniture, Fixtures, and Equipment ⁸ | \$5,500 | \$11,000 | As incurred | As incurred | Third party vendors |
| Signage ⁹ | \$3,000 | \$9,000 | As incurred | As incurred | Third party vendors |
| Office Supplies and Accessories ¹⁰ | \$250 | \$500 | As incurred | As incurred | Third party vendors |
| Initial Product/ Inventory Purchase ¹¹ | \$20,000 | \$30,000 | As incurred | As incurred | Third party vendors |
| Business Management and Technology System ¹² | \$1,000 | \$2,500 | As incurred | As incurred | Third party vendors |
| Business Licenses ¹³ | \$250 | \$500 | As incurred | As incurred | Government agencies |
| Technology Fee (3 Months) ¹⁴ | \$1,500 | \$1,500 | As incurred | As incurred | Us, third party vendors |
| Professional Fees ¹⁵ | \$2,500 | \$6,000 | As incurred | As incurred | Attorneys, bankers, accountants, and other professionals |
| Insurance Deposit and Initial Premiums ¹⁶ | \$1,500 | \$2,500 | As incurred | Prior to opening | Insurance agent or carrier |
| Grand Opening Marketing Budget ¹⁷ | \$2,500 | \$2,500 | As incurred | As incurred | Third party vendors, us, or our affiliates |
| Additional Funds (3 months) ¹⁸ | \$19,000 | \$35,000 | As incurred | As incurred | Employees, utilities, suppliers, us, and other third parties, etc. |
| TOTAL¹⁹ | \$148,500 | \$242,300 | | | |

Notes:

1. Type of Expenditure. The amounts provided in this Item 7 include costs you will incur to start your business. These estimates are based upon HFA Waikoloa's and experience developing and operating the Affiliate-Owned Business in Hawaii and based upon industry data and upon the experience of our management team in operating similar businesses. All fees and payments are non-refundable, unless otherwise stated or permitted by the payee. The estimates provided in this Item 7 assume that you will operate your Franchised Business primarily from your personal residence and will not need to procure leased facilities, other than for the storage of your Vehicle. We do not require you to procure a leased facility to serve as the headquarters for your Franchised Business. This estimate does not include costs associated with the acquisition of real estate if you decide to operate from a building you purchase. If you choose to operate your Franchised Business from a leased facility or a building you purchase, your costs will be significantly higher.

2. Franchise Fee. The standard Franchise Fee for opening a single unit is \$57,000. In addition, if you are an honorably discharged veteran of the United States military that purchases a Franchised Business through the VetFran program, we will discount your Franchise Fee for your first Franchised Business by \$5,000. See Item 5.

3. Training Fee. We will provide Studio setup and initial training to you at your Studio for a minimum of 5 days and a maximum of 10 days as agreed upon by you and us. You are not required to attend any initial training at our headquarters, but if you elect to participate in Initial Training at our headquarters, you must pay us \$1,000 per day of training and you are responsible for the travel and living expenses, wages, and other expenses incurred by your trainees during Initial Training. We are responsible for the travel and living expenses of our representative while they conduct Initial Training in your Studio.

4. Security Deposits for Lease and/or Utilities. This estimate includes prepaid rent and deposits payable to the landlord or storage facility and any deposits on utilities required to open the Franchised Business. These amounts will vary based on your location and the terms of your lease.

5. Rent. The figures in the table reflect our estimates for leasing our standard prototype studio, which is a one-story 900-1,600 square foot space. The low estimate assumes that you will be able to negotiate a rent abatement for your initial months of operation. The high estimate assumes that you lease a Studio in a high-demand area and do not receive a rent abatement. Your rent will depend on the Site's size, condition, visibility, accessibility, and location, local market conditions, and demand for the premises among prospective lessees. In certain major metropolitan markets such as Boston, Chicago, New York, Los Angeles, San Francisco, Seattle, and Washington, D.C. and in certain other high demand districts, prevailing market rents could be significantly higher than the high estimate. We cannot accurately project your costs. You should consult with a local commercial real estate broker to get a more accurate estimate of costs in your market.

You may choose to purchase, rather than rent, real estate on which a building suitable for the Studio already is constructed or could be constructed. Because of the numerous variables that affect the value of a particular piece of real estate, this initial investment table does not reflect the potential purchase cost of real estate or the costs of constructing a building suitable for the Studio.

6. Design/Architecture/Engineering. We recommend you engage designers, architects, and engineers to draft standard construction plans for your studio. This estimate includes costs related to the drafting, shipping, and printing of such plans. This estimate does not include site-specific structural, seismic, and acoustical engineering designs, plans and drawings. Your costs will vary depending upon the location of the Site, its condition, and the need for additional designs, plans, and drawings, if applicable.

7. Net Leasehold Improvements. This estimate includes the net cost of leasehold improvements to our standard prototype 900-1600 square foot studio, including floor coverings, wall treatments, ceilings, painting, electrical, carpentry, plumbing, HVAC, and similar work. Our standard prototype Studio is a one-story 900 square feet space, but Studios typically range from 900 to 1600 square feet. This estimate includes both materials and the cost of labor. You may be able to negotiate tenant improvement allowances from your landlord.

If you are able to negotiate a tenant improvement allowance from your landlord, the landlord typically may require you to provide proof that you have paid for the leasehold improvements before reimbursing you the money. Some landlords may require you to receive the tenant improvement allowance in the form of reduced rent over the life of your lease, rather than in the form of a lump sum reimbursement. As a result, your actual out-of-pocket costs, and the cost of any construction financing that you may need to obtain may be significantly higher than the net leasehold improvement costs presented in this table.

Your actual costs will depend on, among other factors, the Studio location, the size of the Studio, the condition of the premises being remodeled, national and local economic factors, the local costs of materials and labor, and the amount of tenant improvement allowances that you are able to obtain, if any. In certain major metropolitan markets such as Boston, Chicago, New York, Los Angeles, San Francisco, Seattle, and Washington, D.C., costs could be significantly higher than the estimates provided here due to local market rates for materials and labor. As a result, we cannot accurately project your costs.

8. Furniture, Fixtures, and Equipment. This estimate includes the furniture, fixtures, and equipment to be used in the Studio, including, retail displays, lighting systems, telephones, office furniture, furnishings, tables, drying shelves, and a large cabinet for storage for your Studio.

9. Signage. This estimate includes the cost of outdoor identification at the Studio.

10. Office Supplies and Accessories. This estimate also includes the cost of purchasing an initial supply of office supplies, cleaning supplies, and other ancillary items used in the operation of the Studio.

11. Initial Product/Inventory Purchase. This estimate covers the cost of your initial inventory of paint, canvases, resin, and all small items needed for use in your Studio and includes the Opening Inventory Package. The size of your inventory will depend on the size of your Studio, your anticipated sales volume, and the products that we require you to stock.

12. Business Management and Technology System. This figure includes the cost of acquiring the hardware, software, other equipment, and network connections (including three months of internet service and security system service) that we specify in the Manuals necessary to operate our point-of-sale system, the customer relationship management system, the online reservation system, and other technology systems that we designate (the “**Business Management and Technology System**”). You must purchase these components from suppliers that we approve or designate and must execute any related software licenses require by designated vendors. See Item 11 for details on required hardware and software.

13. Business Licenses. This estimate includes the cost of acquiring business licenses and permits. Your costs will vary depending upon your Franchised Business’s location.

14. Technology Fee Through First Three Months. This figure includes payment of the Technology Fee to us during your first three months of operation. The Technology Fee is described in Item 6.

15. Professional Fees. This estimate includes the cost of professional fees that you may incur in establishing your business. Such expenses may include fees payable to attorneys, accountants, and finance originators that you will need to use for the review of this Disclosure Document and its Exhibits, as well as for entity formation and review of the lease for your Studio.

16. Insurance Deposit and Initial Premiums. This estimate is for your insurance premium deposit and your first three months of insurance coverage, which may be paid prior to opening. You will need to check with your insurance carrier for actual premium quotes and costs, as well as for the actual amount of the deposit. The cost of coverage will vary based upon the area in which your business will be located, your experience with the insurance carrier, the loss experience of the carrier, the amount of the deductibles and of coverage, and other factors beyond our control. You should also check with your insurance agent or broker regarding any additional insurance that you may wish to carry above our required minimums.

17. Grand Opening Marketing Budget. You must spend a minimum of \$2,500 for grand opening advertising and promotions beginning four weeks before, and ending four weeks after, the opening of your Franchised Business in accordance with a plan that you must submit to us. This amount does not include wages and payroll-related expenses for your employees. Your cost may be higher based on the length of time you wish to run opening promotions or any additional marketing spending you may choose to undertake. We have the right to modify your grand opening plan, in our sole discretion. You must provide us with supporting documentation evidence of these expenditures upon our request. This estimate is in addition to the Marketing Fee contributions you will be required to make.

18. Additional Funds, Three Months. This is an estimate of the amount of additional operating capital that you may need during the first three months after opening your business. This estimate includes additional funds you may need to pay employee salaries and wages, utilities, payroll taxes (including payroll to cover the grand opening promotional period and the pre-opening training period for your staff), Royalty Fees, Marketing Fees, legal and accounting fees, additional advertising, health and workers' compensation insurance, bank charges, miscellaneous supplies and equipment, staff recruiting expenses, state tax and license fees, deposits, prepaid expenses, and other miscellaneous items. The preceding list is by no means intended to be exhaustive of the extent of possible categories of expenses. The expenses you incur during the start-up period will depend on factors such as local economic and market conditions, your business experience, and the volume of services provided through your Franchised Business. We cannot guarantee that you will not incur additional expenses in starting the business that may exceed this estimate or that you will not need additional funds after your first three months of operation. It is best to contact your accountant or financial advisor for further guidance.

19. Total. This total amount is based upon the Affiliate Owned Businesses' experience developing and operating the Affiliate-Owned Businesses in Dallas, TX, Waikoloa, HI, and Kansas City, MO, as well as industry data, and the experience of our management team in operating similar businesses. Your costs may vary based on a number of factors including, but not limited to, the geographic area in which you open, local market conditions, the size and location of your Studio, and your skills at operating a business. We strongly recommend that you use these categories and estimates as a guide to develop your own business plan and budget and investigate specific costs in your area. Your actual costs in each category and your actual total costs may be higher or lower than the costs estimated in this chart. You should independently investigate the costs of opening a Franchised Business in the geographic area in which you intend to open a Franchised Business. You should also review the figures carefully with a business advisor before making any decision to purchase the Franchise.

We do not provide financing to franchisees either directly or indirectly in connection with their initial investment requirements. The availability and terms of financing obtained from third parties will depend upon such factors as the availability of financing, your credit worthiness, collateral which you may make available, or policies of local lending institutions with respect to the nature of the business.

**YOUR ESTIMATED INITIAL INVESTMENT
(MULTIPLE STUDIOS DEVELOPED UNDER DEVELOPMENT AGREEMENT)**

| Type of Expenditure | Low Estimate | High Estimate | Method of Payment | When Due | To Whom Payment Is Made |
|--|-----------------------|------------------------|-------------------|---------------------------------|-------------------------|
| Development Fee¹ | \$94,000 (2 Units) | \$225,000 (5 Units) | Lump sum | When sign Development Agreement | Us |
| Estimated Initial Investment for First Studio² | \$99,000 | \$192,800 | As incurred | As incurred | Us and third parties |
| TOTAL³ | \$193,000 | \$417,800 | | | |

Notes:

1. Development Fee. Upon signing the Development Agreement, you must pay us the Development Fee. The Development Fee varies based on the number of Studios you commit to develop. The low estimate is based on a commitment to develop two Studios and the high estimate is based on a commitment to develop 5 Studios. The Development Fee will be credited towards the initial Franchise Fee for each Studio developed under the Development Agreement. The Development Fee is not refundable. See Item 5.
2. Estimated Initial Investment for First Studio. For each Studio that you develop under a Development Agreement, you will execute a Franchise Agreement and incur the initial investment expenses for the development of a single Studio as described in the first table of this Item 7. This estimate is based on the expenses described in the first table of this Item 7. The estimate does not include the Franchise Fee since the Development Fee is credited towards the Franchise Fee for each Studio.
3. Total. We do not provide financing to franchisees either directly or indirectly in connection with their initial investment requirements.

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

Authorized Products and Services. We have the right to require that furniture, fixtures, signs and equipment (the “**Operating Assets**”) and products, supplies, and services that you purchase for resale or purchase or lease for use in your Franchised Business: (i) meet specifications that we establish from time to time; (ii) be a specific brand, kind, or model; (iii) be purchased or leased only from suppliers or service providers that we have expressly approved; and/or (iv) be purchased or leased only from a single source that we designate (which may include us or our affiliates or a buying cooperative organized by us or our affiliates).

You must offer to customers only the products and services we approve in writing. In addition, you must offer the specific products and services that we require in the Manuals or otherwise in writing. We may change these specifications periodically, and we may designate specific products or services as optional or mandatory. You must offer all products or services that we designate as mandatory. You may sell products and services only in the varieties, forms, and packages that we have approved in accordance with our System Standards. You must maintain a sufficient supply of required products to meet the inventory standards we prescribe in the Manuals (or to meet reasonably anticipated customer demand, if we have not prescribed specific standards).

We require you to purchase the signage for your Studio, merchant processing services and payroll services from us, our affiliates, or an approved vendor we select. You must (i) require your customers to pay all

services and other fees through the Business Management and Technology System; or (ii) enter all other payments received from customers into the Business Management and Technology System upon receipt. When you begin collecting revenue in your Franchised Business, the payment processor may process all credit card payments related to your Franchised Business, and remit payment to you of all monies owed, after withholding any Technology Fees, Royalty Fees, or Marketing Fees payable to us and any payment processing fees payable to such processor.

You must offer products and services in accordance with the System. You must offer at the Franchised Business any products or services that we deem to be mandatory. Any products, services, methods, or procedures that you or your employees develop must be consistent with the System Standards that we specify from time to time. If we disapprove of any product or service that you offer, you must immediately discontinue offering the product or service in accordance with our instructions.

We require you to purchase your Studio signage, art supplies, equipment, and initial paint inventory from an approved supplier that we designate, which may be us. We require you to purchase the proprietary pouring medium and resin that you will use in the operation of your Studio from us. Our affiliates are not currently approved suppliers, though we reserve the right to require you to purchase additional items from us or our affiliates in the future.

Except where we are the approved supplier for items you must purchase, none of our officers owns any interest in any supplier with whom you are required or recommended to do business.

Insurance. You must obtain before you operation of the Franchised Business and must maintain at all times the types of insurance and the minimum policy limits specified in the Manuals. All of your insurance carriers must be rated A or higher by A.M. Best and Company, Inc. (or such similar criteria as we periodically specify). These insurance policies must be in effect on or before the deadlines we specify. All coverage must be on an “occurrence” basis, except for the employment practices liability insurance coverage, which is on a “claims made” basis. All policies shall apply on a primary and non-contributory basis to any other insurance or self-insurance that we or our affiliates maintain. We must be named as an additional insured under each policy that we require. Upon our request or as specified in the Manuals, you must provide us with certificates of insurance evidencing the required coverage. We may require additional types of coverage or increase the required minimum amount of coverage upon 60 days’ notice to you.

Business Management and Technology System. You are required to purchase most of the components of the Business Management and Technology System that we specify from suppliers that we approve or designate, including the software, computer, tablets, equipment required to connect to our technology platform, and credit card scanner. If we require you to use any proprietary software or to purchase any software from a designated vendor, you must execute any software license agreements that we or the licensor of the software require and any related software maintenance agreements. See Item 11 for details on the required hardware and software components that make up the Business Management and Technology System.

Approval Process. If you would like to offer products or use any supplies, Operating Assets, or services that we have not approved or to purchase or lease from a supplier or service provider that we have not approved, you must submit a written request for approval and provide us with any information that we request. We have the right to inspect the proposed supplier’s facilities and test samples of the proposed products and to evaluate the proposed service provider and the proposed service offerings. Proposed suppliers may be required to come to our offices in order for us to make an evaluation. You agree to pay us an amount not to exceed the reasonable cost of the inspection and our actual cost of testing the proposed product or evaluating the proposed service or service provider, including personnel and travel costs, whether or not the item, service, supplier, or service provider is approved. We have the right to grant, deny, or revoke approval of products, services, suppliers, or service providers based solely on our judgment. We will notify you in writing of our decision as soon as practicable following our evaluation. If you do not

receive our approval within 90 days after submitting all of the information that we request, our failure to respond will be deemed a disapproval of the request. You acknowledge that the products and services that we approve for you to offer in your Franchised Business may differ from those that we permit or require to be offered in other Franchised Businesses.

We reserve the right to re-inspect the facilities and products of any approved supplier and to reevaluate the services provided by any service provider at and to revoke approval of the item, service, supplier, or service provider if any fail to meet any of our then-current criteria. If we revoke approval of a previously approved product that you have been selling to customers or service that you have been offering to customers, you must immediately discontinue offering the service and may continue to sell the product only from your existing inventory for up to 30 days following our disapproval. We have the right to shorten this period if, in our opinion, the continued sale of the product would prove detrimental to our reputation. After the 30-day period, or such shorter period that we may designate, you must dispose of your remaining formerly approved inventory as we direct.

Issuance of Specifications and Standards. To the extent that we establish specifications, require approval of suppliers or service providers, or designate specific suppliers or service providers for particular items or services, we will publish our requirements in the Manuals. We may, at any time, in our discretion, change, delete, or add to any of our specifications or quality standards. Such modifications, however, will generally be uniform for all franchisees. We will notify you of any changes to our Manuals, specifications, or standards in writing, which we may transmit to you electronically.

Proportion of Purchases Subject to Specifications. We estimate that the cost to purchase and lease all equipment, inventory and other items and services that we require you to obtain from us or our affiliates, from designated suppliers, or in accordance with our specifications ranges from 30% to 50% of the total cost to purchase and lease equipment, inventory, and other items necessary to establish a Franchised Business and 30% to 50% of the total cost to purchase and lease equipment, inventory, and other items to operate a Franchised Business.

Revenue from Purchases. We or our affiliates may receive revenues or profits or other material consideration from the purchases you make from us, our affiliates, or from other approved suppliers. We or our affiliates intend to earn revenue from your purchase of apparel and merchandise, project management services, furniture, fixtures, equipment, technology, signage and graphics, audio-visual equipment, services we or they may offer, and other items that we may specify from time to time. We or our affiliates may retain any rebates or other payments we receive from suppliers. We currently have arrangements to receive rebates or payments from some approved suppliers and vendors that range between 5% to 20% of your purchase amounts from these suppliers. During the 2022 fiscal year ending December 31, 2022, we had a total revenue of \$346,705, from which we received \$0, or 0%, from franchisees' required purchases and leases of products and services.

Cooperatives and Purchase Arrangements. We are not involved in any purchasing or distribution cooperatives. We may, but are not obligated to, negotiate purchase arrangements with suppliers for the benefit of franchisees. As of the issuance date of this Disclosure Document, we have not negotiated any such arrangements.

Material Benefits. We do not provide any material benefits to franchisees (for example, renewal or granting additional franchises) based upon their purchase of particular products or services or use of particular suppliers.

ITEM 9.
FRANCHISEE'S OBLIGATIONS

This table lists your principal obligations under the Franchise Agreement (FA). It will help you find more detailed information about your obligations in the Franchise Agreement, and in other items of this Disclosure Document.

| | Obligation | Section in Agreements | Disclosure Document Item |
|----|--|--|-----------------------------------|
| a. | Project management and site acquisition/lease | FA: Sections 4.1, 4.2, and 4.4 | Item 11 |
| b. | Pre-opening purchases/leases | FA: Sections 4.4, 6.7, and 6.10 | Items 6,7, 8 and 11 |
| c. | Site development and other pre-opening requirements | FA: Sections 4.4 and 4.5 | Items 7, 8 and 11 |
| d. | Initial and ongoing training | FA: Section 5 | Items 6, 7 and 11 |
| e. | Opening | FA: Section 4.6 DA: Section 3 | Items 6 and 11 |
| f. | Fees | FA: Sections 3, 4.6, 4.7, 5.1, 5.3, 5.4, 5.6, 6.2, 6.9(b), 6.10(a), 6.14, 7.2(a), 7.3, 8.4, 8.5, 8.6, 13.4, 13.5, 13.6, 13.8, 14.2(b)(viii), 15.1, 15.2, and 16.9 DA: Section 2 | Items 5, 6, 7 and 11 |
| g. | Compliance with standards and policies/Operations Manual | FA: Sections 5.4, 5.5, 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.7, 6.10, 6.12, 7.3, 8.4, 8.6, 10.3, and 13.4 | Items 7, 8, 11, 13, 14, 15 and 16 |
| h. | Trademarks and proprietary information | FA: Sections 9 and 10 DA: Section 9 | Items 13, 14 and 17 |
| i. | Restrictions on products/services offered | FA: Sections 6.6, 6.7, and 6.8 | Items 8 and 16 |
| j. | Warranty and customer service requirements | FA: Section 6.12 and 8.6 | Items 8 and 16 |
| k. | Territorial development and sales quotas | FA: Section 6.4 DA: Section 3 | Item 12 |
| l. | Ongoing product/service purchases | FA: Sections 6.7 and 6.8 | Items 8 and 16 |
| m. | Maintenance, appearance, and remodeling requirements | Sections 4.5, 6.3, and 6.5 | Items 7, 8 and 11 |
| n. | Insurance | FA: Section 6.14 | Items 7 and 8 |
| o. | Advertising | FA: Sections 3.3 and 7 | Items 6, 7, 8 and 11 |
| p. | Indemnification | FA: Section 11 | Item 6 |
| q. | Owner's participation/management/staffing | FA: Sections 1.4, 1.5, and 6.2 | Items 11 and 15 |
| r. | Records and reports | FA: Section 8.1, 8.2, and 8.3 | Items 6 and 17 |
| s. | Inspections and audits | FA: Sections 8.4, 8.5, and 8.6 | Items 6 and 11 |
| t. | Transfer | FA: Section 13 DA: Section 7 | Items 6 and 17 |
| u. | Renewal | FA: Section 2.2 | Item 17 |
| v. | Post-termination obligations | FA: Section 15 DA: Section 8.2 | Item 17 |
| w. | Non-competition covenants | FA: Section 12 and 15.9 DA: Section 8 | Item 17 |
| x. | Dispute resolution | FA: Section 16 DA: Section 9 | Item 17 |

**ITEM 10.
FINANCING**

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

**ITEM 11.
FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING**

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

If we have appointed, or appoint in the future, an Area Representative to operate an Area Business in the area in which your Franchised Business is located, such Area Representative may provide the training, support, marketing, and other services described in this Item 11 to you on our behalf and will have the authority to exercise many of our rights and perform many of our obligations under the Franchise Agreement.

Our Pre-Opening Obligations

For all Franchise Agreements, before you begin operating your Studio:

1. Designate Areas. We will designate your Site Selection Area. (Franchise Agreement - Section 1.1)
2. Real Estate Project Manager. We will approve your real estate project manager, which may be you, subject to our approval. (Franchise Agreement – Section 4.1)
3. Real Estate Site Selection and Lease Approval
 - a. Site Selection. We will review each site that the broker or you identify and determine whether to accept it using our site selection assistance criteria. We will conduct such on-site evaluation as we consider necessary and appropriate as part of our evaluation. We are not required to complete our review within a certain period of time. In addition to certain demographic characteristics, we also consider the following factors in accepting a Studio location: site visibility, zoning, parking, competition, neighboring tenants, accessibility, population density, and adjusted gross income. (Franchise Agreement – Section 4.2)

While we will provide assistance and guidance, it is solely your responsibility to select a suitable site for the Franchised Business. Our acceptance of a proposed site is not a warranty or representation of any kind as to the potential success or profitability of your Franchised Business.

You must secure a site that we have accepted by signing a site lease or purchase agreement within 120 days after the effective date of your Franchise Agreement (the “**Site Acquisition Deadline**”). We may extend this Site Acquisition Deadline by up to 90 days in our sole discretion, and we may require you to execute a general release as a condition of us agreeing to grant such extension. If we have accepted a site for your Franchised Business and you are unable or unwilling to acquire such site or an alternative site that we accept by the Site Acquisition Deadline or you are unable to identify a site for your Franchised Business that we accept by the Site Acquisition Deadline, we may terminate the Franchise Agreement. (Franchise Agreement - Sections 4.1, 4.2, and 4.4).

- b. Approval of Site Lease. Before you make a binding commitment to purchase, lease, or sublease a site, we must approve in writing the proposed lease or purchase agreement or any letter of intent between you and the third-party seller or lessor. If you lease the site, unless we waive the requirement in writing, you must arrange for the execution of the Lease Rider in the form that is attached as Appendix D to the Franchise Agreement. We may require you to engage an attorney to review your lease or purchase agreement for the Site that we have accepted and to supply us with reasonable documentation in connection

with such review, including a lease abstract and confirmation that the terms in the agreement reflect the terms in any letter of intent between you and the third-party seller or lessor. We will not provide you with any legal advice with respect to your lease or purchase of the site. Our review of the lease is for our benefit and is not intended to supplement or replace any review by a real estate attorney engaged on your behalf. You are strongly encouraged to engage competent legal counsel to assist in the review and negotiation of your site lease. (Franchise Agreement - Section 4.4).

4. Initial Training. We will provide Initial Training in the System and our policies and procedures to your Required Trainee. See “Training”, below in this Item. (Franchise Agreement - Section 5.1)

5. Opening Inventory Package. We will deliver to your Studio the Opening Inventory Package of our proprietary pouring medium and specialty resin. (Franchise Agreement – Section 3.6)

6. Manuals. We will provide you with electronic access to our Manuals, on loan for as long as the Franchise Agreement or a successor franchise agreement remains in effect. The table of contents for the Manual is attached as Exhibit E to this Disclosure Document (Franchise Agreement - Section 6.1(a))

7. Advice. We will advise you as to local marketing and networking efforts. We will provide you with templates for services agreements for use in your Franchised Business, which you must adapt to comply with applicable laws and regulations. We must approve any modified forms of such agreements or waivers. (Franchise Agreement – Sections 5.2 and 6.11)

8. Opening Approval. We will approve your Franchised Business opening, provided that you have met all of our requirements for opening, including completion of Initial Training, providing us with proof of insurance in the forms and coverage limits that we require, and proof that you are in receipt of the certificate of occupancy for your Studio from your landlord. We estimate that the typical length of time between signing a Franchise Agreement and opening your Franchised Business is approximately 210 days. Factors affecting this length of time include, among others: hiring of the requisite employees; successful completion of Initial Training; local ordinances or community requirements; issuance of all necessary licenses, permits and approvals; and procuring required insurance. You must open the Franchised Business no later than 210 days after the effective date of the Franchise Agreement. We may extend this deadline, in our sole discretion, which we may condition on you agreeing to pay an extension fee of \$2,500 for each month (or portion of a month) for which the deadline is extended and you executing a general release. (Franchise Agreement – Section 4.6)

Ongoing Assistance

During the operation of your Franchise:

1. Review Advertising. We will review any advertising or promotional programs or materials that you develop. (Franchise Agreement - Sections 7.3(b))

2. Marketing Fund Management. We will manage the Marketing Fund as described below in this Item. We will prepare an unaudited statement of contributions and expenditures for the Marketing Fund and make it available within 60 days after the close of our fiscal year to franchisees who make a written request for a copy. (Franchise Agreement - Section 7.2(a))

3. Requested Consulting Services. We will provide to you additional consulting services with respect to the operation of the Franchised Business upon your reasonable request and subject to the availability of our personnel at a mutually convenient time. We will make available to you information about new developments, techniques, and improvements in the areas of advertising, management, operations, and Franchised Business design. We may provide such additional consulting services through the distribution of printed or filmed material, an Intranet or other electronic forum, meetings or seminars, teleconferences,

webinars, or in person. If such services are rendered, you must pay us a fee and our expenses. (Franchise Agreement - Section 5.6)

4. Relocation Review. We will evaluate sites to which you propose to relocate your Franchised Business in accordance with our then-current System Standards for Premises locations. (Franchise Agreement - Section 4.7)

5. Pricing. If we determine that we may lawfully require you to charge certain prices for goods or services, certain minimum prices for goods or services, or certain maximum prices for goods or services, you must adhere to our pricing policies as set forth in the Manuals or otherwise in writing from time to time. We currently require you to charge rates equal to or in excess of a minimum pricing schedule, which we will provide and may revise from time to time. Otherwise, you are solely responsible for determining the prices that you charge customers and must provide us with your current price list upon our request. (Franchise Agreement – Section 6.6)

Advertising

Our Marketing. We may from time to time formulate, develop, produce, and conduct, at our sole discretion, advertising or promotional programs in such form and media as we determine to be most effective. We may make available for you to purchase approved advertising and promotional materials, including signs, posters, collaterals, etc. that we have prepared.

Local Marketing. You must use your best efforts to promote the use of the Mark in your market area. You must spend at least \$500 per calendar month on local advertising and promotional activities (the “**Marketing Spending Requirement**”). You must spend a minimum of \$350 of this amount on digital marketing through channels that we determine. You may contribute this \$350 directly to us to spend on your behalf on digital marketing for your Studio. Your Marketing Spending Requirement is in addition to your Marketing Fee. We have the right to designate in the Manuals the types of expenditures that will or will not count toward the Marketing Spending Requirement. At our request, you must submit appropriate documentation to verify compliance with the Marketing Spending Requirement. If you fail to spend (or prove that you spent) the Marketing Spending Requirement in any month, then we may, in addition to and without limiting our other rights and remedies, require you to pay us the shortfall as an additional Marketing Fee or to pay us the shortfall for us to spend on local marketing for your Franchised Business.

You must participate in such advertising, promotional, and community outreach programs that we may specify from time to time, at your own expense. Any media advertising or direct mail marketing that you conduct must be predominantly focused within your Territory, unless we and franchisees in neighboring territories agree otherwise. You must ensure that all of your advertising, marketing, promotional, customer relationship management, public relations and other brand related programs and materials that you or your agents or representatives develop or implement relating to the Franchised Business is completely clear, factual and not misleading, complies with all applicable laws and regulations, and conforms to the highest ethical standards and the advertising and marketing policies that we periodically specify. Moreover, you must conduct all advertising in a dignified manner and in conformance with the standards and requirements we specify in the Manuals.

You must submit to us in writing for our prior approval all sales promotion materials and advertising that have not been prepared by or previously approved by us. If our written approval is not received within 14 days from the date we received the material, the material is deemed disapproved. We will have the final decision on all creative development of advertising and promotional messages. We reserve the right to require you to discontinue the use of any advertising or marketing materials.

Grand Opening Advertising. In connection with the opening of the Franchised Business, you must spend a minimum of \$2,500 for grand opening advertising and promotion in the four weeks prior to opening the

Franchised Business and the four weeks after opening the Franchised Business in accordance with a plan that you must submit to us. You must spend a minimum of \$500 of this budget during the two weeks that precede your grand opening on digital marketing that we approve. We have the right to modify your grand opening plan, in our sole discretion, and may require you to use a public relations firm to assist with your grand opening. No amount paid by you for your grand opening will be credited toward the Marketing Spending Requirement. You must provide us with supporting documentation evidencing these expenditures upon request.

Marketing Fund. We have established the Hawaii Fluid Art Marketing Fund, a segregated or independent fund into which all Marketing Fees will be paid (the “**Marketing Fund**”). We collect 2% of your Gross Revenues as the Marketing Fee for contribution to the Marketing Fund. The Marketing Fee will not be increased above 2%. We may use monies in the Marketing Fund and any earnings on the Marketing Fund account for any costs associated with advertising (media and production), branding, marketing, public relations and/or promotional programs and materials, and any other activities we believe would benefit the Hawaii Fluid Art brand or the Franchised Businesses generally, including advertising campaigns in various media; creation, maintenance, and optimization of the System Website or other websites; keyword or adword purchasing programs; conducting and managing social media activities; direct mail advertising; market research, including, without limitation, secret shoppers and customer satisfaction surveys; branding studies; employing advertising and/or public relations agencies; purchasing promotional items; conducting and administering promotions, contests, giveaways, public relations events, and community involvement activities; and providing promotional and other marketing materials and services to our franchisees. We have the right to direct all marketing programs, with the final decision over creative concepts, materials, and media used in the programs and their placement. We do not guarantee that you will benefit from the Marketing Fund in proportion to your contributions to the Marketing Fund.

We will make any sales and other materials produced with Marketing Fund monies available to you without charge or at a reasonable cost, and we will deposit the proceeds of such sales into the Marketing Fund.

We will not use the Marketing Fund for anything whose sole purpose is the marketing of franchises; however, the Hawaii Fluid Art website, public relations activities, community involvement activities, and other activities supported by the Marketing Fund may contain information about franchising opportunities.

We will not use any contributions to the Marketing Fund to defray our general operating expenses, except for reasonable administrative costs and overhead we incur in activities reasonably related to the administration of the Marketing Fund or the management of Marketing Fund-supported programs (including the pro-rata amount of salaries of our personnel who devote time to Marketing Fund activities and retainers and fees for outside agencies). We may use monies in the Marketing Fund to pay for an independent audit of the Marketing Fund, if we elect to have it audited.

In no event will we be deemed a fiduciary with respect to any Marketing Fees we receive or administer. We are not required to have an independent audit of the Marketing Fund completed. We will prepare an unaudited statement of contributions and expenditures for the Marketing Fund and make it available within 60 days after the close of our fiscal year to franchisees who make a written request for a copy.

All franchisees and Franchised Businesses operated by us, or our affiliates, will contribute to the Marketing Fund a uniform percentage of their Gross Sales.

During the 2022 fiscal year, ending December 31, 2022, the Marketing Fund received \$7,763 between franchisee and owner contributions. All funds were used and allocated as follows: 25% on production of marketing materials, 60% on media placements, and 15% on general administrative expenses. Any sums in the Marketing Fund at the end of any year shall be applied toward the following years' expenditures.

Digital Marketing. We may, in our sole discretion, establish and operate websites, social media accounts (such as Facebook, Twitter, Instagram, Pinterest, etc.), applications, keyword or adword purchasing programs, accounts with websites featuring gift certificates or discounted coupons (such as Groupon, Living Social, etc.), mobile applications, or other means of digital advertising on the Internet or any electronic communications network (collectively, “Digital Marketing”) that are intended to promote the Marks, your Franchised Business, and the entire network of Franchised Businesses. We will have the sole right to control all aspects of any Digital Marketing, including those related to your Franchised Business.

Unless we consent otherwise in writing, you and your employees may not, directly or indirectly, conduct or be involved in any Digital Marketing that uses the Marks or that relates to the Franchised Business or the network. If we do permit you or your employees to conduct any Digital Marketing, you or your employees must comply with any policies, standards, guidelines, or content requirements that we establish periodically and must immediately modify or delete any Digital Marketing that we determine, in our sole discretion, is not compliant with such policies, standards, guidelines, or requirements. If we permit you or your employees to conduct Digital Marketing, we will have the right to retain full control over all websites, social media accounts, mobile applications, or other means of digital advertising that we have permitted you to use. We may withdraw our approval for any Digital Marketing or suspend or terminate your use of any Digital Marketing platforms at any time.

You are not authorized to have a website for your Franchised Business or to have a webpage related to your Franchised Business in any third-party website, including, without limitation, social networking sites. As part of our Digital Marketing, we or one of our designees will operate and maintain the Hawaii Fluid Art website, which will include basic information related to the Franchised Business, the ability for customers to request information and solicit services at your Franchised Business, and access to the Franchised Business’s reservation system.

Promotional Programs. You must participate in all in-Franchised Business promotional programs that we offer to franchisees. You will follow our guidelines concerning the acceptance and reimbursement of gift certificates, gift cards, coupons, corporate discounts, and other promotional programs as we set forth from time to time in the Manuals or otherwise in writing. You will not allow use of gift certificates, gift cards, or coupons (including Groupons and similar discounts) unless approved or offered by us.

Advertising Cooperatives. We currently do not have any advertising cooperatives and have no plans to form such cooperatives in the immediate future. However, you must join and actively participate in any organizations or associations of franchisees or advertising cooperatives that we establish or that are established at our direction for the purpose of promoting, coordinating, and purchasing advertising in local, regional, or national areas where there are multiple Franchised Businesses, and you must abide by the bylaws, rules, and regulations duly required by such advertising cooperative, which we have the right to mandate or approve if and when we form such cooperative. If we form an advertising cooperative, we will have the right to determine how membership will be defined, whether company-owned or affiliate-owned Franchised Businesses will participate in the cooperative, and whether we, an affiliate, a franchisee, or a third party will administer the cooperative. If you join an advertising cooperative, we or the advertising cooperative may require you to spend additional funds on marketing programs conducted by the advertising cooperative, which may be in addition to your Marketing Fee or the Marketing Spending Requirement. There is no cap on this potential spending obligation. If we form an advertising cooperative, we will make any governing documents available to you for your review.

Advertising Councils. We currently do not have an advertising council composed of franchisees to advise us on our advertising policies. We may decide to implement an advertising council in the future, at which point we will set policies related to such council. If we form an advertising council, we may appoint members, allow franchisees to elect members, or have a mix of appointed and elected positions. The advertising council may consist of both franchisees and our representatives. Any advertising council will

be advisory and will not have any decision-making authority. We will have the right to modify or dissolve any advertising council that we create.

Computer System. You must obtain, maintain, and use the Business Management and Technology System that we specify periodically in the Manuals to (i) enter and track purchase orders and receipts, and customer information, (ii) update inventory, (iii) enter and manage your customer's contact information, (iv) generate sales reports and analysis relating to the Franchised Business, and (iv) provide other services relating to the operation of the Franchised Business.

The Business Management and Technology System currently includes a laptop computer, a tablet computer, a printer, a Clover device for point-of-sale functions, and a smartphone device. Specifications for the brand, operating capabilities, and functionality of these hardware components will be set forth in the Manuals and is subject to change. At a minimum, the components of the Business Management and Technology System must be connected to the Internet via a high-speed Internet connection and must be able to run our designated software programs and general business software such as email, word processing, and similar programs. The Business Management and Technology System will use third-party software from our approved vendors for point-of-sale functions, email marketing, and all customer management functions.

We estimate that the Business Management and Technology System will cost between \$1,000 and \$2,500, which includes the cost of the hardware, software licenses, related equipment, and network connections, including related installation costs. We, or our approved suppliers, will act as vendors or suppliers of some or all of the components of the Business Management and Technology System.

You must maintain the Business Management and Technology System at your expense and must purchase any hardware or software maintenance or technical support programs that we require. You must replace, upgrade, or update the Business Management and Technology System as we may require from time to time. We will establish reasonable deadlines for implementation of any changes to our Business Management and Technology System requirements, but there are no contractual limitations on our right to require changes to the Business Management and Technology System.

We currently do not require you to enter into, or expect that you will need to enter into, any maintenance, updating, upgrading, or support contracts related to the Business Management and Technology System. We, our affiliates, and third-party vendors are not obligated to provide you with any ongoing maintenance, repairs, upgrades, or updates. Vendors may be able to offer optional maintenance, updating, upgrading, or support contracts to you, which we estimate may cost between \$300 to \$500 per year.

You, at all times, must give us unrestricted and independent electronic access (including users IDs and passwords, if necessary) to the Business Management and Technology System for the purposes of obtaining the information relating to the Franchised Business. You must permit us to download and transfer data via a high-speed Internet connection or such other connection that we specify on a real-time basis. There are no contractual limitations on our right to access data stored in the Business Management and Technology System.

You must dedicate your computer system for use as the Business Management and Technology System only and use the Business Management and Technology System in accordance with our policies and operational procedures. Your employees must complete any and all training programs we reasonably require for the proper operation and use of the Business Management and Technology System. You may not use any other cash registers or computer systems in your Franchised Business.

Manuals

The current Table of Contents of the Manuals is attached as Exhibit E to this Disclosure Document. The Manuals currently consist of 165 pages. We may amend, modify, or supplement the Manuals at any time,

so long as such amendments, modifications, or supplements will, in our good faith opinion, benefit us and our existing and future franchisees or will otherwise improve the System. You must comply with revised standards and procedures within 30 days after we transmit the updates.

Training

Initial Training. You, your Operating Principal, or your Key Manager (“**Required Trainee**”) must personally attend and satisfactorily complete our Initial Training before you open your Franchised Business. Initial Training currently consists of a minimum of 5 days of in-person training and Studio setup assistance at your Studio location prior to your opening. Upon your request, we may provide additional training days up to a maximum of 10 days at a rate of \$1,000 per day as part of your Training Fee described in Item 5. We may provide additional training through online and virtual instruction via live and pre-recorded webinars, online learning management tools, and reading materials and guides, including our Manuals. At your option, the Initial Training may be conducted at our corporate location in Dallas, Texas for one trainee at a cost of \$1,000 per day of training. We may provide on-site follow-up training, as we, in our sole discretion, deem necessary, to be conducted four to six weeks after your Franchised Business opens for business. We will conduct Initial Training as needed prior to each Studio’s grand opening. We reserve the right to modify the length, location, and timing of Initial Training. We may waive a portion of Initial Training or alter the training schedule if we determine that your Required Trainee has sufficient prior experience or training. Initial Training will be provided as soon as practicable after you sign your Franchise Agreement and secure and buildout your Site.

We will provide instructors, facilities (if you elect to participate in training at our corporate headquarters), and materials for Initial Training for one of your representatives (including your Required Trainee) provided that all of your trainees are trained during the same training session. We reserve the right to charge a training fee of \$1,000 per day, which we may increase upon 60 days’ written notice to you, for (i) each person in excess of one trainee, (ii) each person who is repeating the course or replacing a person who did not pass, and (iii) each subsequent Operating Principal, Key Manager, or employee who attend the course. If you elect to participate in Initial Training at our headquarters, you are responsible for any travel and living expenses, wages, and other expenses incurred by your trainees during Initial Training or any other training programs. If you elect to have Initial Training conducted at your Studio, we will be responsible for any travel and living expenses, wages, and other expenses incurred by our trainers during Initial Training.

Our Initial Training currently consists of the following:

INITIAL TRAINING PROGRAM

| Subject | Hours of Classroom Training | Hours of On-the-Job Training | Location |
|--------------------------|-----------------------------|------------------------------|---------------|
| Welcome and Culture | 1 | 1 | Your Location |
| Studio Setup | 0.5 | 2.5 | Your Location |
| Paint Mixing | 1 | 2 | Your Location |
| Fluid Art Techniques | 1 | 7 | Your Location |
| Pour Painting Techniques | 1 | 4 | Your Location |
| Resin Pouring Techniques | 3 | 3 | Your Location |

| Subject | Hours of Classroom Training | Hours of On-the-Job Training | Location |
|--|------------------------------------|-------------------------------------|-----------------|
| Silk Scarf Marbling | 3 | 3 | Your Location |
| Employee Relations and Employee Training | 2 | 0 | Your Location |
| Online Reservation Management | 1.5 | 0 | Your Location |
| Marketing | 3 | 0 | Your Location |
| Materials Purchasing | 3 | 0 | Your Location |
| POS and CRM Management | 3 | 0 | Your Location |
| Human Resources and Bookkeeping | 1 | 0 | Your Location |
| Site Selection and Lease Negotiation | 2 | 0 | Your Location |
| Signage | 1 | 0 | Your Location |
| Corporate Discount Programs | 1 | 0 | Your Location |
| Onsite Party Setup | 0.5 | 1.5 | Your Location |
| TOTAL | 28.5 | 24 | |

We use manuals, online video tutorials, and Power Point presentations as instructional materials in our training programs. The instructors for our initial training program all have experience working with us or similar businesses. The following individuals will lead our training programs: Anderson Willms, our Area Training Manager who has over 1.5 years' experience with the Hawaii Fluid Art brand; Tyler Grau, our Training Specialist who has over 2 years' experience with the Hawaii Fluid Art Brand; Austin Grau, our Training Specialist who has over 2 years' experience with the Hawaii Fluid Art Brand, and Bob Clohessy, our Director of Training who has over 6 months' experience with the Hawaii Fluid Art brand. Other individuals identified in Item 2 may also participate in portions of Initial Training.

Your Required Trainee must successfully complete Initial Training at least ten days before the Opening Deadline. We will determine, in our discretion, what constitutes successful completion of the program. If your Required Trainee is unable to successfully complete, in our sole discretion, Initial Training for any reason, your Required Trainee must repeat Initial Training, or you must send replacement Required Trainee to complete Initial Training. If your Required Trainee has not, in our sole discretion, successfully completed Initial Training ten days before the Opening Deadline, we may terminate the Franchise Agreement, in which case we will not refund any initial fees paid by you.

Additional Training. We may periodically conduct mandatory or optional training programs for your Required Trainee and/or your employees at our office or another location that we designate. There will be no charge for training programs that we require you or your employees to attend, but we may charge you a reasonable fee for optional training programs. We may provide additional training in person or via recorded media, teleconference, videoconference, the Internet, webinar, or any other means, as we determine. We may require your Required Trainee or employees to satisfactorily complete any additional training

programs that we specify. We may require your Required Trainee to participate in refresher or advanced training each year.

If, in our sole judgment, you fail to maintain the quality and service standards set forth in the Manuals, we may, in addition to all of our other rights and remedies, assign trainers to the Franchised Business to retrain Franchised Business employees and restore service levels and/or require you or your employees to repeat Initial Training or attend additional training programs at a location that we designate. We may charge a reasonable fee for each trainer assigned to your Franchised Business and any remedial training, including our reasonable travel and living expenses related to providing remedial training.

If your Key Manager ceases to be employed by you at the Franchised Business and you are unable to immediately appoint and train a new manager, we may, in our sole discretion and for a reasonable fee, provide a Key Manager to work at your Franchised Business temporarily until a new Key Manager is appointed and trained.

Training by You. You and/or your Operating Principal and your Key Managers are responsible for training all of your other employees (and subsequent Key Managers) in accordance with our standards and training programs. If, in our sole judgment, you fail to properly train your employees in accordance with our standards, we may prohibit you from training additional employees and either require them to attend training at our headquarters or pay for our costs and expenses to send one of our representatives to train them at your Franchised Business.

Delegation. We may delegate the performance of any or all of our obligations under the Franchise Agreement to an Area Representative, affiliate, agent, independent contractor, or other third party. As described in Item 1, if we appoint an Area Representative in the area that includes your Franchised Business, the Area Representative will provide training, support, marketing, and other services to you on our behalf and will have the authority to exercise many of our rights and perform many of our obligations under the Franchise Agreement.

ITEM 12. TERRITORY

Franchise Program

Site. Your franchise is for the specific site that we approve. You must select a site that we have accepted within the non-exclusive Site Selection Area that we specify. The site will be added to the Franchise Agreement once we accept it and you secure it, usually within 60 days after signing the Franchise Agreement. Your Site Selection Area is not exclusive and is only intended to give you a general indication of the area within which you may locate the Site for the Studio.

Relocation of the Studio. If you would like to relocate your Studio, you must receive our written consent. Our approval will not be unreasonably withheld, provided (i) the new location for the Studio is satisfactory to us and within your Site Selection Area, (ii) your lease, if any, for the new location complies with our then-current requirements, (iii) you comply with our then-current requirements for constructing and furnishing the new location, (iv) the new location will not, as determined in our sole discretion, materially and adversely affect the Gross Revenue of any other studio, (v) you have fully performed and complied with each provision of the Franchise Agreement within the last three years prior to, and as of, the date we consent to such relocation (the “**Relocation Request Date**”), (vi) you are not in default, and no event exists which with the giving of notice and/or passage of time would constitute a default, exists as of the Relocation Request Date, and (vii) you have met all of our then-current training requirements. If you lose your lease, you must secure our approval of another site and enter into a lease for the new approved site within 90 days after you lose your site lease. You must pay us a relocation fee as specified in Item 6.

Territory. Once you have secured the Site, we will provide you with an area in which you will have protected rights (the “**Territory**”). Your Territory will typically be a five-mile radius around your Studio, unless your Studio is located in a major metropolitan downtown area or similarly situated/populated central business district (a “**Central Business District**”). If your Studio is located in a Central Business District, your Territory may be limited to a geographic area comprised of anywhere from a radius of two blocks to three miles around your Studio, as we deem appropriate in our discretion. The size of your Territory may vary from the territory granted to other franchisees based on the location and demographics surrounding your Studio.

The boundaries of your Territory may be described in terms of zip codes, streets, landmarks (both natural and man-made) or county lines, or otherwise delineated on a map. The sources we use to determine the population within your Territory will be publicly available population information (such as data published by the U.S. Census Bureau or other governmental agencies and commercial sources).

You will 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, we will neither operate, nor award to another person a franchise to operate, another Franchised Business in your Territory, nor will we service, or authorize others to service, customers in your Territory, provided you are not in default under the Franchise Agreement.

Reserved Rights. Among other things, we and our affiliates have the right to (a) establish or license franchises and/or company-owned Franchised Businesses, or other businesses offering the same or substantially similar, services, classes, and programs and using the System or elements of the System (i) under the Marks anywhere outside of the Territory or (ii) under names, symbols, or marks other than the Marks anywhere, including inside and outside of the Territory; (b) sell or offer, or license others to sell or offer, any products, services, or classes using the Marks or other marks through any alternative distribution channels, including, without limitation, through e-commerce, in retail stores, via recorded media, via online videos, or via broadcast media, anywhere, including inside and outside of the Territory; (c) advertise, or authorize others to advertise, using the Marks anywhere, including inside and outside of the Territory; and (d) acquire, be acquired by, or merge with other companies with existing facilities or businesses anywhere (including inside or outside of the Territory) and: (x) convert the other businesses to the Hawaii Fluid Art name *provided, that* we will not convert any businesses to the Hawaii Fluid Art name if they are located inside of your Territory, (y) permit the other businesses to continue to operate under another name, including inside and outside of your Territory and/or (z) permit the businesses to operate under another name and convert existing Franchised Businesses to such other name.

We will not compensate you for any of our activities in your Territory, even if they have an impact on your Franchised Business.

Restriction on Rights. You do not have the right to open additional Franchised Businesses, nor do you have any rights of first refusal on any other location. You do not have the right to use the Marks or the System at any location other than the Territory or in any wholesale, e-commerce, or other channel of distribution besides the retail operation of the Franchised Business within the Territory without our prior written consent. Any media advertising or direct mail marketing that you conduct must be predominantly focused within your Territory, unless we agree otherwise.

We reserve the right to establish guidelines concerning the acceptance and reimbursement of gift certificates, gift cards, coupons, corporate discounts, and other promotional programs as we set forth from time to time in the Manuals or otherwise in writing, including policies related to the allocation of monies when a gift certificate is purchased at one Franchised Business and redeemed at another Franchised Business. We do not have these policies or procedures in place, however, as of the date of this Disclosure Document.

Additional Disclosures. We have not established other franchises or company-owned outlets or another distribution channel offering or selling similar products or services under a different trademark. Neither we nor our affiliates have established, or presently intend to establish, other franchised or company-owned businesses that offer similar art studio Franchised Businesses or similar products or services under a different trade name or trademark, but we reserve the right to do so in the future without your consent.

Development Program

If you are granted the right to open two or more Studios under our form of Development Agreement, then we will provide you with a Development Area. The size of your Development Area will substantially vary from other System developers based on the number of Studios we grant you the right to open and operate, and the location and demographics of the general area where we mutually agree you will be opening these locations. The boundaries of your Development Area may be described in terms of zip codes, streets, landmarks (both natural and man-made) or county lines, or otherwise delineated on a map attached to the Development Agreement.

Each Studio you timely open and commence operating under our then-current form of franchise agreement will be operated from a distinct site located within the Development Area and within its own protected territory that we will define once the site for that Studio has been approved. We will approve sites for additional Studios developed under your Development Agreement using our then-current site selection criteria.

We will not own or operate, or license a third party the right to own or operate, a Studio utilizing the Marks and System from a physical location within the Development Area until the earlier of (a) the date we define the protected territory of the final Studio you were granted the right to operate under the Development Agreement, or (b) the expiration or termination of the Development Agreement for any reason (whichever occurs earlier). Your Development Area will be exclusive during this time period.

Upon the occurrence of any one of the events described in the preceding paragraph, your territorial rights within the Development Area will be terminated, except that each Studio that you have opened and are continuously operating as of the date of such occurrence will continue to enjoy the territorial rights within their respective protected territories that were granted under the franchise agreement(s) you entered into for those Studio(s).

You must comply with your development obligations under the Development Agreement, including your Development Schedule, in order to maintain your exclusive rights within the Development Area. If you do not comply with your Development Schedule, we may terminate your Development Agreement and any further development rights you have under that agreement. Otherwise, we will not modify the size of your Development Area except by mutual written agreement signed by both parties.

ITEM 13. TRADEMARKS


We grant you the right to operate a Franchised Business under the “Hawaii Fluid Art” mark, and other trademarks, service marks, associated designs, artwork, and logos that we specify from time to time. We may require you to use the Marks in conjunction with other words or symbols or in an abbreviated form.

The following is a description of trademarks that we license to Studios, and for which we have a registration on the Supplemental Register of the United States Patent and Trademark Office (“USPTO”), and we have filed all required affidavits with respect to each of these trademarks:

| Mark | Registration No. | Registration Date |
|------------------|------------------|-------------------|
| HAWAII FLUID ART | 6648685 | February 15, 2022 |

We expect and intend to submit all affidavits and filings necessary to maintain the registrations above.

The following is a description of the principal trademarks and service marks for which we have applied in the United States.:

| Mark | Application No. | Filing Date |
|---|-----------------|----------------|
|  | 97386914 | April 28, 2022 |

We also grant you the right to use the following logo. We have not applied for registration of this mark with the USPTO or any state agencies as of the issuance data of this Disclosure Document.



This logo will be the primary mark used to identify your Franchised Business. At this time, we do not have a registration for this trademark. Therefore, this trademark does not have many of the legal benefits and rights as a federally registered trademark. If your right to use this trademark is challenged, you may have to change to an alternative trademark which will increase your expenses.

There are no currently effective determinations of the USPTO, Trademark Trial and Appeal Board, the Trademark Administrator of any state, or any court; nor is there any pending infringement, opposition or cancellation proceedings, or material litigation, involving any of the Marks. We do not know of any superior prior rights or infringing uses that could materially affect your use of any of the Marks. There are no currently effective agreements that significantly limit our rights to use or license the use of the Marks listed above in a manner material to the franchise.

You may also use certain other Marks owned by or licensed to us in the operation of your Franchised Business. You must use the Marks only in strict accordance with the Franchise Agreement and Operations Manual. You may not use any Mark (i) as part of any corporate or legal business name, (ii) with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos we have licensed to you), (iii) in selling any unauthorized services or products, (iv) as part of any domain name, electronic address, metatag, social media account, or otherwise in connection with any website or other electronic medium without our consent, or (v) in any other manner we have not expressly authorized in writing. You must display the Marks in a manner that we specify on signage at the Franchised Business and on all written materials, forms, advertising, promotional materials, supplies, employee uniforms, business cards, receipts,

letterhead, contracts, stationary, and other materials we designate. Upon receipt of notice from us, you must discontinue, alter, or substitute any of the Marks as we direct.

You must display in a conspicuous location in or upon the Franchised Business, or in a manner that we specify, a sign containing the following notice (or an alternative notice that we specify): "This business is owned and operated independently by [name of franchisee] who is an authorized licensed user of the trademark "Hawaii Fluid Art", which is a trademark owned by Hawaii Fluid Art Franchising, LLC." You must include this notice or other similar language that we specify on all forms, advertising, promotional materials, business cards, receipts, letterhead, contracts, stationery, and other written materials we designate.

You must promptly notify us if any other person or Entity attempts to use any of the Marks or any colorable imitation of any of the Marks. You must immediately notify us of any infringement of or challenge to your use of any of the Marks. We will have the right to take any action that we deem appropriate, but the Franchise Agreement does not require us to take any action to protect your right to use any of the Marks or to participate in your defense and/or indemnify you for expenses or damages if you are a party to an administrative or judicial proceeding involving any of the Marks. We will have the right to control any administrative proceedings or litigation related to the Marks. We will be entitled to retain any and all proceeds, damages, and other sums, including attorneys' fees, recovered or owed to us, or our affiliates in connection with any such action. You agree to execute all documents and, render any other assistance we may deem necessary to any such proceeding or any effort to maintain the continued validity and enforceability of the Marks.

If we decide that you should modify or discontinue using any of the Marks or use one or more additional or substitute service marks or trademarks, you must comply with our directions in the time that we reasonably specify, and neither we nor any of its affiliates will have any obligation to reimburse you for the cost of complying with our directions.

ITEM 14. PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

We own no rights in, or licenses to, any patents or patent applications.

Except as provided below, we own no rights in, or licenses to, any copyrights. We have not registered any copyrights with the United States Copyright Office. However, we claim copyrights with respect to our advertising materials and Operations Manual, as well as other materials we may periodically develop. There are no determinations of the Copyright Office or any court regarding any of our copyrights. There are no agreements limiting the use of any copyrights by us.

Any copyrights used by you in the Franchised Business belong solely to us or our affiliates. You agree to notify us in writing of any suspected infringement of our or our affiliates' copyrights. We and our affiliates have exclusive rights to bring an action for infringement and retain any amounts recovered with respect to such action, and to control any infringement proceeding whether brought by or against us or you. We have no obligation to defend or otherwise protect you against any claims involving any copyright, including without limitation any copyright infringement claim, or to indemnify you for any losses you may incur as a result of our copyrights infringing the rights of any other copyright owner. If so requested by us, you will discontinue the use of the subject matter covered by any copyright used in connection with the Franchised Business.

During the term of your Franchise Agreement, we or our affiliates may disclose in confidence to you, either orally or in writing, certain trade secrets, know-how, and other confidential information relating to the System, our business, our vendor relationships, our classes, or the construction, management, operation, or promotion of the Franchised Business (collectively, "**Proprietary Information**"). You may not, nor may you permit any person or Entity to, use, or disclose any Proprietary Information (including any portion of

the Operations Manual) to any other person, except to the extent necessary for your employees to perform their functions in the operation of your Franchised Business. You must take reasonable precautions necessary to protect Proprietary Information from unauthorized use or disclosure, including conducting orientation and training programs for your employees to inform them of your obligation to protect Proprietary Information and their related responsibilities and obligations. If we or our affiliates so request, you must obtain from your officers, directors, Owners, Key Managers, and employees confidentiality agreements in a form satisfactory to us or our affiliates. You will be responsible for any unauthorized disclosure of Proprietary Information by any person to whom you have disclosed Proprietary Information.

ITEM 15.
OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION
OF THE FRANCHISE BUSINESS

At all times that your Franchised Business is open for business, it must be under the personal supervision of either you, your Operating Principal, your Key Manager, or a trained attendant. Your Key Manager or another trained manager must be available at all times the Franchised Business is open for business. You or your Operating Principal and your Key Manager must successfully complete our training program and any other training programs that we may require. You may not permit your Franchised Business to be operated, managed, directed, or controlled by any other person without our prior written consent.

Your Operating Principal must have at least a 10% ownership interest in your Entity and must have authority over all business decisions related to your Franchised Business and must have the power to bind you in all dealings with us. In addition, you must appoint a Key Manager to manage the day-to-day business of your Franchised Business, who may also be the Operating Principal. The Key Manager is not required to have an ownership interest in your Entity. You must provide us with written notice of your Operating Principal and Key Manager at least 60 days prior to opening and may not change your Operating Principal and Key Manager without our prior approval.

We may also require you to obtain from your officers, directors, Key Managers, instructors, your Owner's spouses, and other individuals that we may designate executed agreements containing nondisclosure and noncompete covenants in a form acceptable to us, which specifically identify us as having the independent right to enforce them.

Each Owner, including the Operating Principal, must sign the Payment and Performance Guarantee (the "**Guarantee**") attached to the Franchise Agreement, assuming and agreeing to discharge all obligations of the franchisee under the Franchise Agreement and agreeing to comply with the confidentiality, indemnification, covenant not to compete, and assignment provisions of the Franchise Agreement. If you are a party to a Development Agreement, each individual with a direct or indirect ownership interest in your Entity must sign the Guarantee attached to the Development Agreement.

ITEM 16.
RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You may offer for sale in the Franchised Business only the products and services that we have approved in writing. In addition, you must offer the specific products and services that we require in the Manuals or otherwise in writing. We may designate specific products or services as optional or mandatory. You must offer all products or services that we designate as mandatory. You may sell products only in the varieties, forms, and packages that we have approved. You must maintain a sufficient supply of required products to meet the inventory standards we prescribe in the Manuals (or to meet reasonably anticipated customer demand, if we have not prescribed specific standards).

We may, without limitation, change the types, amounts, or specifications of the goods or services that you may offer. We may, without limitation and in our sole discretion, revoke approval of a previously approved

product or service that you have been selling, in which case, you must immediately discontinue offering the service and may continue to sell the product only from your existing inventory for up to 30 days following our disapproval. We have the right to shorten this period if, in our opinion, the continued sale of the product would prove detrimental to our reputation. After the 30-day period, or such shorter period that we may designate, you must dispose of your remaining formerly approved inventory as we direct.

We impose no restriction on the retail customers that you may serve at your Franchised Business, but you may not make any sales of products or services outside of the Franchised Business or use vendor relationships that you establish through your association with us or the Hawaii Fluid Art brand for any other purpose besides the operation of the Franchised Business, unless we consent in writing. You agree to purchase products solely for resale to retail customers, and not for resale or redistribution to any other party, including other Hawaii Fluid Art franchisees.

You must ensure that all services you provide are accounted for through the Business Management and Technology System, make payments through the Business Management and Technology System, and sign contracts for services on a form that we prescribe or approve.

You may not offer products or services in connection with the Marks on any website on the Internet or any other electronic communication network unless we consent in writing. Any media advertising or direct mail marketing that you conduct must be predominantly focused within your Territory unless we agree otherwise.

**ITEM 17.
RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION**

THE FRANCHISE AGREEMENT

The table below lists certain important provisions of the Franchise Agreement. You should read these provisions in the form of Franchise Agreement attached to this Disclosure Document as Exhibit B.

| | Provision | Section in Franchise Agreement | Summary |
|----|--|---------------------------------------|---|
| a. | Length of the franchise term | Section 2.1 | Begins on the Effective Date of your Franchise Agreement and continues for ten years from the date you open your Franchised Business for business. |
| b. | Renewal or extension of the term | Section 2.2 | If you meet the conditions, you may enter into two successor ten-year terms. |
| c. | Requirements for franchisee to renew or extend | Section 2.2 | You have notified us of your intent to renew at least six months in advance but no more than 12 months in advance; you have signed our then-current form of franchise agreement, which may have materially different terms and conditions than your original Franchise Agreement; you have refurbished the Franchised Business to our then-current specifications; you have executed a general release in favor of us and our affiliates; you, your Operating Principal, and Key Manager have completed our then-current training requirements; you have substantially complied with the Franchise Agreement during the term; no Event of Default (as defined in the Franchise Agreement) or event which, with the giving of notice or passage of time or both, would become an Event of Default, exists; and you have paid us the Successor Fee. |
| d. | Termination by franchisee | Section 14.3 | If we commit a material breach of the Franchise Agreement and we fail to cure the breach or take reasonable steps to begin curing the |

| | Provision | Section in Franchise Agreement | Summary |
|----|---|---------------------------------------|---|
| | | | breach within 60 days after receiving notice from you, you may terminate the Franchise Agreement. |
| e. | Termination by us without cause | Not applicable | None. |
| f. | Termination by us with cause | Section 14.2 | We can terminate only if you default under the Franchise Agreement. |
| g. | “Cause” defined – curable defaults | Section 14.1 | You have 10 days to cure the non-payment of any amounts owed to us or our affiliates or your failure to make sufficient funds available to us; 24 hours to cure non-compliance with any law, regulation or ordinance which results in a threat to the public’s health or safety; and 30 days to cure a failure to comply with any other provision of the Franchise Agreement not described above or in (a) below. |
| h. | “Cause” defined – non-curable defaults | Section 14.1 | You make a material misrepresentation to us; your Required Trainee fail to satisfactorily complete initial training; you fail to open on time; you fail to timely refurbish your Franchised Business; you fail to rebuild your Franchised Business after its destruction; you suspend operations of the Franchised Business for more than five days without our consent; you fail to communicate with us; you fail to meet Minimum Performance Levels for two consecutive calendar years; you miss two or more required meetings; you or any of your Owners or officers or directors is convicted or pleads nolo contendere to a crime involving moral turpitude or consumer fraud or any other crime or offense or engages in any activities which impairs the goodwill associated with the Marks; you misuse the Marks; you disclose Proprietary Information; you or your Owners make an improper transfer; you or your Owners violate the noncompete covenants of the Franchise Agreement; you become insolvent or bankrupt; you fail to pay suppliers and trade creditors an amount exceeding \$2,000 for more than 60 days; you fail to pay your taxes; you underreport Gross Sales by more than 2% twice in a two-year period or by 5% in any period; you fail to permit us to inspect or audit your books and records; you fail to timely file reports three times in 12 months; you default under any other agreement with us or our affiliates if such default would permit the termination of that agreement; or you are in default three or more times within any 18-month period. |
| i. | Franchisee’s obligations on termination/non-renewal | Section 15 | Pay all amounts due to us or our affiliates; discontinue use of the Marks and the System; return Proprietary Information, customer data, and Manuals; close vendor accounts; cancel assumed name registration; cancel or transfer telephone number, post office boxes, domain names, social media accounts, and directory listings; complete de-identification of the Site; reimburse customers; refrain from disclosing Proprietary Information; and comply with noncompete covenant. |
| j. | Assignment of contract by us | Section 13.1 | No restriction on our right to assign. |
| k. | “Transfer” by franchisee – definition | Section 13.2 | Includes transfer of the Franchise Agreement, any interest in the Franchise Agreement, the license to use the System and the Marks, the Franchised Business or substantially all of the assets of the |

| | Provision | Section in Franchise Agreement | Summary |
|----|---|--------------------------------|---|
| | | | Franchised Business, or an interest in the ownership of the Franchised Business (if you are an Entity). |
| l. | Our approval of transfer by franchisee | Section 13.3 | We have the right to approve all transfers. |
| m. | Conditions for our approval of transfer | Section 13.4 | You pay us a non-refundable deposit to review the transfer; you pay us the Transfer Fee; all of your monetary obligations are satisfied; you are not in default; you and your Owners sign a general release; you and your Owners remain liable for obligations incurred or arising prior to transfer; you comply with noncompetition and confidentiality provisions; your landlord consents to the transfer of your lease; new franchisee agrees to discharge all of your obligations; new franchisee qualifies, meets training requirements, and signs then-current franchise agreement; new franchisee upgrades the Franchised Business to our then-current specifications; new franchisee covenants to continue to operate the Franchised Business under the Marks; new franchisee's owners execute our then-current form of personal guarantee; and we determine purchase price acceptable and financing arrangements are subordinate to our interests. |
| n. | Our right of first refusal to acquire franchisee's business | Section 13.9 | We can match any offer for your Franchised Business, the Franchised Business's assets, or any ownership interest, except for certain transfers to spouses, children, or existing Owners. |
| o. | Our option to purchase your business | Section 15.5 | For 15 days after the Franchise Agreement terminates or expires, we can purchase any or all of the inventory, supplies, Operating Assets, and other assets related to the operation of your Franchised Business for the fair market value of the assets, less any amounts then owing to us. We also may assume your lease or sublease or equipment leases. |
| p. | Death or disability of franchisee | Section 13.8 | Executor or representative must transfer your interest to a third party approved by us within 120 days. |
| q. | Non-competition covenants during the term | Section 12.1 | You and your Owners may not: own, manage, engage in, be employed by, advise, make loans to, or have any other interest in (i) any business which provides or offers group or individual art class instruction, the sale of works of art at a retail store, instruction in the technique of acrylic or resin fluid art, any other Approved Products and Services that we grant you the right to offer during the Term of your Franchise Agreement (ii) any entity that grants franchises or licenses for any of these types of businesses (a " Competitive Business ") in the United States; divert or attempt to divert any business or customer or potential business or customer of the Franchised Business to any Competitive Business, by direct or indirect inducement or otherwise; perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System; use any vendor relationship established through your association with us for any purpose other than to purchase products or equipment for use or retail sale in the Franchised Business; or directly or indirectly solicit for employment any person who at any time within the immediate past 12 months has been employed by us, or our affiliates, or by any of our franchisees. |

| | Provision | Section in Franchise Agreement | Summary |
|----|--|---------------------------------------|--|
| r. | Non-competition covenants after the Franchise Agreement is terminated or expires | Section 12.2 | For two years after the expiration of termination of your Franchise Agreement, you and your Owners may not be involved in any Competitive Business that is (or is intended to be) located within a 10-mile radius of your former Franchised Business or any other Franchised Business that is operating or under development at that time and may not solicit for employment individuals employed during the past 12 months by us, our affiliates, or our franchisees. |
| s. | Modification of the agreement | Section 17.2 | Except for modifications to the Manuals, no modifications unless agreed to in writing by both parties. |
| t. | Integration/merger clause | Section 17.1 | Only the terms of the Franchise Agreement are binding (subject to state law). Any other promises made outside of this Disclosure Document and the Franchise Agreement may not be enforceable. |
| u. | Dispute resolution by arbitration or mediation | Section 16.1 | Prior to filing most proceedings, a party must submit the dispute to non-binding mediation. |
| v. | Choice of forum | Section 16.2 | Subject to applicable state laws, you and your Owners must, and we may, bring claims in federal or state courts located in Ovilla, Texas (or the city in which our principal place of business is then located, if we no longer have an office in Hawaii) |
| w. | Choice of law | Section 16.3 | Subject to applicable state laws, Texas law applies, without regard to Texas conflict-of-laws rules, excluding the Hawaii Franchise Act except with respect to Studios which are physically located in Hawaii. |

THE AREA DEVELOPMENT AGREEMENT

The table below lists certain important provisions of the Area Development Agreement. You should read these provisions in the form of Area Development Agreement attached to this Disclosure Document as Exhibit C.

| | Provision | Section in Area Development Agreement | Summary |
|----|--|--|---|
| a. | Length of the franchise term | Section 5 | The term expires upon the deadline to open the last Studio to be opened under the Development Schedule. |
| 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 | Not applicable. |
| e. | Termination by us without cause | Not applicable | Not applicable. |
| f. | Termination by us with cause | Section 6.1 | We can terminate only if you default under the Franchise Agreement (see (g) and (h) below). |
| g. | “Cause” defined – curable defaults | None | Not Applicable. |

| | Provision | Section in Area Development Agreement | Summary |
|----|---|--|---|
| h. | “Cause” defined – non-curable defaults | Section 6.1 | You fail to timely execute a Franchise Agreement or fail to pay any initial franchise fee owed thereunder; you fail to have open and operating the minimum number of Studios specified in the Development Schedule at any deadline; any Franchise Agreement is in default; or you breach or otherwise fail to comply fully with any provision of the Development Agreement |
| i. | Franchisee’s obligations on termination/non-renewal | Section 6.2 | You will lose your right to develop additional studios |
| j. | Assignment of contract by us | Section 7 | No restriction on our right to assign. |
| k. | “Transfer” by franchisee – definition | Section 7 | Includes transfer of the Franchise Agreement, any interest in the Franchise Agreement, the license to use the System and the Marks, the Franchised Business or substantially all of the assets of the Franchised Business, or an interest in the ownership of the Franchised Business (if you are an Entity). |
| l. | Our approval of transfer by franchisee | Section 7 | We have the right to approve all transfers. |
| m. | Conditions for our approval of transfer | Section 7 | You pay us a non-refundable deposit to review the transfer; you pay us the Transfer Fee; all of your monetary obligations are satisfied; you are not in default; you and your Owners sign a general release; you and your Owners remain liable for obligations incurred or arising prior to transfer; you comply with noncompetition and confidentiality provisions; your landlord consents to the transfer of your lease; new franchisee agrees to discharge all of your obligations; new franchisee qualifies, meets training requirements, and signs then-current franchise agreement; new franchisee upgrades the Franchised Business to our then-current specifications; new franchisee covenants to continue to operate the Franchised Business under the Marks; new franchisee’s owners execute our then-current form of personal guarantee; and we determine purchase price acceptable and financing arrangements are subordinate to our interests. |
| n. | Our right of first refusal to acquire franchisee’s business | Section 7 | We can match any offer for your Franchised Business, the Franchised Business’s assets, or any ownership interest, except for certain transfers to spouses, children, or existing Owners. |
| o. | Our option to purchase your business | Not applicable | Not applicable |
| p. | Death or disability of franchisee | Not applicable | We have the right to approve or disapprove any transfer in our sole discretion. |
| q. | Non-competition covenants during the term | Section 8.1 | You and your Owners may not: be involved in any Competitive Business in the United States; divert customers or potential customers to any Competitive Business; do acts injurious to our goodwill; use vendor relationships established through your associations with us for any other purpose besides the operation of your Studio; or solicit for employment individuals employed during the past 12 months by us, our affiliates, or our franchisees. |

| | Provision | Section in Area Development Agreement | Summary |
|----|--|--|--|
| r. | Non-competition covenants after the Franchise Agreement is terminated or expires | Section 8.2 | For two years after the expiration of termination of your Franchise Agreement, you and your Owners may not be involved in any Competitive Business that is (or is intended to be) located within a 10-mile radius of your former Franchised Business or any other Franchised Business that is operating or under development at that time and may not solicit for employment individuals employed during the past 12 months by us, our affiliates, or our franchisees. |
| s. | Modification of the agreement | Section 9 | Except for modifications to the Manuals, no modifications unless agreed to in writing by both parties. |
| t. | Integration/merger clause | Section 9 | Only the terms of the Franchise Agreement are binding (subject to state law). Any other promises made outside of this Disclosure Document and the Franchise Agreement may not be enforceable. |
| u. | Dispute resolution by arbitration or mediation | Section 9 | Prior to filing most proceedings, a party must submit the dispute to non-binding mediation. |
| v. | Choice of forum | Section 9 | Subject to applicable state laws, you and your Owners must, and we may, bring claims in federal or state courts located in Ovilla, Texas (or the city in which our principal place of business is then located, if we no longer have an office in Hawaii) |
| w. | Choice of law | Section 9 | Subject to applicable state laws, Texas law applies, without regard to Texas conflict-of-laws rules, excluding the Hawaii Franchise Act except with respect to Studios which are physically located in Hawaii. |

**ITEM 18.
PUBLIC FIGURES**

We do not use any public figure to promote our Franchises but may do so in the future.

**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.

The financial performance representation is historic based upon two of our existing Affiliate-Owned Businesses which operate a Studio in and around Waikoloa, Hawaii (“HFA Waikoloa”) and Kansas City, Missouri (“HFA KC”). It includes historical financial results from our existing Company-Owned Affiliates whose businesses were in operation for all of 2022. As of December 31, 2022, we had 3 Company-Owned Affiliates, two of which were open and operating throughout the entirety of the 2022 calendar year, and 3 franchised outlets, none of which operated throughout the entirety of the 2022 calendar year. We omitted the other Company-Owned Affiliate and franchise locations as they were opened in 2022 and thus did not meet the reporting requirements to be included in this Item 19. Continuous operation for the entirety of the 2022 calendar year is the only criteria used to select the financial performance information that is included

in Item 19. We have a reasonable basis and written substantiation for the financial performance information disclosed in Item 19.

Table 1 of this Item 19 details the Gross Revenue generated by HFA Waikoloa during a period comprising fiscal years 2021 and 2022 (each a “Measurement Period”), along with (a) the costs and expenses associated with operating each location (collectively, the “Operating Costs”); and (b) the estimated fees that would have been incurred by each location in connection with the Royalty Fees, Marketing Fees, and Technology Fees as if it were a Franchised Business governed by our current form of franchise agreement over the Measurement Period.

| HFA Waikoloa | | |
|--|------------------|------------------|
| For the periods January – December 2021 & January – December 2022 | | |
| Revenue | 2021 | 2022 |
| Gross Revenue – In Store Revenue | \$310,118 | \$411,234 |
| Gross Revenue – Off Site Revenue | \$97,135 | \$135,029 |
| Less: Sales Returns and Allowances | \$0 | \$1,197 |
| Total Gross Revenue ⁽¹⁾ | \$407,253 | \$545,066 |
| Expenses | | |
| Advertising ⁽²⁾ | \$2,651 | \$5,988 |
| Bank Charges | \$118 | \$135 |
| Charitable Contributions | \$225 | \$2,000 |
| Dues and Subscriptions | \$150 | \$525 |
| Insurance | \$1,695 | \$1,695 |
| Licenses and Fees | \$150 | \$0 |
| Legal & Professional Fees | \$0 | \$1,000 |
| Postage | \$113 | \$2,563 |
| Office Expense | \$0 | \$711 |
| Rent ⁽³⁾ | \$11,325 | \$14,566 |
| Percentage Rent ⁽⁴⁾ | \$0 | \$22,934 |
| Facility Repairs & Maintenance | \$0 | \$1,203 |
| Supplies ⁽⁵⁾ | \$15,860 | \$24,144 |
| Utilities | \$2,322 | \$7,466 |
| Vehicle Expense ⁽⁶⁾ | \$636 | \$554 |
| Labor Expense ⁽⁷⁾ | \$37,790 | \$113,403 |
| Franchise Expenses ⁽⁸⁾ | | |
| Royalty | \$32,580 | \$32,802 |
| Brand Fund Contribution | \$8,145 | \$8,201 |
| Technology Fee | \$6,000 | \$6,000 |
| Total Expenses | \$119,760 | \$120,481 |
| EBITDA (if franchised) ⁽⁹⁾ | \$286,772 | \$286,772 |
| EBITDA Margin (if franchised) ⁽¹⁰⁾ | 70.6% | 52.4% |

[Item 19 continues on the following page.]

| HFA KC | |
|--|------------------|
| For the period January – December 2022 | |
| Revenue | 2022 |
| Gross Revenue – In Store Revenue | \$396,555 |
| Gross Revenue – Off Site Revenue | \$45,175 |
| Less: Sales Returns and Allowances | \$823 |
| Total Gross Revenue ⁽¹⁾ | \$440,907 |
| Expenses | |
| Advertising ⁽²⁾ | \$5,988 |
| Bank Charges | \$115 |
| Charitable Contributions | \$2,200 |
| Dues and Subscriptions | \$325 |
| Insurance | \$1,695 |
| Licenses and Fees | \$0 |
| Legal & Professional Fees | \$225 |
| Postage | \$622 |
| Office Expense | \$411 |
| Rent ⁽³⁾ | \$58,380 |
| Percentage Rent ⁽⁴⁾ | \$0 |
| Facility Repairs & Maintenance | \$1,688 |
| Supplies ⁽⁵⁾ | \$20,852 |
| Utilities | \$5,797 |
| Vehicle Expense ⁽⁶⁾ | \$328 |
| Labor Expense ⁽⁷⁾ | \$93,305 |
| Franchise Expenses ⁽⁸⁾ | |
| Royalty | \$35,273 |
| Brand Fund Contribution | \$8,818 |
| Technology Fee | \$6,000 |
| Total Expenses | \$242,022 |
| EBITDA (if franchised) ⁽⁹⁾ | \$198,885 |
| EBITDA Margin (if franchised) ⁽¹⁰⁾ | 45.1% |

Notes to Item 19 Tables:

The figures in the tables above use the historical information that Hawaii Fluid Art Franchising has provided. You should be advised that no certified public accountant has audited these figures or expressed his or her opinion concerning their contents or form, nor have we sought to independently verify their accuracy. Upon your reasonable request, we will provide written substantiation for this financial performance representation.

1. “**Total Gross Revenue**” means all revenues derived from all group or individual acrylic pour and resin art classes, and any other related product sold and conducted at the Affiliate-Owned Business less sales tax, discounts, allowances, and returns. Both of the Affiliate-Owned Businesses derived revenue from a combination of in-store sales and classes, as well as events held outside of the Studio such as parties and corporate events. HFA Waikoloa conducts recurring events off-site throughout the year under an agreement with a third party. You are permitted, but not required, to conduct off-site events in the area around your Studio, and we encourage you to do so.

2. **“Advertising”** these amounts reflect the actual amounts spent during the Measurement Period on local and digital marketing. Franchised Businesses are required to spend a minimum of \$500 per month on local marketing activities as further described in Item 6.
3. **“Rent”** For fiscal year 2021, this figure represents rent costs from May until the end of 2021 for HFA Waikoloa due to a period of free rent that HFA Waikoloa was offered by its landlord. For fiscal year 2022, these figures represent the full base rent amount paid by each Affiliate-Owned Business.
4. **“Percentage Rent”** HFA Waikoloa pays a percentage of its gross revenues above a certain breakpoint to its landlord as “percentage rent”. HFA KC does not pay percentage rent under the terms of its lease. We do not anticipate that our franchisees will pay percentage rent as part of their lease, but may be required to do so if percentage rent is include in their lease.
5. **“Supplies”** this figure includes the cost of various supplies used in conducting classes such as our proprietary pouring medium, our specialty resin, canvasses, drop cloths, and other miscellaneous supplies.
6. **“Vehicle Expense”** Franchised Businesses are not required to conduct off-site events or purchase/lease a vehicle in their operation of a Franchised Business. If you do conduct off-site events, you will need access to a vehicle to transport supplies for the off-site events. You may use your own vehicle or rent a vehicle for these purposes. The figures in this line item represent vehicle expenses actually incurred by each Affiliate-Owned Business for vehicle repairs, maintenance, fuel, and rental costs.
7. **“Labor Expense”** These are amounts incurred by each Affiliate-Owned Business for labor and include wages, benefits, and payroll taxes. In the 2021 fiscal year, HFA Waikoloa was owner-operated and the owner did not collect wages from the business. In the 2022 fiscal year, both HFA Waikoloa and HFA KC were operated by a paid manager.
8. **“Franchise Expenses”** These amounts reflect what each Affiliate-Owned Business would have paid if it were a Franchised Business operating under our current form of Franchise Agreement and include (i) Royalty Fees which are 8% of Gross Revenue; and (ii) Marketing Fund Contributions that are 2% of Gross Revenue; and (iii) a Technology Fee payment of \$500 per month.
9. **“EBITDA (if franchised)”** means Gross Revenue *minus* Total Expenses. EBITDA does not include interest paid on debt, taxes, depreciation, or amortization expenses.
10. **“EBITDA Margin (if franchised)”** is the EBITDA (if franchised) figure expressed as a percentage of Total Gross Revenue.

Notes Regarding the Company-Owned Affiliate and Item 19 Generally:

1. This information may not reflect all operating expenses, or other costs or expenses that you may elect to incur which must be deducted from the gross revenues figure in order to obtain your net income or profit. This will affect the net income and/or cash flow of any outlet and must be carefully considered and evaluated. *You should conduct an independent investigation of the costs and expenses that you will incur in operating your Franchised Business.*
2. The actual performance of any outlet will depend on a number of factors specific to the location, including:
 - The impact of the COVID 19 pandemic and any related closures or stay at home orders;
 - Any health care law regulatory compliance expenses;
 - Rent, interest or other financing costs for land, buildings, equipment, and inventory;
 - Initial franchise fee and organization costs;

- Economic and weather conditions of various geographic areas;
- Competition from a variety of other businesses;
- Different acquisition, development, construction, and property costs;
- Cost of equipment;
- Occupancy expenses such as rent, utilities and property taxes;
- Labor costs, payroll taxes and laws concerning employees and employee benefits;
- Different traffic counts, accessibility, visibility, and parking;
- Different results from advertising;
- Outlets have been in business for different periods of time in their respective markets;
- Cost of product and supply costs;
- Franchise payments including royalties; and
- Workers' compensation and insurance coverage.

These and other expenses you incur will affect the net income and cash flow of the outlet. You should consider them and evaluate the impact on your operations.

3. This Item 19 does not reflect certain pre-opening costs and expenses over the Measuring Period that you are likely to incur in connection with development of a new Franchised Business. See Item 7 for details about pre-opening costs for your Business.

4. You should consult other sources for financial information including your financial, business, and legal advisors in connection with the information provided and our franchisees listed in Exhibit I to this Franchise Disclosure Document to obtain additional information necessary for you to develop estimates of the sales, costs, expenses, earnings, and profits.

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 the franchisor's management by contacting Maya Ratchiff 438 Johnson Lane, Ovilla TX 75154, by email at info@hawaiifluidart.com, or by phone at (808) 344-4878, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20. OUTLETS AND FRANCHISEE INFORMATION

**Table No. 1
Systemwide Outlet Summary
For Years 2020 to 2022**

| Outlet Type | Year | Outlets at the Start of the Year | Outlets at the End of the Year | Net Change |
|------------------------|-------------|----------------------------------|--------------------------------|------------|
| Franchised | 2020 | 0 | 0 | 0 |
| | 2021 | 0 | 0 | 0 |
| | 2022 | 0 | 3 | +3 |
| Affiliate-Owned | 2020 | 0 | 0 | 0 |
| | 2021 | 0 | 2 | +2 |
| | 2022 | 2 | 3 | +1 |
| Total | 2020 | 0 | 0 | 0 |
| | 2021 | 0 | 2 | +2 |
| | 2022 | 2 | 6 | +4 |

Table No. 2
Transfers of Franchised Businesses from Franchisees to New Owners (other than to us)
For Years 2020 to 2022

| State | Year | Number of Transfers |
|--------------|-------------|---------------------|
| Total | 2020 | 0 |
| | 2021 | 0 |
| | 2022 | 0 |

Table No. 3
Status of Franchised Outlets
For Years 2020 to 2022

| State | Year | Franchised Outlets at Start of Year | Franchised Outlets Opened | Terminations | Non-Renewals | Reacquired by Franchisor | Ceased Operations-Other Reasons | Franchised Outlets at End of the Year |
|--------------|-------------|-------------------------------------|---------------------------|--------------|--------------|--------------------------|---------------------------------|---------------------------------------|
| OK | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2022 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| TX | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2022 | 0 | 2 | 0 | 0 | 0 | 0 | 2 |
| Total | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2022 | 0 | 3 | 0 | 0 | 0 | 0 | 3 |

Table No. 4
Status of Affiliate-Owned Outlets
For Years 2020 to 2022

| State | Year | Outlets at Start of Year | Outlets Opened | Outlets Reacquired from Franchisee | Outlets Closed | Outlets Sold to Franchisee | Outlets at End of the Year |
|---------------|-------------|--------------------------|----------------|------------------------------------|----------------|----------------------------|----------------------------|
| HI | 2020 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 1 | 0 | 0 | 0 | 0 |
| | 2022 | 1 | 0 | 0 | 0 | 0 | 1 |
| MO | 2020 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 1 | 0 | 0 | 0 | 1 |
| | 2022 | 1 | 0 | 0 | 0 | 0 | 1 |
| TX | 2020 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2022 | 0 | 1 | 0 | 0 | 0 | 0 |
| Totals | 2020 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 2 | 0 | 0 | 0 | 2 |
| | 2022 | 2 | 1 | 0 | 0 | 0 | 3 |

Table No. 5
Projected Openings as of December 31, 2022
For following 12-month Period

| State | Franchise Agreements Signed But Outlets Not Opened | Projected New Outlets in the Next Fiscal Year | Projected New Affiliate-Owned Outlets in the Next Fiscal Year |
|-----------------------|--|---|---|
| Arizona | 1 | 1 | 0 |
| California | 0 | 0 | 1 |
| Hawaii | 0 | 0 | 1 |
| Nevada | 0 | 0 | 1 |
| North Carolina | 0 | 1 | 0 |
| Tennessee | 1 | 1 | 0 |
| Texas | 1 | 3 | 0 |
| Total | 3 | 6 | 3 |

Current and Former Franchisees. Set forth on Exhibit I are (i) the names of all current franchisees and the address and telephone number of each of their Franchised Businesses, and (ii) the names, city and state, and the current business telephone number, or, if unknown, the last known home telephone number of every franchisee who had a Franchised Business terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under any Franchise Agreement during the most recently completed fiscal year or who has not communicated with us within 10 weeks of this Disclosure Document’s issuance date.

Our fiscal year ends on December 31 each year.

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

Confidentiality Agreements. We have not signed any confidentiality clauses with current or former franchisees. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with the Hawaii Fluid Art system. You may wish to speak with current and former franchisees but be aware that not all such franchisees will be able to communicate with you.

Trademark-Specific Franchisee Organizations. As of the date of this Disclosure Document, there are no trademark-specific franchisee organizations associated with our franchise system.

ITEM 21.

FINANCIAL STATEMENTS

Attached as Exhibit A to this Disclosure Document is our our audited year-end balance sheet as of December 31, 2021, and our audited financial statements as of December 31, 2022. These financial statements have been prepared in accordance with generally accepted United States accounting principles. As we were formed in April 2021 and began offering franchises in July 2021, we have not been in business for three years or more and cannot include all of the financial statements required by the FTC Rule for our last three fiscal years. Our fiscal year ends on December 31.

**ITEM 22.
CONTRACTS**

The following agreements are attached as exhibits to this Disclosure Document:

| Contract | Location in FDD |
|--|------------------------|
| Franchise Agreement | Exhibit B |
| Personal Guaranty | Attachment to FA |
| Franchisee Compliance Questionnaire | Attachment to FA |
| Area Development Agreement and Exhibits | Exhibit C |
| State-Required Agreement Riders | Exhibit D |
| General Release | Exhibit G |
| Confidentiality and Noncompete Agreement | Exhibit H |

**ITEM 23.
RECEIPTS**

Attached as the last two pages of this Disclosure Statement are copies of the Receipt which you will be required to sign. One signed copy of the Receipt must be returned to us, as provided on the Receipt.

**EXHIBIT A
TO THE
FRANCHISE DISCLOSURE DOCUMENT**

Financial Statements

Hawaii Fluid Art Franchising, LLC

(A Hawaii Limited Liability Company)

**Financial Statements with Report of Independent Auditors
December 31, 2022**

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| Notes to the Financial Statements..... | Page 6 |

Report of Independent Auditors

To the Member of
Hawaii Fluid Art Franchising, LLC:

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Fluid Art Franchising, LLC, a Hawaii Limited Liability Company, which comprise the balance sheets as of December 31, 2022 and December 31, 2021 and the related statement of operations, equity, and cashflows for the year ended December 31, 2022, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawaii Fluid Art Franchising, LLC, which comprise the balance sheets as of December 31, 2022 and December 31, 2021 and the related statement of operations, equity, and cashflows for the year ended December 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

DA Advisory Group

Troy, MI
May 16, 2023

Hawaii Fluid Art Franchising, LLC
BALANCE SHEETS
12/31/2022 and 12/31/2021

| | December 31, <u>2022</u> | December 31, <u>2021</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 100,405 | \$ 541 |
| Deferred commissions and fees, current | <u>24,310</u> | <u>-</u> |
| Total current assets | 124,715 | 541 |
| Noncurrent assets: | | |
| Leasehold improvements, net of depreciation | 93,575 | - |
| Other assets: | | |
| Start-up costs, net of amortization | <u>47,586</u> | <u>50,985</u> |
| Total noncurrent assets | 141,161 | 50,985 |
| Total assets | <u>\$ 265,876</u> | <u>\$ 51,526</u> |
| LIABILITIES AND MEMBER'S EQUITY | | |
| Current liabilities: | | |
| Deferred franchise fees, current | \$ 71,167 | \$ - |
| Total current liabilities | 71,167 | - |
| Noncurrent liabilities: | | |
| Note payable | <u>100,000</u> | <u>-</u> |
| Total noncurrent liabilities | 100,000 | - |
| Total liabilities | <u>171,167</u> | <u>-</u> |
| Member's equity (deficit) | <u>94,709</u> | <u>51,526</u> |
| Total liabilities and member's equity (deficit) | <u>\$ 265,876</u> | <u>\$ 51,526</u> |

see accompanying notes

Hawaii Fluid Art Franchising, LLC
STATEMENT OF OPERATIONS
For the year ended December 31, 2022

| | <u>2022</u> |
|------------------------|----------------------------|
| REVENUE | |
| Franchise fees | \$ 341,280 |
| Royalties | 5,455 |
| Other | <u>(30)</u> |
| Total revenue | 346,705 |
| OPERATING EXPENSES | |
| Operating expenses | <u>339,722</u> |
| Operating income | <u>6,983</u> |
| Net income | <u><u>\$ 6,983</u></u> |

see accompanying notes

Hawaii Fluid Art Franchising, LLC
STATEMENT OF CHANGES IN MEMBER'S EQUITY
For the year ended December 31, 2022

| | <u>Total Member's Equity</u> |
|----------------------------|----------------------------------|
| BALANCE, DECEMBER 31, 2021 | <u>\$ 51,526</u> |
| Capital contributions | 51,200 |
| Capital distributions | (15,000) |
| Net income | <u>6,983</u> |
| BALANCE, DECEMBER 31, 2022 | <u>\$ 94,709</u> |

see accompanying notes

Hawaii Fluid Art Franchising, LLC
STATEMENT OF CASH FLOWS
For the year ended December 31, 2022

| | <u>2022</u> |
|--|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net Income | \$ <u>6,983</u> |
| Change in: | |
| Deferred commissions | (24,310) |
| Amortization of start-up costs | 3,399 |
| Deferred franchise fees | 71,167 |
| | <hr/> |
| Net cash provided by operating activities | 57,239 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Leasehold improvements | <u>(93,575)</u> |
| Net cash used by investing activities | (93,575) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds of note payable | 100,000 |
| Partner capital contributions | 51,200 |
| Partner capital distributions | <u>(15,000)</u> |
| Net cash provided by financing activities | <u>136,200</u> |
| Net change in cash and cash equivalents | 99,864 |
| Cash and cash equivalents at beginning of year | <u>541</u> |
| Cash and cash equivalents at end of year | <u><u>100,405</u></u> |
| Total cash and cash equivalents | <u><u>\$ 100,405</u></u> |

see accompanying notes

Hawaii Fluid Art Franchising, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

1. Organization

Hawaii Fluid Art Franchising, LLC (the “Company”) is a Hawaii limited liability company formed in April 2021. The Company awards franchises to Fluid Art Studios, offering one-on-one, group and special events acrylic painting as well as other art forms such as silk scarf marbling, jewelry making, resin classes, alcohol ink, spin art, wood burning, and more.

2. Summary of significant accounting policies and nature of operations

Basis of accounting

The Company prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Estimates

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

Revenue and Expenses

Operating income consists of franchise sales to customers in addition to revenues earned by the Company from sales of marketing materials and services as well as royalties from each customer. Royalties are based on a percentage of monthly sales which are recognized as revenue in the month earned as well as revenue from other contractual agreements.

For franchise revenues, the Company has obligations to provide franchisees with the franchise rights to open a studio within the franchise system, training, and site selection. The Company’s revenue recognition policies for franchise fees are in compliance with accounting standards *ASC Topic 606, Revenue from Contracts with Customers*. In 2020, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU), *Franchisors-Revenue from Contracts with Customers (Subtopic 952-606) Practical Expedient*. The expedient has allowed franchisors that are not public business entities to account for pre-opening activities as a single performance obligation. The Company has concluded that these preopening activities represent performance obligations to which the franchise fee is allocated.

Therefore, initial franchise fees for each agreement are allocated to each performance obligation and recognized as these preopening activities are performed, which typically aligns with the date a franchisee opens. For the year ended December 31, 2022, initial franchise fees earned were \$341,280.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition. The Company maintains its cash in bank deposit accounts which, could exceed federally insured limits. The Company has not experienced an instance where cash held in the account exceeded insured limits since their inception and have not had losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Hawaii Fluid Art Franchising, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

2. Summary of significant accounting policies and nature of operations (continued)

Property and Equipment

Property and equipment will be stated at cost. Depreciation will be computed using the straight-line method of depreciation over the estimated useful life of the assets.

Income Taxes

The Company filed an election with the Internal Revenue Service to be treated as a flow-through entity for all taxable years. Therefore, the Company is not subject to corporate income tax and all taxable income or loss will pass through to the member of the Company.

Royalties Receivable

The Company collected on all royalties invoiced in 2022 and there were no outstanding receivables at year end. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. No write-offs were made in the reporting period.

Subsequent Events

Subsequent events have been evaluated through May 16, 2023, which is the date the financial statements were available to be issued. No significant events or transactions were identified that would require adjustment to the financial statements or disclosure.

3. Intangible Assets

In accordance with ASC 350, Goodwill and Other Intangible Assets, the Company will test its intangible assets and franchise intellectual property for impairment on an annual basis, and between annual tests, if events occur or circumstances change that would more likely than not reduce the fair value below its carrying amount. At December 31, 2022, intangible assets consisted of start-up costs capitalized and no impairment has been assessed as of this date.

4. Note Payable

The Company has note payable in the amount of \$100,000. The note was received on December 27, 2022 and carries a 5% interest rate. The note has no stated payback period but can be called by written request of the holder of the note. The note would be payable in days from written notice. The holder of the note is the Director of Operations of the Company.

5. Related Party Transactions

The Company has a lease agreement with a related entity for the use of office space at \$6,000 per month. The lease is a month-to-month lease. Total lease payments in 2022 were \$68,000. There was one month when the full payment was not made due to renovations.

Hawaii Fluid Art Franchising, LLC

(A Hawaii Limited Liability Company)

**Balance Sheet with Report of Independent Auditors
December 31, 2021**

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Report of Independent Auditors

To the Member of
Hawaii Fluid Art Franchising, LLC:

Report on the Financial Statements

We have audited the accompanying Balance Sheet of Hawaii Fluid Art Franchising, LLC, a Hawaii limited liability company, which comprise the balance sheet as of December 31, 2021, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the balance sheet referred to above present fairly, in all material respects, the financial position of Hawaii Fluid Art Franchising, LLC as of December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

DA Advisory Group

Troy, MI
May 17, 2022

Hawaii Fluid Art Franchising, LLC
(A Hawaii Limited Liability Company)
Balance Sheet
As of December 31, 2021

| | December 31, 2021 |
|--|------------------------------|
| Assets | |
| Current Assets | |
| Cash and cash equivalents | \$ 541 |
| Total Current Assets | <u>541</u> |
| Other Assets | |
| Capitalized start-up costs | <u>50,985</u> |
| Total Assets | <u><u>\$ 51,526</u></u> |
| Liabilities & Member's Equity | |
| Member's Equity | <u>51,526</u> |
| Total Liabilities and Member's Equity | <u><u>\$ 51,526</u></u> |

The accompanying notes are an integral part of the financial statements.

Hawaii Fluid Art Franchising, LLC
(A Hawaii Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1 – THE COMPANY

Hawaii Fluid Art Franchising, LLC (the “Company”) is a Hawaii limited liability company formed in April 2021. The Company awards franchises to art studios, offering one-on-one, group, and special events acrylic painting as well as other art forms such as silk scarf marbling, jewelry making, resin classes, alcohol ink, spin art, wood burning, and more.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The accompanying financial statements have been prepared under the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to disbursement of cash.

Concentration of Credit Risk – Financial instruments that potentially expose the Company to concentration of credit risk primarily consist of cash and cash equivalents. The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents. The balances in the Company’s cash accounts did not exceed the Federal Deposit Insurance Company’s insurance limit of \$250,000. The Company maintains its cash and equivalents with an accredited financial institution.

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 and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could vary from those estimates.

NOTE 3 – INTANGIBLE ASSETS AND FRANCHISE INTELLECTUAL PROPERTY

In accordance with ASC 350, Goodwill and Other Intangible Assets, the Company will test its intangible asset of capitalized start-up costs for impairment on an annual basis, and between annual tests, if events occur or circumstances change that would more likely than not reduce the fair value below its carrying amount.

NOTE 4 – SUBSEQUENT EVENTS

The Company did not identify any recognized or non-recognized subsequent events that would have required further adjustment or disclosure in the financial statements through May 17, 2022, the date the financial statements were available to be issued.

| | | |
|---|--|------------------|
| | | |
| | | |
| Hawai'i Fluid Art Franchising, LLC | | |
| Balance Sheet | | |
| July 20th, 2021 | | |
| | | |
| | | |
| First Hawai'ian Bank | | 15,000.00 |
| Bluevine Business Checking | | 32,824.32 |
| | | |
| Total Assets | | 47,824.32 |
| | | |
| Due to Maya Ratcliff | | 15,000.00 |
| | | |
| Total Liabilities | | 15,000.00 |
| | | |
| Owner Contributions | | 32,824.32 |
| | | |
| Total Equity | | 32,824.32 |
| | | |
| Total Liabilities & Equity | | 47,824.32 |
| | | |
| | | |
| | | |
| | | |
| Prepared by: | | |
| Allyson Brown | | |
| Accountant | | |
| Revitalized Life Ally B LLC | | |
| 808-796-1340 | | |
| ally@hawaiifluidart.com | | |



**EXHIBIT B
TO THE
FRANCHISE DISCLOSURE DOCUMENT**

Franchise Agreement & Exhibits



A Place to Create!

FRANCHISE AGREEMENT

between

HAWAII FLUID ART FRANCHISING, LLC

and

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ATTACHMENTS

- A – Franchisee-Specific Terms
- B – Marks
- C – Payment and Performance Guarantee
- D – Lease Rider
- E – Franchisee Compliance Questionnaire

HAWAII FLUID ART FRANCHISING, LLC

FRANCHISE AGREEMENT

THIS AGREEMENT (this “**Agreement**”) is made and entered into as of the date set forth on Appendix A of this Agreement (the “**Effective Date**”) (Appendix A and all appendices and schedules attached to this Agreement are hereby incorporated by this reference) between Hawaii Fluid Art Franchising, LLC, a Texas limited liability company with its principal place of business at 438 Johnson Lane, Ovilla TX 75154 (“**HFA Franchising**”), and the person or entity identified on Appendix A as the franchisee (“**Franchisee**”) with its principal place of business as set forth on Appendix A. In this Agreement, “**we,**” “**us,**” and “**our**” refers to HFA Franchising. “**You**” and “**your**” refers to Franchisee.

RECITALS

A. We and our affiliates have accumulated knowledge and experience in the fluid art and art instruction industry on the basis of which we have developed and will continue to develop a distinctive business format and set of specifications and operating procedures (collectively, the “**System**”) for the operation of art studios that operate under the Hawaii Fluid Art mark.

B. The distinguishing characteristics of the System include, but are not limited to, our Studio designs, layouts, and identification schemes (collectively, the “**Trade Dress**”), our specifications for equipment, inventory, and accessories; our website or series of websites for the Studios (the “**System Website**”); our relationships with vendors; our software and computer programs; our online booking system; our reservation procedures; any programs and classes that we have developed or may develop; the accumulated experience reflected in our training program, operating procedures, customer service standards methods, and marketing techniques; and the mandatory and suggested policies, procedures, standards, specifications, rules, and requirements (“**System Standards**”) set out in our operations manuals (“**Manuals**”) and otherwise in writing. We may change, improve, add to, and further develop the elements of the System from time to time.

C. We identify the Studios operating under the System by means of the Hawaii Fluid Art mark and certain other trademarks, service marks, trade names, signs, associated designs, artwork, and logos set forth on Appendix B (collectively, the “**Marks**”). We may designate for your use other trade names, service marks, and trademarks as Marks from time to time. These marks which will also be included in the term the “**Marks.**”

D. If you are a corporation, limited liability company, partnership, or other entity (collectively, an “**Entity**”), all of your owners of a legal and/or beneficial interest in the Entity (the “**Owners**”) are listed on Appendix A. If you are an Entity, the individual owner who you must appoint to have authority over all business decisions related to your business and to have the power to bind you in all dealings with us will be referred to as your “**Operating Principal.**”

E. You desire to open and operate a Hawaii Fluid Art studio using the Marks and the System (a “**Studio**”), and we are willing to grant you a license to open and operate a Studio on the terms and conditions of this Agreement.

NOW, THEREFORE, for and in consideration of the foregoing promises and the covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

Section 1 Rights Granted.

1.1 Grant of Franchise. Upon the terms and conditions of this Agreement, we grant to you a non-exclusive license (the “**License**”) to operate one Studio using the Marks and the System. The Studio will be located at a site to be mutually agreed upon subsequent to the execution of this Agreement, pursuant to Section 4.2 (Site Selection) (the “**Site**”), within the area set forth on Appendix A (the “**Site Selection Area**”). You have no right to (i) sublicense the Marks or the System to any other person or entity, (ii) use the Marks or the System at any location other than the Site, or (iii) to use the Marks or the System in any wholesale, e-commerce, or other channel of distribution besides the operation of the Studio at the Site.

1.2 Acceptance of License. You hereby accept the License and agree to operate the Studio according to the provisions of this Agreement for the entire Term, as defined in Section 2.2 (Successor Term).

1.3 Limited Territorial Protection. Once you have selected and we have accepted a Site in the Site Selection Area in accordance with Section 4.2 (Site Selection), we will designate an area within the confines of the Site Selection Area as your protected territory (the “**Territory**”). You do not have any territorial protection in your Site Selection Area, unless and until we identify your Territory, as explained in Section 4.3 (Definition of the Territory). Except as provided in this Section 1.3, we and our affiliates will not open, or license a third party to open, a Studio within your Territory. Except for the foregoing sentence, we and our affiliates have the right to conduct any business activities, under any name, in any geographic area, and at any location, regardless of the proximity to or effect on your Studio. For example, without limitation, we have the right to:

(a) establish or license franchises and/or company-owned studios or businesses offering similar or identical products, services, classes, and programs and using the System or elements of the System (i) under the Marks anywhere outside of the Territory or (ii) under names, symbols, or marks other than the Marks anywhere, including inside and outside of the Territory;

(b) sell or offer, or license others to sell or offer, any products, services, or classes using the Marks or other marks through any alternative distribution channels, including, without limitation, through e-commerce, in retail stores, via recorded media, via online videos, or via broadcast media, anywhere, including inside and outside of the Territory;

(c) advertise, or authorize others to advertise, using the Marks anywhere, including inside and outside of the Territory; and

(d) acquire, be acquired by, or merge with other companies with existing facilities or businesses anywhere (including inside or outside of the Territory) and: (i) convert the other businesses to the Hawaii Fluid Art name, provided that we will not convert any business to the Hawaii Fluid Art name if they are located inside of your Territory, (ii) permit the other businesses to continue to operate under another name, and/or (iii) permit the businesses to operate under another name and convert existing Studios to such other name.

1.4 Operating Principal and Key Manager. If you are an Entity, you must appoint an individual owner as your Operating Principal who must have authority over all business decisions related to your Studio and must have the power to bind you in all dealings with us. In addition, you must appoint a manager to manage the day-to-day business of your Studio (the “**Key Manager**”). Your Operating Principal may serve as your Key Manager, unless we believe that he or she does not have sufficient experience or qualifications. Your Operating Principal must have at least a 10% ownership interest in your Entity, but your Key Manager is not required to have an ownership interest in your Entity. Your Operating Principal and Key Manager (if known at the time of signing) shall be listed on Appendix A. You must provide us with written notice of your Operating Principal and Key Manager(s) at least 60 days prior to opening and may not change your Operating Principal and Key Manager without our prior written approval.

1.5 Ownership and Guarantee.

(a) Owners of Equity. If you are an Entity, each of your Owners must execute the “Payment and Performance Guarantee” that is attached in Appendix C (the “**Guarantee**”). By executing the Guarantee, each Owner will be bound by the provisions contained in this Agreement, including without limitation the restrictions set forth in Section 12 (Your Covenant Not to Compete). Further, a violation of any of the provisions of this Agreement, including the covenants contained in Section 12, by any Owner will also constitute a violation by you of your obligations under this Agreement. You represent that the individuals executing this Agreement under the Guarantee represent that they are your sole owners.

(b) Governing Documents. If you are (or Transfer this Agreement to) an Entity, upon our request, you agree to furnish us with a list of holders of direct or indirect equity interests and their percentage interests, as well as copies of your governing documents and any other corporate documents, books, or records, including certificates of good standing from your state. The Owners may not enter into any shareholders’ agreement, management or operating agreement, voting trust, or other arrangement that gives a third party the power to direct and control your affairs without our prior written consent. During the Term, your governing documents must provide that no transfer of any ownership interest may be made, except in accordance with Section 13 (Transfer and Assignment) of this Agreement. Any securities that you issue must bear a conspicuous printed legend to that effect.

Section 2 Initial Term and Successor Term.

2.1 Initial Term. The initial term (the “**Initial Term**”) of the License begins on the Effective Date and ends ten years from the date that your Studio opens for business (the “**Opening Date**”), unless this Agreement is terminated sooner as provided in other sections of this Agreement.

2.2 Successor Term. Upon the expiration of the Initial Term, if you (i) are not in default under this Agreement, (ii) have substantially complied with this Agreement throughout the Term, (iii) have timely paid all monies due to us or our affiliates, and (iv) comply with this Section 2.2, you may, at your option, obtain two additional consecutive successor terms of ten years each (each, a “**Successor Term**”). The Initial Term and Successor Terms are referred collectively in this Agreement as the “**Term.**” You may only exercise this right to obtain a Successor Term by:

(a) giving us written notice of your desire to obtain a successor License at least six, but no more than 12, months before the expiration of the then-current Initial Term or Successor Term;

(b) delivering to us a fully executed franchise agreement on our then-current form of franchise agreement, which you acknowledge may contain terms materially different than those contained in this Agreement, including, but not limited to, (i) higher rates of Royalty Fees and Marketing Fees (as herein defined) and other fees and charges and (ii) a modified Territory;

(c) refurbishing or renovating the Studio, at your expense, to conform the decor, color schemes, storefront, signage, and presentation of the Marks to our then-current image and, if necessary, in our sole opinion, to update and replace the equipment, furniture, signage, and fixtures to meet our then-current specifications;

(d) executing a general release, in a form we prescribe, of any and all claims against us, our Area Representatives, our affiliates, and our and their past, present, and future officers, directors, shareholders, and employees arising out of, or relating to, your Studio;

(e) completing, and having your Operating Principal and Key Manager complete, all of our then-current training requirements, including any additional training that we may require;

(f) securing the right from your landlord to continue operating at the Site for the remainder of such Successor Term;

(g) substantially and timely complying with each provision of this Agreement or any other agreement with us, our affiliates, or your landlord throughout the Initial Term and having no Event of Default (as defined in Section 14.1 (Events of Default)), or event which with the giving of notice and/or passage of time would constitute an Event of Default, in existence as of the expiration of the Initial Term; and

(h) paying to us the Successor Fee (as defined in Section 3.7 (Successor Fee)).

Section 3 Fees.

3.1 Franchise Fee. You must pay us an initial franchise fee as set forth on Appendix A (the “**Franchise Fee**”) upon execution of this Agreement. The initial Franchise Fee is paid in consideration of the rights granted in Section 1 (Rights Granted) and will be deemed fully earned at the time paid. You acknowledge that we have no obligation to refund the Franchise Fee, in whole or in part, for any reason.

3.2 Royalty Fee.

(a) Amount of Royalty Fee. You must pay us a monthly royalty fee (the “**Royalty Fee**”) equal to the greater of (i) 8% of your Gross Revenue (as defined in Section 3.2(b)) for the previous month or (ii) the Minimum Royalty. The “**Minimum Royalty**” is currently \$500 per month, but it may be increased at the start of any year by no greater than the CPI Increase (as defined in Section 3.2(c)). The Royalty Fee is non-refundable and is paid in consideration of the ongoing right to use the Marks and the System in accordance with this Agreement and not in exchange for services rendered by us.

(b) Gross Revenue. “**Gross Revenue**” means all revenue that you receive or otherwise derive from operating the Studio, including the sale of commissioned art pieces, and any revenue derived from organizing and hosting off-site events, whether from cash, check, credit or debit card, gift card or gift certificate, or other credit transactions, and regardless of collection or when you actually provide the products or services in exchange for the revenue. If you receive any proceeds from any business interruption insurance applicable to loss of revenue at the Franchised Business, there shall be added to Gross Revenue an amount equal to the imputed gross revenue that the insurer used to calculate those proceeds. Gross Revenue includes promotional allowances or rebates paid to you in connection with your purchase of products or supplies or your referral of customers. Gross Revenue does not include (i) any bona fide returns and credits that are actually provided to customers, (ii) any bone fide shipping charges that you collect from a customer and actually pay to a third-party shipping or logistics company for the delivery of items to customers, and (iii) any sales or other taxes that you collect from customers and pay directly to the appropriate taxing authority. You may not deduct payment provider fees (i.e., bank or credit card company fees and gift card vendor fees) from your Gross Revenue calculation.

(c) CPI Increase. To calculate the “**CPI Increase**” on any amount, multiply that amount by a fraction, the numerator of which is the Inflation Index on the first day of the year for which the increase is to apply, and the denominator for which is the Inflation Index on January 1 of the year of the Effective Date or the effective date of the most recent CPI Increase, whichever is more recent. The “**Inflation Index**” means the U.S. City Average Price Index for All Urban Consumers for All Items (Base Year 1982-84), as published by the United States Department of Labor, Bureau of Labor Statistics, or, if such index is discontinued or unavailable, such other comparable index for calculating changes in the cost of living or purchasing power for consumers in the United States that we reasonably designate.

3.3 Marketing Fee. You must contribute 2% of your Gross Revenue (the “**Marketing Fee**”) per month, which shall not increase, to the Hawaii Fluid Art Marketing Fund (the “**Marketing Fund**”).

3.4 Technology Fee. You must pay to us, or a third party that we designate, a technology fee for various technology services that we will provide or arrange for third parties to provide, which services are subject to change over time (a “**Technology Fee**”). The Technology Fee is \$500 per month, which shall not increase. The Technology Fee begins from the date that you begin receiving the technology services. The first month will be assessed pro rata from the date on which you begin receiving the technology services. The Technology Fee currently includes fees related to your access to and usage of our reservation system, our intranet, any mobile applications we develop, and the System Website. We may add, delete, or otherwise modify the products and services that are included in the Technology Fee.

3.5 Training and Studio Setup Fee. You must pay us an initial training and studio setup fee (“**Training Fee**”) for the cost of one or more of our personnel to assist with the setup of your Studio, and for providing our in-person training to you, your Operating Principal, and your Key Manager at your Studio prior to your grand opening. We will provide a minimum of 5 days and a maximum of 10 days of in-person training at your Studio location, as we and you determine to be appropriate. The Training Fee ranges from \$5,000 to \$10,000 at a rate of \$1,000 per day of in-person training. We are responsible for the travel and living expenses of our personnel who provide Studio setup and training to you at your Studio. You must pay us \$5,000 of the Training Fee upon execution of this Agreement and the remaining balance for any additional days of training that we provide (if any) must be paid upon invoice to be delivered upon completion of training.

3.6 Opening Inventory Package. Prior to opening the Studio, you must purchase an initial 6-month opening inventory supply of our proprietary pouring medium and specialty resin from us, our affiliates, or a supplier that we designate (the “Opening Inventory Package”). We will deliver your Opening Inventory Package prior to your grand opening. You must maintain a sufficient level of pouring medium and specialty resin for use in the operation of your Studio throughout the Term.

3.7 Successor Fee. Upon your execution of a successor franchise agreement pursuant to Section 2.2 (Successor Term), you will pay to us a successor fee equal to our actual costs for review and preparation of the renewal agreements, up to a maximum amount of \$3,000 (the “**Successor Fee**”).

3.8 Transfer Fee. If you Transfer (as defined in Section 13.2 (Definition of Transfer)) your Studio or this Agreement, you must pay us a Transfer Fee as specified in Sections 13.4(b), 13.5, and 13.6.

3.9 Relocation Fee. If you relocate your Studio from the Site to a new location, you will pay to us a relocation fee equal to \$2,500 plus our administrative and legal expenses in evaluating the relocation (the “**Relocation Fee**”).

3.10 Payments of Fees. Your Royalty Fees, Marketing Fees, and Technology Fees (the “**Operating Fees**”) are due to us and must be reported to us at the times and in the manner that we specify from time to time in the Manuals or otherwise. Currently, you must pay us your Operating Fees monthly, due on the tenth of each calendar month. All other fees and payments due to us must be paid to us within ten days of your receipt of an invoice from us.

3.11 Methods of Payment. You must make all payments to us by the method or methods that we specify from time to time in the Manuals, which may include payment via wire transfer or electronic debit to your bank account. You must furnish us and your bank with all authorizations necessary to effect payment by the methods we specify. You must maintain sufficient funds in your account to permit us to withdraw the Operating Fees due from time to time. You may not, under any circumstances, set off, deduct or otherwise withhold any Operating Fees, interest charges, or any other monies payable under this Agreement on grounds of our alleged non-performance of any obligations or for any other reason. We may require you to purchase merchant processing services from us, our affiliates, or a vendor that we have approved or designated, each of who may charge a reasonable monthly fee and reasonable per transaction fee. The payment processor may process all credit card payments related to your Studio, and remit payment to you of all monies owed, after withholding any Operating Fees payable to us and any payment processing fees

payable to such processor. If you fail to timely report your Gross Revenue, or we are otherwise unable to access your Gross Revenue, we may estimate the amount of fees due and make a corresponding withdrawal from your bank account based on our estimate, plus 20% of our estimate. If we underestimate any fees due, you will remain obligated to pay the total amount of fees due, which, if we institute an automatic debit program, we may debit from your account automatically. If we overestimate any fees due, we will credit the fees paid (without interest) against fees due in the next payment period after we receive accurate records regarding your Gross Revenue.

3.12 Interest; Late Fee. If any payment due to us is not received in full by the due date, you agree to pay us daily interest on the amount owed, calculated from the due date until paid, at the rate of 18% per annum (or the maximum rate permitted by law, if less than 18%). You also agree to pay us a late fee in the amount of \$25 for each day that a payment is paid after the applicable due date. This late fee is subject to increase upon 60 days' prior written notice but will not be increased more than once in any 12-month period. You acknowledge that this Section 3.13 is not our agreement to accept any payments after they are due and that any late payments are a default under this Agreement.

3.13 Taxes. You are responsible for all taxes, assessments, and government charges levied or assessed on you in connection with your business activities under this Agreement. In addition, as part of the Royalty Fee, Marketing Fee, Training Fee, Technology Fee, or any other fees that we charge, you will pay to us the amount of any taxes imposed on us or our affiliates (and any taxes imposed on us or our affiliates as a result of such imposition) by federal, state, or local taxing authorities as a result of our receipt of any such fees, not including any tax measured on our income.

Section 4 Project Management, Site Selection, Development, and Opening of Studio

4.1 Real Estate Project Management. You must use a real estate project manager (the “**Real Estate Project Manager**”) that we approve to manage and lead real estate brokerage services, site selection counseling, and other assistance that the Real Estate Project Manager considers necessary and appropriate, which may include, in the Real Estate Project Manager’s sole discretion, on-site evaluations. We or the Real Estate Project Manager may engage third-party real estate brokers to work on your behalf to identify sites for your Studio. You may not engage real estate brokers other than any broker that we may provide without our written approval.

4.2 Site Selection. If you identify a site in the Site Selection Area that is reasonably suited for the conduct of the Studio and is consistent with any site selection guidelines that we may provide, before entering into any lease or purchase agreement for the site, you must submit a site proposal package describing details about the proposed site and provide any other information that we reasonably require. We will review each site that you identify and determine whether to accept it using our proprietary site selection assistance criteria. You acknowledge that we may refuse to accept a proposed site for any reason. If we accept the proposed site and you obtain it, we will insert a description of the specific location on Schedule 1 to Appendix A. **YOU ACKNOWLEDGE AND AGREE THAT OUR ACCEPTANCE OR PROPOSAL OF A PROPOSED SITE IS NOT A WARRANTY OR REPRESENTATION OF ANY KIND AS TO THE POTENTIAL SUCCESS OR PROFITABILITY OF YOUR STUDIO. WHILE WE MAY PROVIDE ASSISTANCE AND GUIDANCE, IT IS SOLELY YOUR RESPONSIBILITY TO SELECT A SUITABLE SITE FOR THE STUDIO.** The address listed on Schedule 1, if completed and signed by us, will be the “**Site**” referred to in this Agreement. A site is not accepted until you have received our acceptance in writing, as indicated by our delivery of the completed and signed Schedule 1.

4.3 Definition of the Territory. Once the Site has been accepted, we will identify your Territory in Schedule 1 to Appendix A based on the factors that we deem relevant, in our sole discretion, which might include demographics, the character and location of the Site, and nearby businesses and residences. Once we have defined the Territory, you will have no territorial or other rights in those portions of the Site Selection Area that are outside the Territory. You must return to us upon our request a signed copy of Schedule 1 to Appendix A acknowledging the Territory we have designated.

4.4 Site Acquisition. Before you or an affiliate make a binding commitment to purchase, lease, or sublease a site, we must accept the location in writing and approve in writing the proposed lease or purchase agreement or any letter of intent between you and the third-party seller or lessor. If you or your affiliate leases the Site, unless we waive the requirement in writing, you must arrange for the execution of the Lease Addendum in the form of Appendix D by you and your landlord in connection with any lease or sublease for your Site (“**Site Lease**”) and any other provisions that we may reasonably require. Our review of the Site Lease is for our own benefit only and is not intended to supplement or replace a review by your attorney. We may require you to engage an attorney to review your Site Lease or purchase agreement for the Site that we have accepted and to supply us with reasonable documentation in connection with such review, including a lease abstract and confirmation that the terms in the agreement reflect the terms in any letter of intent between you and the third-party seller or lessor. You must secure a Site that we have approved by signing a Site Lease or purchase agreement within 120 days after the Effective Date (the “**Site Acquisition Deadline**”). We may extend the Site Acquisition Deadline by 90 days in our sole discretion, and we may require you to execute a general release as a condition of us agreeing to grant such extension. If we have accepted a site for your Studio and you are unable or unwilling to acquire such site or an alternative site that we accept by the Site Acquisition Deadline, we may terminate the Franchise Agreement. You must deliver to us the completely executed purchase agreement or Site Lease and Lease Addendum within 10 days after execution of the Site Lease or purchase agreement, and you may not amend or renew any Site Lease without our written consent. You must comply with the terms and conditions of your Site Lease. We are not obligated to execute your lease or guarantee a lease for you.

4.5 Site Construction.

(a) Construction Project Manager. You must use a construction project manager that we approve (the “**Construction Project Manager**”) to manage and lead the design and construction of your Studio. We will make available to the Construction Project Manager a set of prototype plans and specifications (not for construction) for the Studio and for the exterior and interior design and layout. The Construction Project Manager will engage designers, architects, and engineers to adapt for the Site our standard plans and specifications for the exterior and interior design and layout, fixtures, furnishings, signs, Trade Dress, and equipment for the Studio. We will review the architectural drawings and specifications for the construction of the Studio showing all leasehold improvements, interior designs, and elevations developed by the Construction Project Manager and its designees (collectively “**Plans**”), which we must approve prior to their submission for permitting. After we have accepted the final Plans, you may not modify the Plans without our prior written consent. You may not engage any project managers, architects, engineers, or designers other than the Construction Project Manager and those selected by the Construction Project Manager without our prior written consent.

(b) Permit, Licenses, and Compliance. Before beginning any construction, you, at your expense, must obtain all necessary government permits and licenses for the lawful construction and operation of your Studio. You must abide by your landlord’s rules and guidelines. It is your responsibility to ensure that all Plans comply with the Americans with Disabilities Act (the “**ADA**”) and similar rules governing public accommodations for persons with disabilities, other applicable ordinances, building codes, permit requirements, and Lease requirements and restrictions. Our review of your Plans is limited to ensuring your compliance with our design requirements and is not designed to assess compliance with applicable federal, state, and local laws, rules, regulations, and ordinances in your Territory (“**Applicable Laws**”) or your Lease.

(c) Construction Phase. You must provide us with written notice identifying your proposed general contractor, and you must ensure that the contractor is duly licensed in your jurisdiction and adequately insured. You may not begin construction until we have given you written approval of the Plans and we or the Construction Project Manager has approved in writing your choice of general contractor. We may require you to use only general contractors that we have pre-approved, provided that we have pre-approved one in your Site Selection Area. You must notify us in writing promptly when construction begins and must maintain continuous construction until the Studio is completed. You agree to complete

the construction of your Studio in accordance with the approved Plans at your expense. We, the Construction Project Manager, our and their employees, and our and their agents may inspect the construction at all reasonable times. After completion of construction, you must promptly obtain a certificate of occupancy and provide a copy of the certificate to us.

4.6 Opening Deadline. You must complete construction of and open your Studio for business no later than 90 days after possession of the Site is delivered to you by your landlord and no later than 210 days after the Effective Date (the “**Opening Deadline**”) unless we grant you an extension in writing which we shall not unreasonably withhold if you are making good faith efforts to meet the Opening Deadline. We may, in our sole discretion, extend the Opening Deadline, which we may condition on you agreeing to pay an extension fee of \$2,500 for each month (or portion of a month) for which the Opening Deadline is extended and you executing a general release. You may not open the Studio until you have received our written approval, which we will not provide until (i) we have viewed the certificate of occupancy, (ii) confirmed that you have complied with the Plans, and (iii) confirmed that you have complied with the pre-opening marketing obligations set forth in this Agreement and have done so in accordance with our System Standards as set forth in the Manuals. You must open the Studio for business to the public within ten days from the date we give our written approval. Time is of the essence in constructing the premises for and opening the Studio.

4.7 Relocation. You may not relocate the Studio without our prior written consent. Such approval will not be unreasonably withheld, provided that (i) the new location for the Studio premises is satisfactory to us and you comply with our then-current real estate project management requirements, (ii) your lease, if any, for the new location complies with our then-current requirements and you and your landlord execute the Lease Addendum, (iii) you comply with our then-current requirements for constructing and furnishing the new location, (iv) the new location will not, as determined in our sole discretion, materially and adversely affect the Gross Revenue of any other Studio, (v) you have fully performed and complied with each provision of this Agreement within the last three years prior to, and as of, the date we consent to such relocation (the “**Relocation Request Date**”), (vi) no Event of Default (as herein defined), or event which with the giving of notice and/or passage of time would constitute an Event of Default, exists as of the Relocation Request Date, and (vii) you have met all of our then-current training requirements. If your Site Lease expires or is otherwise terminated, you must secure our approval of another site and enter into a Site Lease for the new approved site within 90 days. You agree to pay us the Relocation Fee upon notifying us of your intent to relocate the Studio to a new Site, whether or not the new Site is approved. We reserve the right to terminate this Agreement if you fail to secure a new approved site within 90 days after you lose the Site Lease.

Section 5 Training and Assistance

5.1 Initial Training. Prior to opening the Studio, you (or your Operating Principal, if you are an Entity) or your Key Manager (“**Required Trainee**”) must personally attend and satisfactorily complete our initial training program (“**Initial Training**”). We will provide Initial Training prior to or around the time of the grand opening of your Studio. Initial training will be provided, at our offices, currently in Dallas, Texas, at your Studio, your place of residence, virtually, or suitable facility in your Site Selection Area. Currently, Initial Training includes a minimum of five (5) days of in-person training at your Studio prior to opening. Upon your request, we may provide additional training days up to a maximum of ten (10) days of in-person training at your Studio. Portions of our Initial Training may be online and virtual instruction via live and pre-recorded webinars, online learning management tools, and reading materials and guides, including our Manual. We reserve the right to modify the length and location of Initial Training. We may waive a portion of Initial Training or alter the training schedule if we determine that your Required Trainee has sufficient prior experience or training or have previously been trained at one of our Studios. Each subsequent Operating Principal and Key Manager must attend our Initial Training unless we otherwise agree in writing,

but we may permit them to attend Initial Training remotely via recorded media, teleconference, videoconference, the Internet, webinar, or any other means, as we determine.

(a) Cost. We will provide in-person instructors, facilities (if you elect to attend training at our headquarters), and materials for your Required Trainee as part of your Training Fee of \$1,000 per day of Initial Training. If Initial Training is provided at your Studio, we will be responsible for the travel and living costs of our personnel who conduct the Initial Training. If you elect to participate in Initial Training at our headquarters, you will be responsible for the travel and living costs of our representatives while providing Initial Training to you. If space is available, you may bring more than one representative to Initial Training. We reserve the right to charge a training fee of \$1,000 per person, which we may increase upon 60 days' written notice to you, for (i) each person in excess of one trainee, (ii) each person who is repeating the course or replacing a person who did not pass, and (iii) each subsequent Operating Principal, Key Manager, or employee who attend the course.

(b) Completion of Initial Training. If your Required Trainee is unable to successfully complete, in our sole discretion, Initial Training for any reason, your Required Trainee must repeat Initial Training, or you must send replacement Required Trainee to complete Initial Training. Your Required Trainee must successfully complete Initial Training at least ten days before the Opening Deadline. We will not refund any initial franchise fees paid by you. If you and your personnel satisfactorily complete our Initial Training and you do not expressly inform us at the end of Initial Training that you feel that you or they have not been adequately trained, then you and they will be deemed to have been trained sufficiently to operate a Studio.

5.2 Opening Advice. Prior to opening your Studio, we will advise you as to development of class schedules and local marketing and networking efforts.

5.3 Additional Training. We may periodically conduct mandatory or optional training programs for your Required Trainee and/or your employees at our office or another location that we designate. There will be no charge for training programs that we require you or your employees to attend, but we may charge you a reasonable fee for optional training programs. We may provide additional training in person or via recorded media, teleconference, videoconference, the Internet, webinar, or any other means, as we determine. We may require your Required Trainee or employees to satisfactorily complete any additional training programs that we specify. We may require your Required Trainee to participate in refresher or advanced training in each year of the Term.

5.4 Remedial Training. If, in our sole judgment, you fail to maintain the quality and service standards set forth in the Manuals, we may, in addition to all of our other rights and remedies, assign trainers to the Studio to retrain Studio employees and restore service levels and/or require you or your employees to repeat Initial Training or attend additional training programs at a location that we designate. We may charge a reasonable fee (currently, \$500 per day) for each trainer assigned to your Studio and any remedial training. We may increase the amount to be charged for each trainer upon 60 days' prior written notice.

5.5 Training by You. You and/or your Operating Principal and your Key Managers are responsible for training all of your other employees, including subsequent Key Managers, in accordance with our standards and training programs. If, in our sole judgment, you fail to properly train your employees in accordance with our standards, we may prohibit you from training additional employees and either require them to attend training at our headquarters (for the fee described in Section 5.1(a) (Initial Training)) or pay for our costs and expenses to send one of our representatives to train them at your Studio.

5.6 Requested Operational and Consulting Services. We will provide to you additional operational and consulting services with respect to the operation of the Studio upon your reasonable request and subject to the availability of our personnel or the personnel of any Area Representative. We will make available to you information about new developments, techniques, and improvements in the areas of merchandising, advertising, management, operations, and Studio design. We may provide such additional consulting

services through the distribution of printed or filmed material, an intranet or other electronic forum, meetings or seminars, teleconferences, webinars, or in person. If such services are rendered in person other than at our offices, you must pay us a consulting fee of \$1,000 for each of such employees or agents for each day or partial day services are rendered. We may increase the amount to be charged for such requested consulting services upon 60 days' prior written notice. Such additional consulting services will be rendered at a mutually convenient time.

5.7 Travel and Living Expenses. You are responsible for any travel and living expenses (including meals, transportation, and accommodations), wages, and other expenses incurred by your trainee. You are responsible for reimbursing us for any travel and living expenses incurred by our employees or agents related to providing any Initial Training, additional training, remedial training, or consulting services at your Studio.

Section 6 Studio Operation and System Standards

6.1 Manuals.

(a) Compliance with the Manuals. We will furnish you with access to our Manuals, on loan for as long as this Agreement or a successor franchise agreement remains in effect. We reserve the right to furnish all or part of the Manuals to you in electronic form and to establish terms of use for access to any restricted portion of our website. You must comply with and abide by each required System Standard contained in the Manuals, as they may be amended, modified, or supplemented periodically and such other written or electronically transmitted System Standards that we may issue periodically. You acknowledge that we may amend, modify, or supplement the Manuals at any time, so long as such amendments, modifications, or supplements will, in our good faith opinion, benefit us and our existing and future franchisees or will otherwise improve the System. You must comply with revised mandatory System Standards within 30 days after we transmit the updates, unless otherwise specified.

(b) Use of the Manuals. You agree to keep your copy of the Manuals up to date. If there is any dispute as to the current contents of the Manuals, the terms of our master copy maintained at our headquarters will control. You acknowledge that we own the copyright in the Manuals and that your copy of the Manuals remains our property and will be returned to us immediately upon expiration or termination of this Agreement. You will treat the Manuals, and the information contained therein, as confidential and will maintain the confidentiality of such information. You will not, without our prior written consent, copy, duplicate, record, use, or otherwise reproduce in any way the Manuals, in whole or in part, or otherwise make their contents available to any unauthorized person, except as provided in Section 10 (Proprietary Information).

6.2 Management and Personnel.

(a) Studio Management. Unless otherwise specified in the Manuals, at all times that your Studio is open for business, it must be under the personal, on-premises supervision of either you, your Operating Principal, your Key Manager, or a trained attendant. Your Key Manager or another trained manager must be available at all times the Studio is open for business. You may not permit your Studio to be operated, managed, directed, or controlled by any other person or entity without our prior written consent.

(b) Employment Decisions and Policies. You are solely responsible for all labor and employment-related matters and decisions related to your Studio, including hiring, firing, promoting, demoting, and compensating (including through wages, bonuses, or benefits) your employees. You must ensure that your employees are qualified to perform their duties in accordance with our System Standards and successfully pass a background check. We do not require you to implement any employment-related policies or procedures or security-related policies or procedures that we (at our option) may make available to you in the Manuals or otherwise for your optional use. You shall determine to what extent, if any, these policies and procedures may be applicable to your operations at the Studio.

(c) Replacement Key Manager. If your Key Manager ceases to be employed by you at the Studio, you must hire a new Key Manager, and have them successfully complete Initial Training, within 30 days after your former Key Manager's employment at the Studio ends. If you are unable to immediately appoint and train a Key Manager, we may, in our sole discretion, provide a Key Manager to work at your Studio temporarily until a new Key Manager is appointed and trained. In such instances you will pay to us our actual costs and expenses for such temporary Key Manager so assigned to the Studio, including, without limitation, such Key Manager's salary and travel and living expenses. In addition, we may charge you a reasonable fee for this service.

6.3 Operation of the Studio. You will not use the Site for any purpose other than the operation of the Studio in compliance with the System and the Manuals. You will not lease, sublease, or assign the Site Lease for all or any portion of the Site, without our prior written consent. You may not offer or allow others to offer classes at the Studio other than Hawaii Fluid Art classes taught by Hawaii Fluid Art instructors.

(a) Restricted Uses. You, your Owners, and your affiliates may not provide any unapproved services to your Studio's customers (whether those services are provided at the Studio or any other location) without our prior written approval, which we may withhold in our sole discretion. You, your Owners, and your affiliates may not operate any retail location providing any products or services that are ancillary to the Studio's business to customers (such as, for example, a café, juice, or smoothie bar) from a location at or near the Site.

(b) Operating Hours. You must keep the Studio open for business to the public at least during the hours we approve, unless prohibited by Applicable Laws or by the Site Lease (if any) for the Studio premises.

(c) Notice of Independent Contractor. During the Term, you agree to hold yourself out to the public as an independent contractor operating your Studio under license from us, and you must display in a conspicuous location in or upon the Studio, or in a manner that we specify, a sign containing the following notice or an alternative notice that we specify: "This business is owned and operated independently by [name of franchisee] who is an authorized licensed user of the trademark Hawaii Fluid Art, which is a trademark owned by Hawaii Fluid Art Franchising, LLC." You must include this notice or other similar language that we specify on all forms, advertising, promotional materials, business cards, receipts, letterhead, contracts, stationery, and other written materials we designate.

(d) Upkeep of the Studio. You must keep the exterior (including parking lot) and interior of your Studio and all fixtures, furnishings, signs, and equipment (the "**Operating Assets**") in the highest degree of cleanliness, orderliness, sanitation, and repair in accordance with the Manuals. You must place or display at the Site (interior and exterior) only those signs, emblems, designs, artwork, lettering, logos and display and advertising materials that we periodically require or authorize. You may not make any material alteration, addition, replacement, or improvement to your Studio, including its Operating Assets, without our prior written consent.

6.4 Refurbishing and Renovations. You agree to take, without limitation, the following actions during the Term at your expense: (i) thorough cleaning, repainting and redecorating of the interior and exterior of the Studio at intervals that we may periodically designate and at our direction; (ii) interior and exterior repair of the Studio as needed; and (iii) repair or replacement, at our direction, of damaged, worn-out or obsolete Operating Assets at intervals that we may periodically specify (or, if we do not specify an interval for replacing any item, as that item needs to be repaired or replaced). Upon our written request, you must refurbish the Studio at your expense to conform the decor, Trade Dress, color schemes, signage, and presentation of the Marks to our then-current image. Such refurbishing may include, as we deem necessary, remodeling, redecoration, and other modifications to existing improvements and updating or replacing any Operating Assets. You acknowledge that this obligation could result in your making extensive structural changes to, and significantly remodeling and renovating, the Studio, and/or in your spending substantial amounts for new Operating Assets, and you agree to incur, without limitation, any capital expenditures required in order to comply with this obligation and our requirements (even if those expenditures cannot be

amortized over the remaining Term). Within 60 days after receiving written notice from us, you must have plans prepared according to the System Standards we prescribe and, if we require, using architects and contractors we approve, and you must submit those plans to us for our approval. You must complete all work according to the plans we approve within the time period that we reasonably specify.

6.5 Classes. You must conduct all classes in accordance with the System. You must offer at the Studio any classes or programs that we deem to be mandatory. Any classes that you or your instructors develop must be consistent with the System Standards that we specify from time to time. If we disapprove of any class or program that you offer, you must immediately discontinue offering the class or modify the class in accordance with our instructions

6.6 Pricing. If we determine that we may lawfully require you to charge certain prices for goods or services, certain minimum prices for goods or services, or certain maximum prices for goods or services, you must adhere to our pricing policies as set forth in the Manuals or otherwise in writing from time to time. Currently, we require you to charge customers rates equal to or in excess of our minimum pricing schedule, as set forth in the Manuals, which we may change from time to time in writing. Otherwise, you are solely responsible for determining the prices that you will charge customers. You must provide us with your current price list upon our request.

6.7 Products, Supplies, Operating Assets, and Services.

(a) Purchases. We have the right to require that products, supplies, Operating Assets, and services that you purchase for resale or purchase or lease for use in your Studio: (i) meet specifications that we establish from time to time; (ii) be a specific brand, kind, or model; (iii) be purchased or leased only from suppliers or service providers that we have expressly approved; and/or (iv) be purchased or leased only from a single source that we designate (which may include us or our affiliates or a buying cooperative organized by us or our affiliates). To the extent that we establish specifications, require approval of suppliers or service providers, or designate specific suppliers or service providers for particular items or services, we will publish our requirements in the Manuals.

(b) Products and Services You May Offer. You may offer in the Studio to customers only the products, services, and classes that we have approved in writing. In addition, you must offer the specific products, services, and classes that we require in the Manuals or otherwise in writing. We may change these specifications periodically, and we may designate specific products or services as optional or mandatory. You must offer all products, services, or classes that we designate as mandatory. You may sell products and services only in the varieties, forms, and packages that we have approved in accordance with our System Standards. You must maintain a sufficient supply of required products to meet the inventory standards we prescribe in the Manuals (or to meet reasonably anticipated customer demand, if we have not prescribed specific standards).

(c) Revenue from Purchases. You acknowledge and agree that we and/or our affiliates may derive revenue based on your purchases and leases, including from charging you for products and services we or our affiliates provide to you and from promotional allowances, volume discounts, and other payments made to us by suppliers and/or distributors that we designate or approve for some or all of our franchisees. We and our affiliates may use all amounts received from suppliers and/or distributors, whether or not based on your or other franchisees' actual or prospective dealings with them, without restriction for any purposes we or our affiliates deem appropriate. If you derive any revenue based on payments or promotional allowances received from suppliers and/or distributors, you must report to us the details of the arrangement and such revenue shall be included as part of your Gross Revenue.

(d) Approval Process. If you would like to offer products, services, or classes or use any supplies, Operating Assets, or services that we have not approved or to purchase or lease from a supplier or service provider that we have not approved, you must submit a written request for approval and provide us with any information that we request. We have the right to inspect the proposed supplier's facilities

and test samples of the proposed products and to evaluate the proposed service provider and the proposed service offerings. We may require the proposed supplier or service provider to visit our then current headquarters to evaluate the proposed supplier or service provider in person. You agree to pay us a charge not to exceed the reasonable cost of the inspection and our actual cost of testing the proposed product or evaluating the proposed service or service provider, including personnel and travel costs, whether or not the item, service, supplier, or service provider is approved. We have the right to grant, deny, or revoke approval of products, services, suppliers, or service providers based solely on our judgment. We will notify you in writing of our decision as soon as practicable following our evaluation. If you do not receive our approval within 90 days after submitting all of the information that we request, our failure to respond will be deemed a disapproval of the request. You acknowledge that the products and services that we approve for you to offer in your Studio may differ from those that we permit or require to be offered in other Studios.

(e) Revocation of Approval. We reserve the right to reinspect the facilities and products of any approved supplier and to reevaluate the services provided by any service provider at and to revoke approval of the item, service, supplier, or service provider if any fail to meet any of our then-current criteria. If you receive a notice of revocation of approval, you agree to cease purchasing or leasing the formerly approved item or service or any items or services from the formerly-approved supplier or service provider and you must dispose of your remaining inventory of the formerly-approved items and services as we direct. If we revoke approval of a previously-approved product that you have been selling to customers or service that you have been offering to customers, you must immediately discontinue offering the service and may continue to sell the product only from your existing inventory for up to 30 days following our disapproval. We have the right to shorten this period if, in our opinion, the continued sale of the product would prove detrimental to our reputation. After the 30-day period, or such shorter period that we may designate, you must dispose of your remaining formerly-approved inventory as we direct.

6.8 Distribution. You may not make any sales of products or services outside of the Studio, conduct classes or programs outside of the Studio, or use vendor relationships that you establish through your association with us or the Hawaii Fluid Art brand for any other purpose besides the operation of the Studio, unless we consent in writing. You agree to purchase products solely for resale to retail customers, and not for resale or redistribution to any other party, including other Hawaii Fluid Art franchisees. You may not offer products or services in connection with the Marks on any website on the Internet or any other electronic communication network unless we consent in writing.

6.9 Participation in System-wide Programs, Conferences, and Councils.

(a) Promotional Programs. You must participate in all in-Studio promotional programs that we offer to franchisees. You will follow our guidelines concerning the acceptance and reimbursement of gift certificates, gift cards, coupons, corporate discounts, and other promotional programs as we set forth from time to time in the Manuals or otherwise in writing. You will not allow use of gift certificates, gift cards, or coupons (including Groupons and similar discounts) unless approved or offered by us or our affiliates.

(b) Conferences. You, your Operating Principal, your Key Managers, or any of your representatives that we designate must attend franchise conventions, meetings, product shows or demonstrations, and teleconferences that we or our Area Representative may require periodically in the Manuals or otherwise in writing. We or our Area Representative, in our or their sole discretion, will designate the time and place of any meetings, which may be held in-person or remotely via teleconference or web seminar. In each year, you and your employees shall not be required to attend in person more than three days of franchisee conventions and meetings that we organize, which shall count towards the five days of additional training programs that we may require your Required Trainee to attend annually. We or your Area Representative will be responsible for arranging meetings and providing meeting materials.

You are responsible for arranging and paying for travel and living expenses that you and/or your representatives incur.

(c) Franchisee Advisory Council. We may establish an advisory council of franchisees (“**Franchisee Advisory Council**”) using a form and process set forth in the Manuals to advise us on various issues and strategies. The Franchisee Advisory Council will have an advisory role, but no operational or decision-making power. We may change the structure and process of the Franchisee Advisory Council or dissolve the Franchisee Advisory Council at any time. If we establish a Franchisee Advisory Council, you must participate in all council-related activities and meetings and must pay any dues related to the administration of the Franchisee Advisory Council.

6.10 Studio Management and Technology System.

(a) Acquisition and Updates. You must obtain, maintain, and use the hardware, software, other equipment, and network connections that we specify periodically in the Manuals necessary to operate our point of sale system, the customer relationship management system, the online reservation system, and other technology systems that we designate (collectively, the “**Studio Management and Technology System**”). You must use the Studio Management and Technology System to (i) enter and track purchase orders and receipts, attendance, and customer information, (ii) update inventory, (iii) enter and manage your customers’ contact information, (iv) generate sales reports and analysis relating to the Studio, and (v) provide other services relating to the operation of the Studio. If we require you to use any proprietary software or to purchase any software from a designated vendor, you must execute and pay any fees associated with any software license agreements or any related software maintenance agreements that we or the licensor of the software require. You must replace, upgrade, or update at your expense the Studio Management and Technology System as we may require periodically without limitation. We will establish reasonable deadlines for implementation of any changes to our Studio Management and Technology System requirements.

(b) Use of the Studio Management and Technology System. You agree: (i) that your Studio Management and Technology System will be dedicated for business uses relating to the operation of the Studio; (ii) to use the Studio Management and Technology System in accordance with our policies and operational procedures; (iii) to transmit financial and operating data to us as required by the Manuals; (iv) to do all things necessary to give us unrestricted access to the Studio Management and Technology System at all times (including users IDs and passwords, if necessary) so that we may independently download and transfer data via a modem or other connection that we specify; (v) to maintain the Studio Management and Technology System in good working order at your own expense; (vi) to ensure that your employees are adequately trained in the use of the Studio Management and Technology System and our related policies and procedures; and (vii) not to load or permit any unauthorized programs or games on any hardware included in the Studio Management and Technology System. You also must comply with all laws and payment card provider standards relating to the security of the Studio Management and Technology System, including, without limitation, the Payment Card Industry Data Security Standards. You are responsible for any and all consequences that may arise if the system is not properly operated, maintained and upgraded or if the Studio Management and Technology System (or any of its components) fails to operate on a continuous basis or as we or you expect.

6.11 Compliance with Laws and Good Business Practices. You must comply with all Applicable Laws. You will obtain and maintain in good standing any and all licenses, permits, and consents necessary for you to lawfully operate the Studio. You have sole responsibility for such compliance despite any information or advice that we or our Area Representatives may provide. You must in all dealings with your customers, prospective customers, suppliers, us and the public adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business or advertising practice which might injure our business or the goodwill associated with the Marks or other Studios.

6.12 Notice of Proceedings. You will notify us in writing within five days after the commencement of any action, suit or proceeding, or of the issuance of any inquiry, subpoena, order, writ, injunction, award, or decree of any court, agency, or other governmental instrumentality in connection with the operation or financial condition of the Studio, including without limitation any criminal action or proceeding brought by you against any employee, customer, or other person, but excluding civil proceedings against customers to collect monies owed.

6.13 Insurance. During the Term you must maintain in force at your sole expense the insurance coverage for the Studio in the amounts, covering the risks, and containing only the exceptions and exclusions that we periodically specify in the Manuals for all similarly situated Studios. All of your insurance carriers must be rated A or higher by A.M. Best and Company, Inc. (or such similar criteria as we periodically specify). These insurance policies must be in effect on or before the deadlines we specify. All coverage must be on an “occurrence” basis, except for the employment practices liability insurance coverage, which is on a “claims made” basis. All policies shall apply on a primary and non-contributory basis to any other insurance or self-insurance that we or our affiliates maintain. All general liability and workers’ compensation coverage must provide for waiver of subrogation in favor of us and our affiliates. We may, upon at least 60 days’ notice to you, periodically increase the amounts of coverage required and/or require different or additional insurance coverage at any time to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances. All insurance policies must name us, our Area Representative, and any affiliates we designate as an additional insured and provide for 30 days’ prior written notice to us of a policy’s material modification or cancellation. You agree periodically to send us a valid certificate of insurance or duplicate insurance policy evidencing that you have maintained the required coverage and paid the applicable premiums. If you fail to obtain or maintain (or to prove that you have obtained or maintained) the insurance we specify, in addition to our other remedies, we may (but need not) obtain such insurance for you and the Studio on your behalf, in which event you shall cooperate with us and reimburse us for all premiums, costs and expenses we incur in obtaining and maintaining the insurance and pay us a reasonable fee for such service.

6.14 Taxes. You will pay when due all taxes, assessments, and governmental charges upon or against you or your real or personal properties, income, and revenue; provided that no such tax, assessment, or governmental charge need be paid so long as the validity, applicability, or amount thereof is being contested in good faith by appropriate proceedings and appropriate reserves are maintained to pay the disputed amount, if necessary.

Section 7 Marketing

7.1 Our Advertising Materials. We may periodically formulate, develop, produce, and conduct, at our sole discretion, advertising or promotional programs in such form and media as we determine to be most effective. We may make available to you for you to purchase approved advertising and promotional materials, including signs, posters, collaterals, etc. that we have prepared. We or our affiliates will retain all copyrights relating to such advertising materials.

7.2 Marketing Fund.

(a) Fund Management. We may, but are not obligated to, establish the Marketing Fund, a segregated or independent fund into which all Marketing Fees will be paid. In no event will we be deemed a fiduciary with respect to any Marketing Fees we receive or administer. We are not required to have an independent audit of the Marketing Fund completed. We will prepare an unaudited statement of contributions and expenditures for the Marketing Fund and make it available within 60 days after the close of our fiscal year to franchisees that make a written request for a copy. If any monies in the Marketing Fund remain at the end of a fiscal year, they will carry-over in the Marketing Fund into the next fiscal year. We or one of our affiliates may make or otherwise arrange loans to the Marketing Fund in any year in which the balance of the Marketing Fund is negative and charge a reasonable rate of

interest. The amounts loaned to the Marketing Fund will be repaid from future contributions to the Marketing Fund in the year the loan is made or in subsequent years.

(b) Use of Marketing Fund. We may use monies in the Marketing Fund and any earnings on the Marketing Fund account for any costs associated with advertising (media and production), branding, marketing, public relations and/or promotional programs and materials, and any other activities we believe would benefit the Hawaii Fluid Art brand or the Studios generally, including advertising campaigns in various media; creation, maintenance, and optimization of the System Website or other websites; keyword or adword purchasing programs; conducting and managing social media activities; direct mail advertising; market research, including, without limitation, secret shoppers and customer satisfaction surveys; branding studies; employing advertising and/or public relations agencies; purchasing promotional items; conducting and administering promotions, contests, giveaways, public relations events, and community involvement activities; and providing promotional and other marketing materials and services to our franchisees. We will not use the Marketing Fund for anything whose sole purpose is the marketing of franchises, however, you acknowledge that the System Website, public relations activities, community involvement activities, and other activities supported by the Marketing Fund may contain information about franchising opportunities. We will not use any contributions to the Marketing Fund to defray our general operating expenses, except for reasonable administrative costs and overhead we incur in activities reasonably related to the administration of the Marketing Fund or the management of Marketing Fund-supported programs (including the pro-rata amount of salaries of our personnel who devote time to Marketing Fund activities and retainers and fees for outside agencies). We may use monies in the Marketing Fund to pay for an independent audit of the Marketing Fund, if we elect to have it audited. We do not guarantee that you will benefit from the Marketing Fund in proportion to your contributions to the Marketing Fund.

(c) Control Over Marketing Fund. We may consult with, in our sole discretion, a franchisee advisory council selected by franchisees or a committee of franchisees that we appoint regarding marketing programs. However, we have the right to direct all marketing programs and uses of the Marketing Fund, with the final decision over creative concepts, materials, and media used in the programs and their placement.

(d) Materials Produced. Any sales and other materials produced with Marketing Fund monies will be made available to you without charge or at a reasonable cost. The proceeds of such sales will also be deposited into the Marketing Fund.

(e) Other Contributions. If we or our affiliates operate any Studios, we or our affiliates will contribute to the Marketing Fund a percentage of the receipts of those Studios, on the same basis as required for franchisees. If we reduce the Marketing Fund contribution rate for franchisees, we will reduce the contribution rate for company or affiliate-owned Studios by the same amount. You acknowledge that our other franchisees may not be required to contribute to the Marketing Fund, may be required to contribute to the Marketing Fund at a different rate than you, or may be required to contribute to a different marketing fund.

7.3 Local Marketing.

(a) Local Marketing Requirements. You must participate in such advertising, promotional, and community outreach programs that we may specify from time to time, at your own expense. You must use your best efforts to promote the use of the Marks in your Territory. You must ensure that all of your advertising, marketing, promotional, customer relationship management, public relations and other brand related programs and materials that you or your agents or representatives develop or implement relating to the Studio is completely clear, factual and not misleading, complies with all Applicable Laws, and conforms to the highest ethical standards and the advertising and marketing policies that we periodically specify. Any media advertising or direct mail marketing that you conduct must be predominantly focused within your Territory, unless we agree otherwise. There are no territorial

restrictions from accepting business from retail customers that reside or work or are otherwise based outside of your Territory if these customers contact you, but we reserve the right to implement rules and restrictions regarding soliciting such customers in the future in our Manuals or otherwise in writing.

(b) Approval of Advertising Materials. You must obtain our advance written approval prior to using or producing any advertising or marketing materials using any of the Marks, in whole or in part. You agree to conduct all advertising in a dignified manner and to conform to the standards and requirements we specify in the Manuals. We will have the final decision on all creative development of advertising and promotional messages. If our written approval is not received within 14 days from the date we received the material, the material is deemed disapproved. We reserve the right to require you to discontinue the use of any advertising or marketing materials.

(c) Minimum Marketing Expenditure. You must spend at least \$500 per month on digital marketing, local advertising and promotional activities (the “**Marketing Spending Requirement**”). Your Marketing Spending Requirement is in addition to your Marketing Fee. We have the right to designate in the Manuals the types of expenditures that will or will not count toward the Marketing Spending Requirement. You must spend a minimum of \$350 of this amount on digital marketing through channels that we determine. You may contribute this \$350 directly to us to spend on your behalf on digital marketing for your Studio. At our request, you must submit appropriate documentation to verify compliance with the Marketing Spending Requirement. If you fail to spend (or prove that you spent) the Marketing Spending Requirement in any month, then we may, in addition to and without limiting our other rights and remedies, require you to pay us the shortfall as an additional Marketing Fee or to pay us the shortfall for us to spend on local marketing for your Studio.

(d) Grand Opening Advertising. In connection with the opening of the Studio, you must spend a minimum of \$2,500 for grand opening advertising and promotion beginning four weeks before, and ending four weeks after, the opening of your Studio in accordance with a plan that you must submit to us. You must spend a minimum of \$500 of this budget during the two weeks that precede your grand opening on digital marketing that we approve. We have the right to modify your grand opening plan, in our sole discretion, and may require you to use a public relations firm to assist with your grand opening. The wages and other payroll-related expenses of your employees shall not be credited towards this spending requirement. No amount paid by you for your grand opening will be credited toward the Marketing Spending Requirement. You must provide us with supporting documentation evidencing these expenditures upon request.

7.4 Advertising Cooperatives. You agree to join and actively participate in any organizations or associations of franchisees or advertising cooperatives that we establish or approve for the purpose of promoting, coordinating, and purchasing advertising in local, regional, or national areas where there are multiple Studios (“**Advertising Cooperatives**”) and to abide by the bylaws, rules, and regulations duly required by the Advertising Cooperative, which we have the right to mandate or approve. If you join an Advertising Cooperative, the Advertising Cooperative may require you to spend additional funds on marketing programs conducted by the Advertising Cooperative, which may be in addition to your Marketing Fee or Marketing Spending Requirement. We shall have the right to approve any marketing materials or marketing programs developed by any Advertising Cooperative in the same manner as specified in Section 7.3(b) (Approval of Advertising Materials).

7.5 Digital Marketing.

(a) Restrictions. We or our affiliates may, in our sole discretion, establish and operate websites, social media accounts (such as Facebook, Twitter, Instagram, Pinterest, etc.), applications, keyword or adword purchasing programs, accounts with websites featuring gift certificates or discounted coupons (such as Groupon, Living Social, etc.), mobile applications, or other means of digital advertising on the Internet or any electronic communications network (collectively, “**Digital Marketing**”) that are

intended to promote the Marks, your Studio, and the entire network of Studios. We will have the sole right to control all aspects of any Digital Marketing, including those related to your Studio. Unless we consent otherwise in writing, you and your employees may not, directly or indirectly, conduct or be involved in any Digital Marketing that use the Marks or that relate to the Studio or the network. If we do permit you or your employees to conduct any Digital Marketing, you or your employees must comply with any policies, standards, guidelines, or content requirements that we establish periodically and must immediately modify or delete any Digital Marketing that we determine, in our sole discretion, is not compliant with such policies, standards, guidelines, or requirements. If we permit you or your employees to conduct any Digital Marketing, we will have the right to retain full control over all websites, social media accounts, mobile applications or other means of digital advertising that we have permitted you to use. We may withdraw our approval for any Digital Marketing or suspend or terminate your use of any Digital Marketing platforms at any time.

(b) System Website. As part of our Digital Marketing, we or one of our designees will operate and maintain a System Website, which will include basic information related to the Studio, the ability for customers to purchase classes at your Studio, and access to the Studio's reservation system. You must promptly provide us with any information that we request regarding your Studio for inclusion on the System Website.

Section 8 Records, Reports, Audits, and Inspections

8.1 Bookkeeping and Records. You agree to keep complete and accurate books, records, and accounts of all business conducted under this Agreement in accordance with generally accepted accounting principles. You must preserve all of your books and records in hard copy or in a format from which hard copies can be readily generated for at least five years from the date of preparation or such longer period as may be required by law. You must maintain such information and records on the Studio Management and Technology System as we may require from time to time in the Manuals and you acknowledge and agree that we will have access to that data remotely via a network connection that we will specify. At our request, you must retain and use, at your expense, the services of an accountant or accounting firm that we approve.

8.2 Reports and Financial Statements. You agree to submit financial and operational reports and records to us at the times and in the manner specified in the Manuals. Upon our written request, by April 15 of each year, you must submit your balance sheet and income statement for the previous calendar year. With respect to your year-end income statement and balance sheet, you or the Operating Principal must certify that the income statement and balance sheet are correct and complete and that they have been prepared in accordance with generally accepted accounting principles. We have the right to demand audited financial statements if an Event of Default has occurred within the last calendar year. In addition, you must provide us within 15 days after our request, exact copies of federal and state income and other tax returns and any other forms, records, books, reports and other information that we periodically require relating to the Studio or you.

8.3 Additional Information. You shall respond promptly to requests from us for clarification and/or additional information regarding any matter entrusted to you under this Agreement. We may from time to time require information about your financial condition, earnings, sales, profits, costs, expenses, and performance to provide a basis for providing our prospective franchisees with information concerning actual or potential earnings or to comply with Applicable Laws governing the sale of franchises. You will provide such information promptly upon our request, and you will certify that such information is true and complete in all material respects.

8.4 Inspection. We have the right, through our employees, an Area Representative, and any agents we designate, at any time during business hours and without prior notice to you to: (i) inspect the Site and Studio for compliance with the Manuals, (ii) videotape, photograph or otherwise record the operation of the Studio, (iii) interview your employees, landlord, and customers, (iv) examine the records, invoices, payroll records, check stubs, sales tax records and returns, and other supporting records and documents of

the Studio, and (v) examine your income tax records and any other information, records or properties relating to the ownership, management, or operation of the Studio. We may require you to install and maintain, at your expense, a video surveillance system that we designate which we may access remotely through a connection that we specify to ensure compliance with our standards and the Manuals. Our right to inspect your business records includes records maintained electronically or off-site. You must cooperate with such inspections by giving our representatives unrestricted access and rendering such assistance as our representatives may reasonably request. If we notify you of any deficiencies after the inspection, you must promptly take steps to correct them. If you fail to correct any deficiencies within a reasonable time, not to exceed 30 days, we have the right to correct such deficiencies and charge you a reasonable fee plus our costs and expenses incurred in such inspection. Any inspections will be made at our expense, unless the inspection is necessitated by your repeated or continuing failure to comply with any provision of this Agreement, in which case we may charge you the costs of making such inspection, including without limitation the wages and cost of travel and living expenses for our representatives.

8.5 Auditing. Without limiting the foregoing, we may audit or cause to be audited any statement you are required to submit pursuant to Section 8.2 (Reports and Financial Statements) and we may review, or cause to be reviewed, the records maintained by any bank or other financial institution used by you in connection with the Studio. If any such audit or review discloses an understatement of the Gross Revenue for any period or periods, you will pay to us, within 10 days after demand for payment is made, all additional Royalty Fees, Marketing Fees, or other amounts required to be paid based upon the results of such audit or review. In addition, if such understatement for any period or periods is 2% or more of the Gross Revenue for such period or periods, you will reimburse us for the cost of such audit or review, including without limitation the charges of any independent accountant and any related attorneys' fees and the cost of travel and living expenses and wages for such accountant and employees or other agents of us. You will pay to us, upon demand, on any delinquent fees interest at the lesser of 18% per annum or the maximum rate allowed by law calculated from the date when the fees should have been paid to the date of actual payment. These remedies are in addition to our other remedies and rights under this Agreement and Applicable Laws.

8.6 Mystery Shopper Program. We may require you to participate in a mystery shopper service in order to ensure your compliance with the System and our customer service standards. We may specify mystery shopper services that you must engage at our expense, or we may engage the mystery shopper service on your behalf. You must share the results of any mystery shopper program with us and must promptly address any deficiencies identified in any such report. You must follow any evaluation process, and use such evaluation forms, as we may from time to time require.

Section 9 Intellectual Property.

9.1 Marks and Trade Dress.

(a) Acknowledgements. You acknowledge that we or our affiliates are the owner of the Marks and the Trade Dress, that you have no interest in the Marks and the Trade Dress beyond the nonexclusive License granted herein, and that, as between we and you, we have the exclusive right and interest in and to the Marks and the Trade Dress and the goodwill associated with and symbolized by them. Upon the expiration or termination of this Agreement, no monetary amount will be attributable to goodwill associated with your activities as a franchisee under this Agreement.

(b) Rights. Your right to use the Marks and the Trade Dress applies only to the Studio operated at the Site as expressly provided in this Agreement, including advertising related to the Studio. You may only use in your Studio the Marks and the Trade Dress we designate, and only in compliance with written rules that we prescribe from time to time. You may not use any Mark (i) as part of any corporate or legal business name, (ii) with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos we have licensed to you), (iii) in selling any unauthorized services or products, (iv) as part of any domain name, electronic address, metatag, social media account, or otherwise in connection with any website or other electronic medium without our consent, or (v) in any other manner

we have not expressly authorized in writing. No materials on which any of the Marks or the Trade Dress appears will be used by you without our prior written approval, which may be revoked at any time upon reasonable notice to you. You must display the Marks in a manner that we specify on signage at the Studio and on all written materials, forms, advertising, promotional materials, supplies, employee uniforms, business cards, receipts, letterhead, contracts, stationary, and other materials we designate.

9.2 Copyrights. You acknowledge that as between you and us, any and all present or future copyrights relating to the System or the Hawaii Fluid Art concept, including, but not limited to, the Manuals and marketing materials, (collectively, the “**Copyrights**”) belong solely and exclusively to us. You have no interest in the Copyrights beyond the non-exclusive License granted in this Agreement.

9.3 No Contesting Our Rights. During the Term of this Agreement and after its expiration or termination, you agree not to directly or indirectly contest our ownership, title, right or interest in or to, or our license to use, or the validity of, (i) the Marks, (ii) the Trade Dress, (iii) the Copyrights, or (iv) any trade secrets, methods, or procedures that are part of the System (collectively, the “**Intellectual Property**”), or contest our sole right to register, use, or license others to use the Intellectual Property.

9.4 Changes to the Intellectual Property. We have the right, upon reasonable notice, to change, discontinue, or substitute for any of the Intellectual Property and to adopt entirely different or new Intellectual Property for use with the System without any liability to you, in our sole discretion. You agree to implement any such change at your own expense within the time we reasonably specify.

9.5 Third-Party Challenges. You agree to notify us promptly of any unauthorized use of the Intellectual Property of which you have knowledge. You also agree to inform us promptly of any challenge by any person or Entity to the validity of our ownership of or our right to license others to use any of the Intellectual Property. We have the right, but no obligation, to initiate, direct, and control any litigation or administrative proceeding relating to the Intellectual Property, including, but not limited to, any settlement. We will be entitled to retain any and all proceeds, damages, and other sums, including attorneys’ fees, recovered or owed to us or our affiliates in connection with any such action. You agree to execute all documents and, render any other assistance we may deem necessary to any such proceeding or any effort to maintain the continued validity and enforceability of the Intellectual Property.

9.6 Post-Termination or Expiration. Upon the expiration or termination of this Agreement for any reason, all of your rights to use the Intellectual Property will automatically revert to us without cost and without the execution or delivery of any document. Upon our request, you will execute all documents that we require to confirm such reversion.

9.7 Innovations. All ideas, concepts, techniques or materials relating to a Studio or the System (collectively, “**Innovations**”), whether or not protectable intellectual property and whether created by or for you or your Owners, employees, or contractors, must be promptly disclosed to us and will be deemed to be our sole and exclusive property, part of the System and the Intellectual Property, and works made-for-hire for us. To the extent any Innovation does not qualify as a work made-for-hire for us, by this Section you assign ownership of that Innovation, and all related rights to that Innovation, to us and agree to sign (and to cause your Owners, employees, and contractors to sign) whatever assignment or other documents we request to evidence our ownership or to help us obtain intellectual property rights in the Innovation. We and our affiliates have no obligation to make any payments to you or any other person with respect to any Innovations. You may not use any Innovation in operating the Studio or otherwise without our prior approval.

Section 10 Proprietary Information.

10.1 Receipt of Proprietary Information. You acknowledge that prior to or during the Term, we may disclose in confidence to you, either orally or in writing, certain trade secrets, know-how, and other confidential information relating to the System, our business, our vendor relationships, our classes, or the construction, management, operation, or promotion of the Studio (collectively, “**Proprietary Information**”), including (i) site selection criteria and methodologies; (ii) methods, formats, systems, System Standards, sales and marketing techniques, knowledge and experience used in developing and operating Studios, including information in the Manuals; (iii) marketing research and promotional, marketing, advertising, public relations, customer relationship management and other brand-related materials and programs for Studios; (iv) knowledge of specifications for and suppliers of, and methods of ordering, certain items that Studios use and/or sell; (v) knowledge of the operating results and financial performance of other Studios; (vi) customer communication and retention programs, along with data used or generated in connection with those programs; and (vii) any other information we reasonably designate from time to time as confidential or proprietary. “Proprietary Information” does not include (i) information that is part of the public domain or becomes part of the public domain through no fault of you, (ii) information disclosed to you by a third party having legitimate and unrestricted possession of such information, or (iii) information that you can demonstrate by clear and convincing evidence was within your legitimate and unrestricted possession when the parties began discussing the sale of the franchise.

10.2 Nondisclosure of Proprietary Information. We and our affiliates own all right, title, and interest in and to the Proprietary Information. You will not, nor will you permit any person to, use or disclose any Proprietary Information (including without limitation all or any portion of the Manuals) to any other person, except to the extent necessary for your professional advisors and your employees to perform their functions in the operation of the Studio. You acknowledge that your use of the Proprietary Information in any other business would constitute an unfair method of competition with us and our franchisees. You will be liable to us for any unauthorized use or disclosure of Proprietary Information by any employee or other person to whom you disclose Proprietary Information. You will take reasonable precautions to protect the Proprietary Information from unauthorized use or disclosure and will implement any systems, procedures, or training programs that we require. At our request, you will require anyone who may have access to the Proprietary Information to execute non-disclosure agreements in a form satisfactory to us that identifies us as a third-party beneficiary of such covenants with the independent right to enforce the agreement.

10.3 Customer Information.

(a) Protection of Customer Information. You must comply with our System Standards, other directions from us, and all Applicable Laws regarding the organizational, physical, administrative and technical measures and security procedures to safeguard the confidentiality and security of Customer Information on your Studio Management and Technology System or otherwise in your possession or control and, in any event, employ reasonable means to safeguard the confidentiality and security of Customer Information. “**Customer Information**” means names, contact information, financial information and other personal information of or relating to the Studio’s customers and prospective customers. If there is a suspected or actual breach of security or unauthorized access involving your Customer Information, you must notify us immediately after becoming aware of such actual or suspected occurrence and specify the extent to which Customer Information was compromised or disclosed. You are responsible for any financial losses you incur or remedial actions that you must take as a result of a breach of security or unauthorized access to Customer Information in your control or possession.

(b) Ownership of Customer Information. You agree that all Customer Information that you collect in connection with your Studio is deemed to be owned by us, and must be furnished to us at any time that we request it. In addition, we and our affiliates may, through the Studio Management and Technology System or otherwise, have independent access to Customer Information.

(c) Use of Customer Information. You have the right to use Customer Information while this Agreement or a successor franchise agreement is in effect, but only to market Hawaii Fluid Art products and services to customers in accordance with the policies that we establish periodically and Applicable Laws. You may not sell, transfer, or use Customer Information for any purpose other than marketing Hawaii Fluid Art products and services. We and our affiliates may use Customer Information in any manner or for any purpose. You must secure from your actual and prospective customers and others all consents and authorizations, and provide them all disclosures, that Applicable Law requires to transmit Customer Information to us and our affiliates, and for us and our affiliates to use that Customer Information, in the manner that this Agreement contemplates.

Section 11 Indemnification.

11.1 Indemnification By You. You agree to indemnify and hold harmless us, our Area Representative, and our affiliates, and our and their respective owners, directors, officers, employees, agents, representatives, successors, and assignees (the “**Indemnified Parties**”) against, and to reimburse any one or more of the Indemnified Parties for, all Losses (defined below) directly or indirectly arising out of or relating to: (i) the Studio’s operation; (ii) the business you conduct under this Agreement; (iii) your breach of this Agreement; or (iv) your noncompliance or alleged noncompliance with any law, ordinance, rule or regulation, including those concerning the Studio’s construction, design or operation, and including any allegation that we or another Indemnified Party is a joint employer or otherwise responsible for your acts or omissions relating to your employees. “**Losses**” means any and all losses, expenses, obligations, liabilities, damages (actual, consequential, or otherwise), and reasonable defense costs that an Indemnified Party incurs, including accountants’, arbitrators’, mediators’, attorneys’, and expert witness fees, costs of investigation and proof of facts, court costs, travel and living expenses, and other expenses of litigation, arbitration, or alternative dispute resolution, regardless of whether litigation, arbitration, or alternative dispute resolution is commenced.

11.2 Indemnification Procedure. You agree to defend the Indemnified Parties against any and all claims asserted, or inquiries made (formally or informally), or legal actions, investigations, or other proceedings brought, by a third party and directly or indirectly arising out of or relating to any matter described in Subsection 11.1(i) through (iv) above (collectively, “**Proceedings**”), including those alleging the Indemnified Party’s negligence, gross negligence, willful misconduct and/or willful wrongful omissions. Each Indemnified Party may at your expense defend and otherwise respond to and address any claim asserted or inquiry made, or Proceeding brought, that is subject to this Section 11 (instead of having you defend it as required above), and agree to settlements or take any other remedial, corrective, or other actions, for all of which defense and response costs and other Losses you are solely responsible, subject to Section 11.3. An Indemnified Party need not seek recovery from any insurer or other third party, or otherwise mitigate its Losses, in order to maintain and recover fully a claim against you, and you agree that a failure to pursue a recovery or mitigate a Loss will not reduce or alter the amounts that an Indemnified Party may recover from you under this Section 11. Your obligations in this Section 11 will survive the expiration or termination of this Agreement.

11.3 Willful Misconduct or Gross Negligence. Despite Section 11.1, you have no obligation to indemnify or hold harmless an Indemnified Party for, and we will reimburse you for, any Losses (including costs of defending any Proceeding under Section 11.2) to the extent they are determined in a final, unappealable ruling issued by a court or arbitrator with competent jurisdiction to have been caused solely and directly by the Indemnified Party’s willful misconduct or gross negligence, so long as the claim to which those Losses relate is not asserted on the basis of theories of vicarious liability (including agency, apparent agency, or employment) or our failure to compel you to comply with this Agreement. However, nothing in this Section 11.3 limits your obligation to defend us and the other Indemnified Parties under Section 11.2.

Section 12 Your Covenant Not to Compete.

12.1 During Term. You acknowledge that you will receive valuable, specialized training and confidential information regarding the manufacturing, operational, sales, promotional, and marketing methods of the Hawaii Fluid Art concept. During the Term, you and your Owners will not, without our prior written consent, either directly or indirectly, for themselves, or through, on behalf of, or in conjunction with any other person or Entity:

- (a) own, manage, engage in, be employed by, advise, make loans to, or have any other interest in (i) any business which provides or offers group or individual art class instruction, the sale of works of art at a retail store, instruction in the technique of acrylic or resin fluid art, any other Approved Products and Services that we grant you the right to offer during the Term of your Franchise Agreement (ii) any entity that grants franchises or licenses for any of these types of businesses (collectively, each, a “**Competitive Business**”) at any location in the United States;
- (b) divert or attempt to divert any business or customer or potential business or customer of the Studio to any Competitive Business, by direct or indirect inducement or otherwise;
- (c) perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System;
- (d) use any vendor relationship established through your association with us for any purpose other than to purchase products or equipment for use or retail sale in the Studio; or
- (e) directly or indirectly solicit for employment any person who at any time within the immediate past 12 months has been employed by us, or our affiliates, or by any of our franchisees.

12.2 After Termination, Expiration, or Transfer. For two years after the expiration or termination of this Agreement or an approved Transfer to a new franchisee, you and your Owners may not, without our prior written consent, (i) directly or indirectly own, manage, engage in, be employed in a managerial position by, advise, make loans to, or have any other interest in any Competitive Business that is (or is intended to be) located within a ten-mile radius of your former Studio or any other Studio that is operating or under development at the time of such expiration, termination, or Transfer, or (ii) solicit for employment any person who at any time within the immediate past 12 months has been employed by us, or our affiliates, or by any of our franchisees. With respect to the Owners, the time period in this Section 12.2 will run from the expiration, termination, or Transfer of this Agreement or from the termination of the Owner’s relationship with you, whichever occurs first.

12.3 Publicly Traded Corporations. Ownership of less than five percent of the outstanding voting stock of any class of stock of a publicly traded corporation will not, by itself, violate this Section 12.

12.4 Covenants of Owners and Employees. The Owners personally bind themselves to this Section 12 by signing this Agreement or the attached Guarantee. We may, in our sole discretion, require you to obtain from your officers, directors, Key Managers, Owners’ spouses, and other individuals that we may designate executed agreements containing nondisclosure and noncompete covenants similar in substance to those contained in this Section 12 as we prescribe in the Manuals and otherwise. The agreements must be in a form acceptable to us and specifically identify us as having the independent right to enforce them.

12.5 Enforcement of Covenants. You acknowledge and agree that (i) the time, territory, and scope of the covenants provided in this Section 12 are reasonable and necessary for the protection of our legitimate business interests; (ii) you have received sufficient and valid consideration in exchange for those covenants; (iii) enforcement of the same would not impose undue hardship; and (iv) the period of protection provided by these covenants will not be reduced by any period of time during which you are in violation of the provisions of those covenants or any period of time required for enforcement of those covenants. To the

extent that this Section 12 is judicially determined to be unenforceable by virtue of its scope or in terms of area or length of time, but may be made enforceable by reductions of any or all thereof, the same will be enforced to the fullest extent permissible. You agree that the existence of any claim you may have against us, whether or not arising from this Agreement, will not constitute a defense to our enforcement of the covenants contained in this Section 12. You acknowledge that any breach or threatened breach of this Section 12 will cause us irreparable injury for which no adequate remedy at law is available, and you consent to the issuance of an injunction prohibiting any conduct violating the terms of this Section 12. Such injunctive relief will be in addition to any other remedies that we may have.

Section 13 Transfer and Assignment.

13.1 Transfer by Us. We may assign this Agreement and all of our rights, duties, and obligations under this Agreement to any person or Entity that we choose in our sole discretion. Upon any such assignment, we will be released from all of our duties and obligations hereunder, and you will look solely to our assignee for the performance of such duties and obligations.

13.2 Definition of Transfer. For purposes of this Agreement, “**Transfer**” as a verb means to sell, assign, give away, transfer, pledge, mortgage, or encumber, either voluntarily or by operation of law (such as through divorce or bankruptcy proceedings), any interest in this Agreement, the Studio, substantially all the assets of the Studio, or in the ownership of the franchisee (if you are an Entity). “**Transfer**” as a noun means any such sale, assignment, gift, transfer, pledge, mortgage, or encumbrance. A “**Control Transfer**” means any Transfer of (i) this Agreement or any interest in this Agreement; (ii) the Studio or all or substantially all of the Studio’s assets; or (iii) any Controlling Ownership Interest (defined below) in you (if you are an Entity), whether directly or indirectly through a transfer of legal or beneficial ownership interests in any Owner that is an Entity, and whether in one transaction or a series of related transactions, regardless of the time period over which these transactions take place. References to a “**Controlling Ownership Interest**” in you mean either (i) 20% or more of your direct or indirect legal or beneficial ownership interests in your Entity or (ii) an interest the acquisition of which grants the power (whether directly or indirectly) to direct or cause the direction of management and policies of you or the Studio to any individual or Entity, or group of individuals or Entities, that did not have that power before that acquisition.

13.3 No Transfer Without Our Consent. This Agreement and the License are personal to you, and we have granted the License in reliance on your (and, if you are an Entity, your Owners’) business skill, financial capacity, and personal character. Accordingly, neither you nor any of the Owners or any successors to any part of your interest in this Agreement or the License may make any Transfer or permit any Transfer to occur without obtaining our prior written consent, except as provided in Section 13.7 (Permitted Transfers). If you or any of your Owners desire to make a Transfer, you must promptly provide us with written notice. Any purported Transfer, without our prior written consent, will be null and void and will constitute an Event of Default (as herein defined), for which we may terminate this Agreement without opportunity to cure. We have sole and absolute discretion to withhold our consent, except as otherwise provided in Sections 13.4 through 13.8. We have the right to communicate with both you, your counsel, and the proposed transferee on any aspect of a proposed Transfer. You agree to provide any information and documentation relating to the proposed Transfer that we reasonably require. No Transfer that requires our consent may be completed until at least 60 days after we receive written notice of the proposed Transfer. Our consent to a Transfer does not constitute a waiver of any claims that we have against the transferor, nor is it a waiver of our right to demand exact compliance with the terms of this Agreement. If your Studio is not open and operating, we will not consent to your Transfer of this Agreement, and we are under no obligation to do so.

13.4 Control Transfer. For a proposed Control Transfer, the following conditions apply (unless waived by us):

(a) When you provide written notice of the proposed Transfer, you must pay to us a non-refundable deposit of \$3,000 to cover our administrative costs incurred in reviewing the proposal. The deposit will be applied towards your Transfer Fee in the event that the Transfer is completed.

(b) You or your transferee must pay to us a Transfer Fee equal to: (i) \$10,000 for any Control Transfer resulting in a change of control to a third party; or (ii) \$5,000 for any Control Transfer resulting in a change of control to any immediate family member. You must make such payment by wire transfer from the proceeds of the sale at the closing if we so request.

(c) You must satisfy all of your accrued monetary obligations to us and must be in compliance with all obligations to us under this Agreement and any other agreement that you have with us and our affiliates as of the date of the request for our approval of the Transfer or you must make arrangements satisfactorily to us to come into compliance by the date of the Transfer.

(d) You and your Owners must execute a general release, in a form that we prescribe, in favor of us, our Area Representatives, our affiliates, and our and their affiliates' past, present, and future officers, directors, managers, members, equity holders, agents, and employees, releasing them from all claims, including claims arising under federal, state, and local laws, rules, and regulations.

(e) You and your Owners must agree to remain liable for all of the obligations to us in connection with the Studio arising before the effective date of the Transfer and execute any and all instruments that we reasonably request to evidence such liability.

(f) You and your Owners must continue to be bound by the provisions of Sections 9 (Intellectual Property), 10 (Proprietary Information), 11 (Indemnification), and 12 (Your Covenant Not to Compete) as if they were the Franchisee and this Agreement had expired or terminated as of the effective date of the Transfer.

(g) You must provide us with written notice from your landlord indicating that your landlord has agreed to transfer the Site Lease to your transferee.

(h) Your proposed transferee (or, if the transferee is not an individual, all owners of any legal or beneficial interest in the transferee) must demonstrate to our satisfaction that he or she meets all of our then-current qualifications to become a Hawaii Fluid Art franchisee, including not having any involvement with a Competing Business, or if he or she is already a Hawaii Fluid Art® franchisee, he or she must not be in default under any of their agreements with us and must have a good record of customer service and compliance with our System Standards.

(i) Your proposed transferee and their representatives must successfully complete our then-current training requirements at their expense.

(j) Your proposed transferee (and, if the transferee is not an individual, such owners of a legal or beneficial interest in the transferee as we may request) must (i) enter into a written assignment, in a form satisfactory to us, assuming and agreeing to discharge and guarantee all of your obligations under this Agreement and (ii) must execute our then-current form of personal guarantee.

(k) Your proposed transferee (and, if the transferee is not an individual, such owners of a legal or beneficial interest in the transferee as we may request) must execute, for a term ending on the last day of the Term and with such Successor Term as is provided by this Agreement, our then-current franchise agreement for new franchisees and such other agreements as we may require, which agreements will supersede this Agreement in all respects. The terms of the new franchise agreement may differ significantly from the terms of this Agreement. The prospective transferee will not be required to pay any initial Franchise Fee.

(l) Your proposed transferee must make arrangements to modernize, renovate, or upgrade the Studio, at its expense, to conform to our then-current System Standards for new Hawaii Fluid Art® Studios.

(m) Your proposed transferee must covenant that it will continue to operate the Studio under the Marks and using the System.

(n) We must determine, in our sole discretion, that the purchase price and payment terms will not adversely affect the operation of the Studio, and if you or your Owners finance any part of the purchase price, you and they must agree that all obligations under promissory notes, agreements, or security interests reserved in the Studio are subordinate to the transferee's obligation to pay all amounts due to us and our affiliates and otherwise to comply with this Agreement.

13.5 Non-Control Transfers. For any Transfer that does not result in a Control Transfer, you must give us advance notice and submit a copy of all proposed contracts and other information concerning the Transfer and transferee that we may request. We will have the right to require you to pay a Transfer Fee that is equal to \$2,500 plus our administrative costs in processing such Transfer, including any attorneys' fees and other third party costs that we incur. We will have a reasonable time (not less than 30 days) after we have received all requested information to evaluate the proposed Transfer. You and/or your transferee must satisfy, in addition to others that we may specify, the conditions in Sections 13.4(c) (comply with obligations), 13.4(d) (sign general release), 13.4(e) (remain liable for pre-Transfer obligations), 13.4(f) (remain bound to certain provisions), 13.4(h) (transferee meets qualifications), and 13.4(j) (sign assignment and guaranty). You and your Owners must sign the form of agreement and related documents that we then specify to reflect your new ownership structure. We may withhold our consent on any reasonable grounds or give our consent subject to reasonable conditions.

13.6 Transfer To An Entity. We will consent to the assignment of this Agreement to an Entity that you form for the convenience of ownership, provided that: (i) the Entity has and will have no other business besides operating Hawaii Fluid Art Studios; (ii) you satisfy the conditions in Sections 13.4(c) (comply with obligations), 13.4(d) (sign general release), 13.4(e) (remain liable for pre-Transfer obligations), 13.4(f) (remain bound to certain provisions), and 13.4(j) (sign assignment and guaranty); (iii) the Owners hold equity interests in the new Entity in the same proportion shown on Appendix A; and (iv) you pay a Transfer Fee that is equal to \$2,500 plus our administrative costs in processing such Transfer, including any attorneys' fees and other third party costs that we incur.

13.7 Permitted Transfers. The other provisions in this Section do not apply, including our right of first refusal and right of approval, to the following Transfers:

(a) Security Interests. You may grant a security interest in the Site (if you own the Site), the Studio, any Operating Assets, this Agreement, or any direct or indirect legal and/or beneficial interest in you to a financial institution or other party that provided or provides any financing your acquisition, development, and/or operation of the Studio, but only if that party signs our then current form of lender consent to protect our rights under this Agreement. Any foreclosures or other exercise of the rights granted under that security interest are subject to all applicable terms and conditions of this Section 13.

(b) Transfer to a Trust. Any Owner who is an individual may Transfer his or her ownership interest in you (or any of your Owners that is an Entity) to a trust that he or she establishes for estate planning purposes, as long as he or she is a trustee of the trust and otherwise controls the exercise of the rights in you (or your Owner) held by the trust and you notify us in writing of the Transfer at least ten days before its anticipated effective date. Dissolution of or transfers from any trust described in this Section 13.7(b) are subject to all applicable terms and conditions of this Section 13.

13.8 Transfer Upon Death Or Incapacity. If you or any Owner dies, becomes incapacitated, or enters bankruptcy proceedings, that person's executor, administrator, personal representative, or trustee must apply to us in writing within three months after the event (death, declaration of incapacity, or filing of a

bankruptcy petition) for consent to Transfer the person's interest. The Transfer will be subject to the provisions of this Section 13, as applicable, except there shall be no Transfer Fee due. In addition, if the deceased or incapacitated person is you or the Operating Principal, we will have the right (but not the obligation) to take over operation of the Studio until the Transfer is completed and to charge a reasonable management fee for our services. For purposes of this Section, "incapacity" means any physical or mental infirmity that will prevent the person from performing his or her obligations under this Agreement (i) for a period of 30 or more consecutive days or (ii) for 60 or more total days during a calendar year. In the case of Transfer by bequest or by intestate succession, if the heirs or beneficiaries are unable to meet the conditions of Section 13.4(h) (transferee meets qualifications), the executor may transfer the decedent's interest to another successor that we have approved, subject to all of the terms and conditions for Transfers contained in this Agreement. If an interest is not disposed of under this Section 13.8 within 120 days after the date of death or appointment of a personal representative or trustee, we may terminate this Agreement under Section 14.2 (Our Remedies After An Event of Default).

13.9 Our Right Of First Refusal.

(a) Our Right. We have the right, exercisable within 30 days after receipt of the notice of your intent to Transfer and such documentation and information that we require, to send written notice to you that we intend to purchase the interest proposed to be Transferred on the same economic terms and conditions offered by the third-party or, at our option, the cash equivalent thereof. If you and we cannot agree on the reasonable equivalent in cash or if the Transfer is proposed to be made by gift, we will designate, at our expense, an independent appraiser to determine the fair market value of the interest proposed to be transferred. We may purchase the interest at the fair market value determined by the appraiser or may elect at that time to not exercise our rights. We must receive, and you and your Owners agree to make, all customary representations, warranties and indemnities given by the seller of the assets of a business or ownership interests in an Entity, as applicable, including representations and warranties regarding ownership and condition of, and title to, assets and (if applicable) ownership interests, liens and encumbrances on assets, validity of contracts and agreements, and the liabilities, contingent or otherwise, relating to the assets or ownership interests being purchased, and indemnities for all actions, events and conditions that existed or occurred in connection with the Studio or your business prior to the closing of our purchase. Closing on our purchase must occur within 120 days after the date of our notice to the seller electing to purchase the interest. We may assign our right of first refusal to another Entity or person either before or after we exercise it. However, our right of first refusal will not apply with regard to Transfers to an Entity under Section 13.7 (Permitted Transfers) or 13.8 (Transfer Upon Death or Incapacity) or Transfers to your spouse, son, or daughter.

(b) Declining Our Right. If we elect not to exercise our rights under this Section, the transferor may complete the Transfer after complying with the applicable provisions in Section 13. Closing of the Transfer must occur within 90 days of our election (or such longer period as Applicable Laws may require); otherwise, the third-party's offer will be treated as a new offer subject to our right of first refusal. Any material change in the terms of the offer from a third-party after we have elected not to purchase the seller's interest will constitute a new offer subject to the same right of first refusal as the third party's initial offer. The Transfer is conditional upon our determination that the Transfer was on terms substantially the same as those offered to us.

Section 14 Termination and Default.

14.1 Events of Default. Any one or more of the following constitutes an "Event of Default" under this Agreement:

(a) You or any Owner make any material misrepresentations or omissions in connection with your application to us for the franchise, this Agreement, or any related documents, or you submit to us any report or statement that you know or should know to be false or misleading;

- (b) Your Required Trainee fails to successfully complete initial training to our satisfaction at least ten days before the Opening Deadline;
- (c) You fail to sign a Site Lease or purchase agreement that we have approved for a site that we have accepted by the Site Acquisition Deadline;
- (d) You fail to open for business by the Opening Deadline;
- (e) You fail to make changes to the Site and the Studio as required in Section 6.5 (Refurbishing and Renovations) within the applicable time periods;
- (f) You fail to maintain possession of the Site and fail to secure our approval of and enter into a lease for a new, accepted Site within 90 days after the expiration or termination of the Site Lease;
- (g) You voluntarily suspend operation of the Studio without our prior written consent for five or more consecutive business days on which you were required to operate, unless we determine, in our sole discretion, that the failure was beyond your control;
- (h) After multiple attempts to reach you via telephone, e-mail, or other written correspondence, you fail to communicate with us within seven days after we send you a written communication in accordance with Section 17.11 (Notices) notifying you of our attempts to reach you and our need to receive a response from you.
- (i) You, your Operating Principal, your Key Managers, or any of your representatives that we designate fail to attend or participate in two or more required franchise conventions, meetings, and teleconferences during any 12-month period, without our prior written consent;
- (j) You, any Owner, or any of your officers or directors are convicted of or plead nolo contendere to a felony, a crime involving moral turpitude or consumer fraud, or any other crime or offense that we believe is likely to have an adverse effect on our franchise system, the Marks and any associated goodwill, or the Hawaii Fluid Art concept (an “**Adverse Effect**”) or you, any Owner, or any of your officers or directors has engaged in or engages in activities that, in our reasonable opinion, have an Adverse Effect;
- (k) You use any of the Marks or any other identifying characteristic of us other than in the operation or promotion of the Studio;
- (l) You or any of your Owners, directors, or officers disclose or divulge the contents of the Manuals or other Proprietary Information contrary to Section 10 (Proprietary Information);
- (m) Any Transfer occurs that does not comply with Section 13 (Transfer and Assignment), including a failure to transfer to a qualified successor after death or disability within the time allowed by Section 13.8 (Transfer Upon Death or Incapacity);
- (n) You or any Owner violates the noncompete covenants in Section 12 (Your Covenant Not to Compete);
- (o) You breach or fail to comply with any law, regulation, or ordinance which results in a threat to the public’s health or safety and fail to cure the non-compliance within 24 hours following receipt of notice thereof from us or applicable public officials, whichever occurs first;
- (p) You become insolvent or make an assignment for the benefit of your creditors, execution is levied against your business assets, or a suit to foreclose any lien or mortgage is instituted against you and not dismissed within 30 days;

- (q) (i) You fail, refuse, or neglect to pay any monies owing to us or our affiliates or fail to make sufficient funds available to us as provided in Section 3.12 (Methods of Payment) within ten days after receiving written notice of your default or 30 days after due date of the payment, whichever is the shorter period, or (ii) you have previously been given at least two notices of nonpayment for any reason within the last 24 months and you subsequently fail to timely pay when due any monies; or (iii) you fail to do all things necessary to give us access to the information contained in your Studio Management and Technology System pursuant to Section 6.11 (Studio Management and Technology System) within 10 days after receiving notice;
- (r) You are more than 60 days past due on your obligations to suppliers and trade creditors in an amount exceeding \$2,000, unless you have given us prior notice that the failure to pay is a result of a bona fide dispute with such supplier or trade creditor that you are diligently trying to resolve in good faith;
- (s) You fail to pay when due any federal, state or local income, service, sales or other taxes due on the Studio's operation, unless you are in good faith contesting your liability for these taxes;
- (t) You underreport Gross Revenue by more than 2% two times or more in any two-year period or by 5% or more for any period of one week or greater;
- (u) You refuse to permit, or try to hinder, an examination, inspection, or audit of your books and records, the Studio, or the Site as required by this Agreement;
- (v) You fail to timely file any periodic report required in this Agreement or the Manuals three or more times in a 12-month period, whether or not you subsequently cure the default;
- (w) You default under any other franchise agreement or other agreement between you and us or our affiliates, provided that the default would permit us or our affiliate to terminate that agreement;
- (x) You breach or fail to comply with any other covenant, agreement, standard, procedure, practice, or rule prescribed by us, whether contained in this Agreement, in the Manuals, or otherwise in writing and fail to cure such breach or failure to our satisfaction within 30 days (or such longer period as Applicable Laws may require) after we provide you with written notice of the default; or
- (y) You are in default three or more times within any 18-month period, whether or not the defaults are similar and whether or not they are cured.

14.2 Our Remedies After An Event of Default.

- (a) Right to Terminate. If an Event of Default occurs, we may, at our sole election and without notice or demand of any kind, declare this Agreement and any and all other rights granted under this Agreement to be immediately terminated and, except as otherwise provided herein, of no further force or effect. Upon termination, you will not be relieved of any of your obligations, debts, or liabilities under this Agreement, including without limitation any debts, obligations, or liabilities that you accrued prior to such termination.
- (b) Other Remedies. If an Event of Default occurs, we may, at our sole election and upon delivery of written notice to you, take any or all of the following actions without terminating this Agreement:
- (i) temporarily or permanently reduce the size of the Territory, in which event the restrictions on us and our affiliates under Section 1.3 (Limited Territorial Protection) will not apply in the geographic area that was removed from the Territory;

- (ii) temporarily remove information concerning the Studio from the System Website and/or stop your or the Studio's participation in any other programs or benefits offered on or through the System Website;
- (iii) suspend your right to participate in one or more programs or benefits that the Marketing Fund provides;
- (iv) suspend any other services that we or our affiliate provides to you under this Agreement or any other agreement, including any services relating to the Studio Management and Technology System;
- (v) suspend or terminate any temporary or permanent fee reductions to which we might have agreed (whether as a policy, in an amendment to this Agreement, or otherwise);
- (vi) suspend our performance of, or compliance with, any of our obligations to you under this Agreement or other agreements;
- (vii) undertake or perform on your behalf any obligation or duty that you are required to, but fail to, perform under this Agreement. You will reimburse us upon demand for all costs and expenses that we reasonably incur in performing any such obligation or duty; and/or
- (viii) enter the Studio's premises and assume the management of the Studio ourselves or appoint a third party (who may be our affiliate) to manage the Studio. All funds from the operation of the Studio while we or our appointee assumes its management will be kept in a separate account, and all of the expenses of the Studio will be charged to that account. We or our appointee may charge you (in addition to the amounts due under this Agreement) a management fee equal to 3% of the Studio's Gross Revenue during the period of management, plus any direct out-of-pocket costs and expenses. We or our appointee has a duty to utilize only reasonable efforts and will not be liable to you for any debts, losses, or obligations the Studio incurs, or to any of your creditors for any products or services the Studio purchases, while managing it. You shall not take any action or fail to take any action that would interfere with our or our appointee's exclusive right to manage the Studio and may, in our sole discretion, be prohibited from visiting the Studio so as to not interfere with its operations. Our (or our appointee's) management of the Studio will continue for intervals lasting up to 90 days each (and, in any event, for no more than a total of one year), and we will during each interval periodically evaluate whether you are capable of resuming the Studio's operation and periodically discuss the Studio's status with you.

(c) Exercise of Other Remedies. Our exercise of our rights under Section 14.2(b) (Other Remedies) will not (i) be a defense for you to our enforcement of any other provision of this Agreement or waive or release you from any of your other obligations under this Agreement, (ii) constitute an actual or constructive termination of this Agreement, or (iii) be our sole or exclusive remedy for your default. You must continue to pay all fees and otherwise comply with all of your obligations under this Agreement (except as set forth in Section 14.2(viii) (our assumption of management)) following our exercise of any of these rights. If we exercise any of our rights under Section 14.2(b), we may thereafter terminate this Agreement without providing you any additional corrective or cure period, unless the default giving rise to our right to terminate this Agreement has been cured to our reasonable satisfaction.

14.3 Termination By You. You may terminate this Agreement only if: (i) we commit a material breach of this Agreement; (ii) you give us written notice of the breach; (iii) we fail to cure the breach, or to take reasonable steps to begin curing the breach, within 60 days after receipt of your notice; and (iv) you are in full compliance with your obligations under this Agreement. If we cannot reasonably correct the breach within this 60-day period but provide you, within this 60-day period, with reasonable evidence of our effort to correct the breach within a reasonable time period, then the cure period shall run through the end of such reasonable time period. Termination will be effective no less than ten days after you deliver to us written

notice of termination for failure to cure within the allowed period. Any attempt to terminate this Agreement without complying with this Section 14.3 (including by taking steps to de-identify the Studio or otherwise cease operations under this Agreement) will constitute an Event of Default by you.

Section 15 Your Obligations Upon Expiration or Termination.

You covenant and agree that upon expiration or termination of this Agreement for any reason, unless we direct you otherwise:

15.1 Payment of Costs and Amounts Due. You will pay upon demand all sums owing to us and our affiliates. If this Agreement is terminated due to an Event of Default, you will promptly pay all damages, costs, and expenses, including reasonable attorneys' fees, incurred by us as a result of your default. These payment obligations will give rise to and remain, until paid in full, a lien in favor of us against the Studio premises and any and all of the personal property, fixtures, equipment, and inventory that you own at the time of the occurrence of the Event of Default. We are hereby authorized at any time after the Effective Date to make any filings and to execute such documents on your behalf of to perfect the lien created hereby. You also will pay to us all damages, costs, and expenses, including reasonable attorneys' fees, that we incur after the termination or expiration of this Agreement in obtaining injunctive or other relief for the enforcement of any provision of this Section 15 (Your Obligations Upon Expiration or Termination).

15.2 Discontinue Use of the System and the Intellectual Property. You must immediately cease using, by advertising or in any other manner, (i) the Intellectual Property (including, without limitation, the Marks and the Trade Dress), (ii) the System and all other elements associated with the System, and (iii) any colorable imitation of any of the Intellectual Property or any trademark, service mark, trade dress, or commercial symbol that is confusingly similar to any of the Marks or the Trade Dress.

15.3 Return of Proprietary Information. You must immediately return to us, at your expense, all copies of the Manuals, all of your Customer Information, and all other Proprietary Information (and all copies thereof). You may not use any Proprietary Information or sell, trade or otherwise profit in any way from any Proprietary Information at any time following the expiration or termination of this Agreement.

15.4 Cease Identification with Us. You must immediately take all action required (i) to cancel all assumed name or equivalent registrations relating to your use of the Marks and (ii) to cancel or transfer to us or our designee all authorized and unauthorized domain names, social media accounts, telephone numbers, post office boxes, and classified and other directory listings relating to, or used in connection with, the Studio or the Marks (collectively, "**Identifiers**"). You acknowledge that as between you and us, we have the sole rights to and interest in all Identifiers. If you fail to comply with this Section 15.4, you hereby authorize us and irrevocably appoint us or our designee as your attorney-in-fact to direct the telephone company, postal service, registrar, Internet Service Provider and all listing agencies to transfer such Identifiers to us. The telephone company, the postal service, registrars, Internet Service Providers and each listing agency may accept such direction by us pursuant to this Agreement as conclusive evidence of our exclusive rights in such Identifiers and our authority to direct their transfer.

15.5 Our Right to Purchase Studio Assets.

(a) Exercise of Option. Upon termination of this Agreement for any reason (other than your termination in accordance with Section 14.3 (Termination By You)) or expiration of this Agreement without our and your signing a successor franchise agreement, we have the option, exercisable by giving you written notice within fifteen (15) days after the date of termination or expiration (the "**Exercise Notice**"), to purchase the inventory, supplies, Operating Assets, and other assets used in the operation of the Studio that we designate (the "**Purchased Assets**"). We have the unrestricted right to exclude any assets we specify relating to the Studio from the Purchased Assets and not acquire them. You agree to provide us the financial statements and other information we reasonably require, and to allow us to inspect the Studio and its assets, to determine whether to exercise our option under this Section 15.5. If you or one

of your affiliates owns the Site, we may elect to include a fee simple interest in the Site as part of the Purchased Assets or, at our option, lease the Site from you or that affiliate for an initial five-year term with one renewal term of five years (at our option) on commercially reasonable terms. You (and your Owners) agree to cause your affiliate to comply with these requirements. If you lease the Site from an unaffiliated lessor, you agree (at our option) to assign the Lease to us or to enter into a sublease for the remainder of the Lease term on the same terms (including renewal options) as the Lease.

(b) Operations Pending Purchase. While we are deciding whether to exercise our option under this Section 15.5 (Our Right to Purchase Studio Assets), and, if we do exercise that option, during the period beginning with our delivery of the Exercise Notice and continuing through the closing of our purchase or our decision not to complete the purchase, you must continue to operate the Studio in accordance with this Agreement. However, we may, at any time during that period, assume the management of the Studio ourselves or appoint a third party (who may be our affiliate or our Area Representative) to manage the Studio pursuant to the terms of Section 14.2(b)(viii).

(c) Purchase Price. The purchase price for the Purchased Assets will be their fair market value for use in the operation of a Competitive Business (but not a Hawaii Fluid Art Studio). However, the purchase price will not include any value for any rights granted by this Agreement, goodwill attributable to the Marks, our brand image, any Proprietary Information or our other intellectual property rights, or participation in the network of Studios. For purposes of determining the fair market value of all equipment (including the Studio Management and Technology System) used in operating the Studio, the equipment's useful life shall be determined to be no more than three years. If we and you cannot agree on fair market value for the Purchased Assets, we will select an independent appraiser after consultation with you, and his or her determination of fair market value will be the final and binding purchase price.

(d) Closing. We will pay the purchase price at the closing, which will take place within 60 days after the purchase price is determined, although we may decide after the purchase price is determined not to complete the purchase. We may set off against the purchase price, and reduce the purchase price by, any and all amounts you owe us or our affiliates. We are entitled to all customary representations, warranties and indemnities in our asset purchase, including representations and warranties as to ownership and condition of, and title to, assets, liens and encumbrances on assets, validity of contracts and agreements, and liabilities affecting the assets, contingent or otherwise, and indemnities for all actions, events and conditions that existed or occurred in connection with the Studio or your business prior to the closing of our purchase. At the closing, you agree to deliver instruments transferring to us: (a) good and merchantable title to the Purchased Assets, free and clear of all liens and encumbrances (other than liens and security interests acceptable to us), with all sales and transfer taxes paid by you; and (b) all of the Studio's licenses and permits which may be assigned or transferred. If you cannot deliver clear title to all of the Purchased Assets, or if there are other unresolved issues, the sale will be closed through an escrow. You and your Owners further agree to sign general releases, in a form satisfactory to us, of any and all claims against us, our Area Representatives, and our affiliates and our and their respective owners, officers, directors, employees, agents, representatives, successors and assigns.

(e) Assignment. We may assign our rights under this Section 15.5 (Our Right to Purchase Studio Assets) to any Entity (who may be our affiliate), and that Entity will have all of the rights and obligations under this Section 15.5.

15.6 De-identification of the Site. If we do not exercise our option to acquire the Site Lease or the Site, you will make such modifications or alterations to the Site immediately upon termination or expiration of this Agreement that we deem necessary to distinguish the appearance of the Site from a Hawaii Fluid Art® Studio, including, but not limited to, removing the signs, the Marks, and any Trade Dress so as to indicate to the public that you are no longer associated with us. If you do not comply with the requirements of this Section 15.6, we may enter the Studio without being guilty of trespass or any other tort, for the purpose of

making or causing to be made any required changes. You agree to reimburse us on demand for our expenses in making such changes.

15.7 Reimbursement of Unused Classes. In addition to any procedures that Applicable Laws require, we may require you to notify all of the Studio's customers of the termination or expiration of this Agreement and offer each of them the option to receive a refund of all unused prepaid class credits, which you are solely responsible for refunding to them in a manner that we may specify. We must approve in writing the content of any such notice, prior to you contacting any of the Studio's customers, or may elect to send the notice on your behalf.

15.8 Promote Separate Identity. You will not, directly or indirectly, in any manner, identify yourself, or any individual connected with you, as a former Hawaii Fluid Art® franchisee or as otherwise having been associated with us, or use in any manner or for any purpose any of the Marks.

15.9 Comply with Noncompete. You and your Owners must comply with the covenant not to compete in Section 12 (Your Covenant Not to Compete).

15.10 Injunctive and Other Relief. You acknowledge that your failure to abide by the provisions of this Section 15 (Your Obligations Upon Expiration or Termination) will result in irreparable harm to us, and that our remedy at law for damages will be inadequate. Accordingly, you agree that if you breach any provisions of this Section 15, we are entitled to injunctive relief (including the remedy of specific performance) in addition to any other remedies available at law or in equity.

Section 16 Dispute Resolution and Governing Law.

16.1 Mandatory Pre-Litigation Mediation. Except as otherwise provided in this Section, prior to filing any proceeding to resolve any dispute based upon, arising out of, or in any way connected with this Agreement, a party must submit the dispute for mediation. The mediation will be held before one mediator selected by the parties, and if the parties cannot agree upon the mediator, then a mediator selected by the American Arbitration Association ("AAA"). All parties must attend and participate in the mediation. The mediation shall not last more than one day and shall be held in Ovilla, Texas, unless we no longer have an office there, in which case it will be held in the area of our then-current principal place of business. If we and you do not resolve our dispute, then thereafter any party may file for litigation, as applicable in accordance with the terms of this Agreement. The mediation shall be governed by the rules of the AAA. It is the intent of the parties that mediation shall be held not later than 14 days after a written request for mediation shall have been served on the other parties. The obligation to mediate shall not be binding upon either party with respect to claims relating to the Marks, the non-payment or underpayment of any monies due under this Agreement, the noncompetition covenants, or requests by either party for temporary restraining orders, preliminary injunctions or other procedures in a court of competent jurisdiction to obtain interim relief when deemed necessary by such court to preserve the status quo or prevent irreparable injury pending resolution of the actual dispute.

16.2 Forum for Litigation. You and the Owners must file any suit against us, and we may file any suit against you, in federal or state courts located in Ovilla, Texas, unless we no longer have an office there, in which case, you must file any suit against us, and we may file against you, in federal or state courts located in the area of our then-current principal place of business. The parties waive all questions of personal jurisdiction and venue for the purpose of carrying out this provision.

16.3 Governing Law. This Agreement will be governed by, construed, and enforced in accordance with the laws of the State of Texas.

16.4 Mutual Waiver of Jury Trial. You and we each irrevocably waive trial by jury in any litigation.

16.5 Mutual Waiver of Punitive Damages. Each of us waives any right to or claim of punitive, exemplary, multiple, or consequential damages against the other in litigation and agrees to be limited to the recovery of actual damages sustained.

16.6 Remedies Not Exclusive. Except as provided in Section 16.5 (Mutual Waiver of Punitive Damages), no right or remedy that the parties have under this Agreement is exclusive of any other right or remedy under this Agreement or under Applicable Laws. Each and every such remedy will be in addition to, and not in limitation of or substitution for, every other remedy available at law or in equity or by statute or otherwise.

16.7 Limitations of Claims. Except for:

- (a) claims against you by us concerning the underreporting of Gross Revenue and corresponding underpayment of any fees specified in Section 3 (Fees);
- (b) claims against you by us relating to third-party claims or suits brought against us as a result of your operation of the Studio;
- (c) claims against you by us for injunctive relief to enforce the provisions of this Agreement relating to your use of the Marks;
- (d) claims against you by us relating to your financial obligations upon the termination or expiration of the Agreement;
- (e) claims against you by us or concerning your obligations under Section 10 (Proprietary Information) or Section 12 (Your Covenant Not to Compete) of this Agreement; and
- (f) claims against you by us regarding an assignment of this Agreement or any ownership interest therein,

any and all claims arising out of or relating to this agreement or our relationship with you will be barred unless a judicial proceeding is commenced in the proper forum within one year from the date on which the party asserting the claim knew or should have known of the facts giving rise to the claim.

16.8 Our Right to Injunctive Relief. Nothing in this Agreement bars our right to obtain injunctive or declaratory relief against a breach or threatened breach of this Agreement that will cause us loss or damage. You agree that we will not be required to prove actual damages or post a bond in excess of \$1,000 or other security in seeking or obtaining injunctive relief (both preliminary and permanent) and/or specific performance with respect to this Agreement.

16.9 Attorneys' Fees and Costs. You agree to reimburse us for all expenses we reasonably incur (including attorneys' fees): (i) to enforce the terms of this Agreement or any obligation owed to us by you and/or the Owners (whether or not we initiate a legal proceeding, unless we initiate and fail to substantially prevail in such court or formal legal proceeding); and (ii) in the defense of any claim you and/or the Owners assert against us on which we substantially prevail in court or other formal legal proceedings. We agree to reimburse you for all expenses you reasonably incur (including attorneys' fees): (i) to enforce the terms of this Agreement or any obligation owed to you by us (whether or not you initiate a legal proceeding, unless you initiate and fail to substantially prevail in such court or formal legal proceeding); and (ii) in the defense of any claim we assert against you on which you substantially prevail in court or other formal legal proceedings.

Section 17 Miscellaneous.

17.1 Entire Agreement. This Agreement and the documents referred to herein constitute the entire agreement between you and us with respect to the Studio and supersede all prior discussions, understandings, representations, and agreements concerning the same subject matter. Notwithstanding the foregoing, nothing in this Agreement shall disclaim or require you to waive reliance on any representations that we made in the most recent Franchise Disclosure Document (the “**FDD**”) that we delivered to you or your representatives. This Agreement includes the terms and conditions on Appendix A, which are incorporated into this Agreement by this reference.

17.2 Amendments and Modifications. This Agreement may be amended or modified only by a written document signed by each party to this Agreement. The Manuals and any policies that we adopt and implement may be changed by us from time to time.

17.3 Waiver. Any term or condition of this Agreement may be waived at any time by the party which is entitled to the benefit of the term or condition, but such waiver must be in writing. No course of dealing or performance by any party, and no failure, omission, delay, or forbearance by any party, in whole or in part, in exercising any right, power, benefit, or remedy, will constitute a waiver of such right, power, benefit, or remedy. Our waiver of any particular default does not affect or impair our rights with respect to any subsequent default you may commit. Our waiver of a default by another franchisee does not affect or impair our right to demand your strict compliance with the terms of this Agreement. We have no obligation to deal with similarly situated franchisees in the same manner. Our acceptance of any payments due from you does not waive any prior defaults.

17.4 Importance of Timely Performance. Time is of the essence in this Agreement.

17.5 Construction. The headings in this Agreement are for convenience of reference and are not a part of this Agreement and will not affect the meaning or construction of any of its provisions. Unless otherwise specified, all references to a number of days shall mean calendar days and not business days. The words “**include**,” “**including**,” and words of similar import shall be interpreted to mean “including, but not limited to” and the terms following such words shall be interpreted as examples of, and not an exhaustive list of, the appropriate subject matter.

17.6 Severability. Each provision of this Agreement is severable from the others. If any provision of this Agreement or any of the documents executed in conjunction with this Agreement is for any reason determined by a court to be invalid, illegal, or unenforceable, the invalidity, illegality, or unenforceability will not affect any other remaining provisions of this Agreement or any other document. The remaining provisions will continue to be given full force and effect and bind us and you.

17.7 Applicable State Law Controlling. If the termination, renewal, or other provisions set forth in this Agreement are inconsistent with any applicable state statute, in effect as of the Effective Date, governing the relationship of us and franchisees, the provisions of such statute will apply to this Agreement, but only to the extent of such inconsistency.

17.8 Survival. Each provision of this Agreement that expressly or by reasonable implication is to be performed, in whole or in part, after the expiration, termination, or Transfer of this Agreement will survive such expiration, termination, or Transfer, including, but not limited to, Sections 9 (Intellectual Property), 10 (Proprietary Information), 11 (Indemnification), 12 (Your Covenant Not to Compete), and 15 (Your Obligations Upon Expiration or Termination).

17.9 Consent. Whenever our prior written approval or consent is required under this Agreement, you agree to make a timely written request to us for such consent. Our approval or consent must be in writing and signed by an authorized officer to be effective.

17.10 Independent Contractor Relationship. This Agreement does not create, nor does any conduct by us create, a fiduciary or other special relationship or make you or us an agent, legal representative, joint venturer, partner, employee or servant of each other for any purpose. You are not authorized to make any contract, agreement, warranty, or representation on our behalf, or to create any obligation, express or implied, on our behalf. You are, and shall remain, an independent contractor responsible for all obligations and liabilities of, and for all loss or damage to, the Studio and its business, including any personal property, Operating Assets, or real property and for all claims or demands based on damage or destruction of property or based on injury, illness or death of any person or persons, directly or indirectly, resulting from the operation of the Studio. Further, we and you are not and do not intend to be partners, associates, or joint employers in any way, and we shall not be construed to be jointly liable for any of your acts or omissions under any circumstances. We have no relationship with your employees and you have no relationship with our employees.

17.11 Notices. All notices and other communications required or permitted under this Agreement will be in writing and will be given by one of the following methods of delivery: (i) personally; (ii) by certified or registered mail, postage prepaid; or (iii) by overnight delivery service. Notices to you will be sent to the address set forth on Appendix A. Notices to us must be sent to:

Hawaii Fluid Art Franchising, LLC
438 Johnson Lane
Ovilla TX 75154
Attn: Corporate Counsel

Either party may change its mailing address by giving notice to the other party. Notices will be deemed received the same day when delivered personally, upon attempted delivery when sent by registered or certified mail or overnight delivery service, or the next business day when sent by facsimile.

17.12 Execution. This Agreement shall not be binding on either party until it is executed by both parties. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, and all of which will constitute one and the same instrument.

17.13 Successors and Assigns. Except as expressly otherwise provided herein, this Agreement is binding upon and will inure to the benefit of the parties and their respective heirs, executors, legal representatives, successors, and permitted assigns.

17.14 No Third-Party Beneficiaries. Except as expressly otherwise provided herein, no third party shall have the right to claim any of the benefits conferred under this Agreement.

17.15 Additional Terms; Inconsistent Terms. The parties may provide additional terms by including the terms on Appendix A. To the extent that any provisions of Appendix A are in direct conflict with the provisions of this Agreement, the provisions of Appendix A shall control.

17.16 Area Representative and Delegation. We may delegate the performance of any or all of our obligations under this Agreement to an “**Area Representative**”, affiliate, agent, independent contractor, or other third party. You acknowledge that if we appoint an Area Representative in the area that includes your Territory, the Area Representative will provide training, support, marketing, and other services to you on our behalf and will have the authority to exercise many of our rights and perform many of our obligations under this Agreement. We may, without your consent, appoint an Area Representative or a substitute for the Area Representative at any time.

Section 18 Your Representations and Acknowledgments.

You (on behalf of yourself and your Owners) represent, warrant, and acknowledge as follows:

18.1 Truth of Information. The information (including without limitation all personal and financial information) that you and your Owners have furnished or will furnish to us relating to the subject of this Agreement is true and correct in all material respects and includes all material facts necessary to make such information not misleading in light of the circumstances when made.

18.2 Due Authority. This Agreement has been duly authorized and executed by you or on your behalf and constitutes your valid and binding obligation, enforceable in accordance with its terms, subject to applicable bankruptcy, moratorium, insolvency, receivership, and other similar laws affecting the rights of creditors generally.

18.3 Terrorist Acts. You acknowledge that under applicable U.S. law, including, without limitation, Executive Order 13224, signed on September 23, 2001 (the “**Order**”), we are prohibited from engaging in any transaction with any person engaged in, or with a person aiding any person engaged in, acts of terrorism, as defined in the Order. Accordingly, you represent and warrant to us that, as of the date of this Agreement, neither you nor any person holding any ownership interest in you, controlled by you, or under common control with you is designated under the Order as a person with whom business may not be transacted by us, and that you: (i) do not, and hereafter will not, engage in any terrorist activity; (ii) are not affiliated with and do not support any individual or Entity engaged in, contemplating, or supporting terrorist activity; and (iii) are not acquiring the rights granted under this Agreement with the intent to generate funds to channel to any individual or Entity engaged in, contemplating, or supporting terrorist activity, or to otherwise support or further any terrorist activity.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, upon signing below, each of the undersigned has executed this Agreement under seal as of the Effective Date.

FRANCHISOR:

HAWAII FLUID ART FRANCHISING, LLC

By:

Name:

Title:

Date:

FRANCHISEE:

[FRANCHISEE ENTITY]

By:

Name:

Title:

Date:

ATTACHMENT A

FRANCHISEE-SPECIFIC TERMS

1. Effective Date:

2. Franchisee’s Name:

3. Franchisee’s State of Organization *(if applicable)*:

4. Ownership of Franchisee (Recital C):

If the franchisee is an Entity (as defined in the Agreement), the following persons constitute all of the owners of a legal and/or beneficial interest in the franchisee:

| <u>Name</u> | <u>Percentage Ownership</u> |
|-------------|-----------------------------|
| _____ | _____ % |
| _____ | _____ % |
| _____ | _____ % |

5. Site Selection Area (Section 1.1):

6. Operating Principal (Section 1.4):

7. Key Manager (Section 1.4):

8. Franchise Fee (Section 3.1): \$

9. Franchisee’s Address for Notices (Section 17.11):

10. Additional Terms; Inconsistent Terms *(if any)* (Section 17.15):

Signature Page for Attachment A (Franchisee-Specific Terms)

FRANCHISOR:

HAWAII FLUID ART FRANCHISING, LLC

By:

Name:

Title:

Date:

FRANCHISEE:

[FRANCHISEE ENTITY]

By:

Name:

Title:

Date:

SCHEDULE 1 TO APPENDIX A OF THE FRANCHISE AGREEMENT

FRANCHISEE-SPECIFIC TERMS

(to be completed after site selection and acceptance)

1. Site (Section 4.2):

2. Territory (Section 4.3):

Hawaii Fluid Art Franchising, LLC agrees that, effective on the date specified below, **(i)** the address listed above is hereby accepted by us as the Site pursuant to Section 4.2 (Site Selection) of this Agreement; and **(ii)** the area listed above shall be the Territory of this Agreement pursuant to Section 4.3 (Definition of the Territory) of this Agreement.

HAWAII FLUID ART FRANCHISING, LLC:

By: _____

Name: _____

Title: _____

Date: _____

Acknowledged and Agreed:

[Franchisee]

By: _____

Name: _____

Title: _____

Date: _____


APPENDIX B

MARKS

The following is a description of trademarks that we license to Studios, and for which we have a registration on the Supplemental Register of the United States Patent and Trademark Office (“USPTO”) and we have filed all required affidavits with respect to each of these trademarks:

| Mark | Registration No. | Filing Date |
|-------------------------|-------------------------|--------------------|
| HAWAII FLUID ART | 6648685 | February 15, 2022 |

The following is a description of the principal trademarks and service marks for which we have applied in the United States:

| Mark | Application No. | Filing Date |
|---|------------------------|--------------------|
|  | 97386914 | April 28, 2022 |

The following trademarks that we license to you for which we have common rights, but have not yet applied for registration with the USPTO or any state agencies:

| Mark |
|---|
|  |

APPENDIX C

PAYMENT AND PERFORMANCE GUARANTY

In order to induce Hawaii Fluid Art Franchising, LLC (“**Franchisor**”) to enter into a Hawaii Fluid Art Franchise Agreement (the “**Franchise Agreement**”) by and between Franchisor and the Franchisee named in the Franchise Agreement dated _____ to which this Payment and Performance Guaranty (the “**Guarantee**”) is attached (“**Franchisee**”), the undersigned (collectively referred to as the “**Guarantors**” and individually referred to as a “**Guarantor**”) hereby covenant and agree as follows:

- 1. Guarantee of Payment and Performance.** The Guarantors jointly and severally unconditionally guarantee to Franchisor and its affiliates the payment and performance when due, whether by acceleration or otherwise, of all obligations, indebtedness, and liabilities of Franchisee to Franchisor, direct or indirect, absolute or contingent, of every kind and nature, whether now existing or incurred from time to time hereafter, whether incurred pursuant to the Franchise Agreement or otherwise, together with any extension, renewal, or modification thereof in whole or in part (the “**Guaranteed Liabilities**”). The Guarantors agree that if any of the Guaranteed Liabilities are not so paid or performed by Franchisee when due, the Guarantors will immediately do so. The Guarantors further agree to pay all expenses (including reasonable attorneys’ fees) paid or incurred in endeavoring to enforce this Guarantee or the payment of any Guaranteed Liabilities. The Guarantors represent and agree that they have each reviewed a copy of the Franchise Agreement and have had the opportunity to consult with counsel to understand the meaning and import of the Franchise Agreement and this Guarantee.
- 2. Waivers by Guarantors.** The Guarantors waive presentment, demand, notice of dishonor, protest, and all other notices whatsoever, including without limitation notices of acceptance hereof, of the existence or creation of any Guaranteed Liabilities, of the amounts and terms thereof, of all defaults, disputes, or controversies between Franchisor and Franchisee and of the settlement, compromise, or adjustment thereof. This Guarantee is primary and not secondary and will be enforceable without Franchisor having to proceed first against Franchisee or against any or all of the Guarantors or against any other security for the Guaranteed Liabilities. This Guarantee will be effective regardless of the insolvency of Franchisee by operation of law, any reorganization, merger, or consolidation of Franchisee, or any change in the ownership of Franchisee.
- 3. Term: No Waiver.** This Guarantee will be irrevocable, absolute, and unconditional and will remain in full force and effect as to each of the Guarantors until the later of (i) such time as all Guaranteed Liabilities of Franchisee to Franchisor and its affiliates have been paid and satisfied in full, or (ii) the Franchise Agreement and all obligations of Franchisee thereunder expire. No delay or failure on the part of Franchisor in the exercise of any right or remedy will operate as a waiver thereof, and no single or partial exercise by Franchisor of any right or remedy will preclude other further exercise of such right or any other right or remedy.
- 4. Other Covenants.** Each of the Guarantors agrees to comply with the provisions of Sections 8 (Records, Reports, Audits, and Inspections), 9 (Intellectual Property), 10 (Proprietary Information), 11 (Indemnification), and 12 (Your Covenant Not to Compete) of the Franchise Agreement as though each such Guarantor were the “Franchisee” named in the Franchise Agreement and agrees that the undersigned will take any and all actions as may be necessary or appropriate to cause Franchisee to comply with the Franchise Agreement and will not take any action that would cause Franchisee to be in breach of the Franchise Agreement.
- 5. Dispute Resolution.** Section 16 (Dispute Resolution and Governing Law) of the Franchise Agreement is hereby incorporated herein by reference and will be applicable to any all disputes between Franchisor and any of the Guarantors, as though Guarantor were the “Franchisee” referred to in the Franchise Agreement.

6. Miscellaneous. This Agreement will be binding upon the Guarantors and their respective heirs, executors, successors, and assigns, and will inure to the benefit of Franchisor and its successors and assigns.

IN WITNESS WHEREOF, the undersigned Guarantors have caused this Guarantee to be duly executed as of the day and year first above written.

GUARANTOR(S):

(add more lines as necessary)

By:

Name:

Date:

APPENDIX D

LEASE RIDER

THIS LEASE RIDER is entered into this ____ day of _____, 20____ by and between Hawaii Fluid Art Franchising, LLC ("**Company**"), _____ ("**Franchisee**"), and _____ ("**Landlord**").

WHEREAS, Company and Franchisee are parties to a Franchise Agreement dated _____, 20____ (the "**Franchise Agreement**"); and

WHEREAS, the Franchise Agreement provides that Franchisee will operate a Hawaii Fluid Art Studio ("**Studio**") at a location that Franchisee selects and Company accepts; and

WHEREAS, Franchisee and Landlord propose to enter into the lease to which this Rider is attached (the "**Lease**"), pursuant to which Franchisee will occupy premises located at _____ (the "**Premises**") for the purpose of constructing and operating the Studio in accordance with the Franchise Agreement; and

WHEREAS, the Franchise Agreement provides that, as a condition to Company's authorizing Franchisee to enter into the Lease, the parties must execute this Lease Rider;

NOW, THEREFORE, in consideration of the mutual undertakings and commitments set forth in this Rider and in the Franchise Agreement, the receipt and sufficiency of which the parties acknowledge, the parties agree as follows:

1. During the term of the Franchise Agreement, Franchisee will be permitted to use the Premises for the operation of the Studio and for no other purpose.
2. Subject to applicable zoning laws and deed restrictions and to prevailing community standards of decency, Landlord consents to Franchisee's installation and use of such trademarks, service marks, signs, decor items, color schemes, and related components of the Hawaii Fluid Art system as Company may from time to time prescribe for the Studio.
3. Landlord agrees to furnish Company with copies of all letters and notices it sends to Franchisee pertaining to the Lease and the Premises, at the same time it sends such letters and notices to Franchisee. Notice shall be sent to Company by the method(s) as stated in the lease to:

Hawaii Fluid Art Franchising, LLC
ATTN: Corporate Counsel
438 Johnson Lane
Ovilla TX 75154

4. Company will have the right, without being guilty of trespass or any other crime or tort, to enter the Premises at any time or from time to time (i) to make any modification or alteration it considers necessary to protect the Hawaii Fluid Art system and marks, (ii) to cure any default under the Franchise Agreement or under the Lease, or (iii) to remove the distinctive elements of the Hawaii Fluid Art trade dress upon the Franchise Agreement's expiration or termination. Neither Company nor Landlord will be responsible to Franchisee for any damages Franchisee might sustain as a result of action Company takes in accordance with this provision. Company will repair or reimburse Landlord for the cost of any damage to the Premises' walls, floor or ceiling that result from Company's removal of trade dress items and other property from the Premises.

5. Franchisee will be permitted to assign the Lease to Company or its designee upon the expiration or termination of the Franchise Agreement. Landlord consents to such an assignment and agrees not to impose any assignment fee or similar charge, or to increase or accelerate rent under the Lease, in connection with such an assignment.
6. If Franchisee assigns the Lease to Company or its designee in accordance with the preceding paragraph, the assignee must assume all obligations of Franchisee under the Lease from and after the date of assignment, but will have no obligation to pay any delinquent rent or to cure any other default under the Lease that occurred or existed prior to the date of the assignment.
7. Franchisee may not assign the Lease or sublet the Premises without Company's prior written consent, and Landlord will not consent to an assignment or subletting by Franchisee without first verifying that Company has given its written consent to Franchisee's proposed assignment or subletting.
8. Landlord and Franchisee will not amend or modify the Lease in any manner that could materially affect any of the provisions or requirements of this Lease Rider without Company's prior written consent.
9. The provisions of this Lease Rider will supersede and control any conflicting provisions of the Lease.
10. Landlord acknowledges that Company is not a party to the Lease and will have no liability or responsibility under the Lease unless and until the Lease is assigned to, and assumed by, Company.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Lease Rider of the date first above written:

COMPANY:

HAWAII FLUID ART FRANCHISING, LLC

By:

Name:

Title:

Date:

FRANCHISEE:

[FRANCHISEE ENTITY]

By:

Name:

Title:

Date:

LANDLORD:

[LANDLORD ENTITY]

By:

Name:

Title:

Date:

APPENDIX E

FRANCHISEE QUESTIONNAIRE/COMPLIANCE CERTIFICATION

DO NOT SIGN THIS STATEMENT IF YOU ARE A RESIDENT OF, OR INTEND TO OPERATE THE FRANCHISED BUSINESS IN, ANY OF THE FOLLOWING STATES: CA, HI, IL, IN, MD, MI, MN, NY, ND, RI, SD, VA, WA, WI (EACH A REGULATED STATE).

FOR PROSPECTIVE FRANCHISEES THAT RESIDE IN OR ARE SEEKING TO OPERATE THE FRANCHISED BUSINESS IN ANY REGULATED STATE, SUCH PROSPECTIVE FRANCHISEE IS NOT REQUIRED TO COMPLETE THIS QUESTIONNAIRE OR TO RESPOND TO ANY OF THE QUESTIONS CONTAINED IN THIS QUESTIONNAIRE.

As you know, Hawaii Fluid Art Franchising, LLC (“we”, “us”), and you are preparing to enter into a franchise agreement for the right to operate a Hawaii Fluid Art franchise (a “**Business**”). The purpose of this Questionnaire is to: (i) determine whether any statements or promises were made to you that we have not authorized or that may be untrue, inaccurate, or misleading; (ii) be certain that you have been properly represented in this transaction; and (iii) be certain that you understand the limitations on claims you may make by reason of the purchase and operation of your franchise. **You cannot sign or date this Questionnaire the same day as the Receipt for the Franchise Disclosure Document, but you must sign and date it the same day you sign the Franchise Agreement and pay us the appropriate Franchisee Fee.** Please review each of the following questions carefully and provide honest responses to each question. If you answer “No” to any of the questions below, please explain your answer on the back of this sheet.

1. Have you received and personally reviewed the Franchise Agreement, as well as each exhibit or schedule attached to these agreements that you intend to enter into with us?
Yes ___ No ___
2. Have you received and personally reviewed the Franchise Disclosure Document we provided?
Yes ___ No ___
3. Did you sign a receipt for the Disclosure Document indicating the date you received it?
Yes ___ No ___
4. Do you understand all the information contained in the Disclosure Document and the Franchise Agreement you intend to enter into with us?
Yes ___ No ___
5. Have you reviewed the Disclosure Document and Franchise Agreement with a lawyer, accountant or other professional advisor and discussed the benefits and risks of operating the Business(es) with these professional advisor(s)?
Yes ___ No ___

6. Do you understand the success or failure of your Business(es) will depend in large part upon your skills, abilities, and efforts and those of the persons you employ, as well as many factors beyond your control such as demographics of your Territory, competition, interest rates, the economy, inflation, labor and supply costs, lease terms, and the marketplace?

Yes ___ No ___

7. Do you understand we have only granted you certain, limited territorial rights under the Franchise Agreement, and that we have reserved certain rights under the Franchise Agreement?

Yes ___ No ___

8. Do you understand we and our affiliates retain the exclusive unrestricted right to engage, directly or through others, in the providing of services under the System mark or any other mark at any location outside your Territory under the Franchise Agreement, without regard to the proximity of these activities to the premises of your Business(es)?

Yes ___ No ___

9. Do you understand all disputes or claims you may have arising out of or relating to the Franchise Agreement must be mediated and/or arbitrated, at our option, at our then current headquarters?

Yes ___ No ___

10. Do you understand the Franchise Agreement provides that you can only collect compensatory damages on any claim under or relating to the Franchise Agreement and are not entitled to any punitive, consequential, or other special damages?

Yes ___ No ___

11. Do you understand the sole entity or person against whom you may bring a claim under the Franchise Agreement is us?

Yes ___ No ___

12. Do you understand that the Franchisee (or one of its principals if Franchisee is an organization), as well as any Principal Executive(s) (as defined in the Franchise Agreement), must successfully complete the appropriate initial training program(s) before we will allow the Business to open or consent to a transfer of that Business?

Yes ___ No ___

13. Do you understand that we require you to successfully complete certain initial training program(s) and if you do not successfully complete the applicable training program(s) to our satisfaction, we may terminate your Franchise Agreement?

Yes ___ No ___

14. Do you understand that we do not have to sell you a franchise or additional franchises or consent to your purchase of existing franchises (other than those that you timely fulfill your development obligations and have contracted to open under the Development Agreement, provided you have not materially breached that agreement and failed to timely cure that breach)?

Yes ___ No ___

15. Do you understand that we will send written notices, as required by your Franchise Agreement, to either your Business or home address until you designate a different address by sending written notice to us?

Yes ___ No ___

16. Do you understand that we will not approve your purchase of a franchise, or we may immediately terminate your Franchise Agreement, if we are prohibited from doing business with you under any anti-terrorism law enacted by the United States Government?

Yes ___ No ___

17. Is it true that no broker, employee, or other person speaking on our behalf made any statement or promise regarding the costs involved in operating a Business that is not contained in the Disclosure Document or that is contrary to, or different from, the information contained in the Disclosure Document?

Yes ___ No ___

18. Is it true that no broker, employee, or other person speaking on our behalf made any statement or promise regarding the actual, average, or projected profits or earnings, the likelihood of success, the amount of money you may earn, or the total amount of revenue a Business will generate, that is not contained in the Disclosure Document or that is contrary to, or different from, the information contained in the Disclosure Document?

Yes ___ No ___

19. Is it true that no broker, employee, or other person speaking on our behalf made any statement or promise or agreement, other than those matters addressed in your Franchise Agreement and/or Development Agreement concerning advertising, marketing, media support, marketing penetration, training, support service or assistance that is contrary to, or different from, the information contained in the Disclosure Document?

Yes ___ No ___

20. Is it true that no broker, employee, or other person providing services to you on our behalf has solicited or accepted any loan, gratuity, bribe, gift or any other payment in money, property, or services from you in connection with a Business purchase with exception of those payments or loans provided in the Disclosure Document?

Yes ___ No ___

[SIGNATURE PAGE FOLLOWS]

YOU UNDERSTAND THAT YOUR ANSWERS ARE IMPORTANT TO US AND THAT WE WILL RELY ON THEM. BY SIGNING THIS QUESTIONNAIRE, YOU ARE REPRESENTING THAT YOU HAVE CONSIDERED EACH QUESTION CAREFULLY AND RESPONDED TRUTHFULLY TO THE ABOVE QUESTIONS.

FRANCHISEE APPLICANT(S):

(add more lines as necessary)

Signature:

Name:

Date:

**EXHIBIT C
TO THE
FRANCHISE DISCLOSURE DOCUMENT**

Area Development Agreement & Exhibits



A Place to Create!

DEVELOPMENT AGREEMENT

between

HAWAII FLUID ART FRANCHISING, LLC

and

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HAWAII FLUID ART

DEVELOPMENT AGREEMENT

THIS AGREEMENT (this “**Agreement**”) is made and entered into as of the date set forth on Appendix A of this Agreement (the “**Effective Date**”) (Appendix A and all appendices and schedules attached to this Agreement are hereby incorporated by this reference) between Hawaii Fluid Art Franchising, LLC, a Texas limited liability company with its principal place of business at 438 Johnson Lane., Ovilla, TX 75154 (“**Hawaii Fluid Art**”), and the person or entity identified on Appendix A as the franchisee (“**Franchisee**”, “**Area Developer**”) with its principal place of business as set forth on Appendix A. In this Agreement, “**we,**” “**us,**” and “**our**” refers to HFA. “**You**” and “**your**” refers to Franchisee.

RECITALS

A. We and you have entered into a certain Franchise Agreement dated the same date as this Agreement (the “**Initial Franchise Agreement**”), in which we have granted you the right to establish and operate one Hawaii Fluid Art studio (a “**Studio**”).

B. We desire to grant to you the exclusive right to establish and operate a specified number of Studios within a specified geographical area in accordance with a development schedule.

C. If you are a corporation, limited liability company, partnership, or other entity (collectively, an “**Entity**”), all of your owners of a legal and/or beneficial interest in the Entity (the “**Owners**”) are listed on Appendix A of this Agreement (Appendix A and all other appendices hereto being hereby incorporated herein by reference).

D. You desire to establish and operate additional Studios upon the terms and conditions contained in our then-current standard franchise agreements (a “**Franchise Agreement,**” the current form of which is attached hereto as Appendix B).

NOW, THEREFORE, for and in consideration of the foregoing premises and the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Grant of Development Rights and Development Area.

Subject to the terms and conditions of this Agreement, we grant to you the right, and you undertake the obligation, to establish and operate in the area designated on Appendix A to this Agreement (the “**Development Area**”) the number of Studios specified in the development schedule in Appendix A (the “**Schedule**”). This Agreement does not grant you any right to use the Marks (as defined in your Initial Franchise Agreement) or the System (as defined in your Initial Franchise Agreement). Rights to use the Marks and the System are granted only by the Franchise Agreements.

A. “**Expiration Date**” of this AD Agreement is set forth in Exhibit A.

2. Fees. Upon execution of this Agreement, you must pay us a development fee in the amount specified on Appendix A (the “**Development Fee**”), which is based on the initial franchise fee you must pay for each Studio that you develop (the “**Franchise Fee,**” which is also specified on Appendix A). The Development Fee will be credited towards 100% of the Franchise Fee due under the Franchise Agreement for each Studio that you develop pursuant to this Agreement. The Development Fee is fully earned by us when we and you sign this Agreement and is non-refundable, even if you do not comply with the Schedule.

3. Development Schedule.

3.1 Deadlines. You must enter into Franchise Agreements and open and operate Studios in accordance with the deadlines set forth in the Schedule. By each “**Opening Deadline**” specified in the Schedule, you must have the specified number of Studios open and operating. You must locate the Studios only at sites that we have accepted in accordance with the terms of the applicable Franchise Agreement.

3.2 Damaged Studios. If a Studio is destroyed or damaged by any cause beyond your control such that it may no longer continue to be open for the operation of business, you must immediately give us notice of such destruction or damage (“**Destruction Event**”). You must diligently work to repair and restore the Studio to our approved plans and specifications as soon as possible at the same location or at a substitute site accepted by us within the Development Area. If a Studio is closed due to a Destruction Event, the Studio will continue to be deemed a “Studio in operation” for the purpose of this Agreement for up to 180 days after the Destruction Event occurs. If a Studio (i) is closed in a manner other than those described in this Section 3.2 or as otherwise agreed by us in writing or (ii) fails to reopen within 180 days after a Destruction Event, then we may exercise our rights under Section 6.2 (Our Remedies).

4. Development Area.

4.1 Development Area. Except as provided in this Section 4.1, while this Agreement is in effect, provided that you open and operate the Studios in accordance with the Schedule and the minimum number of Studios that you have open and operating in the Development Area at any given time is not less than the minimum required pursuant to the Schedule, we will not operate, or license any person other than you to operate, a Studio under the Marks (as defined in your Initial Franchise Agreement) and the System (as defined in your Initial Franchise Agreement) within the Development Area.

4.2 No Other Restriction On Us. Except as expressly provided in Section 4.1 or any other agreement between the parties, we and our affiliates retain the right, in our sole discretion, to conduct any business activities, under any name, in any geographic area, and at any location, regardless of the proximity to or effect on your Studios. For example, we and our affiliates have the right to:

(a) Establish or license franchises and/or company-owned art studios or other facilities or businesses offering similar or identical products, services, and classes and using the System or elements of the System (i) under the Marks anywhere outside of the Development Area or (ii) under names, symbols, or marks other than the Marks anywhere, including inside and outside of the Development Area;

(b) Sell or offer, or license others to sell or offer, any products, services, or classes using the Marks or other marks through any alternative distribution channels, including, without limitation, through e-commerce, in retail stores, via recorded media, via online videos, or via broadcast media, anywhere, including inside and outside of the Development Area;

(c) Advertise, or authorize others to advertise anywhere, using the Marks;

(d) Acquire, be acquired by, or merge with other companies with existing art facilities, art businesses, and/or studios anywhere (including inside or outside of the Development Area) and, even if such businesses are located in the Development Area, (i) convert the other businesses to the Hawaii Fluid Art name, (ii) permit the other businesses to continue to operate under another name, and/or (iii) permit the businesses to operate under another name and convert existing Studios to such other name; and

(e) Engage in any other activity, action or undertaking that we are not expressly prohibited from taking under this Agreement.

5. Term. This Agreement expires at midnight on the last Opening Deadline date listed on the Schedule, unless this Agreement is terminated sooner as provided in other sections of this Agreement.

6. Termination.

6.1 Events of Default. Any one or more of the following constitutes an “Event of Default” under this Agreement:

- (a) You fail to pay any Franchise Fee or execute any Franchise Agreement by any Fee Deadline specified in the Schedule;
- (b) You fail to have open and operating the minimum number of Studios specified in the Schedule by any Opening Deadline specified in the Schedule;
- (c) An Event of Default occurs under any Franchise Agreement, resulting in the termination of such Franchise Agreement; or
- (d) You breach or otherwise fail to comply fully with any other provision contained in this Agreement, including Section 8 (Franchisee’s Covenant Not to Compete).

6.2 Our Remedies. If any Event of Default occurs under Section 6.1, we may, at our sole election, declare this Agreement and any and all other rights granted to you under this Agreement to be immediately terminated and of no further force or effect. Upon termination of this Agreement for any other reason whatsoever, we will retain the Development Fee and you will not be relieved of any of your obligations, debts, or liabilities hereunder, including without limitation any debts, obligations, or liabilities which have accrued prior to such termination. Your failure to open and thereafter operate Studios in accordance with the Schedule will not, in itself, constitute cause for us to terminate any previously executed Franchise Agreement.

7. Assignment. This Agreement and the rights granted to you under this Agreement are personal to you and neither this Agreement, nor any of the rights granted to you hereunder nor any controlling equity interest in you may be voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise, assigned or otherwise transferred, given away, or encumbered by you without our prior written approval, which we may grant or withhold for any or no reason. If you or your Owners intend to transfer any interest in you or this Agreement, we shall have a right of first refusal in accordance with the procedure set forth in Section 13.9 (Our Right of First Refusal) of the Initial Franchise Agreement. Any and all Transfers will be set forth in Section 13. of the Initial Franchise Agreement. We may assign this Agreement or any ownership interests in us without restriction.

8. Franchisee’s Covenant Not to Compete.

8.1 In-Term Covenants. You acknowledge that you will receive valuable, specialized training and confidential information regarding the manufacturing, operational, sales, promotional, and marketing methods of the Hawaii Fluid Art concept. During the Term, you and your Owners will not, without our prior written consent, either directly or indirectly, for themselves, or through, on behalf of, or in conjunction with any other person or entity:

- (a) own, manage, engage in, be employed by, advise, make loans to, or have any other interest in (i) any business which provides or offers group or individual art class instruction, the sale of works of art at a retail store, instruction in the technique of acrylic or resin fluid art, any other Approved Products and Services that we grant you the right to offer during the Term of your Franchise Agreement (ii) any entity that grants franchises or licenses for any of these types of businesses (a “Competitive Business”) in the United States;
- (b) divert or attempt to divert any business or customer or potential business or customer of the Studio to any Competitive Business, by direct or indirect inducement or otherwise;

- (c) perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System;
- (d) use any vendor relationship established through your association with us for any purpose other than to purchase products or equipment for use or retail sale in the Studios; or
- (e) directly or indirectly solicit for employment any person who at any time within the immediate past 12 months has been employed by us, or our affiliates, or by any of our franchisees.

8.2 Post-Term Covenants. For two years after the expiration or termination of this Agreement or an approved transfer to a new franchisee, you and your Owners may not, without our prior written consent, (i) directly or indirectly own, manage, engage in, be employed in a managerial position by, advise, make loans to, or have any other interest in any Competitive Business that is (or is intended to be) located within a ten-mile radius of the Development Area or any other Studio that is operating or under development at the time of such expiration, termination, or transfer, or (ii) solicit for employment any person who at any time within the immediate past 12 months has been employed by us, or our affiliates, or by any of our franchisees. With respect to the Owners, the time period in this Section 12.2 will run from the expiration, termination, or transfer of this Agreement or from the termination of the Owner's relationship with you, whichever occurs first.

8.3 Publicly Traded Corporations. Ownership of less than 5% of the outstanding voting stock of any class of stock of a publicly traded corporation will not, by itself, violate this Section 8.

8.4 Covenants of Others. The Owners personally bind themselves to this Section 8 by signing the Guarantee that is attached as Appendix C to this Agreement. You must also obtain from your officers, directors, managers, instructors, Owners' spouses, and other individuals that we may designate executed agreements containing nondisclosure and non-compete covenants similar in substance to those contained in this Section 8 as we prescribe in the Manuals and otherwise. The agreements must be in a form acceptable to us and specifically identify us as having the independent right to enforce them.

8.5 Enforcement of Covenants. You acknowledge and agree that (i) the time, territory and scope of the covenants provided in this Section 8 are reasonable and necessary for the protection of our legitimate business interests; (ii) you have received sufficient and valid consideration in exchange for those covenants; (iii) enforcement of the same would not impose undue hardship; and (iv) the period of protection provided by these covenants will not be reduced by any period of time during which you are in violation of the provisions of those covenants or any period of time required for enforcement of those covenants. To the extent that this Section 8 is judicially determined to be unenforceable by virtue of its scope or in terms of area or length of time, but may be made enforceable by reductions of any or all thereof, the same will be enforced to the fullest extent permissible. You agree that the existence of any claim you may have against us, whether or not arising from this Agreement, will not constitute a defense to our enforcement of the covenants contained in this Section 8. You acknowledge that any breach or threatened breach of this Section 8 will cause us irreparable injury for which no adequate remedy at law is available, and you consent to the issuance of an injunction prohibiting any conduct violating the terms of this Section 8. Such injunctive relief will be in addition to any other remedies that we may have.

9. Incorporation of Other Terms.

Section 10 (Proprietary Information), Section 16 (Dispute Resolution and Governing Law), Section 17 (Miscellaneous), and Section 18 (Your Representations and Acknowledgements) of the Initial Franchise Agreement are incorporated by reference in this Agreement and will govern all aspects of our relationship and the construction of this Agreement as if fully restated within the text of this Agreement.

Miscellaneous. Capitalized terms used and not otherwise defined in this Agreement shall have the meanings set forth in the Initial Franchise Agreement. This Agreement, together with the Initial Franchise Agreement, supersedes all prior agreements and understandings, whether oral and written, among the parties relating to

its subject matter, and there are no oral or other written understandings, representations, or agreements among the parties relating to the subject matter of this Agreement. Notwithstanding the foregoing, nothing in this Agreement shall disclaim or require you to waive reliance on any representations that we made in the most recent Franchise Disclosure Document that we delivered to you or your representatives. This Agreement shall not be binding on either party until it is executed by both parties. This Agreement may be signed in multiple counterparts, but all such counterparts together shall be considered one and the same instrument. The provisions of this Agreement may be amended or modified only by written agreement signed by the party to be bound.

IN WITNESS WHEREOF, each of the undersigned has executed this Agreement under seal as of the Effective Date.

FRANCHISOR:
HAWAII FLUID ART FRANCHISING, LLC

By:

Name:

Title:

Date:

FRANCHISEE:
[FRANCHISEE ENTITY]

By:

Name:

Title:

Date:

**APPENDIX A
TO THE
DEVELOPMENT AGREEMENT**

FRANCHISEE-SPECIFIC TERMS

1. **Effective Date (First Paragraph):** _____
2. **Expiration Date:** Set forth in Section 1 of the AD Agreement is the earlier of the date that the Development Obligation is fulfilled or _____
3. **Franchisee's Name:** _____
4. **Franchisee's State of Organization (if applicable):** _____
5. **Development Area (Section 1):**[attach map if necessary]
6. **Total Development Fee (Section 2):** \$ _____.
7. **Development Schedule (Section 3):** You agree to establish and operate a total of ____ Studios within the Development Area during the term of this Agreement. The Studios must be open and operating in accordance with the following Schedule:

| <u>MINIMUM NUMBER OF STUDIOS</u> The Minimum Number of Studios Open and Operating by Each Opening Deadline | <u>OPENING DEADLINE</u> Deadline for Having the Minimum Number of Studios Open and Operating |
|--|--|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |

8. **Ownership of Franchisee (Recital C):** If the franchisee is an Entity, the following persons constitute all of the owners of a legal and/or beneficial interest in the franchisee:

| <u>Name</u> | <u>Percentage Ownership</u> |
|-------------|-----------------------------|
| | % |
| | % |
| | % |

9. **Other Terms:**

Signature Page for Appendix A (Franchisee-Specific Terms)

FRANCHISOR:

HAWAII FLUID ART FRANCHISING, LLC

By:

Name:

Title:

Date:

FRANCHISEE:

[FRANCHISEE ENTITY]

By:

Name:

Title:

Date:

**APPENDIX B
TO THE
DEVELOPMENT AGREEMENT**

Form of Franchise Agreement

[See Exhibit B to Franchise Disclosure Document]

**APPENDIX C
TO THE
DEVELOPMENT AGREEMENT**

PAYMENT AND PERFORMANCE GUARANTEE

In order to induce Hawaii Fluid Art Franchising, LLC (“**Franchisor**”) to enter into a Hawaii Fluid Art® Development Agreement (the “**Development Agreement**”) by and between Franchisor and the Franchisee named in the Development Agreement dated _____ to which this Payment and Performance Guarantee (the “**Guarantee**”) is attached (“**Franchisee**”), the undersigned (collectively referred to as the “**Guarantors**” and individually referred to as a “**Guarantor**”) hereby covenant and agree as follows:

1. Guarantee of Payment and Performance. The Guarantors jointly and severally unconditionally guarantee to Franchisor and its affiliates the payment and performance when due, whether by acceleration or otherwise, of all obligations, indebtedness, and liabilities of Franchisee to Franchisor, direct or indirect, absolute or contingent, of every kind and nature, whether now existing or incurred from time to time hereafter, whether incurred pursuant to the Development Agreement or otherwise, together with any extension, renewal, or modification thereof in whole or in part (the “**Guaranteed Liabilities**”). The Guarantors agree that if any of the Guaranteed Liabilities are not so paid or performed by Franchisee when due, the Guarantors will immediately do so. The Guarantors further agree to pay all expenses (including reasonable attorneys’ fees) paid or incurred in endeavoring to enforce this Guarantee or the payment of any Guaranteed Liabilities. The Guarantors represent and agree that they have each reviewed a copy of the Development Agreement and have had the opportunity to consult with counsel to understand the meaning and import of the Development Agreement and this Guarantee.

2. Waivers by Guarantors. The Guarantors waive presentment, demand, notice of dishonor, protest, and all other notices whatsoever, including without limitation notices of acceptance hereof, of the existence or creation of any Guaranteed Liabilities, of the amounts and terms thereof, of all defaults, disputes, or controversies between Franchisor and Franchisee and of the settlement, compromise, or adjustment thereof. This Guarantee is primary and not secondary and will be enforceable without Franchisor having to proceed first against Franchisee or against any or all of the Guarantors or against any other security for the Guaranteed Liabilities. This Guarantee will be effective regardless of the insolvency of Franchisee by operation of law, any reorganization, merger, or consolidation of Franchisee, or any change in the ownership of Franchisee.

3. Term: No Waiver. This Guarantee will be irrevocable, absolute, and unconditional and will remain in full force and effect as to each of the Guarantors until such time as all Guaranteed Liabilities of Franchisee to Franchisor and its affiliates have been paid and satisfied in full. No delay or failure on the part of Franchisor in the exercise of any right or remedy will operate as a waiver thereof, and no single or partial exercise by Franchisor of any right or remedy will preclude other further exercise of such right or any other right or remedy.

4. Other Covenants. Each of the Guarantors agrees to comply with the provisions of Section 8 of the Development Agreement as though each such Guarantor were the “Franchisee” named in the Development Agreement and agrees that he or she will take any and all actions as may be necessary or appropriate to cause Franchisee to comply with the Development Agreement and will not take any action that would cause Franchisee to be in breach of the Development Agreement.

5. Dispute Resolution. Section 16 (Dispute Resolution and Governing Law) of the Initial Franchise Agreement (as defined in the Development Agreement) is hereby incorporated herein by reference and will be applicable to any disputes between Franchisor and any of the Guarantors, as though Guarantor were the “Franchisee” referred to in the Development Agreement.

6. Miscellaneous. This Agreement will be binding upon the Guarantors and their respective heirs, executors, successors, and assigns, and will inure to the benefit of Franchisor and its successors and assigns.

IN WITNESS WHEREOF, the undersigned Guarantors have caused this Guarantee to be duly executed as of the day and year first above written.

GUARANTOR(S):

(add more lines as necessary)

By:

Name:

Date:

**EXHIBIT D
TO THE
FRANCHISE DISCLOSURE DOCUMENT
State Specific Addenda & Agreement Riders**

STATE ADDENDA AND AGREEMENT RIDERS

ADDENDUM TO FRANCHISE AGREEMENT, SUPPLEMENTAL AGREEMENTS, AND FRANCHISE DISCLOSURE DOCUMENT FOR CERTAIN STATES FOR HAWAII FLUID ART FRANCHISING, LLC

The following modifications are made to the Hawaii Fluid Art Franchising, LLC (“Franchisor,” “us,” “we,” or “our”) Franchise Disclosure Document (“FDD”) given to franchisee (“Franchisee,” “you,” or “your”) and may supersede, to the extent then required by valid applicable state law, certain portions of the Franchise Agreement between you and us dated as of the Effective Date set forth in your franchise Agreement (“Franchise Agreement”). When the term “Franchisor’s Choice of Law State” is used, it means the laws of the state of Texas, subject to any modifications as set forth in the addenda below. When the term “Supplemental Agreements” is used, it means Area Development Agreement.

Certain states have laws governing the franchise relationship and franchise documents. Certain states require modifications to the FDD, Franchise Agreement and other documents related to the sale of a franchise. This State Specific Addendum (“State Addendum”) will modify these agreements to comply with the state’s laws. The terms of this State Addendum will only apply if you meet the requirements of the applicable state independently of your signing of this State Addendum. The terms of this State Addendum will override any inconsistent provision of the FDD, Franchise Agreement or any Supplemental Documents. This State Addendum only applies to the following states: California, Hawaii, Illinois, Iowa, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Ohio, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

If your state requires these modifications, you will sign this State Addendum along with the Franchise Agreement and any Supplemental Agreements.

CALIFORNIA

The California Franchise Investment Law requires a copy of all proposed agreements relating to the sale of the Franchise be delivered together with the FDD.

California Corporations Code Section 31125 requires us to give to you an FDD approved by the Department of Business Oversight before we ask you to consider a material modification of your Franchise Agreement.

The Franchise Agreement and the Supplemental Agreements contain provisions requiring binding arbitration with the costs being awarded to the prevailing party. The arbitration will occur in Franchisor’s Choice of Law State. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of the Franchise Agreement or Supplemental Agreements restricting venue to a forum outside the State of California. The Franchise Agreement contains a mediation provision. As such, the parties shall each bear their own costs of mediation and shall share equally the filing fee and the mediator’s fees.

The Franchise Agreement and Supplemental Agreements require the application of the law of Franchisor’s Choice of Law State. This provision may not be enforceable under California law.

Neither Franchisor nor any other person listed in Item 2 of the FDD is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination, transfer, or non-renewal of a franchise. If the Franchise Agreement or Supplemental Agreements contain a provision that is inconsistent with the California Franchise Investment Law, the California Franchise Investment Law will control.

The Franchise Agreement and Supplemental Agreements may provide for termination upon bankruptcy. Any such provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. SEC. 101 et seq.).

The Franchise Agreement and the Supplemental Agreements contain a covenant not to compete provision which extends beyond the termination of the Franchise. Such provisions may not be enforceable under California law.

Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable. Any such provisions contained in the Franchise Agreement or Supplemental Agreements may not be enforceable.

You must sign a general release of claims if you renew or transfer your Franchise. California Corporations Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).

Our website has not been reviewed or approved by the California Department of Business Oversight. Any complaints concerning the content of this website may be directed to the California Department of Business Oversight at www.dbo.ca.gov.

Item 6 of the FDD is amended to state the highest interest rate allowed by law in California is 10% annually.

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 and 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.

HAWAII

The following is added to the Cover Page:

THIS FRANCHISE WILL BE/HAS BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED IN THIS FRANCHISE DISCLOSURE DOCUMENT IS TRUE, COMPLETE AND NOT MISLEADING.

THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFEROR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO YOU OR SUBFRANCHISOR AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY YOU OR SUBFRANCHISOR OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY YOU, WHICHEVER OCCURS

FIRST, A COPY OF THE FRANCHISE DISCLOSURE DOCUMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.

THIS FRANCHISE DISCLOSURE DOCUMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH US AND YOU.

Registered agent in the state authorized to receive service of process:

Commissioner of Securities of the State of Hawaii
Department of Commerce and Consumer Affairs Business Registration Division
335 Merchant Street, Room 203
Honolulu, Hawaii 96813

The status of the Franchisor's franchise registrations in the states which require registration is as follows:

1. States in which this proposed registration is effective are listed on the third page of the FDD on the page entitled, "State Effective Dates."
2. States which have refused, by order or otherwise, to register these Franchises are: None
3. States which have revoked or suspended the right to offer the Franchises are: None
4. States in which the proposed registration of these Franchises has been withdrawn are: None

ILLINOIS

Sections 4 and 41 and Rule 608 of the Illinois Franchise Disclosure Act states that court litigation must take place before Illinois federal or state courts and all dispute resolution arising from the terms of this Agreement or the relationship of the parties and conducted through arbitration or litigation shall be subject to Illinois law. The FDD, Franchise Agreement and Supplemental Agreements are amended accordingly.

The governing law or choice of law clause described in the FDD and contained in the Franchise Agreement and Supplemental Agreements is not enforceable under Illinois law. This governing law clause shall not be construed to negate the application of Illinois law in all situations to which it is applicable.

Section 41 of the Illinois Franchise Disclosure Act states that "any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act or any other law of this State is void." The Franchise Agreement is amended accordingly. To the extent that the Franchise Agreement would otherwise violate Illinois law, such Agreement is amended by providing that all litigation by or between you and us, arising directly or indirectly from the Franchise relationship, will be commenced and maintained in the state courts of Illinois or, at our election, the United States District Court for Illinois, with the specific venue in either court system determined by appropriate jurisdiction and venue requirements, and Illinois law will pertain to any claims arising under the Illinois Franchise Disclosure Act.

Item 17.v, Choice of Forum, of the FDD is revised to include the following: "provided, however, that the foregoing shall not be considered a waiver of any right granted upon you by Section 4 of the Illinois Franchise Disclosure Act."

Item 17.w, Choice of Law, of the FDD is revised to include the following: “provided, however, that the foregoing shall not be considered a waiver of any right granted upon you by Section 4 of the Illinois Franchise Disclosure Act”.

The termination and non-renewal provisions in the Franchise Agreement and the FDD may not be enforceable under Sections 19 and 20 of the Illinois Franchise Disclosure Act.

Under Section 705/27 of the Illinois Franchise Disclosure Act, no action for liability under the Illinois Franchise Disclosure Act can be maintained unless brought before the expiration of three years after the act or transaction constituting the violation upon which it is based, the expiration of one year after you become aware of facts or circumstances reasonably indicating that you may have a claim for relief in respect to conduct governed by the Act, or 90 days after delivery to you of a written notice disclosing the violation, whichever shall first expire. To the extent that the Franchise Agreement is inconsistent with the Illinois Franchise Disclosure Act, Illinois law will control and supersede any inconsistent provision(s).

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 and 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.

INDIANA

Item 8 of the FDD is amended to add the following:

Under Indiana Code Section 23-2-2.7-1(4), we will not accept any rebates from any person with whom you do business or associate in relation to transactions between you and the other person, other than for compensation for services rendered by us, unless the rebate is properly accounted for and submitted to you.

Item 17 of the FDD is amended to add the following:

Indiana Code 23-2-2.7-1(7) makes it unlawful for us to unilaterally terminate your Franchise Agreement unless there is a material violation of the Franchise Agreement and termination is not in bad faith.

Indiana Code 23-2-2.7-1(5) prohibits us to require you to agree to a prospective general release of claims subject to the Indiana Deceptive Franchise Practices Act.

The “Summary” column in Item 17.r. of the FDD is deleted and the following is inserted in its place: No competing business for two years within the Territory.

The “Summary” column in Item 17.t. of the FDD is deleted and the following is inserted in its place:

Notwithstanding anything to the contrary in this provision, you do not waive any right under the Indiana Statutes with regard to prior representations made by us.

The “Summary” column in Item 17.v. of the FDD is deleted and the following is inserted in its place:

Litigation regarding Franchise Agreement in Indiana; other litigation in Franchisor’s Choice of Law State. This language has been included in this Franchise Disclosure Document as a condition to registration. The Franchisor and the Franchisee do not agree with the above language and believe that each

of the provisions of the Franchise Agreement, including all venue provisions, is fully enforceable. The Franchisor and the Franchisee intend to fully enforce all of the provisions of the Franchise Agreement and all other documents signed by them, including but not limited to, all venue, choice-of-law, arbitration provisions and other dispute avoidance and resolution provisions and to rely on federal pre-emption under the Federal Arbitration Act.

The “Summary” column in Item 17.w. of the FDD is deleted and the following is inserted in its place:

Indiana law applies to disputes covered by Indiana franchise laws; otherwise Franchisor’s Choice of Law State law applies.

Despite anything to the contrary in the Franchise Agreement, the following provisions will supersede and apply to all Franchises offered and sold in the State of Indiana:

1. The laws of the State of Indiana supersede any provisions of the FDD, the Franchise Agreement, or Franchisor’s Choice of Law State law, if such provisions are in conflict with Indiana law.
2. The prohibition by Indiana Code 23-2-2.7-1(7) against unilateral termination of the Franchise without good cause or in bad faith, good cause being defined under law as including any material breach of the Franchise Agreement, will supersede the provisions of the Franchise Agreement relating to termination for cause, to the extent those provisions may be inconsistent with such prohibition.
3. Any provision in the Franchise Agreement that would require you to prospectively assent to a release, assignment, novation, waiver or estoppel which purports to relieve any person from liability imposed by the Indiana Deceptive Franchise Practices Law is void to the extent that such provision violates such law.
4. The covenant not to compete that applies after the expiration or termination of the Franchise Agreement for any reason is hereby modified to the extent necessary to comply with Indiana Code 23-2-2.7-1 (9).
5. The following provision will be added to the Franchise Agreement:

No Limitation on Litigation. Despite the foregoing provisions of this Agreement, any provision in the Agreement which limits in any manner whatsoever litigation brought for breach of the Agreement will be void to the extent that any such contractual provision violates the Indiana Deceptive Franchise Practices Law.

Item 8 of the FDD is amended to add the following:

Under Indiana Code Section 23-2-2.7-1(4), we will not accept any rebates from any person with whom you do business or associate in relation to transactions between you and the other person, other than for compensation for services rendered by us, unless the rebate is properly accounted for and submitted to you.

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 and 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.

IOWA

Any provision in the Franchise Agreement or Compliance Questionnaire which would require you to prospectively assent to a release, assignment, novation, waiver or estoppel which purports to relieve any person from liability imposed by the Iowa Business Opportunity Promotions Law (Iowa Code Ch. 551A) is void to the extent that such provision violates such law.

The following language will be added to the Franchise Agreement:

NOTICE OF CANCELLATION

_____ (enter date of transaction)

You may cancel this transaction, without penalty or obligation, within three business days from the above date. If you cancel, any property traded in, any payments made by you under the contract or sale, and any negotiable instrument executed by you will be returned within ten business days following receipt by the seller of your cancellation notice, and any security interest arising out of the transaction will be canceled.

If you cancel, you must make available to the seller at your residence or business address, in substantially as good condition as when received, any goods delivered to you under this contract or sale; or you may, if you wish, comply with the instructions of the seller regarding the return shipment of the goods at the seller’s expense and risk.

If you do not agree to return the goods to the seller or if the seller does not pick them up within 20 days of the date of your notice of cancellation, you may retain or dispose of the goods without any further obligation.

To cancel this transaction, mail or deliver a signed and dated copy of this cancellation notice or any other written notice to Hawaii Fluid Art Franchising, LLC at 438 Johnson Lane, Ovilla, TX 75154 not later than midnight of the third business day after the Effective Date.

I hereby cancel this transaction.

Franchisee: _____

Signed: _____

Name: _____

Date: _____

MARYLAND

AMENDMENTS TO FRANCHISE DISCLOSURE DOCUMENT, FRANCHISE AGREEMENTS AND AREA DEVELOPMENT AGREEMENT

Item 17 of the FDD and the Franchise Agreement are amended to state: “The general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.”

Item 17 of the FDD and sections of the Franchise Agreement and Area Development Agreement are amended to state that you may bring a lawsuit in Maryland for claims arising under the Maryland Franchise

Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the grant of the Franchise.

The Franchise Agreement and Franchise Disclosure Questionnaire are amended to state that all representations requiring prospective franchisees to assent to a release, estoppel, or waiver of liability are not intended to, nor shall they act as, a release, estoppel, or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under Federal Bankruptcy Law (11 U.S.C.A Sec. 101 et seq.).

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 and 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.

MICHIGAN

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

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

- (a) A prohibition on your right to join an association of franchisees.
- (b) A requirement that you assent to a release, assignment, novation, waiver, or estoppel which deprives you of rights and protections provided in this act. This shall not preclude you, after entering into a Franchise Agreement, from settling any and all claims.
- (c) A provision that permits us to terminate a Franchise prior to the expiration of its term except for good cause. Good cause shall include your failure 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 us to refuse to renew your Franchise without fairly compensating you by repurchase or other means for the fair market value at the time of expiration of your inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to us 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 five years; and (ii) you are prohibited by the Franchise Agreement 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 you do not receive at least six months' advance notice of our intent not to renew the Franchise.
- (e) A provision that permits us 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 the State of Michigan. This shall not preclude you from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

(g) A provision which permits us to refuse to permit a transfer of ownership of a Franchise, except for good cause. This subdivision does not prevent us 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 our then-current reasonable qualifications or standards.

(ii) the fact that the proposed transferee is a competitor of us or our subfranchisor.

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

(iv) your or proposed transferee's failure to pay any sums owing to us or to cure any default in the Franchise Agreement existing at the time of the proposed transfer.

(h) A provision that requires you to resell to us items that are not uniquely identified with us. This subdivision does not prohibit a provision that grants to us 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 us the right to acquire the assets of a Franchise for the market or appraised value of such assets if you have breached the lawful provisions of the Franchise Agreement and have failed to cure the breach in the manner provided in subdivision (c).

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

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.

Any questions regarding this notice should be directed to: State of Michigan

Department of Attorney General Consumer Protection Division Attn: Franchise
670 Law Building 525 W. Ottawa Street
Lansing, Michigan 48909
Telephone Number: (517) 335-7632

MINNESOTA

Despite anything to the contrary in the Franchise Agreement, the following provisions will supersede and apply to all Franchises offered and sold in the State of Minnesota:

1. Any provision in the Franchise Agreement which would require you to assent to a release, assignment, novation or waiver that would relieve any person from liability imposed by Minnesota Statutes, Sections 80C.01 to 80C.22 will be void to the extent that such contractual provision violates such law.
2. Minnesota Statute Section 80C.21 and Minnesota Rule 2860.4400J prohibit the franchisor from requiring litigation to be conducted outside of Minnesota. In addition, nothing in the FDD or Franchise Agreement can abrogate or reduce any of

your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of Minnesota.

3. Minn. Rule Part 2860.4400J prohibits a franchisee from waiving his rights to a jury trial or waiving his rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction, or consenting to liquidated damages, termination penalties or judgment notes. Any provision in the Franchise Agreement which would require you to waive your rights to any procedure, forum or remedies provided for by the laws of the State of Minnesota is deleted from any agreement relating to Franchises offered and sold in the State of Minnesota; provided, however, that this paragraph will not affect the obligation in the Franchise Agreement relating to arbitration.
4. With respect to Franchises governed by Minnesota law, we will comply with Minnesota Statute Section 80C.14, Subds. 3, 4 and 5, which require, except in certain specified cases, that you be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the Franchise Agreement; and that consent to the transfer of the Franchise will not be unreasonably withheld.
5. Item 13 of the FDD is hereby amended to state that we will protect your rights under the Franchise Agreement to use the Marks, or indemnify you from any loss, costs, or expenses arising out of any third-party claim, suit or demand regarding your use of the Marks, if your use of the Marks is in compliance with the provisions of the Franchise Agreement and our System standards.
6. Minnesota Rule 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release. As a result, the FDD and the Franchise Agreement, which require you to sign a general release prior to renewing or transferring your Franchise, are hereby deleted from the Franchise Agreement, to the extent required by Minnesota law.
7. The following language will appear as a new paragraph of the Franchise Agreement:

No Abrogation. Pursuant to Minnesota Statutes, Section 80C.21, nothing in the dispute resolution section of this Agreement will in any way abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80.C.
8. Minnesota Statute Section 80C.17 states that no action for a violation of Minnesota Statutes, Sections 80C.01 to 80C.22 may be commenced more than three years after the cause of action accrues. To the extent that the Franchise Agreement conflicts with Minnesota law, Minnesota law will prevail.
9. Item 6 of the FDD and Section 4.9 of the Franchise Agreement is hereby amended to limit the Insufficient Funds Charge to \$30 per occurrence pursuant to Minnesota Statute 60A.113.

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 and 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.

NEW YORK

1. The following information is added to the cover page of the Franchise Disclosure Document:

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, INVESTOR PROTECTION BUREAU, 28 LIBERTY STREET, 21ST FLOOR, NEW YORK, NY 10005, 212-416-8236. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.

2. The following is added at the end of Item 3:

Except as provided above, with regard to Franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

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

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

C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge, or within the ten-year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.

D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunction or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including without limitation, actions affecting a license as a real estate broker or sales agent.

3. The following is added to the end of the "Summary" sections of Item 17(c), titled "**Requirements for Franchisee to renew or extend,**" and Item 17(m), entitled "**Conditions for Franchisor approval of transfer:**"

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Section 33 of the General Business law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of

this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

4. The following language replaces the “Summary” section of Item 17(d), titled “**Termination by Franchisee:**”

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

5. The following is added to the end of the “Summary” sections of Item 17(v), titled “**Choice of Forum,**” and Item 17(w), titled “**Choice of Law:**”

The foregoing choice of law should not be considered a waiver of any right conferred upon the Franchisor or upon the Franchisee by Section 33 of the General Business Law of the State of New York.

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 and 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.

NORTH DAKOTA

Sections of the FDD, the Franchise Agreement, and the Supplemental Agreements requiring that you sign a general release, estoppel or waiver as a condition of renewal and/or assignment may not be enforceable as they relate to releases of the North Dakota Franchise Investment Law.

Sections of the FDD, the Franchise Agreement, and the Supplemental Agreements requiring resolution of disputes to be outside North Dakota may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

Sections of the FDD, the Franchise Agreement, and the Supplemental Agreements relating to choice of law may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

Any sections of the FDD, the Franchise Agreement, and the Supplemental Agreements requiring you to consent to liquidated damages and/or termination penalties may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

Any sections of the FDD, the Franchise Agreement, and the Supplemental Agreements requiring you to consent to a waiver of trial by jury may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

Any sections of the FDD, the Franchise Agreement, and the Supplemental Agreements requiring you to consent to a waiver of exemplary and punitive damages may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law, and are amended accordingly to the extent required by law.

Item 17(r) of the FDD and Section 12.1 of the Franchise Agreement disclose the existence of certain covenants restricting competition to which Franchisee must agree. The Commissioner has held that covenants restricting competition contrary to Section 9-08-06 of the North Dakota Century Code, without further disclosing that such covenants may be subject to this statute, are unfair, unjust, or inequitable within

the intent of Section 51-19-09 of the North Dakota Franchise Investment Law. The FDD and the Franchise Agreement are amended accordingly to the extent required by law.

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 and 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.

OHIO

The following language will be added to the front page of the Franchise Agreement:

You, the purchaser, may cancel this transaction at any time prior to midnight of the fifth business day after the date you sign this agreement. See the attached notice of cancellation for an explanation of this right.

Initials _____

Date _____

NOTICE OF CANCELLATION

_____ (enter date of transaction)

You may cancel this transaction, without penalty or obligation, within five business days from the above date. If you cancel, any payments made by you under the agreement, and any negotiable instrument executed by you will be returned within ten business days following the seller’s receipt of your cancellation notice, and any security interest arising out of the transaction will be cancelled. If you cancel, you must make available to the seller at your business address all goods delivered to you under this agreement; or you may, if you wish, comply with the instructions of the seller regarding the return shipment of the goods at the seller’s expense and risk. If you do make the goods available to the seller and the seller does not pick them up within 20 days of the date of your notice of cancellation, you may retain or dispose of them without further obligation. If you fail to make the goods available to the seller, or if you agree to return them to the seller and fail to do so, then you remain liable for the performance of all obligations under this agreement. To cancel this transaction, mail or deliver a signed and dated copy of this cancellation notice or any other written notice to Hawaii Fluid Art Franchising, LLC at 438 Johnson Lane, Ovilla, TX 75154 not later than midnight of the fifth business day after the Effective Date.

I hereby cancel this transaction.

Franchisee:

Date:

By: _____
Print Name: _____
Its: _____

RHODE ISLAND

§ 19-28.1-14 of the Rhode Island Franchise Investment Act provides that “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.” The FDD, the Franchise Agreement, and the Supplemental Agreements are amended accordingly to the extent required by law.

The above language has been included in this FDD as a condition to registration. The Franchisor and the Franchisee do not agree with the above language and believe that each of the provisions of the Franchise Agreement and the Supplemental Agreements, including all choice of law provisions, are fully enforceable. The Franchisor and the Franchisee intend to fully enforce all of the provisions of the Franchise Agreement, the Supplemental Agreements, and all other documents signed by them, including, but not limited to, all venue, choice-of-law, arbitration provisions and other dispute avoidance and resolution provisions and to rely on federal pre-emption under the Federal Arbitration Act.

VIRGINIA

Item 17(h). The following is added to Item 17(h):

“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 or Supplemental Agreements involve the use of undue influence by the Franchisor to induce a franchisee to surrender any rights given to franchisee under the Franchise, that provision may not be enforceable.”

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the FDD for Hawaii Fluid Art Franchising, LLC for use in the Commonwealth of Virginia shall be amended as follows:

Additional Disclosure. The following statements are added to Item 8 and 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.

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 and claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

WASHINGTON

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

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

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

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

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

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

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

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving and 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.

WISCONSIN

The Wisconsin Fair Dealership Law, Chapter 135 of the Wisconsin Statutes supersedes any provision of the Franchise Agreement if such provision is in conflict with that law. The Franchise Disclosure Document, the Franchise Agreement and the Supplemental Agreements are amended accordingly.

[Signatures page follows]

APPLICABLE ADDENDA

If any one of the preceding Addenda for specific states (“**Addenda**”) is checked as an “Applicable Addenda” below, then that Addenda shall be incorporated into the Franchise Disclosure Document, Franchise Agreement and any other specified agreement(s) entered into by us and the undersigned Franchisee. To the extent any terms of an Applicable Addenda conflict with the terms of the Franchise Disclosure Document, Franchise Agreement and other specified agreement(s), the terms of the Applicable Addenda shall supersede the terms of the Franchise Agreement.

- California
- Hawaii
- Illinois
- Iowa
- Indiana
- Maryland

- Michigan
- Minnesota
- New York
- North Dakota
- Ohio

- Rhode Island
- South Dakota
- Virginia
- Washington
- Wisconsin

Dated: _____, 20____

FRANCHISOR:

Hawaii Fluid Art Franchising, LLC

By: _____

Name: _____

Title: _____

FRANCHISEE:

By: _____

Name: _____

Title: _____

**EXHIBIT E
TO THE
FRANCHISE DISCLOSURE DOCUMENT**

Table of Contents for Franchise Operations Manual



Table of Contents for Franchise Operations Manual

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**EXHIBIT F
TO THE
FRANCHISE DISCLOSURE DOCUMENT**

State Administrators and Agents for Service of Process

List of State Regulatory Administrators

We intend to register this disclosure document as a “franchise” in some or all of the following states, if required by the applicable state laws. If and when we pursue franchise registration (or otherwise comply with the franchise investment laws) in these states, the following are the state administrators responsible for the review, registration, and oversight of franchises in these states:

| LIST OF STATE ADMINISTRATORS | |
|--|--|
| <p><u>CALIFORNIA</u> Department of Financial Protection and Innovation 320 West 4th Street, Suite 750 Los Angeles, California 90013-2344 (213) 576-7500 Toll Free (866) 275-2677</p> | <p><u>CONNECTICUT</u> State of Connecticut Department of Banking Securities & Business Investments Division 260 Constitution Plaza Hartford, Connecticut 06103-1800 (860) 240-8230</p> |
| <p><u>HAWAII</u> Commissioner of Securities of the State of Hawaii Department of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722</p> | <p><u>ILLINOIS</u> Franchise Bureau Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465</p> |
| <p><u>INDIANA</u> Indiana Secretary of State Franchise Section 302 Washington Street, Room E-111 Indianapolis, Indiana 46204 (317) 232-6681</p> | <p><u>MARYLAND</u> Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360</p> |
| <p><u>MICHIGAN</u> Michigan Attorney General's Office Corporate Oversight Division, Franchise Section 525 W. Ottawa Street G. Mennen Williams Building, 1st Floor Lansing, Michigan 48933 (517) 373-7117</p> | <p><u>MINNESOTA</u> Minnesota Department of Commerce 85 7th Place East, Suite 280 St. Paul, Minnesota 55101-2198 (651) 539-1600</p> |
| <p><u>NEW YORK</u> New York State Department of Law Investor Protection Bureau 28 Liberty Street, 21st Floor New York, NY 10005 (212) 416-8222</p> | <p><u>NORTH DAKOTA</u> North Dakota Securities Department State Capitol Department 414 600 East Boulevard Avenue, Fourteenth Floor Bismarck, North Dakota 58505-0510 (701) 328-4712</p> |
| <p><u>OREGON</u> Department of Business Services Division of Finance and Corporate Securities Labor and Industries Building 350 Winter Street, NE Room 410 Salem, Oregon 97310 (503) 378-4387</p> | <p><u>RHODE ISLAND</u> Department of Business Regulation Securities Division, Building 69, First Floor John O. Pastore Center 1511 Pontiac Avenue Cranston, Rhode Island 02920 (401) 462-9527</p> |
| <p><u>SOUTH DAKOTA</u> Division of Insurance Securities Regulation 124 S. Euclid, Suite 104 Pierre, South Dakota 57501 (605) 773-3563</p> | <p><u>VIRGINIA</u> State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9th Floor Richmond, Virginia 23219 (804) 371-9051</p> |
| <p><u>WASHINGTON</u> Department of Financial Institutions Securities Division, P.O. Box 9033 Olympia, Washington 98507 (360) 902-8760</p> | <p><u>WISCONSIN</u> Division of Securities 4822 Madison Yards Way, North Tower Madison, Wisconsin 53705 (608) 266-2139</p> |

List of Agents for Service of Process

We intend to register this disclosure document as a “franchise” in some or all of the following states, if required by the applicable state law. If and when we pursue franchise registration (or otherwise comply with the franchise investment laws) in these states, we will designate the following state offices or officials as our agents for service of process in these states:

| LIST OF STATE AGENT FOR SERVICE OF PROCESS | |
|--|---|
| <p><u>CALIFORNIA</u> Commissioner Department of Financial Protection and Innovation 320 West 4th Street, Suite 750 Los Angeles, California 90013-2344 (213) 576-7500 Toll Free (866) 275-2677</p> | <p><u>CONNECTICUT</u> Banking Commissioner Department of Banking Securities & Business Investments Division 260 Constitution Plaza Hartford, Connecticut 06103-1800 (860) 240-8230</p> |
| <p><u>HAWAII</u> Commissioner of Securities of the State of Hawaii Department of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722</p> | <p><u>ILLINOIS</u> Illinois Attorney General Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465</p> |
| <p><u>INDIANA</u> Indiana Secretary of State Franchise Section 302 West Washington Street, Room E-111 Indianapolis, Indiana 46204 (317) 232-6681</p> | <p><u>MARYLAND</u> Maryland Securities Commissioner 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360</p> |
| <p><u>MICHIGAN</u> Michigan Attorney General's Office Corporate Oversight Division, Franchise Section 525 W. Ottawa Street G. Mennen Williams Building, 1st Floor Lansing, Michigan 48933 (517) 373-7117</p> | <p><u>MINNESOTA</u> Minnesota Commissioner of Commerce Minnesota Department of Commerce 85 7th Place East, Suite 280 St. Paul, Minnesota 55101-2198 (651) 539-1600</p> |
| <p><u>NEW YORK</u> New York Secretary of State New York Department of State One Commerce Plaza 99 Washington Avenue, 6th Floor Albany, NY 12231 (518) 472-2492</p> | <p><u>NORTH DAKOTA</u> North Dakota Securities Commissioner State Capitol 600 East Boulevard Avenue, Fifth Floor Bismarck, North Dakota 58505 (701) 328-4712</p> |
| <p><u>OREGON</u> Secretary of State Corporation Division - Process Service 255 Capitol Street NE, Suite 151 Salem, OR 97310-1327 (503) 986-2200</p> | <p><u>RHODE ISLAND</u> Director of Department of Business Regulation Department of Business Regulation Securities Division, Building 69, First Floor John O. Pastore Center 1511 Pontiac Avenue Cranston, Rhode Island 02920 (401) 462-9527</p> |
| <p><u>SOUTH DAKOTA</u> Division of Insurance Securities Regulation 124 S. Euclid, Suite 104 Pierre, South Dakota 57501 (605) 773-3563</p> | <p><u>VIRGINIA</u> Clerk of the State Corporation Commission 1300 East Main Street, 1st Floor Richmond, Virginia 23219 (804) 371-9733</p> |
| <p><u>WASHINGTON</u> Director, Department of Financial Institutions Securities Division, 3rd Floor 150 Israel Road, Southwest Tumwater, Washington 98501 (360) 902-8760</p> | <p><u>WISCONSIN</u> Administrator, Division of Securities 4822 Madison Yards Way, North Tower Madison, Wisconsin 53705 (608) 266-2139</p> |

**EXHIBIT G
TO THE
FRANCHISE DISCLOSURE DOCUMENT**

Form of General Release

FORM OF GENERAL RELEASE

HAWAII FLUID ART FRANCHISING, LLC

GRANT OF FRANCHISOR CONSENT AND FRANCHISEE RELEASE

Hawaii Fluid Art Franchising, LLC (“we,” “us,” or “our”) and the undersigned franchisee, _____ *[insert name of franchisee entity]* (“you” or “your”), currently are parties to a Franchise Agreement dated _____ (the “Franchise Agreement”) for the operation of a Hawaii Fluid Art Studio at _____. You have asked us to _____ *[insert relevant detail]*. We currently have no obligation under your Franchise Agreement or otherwise to _____ *[repeat relevant detail]*, or we have the right under the Franchise Agreement to condition our approval on your and your owners signing a release of claims. We are willing to _____ *[repeat relevant detail]* if you and your owners give us the release and covenant not to sue provided below in this document. You and your owners are willing to give us the release and covenant not to sue provided below in consideration for our willingness to _____ *[repeat relevant detail]*.

Consistent with the previous introduction, you, on behalf of yourself and your successors, heirs, executors, administrators, personal representatives, agents, assigns, partners, owners, directors, officers, principals, employees, and affiliated entities (collectively, the “Releasing Parties”), hereby forever release and discharge us and our parent and other affiliated entities, and our and their respective current and former officers, directors, owners, principals, employees, agents, representatives, successors, and assigns (collectively, the “HFA Parties”) from any and all claims, damages, demands, debts, causes of action, suits, duties, liabilities, costs, and expenses of any nature and kind, whether presently known or unknown, vested or contingent, suspected or unsuspected (all such matters, collectively, “Claims”), that you and any other Releasing Party now have, ever had, or, but for this Consent, hereafter would or could have against any Mahana Party (1) arising out of or related in any way to the HFA Parties’ performance of or failure to perform their obligations under the Franchise Agreement before the date of your signature below, (2) arising out of or related in any way to our offer and grant to you of your Hawaii Fluid Art franchise, or (3) otherwise arising out of or related in any way to your and the other Releasing Parties’ relationship, from the beginning of time to the date of your signature below, with any of the HFA Parties. You, on behalf of yourself and the other Releasing Parties, further covenant not to sue any HFA Party on any Claim released by this paragraph and represent that you have not assigned any Claim released by this paragraph to any individual or entity that is not bound by this paragraph.

We also are entitled to a release and covenant not to sue from your owners. By his, her, or their separate signatures below, your owners likewise grant to us the release and covenant not to sue provided above.

To the extent applicable, each of the parties granting a release acknowledges a familiarity with Section 1542 of the Civil Code of the State of California, which provides as follows:

“A general release does not extend to claims which the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, must have materially affected the settlement with the debtor or released party.”

Each of the parties granting a release recognizes that he, she, or it may have some claim, demand, or cause of action against the other parties of which he, she, or it is unaware and unsuspecting, and which he, she, or it is giving up by signing this Release. Each of the parties granting a release hereby waives and relinquishes every right or benefit which he, she, or it has under Section 1542 of the Civil Code of the State of California, and any similar statute under any other state or federal law, to the fullest extent that such right or benefit may lawfully be waived.

[Signature Page Follows]

HAWAII FLUID ART FRANCHISING, LLC

By: _____

Title: _____

Date: _____

[Name of Franchisee]

By: _____

Title: _____

Date: _____

[Name of Owner]

[Signature and Date]

**EXHIBIT H
TO THE
FRANCHISE DISCLOSURE DOCUMENT**

Form of Confidentiality and Noncompete Agreement

CONFIDENTIALITY AND RESTRICTIVE COVENANT AGREEMENT

(for trained employees, officers, directors, general partners, members, Controlling Person(s) and any other management personnel of Franchisee)

In consideration of my being a [INSERT TITLE/ROLE WITH FRANCHISEE] of _____ (the “Franchisee”), and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, I (the undersigned) hereby acknowledge and agree that Franchisee has acquired the right from Hawaii Fluid Art Franchising LLC (the “Company”) to: (i) establish and operate a Hawaii Fluid Art franchised business (the “Franchised Business”); and (ii) use in the operation of the Franchised Business the Company’s trade names, trademarks and service marks (collectively, the “Marks”) and the Company’s unique and distinctive format and system relating to the establishment and operation of Hawaii Fluid Art business (the “System”), as they may be changed, improved and further developed from time to time in the Company’s sole discretion, only at the following authorized and approved location: _____ (the “Premises”).

1. The Company possesses certain proprietary and confidential information relating to the operation of the Franchised Business and System generally, including without limitation: Company’s proprietary and confidential Operations Manual and other manuals providing guidelines, standards and specifications related to the establishment and operation of the Franchised Business (collectively, the “Manual”); Franchisor’s proprietary training materials and programs, as well as proprietary marketing methods and other instructional materials, trade secrets; information related to any other proprietary methodology or aspects of the System or the establishment and continued operation of the Franchised Business; financial information; any and all customer lists, contracts and other customer information obtained through the operation of the Franchised Business and other Hawaii Fluid Art businesses; any information related to any type of proprietary software that may be developed and/or used in the operation of with the Franchised Business; and any techniques, methods and know-how related to the operation of Hawaii Fluid Art business or otherwise used in connection with the System, which includes certain trade secrets, copyrighted materials, methods and other techniques and know-how (collectively, the “Confidential Information”).
2. Any other information, knowledge, know-how, and techniques which the Company specifically designates as confidential will also be deemed to be Confidential Information for purposes of this Agreement.
3. As [INSERT TITLE WITH RESPECT TO FRANCHISEE] of the Franchisee, the Company and Franchisee will disclose the Confidential Information to me in furnishing to me the training program and subsequent ongoing training, the Manual, and other general assistance during the term of this Agreement.
4. I will not acquire any interest in the Confidential Information, other than the right to utilize it in the operation of the Franchised Business during the term hereof, and the use or duplication of the Confidential Information, in whole or in part, for any use outside the System would constitute an unfair method of competition.
5. The Confidential Information is proprietary, involves trade secrets of the Company, and is disclosed to me solely on the condition that I agree, and I do hereby agree, that I shall hold in strict confidence all Confidential Information and all other information designated by the Company as confidential. Unless the Company otherwise agrees in writing, I will disclose and/or use the Confidential Information only in connection with my duties as [INSERT TITLE] of the Franchisee, and will continue not to disclose any such information even after I cease to be in that position and will not use any such information even after I cease to be in that position unless I can demonstrate that such

information has become generally known or easily accessible other than by the breach of an obligation of Franchisee under the Franchise Agreement.

6. I will surrender any material containing some or all of the Confidential Information to the Company, upon request, or upon conclusion of the use for which the information or material may have been furnished.
7. Except as otherwise approved in writing by the Company, I shall not, while in my position with the Franchisee, for myself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation or limited liability company, own, maintain, engage in, be employed by, or have any interest in any other business which provides or offers group or individual art class instruction, the sale of works of art at a retail store, instruction in the technique of acrylic or resin pour painting (collectively, a "Competing Business"). I also agree that I will not undertake any action to divert business from the Franchised Business to any Competing Business, or solicit any of the former customers or employees of Franchisee for any competitive business purpose.
 - 7.1 *Post-Term Restrictive Covenant for Controlling Person of Franchised Business or Manager/Officers/Directors of Franchisee.* In the event I am a manager of the Franchised Business, or an officer/director/manager/partner of Franchisee that has not already executed a personal guaranty agreeing to be bound by the terms of the Franchise Agreement, then I further agree that I will not be involved in a Competing Business of any kind for a period of one year after the expiration or termination of my employment with Franchisee for any reason: (i) at or within a 10-mile radius of the Premises; or (ii) within a 5-mile radius of any other Hawaii Fluid Art business that exists at the time my employment with Franchisee ceases through the date of my involvement with the Competing Business. I also agree that I will not be involved in the franchising or licensing of any Competing Business at any location, or undertake any action to divert business from the Franchised Business to any Competing Business or solicit any of the former customers or employees of Franchisee for any competitive business purpose, during this one-year period following the termination or expiration of my employment with the Franchisee.
8. I agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which the Company is a party, I expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.
9. I understand and acknowledge that the Company 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 my consent, effective immediately upon receipt by me of written notice thereof; and I agree to comply forthwith with any covenant as so modified.
10. The Company is a third-party beneficiary of this Agreement and may enforce it, solely and/or jointly with the Franchisee. I am aware that my violation of this Agreement will cause the Company and the Franchisee irreparable harm; therefore, I acknowledge and agree that the Franchisee and/or the Company may apply for the issuance of 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. I agree to pay the Franchisee and the Company all the costs it/they incur(s), including, without limitation, legal fees and expenses, if this Agreement is enforced against me. Due to the importance of this

Agreement to the Franchisee and the Company, any claim I have against the Franchisee or the Company is a separate matter and does not entitle me to violate, or justify any violation of this Agreement.

11. I shall not at any time, directly or indirectly, do any act that would or would likely be injurious or prejudicial to the goodwill associated with the Confidential Information and the System.
12. Franchisee shall make all commercially reasonable efforts to ensure that I act as required by this Agreement.
13. Any failure by Franchisor to object to or take action with respect to any breach of this Agreement by me shall not operate or be construed as a waiver of or consent to that breach or any subsequent breach by me.
14. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND MYSELF HEREBY IRREVOCABLY SUBMITS HIMSELF TO THE JURISDICTION OF THE STATE COURT CLOSEST TO FRANCHISOR'S THEN-CURRENT HEADQUARTERS OR, IF APPROPRIATE, THE UNITED STATES DISTRICT COURT FOR THE DISTRICT FOR TEXAS. I HEREBY WAIVE ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. I HEREBY AGREE THAT SERVICE OF PROCESS MAY BE MADE UPON ME IN ANY PROCEEDING RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY TEXAS OR FEDERAL LAW. I FURTHER AGREE THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE ONE OF THE COURTS DESCRIBED ABOVE IN THIS SECTION; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION WHICH INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF, FRANCHISOR MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE WHICH HAS JURISDICTION.
15. The parties acknowledge and agree that each of the covenants contained in this Agreement 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. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in any unappealed final decision to which Franchisor is a part, I expressly agree to be bound by any lesser covenant subsumed within the terms of the covenant that imposes the maximum duty permitted by law as if the resulting covenant were separately stated in and made a part of this Agreement.
16. This Agreement contains the entire agreement of the parties regarding the subject matter of this Agreement. This Agreement may be modified only by a duly authorized writing executed by all parties.
17. All notices and demands required to be given must be in writing and sent by personal delivery, expedited delivery service, certified or registered mail, return receipt requested, first-class postage prepaid, facsimile or electronic mail, (provided that the sender confirms the facsimile or electronic mail, by sending an original confirmation copy by certified or registered mail or expedited delivery service within three (3) business days after transmission), to the respective party at the following address unless and until a different address has been designated by written notice.

The notice shall be addressed to: Maya Ratcliff 438 Johnson Lane, Ovilla TX 75154

Any notices sent by personal delivery shall be deemed given upon receipt. Any notices given by facsimile or electronic mail shall be deemed given upon transmission, provided confirmation is made as provided above. Any notice sent by expedited delivery service or registered or certified mail shall be deemed given three (3) business days after the time of mailing. Any change in the foregoing addresses shall be affected by giving fifteen (15) days written notice of such change to the other parties. Business day for the purpose of this Agreement excludes Saturday, Sunday and the following national holidays: New Year's Day, Martin Luther King Day, Presidents' Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving and Christmas.

18. The rights and remedies of Franchisor under this Agreement are fully assignable and transferable and inure to the benefit of its respective parent, successor and assigns.

IN WITNESS WHEREOF, this Agreement is made and entered into by the undersigned parties as of the Effective Date.

UNDERSIGNED

Signature: _____

Name: _____

Address: _____

Title: _____

ACKNOWLEDGED BY FRANCHISEE

[FRANCHISEE NAME]

By: _____

Name: _____

Title: _____

**EXHIBIT I
TO THE
FRANCHISE DISCLOSURE DOCUMENT**

List of Current and Former Franchisees

Current and Former Franchisees

Franchisees Who Have Opened Hawaii Fluid Art Franchises (as of the Issuance Date):

| Franchisee | Address | Phone Number | Area Developer (Y/N) |
|------------------------------------|--|---------------|----------------------|
| Bennett-Chew Marley Capital LLC | 13603 Slide Rd, Lubbock, TX 79424 | 800-463-3793 | Y |
| Boltimo Corporations | 818 Lido, Rochester Hills, Michigan 48307 | 713-906-9422 | N |
| BR Group of Companies | 607 Mission Circle, Irving, TX, 75063 | 847-848-2269 | N |
| Dawn Brandt | 2240 Matlock Rd, Mansfield, TX 76063 | 972-655-6122 | N |
| DP CREATIVITY LLC | 17200 Oak Park Ave Unit 104, Tinley Park, IL 60477 | 708- 921-8551 | Y |
| JMHSM, LLC | 6101 Long Prairie Rd #736, Flower Mound TX 75028 | 800-463-3793 | N |
| KKRK, LLC | 10600 S Pennsylvania Ave, Oklahoma City, OK 73170 | 405-808-5333 | N |
| Renea Meyers | 437 Cold Mountain Trl. Fort Worth, TX 7613 | 682 376-7515 | N |
| SRA ALCALA ENTERPRISE COMPANY, LLC | 3231 Preston Rd Suite 6, Frisco, TX 75034 | 800-463-3793 | Y |
| VETERAN BRAND ENTERPRISES L.L.C. | 2367 N High St, Columbus, OH 43201 | 618-541-1931 | Y |
| Whitetail Meadow Inc | 3252 Aspen Grove Drive Franklin, TN 37067 | 530-351-4483 | Y |
| Wolfmoon Inc. | 1631 Pearl St, Boulder, CO 80302 | 720 485-0450 | Y |

Franchisees Who Have Signed Agreements But Not Yet Opened (as of the Issuance Date):

| Franchisee | Address | Phone Number | Area Developer (Y/N) |
|---------------------------|---|---------------|----------------------|
| Almina Holdings, LLC. | 1053 NW 157 th Ave, Pembroke Pines, FL 33208 | 954-478-4811 | Y |
| Arches Art Adventures LLC | 5224 SW. 159 Avenue, Miramar. Fl 33027 | 305-989-2941 | N |
| DREAM CITY ART LLC | 450 Rockaway Drive, Midlothian TX 76065 | 817-504-9934 | Y |
| Flowmix, Inc. | 3910 Dalea Dr. Prosper, TX 75078 | 708-243-6853 | N |
| FoxKnox Enterprises Inc. | 26720 N. 10 th Lane Phoenix, AZ 85085 | 601-466-9500 | Y |
| Legacy Five | 13 Mallard Dr Petal, Mississippi 75154 | 601-466-9500 | Y |
| Leslie Boothe | 8780 Neumann Dr. Elberts, Al 36530 | 334-531-3911 | Y |
| Michele Vice | 1160 Citrus Oaks Run, Winter Springs, FL 32708 | 321- 231-5231 | Y |
| Ohana Creations, LLC | 12 Nickel Springs Drive, Easley, SC 29542 | 703-786-8687 | N |

| | | | |
|--------------------|---|------------------|---|
| Olivia Auston | 1324 W. 320 North St. George, Utah 84700 | 435-215-5938 | Y |
| Seth Lowy | 26720 N. 10 th Lane Phoenix, AZ 85085 | 602 793- 9387 | Y |
| Tao's Company, LLC | 2406 Settlement Trl, Mount Pleasant, Wi 53406 | 262-497-6214 | N |
| The Art Lady | 4095 S State Rd 7, Wellington, FL 33449 | 319 400-811 | N |
| Vicki Cravens | 1704 Amazon Dr. Plano, Texas 75075 | 214 334-2773 | N |

Former Franchisees Who Were Terminated, Canceled, Not Renewed, or Otherwise Voluntarily or Involuntarily Ceased to Do Business Under the Franchise Agreement During our Prior Fiscal Year (or have not communicated with us within 10 weeks of the issuance date of this Disclosure Document):

None

**EXHIBIT J
TO THE
FRANCHISE DISCLOSURE DOCUMENT**

State Effective Dates

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

| State | Effective Date |
|--------------|----------------|
| California | Pending |
| Hawaii | Pending |
| Illinois | Pending |
| Indiana | Pending |
| Maryland | Pending |
| Michigan | Pending |
| Minnesota | Pending |
| New York | Pending |
| North Dakota | Pending |
| Rhode Island | Pending |
| South Dakota | Pending |
| Virginia | Pending |
| Washington | Pending |
| Wisconsin | Pending |

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

**EXHIBIT K
TO THE
FRANCHISE DISCLOSURE DOCUMENT
RECEIPTS**

RECEIPT
(Your Copy)

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

If Hawaii Fluid art Franchising, LLC (“we”) offers you a franchise, we must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. Under Illinois, Indiana, Iowa, Maine, Maryland, Nebraska, New York, Oklahoma, Rhode Island, or South Dakota law, if applicable, we must provide this disclosure document to you at your first personal meeting to discuss the franchise.

If Hawaii Fluid Art 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, D.C. 20580 and the appropriate state agency identified on Exhibit D.

| Name | Principal Business Address | Telephone Number |
|---------------|-----------------------------------|------------------|
| Maya Ratcliff | 438 Johnson Lane, Ovilla TX 75154 | (808) 344-4878 |
| | | |
| | | |

Hawaii Fluid Art Franchising, LLC authorizes the respective parties identified on Exhibit D to receive service of process for Hawaii Fluid Art Franchising, LLC in the particular state.

I have received a Disclosure Document with an issuance date of May 17, 2023, which includes the following exhibits:

| | |
|---|--|
| Exhibit A – Financial Statements Exhibit B – Franchise Agreement Exhibit C – Area Development Agreement Exhibit D – State Specific Addenda Exhibit E – Manuals’ Table of Contents Exhibit F – State Administrators & Agents for Service of Process | Exhibit G – Form of General Release Exhibit H – Confidentiality and Noncompete Agreement Exhibit I – List of Current and Former Franchisees Exhibit J – State Effective Dates Exhibit K - Receipts |
|---|--|

Date: _____

Print Name: _____

Address _____

Sign: _____

City, State, Zip: _____

[if legal entity]

Telephone: _____

Legal Entity: _____

Officer Signature: _____

Sign this copy and keep for your records.

Officer Name: _____

Officer Title: _____

RECEIPT
(Our Copy)

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

If Hawaii Fluid art Franchising, LLC (“we”) offers you a franchise, we must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. Under Illinois, Indiana, Iowa, Maine, Maryland, Nebraska, New York, Oklahoma, Rhode Island, or South Dakota law, if applicable, we must provide this disclosure document to you at your first personal meeting to discuss the franchise.

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| Name | Principal Business Address | Telephone Number |
|---------------|-----------------------------------|------------------|
| Maya Ratcliff | 438 Johnson Lane, Ovilla TX 75154 | (808) 344-4878 |
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|---|--|

Date: _____

Print Name: _____

Address _____

Sign: _____

City, State, Zip: _____

[if legal entity]

Telephone: _____

Legal Entity: _____

Signed Receipt can be returned to:

Officer Signature: _____

Hawaii Fluid Art Franchising, LLC,

438 Johnson Lane

Officer Name: _____

Ovilla TX 75154

HawaiiFluidArt@gmail.com

Officer Title: _____