

# FRANCHISE DISCLOSURE DOCUMENT



CHILDREN'S ORCHARD, LLC  
A Delaware Limited Liability Company  
13895 Industrial Park Blvd, Ste 100  
Plymouth, MN 55441  
(952) 923-1223  
<https://childrenorchardfranchise.com>  
[franchise@childrenorchard.com](mailto:franchise@childrenorchard.com)

Children's Orchard, LLC offers individual franchises for the operation of Children's Orchard® stores ("Stores"), buying from and selling to the retail consumer clothing, equipment, accessories and toys for kids.

The total investment necessary to begin operation of a Children's Orchard® store is from \$212,500 to \$326,500. This includes \$31,500 to \$39,000 that must be paid to us or our affiliates.

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 government 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 Michael Smith at Children's Orchard, LLC, 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441, (952) 923-1223.

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](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: April 17, 2024

## How to Use This Franchise Disclosure Document

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

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

## What You Need To Know About Franchise *Generally*

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

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

**Supplier restrictions.** You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor delegates. These items may be more expensive than similar items you could buy or 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 the 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 D.

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

## Special Risks to Consider About *This Franchise*

Certain states require that the following risks be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration, and/or litigation only in Minnesota. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost you more to mediate, arbitrate, or litigate with the franchisor in Minnesota than in your own state.
2. **Spousal Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the Franchise Agreement, even if your spouse has no ownership interest in the franchise. This Guarantee will place both your and your spouse's marital and personal assets (perhaps including your house) at risk if your franchise fails.

Certain states may require other risks to be highlighted. Check the “State Specific Addenda” (if any) to see whether your state requires other risks to be highlighted.

**NOTICE REQUIRED  
BY  
STATE OF MICHIGAN**

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

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

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

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

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

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

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

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

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

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

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

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

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

**TABLE OF CONTENTS**

<u>ITEM</u>	<u>PAGE</u>
1. THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES .....	1
2. BUSINESS EXPERIENCE .....	2
3. LITIGATION.....	3
4. BANKRUPTCY .....	4
5. INITIAL FEES.....	4
6. OTHER FEES.....	5
7. ESTIMATED INITIAL INVESTMENT .....	8
8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES.....	11
9. FRANCHISEE'S OBLIGATIONS .....	14
10. FINANCING.....	15
11. FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING .....	16
12. TERRITORY .....	22
13. TRADEMARKS .....	23
14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION.....	24
15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS ...	24
16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL.....	25
17. RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION .....	26
18. PUBLIC FIGURES.....	28
19. FINANCIAL PERFORMANCE REPRESENTATIONS .....	28
20. OUTLETS AND FRANCHISEE INFORMATION.....	30
21. FINANCIAL STATEMENTS .....	32
22. CONTRACTS.....	33
23. RECEIPTS .....	33

**EXHIBITS**

- EXHIBIT A - Financial Statements
- EXHIBIT B - Franchise Agreement (and exhibits)
- EXHIBIT C - List of Franchised Stores
- EXHIBIT D - List of State Administrators; Agents for Service of Process
- EXHIBIT E - State Specific Addenda
- EXHIBIT F - General Release Form
- EXHIBIT G - Disclosure Acknowledgment Agreement
- EXHIBIT H - Third Party Software User Agreement
- EXHIBIT I - Guarantee of Clothes Mentor, LLC
- EXHIBIT J - State Effective Dates and Receipts

## ITEM 1

### THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language in this disclosure document, “we” and “Children’s Orchard” means Children’s Orchard, LLC, the franchisor. “You” means the person who buys the franchise. If a corporation, partnership or limited liability company buys a franchise, “you” also may refer to the shareholders of the corporation, partners of the partnership or members of the limited liability company.

#### The Franchisor

We are a Delaware limited liability company formed on January 27, 2014. We were originally formed as NTY Kids, LLC, but changed our name to Children’s Orchard, LLC, in February 2015. Our principal place of business is at 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441; telephone number is (952) 923-1223. Our agents for service of process are disclosed in Exhibit D.

#### Our Business Experience, Predecessor, and Affiliates

On February 11, 2015, we purchased certain assets related to the Children’s Orchard® franchise system from Children’s Orchard, Inc. (“COI”), including the service mark “Children’s Orchard” and the Children’s Orchard® franchise agreements. As a result of the transaction, COI is considered our predecessor. COI offered Children’s Orchard® franchises from 1993 until February 10, 2015. COI also offered a franchise called Newcomers Welcome Service and Style Trader. As of February 12, 2015, COI had no franchisees. COI dissolved on March 3, 2016. Prior to dissolution, COI’s principal place of business was 2100 S. Main St., Suite A, Ann Arbor, Michigan 48103.

Following the purchase of the COI’s assets we changed the name of the franchise offered from “NTY Kids” to “Children’s Orchard,” and all new franchisees must operate their Stores under the Children’s Orchard® mark. We have conducted business under the name Children’s Orchard since February 12, 2015.

We sell franchises for the operation of stores under the name “Children’s Orchard” (“Stores”) that buy and sell used and new clothing, equipment, accessories and toys for kids. We have not operated the type of business you will operate. As of December 31, 2023, Children’s Orchard had 18 franchised Children’s Orchard® stores.

Since December 2006, our affiliate, Clothes Mentor, LLC (“CM”), has offered franchises for the operation of Stores under the name “Clothes Mentor” that buy and sell used and new women’s clothing and accessories. As of December 31, 2023, CM had 120 franchised Clothes Mentor® stores. CM’s principal place of business is 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441.

Our affiliate Device Pitstop, LLC (“Device Pitstop”), formally franchised stores under the name “Device Pitstop” that buy and sell primarily used and some new laptops, iPads, iPods, smartphones and accessories. Device Pitstop no longer offers new franchises and, as of December 31, 2023, there were 3 Device Pitstop stores. Its principal place of business is 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441.

Our affiliate NTY Clothing Exchange, LLC (“NTY Clothing Exchange”) formally sold franchises for the operation of stores under the name “NTY Clothing Exchange” that buy and sell primarily used and some new teen clothing and accessories for girls and boys from ages 13 to 25. NTY Clothing Exchange no



longer offers new franchises and as of December 31, 2023, there were 2 NTY Clothing Exchange stores. Its principal place of business is 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441.

Our affiliate, BST Software Company (“BST”), a Delaware corporation, owns proprietary third-party software for use in point-of-sale cash registers and back-office computers for tracking, analyzing and reporting sales, inventory and other operational information, customized for use in Children’s Orchard® franchised businesses. As described further in Item 11, you must license the Proprietary Software (as defined in Item 11) from BST for use in operating your Store. BST shares our principal business address.

Our parent company, NTY Franchise Company, LLC formerly known as CMF Holdings, LLC, shares our principal business address.

Neither we, our parent or our affiliates have ever offered franchises for any other type of business.

### Market and Competition

A Store will have an inventory of used and new kids clothing, equipment, accessories and toys. The typical customers primarily will be value-conscious parents, who desire to purchase high quality clothing, accessories and toys.

Your competition will include kids’ retail fashion stores as well as consignment stores and other stores that sell used children’s clothing. There is also growing activity in on-line buying and selling of resale clothing. The market is well developed.

### Franchise Offered

You will receive the right to own and operate a Children’s Orchard® Store that buys from and sells to the retail consumer clothing, equipment, accessories and toys for kids. The Store will be operated at a location we approve, offering the products and services we approve and using our formats, designs, methods, specifications, standards, operating and marketing procedures and the “Licensed Marks” (as defined in Item 13), including “Children’s Orchard” (collectively, the “System”).

### Laws, Licenses and Permits

You should be aware of zoning ordinances and regulations in your proposed territory. In addition, certain municipalities and other local and possibly state governmental units regulate the purchase and resale of used products. Each Store must comply with all federal, state and local laws, and we urge you to become familiar with these specific laws and regulations governing the operation of a Store in your state. You also should check with your state and local authorities to determine if there are additional requirements.

## **ITEM 2**

### **BUSINESS EXPERIENCE**

#### President: Ronald G. Olson

Mr. Olson has been our President and a director since January 2014. Mr. Olson has also been President and a director of NTY Clothing Exchange since January 2014, Clothes Mentor since October 2006, and Device Pitstop since August 2013. Mr. Olson also has been the Chief Executive Officer of D. Ventures Inc., a Brooklyn Park, Minnesota-based retail dry cleaning company, since January 1990. Mr. Olson was the President and a director of our former affiliate, New Uses, LLC (“New Uses”) in Minnetonka, Minnesota from May 2011 until September 2019.

Chief Operations Officer: Chad Olson

Mr. Chad Olson has been our Chief Operations Officer since January 2014. Mr. Olson also has been Chief Operations Officer of NTY Clothing Exchange since January 2014, Clothes Mentor since January 2007, and Device Pitstop since August 2013. Mr. Olson was Chief Operations Officer for New Uses in Minnetonka, Minnesota from May 2011 until September 2019.

Vice President of Strategic Planning: Michael D. Smith

Mr. Smith has been the Vice President of Strategic Planning since January 2018. Mr. Smith has also been the Vice President of Strategic Planning for our affiliate companies Device Pitstop, NTY Clothing Exchange, and Clothes Mentor beginning January 2018. Mr. Smith was Vice President of Strategic Planning of New Uses in Minnetonka, Minnesota from May 2011 until September 2019.

Vice President: Jenny Mann

Mrs. Mann has been our Vice President since January 2017. From 2008 until January 2017, Mrs. Mann held a variety of positions with our parent, NTY Franchise Company, LLC and its subsidiaries, and most recently served as the Director of Marketing from January 2013 until January 2017.

**ITEM 3**

**LITIGATION**

Concluded Litigation:

In re Arbitration between CSW Strategic Solutions, LLC et al. v. NTY Franchise Company, LLC, et al. Case No. 012000054271 (commenced May 29, 2020). NTY Kids, LLC (“NTY Kids”) and CSW Strategic Solutions, LLC (“CSW”) were parties to a franchise agreement under which they opened and operated a Children’s Orchard® store in the Charlotte, North Carolina area. In May 2020, CSW and its owners, Shasta Webber and Craig E. Webber (collectively, “Claimants”), filed a Demand for Arbitration against NTY Franchise Company, LLC (“NTY”), NTY Kids, LLC, Children’s Orchard, LLC, Clothes Mentor, LLC, and certain officers and employees (collectively, the “NTY Parties”). Claimants alleged breach of contract, violation of the Minnesota Franchise Act, violation of the North Carolina Business Opportunity Act, breach of fiduciary duty, fraudulent nondisclosure, fraud, deceptive trade practices, negligent misrepresentation, and various related actions. Among other claims, Claimants alleged that one or more of the NTY Parties delivered improper financial performance representations during and after the franchise sales process. Claimants sought declaratory judgment, rescission (or in the alternative, reformation), equitable relief, compensatory damages, punitive damages, attorneys’ fees, costs and interest in excess of \$1,000,000. The NTY Parties denied the allegations made in the demand for arbitration. The parties entered into a Settlement Agreement in August 2021, under which the NTY Parties paid the Claimants \$400,000 in exchange for a dismissal of the arbitration proceeding and a full release of all claims against each of the NTY Parties.

In re Arbitration between Transcendent Business Holdings, LLC, et al. v. NTY Franchise Company, LLC, et al. Case No. 01-19-0002-4821 (commenced August 12, 2019). Transcendent Business Holdings, LLC (“Transcendent”) was a party to two separate franchise agreements, one with NTY Clothing Exchange, LLC (“NTY”) for a NTY Clothing Exchange® store and another with Children’s Orchard, LLC (“CO”) for a Children’s Orchard® store, each located in Maple Grove, Minnesota. In August 2019, Transcendent and its owner, Erin Hente (“Claimants”), filed a Demand for Arbitration against CO, NTY and NTY Franchise Company, LLC, and certain officers and employees (collectively, the “NTY

Parties”). Claimants alleged breach of contract, violation of the Minnesota Franchise Act, fraudulent non-disclosure, fraud, deceptive trade practices, negligence misrepresentation and various related actions. Among other claims, Claimants alleged that, prior to executing the NTY franchise agreement, one or more of the NTY Parties delivered improper financial performance representations respecting historical or projected sales of an NTY Clothing Exchange® store. Claimants sought in excess of \$1,000,000 in compensatory damages, together with punitive damages, attorneys’ fees, costs and interest. The parties entered into a Settlement Agreement on January 14, 2020, under which the NTY Parties paid the Claimants \$650,000 in exchange for a dismissal of the arbitration proceeding and a full release of all claims against each of the NTY Parties.

Other than the above, no litigation or government orders are required to be disclosed in this Item.

#### **ITEM 4**

#### **BANKRUPTCY**

No bankruptcies are required to be disclosed in this Item.

#### **ITEM 5**

#### **INITIAL FEES**

We offer an individual unit franchise. The “Initial Franchise Fee” for an individual unit franchise is \$25,000 for each Store. If you already own and operate a Children’s Orchard® Store, the Initial Franchise Fee for each additional Store is \$20,000. You must pay the Initial Franchise Fee when you sign the Franchise Agreement. The Initial Franchise Fee is not refundable under any circumstances.

You must pay BST \$3,000 as a Proprietary Software fee. You must also purchase point-of-sale hardware and other software (“POS System”). You must purchase the POS System from us or BST, and will pay us or BST between \$8,500 to \$10,500, depending on the number of terminals you use in your Store. You must pay BST or us these amounts when you order the software and computer hardware. These fees are payable in a lump sum and not refundable.

As further described in Items 6 and 11, when you sign the Franchise Agreement, you will pay us a prorated portion of the Technology Access Fee for the remaining months in the calendar year.

**ITEM 6**

**OTHER FEES**

<b>Type Of Fee</b>	<b>Amount</b> (See Note 1)	<b>Due Date</b>	<b>Remarks</b>
Royalty Fee	4% of total Net Sales (See Note 2)	Payable weekly by electronic funds transfer each Friday following the week (Sunday through Saturday) in which sales were made.	
Taxes	We may collect from you the cost of all taxes arising from your operation of the Store or our licensing of intellectual property (such as the Royalty Fees) to you in the state where your Store is located, as well as any assessment on fees and any other income we receive from you.	Payable, when applicable, by electronic funds transfer.	If a state imposes these taxes on Royalty Fees or other amounts paid to us, and we are not able to get an equal tax credit (resulting in double taxation or taxation at a higher rate), we may collect these amounts from you to the extent they exceed the tax credit we do receive.
National Marketing and Promotional Fee (“NMF Fee”)	Currently \$2,000 per year, although we may increase the NMF Fee to an amount not exceeding \$3,000 per year on 60 days’ notice to you.	Payable by electronic funds transfer. \$166 is due the first Friday of each month.	Used for national marketing and promotional activities. See Item 11
Local Advertising	Minimum amount, when combined with cooperative advertising expenses, is 5% of total Net Sales.	Minimum amount must be spent during each calendar year.	See Note 3
Advertising Cooperative	Amount determined by local cooperative.	Established by us or franchisees	Contributions to Advertising Cooperative are credited to your obligation toward your local advertising obligation. See Item 11
Transfer Fee	1/3 of then-current Initial Franchise Fee	Before completion of transfer	See Note 4
Transferee Training Fee	Currently \$500 per transfer	When incurred	Payable to us when you transfer your software license a third-party.

Type Of Fee	Amount (See Note 1)	Due Date	Remarks
Renewal Fee	\$10,000	At least 30 days before renewal of Franchise Agreement.	
Remodeling Expenses	Will vary under circumstances	When incurred	See Note 5
Costs and Attorneys' Fees	Will vary under circumstances	When incurred	We may recover costs and reasonable attorneys' fees if you lose in a dispute with us.
Audit	Cost of audit plus 18% interest per year from due date.	30 days after billing	See Note 6
Interest Expenses	Lesser of 18% per year or the maximum rate permitted by law  For those franchisees subject to California law, the highest interest rate permitted under California law is 10% per year.	When due	Payable if you do not timely pay Royalty Fee, NMF Fee or other amounts owed to us or our affiliates.
Insurance	Cost of insurance	Payable before opening	If you fail to obtain or maintain required insurance, we may obtain insurance and seek from you reimbursement for insurance, including late charges.
Technology Access Fee	Currently \$500 per year	Payable by electronic funds transfer. You will pay us \$250 on March 31 each year, and \$250 on September 30 each year.	See Item 11 See Note 7
Software Support Fee	Currently \$250 per month, plus costs of third-party fees	Payable monthly to our designated supplier BST Software Company	The monthly cost for software support may increase with written notice. See Item 11 See Note 8
Additional Training Fee	Currently up to \$200 per person per day	Before training occurs.	Incurred for new manager training and additional training we require. See Item 11

Type Of Fee	Amount (See Note 1)	Due Date	Remarks
E-Commerce Program Fees	Currently, not collected	Payable, when applicable, by electronic funds transfer.	May be paid to us, our affiliate, and/or a designated vendor. We reserve the right to charge up to 2% of online Net Sales for E-Commerce Marketing and Development. May charge fees and administer at any time. These fees are in addition to all other fees you owe us (including Royalty Fees).

Notes:

- (1) Except where otherwise noted, all fees are payable to us by electronic funds transfer (“EFT”) and are non-refundable. Except for fees paid by the Predecessor, all fees are uniformly imposed.
- (2) “Net Sales” generally means all revenues received from the sale of goods and services, whether for cash or by check, credit card, or trade, in connection with the Store, less sales tax, and *after* coupons, discounts and returns. The term “Net Sales” includes internet sales, third party fees associated with e-commerce programs, off-premises sales and monies derived at or away from the Store.
- (3) If you do not spend the required minimum amount during the calendar year for approved cooperative or local advertising, we may require you to deposit with us the difference between what you should have spent for advertising during the calendar year and what you actually spent for advertising during the calendar year. We may deposit these monies in the NMF Fund or spend the monies in your market area as we determine.
- (4) You pay this fee when the Franchise Agreement or a substantial portion of the assets of the Store or any controlling interest in you is transferred. No transfer fee is due if the transfer is to an immediate family member.
- (5) You must remodel your Store or update or replace your POS System on notice from us. Excluding rebuilding obligations should your Store be destroyed or damaged due to a fire, natural disaster or similar event, we will not require you to substantially modernize or refurbish your Store more than once every five-year period following the effective date of your franchise agreement. Any refurbishing must comply with our then-current standards for Children’s Orchard® Stores. The scope of refurbishing may range from simply painting the Store to completely refurbishing the entire Store, including replacement of fixtures, signs, supplies and equipment. We cannot estimate the current cost for a refurbishing project because the refurbishing requirements will vary from Store to Store. You may make these payments in whole or in part to various third parties. If you relocate your Store, you will incur certain build-out or remodeling expenses at the new Store premises.
- (6) This fee is payable only if: (a) an audit shows an understatement of at least 2% of Net Sales for any month; or (b) an audit is required because you did not timely provide us with required information.

- (7) You must pay us the Technology Access Fee for each Store you own. We may increase the Technology Access Fee with 30 days written notice to you. We will not increase the Technology Access Fee by more than 10% each year. When you sign the Franchise Agreement, you will pay us a prorated portion of the Technology Access Fee for the remaining months in the calendar year. The Technology Access Fee is used in connection with your use of the Children’s Orchard® website and extranet system, and other expenses related to operating internet technologies.
- (8) You must pay BST a monthly Software Support Fee for each Store you own. The monthly cost for software support may increase with 30 days’ written notice. You must also reimburse BST for certain third-party supplier fees to cover certain software and hardware support we require, such as antivirus protection and a monitoring system. Currently, the costs for these third-party supplier fees range from \$165 to \$350 per year depending a number of factors including the number of terminals or computers at your Store. BST may change the suppliers or costs at any time upon written notice. We do not receive any portion of the fee from BST.

**ITEM 7**

**ESTIMATED INITIAL INVESTMENT**

**YOUR ESTIMATED INITIAL INVESTMENT**

<b>Type Of Expenditures</b> (See Note 1)	<b>Amount</b> (See Note 2)	<b>Method Of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is To Be Made</b>
Initial Franchise Fee See Note 3	\$20,000 to \$25,000	Lump Sum	When you sign the Franchise Agreement	Us
Leasehold Improvements See Note 4	\$21,000 to \$50,000	As Agreed Upon	As Incurred	Landlord, Various Third Parties Suppliers
Signs See Note 5	\$5,000 to \$9,000	As Agreed Upon	Before Opening	Various Third-Party Suppliers
Fixtures and Supplies See Note 6	\$40,000 to \$55,000	As Agreed Upon	Before Opening	Various Third-Party Suppliers or Third-Party Lessor
Proprietary Software and POS System See Note 7	\$11,500 to \$14,000	Lump Sum	Before Opening	BST or BST and Third-Party Lessor
Inventory See Note 8	\$30,000 to \$45,000	As Agreed Upon	As Ordered	Various Third-Party Suppliers

<b>Type Of Expenditures</b> (See Note 1)	<b>Amount</b> (See Note 2)	<b>Method Of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is To Be Made</b>
Deposits, Business Licenses and Permits See Note 9	\$7,000 to \$15,000	As Incurred	Before Opening	Various Third Parties
Legal and Accounting	\$0 to \$4,000	As Incurred	As Incurred	Various Third Parties
Security See Note 10	\$2,500 to \$4,500	As Incurred	As Incurred	Various Third Parties
Travel Expenses to Attend Training See Note 11	\$4,500 to \$9,000	As Incurred	Before Opening	Various Third Parties
Pre-Opening Labor Expense	\$10,000 to \$15,000	As Incurred	As Incurred	Employees
Grand Opening Advertising	\$12,000 to \$16,000	As Incurred	As Incurred	Various Third Parties
Rent – 3 Months	\$20,000 to \$25,000	As Incurred	As Incurred	Landlord
Miscellaneous Pre-opening Expenses See Note 12	\$14,000 to \$20,000	As Incurred	Before Opening	Various Third Parties
Additional Funds - 3 Months See Note 13	\$15,000 to \$20,000	As Incurred	As Incurred	Employees and Various Third Party Suppliers
<b>TOTAL</b> See Note 14	\$212,500 to \$326,500			

Notes:

- (1) The typical size of a Children’s Orchard® Store ranges from 3,000 to 4,000 square feet. For several items discussed below, your cost will increase as the number of square feet increases. The size of your Store is principally determined by requirements or restrictions that your landlord and appropriate municipality or zoning boards may impose, and availability and cost of leasable space. This Table reflects your estimated initial investment for a single Store operated under a Franchise Agreement. This information assumes that you will lease the premises for your Store.



- (2) Except where otherwise noted, all fees that you pay to us are non-refundable. We do not offer direct or indirect financing to franchisees for any items. Third party lessors, contractors and suppliers will decide if payments to them are refundable. The “Purchase Option Amount” assumes that you will purchase the following items for use in the Store: fixtures and supplies, Proprietary Software and computer hardware.
- (3) The Initial Franchise Fee paid is paid to us and is more fully described in Item 5.
- (4) Typical locations for your Store are smaller free-standing, multiple use and strip mall locations. Assuming that you will lease the premises for your Store, you will need to make certain leasehold improvements to the leased premises to comply with our approved plans and specifications. Leasehold improvements includes lighting, flooring and partition walls. We anticipate that you will negotiate some or all of the cost of leasehold improvements as part of your rental expense. The exact cost or impact on your rental expense will depend on several factors, including the condition of the premises, whether you elect to do more than the minimum required renovations, the landlord’s agreement to reimburse you for certain improvements, the size and location of the premises for your Store and other economic factors. Although we do not recommend that you purchase the land and building for your Store, you will incur significantly greater costs in developing your Store if you choose to do so. All construction materials and fixtures must comply with our specifications. Although we estimate that you will need to lease premises of approximately 3,000 to 4,000 square feet for a Store, you may need a larger premises in some situations based on local market conditions or your anticipated Store location, layout or inventory levels. We estimate that you may pay from \$20 to \$35 per square foot in the rental expense (including common area maintenance and taxes) for your Store premises. The exact amount of rental expense will vary greatly, depending on the location of the Store premises, the portion of rent representing the value of leasehold improvements at the Store premises, local market conditions and other factors. You may incur greater or lesser start-up costs depending on your ability to negotiate a tenant improvement allowance with the assumption that the space will be delivered in a “vanilla shell” condition from your landlord.
- (5) This includes an estimate for interior and exterior signs for the Store. All signs must meet our standards and comply with your landlord’s requirements as well as any local government regulations.
- (6) This amount includes estimated expenses for fixtures, supplies, space planning, delivery, freight, and any applicable sales tax. The cost of purchasing or leasing equipment and supplies may vary as a result of the characteristics of the Store site and price differences between suppliers.
- (7) These estimates reflect the amounts you pay to purchase the Proprietary Software license and to purchase the POS System which we have selected for use in your Store for two or three terminals. Currently, we estimate the Proprietary Software license will cost \$3,000 and the POS System costs range from \$8,500 to \$10,500. These amounts include the computer access and POS System development fees, and the applicable Technology Access Fee. (See Items 5, 11.)
- (8) You will need to buy opening inventory that complies with our specifications. This amount assumes that substantially all of your opening inventory will be used kid’s clothing, accessories and toys. We may refuse to allow you to open your Store unless you have a minimum of \$30,000 (at cost) in inventory.

- (9) This amount includes estimates for business licenses, permits, prepaid insurance, the lease deposit and utility deposits may vary considerably, depending on the size and location of your Store. Deposits are generally refundable, but prepaid insurance payments are not.
- (10) This amount includes estimates for expenses you will incur for securing and monitoring your Store. This includes store security systems and other loss prevention equipment.
- (11) This amount includes estimates for travel expenses for two persons to attend the initial training program. We do not charge you a fee for the two persons who attend the initial training program.
- (12) Miscellaneous expenses include various outside services and equipment, other miscellaneous store supplies and other business software licenses.
- (13) This amount estimates the expenses you will incur during the first three months of Store operations, including insurance premiums, taxes, Store supplies and interest payments on any business loans. It includes only inventory costs beyond the opening inventory costs identified in the Table and does not include your compensation during this three-month period.
- (14) This total is an estimate of your pre-opening initial investment and the expenses you will incur during the first three months of Store operations. This total is based on our estimate of nationwide average costs and prevailing market conditions and our (including the Predecessor's) experience in the business. You should review this amount carefully with a business advisor before deciding to purchase the franchise. These figures are estimates only and we cannot guarantee that you will not have additional expenses in starting or operating your Children's Orchard® Store.

## **ITEM 8**

### **RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

To insure a uniform image and uniform quality of products and services throughout the Children's Orchard® system, you must maintain and comply with our quality standards. We will provide you with our Manuals and various bulletins and notices that will contain these standards. As we determine trends in the marketplace or develop new marketing techniques, technologies, products and services, we anticipate that we will develop and modify our standards as we consider appropriate and useful, and notify you through amendments to the Manuals, newsletters or other bulletins.

#### Inventory

You will offer for sale in your Store used and new kids clothing, equipment, accessories and toys for kids. Only those categories of merchandise that are listed in the Operations Manual may be sold in your Store. Most of the items offered for sale in your Store will be purchased from customers or other individuals, although we or other suppliers may be the designated supplier or only supplier for certain items. We or our designees currently are not the sole source of supply for any clothing, accessories or other inventory items, although we reserve the right to do so in the future.

#### Location of your Store; Real Estate Lease

You must locate a site for your Store that we consent to. We consent to locations on a case by case basis, reviewing items such as size, appearance and other physical characteristics of the site, demographic characteristics, traffic patterns, competition from other businesses in the area and other commercial characteristics, such as rental obligations and other lease terms (including those that we require be in the

lease). You may not sign a lease for the site until you provide us with a copy of the lease and allowed us reasonable time to confirm that the lease contains certain mandated provisions. We reserve the right to reject the lease if the lease does not contain these provisions. You are not required to purchase, lease or sublease the Store premises from us or our affiliate. We may require you to use a designated third-party vendor to assist you in the site selection process at your expense.

#### Fixtures, Equipment, Furniture & Signs

You must construct and develop your Store. We or our designated supplier will furnish to you prototypical drawings and specifications for your Store, including requirements for interior and exterior materials, decor, fixtures, equipment, furniture and signs. You must meet our specifications and standards in developing your Store. You must submit construction plans and specifications to us for our approval before you begin construction of your Store, and you must submit all revised plans and specifications to us during the course of construction. You must ensure that the plans and specifications comply with the Americans With Disabilities Act and all other applicable federal, state and local laws, ordinances, building code and permit requirements and lease requirements and restrictions. In developing and operating your Store, you may purchase only the types of construction and decorating materials, fixtures, equipment, furniture and signs that we require and have approved as meeting our specifications and standards for quality, design, appearance, function and performance. You may purchase these items from any supplier who can satisfy our standards and specifications. We or our affiliate may be an approved supplier of one or more of these items.

#### Computer Hardware And Software

You will purchase the POS System directly from us or BST. You must also purchase a license for the Proprietary Software from BST. See Item 11 for more information. Currently, there are no other designated suppliers of the POS System or the Proprietary Software.

#### Insurance

You must purchase and maintain for each Store you operate, at your expense, comprehensive general liability insurance with minimum limits of \$1,000,000, umbrella liability insurance with coverage of at least \$1,000,000, workers' compensation, employer liability, cyber liability and other insurance to meet statutory requirements, and fire, vandalism, theft, burglary, and extended coverage insurance with primary and excess limits of at least 100% replacement value of the Store premises, fixtures, equipment and inventory. All insurance policies must insure us, you, and any other person that we designate from all liability, damages or injury, and must meet all other requirements that we designate. We may periodically increase or change the amounts and types of insurance required. You will provide us with copies of the certificate of insurance, insurance policy endorsements and other evidence of compliance with these requirements as we periodically require at least 2 weeks before you take possession and commence development of the Store premises and at such other times as we may require. In addition, you will provide to us a copy of the evidence of the renewal or extension of each insurance policy in a form we require.

#### Advertising and Promotional Approval

If we provide local store media planning systems, you must use our recommended media plan in promoting the Store. You also must use only our approved advertising and promotional materials in promoting the Store. See Item 11 for further information regarding Advertising Programs.

### Customer Loyalty Programs

We may require you to participate in customer loyalty, gift card and other promotional programs that we establish, which may be provided by a designated third-party vendor. If we establish such programs, you must pay our third-party vendor any fees associated with such programs.

### E-Commerce Program

You are required to participate in electronic commerce programs (“E-Commerce Program”) that we established, which may be provided by us, our affiliates or designated third-party vendor. Currently, you will pay our e-commerce vendor, Shopify, a monthly fee of \$29. We reserve the right to charge up to 2% of all online net sales conducted through the E-Commerce Program’s website for our development, enhancement, administrative, and advertising expenses associated with the E-Commerce Program. The fees and administration for the E-Commerce Program are subject to change immediately upon written notice. These fees are in addition to all other fees you owe us (including Royalty Fees).

### Supplier and Product Approval

We will provide you with lists of approved manufacturers, suppliers and distributors (“Approved Suppliers List”) and approved inventory, products, fixtures, furniture, equipment, signs, supplies and other items or services necessary to operate your Store (“Approved Supplies List”). The Approved Suppliers List may list particular suppliers from which you must purchase certain signs, supplies, fixtures or other items for use in your Store. The Approved Supplies List may include specific brands or types of clothing or accessories that you may buy from any source provided that the items conform to the standards and specifications for the System. We, an affiliate or a third-party vendor or supplier periodically may be the only approved supplier for certain products. As noted above, BST is currently the only approved supplier of the Proprietary Software. As of the date of this disclosure document, we and our affiliates are not currently the only approved supplier for any products. The lists specify the suppliers and the products and services which we have approved for use in the System. We may revise these lists and provide you with a copy of approved lists as we deem advisable.

If you want to use any unapproved material, fixture, equipment, furniture or sign, or purchase any items from any supplier that we have not approved, you must first notify us in writing and must submit to us, at our request, sufficient specifications, photographs, drawings or other information or samples for us to determine whether the services, material, fixture, equipment, furniture or sign complies with our specifications and standards, or the supplier meets our approved supplier criteria. We will notify you of our decision within 30 days following our receipt of all information requested. We will pay the reasonable cost of the inspection and evaluation and the actual cost of the test. We may reinspect the facilities and products of any supplier or approved item and revoke our approval of any item or supplier which fails to continue to meet any of our criteria. We will send written notice of any revocation of an approved supplier or supply. As part of the approval process, we may require that a proposed supplier sign a supplier agreement covering such items as insurance, product quality, trademark use, and indemnification. We do not provide material benefits to you based on your use of designated or approved sources.

We apply certain general criteria in approving a proposed supplier, including the supplier’s quality and pricing of products, ability to provide products/services that meet our specifications, responsiveness, ability to provide products/services within the parameters required by the System, quickness to market with new items, financial stability, credit program for franchisees, freight costs, and the ability to provide support to the System (merchandising, field assistance, education and training respecting sales and use of products and services).

You may, however, buy used kid’s clothing, accessories and toys from the general public, provided you sell or offer for sale only clothing, accessories and toys which comply with our standards and specifications for the System.

Miscellaneous

We may negotiate prices for numerous products for the benefit of the System, but not for any individual franchisee. We are not aware of any purchasing or distribution cooperative in the System. We attempt to receive volume discounts for the System.

During our fiscal year ended December 31, 2023, we did not receive any revenue as a result of Children’s Orchard® franchisees’ purchases of goods, products and services. For the year ended December 31, 2023, BST received \$46,000 in revenue as a result of Children’s Orchard® franchisees’ purchases of goods, products and services.

We may derive revenue directly or in the form of rebates or other payments from suppliers, based directly or indirectly on the sale of clothing, accessories, advertising materials and other items to franchisees. We reserve the right to receive rebates or other payment and estimate that this revenue will range between 1% to 5% or more of the total purchase price of those items.

Our officers own an interest in BST. Otherwise, our officers do not own a material interest in any other supplier.

You must accept those bank cards and credit cards we specifically approve in the Operations Manual.

We estimate that the purchase or lease of equipment (including the POS System hardware and software), signs, fixtures, furnishings, supplies, inventory and advertising and sales promotions materials which meet our specifications will represent approximately 50% to 80% of the total cost to develop the Store. We estimate that the purchase or lease of supplies, inventory and advertising and sales promotions materials which meet our specifications will represent approximately 45% to 55% of the total cost to operate your Store.

**ITEM 9**

**FRANCHISEE’S OBLIGATIONS**

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

	<b>OBLIGATION</b>	<b>SECTION IN AGREEMENT</b>	<b>DISCLOSURE DOCUMENT ITEM</b>
a.	Site selection and acquisition/lease	Sections 2 and 4(A) of Franchise Agreement	Item 11
b.	Pre-opening purchases/leases	Section 4 of Franchise Agreement	Items 7, 8 and 11
c.	Site development and other pre-opening requirements	Section 4 of Franchise Agreement	Item 5, 7, and 11

	<b>OBLIGATION</b>	<b>SECTION IN AGREEMENT</b>	<b>DISCLOSURE DOCUMENT ITEM</b>
d.	Initial and ongoing training	Sections 5(B), 15(C) and 16(A) of Franchise Agreement	Items 7 and 11
e.	Opening	Sections 4(E) and 16(A) of Franchise Agreement	Items 5 and 11
f.	Fees	Sections 3(B), 4(D), 9, 10(K), 11 and 15(C) of Franchise Agreement	Items 5, 6 and 7
g.	Compliance with standards and policies/ Operations Manual	Sections 5(D) and (E) and 10 of Franchise Agreement	Items 11 and 16
h.	Trademarks and proprietary information	Sections 1(A) and (B), 6 and 7 of Franchise Agreement	Items 13 and 14
i.	Restriction on products/services offered	Section 2, and 10(C) and (E) of Franchise Agreement	Items 8 and 16
j.	Warranty and customer service requirements	Sections 10(E), (F), (G) and (I) of Franchise Agreement	Item 11
k.	Territorial development	Sections 2(B) and (C) of Franchise Agreement	Item 12
l.	Ongoing product/service purchases	Sections 4 and 10 of Franchise Agreement	Items 8 and 11
m.	Maintenance, appearance and remodeling requirements	Sections 3(B), 4(C), and 10(A) and (B) of Franchise Agreement	Item 11
n.	Insurance	Section 10(J) of Franchise Agreement	Items 6, 7 and 8
o.	Advertising	Section 11 of Franchise Agreement	Items 6, 7 and 11
p.	Indemnification	Section 8(B) of Franchise Agreement	None
q.	Owner's participation/management/staffing	Sections 10(D) and (I) of Franchise Agreement	Items 11 and 15
r.	Records/reports	Section 12 of Franchise Agreement	Item 6
s.	Inspections/audits	Section 13 of Franchise Agreement	Item 6
t.	Transfer	Section 15 of Franchise Agreement	Items 6 and 17
u.	Renewal	Section 3 of Franchise Agreement	Items 6 and 17
v.	Post-termination obligations	Sections 14 and 18 of Franchise Agreement	Item 17
w.	Non-competition covenants	Sections 14 and 18(A) of Franchise Agreement	Item 17
x.	Dispute resolution	Sections 19 and 20(D) and (E) of Franchise Agreement	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.**

Pre-Opening Obligations. Before you open your Store, we will:

- (1) Provide assistance in your evaluation and selection of a location for the Store (Franchise Agreement – Section 5(A)).
- (2) Provide you with prototype drawings and specifications for your Store, including those for dimensions, interior design and layout, building materials, fixtures, equipment, furniture, signs and décor (Franchise Agreement – Section 5(A)).
- (3) Provide the initial and store manager training programs described below (Franchise Agreement – Section 5(B)).
- (4) Provide to you access to the confidential Operations Manual. You must keep the Operations Manual confidential and discontinue using it when the Franchise Agreement terminates (Franchise Agreement – Section 5(E)).
- (5) Make available to you the POS System that we have developed or selected for the System (described further below) (Franchise Agreement – Section 4(D)).
- (6) Make available a field consultant to assist you in the opening and initial operations of your Store for 3-4 days (Franchise Agreement – Section 5(C)).

Ongoing Obligations. During the operation of your Store, we will:

- (1) Make available a field consultant to visit your Store approximately 90 days after the opening date of your Store, and periodically make available a field consultant for telephone conference calls and on-site field consultations on an ongoing basis. (Franchise Agreement – Sections 5(C) and 5(D)).
- (2) Provide advisory services relating to Store operations, including products and services offered for sale, selecting, purchasing and marketing clothing, accessories and toys and other items, marketing assistance and sales promotion programs, and operating, administrative and general operating procedures (Franchise Agreement – Section 5(D)).
- (3) Periodically provide you with updated and revised materials for the Operations Manual (Franchise Agreement – Section 5(E)).
- (4) Operate the NMF Fund (Franchise Agreement – Section 11(A)).

Advertising Programs. We establish and conduct various advertising programs as follows:

We operate a National Marketing and Promotional Fund (the “NMF Fund”) to advertise and promote Children’s Orchard® Stores in the System. You will pay us a national marketing fee each year (the “NMF Fee”). The current NMF Fee is \$2,000 per year, payable in 12 monthly installments of \$166 per month. We collect the NMF Fee via electronic funds transfer. We may increase the NMF Fee up to a total of \$3,000 per year upon 60 days’ written notice to you. We also have the right, upon 60 days’ prior

written notice to you, to adjust the NMF Fee payment schedule. We will deposit the NMF Fee in the NMF Fund that we manage through a separate account. We may use the NMF Fund to conduct national, regional and local advertising, marketing, promotional and public relations campaigns, including the cost of preparing and conducting print, point of purchase, radio, television, Internet, electronic and billboard advertising, and employing advertising agencies. We also will use the NMF Fund to develop advertising and promotional materials for regional and local advertising cooperatives and for use in each franchisee's local market. We will not use the NMF Fund for advertising that is principally solicitation for the sale of franchises. Currently, we anticipate that the NMF Fund will be used primarily to pay for creative design costs to produce marketing materials and templates. In the future, we may develop an in-house advertising staff to assist in advertising. We also contract with various outside advertising agencies and third-party vendors to produce certain advertising production and promotional materials and to create and implement public relations campaigns. We will determine the use of monies in the NMF Fund. We are reimbursed for reasonable administrative costs and overhead incurred in administering the NMF Fund for the preceding year.

We are not required to spend any particular amount on marketing, advertising or production in the area in which your Store is located. NMF Fees not spent in any fiscal year will be carried over for future use. We may make loans to the NMF Fund bearing reasonable interest to cover any deficit of the NMF Fund and cause the NMF Fund to invest in a surplus for future use by the NMF Fund. NMF Fees will not be used for advertising principally directed at the sale of franchises. At your request, we will provide you with an annual unaudited statement of the receipts and disbursements of the NMF Fund for the most recent calendar year.

Each new Children's Orchard® franchisee must pay the NMF Fee. Other franchisees may pay the same, less or more for the NMF Fee. In addition, each Store we own will contribute to the NMF Fund on the same basis as franchisees.

During our fiscal year ended December 31, 2023, 90% of the NMF Fund expenditures were spent on creative and production and 10% on administrative expenses.

We have an advertising council composed of franchisees that advise us on advertising policies. We select the members of the advertising council. The advisory council serves in an advisory capacity only. We have the power to form, change, or dissolve the advertising council.

You may develop advertising materials for your own use, at your own cost, if your materials are factually correct, accurately depict the Licensed Marks, and communicate the brand position and character that we have established for Children's Orchard® Stores. If you develop advertisement materials, you must provide a copy of the materials to us for our review and approval (in writing) before you use the advertising materials. You may use proposed advertising materials that otherwise comply with the Franchise Agreement if we do not respond within 15 days after we receive your proposed materials. If we later determine that your marketing materials do not satisfy our then-current advertising and promotional standards, you immediately must cease using those materials upon written notice from us. In addition, you must comply with all social media policies we require, as described in the Operations Manual.

You must spend at least 5% of the Net Sales of your Store during each calendar year on "approved" local advertising and promotional activities in your local geographic area. Store advertising and promotional activities are "approved" if they are included in our recommended media plan for the Store, if any, and otherwise satisfy our requirements (described above). Amounts spent on unapproved advertising activities will not qualify in determining whether you have satisfied this minimum expense requirement. If you do not spend the minimum amount required for local store advertising and public relations activities,



you must pay us the amount of the difference for deposit in the NMF Fund to be used as general NMF Funds.

You also must participate in and contribute to the local or regional advertising cooperative (the “Cooperative”) established in the area where your Store is located. We or a majority of franchisees (with our approval) may form a local or regional advertising Cooperative in your area. If a Cooperative is established, you must contribute an amount determined by the Cooperative. The Cooperative will use contributions to fund local and regional advertising and promotional campaigns and activities that we recommend or approve for use by the Cooperative. In the future, we may establish advertising campaigns and activities that the Cooperative must use. Contributions to the Cooperative are credited to your local advertising obligation described above. Each Cooperative must adopt written governing documents. Each Cooperative will determine its own voting procedures so long as those procedures are consistent with the general operating rules we have established. Children’s Orchard stores owned and operated by us or our affiliates will have the same voting power as franchised Children’s Orchard stores within that local or regional advertising cooperative. Members of the Cooperative and their elected officials are responsible for administering the local Cooperative. We recommend, but do not require, that each Cooperative prepare annual financial statements and make those financial statements available to all franchisees in the Cooperative. We have the power to establish advertising cooperatives and the rules under which regional and local advertising cooperatives will operate.

Point-of-Sale System. You must use in your Store a computerized multi-purpose point-of-sale system (“POS System”) that we have selected for use in Stores. We periodically may update or change the POS System or software in response to business, operations, marketing conditions, or changes in technology. We will not require you to replace your POS System more than once every five-year period from the effective date of the Franchise Agreement although we may require you to make certain updates and modifications to the POS System or software more frequently.

As of the issuance date of this disclosure document, the POS System package includes the point-of-sale and inventory management software (the “Proprietary Software”) that you will license from BST. The Proprietary Software is specifically designed to track various aspects of your Store, including inventory, customer tracking, daily sales reports and accounts receivable. You will be required to sign a software license agreement with BST. You will operate the Proprietary Software with a hardware and software package that you must purchase from BST that includes a 3 register system with back office computer and server featuring Microsoft® software.

The Proprietary Software is the proprietary property of BST. You will license the Proprietary Software from BST. Our affiliate began using the Proprietary Software in September 2013. If you purchase these items, you must purchase them from BST. Currently, the Proprietary Software license is \$3,000 and the POS System ranges from \$8,500 to \$10,500. You must pay BST these fees when you order the items.

BST will provide you with limited ongoing maintenance respecting the Proprietary Software. You may be required to purchase upgrades or updates to the Proprietary Software and there are no contractual limitations on the frequency and cost of this requirement, other than the requirement that the fee be reasonable in light of costs incurred to provide these services. (Franchise Agreement, Section 4(D)). You must pay BST the Software Support Fee (currently \$250 per month), which covers POS System services, maintenance and hosting. You must incorporate any upgrades and updates to the POS System. In addition, you must reimburse BST for all third-party supplier fees that BST incurs related to certain software and hardware support we require, such as antivirus protection and a monitoring system. Currently, the costs for these third party supplier fees range from \$165 to \$350 per year depending on a number of factors including the number of terminals or computers at your Store. Additionally, you must pay our designated supplier,

Shopify, a monthly processing fee (currently \$29 per month) for the E-Commerce Program. BST may change the suppliers or costs at any time upon written notice.

We have independent access to certain operational and financial information and data produced by your POS System. (Franchise Agreement, Section 4(D).) There are no contractual limitations on our right to access the information and data.

You also must pay us a Technology Access fee (currently \$500 per year) in connection with your use of the Children's Orchard® website and extranet system. (Franchise Agreement, Section 9(C).)

**Site Selection.** If you already have a potential location for a Store, you may propose the location to us. We may consent to the location after we have independently evaluated it. The location for the Store will be identified in Exhibit A to the Franchise Agreement. We will provide you with our general location selection and evaluation criteria. We may require you to use a designated third-party vendor to assist you in the site selection process at your expense. However, you are solely responsible for locating and obtaining a location which meets our standards and criteria and that is acceptable to us.

You must submit to us a complete site report (containing information that we may reasonably require) for the proposed Store location. The general location and evaluation criteria which you should consider include demographic characteristics of the proposed location, traffic patterns, parking, the predominant character of the neighborhood, the proximity to other businesses (including other Children's Orchard® Stores), and other commercial characteristics, and the proposed location, size of premises, appearance and other physical characteristics. We will notify you in writing within 30 days after we receive your complete location report and other materials we request whether the proposed location satisfies our site selection criteria. If we and you are unable to agree on a proposed location for the Store, the development of your Store may be delayed.

**Development Time.** The typical length of time between our acceptance of the Franchise Agreement and the opening of your Store varies from 6 to 12 months. This period may be longer or shorter, depending on the time of year, availability of financing, local construction delays, how soon you can attend training or other factors. You must complete development and open your Store by the date that we and you agree as stated in Exhibit A to the Franchise Agreement. If you do not open your Store by the agreed upon date, we may terminate the Franchise Agreement.

**Training.** We conduct two separate training sessions consisting of classes ranging from business planning, financial management and real-estate selection to Store operations, merchandising, inventory management and POS system training as well as In-Store training. Each session will generally be offered once per month. We reserve the right to conduct the training sessions remotely. You may not open your Store unless you (or if you are an entity, a Principal Owner) have successfully completed both sessions of the initial training program to our satisfaction. In addition, your Store manager must successfully complete both sessions of the initial training program to our satisfaction. If we determine that a proposed Store manager is not qualified to manage the Store, we will allow you to select a substitute Store manager to complete the initial training program. We will conduct the initial training on an as-needed basis.

### **Session 1 - Business Training**

You (or if you are an entity, a Principal Owner) must attend 2 1/2 days of Business Training covering subjects that address pre-Store opening procedures and tools that you will need prior to opening your Store including real estate/site selection, business planning, new Store development, marketing, personnel management, and QuickBooks. You (or if you are an entity, a Principal Owner) must attend the first available Business Training class after you have signed your Franchise Agreement.

## Session 2 - Operations and In-Store Training

You (or if you are an entity, a Principal Owner) and your Store manager must attend 7 days of Operations and In-Store Training. Operations Training currently lasts 5 days and will cover subjects that address back-of-house administration, loss prevention, inventory management, customer service and Store standards, including grand opening marketing, merchandising and product knowledge. In-Store Training will take place in your Store for a period of approximately 2 days, and will focus on the key areas of running your new Store including: POS training, Store procedures, product buying, local Store marketing, customer service and visual merchandising.

You (or if you are an entity, a Principal Owner) must have successfully completed Business Training before you and your Store manager may attend Operations and In-Store Training. Before Operations and In-Store Training, you also must have a signed lease that has been received by us and ordered your fixture package. Operations and In-Store Training must be completed before you begin your “Open to Buy” period.

The initial training program consists of the following:

### TRAINING PROGRAM SESSION 1

Subject(1)(2)	Hours of Classroom Training	Hours of “On-the-Job” Training	Location
Business Orientation	2.5	0	Plymouth, MN, or a location we designate
Fundamentals of Franchising	1.0	0	Plymouth, MN, or a location we designate
Real Estate	1.5	0	Plymouth, MN, or a location we designate
New Store Development	4.5	0	Plymouth, MN, or a location we designate
Business Planning	2.0	0	Plymouth, MN, or a location we designate
Personnel and Labor Planning	2.0	0	Plymouth, MN, or a location we designate
Marketing	1.0	0	Plymouth, MN, or a location we designate
Accounting Basics and QuickBooks	3.5	0	Plymouth, MN, or a location we designate
TOTALS	18.0	0	

### TRAINING PROGRAM SESSION 2

Subject(1)(2)	Hours of Classroom Training	Hours of “Hands On” Training	Location
Operations Review	2.0	0	Plymouth, MN, or a location we designate
Business Planning	1.5	0	Plymouth, MN, or a location we designate

<b>Subject(1)(2)</b>	<b>Hours of Classroom Training</b>	<b>Hours of “Hands On” Training</b>	<b>Location</b>
Financial Management and Accounting	2.0	0	Plymouth, MN, or a location we designate
Marketing	5.0	0	Plymouth, MN, or a location we designate
Customer Service and New Employee Orientation	6.5	0	Plymouth, MN, or a location we designate
Loss Prevention	1.5	1.0	Plymouth, MN, or a location we designate
Product Knowledge and Buying	1.5	9.0	Plymouth, MN, or a location we designate
Inventory Management	5.0	1.0	Plymouth, MN, or a location we designate
Merchandising and Store Standards	1.5	3.0	Plymouth, MN, or a location we designate
Daily Store Procedures and POS Overview	2.5	4.0	Plymouth, MN, or a location we designate
Coaching	0.5	0	Plymouth, MN, or a location we designate
E-Commerce	1.5	0	Plymouth, MN, or a location we designate
<b>TOTALS</b>	<b>31.0</b>	<b>18.0</b>	

- (1) The instructional materials for each subject includes the Operations Manual, the planning guides, reference books, lecture, classroom discussion, hands-on demonstration, role-play training and practice training in the training rooms.
- (2) Chad Olson oversees the Session 1 – Business Training program and Session 2 – Operations Training program. Mr. Chad Olson has been Chief Operations Officer of Children’s Orchard since January 2007.

We do not charge a fee for the initial training program described above. You are, however, responsible for travel and living expenses that you and your proposed managers incur while attending the initial training program. See Item 7 for additional information on travel and living expenses. After you open your Store, each new Store manager must attend and successfully complete the initial training program. We may charge you a fee for this additional training. In addition, we may require that you (or the Principal Owner of a franchisee that is an entity) and any Store manager or any assistant Store manager attend, or when available, participate by Internet in, supplemental and refresher training programs during the term of the Franchise Agreement. We may determine the time and place of this additional training and may charge you a reasonable fee for the training.

Operations Manual. During the term of the Franchise Agreement, we will loan to you one copy of, or allow electronic access to, our Operations Manual (the “Operations Manual”).

The current table of contents of the Operations Manual, as of the issuance date of this disclosure document, is as follows:

<b>Subject</b>	<b>Number of Pages</b>
Introduction	3
Operating the Franchise	19
Store Operations	67

<b>Subject</b>	<b>Number of Pages</b>
Store Administration	2
Risk Management	16
Personnel	37
<b>TOTAL</b>	<b>144</b>

## **ITEM 12**

### **TERRITORY**

You will receive an exclusive territory surrounding the location of your Store when you sign the Franchise Agreement (the “Protected Area”). The Protected Area will be determined by using natural trade areas and population numbers, but will be no less than a two-mile radius and no greater than a six-mile radius from a particular intersection. Typically, if you will operate in a metropolitan area with a population in excess of 200,000, you will receive a protected area with a minimum population of 50,000. If you locate your Store in a smaller market, you typically will receive a Protected Area with a minimum population of approximately 25,000. The location of the Store and the Protected Area will be identified in Exhibit A to the Franchise Agreement. If you do not have a site for your Store when you sign the Franchise Agreement, you will have 180 days after the date of the Franchise Agreement to find a site for the Store (acceptable to us) within the Protected Area, unless we grant you additional time in writing. Maintenance of your Protected Area is not dependent upon achieving certain sales volumes, market penetration or other contingency. Your Protected Area will not be altered during the initial term of your Franchise Agreement, although it may be altered upon renewal of your franchise.

During the term of the Franchise Agreement, if you are complying with the provisions of the Franchise Agreement, we will not establish any other franchised or company-owned Children’s Orchard® store in the Protected Area. We (for ourselves and our affiliates) reserve the right to sell in your Protected Area under the Licensed Marks through dissimilar channels of distribution (i.e., other than the operation of Stores), including by electronic means such as the Internet and websites we establish. We (for ourselves and our affiliates) also reserve the right to sell any products or services in your Protected Area under trademarks other than the Licensed Marks through similar or dissimilar channels of distribution, including by electronic means such as the Internet and by websites we establish. We and our other Children’s Orchard® franchisees may advertise in your Protected Area and may serve customers who reside in your Protected Area without compensation to you. We may advertise the System on the Internet and may create, operate, change or discontinue the use of a website using the Licensed Marks. We may grant franchises anywhere outside your Protected Area. We may sell anywhere all products and services which are not a part of the System. We also may operate and franchise others to operate retail stores located inside or outside the Protected Area, using different trademarks than the Licensed Marks, even if these stores compete with the Stores.

Under the E-Commerce Program, you will offer and sell items through our designated e-commerce platform. You must participate and comply with the term of our E-Commerce Program, as described in the Operations Manual. You must pay us, our affiliate, or our designated third-party vendor all fees associated with the E-Commerce Program.

You may relocate your Store only with our written consent, which we will not unreasonably withhold. If we permit you to relocate your Store, you will need to build out the Store consistent with our then-current standards for new Stores.

You must concentrate all advertising and other solicitation of customers inside the “Market Area” (as defined in the Franchise Agreement) of your Store unless you obtain our prior written consent. You

may not use other channels of distribution such as the Internet, catalog sales, telemarketing or other direct marketing.

You have no right of first refusal or similar rights to acquire additional franchises.

One of our affiliates developed a concept buying and selling used and new clothing and accessories for teens and young adult under the NTY Clothing Exchange trademark and this concept may offer certain products that are offered for sale in Children’s Orchard® Stores, such as clothing for teens. NTY Clothing Exchange franchised NTY Clothing Exchange businesses until 2021 and no longer offers franchises for new NTY Clothing Exchange businesses. Currently, there are 2 NTY Clothing Exchange franchised businesses operating in Rochester, New York and Knoxville, Tennessee. If there are conflicts between us and Children’s Orchard® franchisees and NTY Clothing Exchange franchisees regarding territory, customers, and support, we will work with all parties to resolve those conflicts but have no formal mechanism in place. NTY Clothing Exchange shares our principal business address and we do not have any plans to physically separate offices and training facilities.



Except as disclosed, neither we nor any affiliate operates, franchises, or has any other current plans to operate or franchise any business selling the products and services authorized for sale at a Children’s Orchard® Store under any other trademark or service mark.

**ITEM 13**

**TRADEMARKS**

We grant you the right to operate your Store under the name “Children’s Orchard.” You also may use our other Licensed Marks to operate your Store.

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

<b>Principal Trademarks</b>	<b>U.S. Registration No.</b>	<b>Registration Date</b>	<b>Principal/Supplemental Register</b>
CHILDREN’S ORCHARD	1,458,849	September 22, 1987	Principal
	1,884,065	March 14, 1995	Principal
	4854729	November 17, 2015	Principal

We have the right to periodically change the list of Licensed Marks. Your use of the Licensed Marks and any goodwill is to our exclusive benefit and you retain no rights in the Licensed Marks. You also retain no rights in the Licensed Marks when the Franchise Agreement expires or terminates. You are not permitted to make any changes or substitutions respecting the Licensed Marks unless we direct so in writing. You may not use any Licensed Mark or portion of any Licensed Mark as part of any corporate or any trade name, or any modified form or in the sale of any unauthorized product or service, or in any

unauthorized manner. You may not use any Licensed Mark or portion of any Licensed Mark on any website without our prior written approval.

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

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

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

#### **ITEM 14**

##### **PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

There are no patents or copyrights currently registered that are material to the franchise. We do claim copyright ownership and protection for the Operations Manual and for certain other written materials we provide to assist you in operating your Store.

We own certain trade secrets and proprietary or confidential information relating to the operation of Stores, including information in the Operations Manual (“Confidential Information”). You must keep confidential during and after the term of the Franchise Agreement the Confidential Information. When your Franchise Agreement expires or terminates, you must return to us all Confidential Information and all other copyright material. You must notify us immediately if you learn of an unauthorized use of the Confidential Information. We are not obligated to take any action and we will have the sole right to decide the appropriate response to any unauthorized use of the Confidential Information. You must comply with all changes to the Operations Manual at your cost. We will own Store customer data that is located on the POS System. We will periodically establish policies under which we or you may use this Store customer data.

#### **ITEM 15**

##### **OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

Unless otherwise approved by us in writing, the Store must at all times be under your direct supervision (or, if you are a partnership, corporation or limited liability company, a Principal Owner or an operating manager who we have approved and who has satisfactorily completed the training program). If an operating manager supervises the Store, you (or a Principal Owner) must remain active in Store operations, including oversight of the operating manager and any communications with us.

The person who is responsible for the day-to-day supervision of any Store (i.e., a Principal Owner or approved operating manager) assumes his/her responsibilities on a full-time basis and may not engage in any other business or other activity that requires any significant management responsibility, time commitments, or otherwise may conflict with his/her obligations. If the franchisee is a corporation, partnership or limited liability company, the franchisee entity may not engage in any business or activities other than the ownership and operation of Stores under Franchise Agreements that we grant. In addition, the Principal Owner and any designated operating manager must successfully complete our initial training program.

Each individual who owns a 10% or greater interest in the franchisee entity is considered a “Principal Owner” and must sign the Guaranty and Assumption of Obligations attached as Exhibit C to the Franchise Agreement. We may require the spouse of any person who signs the Guaranty and Assumption of Obligations to also sign the Guaranty and Assumption of Obligations. These people agree to discharge all obligations of the franchisee entity to us under the Franchise Agreement and are bound by all of its provisions, including maintaining the confidentiality of Confidential Information described in Item 14 and complying with the non-compete covenants described in Item 17. In addition, all of your employees who have managerial duties at the Store, as well as all corporate officers and directors of a corporate franchisee entity (all partners in a partnership), must sign a written agreement to maintain the confidentiality of our Confidential Information described in Item 14 and comply with the non-compete covenants described in Item 17.

## **ITEM 16**

### **RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You must offer and sell in your Store all, and only, those products and services that we have approved (see Item 8). You must at all times maintain an inventory of used and new kid’s clothing, accessories and toys in such quantities and variety that we direct. We may add new products or services that you must offer at your Store. Our right to modify the approved list of goods and services to be offered at a Store is not limited.

You may not install or maintain on the premises of the Store any newspaper racks, video games, jukeboxes, gaming machines, gum machines, games, rides, vending machines, pool tables, or other similar devices without our prior written approval.



**ITEM 17**

**RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

**THE FRANCHISE RELATIONSHIP**

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

Provision		Section in Franchise or Other Agreement	Summary
a.	Length of the franchise term	Section 3	Commences on the effective date of the Franchise Agreement and ends 10 years after the day your lease is effective, but no more than 10 years and 180 days after the effective date of the Franchise Agreement.
b.	Renewal or extension of the term	Section 3	If you are in good standing, you can renew the Franchise Agreement for one additional 10 year term.
c.	Requirements for you to renew or extend	Section 3	Provide advance notice, comply with current franchise agreement, you and your Store Manager satisfactorily complete any new/refresher training programs, sign new agreement (which may contain materially different terms and conditions than your original Franchise Agreement), remodel, sign release, pay renewal fee, and sign a general release of claims.
d.	Termination by you	Section 17	If you comply with the Franchise Agreement, and we fail to cure a material provision within 60 days after written notice.
e.	Termination by us without cause	Not Applicable	
f.	Termination by us with cause	Sections 16	We may terminate the Franchise Agreement only if you default.
g.	“Cause” defined – curable defaults	Sections 16(A) and (B)	You have 30 days to cure if you fail to: open the Store when required, complete training, comply with System standards, pay amounts due us or any creditors, or renew or maintain Store lease, or if you violate of any material provision of the Agreement.
h.	“Cause” defined – non-curable defaults	Sections 16(A) and (B)	Failure on 3 or more occasions in any 12 months to comply with any provision, default which is not curable, repeatedly deceive Store customers, conviction of or proof that you have committed a felony or other crime which harms the Store’s reputation, insolvency, an assignment of assets to creditors, Store abandonment, defaults which injure the goodwill associated with the Licensed Marks, use of unapproved website or other unauthorized conduct on the Internet, unauthorized assignment of agreement or interest in franchised business, and intentionally falsify any information provided to us.

Provision		Section in Franchise or Other Agreement	Summary
i.	Your obligations on termination/nonrenewal	Section 18	Pay all amounts due us, stop using and return manuals and other materials, assign to us the Store telephone number and telephone listing or (at our option) disconnect the telephone number, remove all signs and other materials containing any Licensed Marks, comply with obligations under the Proprietary Software license/access agreements, cancel all fictitious or assumed name filings, cease using Confidential Information, agree not to divert Store customers to any competing business for 2 years and redecorate the Store premises (also see o, r below).
j.	Assignment of contract by us	Section 15(A)	Assignee must fulfill our obligations under the agreement.
k.	“Transfer” by you-defined	Section 15(C)	Includes transfer of Store or its assets, or your interest in agreement or any significant (“controlling interest”) ownership change.
l.	Our approval of transfer by franchisee	Section 15(B), (C) and (D)	We have the right to approve all transfers of the Franchise Agreement, but will not unreasonably withhold approval.
m.	Conditions for our approval of transfer	Section 15(C)	New franchisee qualifies and completes training, all amounts owed us or our affiliates are paid, and you are in good standing, new franchisee assumes existing Agreement or (at our option) signs then-current agreement, we approve transfer agreement, transfer fee paid, lease assigned (if applicable), you sign non-compete agreement and general release. No transfer fee for transfer to immediate family member.
n.	Our right of first refusal to acquire your business	Section 15(F)	We can match any offer for your business.
o.	Our option to purchase your business	Section 18(C)	When the Franchise Agreement expires or terminates, we may purchase assets at book value.
p.	Your death or disability	Section 15(D)	Franchise must be assigned by estate to an approved buyer within reasonable time not exceeding 12 months.
q.	Non-competition covenants during the term of the franchise	Section 14(B)	No involvement in retail or wholesale business (including any e-commerce or internet-based business) that buys and sells primarily used goods and related services, including without limitation clothing, equipment and related accessories and toys, books, home furnishings, sporting goods, electronics and other devices, or any other related business that competes with a Children’s Orchard® store or any other retail store which is the subject of a franchise program that we or our parent or any of our affiliates then offers, except for the E-Commerce Program.

Provision		Section in Franchise or Other Agreement	Summary
r.	Non-competition covenants after the franchise is terminated or expires	Sections 14(C) and 18(A)	No used and new kid's clothing, accessories or toys business with a principal emphasis on kids or any other competing business for two years within 10 miles of your location or within 10 miles of another Store. Also, no e-commerce business that solicits customers within 10 mile radius of any Store.
s.	Modification of the agreement	Sections 1(B), 1(G), 10(E) and 20(F)	No modifications generally, except in writing. We may modify Operations Manual, Licensed Marks, System and goods/services to be offered to your Store.
t.	Integration/merger clause	Section 20(L)	Only the terms of the Franchise Agreement are binding (subject to state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.
u.	Dispute resolution by arbitration or mediation	Section 19	Except for actions we bring for monies owed, injunctive or extraordinary relief, or actions involving real estate, all disputes will be subject to binding arbitration in Minneapolis, Minnesota (subject to state law)
v.	Choice of forum	Section 20(D)	Litigation not subject to arbitration must be in Minneapolis, Minnesota (subject to state law). The forgoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by article 33 of the General Business law of the state of New York.
w.	Choice of law	Section 20(E)	The laws of the state where your Store is located applies (subject to state law). The forgoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by article 33 of the General Business law of the state of New York.

## ITEM 18

### PUBLIC FIGURES

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

## ITEM 19

### FINANCIAL PERFORMANCE REPRESENTATIONS

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

information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

“Net Sales” means all revenues received from the sale of goods and services, whether for cash or by check, credit card or trade, in connection with the Store, less sales tax, discounts and customer refunds and returns. “Average Net Sales” means the total Net Sales for the Stores in the applicable section and divided by the number of Stores in the applicable section. “Median Net Sales” means the middle value of Net Sales in the applicable section.

**2023 Financial Performance Representations**

In Table 1, the first quartile includes the average Net Sales of the 4 Stores with the highest Net Sales for the 2023 calendar year. The second quartile includes the average Net Sales of the 5 Stores with the second highest Net Sales for the 2023 calendar year. The third quartile includes the average Net Sales of the 5 Stores with the third highest Net Sales for the 2023 calendar year. The fourth quartile includes the average Net Sales of the 4 Stores with the lowest Net Sales for the 2023 calendar year.

<b>TABLE 1</b>				
<b>Quartile</b>	<b>Number of Stores</b>	<b>Net Sales Range</b>	<b>Average Net Sales</b>	<b>Median Net Sales</b>
<b>1</b>	4	\$506,559 - \$720,832	\$599,814	\$585,932
<b>2</b>	5	\$348,944 - \$433,184	\$376,682	\$360,087
<b>3</b>	5	\$263,741 - \$337,587	\$299,316	\$292,526
<b>4</b>	4	\$120,129 - \$240,597	\$188,144	\$195,924
<b>Total</b>	18	\$120,129 - \$720,832	\$362,879	\$343,266

- (1) Of the 4 Stores, 2 Stores (50%) met or exceeded the average Net Sales for the first quartile.
- (2) Of the 5 Stores, 3 Stores (60%) met or exceeded the average Net Sales for the second quartile.
- (3) Of the 5 Stores, 2 Stores (40%) met or exceeded the average Net Sales for the third quartile.
- (4) Of the 4 Stores, 2 Stores (50%) met or exceeded the average Net Sales for the fourth quartile.
- (5) Of the 18 Stores, 6 Stores (33%) met or exceeded the average Net Sales for all Stores.

**Some Children’s Orchard® Stores have earned this amount. Your individual results may differ. There is no assurance that you’ll earn as much.**

Written substantiation of the data used in preparing this financial performance representation will be made available to you upon reasonable request.

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 Michael Smith, Children’s Orchard, LLC, 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441, (952) 923-1223, the Federal Trade Commission, and the appropriate state regulatory agencies.

**ITEM 20**

**OUTLETS AND FRANCHISEE INFORMATION**

**TABLE NUMBER 1  
Systemwide Store Summary  
For Years 2021 to 2023**

<b>Store Type</b>	<b>Year</b>	<b>Stores at the Start of the Year</b>	<b>Stores at the End of the Year</b>	<b>Net Change</b>
<b>Franchised</b>	2021	23	23	0
	2022	23	20	-3
	2023	20	18	-2
<b>Company-Owned</b>	2021	0	0	0
	2022	0	0	0
	2023	0	0	0
<b>Total Stores</b>	2021	23	23	0
	2022	23	20	-3
	2023	20	18	-2

**TABLE NUMBER 2  
Transfers of Stores From Franchisee to New Owners (Other than the Franchisor)  
For Years 2021 to 2023**

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
<b>Michigan</b>	2021	1
	2022	0
	2023	0
<b>Nevada</b>	2021	0
	2022	0
	2023	1
<b>TOTAL</b>	2021	1
	2022	0
	2023	1

**TABLE NUMBER 3**  
**Status of Franchised Stores**  
**For Years 2021 to 2023**

<b>State</b>	<b>Year</b>	<b>Stores at the Start of the Year</b>	<b>Stores Opened</b>	<b>Terminations</b>	<b>Non-Renewals</b>	<b>Reacquired by Franchisor</b>	<b>Ceased Operations / Other Reasons</b>	<b>Stores at the End of the Year</b>
<b>Arkansas</b>	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
<b>California</b>	2021	6	0	0	0	0	0	6
	2022	6	0	0	0	0	0	6
	2023	6	0	0	0	0	1	5
<b>Kansas</b>	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	1	0
<b>Massachusetts</b>	2021	5	0	0	0	0	0	5
	2022	5	0	0	0	0	0	5
	2023	5	0	0	0	0	0	5
<b>Michigan</b>	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
<b>Nevada</b>	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
<b>New Hampshire</b>	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
<b>North Carolina</b>	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
<b>Oklahoma</b>	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	1	0
	2023	0	0	0	0	0	0	0
<b>Tennessee</b>	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	1	1
	2023	1	0	0	0	0	0	1
<b>Texas</b>	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	1	0
	2023	0	0	0	0	0	0	0
<b>Wisconsin</b>	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1

State	Year	Stores at the Start of the Year	Stores Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations / Other Reasons	Stores at the End of the Year
<b>Total</b>	2021	23	0	0	0	0	0	23
	2022	23	0	0	0	0	3	20
	2023	20	0	0	0	0	2	18

**TABLE NUMBER 4 (1)**  
**Status of Company-Owned Stores**  
**For Years 2021 to 2023**

State	Year	Stores at the Start of the Year	Stores Opened	Stores Reacquired From Franchisees	Stores Closed	Stores Sold to Franchisees	Stores at the End of the Year
<b>Total</b>	2021	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2023	0	0	0	0	0	0

**TABLE NUMBER 5**  
**Projected Openings**  
**As of December 31, 2023**

State	Franchise Agreements Signed But Store Not Opened	Projected New Franchised Stores in the Next Fiscal Year	Projected New Company-Owned Stores in the Next Fiscal Year
<b>Texas</b>	2	1	0
<b>TOTAL</b>	2	1	0

The names and addresses and telephone numbers of the franchised Stores are included in Exhibit C. Also attached as Exhibit C is a list of all franchisees who have had a franchise terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during calendar year 2023. If you buy a Children’s Orchard® franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

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

We are not aware of any trademark-specific franchisee associations.

**ITEM 21**

**FINANCIAL STATEMENTS**

The audited financial statements of our affiliate Clothes Mentor as of December 31, 2021, December 31, 2022, and December 31, 2023, are attached as Exhibit A. Our separate financial statements are not included in this disclosure document. Our fiscal year end is December 31. Clothes Mentor

absolutely and unconditionally guarantees the obligations of Children's Orchard under your Franchise Agreement. See Exhibit I for a copy of the written guarantee.

## **ITEM 22**

### **CONTRACTS**

The Franchise Agreement (including the Electronic Transfer of Funds form and Personal Guaranty) is attached as Exhibit B. The State Specific Addenda are attached as Exhibit E. A general release form is attached as Exhibit F. The Disclosure Acknowledgment Agreement is attached as Exhibit G. The current form software user agreement required by BST for use of the Proprietary Software is attached as Exhibit H.

## **ITEM 23**

### **RECEIPTS**

Two copies of an acknowledgment of your receipt of this disclosure document are included at the end of this disclosure document (Exhibit J). You should keep one copy as your file copy and return the second copy to us.



**EXHIBIT A**  
**FINANCIAL STATEMENTS**

CLOTHES MENTOR, LLC

Financial Statements  
for Years Ended  
December 31, 2023 and 2022

## Table of Contents

	Page
Independent Auditor's Report	1-2
<b>Financial Statements</b>	
Balance Sheets – December 31, 2023 and 2022	3
Statements of Income and Member's Equity for Years Ended December 31, 2023 and 2022	4
Statements of Cash Flows for Years Ended December 31, 2023 and 2022	5
Notes to Financial Statements – December 31, 2023 and 2022	6-15



**PRINCIPALS**

Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA/CMA  
Jaclyn M. Huegel, CPA  
Kalen T. Karnowski, CPA

**INDEPENDENT AUDITOR'S REPORT**

To the Member  
Clothes Mentor, LLC  
Minnetonka, Minnesota

**OPINION**

We have audited the accompanying financial statements of Clothes Mentor, LLC (a Delaware limited liability company) (the Company), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income and member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

**BASIS FOR OPINION**

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

**RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS**

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

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

(continued)

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

*Malloy, Montague, Karnowski, Radosевич & Co., P.A.*

Minneapolis, Minnesota  
April 8, 2024

FINANCIAL STATEMENTS

CLOTHES MENTOR, LLC

Balance Sheets

	December 31,	
	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$ 1,250,292	\$ 1,637,143
Accounts receivable	74,588	75,468
Accounts receivable – other	110,000	110,000
Contract assets – current	39,945	49,576
Other prepaid expenses	26,237	6,824
Total current assets	<u>1,501,062</u>	<u>1,879,011</u>
Property and equipment		
Office equipment and furnishings	62,802	62,802
Software development	67,699	67,699
	<u>130,501</u>	<u>130,501</u>
Less accumulated depreciation	<u>(107,391)</u>	<u>(93,524)</u>
Net property and equipment	23,110	36,977
Other assets		
Contract assets – long-term	147,277	151,016
Intellectual property rights	500,000	500,000
Trademark	200,000	200,000
Total other assets	<u>847,277</u>	<u>851,016</u>
Total assets	<u>\$ 2,371,449</u>	<u>\$ 2,767,004</u>
Liabilities and Member’s Equity		
Current liabilities		
Accounts payable	\$ 29,615	\$ 22,942
Accrued payroll expenses	–	10,993
Contract liabilities – current	81,816	113,171
Total current liabilities	<u>111,431</u>	<u>147,106</u>
Long-term liabilities		
Contract liabilities – long-term	266,901	281,985
Member’s equity	<u>1,993,117</u>	<u>2,337,913</u>
Total liabilities and member’s equity	<u>\$ 2,371,449</u>	<u>\$ 2,767,004</u>

CLOTHES MENTOR, LLC

Statements of Income and Member's Equity

	Years Ended December 31,	
	2023	2022
Revenue		
Franchise fees	\$ 123,936	\$ 187,862
Royalty fees	3,617,860	3,569,327
Marketing fund contributions	216,393	219,357
Total revenue	<u>3,958,189</u>	<u>3,976,546</u>
Selling, general, and administrative expenses		
Payroll and payroll benefits expense	1,055,858	1,042,098
Commission expense	53,570	83,949
Conference expense	105,430	46,809
Travel expense	136,957	93,493
Rent expense	121,738	76,993
Insurance expense	92,974	118,121
Advertising expense	435,888	365,645
Legal and accounting expense	123,617	43,339
Miscellaneous expense	345,831	326,953
Total selling, general, and administrative expenses	<u>2,471,863</u>	<u>2,197,400</u>
Other income and expense		
Interest income	<u>32,056</u>	<u>—</u>
Net income	1,518,382	1,779,146
Member's equity		
Beginning of year	2,337,913	1,041,264
Member draws	<u>(1,863,178)</u>	<u>(482,497)</u>
End of year	<u>\$ 1,993,117</u>	<u>\$ 2,337,913</u>



CLOTHES MENTOR, LLC

Statements of Cash Flows

	Years Ended December 31,	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Net income	\$ 1,518,382	\$ 1,779,146
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	13,867	4,622
Commission expense amortization	53,570	83,949
Franchise fee amortization	(123,936)	(187,862)
(Increase) decrease in current assets		
Accounts receivable	880	(17,446)
Contract assets	(40,200)	(47,400)
Other prepaid expenses	(19,413)	13,122
Increase (decrease) in current liabilities		
Accounts payable	6,673	(5,994)
Accrued payroll expenses	(10,993)	10,993
Contract liabilities	77,497	94,995
Net cash provided by operating activities	<u>1,476,327</u>	<u>1,728,125</u>
Cash flows from investing activities		
Payments for purchase of property and equipment	-	(41,599)
Cash flows from financing activities		
Member draws	<u>(1,863,178)</u>	<u>(482,497)</u>
Increase (decrease) in cash and cash equivalents	(386,851)	1,204,029
Cash and cash equivalents		
Beginning of year	<u>1,637,143</u>	<u>433,114</u>
End of year	<u>\$ 1,250,292</u>	<u>\$ 1,637,143</u>

CLOTHES MENTOR, LLC

Notes to Financial Statements  
December 31, 2023 and 2022

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF OPERATIONS**

Clothes Mentor, LLC (a Delaware limited liability company) (the Company) is organized as a limited liability company for the purpose of offering and selling licenses and franchises to operate retail stores that buy and sell new and used women’s apparel and accessories.

NTY Franchise Company, LLC (NTY) is the sole member of the Company.

**SIGNIFICANT ACCOUNTING POLICIES**

**A. Revenue Recognition**

The Company follows the Financial Accounting Standards Board (FASB) Accounting Standards Update 2014-09, “Revenue from Contracts with Customers,” as amended, which herein is referred to as Accounting Standards Codification (ASC) Topic 606. The standard outlines a single comprehensive five-step model for entities to use in accounting for revenues arising from contracts with customers that requires reporting entities to:

1. Identify the contract,
2. Identify the performance obligations of the contract,
3. Determine the transaction price of the contract,
4. Allocate the transaction price to the performance obligations, and
5. Recognize revenue.

Franchise revenues consist primarily of royalties, marketing fund contributions to the National Marketing and Promotion Fund (NMPF), and initial, renewal, and transfer franchise fees. The Company’s performance obligations under franchise agreements consist of: (1) a franchise license, including a license to use the Company’s brand and NMPF management, (2) preopening services, such as site selection, construction and building specification requirements, training, and inspections, and (3) ongoing services, such as development of training materials, financial and budgeting support, and store monitoring and inspections. These performance obligations are highly interrelated, so the Company does not consider them to be individually distinct. The Company accounts for them under ASC 606 as a single performance obligation, which is satisfied over time by providing a right to use the Company’s intellectual property over the term of each franchise agreement.

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2023 and 2022

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Revenue Recognition (continued)**

Royalties, including franchisee NMPF contributions, are calculated as either a percentage of franchise store sales or as a fixed amount, as determined by the contract. NMPF contributions paid by franchisees are used for the creation and development of brand advertising, marketing and public relations, merchandising research and related programs, activities, and materials. The initial franchisee fee and transfer fees are payable upon execution of the franchise agreement or assignment agreement, and the renewal fee is due and payable at the expiration of the initial term of the franchise agreement. The Company's franchise agreement royalties, including marketing fund contributions, represent sales-based royalties that are related entirely to the Company's performance obligation under the franchise agreement and are recognized as franchise sales occur.

Initial, renewal, and transfer franchise fees are recognized as revenue over the term of the respective agreement unless the franchise agreement is terminated early, in which case the remaining initial or renewal franchise fee is fully recognized in the period of termination.

**B. Statements of Cash Flows**

For purposes of the Statements of Cash Flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**C. Accounts Receivable**

The Company utilizes the reserve method of accounting for doubtful accounts. At December 31, 2023 and 2022, all accounts receivable balances were considered fully collectible; therefore, no allowance for doubtful accounts has been provided for within this report.

The Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) provided for an Employee Retention Credit (ERC), which is a broad-based refundable payroll tax credit that incentivized businesses to retain employees during the novel coronavirus (COVID-19) pandemic. The ERC is based on up to 50 percent of qualified wages paid after March 12, 2020 through December 31, 2020, up to a maximum credit of \$5,000 per employee per quarter. In 2021, the ERC increased to be based on up to 70 percent of qualified wages per employee per quarter, up to a maximum credit of \$7,000 per quarter. The ERC terminated effective September 30, 2021.

The Company qualified for the ERC based on the significant adverse financial impacts of the COVID-19 pandemic. At December 31, 2023 and 2022, the Company has recorded a receivable for ERCs applied for, but not yet received, totaling \$110,000 within accounts receivable – other on the Balance Sheets.

## CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2023 and 2022

### **NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **C. Accounts Receivable (continued)**

Laws and regulations concerning government programs, including the ERC established by the CARES Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Company's claim to the ERC, and it is not possible to determine the impact (if any) this would have on the Company.

##### **D. Contract Assets and Liabilities**

Contract assets consist of commission and brokerage expenses, which are incremental costs of obtaining a contract that the Company would not have incurred if the contract had not been retained. Generally, the Company anticipates recovering these costs through the execution of the franchise agreement. The incremental costs to obtain the contract are capitalized and recognized over the period of the contract, which reflects the transfer of goods or services to the customer.

Contract liabilities consist of deferred revenue resulting from initial and renewal franchise fees paid by franchisees, accrued marketing expenses, which are generally development incentives due back to a participating franchisee, and any residual funds intended for NMPF expenditures. Deferred revenue is generally recognized on a straight-line basis over the term of the underlying agreement. Accrued marketing expenses are recognized when the funds are remitted to the franchisee. Residual funds intended for NMPF expenditures are recognized when the advertising expenses are incurred.

##### **E. Property and Equipment**

Property and equipment are capitalized at cost. Depreciation of property and equipment is charged to operations at rates calculated to amortize the cost of the property and equipment ratably over their estimated useful lives using straight-line and accelerated methods.

The estimated useful life of property and equipment is three to seven years for office equipment and furnishings and software development costs.

##### **F. Intangibles**

In accordance with the *Intangible—Goodwill and Other (Topic 350)* of the FASB ASC, goodwill and other intangible assets are subject to an annual impairment assessment.

For income tax purposes, goodwill and other intangible assets are amortized ratably over a 15-year period.

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2023 and 2022

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Intangibles (continued)**

**Intellectual Property Rights** – The Company purchased intellectual property rights from two unrelated individuals. Intellectual property rights include the seller’s knowledge, respecting the operation of the business concept, the method and format of that concept, manuals, and goodwill related to such intellectual property rights and the business concept. The business concept is defined as the methods, procedures, standards, and specifications relating to a retail store concept, offering new and used apparel and accessories for women. These intellectual property rights are classified as unamortized intangible assets and are deemed to have an indefinite useful life. At December 31, 2023 and 2022, the carrying value was \$500,000 each year.

**Trademark** – The Company purchased a trademark for the name “Once Upon a Mom.” This trademark is classified as an unamortized intangible asset and is deemed to have an indefinite useful life. At December 31, 2023 and 2022, the carrying value was \$200,000 each year.

For the years ended December 31, 2023 and 2022, no impairment loss has been recognized.

**G. Franchise Fee Revenue**

The Company records franchise fee receivables upon the signing/execution of franchise agreements. Franchise fee revenue is recognized over the life of the contract.

Franchise fees collected from franchisees, but not yet recognized as income, are recorded as contract liabilities on the Balance Sheets.

Franchise fees generally range from \$15,000 to \$25,000 per store.

	Number of Franchised Outlets for Years Ended December 31,	
	2023	2022
Total franchised outlets at beginning of year	137	140
Franchised outlets sold	1	2
Franchised outlets opened	–	–
Franchised outlets closed or unopened terminations	(8)	(5)
	<u>130</u>	<u>137</u>
Total franchised outlets at end of year	<u>130</u>	<u>137</u>
Franchised outlets unopened at end of year	<u>13</u>	<u>16</u>
Franchised outlets in operation at end of year	<u>117</u>	<u>121</u>
Related party franchised outlets in operation at end of year	<u>–</u>	<u>–</u>

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2023 and 2022

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Royalty Fee Revenue**

The Company generally records royalty fee revenue equal to 4 percent of net weekly in-store sales of franchisees and 2 percent of net weekly online sales. Royalty fee revenue is recognized when net sales occur at franchise stores.

**I. Advertising Costs**

The Company expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2023 and 2022 totaled \$435,888 and \$365,645, respectively.

**J. Income Taxes**

The Company, as a single member limited liability company, is disregarded and, therefore, not a taxpaying entity for income tax purposes. Accordingly, the Company's taxable income or loss is allocated to NTY and no provision or liability for income taxes has been included in the accompanying financial statements.

The Company follows the recognition requirements for uncertain income tax positions as required by the FASB ASC 740-10. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Company has analyzed tax positions taken for filing with the Internal Revenue Service (IRS) and the state jurisdiction where it operates. The Company believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Company's financial condition, results of operations, or cash flows. Accordingly, the Company has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at December 31, 2023.

NTY is subject to routine audits by taxing jurisdictions.

**K. 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, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2023 and 2022

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Leases**

Effective January 1, 2022, the Company transitioned to accounting for leases in accordance with the FASB ASC 842. Leases are evaluated using the criteria outlined in the FASB ASC 842 to determine whether they will be classified as operating leases or finance leases.

The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when terms of an existing contract are changed. The Company determines if an arrangement conveys the right to use an identified asset and whether the Company obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. The Company recognizes a lease liability and a right-of-use (ROU) asset at the commencement date of the lease.

Beginning January 1, 2022, if any leases were to meet certain criteria, operating or financing lease ROU assets and the related current and long-term portions of operating or financing lease liabilities would be presented in the Balance Sheets. Due to the Company's minimal leasing activity as a lessee, no ROU assets or lease liabilities have been recognized.

**M. Subsequent Events**

Subsequent events have been evaluated by management through April 8, 2024, which is the date the financial statements were available to be issued.

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2023 and 2022

**NOTE 2 – ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following:

	December 31,	
	2023	2022
Royalty receivable	\$ 74,588	\$ 75,468

**NOTE 3 – CONTRACT ASSETS AND LIABILITIES**

The Company had contract assets consisting of the following:

	December 31,	
	2023	2022
Contract assets		
Commission fees	\$ 163,139	\$ 169,092
Brokerage fees	24,083	31,500
	187,222	200,592
Less current portion	39,945	49,576
Net long-term contract assets	\$ 147,277	\$ 151,016

The following table reflects the change in contract assets:

	Year Ended December 31,	
	2023	2022
Balance at beginning of year	\$ 200,592	\$ 237,141
Commissions paid	40,200	47,400
Expense recognized	(53,570)	(83,949)
Balance at end of year	\$ 187,222	\$ 200,592

The Company had contract liabilities consisting of the following:

	December 31,	
	2023	2022
Contract liabilities		
Deferred franchise fee revenue	\$ 348,717	\$ 395,156
Less current portion	81,816	113,171
Net long-term contract liabilities	\$ 266,901	\$ 281,985



CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2023 and 2022

**NOTE 3 – CONTRACT ASSETS AND LIABILITIES (CONTINUED)**

The following table reflects the change in contract liabilities:

	Year Ended December 31,	
	2023	2022
Balance at beginning of year	\$ 395,156	\$ 488,023
Franchise fees received	77,497	94,995
Revenue recognized	<u>(123,936)</u>	<u>(187,862)</u>
Balance at end of year	<u>\$ 348,717</u>	<u>\$ 395,156</u>

The following table reflects the estimated commission expense and franchise fee revenue expected to be recognized in the future related to the Company's capitalized commission expense and deferred franchise fees and brokerage fees that are unsatisfied (or partially unsatisfied) as of December 31, 2023:

Year Ending December 31,	Commission Expense Amortization	Franchise Fee Revenue Amortization
2024	\$ 39,945	\$ 81,816
2025	34,664	66,354
2026	30,511	54,986
2027	26,757	45,301
2028	25,349	41,790
Thereafter	<u>29,996</u>	<u>58,470</u>
	<u>\$ 187,222</u>	<u>\$ 348,717</u>

## CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2023 and 2022

### **NOTE 4 – NATIONAL MARKETING AND PROMOTION FUND (NMPF)**

The Company oversees and administers the NMPF, which serves as a marketing association for all stores. The NMPF develops, initiates, and executes marketing programs, including, but not limited to, the development of marketing tools for the mutual benefit of the franchisees making deposits into the NMPF. The NMPF is not a separate legal entity and is included in the Company's Balance Sheets. The NMPF is managed by the Company.

On a semiannual basis, the Company collects national marketing fees from the franchisees based on their respective franchise agreements. The Company has the option to increase the annual fee to a multiple of the original stated rate in the franchise agreement with a 60-day notice. (As of the date of these financial statements, the Company has not elected to increase fees.) Disbursements from the NMPF are to be used to pay expenses incurred in connection with general marketing and promotion of licensed franchisees.

National marketing fee deposits to the NMPF are recorded as income by the Company, and disbursements from the NMPF for marketing and promotion expenses are recorded as expenses, unless marketing deposits exceed the expenses incurred in which case the company records a contract liability for excess deposits.

### **NOTE 5 – RELATED PARTY TRANSACTIONS**

NTY allocates operating expenses to the Company based on an estimate of the time devoted by its employees to the Company's affairs, in addition to an allocation of general overhead expenses, including, but not limited to, rent expense, shared information technology services, and miscellaneous other expenses. The total expenses allocated to the Company were approximately \$905,000 and \$900,000 during the years ended December 31, 2023 and 2022, respectively.

NTY also allocates shared marketing and promotion costs to the Company's NMPF. The total marketing and promotion costs allocated to the Company were approximately \$99,000 and \$97,000 during the years ended December 31, 2023 and 2022, respectively.

### **NOTE 6 – EMPLOYEE BENEFIT PLAN**

NTY maintains a Simple Retirement Plan (the Plan) for substantially all of its related entities and employees. Matching contributions up to 3 percent of eligible compensation are made by the Company. The Plan allows eligible employees to make pretax contributions of earnings up to a maximum allowed by the IRS. Employee benefit plan expense totaling \$23,506 and \$20,112 for the years ended December 31, 2023 and 2022, respectively, is included in payroll and payroll benefits expense.

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2023 and 2022

**NOTE 7 – CREDIT RISK**

The Company maintains its cash balance in several financial institutions. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2023, the Company's uninsured cash balance totaled approximately \$764,000.

**NOTE 8 – RISKS AND UNCERTAINTIES**

The Company and NTY are subject to legal proceedings and claims, which arise in the ordinary course of its business. While the ultimate outcome of these matters is not presently determinable, it is in the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the financial position or results of operations of the Company. Due to the uncertainties in the settlement process, it is at least reasonably possible that management's view of outcomes will change in the near term.

CLOTHES MENTOR, LLC

Financial Statements  
for Years Ended  
December 31, 2022 and 2021

## Table of Contents

	Page
Independent Auditor's Report	1-2
<b>Financial Statements</b>	
Balance Sheets – December 31, 2022 and 2021	3
Statements of Income and Member's Equity for Years Ended December 31, 2022 and 2021	4
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Jaclyn M. Huegel, CPA  
Kalen T. Karnowski, CPA

**INDEPENDENT AUDITOR'S REPORT**

To the Member  
Clothes Mentor, LLC  
Minnetonka, Minnesota

**OPINION**

We have audited the accompanying financial statements of Clothes Mentor, LLC (a Delaware limited liability company) (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income and member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**BASIS FOR OPINION**

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

**RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS**

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

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

(continued)

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

Minneapolis, Minnesota  
April 14, 2023

FINANCIAL STATEMENTS



CLOTHES MENTOR, LLC

Balance Sheets

	December 31,	
	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 1,637,143	\$ 433,114
Accounts receivable	75,468	58,022
Accounts receivable – other	110,000	110,000
Contract assets – current	49,576	65,724
Other prepaid expenses	6,824	19,946
Total current assets	<u>1,879,011</u>	<u>686,806</u>
Property and equipment		
Office equipment and furnishings	62,802	62,802
Software development	67,699	26,100
	<u>130,501</u>	<u>88,902</u>
Less accumulated depreciation	<u>(93,524)</u>	<u>(88,902)</u>
Net property and equipment	36,977	–
Other assets		
Contract assets – long-term	151,016	171,417
Intellectual property rights	500,000	500,000
Trademark	200,000	200,000
Total other assets	<u>851,016</u>	<u>871,417</u>
Total assets	<u>\$ 2,767,004</u>	<u>\$ 1,558,223</u>
Liabilities and Member’s Equity		
Current liabilities		
Accounts payable	\$ 22,942	\$ 28,936
Accrued payroll expenses	10,993	–
Contract liabilities – current	113,171	160,299
Total current liabilities	<u>147,106</u>	<u>189,235</u>
Long-term liabilities		
Contract liabilities – long-term	281,985	327,724
Member’s equity	<u>2,337,913</u>	<u>1,041,264</u>
Total liabilities and member’s equity	<u>\$ 2,767,004</u>	<u>\$ 1,558,223</u>

CLOTHES MENTOR, LLC

Statements of Income and Member's Equity

	Years Ended December 31,	
	<u>2022</u>	<u>2021</u>
Revenue		
Franchise fees	\$ 187,862	\$ 300,432
Royalty fees	3,569,327	3,084,684
Marketing fund contributions	219,357	213,398
Total revenue	<u>3,976,546</u>	<u>3,598,514</u>
Selling, general, and administrative expenses		
Payroll and payroll benefits expense	1,042,098	763,139
Commission expense	83,949	111,405
Conference expense	46,809	69,887
Travel expense	93,493	43,904
Rent expense	76,993	30,237
Insurance expense	118,121	101,891
Advertising expense	365,645	232,421
Legal and accounting expense	43,339	40,274
Miscellaneous expense	326,953	183,480
Total selling, general, and administrative expenses	<u>2,197,400</u>	<u>1,576,638</u>
Net income	1,779,146	2,021,876
Member's equity		
Beginning of year	1,041,264	899,350
Member draws	<u>(482,497)</u>	<u>(1,879,962)</u>
End of year	<u>\$ 2,337,913</u>	<u>\$ 1,041,264</u>

CLOTHES MENTOR, LLC

Statements of Cash Flows

	Years Ended December 31,	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Net income	\$ 1,779,146	\$ 2,021,876
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	4,622	416
Commission expense amortization	83,949	111,405
Franchise fee amortization	(187,862)	(300,432)
(Increase) decrease in current assets		
Accounts receivable	(17,446)	(29,641)
Accounts receivable – other	–	(110,000)
Contract assets	(47,400)	(19,500)
Other prepaid expenses	13,122	–
Increase (decrease) in current liabilities		
Accounts payable	(5,994)	26,719
Accrued payroll expenses	10,993	–
Contract liabilities	94,995	49,997
Net cash provided by operating activities	<u>1,728,125</u>	<u>1,750,840</u>
Cash flows from investing activities		
Payments for purchase of property and equipment	(41,599)	–
Cash flows from financing activities		
Member draws	<u>(482,497)</u>	<u>(1,879,962)</u>
Increase (decrease) in cash and cash equivalents	1,204,029	(129,122)
Cash and cash equivalents		
Beginning of year	<u>433,114</u>	<u>562,236</u>
End of year	<u>\$ 1,637,143</u>	<u>\$ 433,114</u>

## CLOTHES MENTOR, LLC

Notes to Financial Statements  
December 31, 2022 and 2021

### **NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

#### **NATURE OF OPERATIONS**

Clothes Mentor, LLC (a Delaware limited liability company) (the Company) is organized as a limited liability company for the purpose of offering and selling licenses and franchises to operate retail stores that buy and sell new and used women's apparel and accessories.

NTY Franchise Company, LLC (NTY) is the sole member of the Company.

#### **SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Revenue Recognition**

The Company follows the Financial Accounting Standards Board (FASB) Accounting Standards Update 2014-09, "Revenue from Contracts with Customers," as amended, which herein is referred to as Accounting Standards Codification (ASC) Topic 606. The standard outlines a single comprehensive five-step model for entities to use in accounting for revenues arising from contracts with customers that requires reporting entities to:

1. Identify the contract,
2. Identify the performance obligations of the contract,
3. Determine the transaction price of the contract,
4. Allocate the transaction price to the performance obligations, and
5. Recognize revenue.

Franchise revenues consist primarily of royalties, marketing fund contributions to the National Marketing and Promotion Fund (NMPF), and initial, renewal, and transfer franchise fees. The Company's performance obligations under franchise agreements consist of: (1) a franchise license, including a license to use the Company's brand and NMPF management, (2) preopening services, such as site selection, construction and building specification requirements, training, and inspections, and (3) ongoing services, such as development of training materials, financial and budgeting support, and store monitoring and inspections. These performance obligations are highly interrelated, so the Company does not consider them to be individually distinct. The Company accounts for them under ASC 606 as a single performance obligation, which is satisfied over time by providing a right to use the Company's intellectual property over the term of each franchise agreement.

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2022 and 2021

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Revenue Recognition (continued)**

Royalties, including franchisee NMPF contributions, are calculated as either a percentage of franchise store sales or as a fixed amount, as determined by the contract. NMPF contributions paid by franchisees are used for the creation and development of brand advertising, marketing and public relations, merchandising research and related programs, activities, and materials. The initial franchisee fee and transfer fees are payable upon execution of the franchise agreement or assignment agreement, and the renewal fee is due and payable at the expiration of the initial term of the franchise agreement. The Company's franchise agreement royalties, including marketing fund contributions, represent sales-based royalties that are related entirely to the Company's performance obligation under the franchise agreement and are recognized as franchise sales occur.

Initial, renewal, and transfer franchise fees are recognized as revenue over the term of the respective agreement unless the franchise agreement is terminated early, in which case the remaining initial or renewal franchise fee is fully recognized in the period of termination.

**B. Statements of Cash Flows**

For purposes of the Statements of Cash Flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**C. Accounts Receivable**

The Company utilizes the reserve method of accounting for doubtful accounts. At December 31, 2022 and 2021, all accounts receivable balances were considered fully collectible; therefore, no allowance for doubtful accounts has been provided for within this report.

The Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) provided for an Employee Retention Credit (ERC), which is a broad-based refundable payroll tax credit that incentivized businesses to retain employees during the novel coronavirus (COVID-19) pandemic. The ERC is based on up to 50 percent of qualified wages paid after March 12, 2020 through December 31, 2020, up to a maximum credit of \$5,000 per employee per quarter. In 2021, the ERC increased to be based on up to 70 percent of qualified wages per employee per quarter, up to a maximum credit of \$7,000 per quarter. The ERC terminated effective September 30, 2021.

The Company qualified for the ERC based on the significant adverse financial impacts of the COVID-19 pandemic. During the year ended December 31, 2021, the Company recorded a \$110,000 reduction to payroll taxes related to the first quarter of 2021, which is included in payroll and payroll benefits expense on the Statements of Income and Member's Equity for the year ended December 31, 2021. At December 31, 2022 and 2021, the Company has recorded a receivable for ERCs applied for, but not yet received, totaling \$110,000 within accounts receivable – other on the Balance Sheets.

## CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2022 and 2021

### NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### C. Accounts Receivable (continued)

Laws and regulations concerning government programs, including the ERC established by the CARES Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Company's claim to the ERC, and it is not possible to determine the impact (if any) this would have on the Company.

##### D. Contract Assets and Liabilities

Contract assets consist of commission and brokerage expenses, which are incremental costs of obtaining a contract that the Company would not have incurred if the contract had not been retained. Generally, the Company anticipates recovering these costs through the execution of the franchise agreement. The incremental costs to obtain the contract are capitalized and recognized over the period of the contract, which reflects the transfer of goods or services to the customer.

Contract liabilities consist of deferred revenue resulting from initial and renewal franchise fees paid by franchisees, accrued marketing expenses, which are generally development incentives due back to a participating franchisee, and any residual funds intended for NMPF expenditures. Deferred revenue is generally recognized on a straight-line basis over the term of the underlying agreement. Accrued marketing expenses are recognized when the funds are remitted to the franchisee. Residual funds intended for NMPF expenditures are recognized when the advertising expenses are incurred.

##### E. Property and Equipment

Property and equipment are capitalized at cost. Depreciation of property and equipment is charged to operations at rates calculated to amortize the cost of the property and equipment ratably over their estimated useful lives using straight-line and accelerated methods.

The estimated useful life of property and equipment is three to seven years for office equipment and furnishings and software development costs.

##### F. Intangibles

In accordance with the *Intangible—Goodwill and Other (Topic 350)* of the FASB ASC, goodwill and other intangible assets are subject to an annual impairment assessment.

For income tax purposes, goodwill and other intangible assets are amortized ratably over a 15-year period.

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2022 and 2021

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Intangibles (continued)**

**Intellectual Property Rights** – The Company purchased intellectual property rights from two unrelated individuals. Intellectual property rights include the seller’s knowledge, respecting the operation of the business concept, the method and format of that concept, manuals, and goodwill related to such intellectual property rights and the business concept. The business concept is defined as the methods, procedures, standards, and specifications relating to a retail store concept, offering new and used apparel and accessories for women. These intellectual property rights are classified as unamortized intangible assets and are deemed to have an indefinite useful life. At December 31, 2022 and 2021, the carrying value was \$500,000 each year.

**Trademark** – The Company purchased a trademark for the name “Once Upon a Mom.” This trademark is classified as an unamortized intangible asset and is deemed to have an indefinite useful life. At December 31, 2022 and 2021, the carrying value was \$200,000 each year.

For the years ended December 31, 2022 and 2021, no impairment loss has been recognized.

**G. Franchise Fee Revenue**

The Company records franchise fee receivables upon the signing/execution of franchise agreements. Franchise fee revenue is recognized over the life of the contract.

Franchise fees collected from franchisees, but not yet recognized as income, are recorded as contract liabilities on the Balance Sheets.

Franchise fees generally range from \$15,000 to \$25,000 per store.

	Number of Franchised Outlets for Years Ended December 31,	
	2022	2021
Total franchised outlets at beginning of year	140	152
Franchised outlets sold	2	–
Franchised outlets opened	–	1
Franchised outlets closed or unopened terminations	(5)	(13)
	<u>137</u>	<u>140</u>
Total franchised outlets at end of year		
Franchised outlets unopened at end of year	<u>16</u>	<u>16</u>
Franchised outlets in operation at end of year	<u>121</u>	<u>124</u>
Related party franchised outlets in operation at end of year	<u>–</u>	<u>–</u>

## CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2022 and 2021

### **NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **H. Royalty Fee Revenue**

The Company generally records royalty fee revenue equal to 4 percent of net weekly in-store sales of franchisees and 2 percent of net weekly online sales. Royalty fee revenue is recognized when net sales occur at franchise stores.

##### **I. Advertising Costs**

The Company expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2022 and 2021 totaled \$365,645 and \$232,421, respectively.

##### **J. Income Taxes**

The Company, as a single member limited liability company, is disregarded and, therefore, not a taxpaying entity for income tax purposes. Accordingly, the Company's taxable income or loss is allocated to NTY and no provision or liability for income taxes has been included in the accompanying financial statements.

The Company follows the recognition requirements for uncertain income tax positions as required by the FASB ASC 740-10. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Company has analyzed tax positions taken for filing with the Internal Revenue Service (IRS) and the state jurisdiction where it operates. The Company believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Company's financial condition, results of operations, or cash flows. Accordingly, the Company has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at December 31, 2022.

NTY is subject to routine audits by taxing jurisdictions.

##### **K. 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, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2022 and 2021

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Leases**

Effective January 1, 2022, the Company transitioned to accounting for leases in accordance with FASB ASC 842. As part of the transition, the Company implemented new internal controls and key system functionality to enable the preparation of financial information on adoption and elected to apply the following practical expedients:

Package of practical expedients:

- Election not to reassess whether any expired or existing contracts are or contain leases.
- Election not to reassess the lease classification for any expired or existing leases.
- Election not to reassess initial direct costs on any existing leases.

Other practical expedients:

- Election whereby the lease and non-lease components will not be separated for leases of warehouse space and equipment.
- Election not to record right-of-use (ROU) assets and corresponding lease liabilities for short-term leases with a lease term of 12 months or less, but greater than 1 month. Leases of 1 month or less are not included in short-term lease costs.

Leases are evaluated using the criteria outlined in FASB ASC 842 to determine whether they will be classified as operating leases or finance leases. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when terms of an existing contract are changed. The Company determines if an arrangement conveys the right to use an identified asset and whether the Company obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. The Company recognizes a lease liability and ROU asset at the commencement date of the lease.

Beginning January 1, 2022, if any leases were to meet certain criteria, operating or financing lease ROU assets and the related current and long-term portions of operating or financing lease liabilities would be presented in the Balance Sheets. Due to the Company's minimal leasing activity, no ROU assets or lease liabilities have been recognized.

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2022 and 2021

**NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Recently Adopted Accounting Pronouncement**

**Lease Accounting**

In February 2016, the FASB issued Accounting Standards ASU No. 2016-02, *Leases (Topic 842)*. FASB ASC 842 supersedes the lease requirements in FASB ASC 840. Under FASB ASC 842, lessees are required to recognize assets and liabilities on the consolidated balance sheets for most leases and provide enhanced disclosures. The Company adopted FASB ASC 842, with a date of initial application of January 1, 2022, by applying the optional alternative transition method provided by ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. The Company did not restate prior comparative periods as presented under FASB ASC 840 and, instead, evaluated whether a cumulative effect adjustment to members' equity as of January 1, 2022, was necessary for the cumulative impact of adoption of FASB ASC 842.

After adoption, it was determined due to the Company's minimal leasing activity that no cumulative effect adjustment to members' equity as of January 1, 2022, was necessary. FASB ASC 842 did not have a significant effect on operations or cash flows for the year ended December 31, 2022.

**N. Subsequent Events**

Subsequent events have been evaluated by management through April 14, 2023, which is the date the financial statements were available to be issued.

**NOTE 2 – ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following:

	December 31,	
	2022	2021
Royalty receivable	\$ 75,468	\$ 58,022

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2022 and 2021

**NOTE 3 – CONTRACT ASSETS AND LIABILITIES**

The Company had contract assets consisting of the following:

	December 31,	
	2022	2021
Contract assets		
Commission fees	\$ 169,092	\$ 188,541
Brokerage fees	31,500	48,600
	<u>200,592</u>	<u>237,141</u>
Less current portion	<u>49,576</u>	<u>65,724</u>
Net long-term contract assets	<u>\$ 151,016</u>	<u>\$ 171,417</u>

The following table reflects the change in contract assets:

	Year Ended December 31,	
	2022	2021
Balance at beginning of year	\$ 237,141	\$ 329,046
Commissions paid	47,400	19,500
Expense recognized	<u>(83,949)</u>	<u>(111,405)</u>
Balance at end of year	<u>\$ 200,592</u>	<u>\$ 237,141</u>

The Company had contract liabilities consisting of the following:

	December 31,	
	2022	2021
Contract liabilities		
Deferred franchise fee revenue	\$ 395,156	\$ 488,023
Less current portion	<u>113,171</u>	<u>160,299</u>
Net long-term contract liabilities	<u>\$ 281,985</u>	<u>\$ 327,724</u>

CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2022 and 2021

**NOTE 3 – CONTRACT ASSETS AND LIABILITIES (CONTINUED)**

The following table reflects the change in contract liabilities:

	Year Ended December 31,	
	2022	2021
Balance at beginning of year	\$ 488,023	\$ 738,458
Franchise fees received	94,995	49,997
Revenue recognized	<u>(187,862)</u>	<u>(300,432)</u>
Balance at end of year	<u>\$ 395,156</u>	<u>\$ 488,023</u>

The following table reflects the estimated commission expense and franchise fee revenue expected to be recognized in the future related to the Company's capitalized commission expense and deferred franchise fees and brokerage fees that are unsatisfied (or partially unsatisfied) as of December 31, 2022:

Year Ending December 31,	Commission Expense Amortization	Franchise Fee Revenue Amortization
2023	\$ 49,576	\$ 113,171
2024	35,194	75,265
2025	29,496	58,135
2026	24,928	44,935
2027	21,090	35,083
Thereafter	<u>40,308</u>	<u>68,567</u>
	<u>\$ 200,592</u>	<u>\$ 395,156</u>

## CLOTHES MENTOR, LLC

Notes to Financial Statements (continued)  
December 31, 2022 and 2021

### **NOTE 4 – NATIONAL MARKETING AND PROMOTION FUND (NMPF)**

The Company oversees and administers the NMPF, which serves as a marketing association for all stores. The NMPF develops, initiates, and executes marketing programs, including, but not limited to, the development of marketing tools for the mutual benefit of the franchisees making deposits into the NMPF. The NMPF is not a separate legal entity and is included in the Company's Balance Sheets. The NMPF is managed by the Company.

On a semiannual basis, the Company collects national marketing fees from the franchisees based on their respective franchise agreements. The Company has the option to increase the annual fee to a multiple of the original stated rate in the franchise agreement with a 60-day notice. (As of the date of these financial statements, the Company has not elected to increase fees.) Disbursements from the NMPF are to be used to pay expenses incurred in connection with general marketing and promotion of licensed franchisees.

National marketing fee deposits to the NMPF are recorded as income by the Company, and disbursements from the NMPF for marketing and promotion expenses are recorded as expenses, unless marketing deposits exceed the expenses incurred in which case the company records a contract liability for excess deposits.

### **NOTE 5 – RELATED PARTY TRANSACTIONS**

NTY allocates operating expenses to the Company based on an estimate of the time devoted by its employees to the Company's affairs, in addition to an allocation of general overhead expenses, including, but not limited to, rent expense, shared information technology services, and miscellaneous other expenses. The total expenses allocated to the Company were approximately \$900,000 and \$709,000 during the years ended December 31, 2022 and 2021, respectively.

NTY also allocates shared marketing and promotion costs to the Company's NMPF. The total marketing and promotion costs allocated to the Company were approximately \$97,000 and \$106,000 during the years ended December 31, 2022 and 2021, respectively.

### **NOTE 6 – EMPLOYEE BENEFIT PLAN**

NTY maintains a Simple Retirement Plan (the Plan) for substantially all of its related entities and employees. Matching contributions up to 3 percent of eligible compensation are made by the Company. The Plan allows eligible employees to make pretax contributions of earnings up to a maximum allowed by the IRS. Employee benefit plan expense totaling \$20,112 and \$12,670 for the years ended December 31, 2022 and 2021, respectively, is included in payroll and payroll benefits expense.

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

**CHILDREN'S ORCHARD®  
FRANCHISE AGREEMENT**

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FRANCHISEE

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DATE OF AGREEMENT

Children's Orchard, LLC  
STD 2024 FA

**TABLE OF CONTENTS**

<b><u>Section</u></b>	<b><u>Description</u></b>	<b><u>Page</u></b>
1.	DEFINITIONS .....	1
2.	GRANT OF FRANCHISE .....	2
3.	TERM OF FRANCHISE; RENEWAL RIGHTS .....	3
4.	DEVELOPMENT AND OPENING OF THE STORE .....	4
5.	TRAINING AND OPERATING ASSISTANCE .....	6
6.	LICENSED MARKS.....	7
7.	CONFIDENTIAL INFORMATION/IMPROVEMENTS .....	8
8.	RELATIONSHIP OF THE PARTIES/INDEMNIFICATION .....	9
9.	FRANCHISE FEES.....	10
10.	STORE IMAGE AND OPERATING STANDARDS .....	11
11.	ADVERTISING .....	15
12.	RECORDS AND REPORTS .....	16
13.	INSPECTION AND AUDITS.....	17
14.	COVENANTS.....	18
15.	ASSIGNMENT .....	18
16.	FRANCHISOR’S TERMINATION RIGHTS .....	21
17.	FRANCHISEE’S TERMINATION RIGHTS.....	22
18.	FRANCHISEE OBLIGATIONS UPON TERMINATION .....	22
19.	DISPUTE RESOLUTION.....	24
20.	ENFORCEMENT.....	25
21.	NOTICES .....	27
22.	ACKNOWLEDGEMENTS .....	27

**EXHIBITS**

- A – STORE LOCATION AND PROTECTED AREA
- B – ELECTRONIC TRANSFER OF FUNDS FORM
- C – GUARANTY AND ASSUMPTION OF OBLIGATIONS



## CHILDREN'S ORCHARD® FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT ("Agreement") is made and entered into this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, between Children's Orchard, LLC, a Delaware limited liability company, with a principal place of business at 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441 ("Company," "we" or "us"), and \_\_\_\_\_, a \_\_\_\_\_, formed and operating under the laws of the State of \_\_\_\_\_, or \_\_\_\_\_, an individual, with a principal place of business at \_\_\_\_\_ ("you" or "Franchisee").

### INTRODUCTION

- A. We own a system (the "System") relating to the development and operation of retail stores buying and selling used and new clothing, equipment, accessories and toys for kids.
- B. We own the Children's Orchard® trademark, and other related trademarks and service marks used in operating the System.
- C. We grant qualified persons the right to develop, own and operate a Children's Orchard® store at a specific location.
- D. You desire to obtain the right to develop and operate a Children's Orchard® store using the System at a specific location.

### AGREEMENTS

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

#### 1. DEFINITIONS

A. "Confidential Information" means the methods, techniques, formats, marketing and promotional techniques and procedures, specifications, information, systems and knowledge of and experience in operating and franchising Children's Orchard® stores that we communicate to you or that you otherwise acquire in operating the Store under the System. Confidential Information does not include information, processes or techniques that are generally known to the public, other than through disclosure (whether deliberate or inadvertent) by you.

B. "Licensed Marks" means the Children's Orchard® trademark and service mark, and other trademarks, service marks, domain names, logos and commercial symbols that we have designated, or may in the future designate, for use in the System.

C. "Net Sales" means all revenues received from the sale of goods and services (whether for cash, by check, credit card or trade or otherwise) made or provided at or in connection with the Store, less sales tax, and after coupons, discounts and returns. The term "Net Sales" includes internet sales, third party fees associated with e-commerce programs, off-premises sales and monies derived at or away from the Store. The term "Net Sales" does not include: (1) any federal, state, municipal or other sales, value added or retailer's excise taxes that you pay or accrue; and (2) adjustments for net returns on salable goods and discounts allowed to customers on sales. Net Sales will not be adjusted for uncollected accounts.

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

E. “Protected Area” means the geographic area, identified in Exhibit A.

F. “Store” means the Children’s Orchard® store developed and operated under this Agreement which buys and offers for sale used and new clothing, equipment, accessories and toys for kids.

G. “System” means the Children’s Orchard® system which includes the buying and selling of used and new clothing, equipment, accessories and toys for kids under the Licensed Marks, using certain distinctive types of retail facilities, equipment (including the POS System (as defined in Section 4(D) below), supplies, Confidential Information, business techniques, methods and procedures, and sales promotion programs, as we periodically may modify and further improve.

## 2. GRANT OF FRANCHISE

A. Grant of Franchise, Store Location and Protected Area. Subject to the provisions contained in this Agreement, we grant you a franchise (the “Franchise”) to own and operate a Children’s Orchard® Store at a site approved by us and to use the Licensed Marks in operating the Store. The location of the Store and your Protected Area are identified in Exhibit A. If you do not have a location for the Store as of the Effective Date, you must enter into a lease for the Store premises under the terms of this Agreement within one hundred eighty (180) days after the date of this Agreement, unless otherwise approved by us in writing.

B. Nature of your Protected Area. During the term of this Agreement (as described in Section 3), if you are in compliance, we will not directly operate or franchise another to operate any other Children’s Orchard® store within the Protected Area. Other than as we may authorize in the Operations Manual, the license granted to you under this Agreement is personal in nature, may not be used at any location other than the Store, does not include the right to sell products or services identified by the Licensed Marks at any location other than at the Store, and does not include the right to sell products or services identified by the Licensed Marks through any other channels of distribution, including the Internet (or any other existing or future form of electronic commerce). You will not open any other Children’s Orchard® store in the Protected Area. You will not have the right to subfranchise or sublicense any of your rights under this Agreement. You will not use the Store for any purposes other than the operation of a Children’s Orchard® store. You will concentrate all Store advertising and solicitation of potential customers within your “Market Area,” unless you obtain our prior written consent. For purposes of this Section, the term “Market Area” means the geographic area identified in the Operations Manual (as defined in Section 5(E) below).

C. Rights Reserved To Us. We (for ourselves and our affiliates) retain the right:

1. to ourselves operate, or to grant other persons the right to operate, Children’s Orchard® stores at locations outside the Protected Area (except to the extent we may be restricted under a separate Children’s Orchard® Franchise Agreement to which you are a party);

2. to sell the products and services authorized for sale at Children's Orchard® stores under trademarks and service marks other than the Licensed Marks through similar or dissimilar channels of distribution;

3. to sell the products and services authorized for sale at Children's Orchard® stores under the Licensed Marks through dissimilar channels of distribution (i.e., other than the operation of retail Children's Orchard® stores), including by electronic means such as the Internet and by websites we established, and pursuant to conditions we deem appropriate within and outside the Protected Area; and

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

3. TERM OF FRANCHISE; RENEWAL RIGHTS

A. Term. The term of this Agreement commences on the date of this Agreement (the "Effective Date") and ends ten (10) years after the "Lease Date" (as defined in Exhibit A), but no later than ten (10) years and one hundred eighty (180) days after the Effective Date.

B. Renewal. You will have the right to renew the Franchise for the Store for one (1) additional ten (10) year term, provided you meet the following conditions:

1. you have given us written notice at least one hundred eighty (180) days before the end of the term of this Agreement of your intention to renew;

2. you have complied with all of the material provisions of this Agreement, including the payment of all monetary obligations you owe to us or our affiliates, and have complied with our material operating and quality standards and procedures;

3. you maintain possession of the Store premises and have at your expense made such reasonable capital expenditures necessary to remodel, modernize and redecorate the Store premises and to replace and modernize the supplies, fixtures, signs, and equipment used in your business so that your business reflects the then-current physical appearance of new Children's Orchard® stores, or are able to secure a new location within the Protected Area which we have accepted (such acceptance not to be unreasonably withheld) and agree to construct all required improvements to the Store premises and install all required fixtures and equipment in compliance with our then-current standards and specifications for new Children's Orchard® stores;

4. you and your Principal Owners meet all of our managerial, financial and business standards for new and renewing franchisees;

5. you (or if you are an entity, a Principal Owner who has been approved by us) and the Store manager completes, to our satisfaction, any new training and refresher programs as we may reasonably require. You are responsible for travel, living and compensation costs of attendees;

6. you have paid a Renewal Fee of ten thousand dollars (\$10,000) to us at least thirty (30) days before the term of this Agreement expires;

7. you sign the standard Franchise Agreement we then currently are using; provided that you will be required to pay the Renewal Fee in lieu of the Initial Franchise Fee stated in the then-current Franchise Agreement; and

8. you and each Principal Owner signs a general release, in form acceptable to us, of all claims against us and our current and former affiliates, and our and their respective past and present officers, directors, employees, and agents.

#### 4. DEVELOPMENT AND OPENING OF THE STORE

A. Lease for Store Premises. If you enter into a lease for the Store premises, you must provide a copy of the proposed lease to us before you sign it. We reserve the right to reject the proposed lease if your lease does not contain provisions requiring that: (1) so long as this Agreement remains in effect, the premises will be used only for a Children's Orchard® store; (2) we will be granted the right (but not the duty) to take possession of the Store premises and assume the lease in the event of a termination of this Agreement or a threatened termination of the lease as a result of a breach by you; (3) the landlord will provide us written notice of any default or right to cure by you; and (4) upon vacating the Store premises or termination of this Agreement or the lease for the Store premises, you must remove all signs and materials bearing the name "Children's Orchard" and other Licensed Marks. You must use, at your expense, our designated third party vendor to review and comment on the business terms of the proposed lease unless otherwise approved by us in writing.

B. Your Development of the Store. Promptly after you sign a lease or acquire the premises for the Store, and receive from us or our designee the prototype plans and specifications for the Store, you will:

1. prepare and submit to us for approval, which will not be unreasonably withheld, any proposed modifications to our basic plans and specifications, which you may modify only to the extent necessary to comply with applicable ordinances, building codes, permit requirements and lease or deed requirements and restrictions;

2. obtain all required building, utility, sign, health, sanitation and business permits and licenses, and any other required permits and licenses;

3. construct all required improvements to the Store premises, purchase and install all required fixtures and equipment and decorate the premises in compliance with the plans and specifications approved by us and all applicable ordinances, building codes, permit requirements and lease or deed requirements and restrictions;

4. obtain an opening inventory of used and new clothing, accessories, equipment and toys for kids required for the Store that satisfies our minimum requirements; and

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

C. Fixtures, Equipment, Furniture and Signs. You will use in constructing and operating the Store only those types of construction and decorating materials, fixtures, equipment (including computer hardware and software), furniture, and signs that we have approved for Children's Orchard® stores as meeting our specifications and standards for appearance, function and performance. You may purchase approved types of construction and decorating materials, fixtures, equipment, furniture and signs from any supplier we approve or designate (which may include us and/or our affiliates). If you propose to purchase

any material, fixture, equipment, furniture or sign we have not then approved, or any items from any supplier we have not then approved, you must first notify us in writing and will provide to us (upon our request) sufficient specifications, photographs, drawings and other information or samples for us to determine whether the material, fixture, equipment, furniture or sign complies with our specifications and standards, or the supplier meets our approved supplier criteria, which determination we will make and communicate in writing to you within a reasonable time.

D. Point-of-Sale System. You will use in the Store the point-of-sale system, including all existing or future communication or data storage systems, components thereof and associated service, which we have developed and/or selected for the System (the “POS System”). The POS System developed for use in your business includes one or more proprietary software programs developed for us (the “Proprietary Software”). You must use the Proprietary Software that we or our designated third party supplier provides. The Proprietary Software will remain the confidential property of us or our third party supplier. You may be required to enter into our or a third party supplier’s standard form computer software access or license agreement in connection with your use of the Proprietary Software. You will pay us or our third party suppliers a license fee related to your use of the Proprietary Software. You will pay the then-current license fee for the Proprietary Software at or before you open the Store for business. In addition, we or our third party supplier will charge you a reasonable monthly service fee, in the amount then posted on our intranet site or otherwise communicated to you, for computer software support we or our designee provides to you respecting the Proprietary Software. We reserve the right to assign our rights, title and interest in the Proprietary Software or any software license agreement to a third party we designate, or to replace the Proprietary Software. In such event, you may be required to enter into a separate computer software license agreement specified by us or the third party supplier of the Proprietary Software. We will not require you to replace the POS System, including the Proprietary Software, more than once during each five (5) year period starting from the Effective Date. We may require you to make certain updates and modifications to the POS System more frequently. We also may access financial information and customer data produced by or otherwise located on your POS System (collectively the “Customer Data”). We own the Customer Data that is stored on the POS System and you assign your rights in the Customer Data to us. We periodically will establish policies respecting the use of the Customer Data. You will have at the Store Internet access with a form of high-speed connection as we require. You will use an e-mail address we designate or approve for communication with us. The computer hardware component of the POS System must comply with specifications we develop. We have the right to designate a single source from which you must purchase the POS System, any software or hardware components thereof or associated service, and we or our affiliates may be that single source. You will be required to use and, at our discretion, pay for all future updates, supplements and modifications to the POS System. You are solely responsible for protecting yourself from disruptions, Internet access failures, Internet content failures, and attacks by hackers and other unauthorized intruders and you waive any and all claims you may have against us as the direct or indirect result of such disruptions, failures or attacks.

E. Store Opening. You will not open the Store for business without our prior written approval. You agree to complete the development and open the Store for business within the time period stated in Exhibit A.

F. Relocation of Store. You will not relocate the Store from the approved location of the Store without our prior written consent. If you relocate the Store under this Section, the “new” franchised location of the Store, including the real estate and building, must comply with all applicable provisions of this Agreement and with our then-current specifications and standards for Children’s Orchard® stores. If you must relocate the Store because the Store was destroyed, condemned or otherwise became untenable by fire, flood or other casualty, you must reopen the Store at the new franchised location in the Protected Area within twelve (12) months after you discontinue operation at the existing Store site. We will not unreasonably withhold our consent to the proposed relocation, provided we have received at least ninety (90) days written notice prior to the closing of the Store at the existing franchised location of the Store, you

have obtained a location acceptable to us within the Protected Area, and you agree to open the “new” location for the Store within five (5) days after you close the Store at the “prior” franchised location and otherwise comply with any other conditions that we may require.

## 5. TRAINING AND OPERATING ASSISTANCE

A. Development of Store. We or our designated supplier will provide you with prototype drawings and specifications for a Store, reflecting our requirements for dimensions, interior design and layout, image, building materials, fixtures, equipment, furniture, signs and decor. We will provide you with reasonable consulting services in connection with the selection and evaluation of the proposed Store site and development of the Store. You acknowledge that our assistance in site location and acceptance of the premises does not represent a guaranty or representation by us that the location will be a successful location for your Children’s Orchard® Store.

B. Training. Before the opening of the Store, we will provide, and you (or if you are an entity, a Principal Owner who has been approved by us) and any proposed manager of the Store must attend, an initial training program on the operation of the Store, provided at a place and time we designate. You are solely responsible for the compensation, travel, lodging and living expenses you and your employees incur in attending the initial training program or any supplemental or refresher training programs.

The initial training program will take place in up to two (2) phases, which must be successfully completed in accordance with the timeline specified by us. The training program includes instruction relating to Store operations, product purchasing and pricing, customer service, marketing and sales programs and methods of controlling operating costs. If, during any training program, we determine that any proposed manager is not qualified to manage the Store, we will notify you and you must select and enroll a substitute manager in the training program.

After the Store opens, we will provide training (at times we determine) to any new Store manager at your expense. We may require that you (or a Principal Owner) and any manager(s) and assistant manager(s) attend or, when available, participate by Internet in, all supplemental and refresher training programs that we designate. We may charge you a reasonable fee for the supplemental and refresher training programs.

C. Opening Assistance. If this is your first Children’s Orchard® Store, we will provide you with the services of one of our employees for three (3) to four (4) days to assist you in the opening and initial operations of the Store. After your Store opens for business, one of our representatives will conduct a follow-up visit your Store. We will determine the time at which the employee is available to you for such Store visits.

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

1. products and services authorized for sale at Children’s Orchard® stores;
2. selecting, purchasing and marketing for sale used and new clothing, accessories, equipment and toys for kids and other approved products, materials and supplies;
3. employee relations, marketing assistance and sales promotion programs and accountability of employees; and

4. establishing and operating administrative, bookkeeping, accounting, inventory control, sales and general operating procedures to properly operate a Children's Orchard® store.

We will provide such guidance, in our discretion, through our Operations Manual bulletins or other written materials, telephone conversations and/or meetings at our office or at the Store in connection with an inspection of the Store. We will provide additional assistance for a fee.

E. Operations Manual. We will provide on loan to you, during the term of this Agreement, one manual copy or electronic (internet) access to an Operations Manual, and other handbooks, manuals and written materials (collectively, the "Operations Manual") for Children's Orchard® stores. The Operations Manual will contain mandatory and suggested specifications, standards and operating procedures that we develop for Children's Orchard® stores and information relating to your other obligations. Any required specifications, standards and operating procedures exist to protect our interests in the System and the Licensed Marks and to create a uniform customer experience, and not for the purpose of establishing any control or duty to take control over those matters that are reserved to you. We may add to, and otherwise modify, the Operations Manual to reflect changes in authorized products and services, and specifications, standards and operating procedures of a Children's Orchard® store. The master copy of the Operations Manual that we maintain electronically or at our principal office and make available to you will control if there is a dispute involving the contents of the Operations Manual.

## 6. LICENSED MARKS

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

B. Limitations on Your Use of Licensed Marks. You agree to use the Licensed Marks as the sole identification of the Store, but you must identify yourself as the independent owner in the manner we direct. You must not use any Licensed Mark as part of any corporate or trade name or in any modified form, and you cannot use any Licensed Mark in selling any unauthorized product or service or in any other manner unless we have expressly authorized such use in writing. You agree to display the Licensed Marks prominently and in the manner we direct on all signs and forms. Subject to our rights described in this Agreement, you agree to obtain fictitious or assumed name registrations as may be required under applicable law.

C. Restrictions on Internet and Website Use. We retain the sole right to advertise the System on the Internet and to create, operate, maintain and modify, or discontinue the use of, any website using the Licensed Marks. You have the right to access our website. Except as we may authorize in writing, however, you will not: (1) link or frame our website; (2) conduct any business or offer to sell or advertise any products or services on the Internet (or any other existing or future form of electronic communication); (3) create or register any Internet domain name in any connection with your Franchise; (4) use any e-mail address which we have not authorized for use in operating the Store; and (5) conduct any activity on "social media" or related social networking websites other than as Franchisor has expressly authorized in writing. You will not register, as Internet domain names, any of the Licensed Marks or any abbreviation, acronym or variation of the Licensed Marks, or any other name that could be deemed confusingly similar. Further, you may not market, advertise or promote your Store or conduct any business on the Internet, including

using social and professional networking sites to promote your Store, except as provided in our written social media policy (if any) or with our prior written approval. Further, all marketing, advertising, and promotion of your Store on the Internet, including using social and professional networking sites, must comply with our written social media policy.

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

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

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

## 7. CONFIDENTIAL INFORMATION/IMPROVEMENTS

A. Confidential Information. You acknowledge and agree that you do not acquire any interest in the Confidential Information, other than the right to use it in developing and operating the Store pursuant to this Agreement, and that the use or duplication of the Confidential Information in any other business constitutes an unfair method of competition. You acknowledge and agree that the Confidential Information is proprietary and is disclosed to you solely on the condition that you agree that you: (1) will not use the Confidential Information in any other business or capacity; (2) will maintain the absolute confidentiality of the Confidential Information during and after the term of this Agreement; (3) will not make unauthorized copies of any Confidential Information disclosed in written form; (4) will adopt and implement all reasonable procedures we direct to prevent unauthorized use or disclosure of the Confidential Information, including restrictions on disclosure to Store employees; and (5) will sign a Confidentiality Agreement and will require all employees with access to Confidential Information to sign such an agreement in a form we approve.

The restrictions on your disclosure and use of the Confidential Information will not apply to disclosure of Confidential Information in judicial or administrative proceedings to the extent you are legally compelled to disclose this information, if you use your best efforts to maintain the confidential treatment of the Confidential Information, and provide us the opportunity to obtain an appropriate protective order or other assurance satisfactory to us of confidential treatment for the information required to be so disclosed.



Notwithstanding any other provision of this Agreement, there may be certain, limited circumstances where applicable law allows for the disclosure of certain trade secrets, as specified in the Operations Manual.

B. Improvements. You must fully and promptly disclose to us all ideas, concepts, methods, techniques, improvements, additions and Customer Data relating to the development and/or operation of a Children's Orchard® store or the System, or any new trade names, service marks or other commercial symbols, or associated logos relating to the operation of the Store, or any advertising or promotion ideas related to the Store (collectively the "Improvements") that you and/or your employees conceive or develop during the term of this Agreement. You agree that we have the perpetual right to use and authorize others to use the Improvements without any obligation to you for royalties or other fees.

C. Trade Secrets. You understand and agree that you will come into possession of certain of our trade secrets concerning the manner in which we conduct business including, but not necessarily limited to: methods of doing business or business processes; buying matrices; strategic business plans; customer lists and information; marketing and promotional campaigns; and any materials clearly marked or labeled as trade secrets. You agree that the forgoing information, which may or may not be considered "trade secrets" under prevailing judicial interpretations or statutes, is private, valuable, and constitutes trade secrets belonging to us. You agree that we derive independent economic value from the foregoing information not being generally known to, and not being readily ascertainable through proper means by another person. You agree to take reasonable measures, as may be described further in the Operations Manual, to keep such information secret. Upon termination of this Agreement, you will not use, sell, teach, train, or disseminate in any manner to any other person, firm, corporation, or association any trade secret pertaining to our business and/or the manner in which it is conducted.

## 8. RELATIONSHIP OF THE PARTIES/INDEMNIFICATION

A. Relationship of the Parties. You understand and acknowledge that we and you are independent contractors. Neither party is the agent, legal representative, partner, subsidiary, joint venture, joint employer, or employee of the other. Neither party will independently obligate the other to any third parties or represent any right to do so. This Agreement does not reflect or create a fiduciary relationship or a relationship of special trust or confidence. During the term of this Agreement, you must hold yourself out of the public, must conspicuously identify yourself at the premises of the Store and represent yourself in all dealings with employees, customers, lessors, contractors, suppliers, public officials and others as the owner of the Store under a franchise agreement from us, and must place other notices of independent ownership on signs, forms, stationery, advertising and other materials as we require.

B. Your Indemnification Obligations. You agree to indemnify and hold us and our subsidiaries, affiliates, stockholders, members, directors, officers, employees and agents harmless against, and to reimburse them for, any loss, liability or damages arising out of or relating to your ownership or operation of the Store or your or your employees' actions or inaction, and all reasonable costs of defending any claim brought against any of them or any action in which any of them is named as a party (including reasonable attorneys' fees and interest on such costs and fees) unless the loss, liability, damage or cost is solely due to our negligence.

C. Our Indemnification Obligations. We agree to indemnify and hold you and your officers, directors and agents harmless against, and to reimburse them for, any loss, liability or damage solely arising from or relating to our negligence or attributable to agreements, representations or warranties of us, and all reasonable costs of defending any claim brought against you or any action in which you are named as a party (including reasonable attorneys' fees and interest on such costs and fees).

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

9. FRANCHISE FEES

A. Initial Franchise Fee. You will pay us an initial franchise fee of \_\_\_\_\_ dollars (\$\_\_\_\_\_). The initial franchise fee is payable when you sign this Agreement. The initial franchise fee is fully earned by us when we sign this Agreement and is nonrefundable.

B. Royalty Fee. You will pay us a non-refundable weekly Royalty Fee in an amount equal to four percent (4%) of your Net Sales. The Royalty Fee is due and payable on the Friday of each week based on the Net Sales for the previous week (Sunday through Saturday).

C. Technology Access Fees. You will pay us our then-current annual "Technology Access Fee" in two installments on March 31 and September 30 each year in connection with your use of the Children's Orchard® website and extranet system, as described in Section 10(L). We reserve the right to increase the Technology Access Fee with thirty (30) days prior written notice to you. We will not increase the Technology Access Fee by more than ten percent (10%) each year.

D. Electronic Transfer of Funds. We will require you to sign electronic transfer of funds authorizations and other documents as we periodically designate, in the form attached as Exhibit B, to authorize your bank to transfer, either electronically or through some other method of payment designated by us, directly to our account and to charge your account for all amounts due to us from you. Your authorizations will permit us to designate the amount to be transferred from your account. You will maintain a balance in your accounts sufficient to allow us to collect the amounts owed to us when due. You will be responsible for any penalties, fines or similar expenses associated with the transfer of funds described herein.

E. Interest on Late Payments. All Royalty Fees, Technology Access Fees, national marketing fees (NMF Fees), and other amounts which you owe to us or our affiliates will bear interest after the due date at the lesser of: (1) eighteen percent (18%); or (2) the maximum contract rate of interest permitted by law in the state in which the Store is located.

R. Application of Payments. We have discretion to apply against amounts due to us or any of our affiliates any payments received from you or any indebtedness of us to you.

G. Withholding Payments Unlawful. You agree that you will not withhold payment of any Royalty Fees, Technology Access Fees, NMF Fees or any other amount due us, and that the alleged non-performance or breach of any of our obligations under the Franchise Agreement or any related agreement does not establish a right at law or in equity to withhold payments due us for Royalty Fees, Technology Access Fees, NMF Fees or any other amounts due.

H. Tax Indemnification. If any income, capital, gross receipts, sales, or other taxes are imposed by the state in which the Store is located as a result of your operation of the Store or the license of any of our intangible property in the jurisdiction in which the Store is located on Royalty Fees or other amounts paid to us, and we are unable to receive a tax credit equal to such tax amounts (resulting in double taxation or taxation at a higher rate), you will indemnify us and reimburse us for such taxes to the extent they exceed the tax credit we do receive. If more than one Children's Orchard® franchisee is located in such jurisdiction, they will share the liability in proportion to their Net Sales from the franchised business, except in the case of sales taxes and gross receipts taxes, which will be divided in proportion to taxable

sales to the franchisees. If applicable, this payment is in addition to the Royalty Fee payments described above.

#### 10. STORE IMAGE AND OPERATING STANDARDS

A. Condition And Appearance Of Store/Rebuilding Of Store. You agree to maintain the condition and appearance of the Store, and refurbish and modify its layout, decor and general theme, as we may require to maintain the condition, appearance, efficient operation, ambience and overall image of Children's Orchard® stores (as we may modify). You will replace worn out or obsolete fixtures, equipment, furniture, or signs, repair the interior and exterior of the Store and adjacent parking areas, and periodically clean and redecorate the Store; provided that we will not require you to substantially modernize or refurbish the Store no more than once every five (5) year period starting from the Effective Date. If at any time in our reasonable judgment, the general state of repair, appearance or cleanliness of the Store premises (including parking areas) or its fixtures, equipment, furniture or signs does not meet our then-current standards, we will so notify you, specifying the action you must take to correct the deficiency. To the extent the cooperation of the landlord is needed to complete the maintenance or refurbishing, you will use your best efforts to work with the landlord to correct the deficiency. If you fail, within ten (10) days after receipt of notice, to commence action and continue in good faith and with due diligence, to undertake and complete any required maintenance or refurbishing, we may (in addition to our rights under Section 16 below) enter the Store premises and correct the deficiencies on your behalf, and at your expense.

If the Store is damaged or destroyed by fire or any other casualty, you will, within thirty (30) days, initiate repairs or reconstruction, and thereafter in good faith and with due diligence continue (until completion) repairs or reconstruction, to restore the Store premises to its original condition before the casualty. If, in our reasonable judgment, the damage or destruction is of a nature or to an extent that you can repair or reconstruct the premises of the Store consistent with the then-current decor and specifications of a new Children's Orchard® store without incurring substantial additional costs, we may require you, by giving written notice, that you repair or reconstruct the Store premises in compliance with the then-current decor and specifications.

B. Store Alterations. You cannot alter the premises or appearance of the Store, or make any unapproved replacements of or alterations to the fixtures, equipment, furniture or signs of the Store without our prior written approval. We may, in our discretion and at your sole expense, correct any alterations to the Store not previously approved by us.

C. Restriction on Use of Premises. You agree that you will not, without our prior written approval, offer at the Store any products or services not then authorized by us for Children's Orchard® stores, nor will the Store or the premises which you occupy be used for any purpose other than the operation of a Children's Orchard® store in compliance with this Agreement.

D. Your Hiring and Training of Employees. You will hire all employees of the Store, and be exclusively responsible for the terms of their employment, compensation, scheduling, benefits, disciplining and all other personnel decisions respecting Store employees without any influence or advice from us. You will implement a training program for Store employees in compliance with our requirements. You will maintain at all times a staff of trained employees sufficient to operate the Store in compliance with our standards.

E. Products, Supplies and Materials. You agree that the Store will only offer for sale those products and services which we have approved as being suitable for sale and meeting the standards of quality and uniformity for the System. Certain products and services must be purchased from suppliers approved by us (which may include us and/or our affiliates). We periodically may modify the lists of

approved brands and suppliers, and you will comply with such modified lists of approved brands and suppliers. If you propose to offer for sale any products or other services which we have not approved, you must first notify us in writing and provide sufficient information, specifications and samples concerning the brand and/or supplier to permit us to determine whether the brand complies with our specifications and standards and/or the supplier meets our approved supplier criteria. We will notify you within a reasonable time whether or not the proposed brand and/or supplier is approved. We may develop procedures for the submission of requests for approved brands or suppliers and obligations that approved suppliers must assume (which may be incorporated in a written agreement to be signed by approved suppliers). We will have the right to charge each proposed supplier a reasonable fee in reviewing a proposed brand or supplier. We may impose limits on the number of suppliers and/or brands for any products and services to be used in the Store. You agree that certain products, materials, and other items and supplies may only be available from one source, and we or our affiliates may be that source. You must at all times maintain an inventory of products sufficient in quantity and variety to realize the full potential of the Store. Our approval is not required to buy clothing, accessories, equipment and toys for kids from the general public, provided you sell or offer for sale only clothing, accessories, equipment and toys for kids which comply with our standards and specifications for the System. WE AND OUR AFFILIATES MAKE NO WARRANTY AND EXPRESSLY DISCLAIM ALL WARRANTIES, INCLUDING WARRANTIES OF MERCHANTABILITY AND FITNESS FOR ANY PARTICULAR PURPOSE, RESPECTING PRODUCTS, EQUIPMENT (INCLUDING ANY REQUIRED COMPUTER SYSTEMS), SUPPLIES, FIXTURES, FURNISHINGS OR OTHER ITEMS THAT WE DISTRIBUTE OR THAT THIRD PARTIES APPROVED BY US MANUFACTURE OR DISTRIBUTE FOR USE IN THE SYSTEM.

We may conduct market research and testing to determine consumer trends and the market for used and new clothing, accessories, equipment and toys for kids.

F. Standards of Service. You must at all times give prompt, courteous and efficient service to your customers. You must, in all dealings with your customers and suppliers and the public, adhere to the highest standards of honesty, integrity and fair dealing.

G. Specifications, Standards and Procedures. You acknowledge and agree that each and every detail of the appearance and operation of the Store is important to us and other Children's Orchard® stores. You agree to maintain the highest standards of quality and service in the Store and agree to comply with all mandatory specifications, standards and operating procedures (whether contained in the Operations Manual or any other written communication to you) relating to the appearance or operation of a Children's Orchard® store, including:

1. type and quality of products and services;
2. quality and uniformity of service and sales of all products and services at the Store;
3. methods and procedures relating to marketing, dealing with customers and providing services and handling customer orders;
4. the hours and days during which the Store is open for business as specified in the Operations Manual unless otherwise approved by us in writing;
5. the safety, maintenance, cleanliness, function and appearance of the Store premises and its fixtures, equipment, furniture, décor and signs;
6. qualifications, dress, general appearance and demeanor of Store employees;

7. the style, make and/or type of equipment (including computer equipment) used in operating the Store;

8. use and illumination of exterior and interior signs, posters, displays, standard formats and similar items; and

9. Store advertising and promotion.

H. Compliance with Laws and Good Business Practices. You must secure and maintain in force all required licenses, permits and certificates relating to the operation of the Store and must operate the Store in full compliance with all applicable laws, ordinances and regulations, including labor and employment laws. You must comply with all laws and regulations relating to privacy and data protection, and must comply with any privacy policies or data protection and breach response policies we periodically may establish. You must notify us in writing within five (5) days of the commencement of any action, suit, proceeding or investigation, and of the issuance of any order, injunction, and award of decree, by any court, agency, or other governmental instrumentality that may adversely affect the operation or financial condition of you or the Store. You also must immediately notify us of any suspected data breach at or in connection with the Store. You will not conduct any business or advertising practice which injures our business, the System or the goodwill associated with the Licensed Marks and other Children's Orchard® stores.

I. Management of the Store/Conflicting Interests. Unless otherwise approved by us in writing, the Store must at all times be under your direct supervision or, if you are a partnership, corporation or limited liability company, a Principal Owner or an operating manager who we have approved and who has satisfactorily completed our designated training program. If an operating manager supervises the Store, you (or the Principal Owner) must remain active in Store operations, including oversight of the operating manager and any communications with us. If there is more than one Principal Owner, the Principal Owners must designate (in writing) one Principal Owner who will oversee store operations and represent you in interacting with us.

You must at all times faithfully, honestly and diligently perform your obligations and continuously use your best efforts to promote and enhance the business of the Store. Except as otherwise authorized by us in writing, the person who is responsible for the day-to-day supervision of the Store (i.e., the Principal Owner or the approved manager) must assume responsibilities on a full-time basis and must not engage in any other business or other activity, directly or indirectly, that requires any significant management responsibility, time commitments or otherwise may conflict with your obligations.

J. Insurance. You agree to purchase and maintain in force, at your expense, the following insurance:

1. Comprehensive general liability insurance, including products liability, property damage, and personal injury coverage with a combined single limit of at least one million dollars (\$1,000,000);

2. Umbrella liability insurance, with coverage of at least one million dollars (\$1,000,000);

3. Worker's compensation, employer's liability and other insurance to meet statutory requirements;

4. Fire, vandalism, theft, burglary and extended coverage insurance with primary and excess limits of not less than one hundred percent (100%) replacement value of the franchised facility and fixtures, equipment and inventory; and

5. Cyber liability insurance, with coverage amounts as specified.

All insurance policies will: (1) be issued by an insurance carrier(s) acceptable to us and that have an A.M. Best rating of A or higher; (2) will name us and our affiliates and our and their officers, directors, and employees as an additional insured; (3) contain a waiver of the insurance company's right of subrogation against us; (4) contain the above-mentioned insurance coverage for each Children's Orchard® Store that you operate; and (5) provide that we will receive thirty (30) days' prior written notice of any material change in or termination, expiration or cancellation of any policy. Additional insured coverage must not be limited to vicarious liability and must extend to (and there must be no endorsement limiting coverage for) the negligent acts, errors, or omissions of us and other additional insured. We may periodically, with prior written notice to you, increase the minimum liability protection requirements, and require different or additional kinds of insurance to reflect inflation or changes in standards of liability. If you at any time fail to maintain in effect any insurance coverage we require, or to furnish satisfactory evidence thereof, we, at our option, may obtain insurance coverage for you. You agree to promptly sign any applications or other forms or instruments required to obtain any insurance and pay to us, on demand, any costs and premiums we incur. You will provide us with copies of the certificate of insurance, insurance policy endorsements and other evidence of compliance with these requirements as Franchisor periodically requires at least two (2) weeks before you take possession and commence development of the Store premises and at such other times as we may require. In addition, you will provide to us a copy of the evidence of the renewal or extension of each insurance policy in a form we require. Your obligation to obtain and maintain these insurance policies in the amounts required by us will not be limited in any way by reason of any insurance that we may maintain, nor does your procurement of required insurance relieve you of liability under the indemnity obligations described in Section 8(B). Your insurance procurement obligations under this Section are separate and independent of your indemnity obligations. We do not represent or warrant that any insurance that you are required to purchase will provide adequate coverage for you. The requirements of insurance specified in this Agreement are for our protection. You should consult with your own insurance agents, brokers, attorneys and other insurance advisors to determine the level of insurance protection you need and desire, in addition to the coverage and limits we require.

K. Vending Services. You may not install or maintain on the premises of the Store any newspaper racks, video games, jukeboxes, gaming machines, gum machines, games, rides, vending machines, pool tables, or other similar devices without our prior written approval. Any income from vending services in the Store or on its premises, regardless of which person or entity collects the money, must be included in Net Sales for purposes of your Royalty Fee and any other fees due and owing to us.

L. Participation in Internet Website. We require you to participate in a Children's Orchard® website listed on the Internet or other online communications and participate in any extranet system we establish. We will, at our discretion, determine the content and use of a Children's Orchard® website and extranet system and will establish rules under which franchisees will participate. We will retain all rights relating to the Children's Orchard® website and extranet system and may alter the website or extranet system upon thirty (30) days' notice to you. Your general conduct on the Internet and the Children's Orchard® extranet system, and specifically your use of the Licensed Marks or any advertising on the Internet (including the domain name and any other Licensed Marks we may develop as a result of participation in the Internet), will be subject to the provisions of this Agreement. You acknowledge that certain information obtained through your online participation in the website or extranet system is considered Confidential Information (as defined in Section 7 above), including access codes and identification codes. Your right to participate in the Children's Orchard® website or extranet system or

otherwise use the Licensed Marks or the System on the Internet will terminate when this Agreement expires or terminates.

M. E-Commerce Program. You agree to participate in the e-commerce program we designate from time to time, provided you satisfy our then-current qualifications, and understand that we will establish the rules under which you will participate. You will pay us, our affiliate, and/or our approved third-party e-commerce vendor any fees associated with your participation in the e-commerce program, and you understand that such fees are subject to change immediately upon written notice to you.

N. Customer Loyalty Programs. We reserve the right to establish customer loyalty, gift card and other promotional programs, which may be provided by us or a designated third-party vendor. You agree to participate in such programs, and understand that we will establish the rules under which you will participate. In addition, our third-party vendor will charge you a monthly service fee, in the amount then posted on our intranet site or otherwise communicated to you, for program support we or our designee provide to you respecting such programs.

## 11. ADVERTISING

A. National Marketing and Promotional Fund. During the term of this Agreement, you will pay to us for deposit in a national marketing and promotional fund (the “NMF Fund”) a national marketing fee (the “NMF Fee”). As of April 1, 2021, the NMF Fee payable to us is two thousand dollars (\$2,000) per year. Based on that amount, the NMF Fee is currently payable in monthly installments equal to one hundred sixty-six dollars (\$166) per month due on the first Friday of each month. We have the right, during the term of this Agreement and upon sixty (60) days’ prior written notice to you, to increase the NMF Fee to an amount not exceeding three thousand dollars (\$3,000) per year. We also have the right, during the term of this Agreement and upon sixty (60) days’ prior written notice to you, to adjust the NMF Fee payment schedule. The NMF Fee is payable by electronic transfer of funds or such other form of payment that we require. We will place all NMF Fees we receive in the NMF Fund and will manage such Fund. We also will contribute to the NMF Fund for each Children’s Orchard® store that we operate in the United States on the same basis as a majority of Children’s Orchard® franchisees must pay to the NMF Fund. Reasonable disbursements from the NMF Fund will be made solely to pay expenses we incur in connection with the general promotion of the Licensed Marks and the System, including creative design costs to produce marketing and advertising materials, the cost of formulating, developing and implementing advertising, marketing promotional materials and public relations campaigns; and the reasonable costs of administering the NMF Fund, including the cost of employing advertising agencies to assist us and providing promotional brochures and advertising materials to Children’s Orchard® stores and to regional and local advertising cooperatives, as well as accounting expenses and the actual costs of salaries and fringe benefits paid to our employees engaged in any activities related to the promotion of the Trademarks, brand awareness, and the Children’s Orchard® system or in administration of the NMF Fund. The NMF Fund is not a trust or escrow account, and we have no fiduciary obligations regarding the NMF Fund. We cannot ensure that any individual franchisee will benefit directly or on a pro rata basis from the future placement of any such advertising in its local market. We may spend in any fiscal year an amount greater or less than the aggregate contributions of Children’s Orchard® stores to the NMF Fund in that year. We may, through the NMF Fund, furnish you with approved local marketing plans and materials on the same terms and conditions as we impose on plans and materials we furnish to other Children’s Orchard® franchisees. We will determine the methods of advertising, media employed, and scope, contents, terms and conditions of advertising, marketing, promotional and public relations campaigns and programs. Upon written request, we will provide you an annual unaudited statement of the receipts and disbursements of the NMF Fund for the most recent calendar year.

B. Local Advertising and Store Promotion. In addition to the NMF Fee due under Section 11(A) above, you will spend at least five percent (5%) of Net Sales during each calendar year on “approved” Store

advertising and promotional activities in your Market Area. On or before February 15 of each year, you will provide us with an accounting of the funds that you have spent for local advertising for the preceding calendar year. If you fail to spend the minimum amount required under this Section during the calendar year for approved regional cooperative advertising or local advertising, we may require that you deposit with us the difference between what you should have spent for approved advertising during the calendar year and what you actually spent for approved advertising during the calendar year. We will deposit that amount in the NMF Fund or spend it in your Market Area. For purposes of this Section, Store advertising and promotional activities are “approved” if they comply with Section 11(E) below.

C. Cooperative Advertising. You will participate in, support and contribute a proportionate share of the cost of regional cooperative advertising programs we designate. The amount of your contribution will be determined by the regional cooperative; provided that if the regional cooperative is unable or unwilling to designate the amount of the contribution, we may designate the contribution amount. We reserve the right to designate regional and local advertising markets, to establish regional advertising cooperatives and to establish the bylaws and other rules under which such councils will operate. Your contributions to regional and local advertising cooperatives will be credited toward your local advertising obligations described in Section 11(B) above.

D. Directory Advertising. You may, at your expense, list and advertise the Store in the telephone and business directories (both hard copy and electronic forms) we have identified in the Operations Manual that are distributed within or targeted for your Market Area, using our standard forms of listing. You will not publish or use any toll-free number in operating the Store, other than the toll free telephone number(s) we may designate. If you elect to list and advertise the Store in any approved telephone or business directories, you must use the directory categories we specify and use our standard form of listing and directory advertisements. The cost of advertising will be credited towards your local advertising obligations of at least five percent (5%) of Net Sales as described in Section 11(B) above.

E. Approved Advertising, Media Plans and Store Promotion Materials. We may develop, and make available to you, local store media planning assistance. If we do so, you must use our recommended media plan in promoting the Store or otherwise develop, and obtain our advance written approval to, an alternative media/promotion plan. In addition, you will use only our approved advertising and promotional materials approved by us in promoting the Store. If you desire to use any advertising or promotional materials in promoting the Store which we previously have not approved, you must obtain written approval from us before using any such materials, which approval will not be unreasonably withheld. If we do not respond within fifteen (15) days from the date we receive your proposed materials, you may use such materials provided they otherwise comply with this Agreement. If we later determine that your advertising materials do not satisfy our then-current advertising and promotional standards, you will immediately cease using such materials upon written notice from us.

F. Participation in Certain Programs and Promotions. You must use your best efforts to promote and advertise your Store and you must follow our policies, guidelines, and programs for advertising and promotion that are so identified in the Operations Manual or otherwise in writing. To the extent allowed by law, this includes a requirement that you must sell your products at the prices and discounts as advertised or promoted pursuant to these programs we may establish from time to time. You will have the right to advertise and sell your products at the prices you determine, provided such prices are consistent with our general marketing and advertising guidelines.

## 12. RECORDS AND REPORTS

A. Accounting and Records. During the term of this Agreement, you will, at your expense, maintain and retain for a minimum of three (3) years from the date of their preparation, complete and



accurate books, records and accounts (using such methods of bookkeeping and accounting as we may require) relating to the Store (the "Records"), in the form and manner we direct in the Operations Manual or otherwise in writing. You will be permitted to preserve Records and submit reports electronically, consistent with our requirements. The Records will include the following: (i) daily cash reports; (ii) cash receipts journal and general ledger; (iii) cash disbursements journal and weekly payroll register; (iv) monthly bank statements and daily deposit slips and canceled checks; (v) all tax returns relating to the Store; (vi) suppliers' invoices (paid and unpaid); (vii) POS System records; (viii) semi-annual balance sheets and monthly profit and loss statements; (ix) weekly inventories; (x) records of promotion and coupon redemption; and (xi) such other records and information as we periodically may request.

B. Reports and Tax Returns. You will deliver or provide access to us the following: (1) weekly sales reports relating to Net Sales; (2) by the fifteenth (15<sup>th</sup>) of each month monthly financial statements for the previous month that include a complete profit and loss statement and a balance sheet; (3) within thirty (30) days after the end of each calendar quarter an accounting of funds you have spent for approved local advertising as described in Section 11(B) above; and (4) within sixty (60) days after the end of each fiscal year, an annual profit and loss statement and source and use of funds statement for the Store for the year and a balance sheet for the Store as of the end of the year, reviewed by an independent certified public accountant. You also will provide to us copies of all Records and other information and supporting documents as we designate. All financial statements, reports and information must be on forms we approve and signed and verified by you.

### 13. INSPECTION AND AUDITS

A. Our Right to Inspect the Store. To determine whether you are complying with this Agreement, we may, at any time during business hours and without prior notice to you, inspect the Store. You will fully cooperate with our representatives making any inspection and will permit our representatives to take photographs or videotapes of the Store and to interview employees and customers of the Store.

B. Our Right to Examine Books and Records. We may, at all reasonable times and without prior notice to you, examine, audit, or request copies of the Records (including the books, records and state and/or federal income tax records of the Store). Records and supporting documents may be maintained electronically, consistent with our requirements. Any hard copy Records and supporting documents must be maintained at the Store premises or your corporate office. You will make financial and other information available at a location we reasonably request, and will allow us (and our agents) full and free access to any such information at the Store or corporate office. You also must make copies of any Records we request and deliver those Records to us or our designee. You otherwise will fully cooperate with our representative and independent accountants hired to conduct any examination or audit.

C. Result of Audit; Unreported Net Sales. If any examination or audit discloses an understatement of Net Sales, you will pay to us, within fifteen (15) days after receipt of the examination or audit report, the Royalty Fees and any NMF Fees due on the amount of the understatement, plus interest (at the rate provided in Section 9(E) above) from the date originally due until the date of payment. You must reimburse us for the cost of the audit or examination, including the charges of any independent accountants and the travel expenses, room and board and compensation of our employees, if: (1) an examination or audit is necessary because you failed to timely provide required information; (2) any examination or audit results in a determination that Net Sales for any month are understated by greater than two percent (2%); or (3) you fail to spend the minimum amount required for local store promotion under Section 11(B) above. The foregoing remedies are in addition to all other of our remedies and rights under applicable law.

#### 14. COVENANTS

A. Non-Solicitation of Customers. You covenant that, during the term of this Agreement, and for a period of two (2) years thereafter, you will not, directly or indirectly divert or attempt to divert any business, account or customer of the Store or any other Children's Orchard® stores or the System to any competing business.

B. Covenant Not To Compete During Term. You (and each Principal Owner) will not, during the term of this Agreement, directly or as an employee, agent, consultant, partner, officer, director or shareholder of any other person, firm, entity, partnership or corporation, own, operate, lease, franchise, conduct, engage in, be connected with, having any interest in, or assist any person or entity engaged in any retail or wholesale business (including any e-commerce or internet-based business) that buys and sells primarily used goods and related services, including without limitation clothing and related accessories, equipment, toys, books, home furnishings, sporting goods, electronics and other devices, or any other related business that competes with a Children's Orchard® store or any other retail store which is the subject of a franchise program that we or our parent or any of our affiliates then offers, except: (i) with our prior written consent; or (ii) the ownership of securities listed on a stock exchange or traded on the over-the-counter market that represent one percent (1%) or less of that class of securities.

C. Post-Term Covenant Not To Compete. You (and each Principal Owner) will not, for a period of two (2) years after this Agreement expires or is terminated or the date on which you cease to conduct the business franchised under this Agreement, whichever is later, directly or as an employee, agent, consultant, partner, officer, director or shareholder of any other person, firm, entity, partnership or corporation, own, operate, lease, franchise, conduct, engage in, be connected with, having any interest in, or assist any person or entity engaged in any business that buys and sells clothing, related accessories, toys and equipment for kids or any other related business that is competitive with or similar to a Children's Orchard® store that is located at the Store or within a ten (10) mile radius of the former site of the Store or any other then existing Children's Orchard® store; provided, however, that this Section 14(C) will not apply to: (i) other Children's Orchard® stores that you operate under Children's Orchard® franchise agreements; or (ii) the ownership of securities listed on a stock exchange or traded on the over-the-counter market that represent one percent (1%) or less of that class of securities. For purposes of this Section, any form of e-commerce business or website that distributes, sells or otherwise deals in the buying and selling of clothing, accessories and toys for kids or any other related business that is competitive with to a Children's Orchard® store will be in violation of this provision if such e-commerce business or website offers, sells or otherwise makes its products or services available to individuals residing within or businesses located within ten (10) mile radius of the former site of the Store or any other then-existing Children's Orchard® Store. You agree that the length of time in this Section 14(C) will be tolled for any period during which you are in breach of the covenants or any other period during which we seek to enforce this Agreement

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

#### 15. ASSIGNMENT

A. By Us. This Agreement is fully assignable by us and benefits our successors and assigns. Any such assignment will require the assignee to fulfill our obligations under this Agreement.

B. Your Assignment to Corporation or Limited Liability Company. You may assign this Agreement to a corporation or a limited liability company that conducts no business other than the Store (or other Children's Orchard® stores under franchise agreements with us), provided: (1) the assigning franchisee actively manages the Store and owns at least seventy percent (70%) of the ownership interest in the corporation or limited liability company; (2) you and all Principal Owners of the assignee entity sign the Personal Guaranty attached hereto as Exhibit C; (3) you provide us fifteen (15) days' written notice before the proposed date of assignment of this Agreement to the corporation or limited liability company; (4) you provide to us a certified copy of the articles of incorporation, operation agreement, organizational documents, a list of all shareholders or members having beneficial ownership, reflecting their respective interest in the assignee entity; and (5) the organizational documents and all issued and outstanding stock or membership certificates will bear a legend, in form acceptable to us, reflecting or referring to the assignment restrictions stated in Section 15(C) below. You will not pay a transfer fee for an assignment under Section 15(B).

C. Your Assignment or Sale of Substantially All of Your Assets. You understand that we have granted the Franchise under this Agreement in reliance upon your individual or collective character, aptitude, attitude, business ability and financial capacity. You (and your Principal Owners) will not transfer (whether voluntary or involuntary), assign or otherwise dispose of, in one or more transactions, your business, the Store, substantially all or all of the assets of your business, this Agreement or any "controlling interest" in you unless you obtain our prior written consent (except as provided in Section 15(B) above). A "controlling interest" includes a proposed transfer of fifty percent (50%) or more of the common (voting) stock of a corporate franchisee or of the ownership interest in a limited liability company or partnership). We will not unreasonably withhold our consent to an assignment, provided you comply with any or all of the following conditions which we may, in our discretion, deem necessary:

1. All of your accrued monetary obligations to us and our affiliates have been satisfied, and you otherwise are in good standing under this Agreement;

2. The transferee-franchisee (or the managing Principal Owners, if applicable) is approved by us and demonstrates to our satisfaction that he/she meets our managerial, financial and business standards for new franchisees, possesses a good business reputation and credit rating, and has the aptitude and ability to conduct the franchised business. You understand that we may communicate directly with the transferee-franchisee during the transfer process to respond to inquiries, as well as to ensure that the transferee-franchisee meets our qualifications;

3. The transferee-franchisee enters into a written agreement, in form satisfactory to us, assuming and agreeing to discharge all of your obligations and covenants under this Agreement for the remainder of your term or, at our option, signs our then-current standard form of franchise agreement (which will provide for the same Royalty Fees and NMF Fees required for a term equal to the remaining term of this Agreement, although such agreement may provide other rights and obligations from those provided in this Agreement);

4. The transferee-franchisee successfully completes the initial training programs required of new franchisees;

5. If required, the lessor of the Store premises consents to your assignment or sublease of the premises to the transferee-franchisee;

6. You pay us an assignment fee equal to one-third of the then-current initial franchise fee for new franchisees. There is not an assignment fee due upon transfer to heirs or immediate family members;

7. You (and each Principal Owner, if applicable) sign a general release, in form and substance satisfactory to us, of any and all claims against us and our current and former affiliates, and our and their respective past and present officers, directors, employees and agents, except to the extent limited or prohibited by applicable law;

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

9. You (and each Principal Owner, if applicable) sign an agreement, in form satisfactory to us, in which you and each Principal Owner covenants to observe the post-termination covenant not to compete and all other applicable post-termination obligations.

We may expand upon, and provide more details related to, the conditions for transfer and our consent as described in this Section 15(C), and may do so in the Operations Manual or otherwise in writing.

D. Your Death or Disability. If you (or the managing Principal Owner) die or are permanently disabled, your executor, administrator or other personal representative, or the remaining Principal Owners, must appoint a competent manager acceptable to us within a reasonable time, not to exceed thirty (30) days, from the date of death or permanent disability. The appointed manager must satisfactorily complete our designated training program. If a manager we approve is not appointed within thirty (30) days after your death or permanent disability, we may, but are not required to, immediately appoint a manager to maintain Store operations on your behalf until an approved assignee can assume the management and operation of the Store. Our appointment of a Store manager does not relieve you of your obligations, and we will not be liable for any debts, losses, costs or expenses incurred in operating the Store or to any of your creditors for any products, materials, supplies or services purchased by the Store while it is managed by our appointed manager. We may charge a reasonable fee for management services and may cease to provide management services at any time.

If you (or the managing Principal Owner) die or are permanently disabled, your executor, administrator, or other personal representative must transfer his/her interest within a reasonable time, not to exceed twelve (12) months from the date of death or permanent disability, to a person we approve. Such transfers, including transfers by devise or inheritance will be subject to conditions contained in Section 15(C) above.

E. Public or Private Offerings. Subject to Section 15(C) above, if you (or any of your Principal Owners) desire to raise or secure funds by the sale of securities (including common or preferred stock, bonds, debentures or general or limited partnership interests) in you or any of your affiliates, you agree to submit to us any written information we request before its inclusion in any registration statement, prospectus or similar offering circular or memorandum and must obtain our written consent to the method of financing before any offering or sale of securities. Our written consent will not imply or represent our approval respecting the method of financing, the offering literature submitted to us or any other aspect of the offering. No information respecting us or any of our affiliates will be included in any securities disclosure document, unless we furnish the information in writing in response to your written request, which request will state the specific purpose for which the information is to be used. Should we, in our discretion, object to any reference to us or any of our affiliates in the offering literature or prospectus, the literature or prospectus will not be used unless and until our objections are withdrawn. We assume no responsibility for the offering.

The prospectus or other literature utilized in any offering must contain the following language in boldface type on the first textual page:

“NEITHER CHILDREN’S ORCHARD, LLC NOR ANY OF ITS AFFILIATES IS DIRECTLY NOR INDIRECTLY THE ISSUER OF THE SECURITIES OFFERED. NEITHER CHILDREN’S ORCHARD, LLC NOR ANY OF ITS AFFILIATES ASSUMES ANY RESPONSIBILITY RESPECTING THIS OFFERING AND/OR THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED HEREIN. NEITHER CHILDREN’S ORCHARD, LLC NOR ANY OF ITS AFFILIATES ENDORSES OR MAKES ANY RECOMMENDATION RESPECTING THE INVESTMENT CONTEMPLATED BY THIS OFFERING.”

F. Our Right of First Refusal. If you or your Principal Owners at any time during the term of this Agreement desire to sell or assign for consideration the Franchise, the Store, an ownership interest representing (in the aggregate) fifty percent (50%) or more of the ownership in you or all or substantially all of your assets, you or your Principal Owners must obtain a bona fide, executed written offer from a responsible and fully disclosed purchaser and must deliver a copy of the offer to us. We have the right, exercisable by written notice delivered to you or your Principal Owners within thirty (30) days following receipt of the proposed offer, to purchase the interest in the Store or your ownership interest for the price and on terms contained in the offer. We may substitute cash for any non-cash form of payment proposed in the offer and will have a minimum of sixty (60) days to prepare for closing. If we do not exercise our right of first refusal, you or your Principal Owners may complete the sale to the proposed purchaser under the terms of the offer, provided you and the Principal Owners otherwise comply with this Section 15. If the sale to the proposed purchaser is not completed within one hundred twenty (120) days after delivery of the offer to us, or if there is a material change in the terms of the sale, we again have the right of first refusal.

G. Guaranty. All Principal Owners of you, if you are a corporation, partnership or other entity, will sign the Guaranty and Assumption Agreement in the form attached to this Agreement as Exhibit C (the “Guaranty Agreement”). Any person or entity that at any time after the date of this Agreement becomes a Principal Owner of you under the provisions of this Section 15 or otherwise will, as a condition of becoming a Principal Owner, sign the Guaranty Agreement. We may require the spouse of any person who signs the Guaranty Agreement to also sign the Guaranty Agreement. You will furnish to us at any time upon reasonable request a certified copy of the Articles of Incorporation or Articles of Organization and a list, in a form we reasonably require, of all shareholders or members of record and all persons having a beneficial interest in any corporation or other entity that is or becomes a franchisee.

## 16. FRANCHISOR’S TERMINATION RIGHTS

A. Termination of Franchise Agreement - Grounds. You will be in default, and we may, at our option, terminate this Agreement, as provided herein, if: (1) you (or the managing Principal Owner) fail to satisfactorily complete the initial training programs or fail to open and commence operations of the Store at such time as provided in this Agreement; (2) you violate any material provision or obligation of this Agreement; (3) you or any of your managers, directors, officers or any Principal Owner make a material misrepresentation or omission in the application for the franchise; (4) you or any of your managers, directors, officers or any Principal Owner are convicted of, or plead guilty to or no contest to a felony, a crime involving moral turpitude, or any other crime or offense that we believe will injure the System, the Licensed Marks or the goodwill associated therewith, or if we have proof that you have committed such a felony, crime or offense; (5) you fail to comply with the material requirements of the System or the material standards of uniformity and quality for the products and services as described in the Operations Manual or as we have established in connection with the System; (6) you fail to timely pay Royalty Fees, Technology Access Fees or NMF Fees or any other obligations or liabilities due and owing to us or our affiliates or suppliers approved by us as a source for required items or fail to timely pay any advertising cooperative obligations; (7) you are insolvent within the meaning of any applicable state or federal law; (8) you make an assignment for the benefit of creditors or enter into any similar arrangement for the disposition of your assets for the benefit of creditors;

(9) you voluntarily or otherwise “abandon” (as defined below) the Store; (10) you are involved in any act or conduct which materially impairs or otherwise is prejudicial to the goodwill associated with the name “Children’s Orchard” or any of the Licensed Marks or the System; (11) you or a Principal Owner make an unauthorized assignment or transfer of this Agreement, the Store or an ownership interest in you; (12) you develop or use an unapproved website in connection with the Store or otherwise conduct any unauthorized activity on the Internet in violation of Section 6(C) above; or (13) your lease for the Store premises expires or is terminated for any reason (unless, through no fault of you, the lessor of the premises in which the Store is located refuses to renew your lease and you relocate within the Protected Area to a site approved by us within sixty (60) days thereafter). The term “abandon” means your failure to operate the Store during regular business hours for a period of five (5) consecutive days without our prior written consent unless such failure is due to an event of “*force majeure*” as further described in Section 20(J) below.

B. Procedure. Except as described below, you will have thirty (30) days, or such longer period as applicable law may require, after you receive from us a written Notice of Termination within which to remedy any default hereunder, and to provide evidence thereof to us. If you fail to correct the alleged default within that time (or such longer period of time as applicable law may require), this Agreement will terminate without further notice to you effective immediately when the thirty (30) day period (or such longer period as applicable law may require) expires. We may terminate this Agreement immediately upon delivery of written notice to you, with no opportunity to cure, if the termination results from any of the following: (1) you fail to comply with one or more material requirements of this Agreement on three (3) separate occasions within any twelve (12) month period; (2) the nature of your breach makes it not curable; (3) you willfully and repeatedly deceive customers relative to the source, nature or quality of goods sold; (4) any default under items (3), (5), (7), (8), (9), (10), (11) or (12) in Section 16(A) above; or (5) you willfully and materially falsify any report, statement, or other written data furnished to us either during the franchise application process or after you are awarded a franchise. Any report submitted under Section 12(B) will be conclusively deemed to be materially false if it understates Net Sales by more than four percent (4%).

C. Applicable Law. If the provisions of this Section 16 are inconsistent with applicable law, the applicable law will apply.

## 17. FRANCHISEE’S TERMINATION RIGHTS

You may terminate this Agreement if we violate any of our material obligations to you and fail to cure such violation within sixty (60) days after our receipt of written notice from you; provided, however, that you are in substantial compliance with the Agreement at the time you give such notice of termination. Your written notice must identify the violation and demand that it be cured.

## 18. FRANCHISEE OBLIGATIONS UPON TERMINATION

A. Post-Term Duties. If this Agreement expires or is terminated for any reason other than a termination as a result of a breach by us, you will:

1. within ten (10) days after termination, pay all amounts due and owing to us or our affiliates, including all Royalty Fees, Technology Access Fees, NMF fees and accrued interest due under this Agreement;
2. discontinue using, and return to us by first class prepaid United States mail any hard copies of, the Operations Manuals and any other manuals, advertising materials, and all other printed materials relating to the operation of the Franchise;

3. assign to us or, at our discretion, disconnect the telephone number for the Store. You acknowledge that we have the sole right to and interest in all telephone numbers and directory listings associated with the Licensed Marks, and you authorize us, and appoint us as your attorney-in-fact, to direct the telephone company and all listing agencies to transfer such numbers and listings to us;
4. remove from the Store premises all signs, posters, fixtures, decals, wall coverings and other materials that are distinctive of a Store or bear the name "Children's Orchard" or other Licensed Marks;
5. discontinue using the Proprietary Software, including the return of all materials relating to the Proprietary Software, and provide us or our designee with full access to your POS System hard drive to delete the Proprietary Software and related content;
6. take all necessary action to cancel all fictitious or assumed name or equivalent registrations relating to your use of any of the Licensed Marks;
7. immediately cease using Confidential Information and return to us all documents, including those documents in electronic format, that contain Confidential Information; and
8. comply with all other applicable provisions of this Agreement, including the non-compete provisions.

Upon termination of this Franchise Agreement for any reason, your right to use the name "Children's Orchard" and the other Licensed Marks and the System will immediately terminate and you (and the Principal Owners) will not in any way associate yourself/themselves as being associated with us. If you fail to remove all signs and other materials bearing the Licensed Marks, we may do so at your expense.

B. Redecoration. If this Agreement is terminated for any reason, and you either remain in possession of the premises of the former Store to operate a separate business not in violation of Section 13 above or enter into an agreement with a third party to allow such third party to directly operate a business at the premises of the former Store, you will, at your expense, modify both the exterior and interior appearance of the business premises so that they will be easily distinguished from the standard appearance of Children's Orchard® stores. At a minimum, such changes and modifications to the premises will include: (1) repainting the premises with totally different colors; (2) removing all signs and other materials bearing the name "Children's Orchard" and other Licensed Marks; (3) removing from the premises all fixtures which are indicative of Children's Orchard® stores; (4) discontinuing use of the approved employee uniforms and refraining from using any uniforms which are confusingly similar; (5) discontinuing use of all packaging and Confidential Information regarding the operation of the Store; and (6) taking such other action, at your expense, as we may reasonably require. If you fail to immediately initiate modifications to the premises of the former Store or complete such modifications within any period of time we deem appropriate, you agree that we or our designated agents may enter the premises of the former Store to make such modifications, at your risk and expense, without responsibility for any actual or consequential damages to your property or others, and without liability for trespass or other tort or criminal act.

C. Our Option To Purchase Store. If this Agreement expires or is terminated for any reason (other than our fault), we have the option, upon thirty (30) days' written notice from the date of expiration or termination, to purchase from you all the tangible and intangible assets relating to the Store (excluding any unsalable inventory, cash, short-term investments and accounts receivable) (collectively, the "Purchased Assets") and to obtain an assignment of your lease for (1) the Store premises (or, if an assignment is prohibited, a sublease for the full remaining term under the same provisions as your lease)

and (2) any other tangible leased assets used in operating the Store. We may assign this option to purchase and assignment of leases separate and apart from the remainder of this Agreement.

The purchase price for the Store will be the “Book Value” (as defined below) of the Purchased Assets. “Book Value” means the net book value of the Purchased Assets, as disclosed in the last quarterly statement of the Store provided to us under Section 12(B) before termination or expiration, provided, however, that: (1) each depreciable asset will be valued on a “straight-line” basis without provision for salvage value; (2) we may exclude from the Purchased Assets any products or other items that were not acquired in compliance with this Agreement; and (3) we may exclude from Book Value any provision for goodwill or similar value attributable to intangible property. If we are not satisfied with the accuracy or fairness of any financial statements, or none has been submitted, our regularly employed firm of certified public accountants will determine (by audit) the Book Value. We and you will equally bear the cost of the audit. The results of the audit will be final and binding on both parties.

The purchase price, as determined above, will be paid in cash at the closing of the purchase, which will occur no later than sixty (60) days after we deliver notice of our election to purchase the Store, unless Book Value is determined by audit, in which case the closing will occur within a reasonable time, not to exceed sixty (60) days, after the results of the audit are made available. At the closing, you will deliver documents transferring good and merchantable title to the assets purchased, free and clear of all liens, encumbrances and liabilities to us or our designee and such other documents we may reasonably request to permit us to operate the Store without interruption. We may set off against and reduce the purchase price by all amounts you owe to us or any of our affiliates. If we exercise our option to purchase the Store, we may, pending the closing, appoint a manager to maintain Store operations.

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

## 19. DISPUTE RESOLUTION

A. Arbitration. Except to the extent we elect to enforce the provisions of this Agreement by injunction as provided in Section 19(B) below, all disputes, claims and controversies between the parties, whether arising under or in connection with this Agreement or the negotiation, making, performance, breach or interpretation thereof (including claims of fraud in the inducement and other claims of fraud in the arbitrability of any matter) will be settled by arbitration under the authority of the Federal Arbitration Act in Minneapolis, Minnesota. The proceedings will be conducted under the Commercial Arbitration Rules of the American Arbitration Association or the rules of such other arbitration services organization as the parties otherwise may agree upon in writing, to the extent such rules are not inconsistent with the provisions of this arbitration provision. The arbitrator(s) will have a minimum of five (5) years’ experience in franchising or distribution law and will have the right to award specific performance of this Agreement. The arbitration will be on an individual basis only and not consolidated with any other proceeding. As part of the arbitration proceedings, each party agrees to submit no more than twenty-five (25) interrogatories or to conduct no more than four (4) depositions during the course of discovery, should discovery be ordered by the arbitrator(s). The decision of the arbitrator(s) will be final and binding on all parties; provided, however, the arbitrator(s) may not under any circumstances: (i) stay the effectiveness of any pending termination of this Agreement; (ii) assess punitive or exemplary damages; or (iii) make any award which extends, modifies or suspends any lawful term of this Agreement or any reasonable standard of business performance set by us. The binding or preclusive effect of any award will be limited to the actual dispute or claim arbitrated, and to the parties, and will have no collateral effect on any other dispute or claim of any kind. This Section 19 will survive termination or nonrenewal of this Agreement under any circumstances. Judgment upon the



award of the arbitrator(s) may be entered in any court having jurisdiction thereof. During any arbitration proceeding, we and you will fully perform our respective obligations under this Agreement.

B. Injunctive Relief. Notwithstanding Section 19(A) above, you recognize that a single franchisee's failure to comply with the terms of this Agreement could cause irreparable damage to us and/or to some or all other Children's Orchard® franchisees. Therefore, if you breach or threaten to breach any of the terms of this Agreement, we will be entitled to an injunction restraining such breach and/or a decree of specific performance, without showing or proving any actual damage, together with recovery of reasonable attorneys' fees and other costs incurred in obtaining such equitable relief, until such time as a final and binding determination is made by the arbitrators.

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

## 20. ENFORCEMENT

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

B. Waiver of Obligations. Our waiver of any breach by you, or our delay or failure to enforce any provision of this Agreement, will not be deemed to be a waiver of any other or subsequent breach or be deemed an estoppel to enforce our rights respecting that or any other breach.

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

D. Venue. Any claims, controversies or disputes arising out of or related to this Agreement that are not subject to arbitration as provided above, will be brought in the Federal District Court for the District of Minnesota or in Hennepin County District Court in Minneapolis, Minnesota. We also have the right to file any such suit against you in the federal or state court where the Store is located. We and you irrevocably consent to the jurisdiction of such courts and waive all rights to challenge personal jurisdiction and venue. The provisions of this Section 20(D) will survive the termination of this Agreement.

E. Governing Law. Subject to our rights under federal trademark laws and the parties' rights under the Federal Arbitration Act respecting Section 19 above, this Agreement will be governed by and construed under the laws of the state in which the Store is located, without regard to any conflict of laws principles of such state. You waive, to the fullest extent permitted by law, the rights and protections that might be provided through any state franchise or business opportunity laws, other than those of the state designated above.

F. Binding Effect. This Agreement is binding upon the parties and their respective executors, administrators, heirs, assigns, and successors in interest, and will not be modified except by written agreement signed by both you and us. Except as provided above, this Agreement is not intended, and will

not be deemed, to confer any rights or remedies upon any person or legal entity not a party to this Agreement.

G. References. If you consist of two or more individuals, such individuals will be jointly and severally liable, and references to you in this Agreement will include all such individuals. Reference to you as neuter or a male will also include a neuter, male or female you as relevant in the context.

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

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

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

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

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

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

L. Entire Agreement. The "Introduction" section, the exhibit(s) to this Agreement, and that certain Disclosure Acknowledgment Agreement signed contemporaneously by you are a part of this Agreement, which represents the entire agreement of the parties, and there are no other oral or written understandings or agreements between us and you relating to the subject matter of this Agreement. Nothing

in this Agreement is intended to disclaim the representations we made in the Franchise Disclosure Document we provided to you.

21. NOTICES

All written notices and reports permitted or required to be delivered by the provisions of this Agreement will be delivered by hand, sent by a recognized overnight delivery service or by registered U.S. Mail, or by other means which provides the sender with evidence of delivery, or of rejected delivery, and addressed to the party to be notified at the address stated herein or at such other address as may have been designated in writing to the other party. Any notice by a means which provides the sender with evidence of delivery, or rejected delivery, will be deemed to have been given at the date and time of receipt or rejected delivery.

22. ACKNOWLEDGEMENTS

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

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

C. Receipt of Documents. You represent and acknowledge that you have received our Franchise Disclosure Document at least fourteen (14) calendar days before the date of the execution of this Agreement. In addition, you represent and acknowledge that you received from us a copy of this Agreement with all material blanks filled in at least seven (7) calendar days before the date of execution of this Agreement. You represent that you have read this Agreement in its entirety and that you have been given the opportunity to clarify any provisions that you did not understand and to consult with any attorney or other professional advisor. You further represent that you understand the provisions of this Agreement and agree to be bound.

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

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

COMPANY/US:

CHILDREN'S ORCHARD, LLC,  
A Delaware Limited Liability Company

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

FRANCHISEE/YOU:

(If you are a corporation)

\_\_\_\_\_  
Name of Corporation

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

(If you are an individual owner,  
you must sign below; if a partnership,  
all partners must sign below)

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

(If you are a limited liability company)

\_\_\_\_\_  
Name of Limited Liability Company

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

**EXHIBIT A  
TO FRANCHISE AGREEMENT  
STORE LOCATION AND PROTECTED AREA**

**EXHIBIT A**

**STORE LOCATION AND PROTECTED AREA**

This Exhibit is attached to and is an integral part of the Children’s Orchard® Franchise Agreement dated \_\_\_\_\_, 2024 (the “Franchise Agreement”), between us and you.

1. Store Location. We and you agree that the Store will be located at the following premises: \_\_\_\_\_ . If you have not signed a lease for the Store location as of the Effective Date, we and you agree that the Store premises must be centrally located within the Protected Area, and once a lease is signed for the Store, we will update this Exhibit A to include address for the Store premises.

You acknowledge that our acceptance of a proposed location does not represent a warranty or representation of any kind as to the suitability of the proposed location for a Children’s Orchard® Store.

2. Protected Area. The Protected Area will be the following description: a \_\_\_\_\_ mile radius circle around the intersection of \_\_\_\_\_ and \_\_\_\_\_ in the city, state and zip: \_\_\_\_\_.

3. Lease Date. The Lease Date is : \_\_\_\_\_, 20\_\_.

4. Term. Consistent with Section 3(A) of the Franchise Agreement, the initial term of this Agreement will expire on \_\_\_\_\_, \_\_\_\_\_.

5. Store Opening. You agree to complete the development and open the Store for business within \_\_\_\_\_ months after the date first stated above.

6. Defined Terms. All capitalized terms contained in this Exhibit and not defined herein will have the same meaning as provided in the Franchise Agreement.

COMPANY/US:

FRANCHISEE/YOU:

CHILDREN’S ORCHARD, LLC,  
A Delaware Limited Liability Company

(If you are a corporation or limited liability company)

\_\_\_\_\_  
Name of Corporation or Limited Liability Company

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

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

(If you are an individual owner, you must sign below; if a partnership, all partners must sign below)

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

**EXHIBIT B**  
**TO FRANCHISE AGREEMENT**  
**ELECTRONIC TRANSFER OF FUNDS FORM**

**EXHIBIT B TO FRANCHISE AGREEMENT**

**ACH AUTHORIZATION**

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

I, the undersigned officer of \_\_\_\_\_ (“Franchisee”), hereby authorize Children’s Orchard, LLC to withdraw or deposit funds, utilizing the following account, by ACH draft or electronic debit for payment or receipt of funds relating to royalty fees, technology access fees, advertising fund contributions, or payment of goods or services. If Franchisee has not established an account for ACH/debit payments as of the execution date of the Franchise Agreement, Franchisee agrees to provide to Children’s Orchard, LLC the missing information before commencement of the second phase of the training program.

Name on the Account: \_\_\_\_\_

Address: \_\_\_\_\_

City, State, Zip: \_\_\_\_\_

Bank Routing Number: \_\_\_\_\_

Bank Account Number: \_\_\_\_\_

E-mail Confirmation: \_\_\_\_\_

Signature: \_\_\_\_\_

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

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



**EXHIBIT C**  
**TO FRANCHISE AGREEMENT**  
**GUARANTY AND ASSUMPTION OF OBLIGATIONS**

## EXHIBIT C

### GUARANTY AND ASSUMPTION OF OBLIGATIONS

In consideration of the execution of that certain Franchise Agreement of even date (the "Agreement") by Children's Orchard, LLC (the "Company"), each of the undersigned (a "Guarantor") personally and unconditionally guarantees to the Company, and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement that \_\_\_\_\_ (the "Franchisee") will timely pay and perform each and every undertaking, agreement and covenant stated in the Agreement; and agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement.

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

Each Guarantor consents and agrees that:

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

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

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

(4) Guarantor's liability will not be diminished, relieved or otherwise affected by any extension of time or credit which the Company may grant to Franchisee, including the acceptance of any partial payment or performance, or the compromise or release of any claims;

(5) The Company may proceed against Guarantor and Franchisee jointly and severally, or the Company may, at its option, proceed against Guarantor, without having commenced any action, or having obtained any judgment against Franchisee or any other Guarantor; and

(6) Guarantor will pay all reasonable attorneys' fees and all costs and other expenses the Company incurs in enforcing this Guaranty against Guarantor or any negotiations relative to the obligations hereby guaranteed.

Sections 8(D) (Survival), 19(C) (Attorneys' Fees), 20(B) (Waiver), 20(D) (Venue and Jurisdiction), 20(E) (Governing Law), 20(F) (Modifications), 20(H) (Interpretation), and 20(L) (Entire Agreement) of the Franchise Agreement, apply to Guarantors and this Guaranty.

Each of the undersigned has signed this Guaranty as of the same day and year as the Agreement was executed.

GUARANTOR(S) (PERCENTAGE OF OWNERSHIP)

\_\_\_\_\_ ( )

\_\_\_\_\_ ( )

\_\_\_\_\_ ( )

\_\_\_\_\_ ( )

\_\_\_\_\_ ( )

\_\_\_\_\_ ( )

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**EXHIBIT C**

**LIST OF FRANCHISED STORES  
AS OF DECEMBER 31, 2023**

<b>NAME</b>	<b>ADDRESS</b>	<b>CITY</b>	<b>STATE</b>	<b>ZIP</b>	<b>PHONE</b>
Ron & Lesia Gay	12111 W Markham, Ste 270	Little Rock	AR	72211	501-547-9994
Kelly Gissel	9965 Walker St	Cypress	CA	90630	714-827-2550
Ramon & Raelin Cardona	22421 El Toro Rd, Ste A	Lake Forest	CA	92630	949-951-0444
Carol Polsky-Mintz	2701 N Sepulveda Blvd	Manhattan Beach	CA	90266	310-546-8823
Kelly Gissel	867 W Arrow Hwy	San Dimas	CA	91773	909-394-7338
Daniel & Christen Lawrie	26063 Bouquet Canyon Rd	Santa Clarita	CA	91350	661-222-2901
Laura & Dave Anastasi	58 Macy St	Amesbury	MA	01913	978-462-5437
Rosemarie Mariano	1001 Providence Hwy	Norwood	MA	02062	781-769-4388
Maureen Amundsen & Stephanie Johnson	225 Newburyport Turnpike	Rowley	MA	01969	978-948-6600
John (Jack) & Lori Clegg	20 Commerce Way, Rte 6	Seekonk	MA	02771	508-336-7757
Tracy & Paul Ottaviano	18 Lyman St	Westborough	MA	01581	508-366-5437
Tracy & Chris Allen	20781 Gibraltar Rd	Brownstown	MI	48183	734-676-4898
Lory Caballero	44907 Hayes Rd	Sterling Heights	MI	48313	586-532-8280
Penny Shelton & Cathy Wagoner	2865 Jones Franklin Rd	Raleigh	NC	27606	919-852-0550
Vicky Ready	105 Gosling Rd	Newington	NH	03801	603-436-8704
Shannon Hancock	7035 West Ann Rd, Ste 140	Las Vegas	NV	89130	702-839-1991
Daniel & Crystal Black	291 Paul Huff Pkwy NW	Cleveland	TN	37312	423-472-3595
Liz Lampe	14145 W Greenfield Ave	New Berlin	WI	53151	262-649-3053

**LIST OF FRANCHISE AGREEMENTS SIGNED  
BUT NOT OPEN AS OF DECEMBER 31, 2023**

<b>NAME</b>	<b>ADDRESS</b>	<b>CITY</b>	<b>STATE</b>	<b>ZIP</b>	<b>PHONE</b>
Jared Grover	TBD	San Antonio	TX	78215	TBD
Mayte & Richard Manley	TBD	San Antonio	TX	78251	TBD

**LIST OF FORMER FRANCHISEES  
AS OF DECEMBER 31, 2023**

<b>NAME</b>	<b>CITY</b>	<b>STATE</b>	<b>PHONE</b>	<b>REASON</b>
Happi Loeb	Laguna Niguel	CA	949-249-3736	Closed
Robert Black, Judy Black, and Anne Guccione	Olathe	KS	913-780-6600	Closed
Marivel Sosa	Las Vegas	NV	702-258-9999	Transfer of Ownership

**EXHIBIT D**  
**STATE ADMINISTRATORS AND**  
**AGENTS FOR SERVICE OF PROCESS**

<b>STATE</b>	<b>STATE ADMINISTRATOR/AGENT</b>	<b>ADDRESS</b>
California	Commissioner of Financial Protection and Innovation California Department of Financial Protection and Innovation	320 West 4 <sup>th</sup> Street, Suite 750 Los Angeles, CA 90013-2344 1-866-275-2677
Illinois	Illinois Attorney General	500 South Second Street Springfield, IL 62706
Indiana (State Administrator)	Indiana Securities Commissioner Securities Division	302 West Washington Street, Room E111 Indianapolis, IN 46204
Indiana (Agent)	Indiana Secretary of State	302 West Washington Street, Room E018 Indianapolis, IN 46204
Michigan	Michigan Department of Attorney General Consumer Protection Division	G. Mennen Williams Building, 1 <sup>st</sup> Floor 525 West Ottawa Street Lansing, MI 48933
Minnesota	Commissioner of Commerce Minnesota Department of Commerce	85 7 <sup>th</sup> Place East, Suite 280 St. Paul, MN 55101-2198
New York (State Administrator)	NYS Department of Law Investor Protection Bureau	28 Liberty Street, 21 <sup>st</sup> Floor New York, NY 10005 212-416-8236
New York (Agent)	New York Department of State	One Commerce Plaza 99 Washington Avenue, 6th Floor Albany, NY 12231-0001 518-473-2492
North Dakota	Securities Commissioner (Agent) North Dakota Securities Department	600 East Boulevard Avenue State Capitol, 14th Floor, Dept. 414 Bismarck, ND 58505-0510 701-328-4712
South Dakota	Department of Labor and Regulation Division of Insurance – Securities Regulation	124 S. Euclid, Suite 104 Pierre, SD 57501
Virginia (State Administrator)	State Corporation Commission Division of Securities and Retail Franchising	1300 East Main Street, 9 <sup>th</sup> Floor Richmond, VA 23219 804-371-9051
Virginia (Agent)	Clerk of the State Corporation Commission	1300 East Main Street, 1st Floor Richmond, VA 23219-3630
Washington	Department of Financial Institutions Securities Division	150 Israel Road SW Tumwater, WA 98501 360-902-8760
Wisconsin	Commissioner of Securities	Department of Financial Institutions Division of Securities 4822 Madison Yards Way, North Tower Madison, WI 53705

**EXHIBIT E**  
**STATE SPECIFIC ADDENDA**

## **CALIFORNIA ADDENDUM TO CHILDREN'S ORCHARD FRANCHISE DISCLOSURE DOCUMENT**

To the extent the California Franchise Investment Law, Cal. Corp. Code §§ 31000-31516 or the California Franchise Relations Act, Cal. Bus. & Prof. Code §§20000-20043 applies, the terms of this Addendum apply.

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AND COMPLAINTS CONCERNING THE CONTENTS OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT [WWW.DFPI.CA.GOV](http://WWW.DFPI.CA.GOV).

Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

### Item 3, Additional Disclosure:

Neither we nor any person described in Item 2 of the Disclosure Document 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.

### Item 17, Additional Disclosures:

The franchise agreement requires franchisee to execute a general release of claims upon renewal or transfer of the franchise agreement. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order there under is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 – 20043)).

The franchise agreement requires application of the laws of the state where your Store is located. This provision may not be enforceable under California law.

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

The franchise agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. §101 et seq.).

The franchise agreement requires binding arbitration. The arbitration will occur in Minneapolis, Minnesota, with the cost being borne by the parties as determined by the arbitrator. Prospective franchisees are encouraged to consult with 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 a franchise agreement restricting venue to a forum outside the State of California.

The franchise agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California 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 any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

Item 19. Additional Disclosure:

The financial performance figures do not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from the gross revenue or gross sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your franchised business. Franchisees or former franchisees listed in the Disclosure Document may be one source of this information.

## **CALIFORNIA ADDENDUM TO CHILDREN'S ORCHARD FRANCHISE AGREEMENT**

To the extent the California Franchise Investment Law, Cal. Corp. Code §§ 31000-31516 or the California Franchise Relations Act, Cal. Bus. & Prof. Code §§20000-20043 applies, the terms of this Addendum apply.

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

The Franchise Agreement requires franchisee to execute a general release of claims upon renewal or transfer of the franchise agreement. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order there under is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 – 20043)).

The Franchise Agreement requires application of the laws of the state where your Store is located. This provision may not be enforceable under California law.

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. The Federal Bankruptcy Code also provides rights to franchisee concerning termination of the Franchise Agreement upon certain bankruptcy-related events. If the Franchise Agreement is inconsistent with the law, the law will control.

The Franchise Agreement requires binding arbitration. The arbitration will occur in Minneapolis, Minnesota, with the cost being borne by the parties as determined by the arbitrator. Prospective franchisees are encouraged to consult with 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 a franchise agreement restricting venue to a forum outside the State of California.

The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California 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 any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

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

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

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

WE: CHILDREN'S ORCHARD, LLC

YOU:

By \_\_\_\_\_  
Its \_\_\_\_\_

By \_\_\_\_\_  
Its \_\_\_\_\_

**ILLINOIS ADDENDUM TO CHILDREN'S ORCHARD  
FRANCHISE DISCLOSURE DOCUMENT**

The following information applies to franchises and franchisees subject to the Illinois Franchise Disclosure Act of 1987. Item numbers correspond to those in the main body.

Item 17

Illinois law shall apply to and govern the Franchise Agreement.

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

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

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

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

**ILLINOIS ADDENDUM TO CHILDREN'S ORCHARD  
FRANCHISE AGREEMENT**

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

Illinois law governs the agreements between the parties to this franchise.

Section 4 of the Illinois Franchise Disclosure Act provides that any provision in a franchise agreement that designates jurisdiction or venue outside the State of Illinois is void. However, a franchise agreement may provide for arbitration outside of Illinois.

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

Your rights upon termination and non-renewal of a franchise agreement are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.

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

WE: CHILDREN'S ORCHARD, LLC

YOU:

By \_\_\_\_\_  
Its \_\_\_\_\_  
Date \_\_\_\_\_

By \_\_\_\_\_  
Its \_\_\_\_\_  
Date \_\_\_\_\_

## MINNESOTA ADDENDUM TO CHILDREN'S ORCHARD FRANCHISE DISCLOSURE DOCUMENT

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

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

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

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

"Minnesota law provides franchisees with certain termination and non-renewal rights. Minnesota Statutes Section 80C.14, subs. 3, 4 and 5 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 nonrenewal of the Franchise Agreement.

Minnesota Statutes Section 80C.21 and Minnesota Rule 2860.4400(J) prohibit us from requiring litigation to be conducted outside Minnesota. To the extent a dispute is subject to litigation (and not arbitration), nothing in the disclosure document or Franchise Agreement can eliminate or reduce any of your rights to any procedure, forum or remedies provided for by the laws of the jurisdiction. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee's rights as provided for in Minnesota Statutes, Chapter 80C or (2) franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

Minnesota Rule 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release. No release language stated in the Franchise Agreement will relieve us or any other person, directly or indirectly, from liability imposed by Minnesota laws concerning franchising, provided that this part will not bar the voluntary settlement of disputes.

Minnesota Rule 2860.4400(J) states the franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief."

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

**MINNESOTA ADDENDUM TO CHILDREN’S ORCHARD  
FRANCHISE AGREEMENT**

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

1. Licensed Marks – Indemnification. Section 6 of the Franchise Agreement is amended to include the following language:

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

2. Application of Minnesota Law. Sections 3 and 16 of the Franchise Agreement are amended by adding the following sentences at the end of each Section: “Minnesota law provides franchisees with certain termination and nonrenewal rights. Minnesota Statutes Section 80C.14, subds. 3, 4 and 5 require, except in certain specified cases, that a Franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice for nonrenewal of the Franchise Agreement.”

3. Injunctive Relief. The franchisee cannot consent to the franchisor obtaining injunctive relief. The second sentence of Section 19(B) is deleted in its entirety and replaced with the following:

Therefore, if you breach or threaten to breach any of the terms of this Agreement, we may seek an injunction restraining such breach and/or a decree of specific performance, without showing or proving any actual damage, together with recovery of reasonable attorneys’ fees and other costs incurred in obtaining such equitable relief, until such time as a final and binding determination is made by the arbitrators.

4. Venue. Section 20(D) of the Franchise Agreement is deleted.

5. Governing Law. Section 20(E) of the Franchise Agreement is amended by adding the following provision at the end of such Section: “Under Minnesota Statutes Section 80C.21, this section will not in any way abrogate or reduce any rights of the Franchisee as provided for in Minnesota Statutes, Chapter 80C, including the right to submit non-arbitrable matters to the jurisdiction of the courts in Minnesota. Minnesota statutes Section 80C.21 and Minnesota Rule 2860.4400J prohibit the Franchisor from requiring litigation to be conducted outside Minnesota.”

6. Release. No release language stated in the Franchise Agreement will relieve us or any other person, directly or indirectly, from liability imposed by the laws concerning franchising of the State of Minnesota, provided, that this part will not bar the voluntary settlement of disputes.

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

WE: CHILDREN’S ORCHARD, LLC

YOU:

By \_\_\_\_\_  
Its \_\_\_\_\_

By \_\_\_\_\_  
Its \_\_\_\_\_

**NEW YORK ADDENDUM TO CHILDREN'S ORCHARD  
FRANCHISE DISCLOSURE DOCUMENT**

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

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 D OR YOUR PUBLIC LIBRARY FOR SERVICES OR INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN ANYTHING IN THIS FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND THE APPROPRIATE STATE OR PROVINCIAL AUTHORITY. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CAN NOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS THAT ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.

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

With the exception of what is stated above, the following applies to the 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 10-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 injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.



## Item 5, Additional Disclosures.

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

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

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

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

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

**NEW YORK ADDENDUM TO CHILDREN'S ORCHARD  
FRANCHISE AGREEMENT**

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

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

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

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

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

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

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

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

WE: CHILDREN'S ORCHARD, LLC

YOU:

By \_\_\_\_\_  
Its \_\_\_\_\_

By \_\_\_\_\_  
Its \_\_\_\_\_

## **NORTH DAKOTA ADDENDUM TO CHILDREN'S ORCHARD FRANCHISE DISCLOSURE DOCUMENT**

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

1. Item 5. Item 5 of the disclosure document is amended to provide that payment of the Initial Franchise Fee is deferred until we complete our initial obligations and you have opened your Store.

2. Item 17. Item 17 of the disclosure document is amended by the addition of the following:

In North Dakota, Item 17(c) is amended to provide that we cannot require you to sign a release as a condition to renewal or transfer. In addition, in North Dakota, Item 17(u) is amended to provide that we cannot require you to agree in advance to arbitrate disputes outside the State of North Dakota. Finally, in North Dakota, Item 17(w) is amended to provide that North Dakota law will apply.

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

**NORTH DAKOTA ADDENDUM TO CHILDREN’S ORCHARD  
FRANCHISE AGREEMENT**

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

1. Release. Section 3 of the Franchise Agreement is amended to provide that we cannot require you to sign a release as a condition of renewal.

2. Initial Franchise Fee. Section 9(A) of the Franchise Agreement is amended by deleting the second sentence and replacing it with the following:

The initial franchise fee is payable when we complete our initial obligations and you open your Store.

3. Covenant Not to Compete. Sections 14(C) and 18(A)(8) of the Franchise Agreement are amended to provide that covenants not to compete upon termination or expiration of the Franchise Agreement may not be enforceable, except in certain circumstances provided by law.

4. Arbitration. Section 19(A) is amended to provide that we cannot require you to agree in advance to arbitrate disputes outside the State of North Dakota

5. Governing Law. Section 20(E) is deleted in its entirety.

6. Venue. Your consent to jurisdiction and venue in Minnesota contained in Section 20(D) may be inapplicable; provided, however, that such inapplicability in the State of North Dakota will not be construed to mean that venue in Minnesota is improper, or that you and your officers, directors and shareholders are not subject to jurisdiction in Minnesota or in any other state.

7. Waiver of Damages. The parties’ waiver of their right to claim punitive or exemplary damages, as stated in Sections 19(A) and 20(I), may not be enforceable under North Dakota law.

8. Waiver of Trial by Jury. Any provision that requires you to waive a trial by jury may not be enforceable under North Dakota law.

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

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

WE: CHILDREN’S ORCHARD, LLC

YOU:

By \_\_\_\_\_  
Its \_\_\_\_\_

By \_\_\_\_\_  
Its \_\_\_\_\_

**VIRGINIA ADDENDUM TO CHILDREN'S ORCHARD  
FRANCHISE DISCLOSURE DOCUMENT**

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

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

**VIRGINIA ADDENDUM TO CHILDREN’S ORCHARD  
FRANCHISE AGREEMENT**

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

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

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

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

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

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

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

WE: CHILDREN’S ORCHARD, LLC

YOU:

By \_\_\_\_\_  
Its \_\_\_\_\_

By \_\_\_\_\_  
Its \_\_\_\_\_

## **WASHINGTON ADDENDUM TO CHILDREN'S ORCHARD FRANCHISE DISCLOSURE DOCUMENT**

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

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

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

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

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

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

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

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

**WASHINGTON ADDENDUM TO CHILDREN'S ORCHARD  
FRANCHISE AGREEMENT, ACKNOWLEDGMENT AGREEMENT,  
AND RELATED AGREEMENTS**

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The undersigned does hereby acknowledge receipt of this addendum.



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

WE: CHILDREN'S ORCHARD, LLC

YOU:

By \_\_\_\_\_  
Its \_\_\_\_\_

By \_\_\_\_\_  
Its \_\_\_\_\_

**WISCONSIN ADDENDUM TO CHILDREN'S ORCHARD  
FRANCHISE DISCLOSURE DOCUMENT**

The following information applies to franchises and franchisees subject to the Wisconsin Fair Dealership Law. Item numbers correspond to those in the main body.

Item 17

1. For all franchisees residing in the State of Wisconsin, we will provide you at least 90 days' prior written notice of termination, cancellation, or substantial change in competitive circumstances. The notice will state all the reasons for termination, cancellation, or substantial change in competitive circumstances and will provide that you have 60 days in which to cure any claimed deficiency. If this deficiency is cured within 60 days, the notice will be void. If the reason for termination, cancellation, or substantial change in competitive circumstances is nonpayment of sums due under the franchise, you will have 10 days to cure the deficiency.

2. For Wisconsin franchisees, Ch. 135, Stats., the Wisconsin Fair Dealership Law, supersedes any provisions of the Franchise Agreement or a related contract which is inconsistent with the Law.

**WISCONSIN ADDENDUM TO CHILDREN'S ORCHARD  
FRANCHISE AGREEMENT**

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

1. Notwithstanding anything which may be contained in the body of the Franchise Agreement to the contrary, Section 16 of the Franchise Agreement is amended as follows:

We will provide you at least 90 days' prior written notice of termination, cancellation, or substantial change in competitive circumstances. The notice will state all the reasons for termination, cancellation, or substantial change in competitive circumstances and will provide that you have 60 days in which to rectify any claimed deficiency. If the deficiency is rectified within 60 days, the notice will be void. If the reason for termination, cancellation, or substantial change in competitive circumstances is nonpayment of sums due under the franchise, you will be entitled to written notice of such default, and will have not less than 10 days in which to remedy such default from the date of delivery or posting of such notice.

2. Ch. 135, Stats., the Wisconsin Fair Dealership Law, supersedes any provisions of this Agreement or a related document between you and us inconsistent with the Law.

3. Except as amended herein, the Franchise Agreement will be construed and enforced in accordance with its terms.

Each of the undersigned hereby acknowledges having read and understood this Addendum and consents to be bound by all of its terms.

WE: CHILDREN'S ORCHARD, LLC

YOU:

By \_\_\_\_\_  
Its \_\_\_\_\_

By \_\_\_\_\_  
Its \_\_\_\_\_

**EXHIBIT F**  
**GENERAL RELEASE FORM**

**RELEASE OF CLAIMS**

**THIS IS A CURRENT RELEASE FORM THAT GENERALLY WILL BE USED WITH OR INCORPORATED INTO A SEPARATE AGREEMENT. THIS FORM IS SUBJECT TO CHANGE OVER TIME.**

For and in consideration of the Agreements and covenants described below, Children’s Orchard, LLC (“CO”) and \_\_\_\_\_ (“Franchisee”) enter into this Release of Claims (“Agreement”).

**RECITALS**

- A. CO and Franchisee entered into a Children’s Orchard Franchise Agreement dated \_\_\_\_\_, \_\_\_\_\_.
- B. [NOTE: Describe the circumstances relating to the release.]

**AGREEMENTS**

- 1. **Consideration.** [NOTE: Describe the consideration paid.]
- 2-3. [NOTE: Detail other terms and conditions of the release.]
- 4. **Release.** Franchisee hereby releases CO, its officers, directors, shareholders, and agents, and their respective successors, assigns, heirs, and personal representatives, from all debts, representations, agreements, liabilities, actions, and causes of action of every kind and nature arising out of or relating to the Franchise Agreement between CO and Franchisee, the offer and sale of that franchise and the franchise relationship between the parties.
- 5. **General.** No amendment to this Agreement or waiver of the rights or obligations of either party shall be effective unless in writing signed by the parties. This Agreement is governed by the laws of the State of \_\_\_\_\_ without regard to conflicts of laws principles. If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. This Agreement contains the entire agreement and understanding of the parties concerning the subject matter of this Agreement. [NOTE: Detail other miscellaneous provisions.]

FRANCHISEE:

CHILDREN’S ORCHARD, LLC

\_\_\_\_\_

BY: \_\_\_\_\_

BY: \_\_\_\_\_

ITS: \_\_\_\_\_

ITS: \_\_\_\_\_

DATE: \_\_\_\_\_

DATE: \_\_\_\_\_

**EXHIBIT G**

**DISCLOSURE ACKNOWLEDGMENT AGREEMENT**

Applicant \_\_\_\_\_  
(If corporation) State of Incorporation \_\_\_\_\_  
Address of Applicant \_\_\_\_\_  
Location (Territory) Applied For \_\_\_\_\_

1. I have received all appropriate offering circulars and disclosure documents for the State(s) of \_\_\_\_\_ at my first personal meeting with Children’s Orchard, LLC (“Children’s Orchard”) and have had at least fourteen (14) calendar days before signing the Franchise Agreement and/or payment of any monies.

2. I have signed and returned to Children’s Orchard the acknowledgment of receipt for each disclosure document given me.

3. I have had an opportunity to read the Franchise Agreement thoroughly. I understand that the Franchise Agreement contains all obligations of the parties and that Children’s Orchard does not grant to me under the Franchise Agreement any right of first refusal.

4. I understand that this franchise business, as in all business ventures, involves risk and despite assistance and support programs, the success of my business will depend largely upon me and my ability. In addition, I understand that this franchise business may be impacted by other risks, including those outside your or our control such as economic, political or social disruption.

5. Other than fill in the blank provisions or changes due to negotiations that I initiated, I received a completed Franchise Agreement at least seven (7) calendar days before the actual date I signed the Agreement.

6. I understand that Children’s Orchard has a national marketing and promotional program which is not directed towards any specific franchise territory but is intended to benefit the entire Children’s Orchard® system nationwide.

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

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

Applicants’ Acknowledgment:

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

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

The representations under this Franchise Acknowledgment/Compliance Certification are not intended, nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

**EXHIBIT H**  
**BST SOFTWARE LICENSE AGREEMENT**

## SOFTWARE ACCESS AGREEMENT

THIS SOFTWARE ACCESS AGREEMENT (this “Agreement”), between BST Software Company (the “Licensor”), and the Children’s Orchard, LLC® Licensee listed at the end of this Agreement (“Licensee”), is effective as of \_\_\_\_\_, 2024 (the “Effective Date”).

### BACKGROUND

A. Children’s Orchard, LLC (“Children’s Orchard”) and Licensee have entered into a Franchise Agreement (the “Franchise Agreement”) under which Licensee will operate a Children’s Orchard® franchised business at a designated site (the “Franchised Business”). Under the Franchise Agreement, Licensee must use the software designated by Children’s Orchard in operating the Franchised Business.

B. The Licensor (an affiliate of Children’s Orchard) owns proprietary third-party software for use in point-of-sale cash registers and back-office computers for tracking, analyzing and reporting sales, inventory and other operational information, and has been designated by Children’s Orchard as the exclusive provider of customized software for use in Children’s Orchard® franchised businesses (the “Software”).

C. The Licensor agrees to grant Licensee a license to use the Software at the Franchised Business under the terms stated below.

### AGREEMENT

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

#### 1. ACCESS TO SOFTWARE

The Licensor grants to Licensee a non-transferable and non-exclusive right to use the Software solely in connection with the operation and management of the Franchised Business.

#### 2. RESTRICTIONS ON USE

A. General Obligations. Licensee agrees to fully comply with each of the provisions of this Agreement, including those additional obligations and restrictions described on Exhibit H-1 attached hereto, and understands that Licensee’s violation of any of such provisions may jeopardize Children’s Orchard’s and other licensees’ use of the Software, in addition to the possible termination of Licensee’s rights under this Agreement.

B. Limitations on Use. Licensee may use the Software only as permitted under the terms of this Agreement. Licensee cannot use the Software for any other use, including copying or reproduction; processing of data arising other than from the internal operations of the Franchised Business; disassembling, reverse engineering, or accessing the source code of the Software; publication or disclosure; license, sublicense or re-license; alteration; or unauthorized assignment or transfer. Licensee will use its best efforts to protect the Software at all times from any unauthorized use.

C. Multiple Locations. This Agreement applies only to the authorized Franchised Business location. If Licensee operates more than one Children’s Orchard® franchised business, Licensee and the Licensor must enter into a separate software license agreement for each franchised business location.



### 3. HOSTING SERVICE

A. Connectivity. Licensee must provide connectivity, either Internet-based or private connection, from Licensee's site with sufficient bandwidth to meet Licensee's use demands. Licensee will comply with Licensor's minimum hardware and software requirements, as disclosed and periodically updated in Children's Orchard's confidential franchise operations manuals.

B. Backup. All Licensee data will be backed up on a daily basis by Licensee. Licensee also must ensure the security, integrity and confidentiality of all of Licensee's data.

### 4. PAYMENT

A. Monthly Support Fee. Licensee will pay the Licensor a monthly software support fee (the "Support Fee") for the support and maintenance services described herein and for accessing the Software. The current monthly Support Fee is Two Hundred and Fifty Dollars (\$250). Upon execution of this Agreement, the Licensor (or Children's Orchard on behalf of the Licensor) will bill the Licensee through Stripe and require Licensee to pay the Support Fee via credit card. Going forward the Monthly Support Fee will be automatically charged to the credit card on file with Stripe on the 15th day of each month. Licensee is responsible for any sales, excise, use or value-added taxes applicable to the Software or this Agreement. The Licensor reserves the right to periodically increase the Support Fee by a reasonable amount to reflect the Licensor's increased costs of providing services (including those provided by third parties) and Software access under this Agreement.

B. Hardware and Third-Party Software Fees. Licensee is responsible for purchasing and obtaining all hardware and third-party software as Children's Orchard designates, including initial and ongoing software licenses or fees. Licensee is responsible for hardware and third-party software fees. Such prices are subject to change with written notice, based upon market conditions.

### 5. SUPPORT AND MAINTENANCE

A. Licensor Support Services. The Licensor will provide the following services to Licensee during the term of this Agreement: at a minimum a help desk support to answer questions related to functionality of the Software; correcting identifiable and reproducible program errors in the Software; and providing major upgrades of the Software that are made generally available by the Licensor. Help desk services are not a substitute for training or consulting services. Training documentation is provided for Licensee to train its own employees. Training classes will also be offered for additional fees.

B. Software Updates. The Licensor may, in its sole discretion, periodically release updates, modifications and enhancements respecting the Software. Licensee will install any fixes, updates, modifications or enhancements which Licensor designates as mandatory. The Licensor may charge a reasonable fee for its services, including any services or expenses relating to updates, modifications, and enhancements to the Software which it elects to release.

### 6. CONFIDENTIALITY

A. Confidential Information. Licensee acknowledges and agrees that all provisions in the Franchise Agreement respecting "Confidential Information" (as defined in the Franchise Agreement) will apply to this Agreement.

B. Customer Data. Licensee acknowledges and agrees that all provisions in the Franchise Agreement respecting "Customer Data" (as defined in the Franchise Agreement) will apply to this Agreement.

## 7. INDEMNIFICATION FOR THIRD PARTY INFRINGEMENT CLAIMS

A. Indemnification of Licensee for Software. The Licensor does not have actual knowledge of any claim that the Software infringes upon a third party's patent, copyright or other proprietary right. If a third party asserts such an infringement claim against Licensee, Licensee will immediately notify Licensor in writing. Licensor will have the right (but not the obligation) to defend any such claim, at Licensor's expense, and Licensee will cooperate with Licensor with respect to such defense. In the event of any such claim, Licensee will, at Licensor's direction, immediately discontinue using the Software. Licensor will either modify the Software so as to make it non-infringing, replace the Software with such other non-infringing software as Licensor may furnish to Licensee or discontinue using the Software without compensation to Licensee. Licensor will not be liable to Licensee if an infringement claim is based on Licensee's unauthorized use or modification of the Software.

B. Licensee Indemnification of Children's Orchard and Licensor. In addition to Licensee's indemnification obligations under the Franchise Agreement, Licensee will hold harmless, indemnify and defend Children's Orchard and Licensor against all claims and will pay all costs, damages and reasonable attorneys' fees, arising out of or resulting from Licensee's failure to comply with all applicable terms of this Agreement.

## 8. WARRANTY DISCLAIMER

LICENSOR DISCLAIMS ALL WARRANTIES, EXPRESS, IMPLIED, OR STATUTORY, INCLUDING NON-INFRINGEMENT (EXCEPT AS PROVIDED IN SECTION 7(A) or 7(B) ABOVE), MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. LICENSOR DOES NOT WARRANT THAT THE SOFTWARE IS ERROR-FREE OR THAT USE OF THE SOFTWARE WILL BE FREE FROM MINOR INTERRUPTIONS.

## 9. LIMITATION ON DAMAGES

THE LIABILITY OF THE LICENSOR TO LICENSEE WILL NOT EXCEED THE AMOUNTS LICENSEE PAYS TO THE LICENSOR UNDER THIS AGREEMENT. NEITHER THE LICENSOR NOR ANY OF ITS OFFICERS, DIRECTORS, AGENTS, AFFILIATES OR REPRESENTATIVES WILL BE LIABLE TO LICENSEE FOR INDIRECT, SPECIAL, INCIDENTAL, EXEMPLARY OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS) RELATED TO THIS AGREEMENT OR RESULTING FROM LICENSEE'S USE OR INABILITY TO USE THE SOFTWARE, THAT ARISE FROM ANY CAUSE OF ACTION, INCLUDING CONTRACT, WARRANTY, STRICT LIABILITY, OR NEGLIGENCE, EVEN IF THE LICENSOR HAS BEEN NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

## 10. PROPRIETARY RIGHTS

Other than the access granted under this Agreement, no right, title or interest in all or any portion of the Software is conveyed or assigned to Licensee, either expressly or by implication, under this Agreement, including any patents, copyrights, trade secrets, trademarks, trade names, or other intellectual property associated with the Software.

## 11. TERM AND TERMINATION

This Agreement commences on the Effective Date and continues until the current term of the Franchise Agreement terminates or expires, unless this Agreement is earlier terminated under this Section. The Licensor may terminate this Agreement: (1) immediately upon written notice to Licensee if Licensee violates Sections 2(A) or 6 above or if Licensee makes an assignment for the benefit of creditors, or commences or has commenced against it any proceeding in bankruptcy, insolvency, or reorganization

pursuant to bankruptcy laws or laws of debtor's moratorium; (2) if Licensee violates any provision of this Agreement and fails to cure such violation within thirty (30) days or such shorter time as the Licensor or Children's Orchard deems reasonably necessary to avoid termination of the Franchise Agreement; (3) Licensee ceases to have the right to operate the Franchised Business; or (4) otherwise upon termination of the Franchise Agreement. In addition, the Licensor has the right to terminate this Agreement upon sixty (60) days' written notice to Licensee if the Licensor intends to discontinue or replace the Software. Upon termination of this Agreement: (1) the Licensor agrees to provide Licensee with access to the Customer Data; provided, Licensee agrees not to use any Customer Data for any activity that would violate Licensee's covenants or post-termination obligations stated in the Franchise Agreement; and (2) Licensee will immediately pay the Licensor all amounts due respecting the Software and Hosting Service and immediately return to the Licensor all property relating to the Software and related Software documentation.

## 12. THIRD PARTY BENEFICIARY

Licensee acknowledges and agrees that Children's Orchard is a third party beneficiary under this Agreement and that Children's Orchard has an independent right to enforce any term, provision, covenant or obligation of this Agreement, if Licensee has an uncured default hereunder.

## 13. MISCELLANEOUS

This Agreement will be governed by the laws of the State of Minnesota.

A. This Agreement represents the entire agreement between the parties respecting this subject matter and supersedes all prior agreements, representations, negotiations and understandings between the parties. Licensor and Licensee acknowledge and agree that dispute resolution, governing law and venue will be governed in the same manner as under the corresponding provisions of the Franchise Agreement. Licensee expressly acknowledges that a violation or default of the Franchise Agreement will constitute a default of this Agreement and any default of this Agreement will constitute a default of the Franchise Agreement. If Licensee defaults under the Franchise Agreement, Children's Orchard may pursue all remedies available to it under this Agreement or the Franchise Agreement, including the right of termination.

B. All amendments to this Agreement must be in writing and signed by both parties.

C. If any provision of this Agreement is found by an arbitrator or a court of competent jurisdiction to be illegal or unenforceable, then the remaining provisions will remain in full force and effect.

D. The Licensor may assign all or any of its interests or obligations in this Agreement to any other person or entity. Licensee may assign this Agreement only to its successor in interest under the terms of the Franchise Agreement.

E. Notices will be given to Licensee at the address of the approved location of the Franchised Business. Notices to the Licensor will be given at 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441 or such other address as Licensor may provide to Licensee in writing. All notices will be deemed given as described in the Franchise Agreement.

The parties have signed this Agreement as of the date first written above.

THE LICENSOR:

BST Software Company  
a Delaware corporation

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

LICENSEE:

(If Licensee is a corporation or limited liability company)

\_\_\_\_\_  
Name of corporation or limited liability company

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

(If Licensee is an individual owner, Licensee must sign below; if a partnership, all partners must sign below)

\_\_\_\_\_  
Licensee

\_\_\_\_\_  
Licensee

\_\_\_\_\_  
Licensee

\_\_\_\_\_  
Licensee

## EXHIBIT H-1

### ADDITIONAL RESTRICTIONS ON USE OF SOFTWARE

With respect to third-party computer programs provided by the Licensor for use with the Software, Licensee acknowledges that its right to use any such third-party software is specified on the license agreement provided by the appropriate licensor of such software.

Except as otherwise agreed to by the Licensor, no express or implied license or right of any kind is granted to Licensee regarding the Software including any right to know, use, produce, receive, reproduce, copy, market, sell, distribute, transfer, translate, modify, or adapt the Software or related Software documentation (the "Documentation") or create derivative works based on the Software or Documentation or any portions thereof, or obtain possession of any source code or other technical material relating to the Software. The Software may not be used for commercial timesharing, service, business or other rental or sharing arrangements although it may be used by Licensee as described in the attached Agreement. Licensee will not decompile, reverse assemble, or otherwise reverse engineer the Software. Further, Licensee will comply with all applicable laws in connection with the use of the Software.

Licensee acknowledges and agrees that, except for Licensee's license expressly described in this Agreement, Licensee has no right, title and interest in the Software, in any form, or in any copies thereof, including all worldwide copyrights, trade secrets, patent rights and any other proprietary information and confidential information rights therein. In connection therewith, Licensee agrees at all times to keep the Software free of all security interests, liens, encumbrances (other than licenses permitted hereunder), mortgages and claims, and Licensee agrees that neither it nor anyone at its direction will file a financing statement, mortgage, notice of lien, deed of trust, security agreement or any other agreement or instrument creating or giving notice of an encumbrance or charge against the Software.

Neither Licensor nor Children's Orchard will be liable for any default or delay in the performance of its obligations hereunder: (i) if and to the extent that such default or delay arises out of causes beyond its reasonable control, including acts of God, acts of war, acts of governmental authority, acts of public energy, insurrection, earthquakes, fires, cable cuts, floods, terrorism, and riots (each, a "Force Majeure Event") and (ii) provided such default or delay could not have been prevented by reasonable precautions and cannot reasonably be circumvented by the non-performing party through the use of alternative sources, work-around plans or other means. Upon the occurrence of a Force Majeure Event, Licensor or Children's Orchard, as the case may be, will be excused from further performance or observance of the obligation(s) affected so long as such circumstances caused by the Force Majeure Event prevail and the parties use their reasonable efforts to promptly recommence performance or observance of such obligation(s).

**EXHIBIT I**

**GUARANTEE OF CLOTHES MENTOR, LLC**

## GUARANTEE OF PERFORMANCE

For value received, Clothes Mentor, LLC, a Delaware limited liability company (the "Guarantor"), located at 13895 Industrial Park Boulevard, Ste 100, Plymouth, MN 55441, absolutely and unconditionally guarantees to assume the duties and obligations of Children's Orchard, LLC, located at 13895 Industrial Park Boulevard, Ste 100, Plymouth, MN 55441 (the "Franchisor"), under its franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its 2024 Franchise Disclosure Document, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and its successors and assigns.

The Guarantor signs this guarantee at Plymouth, Minnesota, on the 10 day of April, 2024.

Guarantor:

CLOTHES MENTOR, LLC

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

Name: Chad Olson

Title: Chief Operations Officer

**EXHIBIT J**  
**STATE EFFECTIVE DATES AND RECEIPTS**



## 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, registered, or exempt from registration as of the Effective Date stated below:

<b>State</b>	<b>Effective Date</b>
California	Pending
Illinois	Pending
Indiana	Pending
Michigan	April 17, 2024
Minnesota	Pending
New York	Pending
North Dakota	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.

## Receipt

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

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

If Children’s Orchard 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 law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and those state administrators listed on Exhibit D.

The franchisor is Children’s Orchard, LLC located at Children’s Orchard, LLC, 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441. Its telephone number is (952) 923-1223.

Issuance Date: April 17, 2024

The franchise seller involved in offering and selling the franchise to you is Mike Smith at 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441, (952) 923-1223, or is listed below (with address and telephone number) or will be provided to you separately before you sign a franchise agreement: \_\_\_\_\_

Children’s Orchard authorizes the respective state agencies identified on Exhibit D to receive service of process for us in the particular state.

I have received a disclosure document dated April 17, 2024, that included the following Exhibits:

- |   |   |
|---|---|
| (A) Financial Statements  | (F) General Release Form                |
| (B) Franchise Agreement   | (G) Disclosure Acknowledgment Agreement |
| (C) List of Franchised Stores                                   | (H) BST Software License Agreement      |
| (D) List of State Administrators; Agents for Service of Process | (I) Guarantee of Clothes Mentor, LLC    |
| (E) State Specific Addenda                                      | (J) State Effective Dates and Receipts  |

Date: \_\_\_\_\_  
(Do not leave blank)

\_\_\_\_\_  
Signature of Prospective Franchisee

\_\_\_\_\_  
Print Name

Prospective Franchisee’s Copy

## Receipt

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

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

If Children’s Orchard 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 law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and those state administrators listed on Exhibit D.

The franchisor is Children’s Orchard, LLC located at Children’s Orchard, LLC, 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441. Its telephone number is (952) 923-1223.

Issuance Date: April 17, 2024

The franchise seller involved in offering and selling the franchise to you is Mike Smith at 13895 Industrial Park Blvd, Ste 100, Plymouth, MN 55441, (952) 923-1223, or is listed below (with address and telephone number) or will be provided to you separately before you sign a franchise agreement: \_\_\_\_\_

Children’s Orchard authorizes the respective state agencies identified on Exhibit D to receive service of process for us in the particular state.

I have received a disclosure document dated April 17, 2024, that included the following Exhibits:

- |   |   |
|---|---|
| (A) Financial Statements  | (F) General Release Form                |
| (B) Franchise Agreement   | (G) Disclosure Acknowledgment Agreement |
| (C) List of Franchised Stores                                   | (H) BST Software License Agreement      |
| (D) List of State Administrators; Agents for Service of Process | (I) Guarantee of Clothes Mentor, LLC    |
| (E) State Specific Addenda                                      | (J) State Effective Dates and Receipts  |

Date: \_\_\_\_\_  
(Do not leave blank)

\_\_\_\_\_  
Signature of Prospective Franchisee

\_\_\_\_\_  
Print Name

Copy for Children’s Orchard, LLC

Please sign and date both copies of this receipt, keep one copy (the previous page) for your records, and mail one copy (this page) to the address listed on the front page of this disclosure document or send to Michael Smith by email to msmith@ntyfranchise.com or by fax to (952) 923-1224.

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