

## FRANCHISE DISCLOSURE DOCUMENT



BFK Franchise Company LLC  
a Nevada limited liability company  
475 W Town Place Suite 205 A  
St. Augustine, FL 32092  
Tel: (904) 824-3133  
www.bricks4kidz.com

The franchise offered is for the right to operate a Bricks 4 Kidz franchised business offering project-based programs designed to teach principles and methods of engineering to children between the ages of 3 and 13+ using LEGO® bricks and utilizing the Bricks 4 Kidz System.

The total investment necessary to begin operation of a Bricks 4 Kidz Business ranges from \$27,120 to \$42,970. This amount includes an initial franchise fee of \$24,995 that must be paid to the franchisor or its affiliate.

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

You may wish to receive your Disclosure Document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Franchise Administration at 475 W Town Place, Suite 205 A St. Augustine, FL 32092 and (904) 824-3133.

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.

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## 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 .

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

## What You Need to Know About Franchising *Generally*

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

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

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

**Operating restrictions.** The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

**Competition from franchisor.** Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

**Renewal.** Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

**When your franchise ends.** The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

### Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use agency information in Exhibit B.

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

## Special Risks to Consider About *This Franchise*

Certain states require that the following risk(s) be highlighted:

- 1) **Out-of-State Dispute Resolution.** The franchise agreement and multi-unit operator agreement require you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Florida. Out-of-state arbitration or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in Florida than in your own state.

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

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## Item 1

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

The franchisor is BFK Franchise Company LLC ("we," "us," or "our"). "You" means the individual or entity that buys the franchise. If you are a corporation, partnership, limited liability company, or other entity, your owners must sign our "Guaranty and Assumption of Obligations," which means that all of the provisions of the Franchise Agreement (a form of which is attached as Exhibit C) also will apply to your owners.

We are a Nevada limited liability company formed on March 14, 2009. Our principal business address is 475 W Town Place Suite 205 A St. Augustine, FL 32092. We operate under our entity name, "Bricks 4 Kidz," "Bricks 4 Biz" and no other name. If we have an agent in your state for service of process, we disclose that agent in Exhibit B. We began offering franchises for Bricks 4 Kidz Businesses in July 2009. We have not conducted business in this or any other line of business.

We grant franchises for mobile businesses operating under the "Bricks 4 Kidz" name and other trademarks, trade names, service marks, and commercial symbols, including the "Bricks 4 Biz" (collectively, the "Marks"). For reference purposes in this Disclosure Document, we collectively refer to all businesses using the System (defined below) and the Marks as "Bricks 4 Kidz Businesses," and we call the Bricks 4 Kidz Business that you will operate the "BUSINESS." Bricks 4 Kidz Businesses offer project-based programs designed to teach principles and methods of engineering to children between the ages of 3 and 13+ using LEGO® plastic bricks, LEGO® products and other compatible resources through classes, workshops, birthday parties, camps, virtual classes and other organized activities at locations such as preschools, elementary and middle schools, community centers and churches (collectively, the "Services"), utilizing the System (defined below).

The Services are provided by Bricks 4 Kidz franchisees operating Bricks 4 Kidz Businesses, which use our business formats, methods, procedures, signs, designs, layouts, standards, specifications and Marks (the "System") and specialized products, lesson plans, model plans and project kits produced or manufactured by us and our affiliates (the "Proprietary Products"), all of which we may improve, further develop or otherwise modify. If you acquire a franchise, you must operate your BUSINESS according to the System. The BUSINESS will be operated from an office located in your residence or at a location that we review and accept, which will be listed on Exhibit B of the Franchise Agreement (the "Office").

We offer Bricks 4 Kidz Business franchise owners the right to establish and operate a Brick 4 Biz business (the "B4B Business") that conducts classes and provides programs in the field of team- building and development to businesses and adults over the age of 18 (collectively, the "B4B Services") utilizing our Bricks 4 Biz system and our service mark "Bricks 4 Biz" and other trademarks and service marks we specify (collectively, the "B4B Trademarks").

Our direct parent and sole managing member is Creative Learning Corporation ("CLC"), a Delaware corporation formed on March 8, 2006 and its principal place of business is the same as ours. CLC does not provide any products or services to our franchisees. CLC will guarantee our performance. CLC does not offer franchises in this or any other line of business. CLC does not operate a business in this or any other line of business. We have no other parents or predecessors required to be disclosed in this Item.

Our affiliate, SF Franchise Company, LLC, a Florida limited liability company ("SFFC"), franchises the right to operate businesses under the "Sew Fun Studios" trademark that provide creative project-based activities, classes and programs in fashion and interior design and sewing to children and adults ("Sew Fun Studios Businesses"). SFFC was formed on January 26, 2015. SFFC had offered Sew

Fun franchises since February 2015 under a separate disclosure document. As of September 30, 2017, there is 1 Sew Fun Studios Businesses operating in the United States. As of October 1, 2018, SFFC stopped selling franchises.

We have no other business activities and have not offered franchises in other lines of business. We have no affiliates who currently provide products or services to franchisees of Bricks 4 Kidz Businesses. Except as described above, we have no affiliates who offer franchises in any line of business or who provide products or services to our franchisees.

Your BUSINESS will be located in a specific geographic territory (the "Territory") and will offer services to children between the ages of 3 and 13+ throughout the year and compete with other businesses and non-profit organizations that offer similar programs through classes, camps, workshops and birthday parties. The market for your type of services generally is well-developed and competitive nationally.

Many states may require Bricks 4 Kidz Business franchise owners to undergo a background check in order to offer after-school classes in a public-school system. As part of the background check, you may be required to complete specific forms and be fingerprinted. You must comply with laws that apply to educational programs geared towards children. You also must comply with existing laws, regulations, and ordinances that apply generally to all businesses, such as the Americans with Disabilities Act, federal wage and hour laws and state law equivalents, the Affordable Care Act, the Occupational Safety and Health Act, anti-terrorism and anti-corruption laws (such as the Patriot Act and the Foreign Corrupt Practices Act), and data protection and privacy laws (such as credit card protection under the U.S. Fair and Accurate Credit Transactions Act, or "FACTA"). It is your sole responsibility to comply with all applicable laws, and to obtain and maintain all necessary licenses and permits required by public authorities. You should investigate these laws that may apply to the youth educational and entertainment industries and to all businesses in general.

## **Item 2**

### **BUSINESS EXPERIENCE**

#### **President: Rod Whiton**

Mr. Whiton became a director in February 2020 and President on June 8, 2020. Mr. Whiton has over 20 years of experience managing public and private investments. His experience focuses largely on early stage and turnaround operations in franchising, technology, biometrics, manufacturing, and payment processing. In addition, Mr. Whiton was an early investor in the Company and has served as its Interim CEO from July 22, 2015 to May 11, 2017. From January 2019 to the present, he has been CEO of Smart Tires USA LLC, a franchise company that provides a rent-to-own program for tires. He has owned and managed a successful private cosmetics company for over 10 years.

#### **CEO- Christopher Rego**

Mr. Rego became a director in February 2020, at which time he also became chief executive officer of BFK Franchise Company, LLC ("BFK"), our principal operating subsidiary. Mr. Rego became the chief executive officer of Creative Learning Corporation on April 30, 2020. Mr. Rego has over 20 years of software quality development experience building complex enterprise applications with high-performance requirements in the business-to-business, software-as-a-service, and consumer advertising industries. Mr. Rego is an accomplished corporate strategist and drives the vision and strategic direction of his software company, Teknowland, Inc., and his STREAM education company, Bricknowland, Inc. Mr. Rego has also held various management and architect roles to contribute to the success of rapidly growing technology companies such as Oracle, Yahoo!, Tapjoy, and Intuit. Mr. Rego has been a Bricks 4 Kidz



franchisee since November 2013. Mr. Rego earned a Bachelor of Science degree from Andhra Loyola College in Andhra Pradesh India and an MBA in Marketing and Finance from Acharya Nagarjuna University Andhra Pradesh, India.

### **Chief Financial Officer: Mike Elkin**

Mike Elkin is a successful Controller and Financial Manager with over 20 years of experience. He is a Financial Manager with Master's Degrees in both Accounting and Finance and currently serves as the Controller for DayMark Homes. Mike was recognized by the Jacksonville Business Journal as CFO of the year. He was also honored by the Jacksonville Jewish Journal for Social Action Work in the Community. His specialties include REIT's, Non-Profits, turnaround situations, SEC reporting, manufacturing distribution and service company experiences.

### **Item 3**

#### **LITIGATION**

Minds that Matter, LLC; Dave Calloway v. BFK Franchise Company, LLC; JP Development, LLC, et al. (Civil Action Number A-13-68287-B), Eighth Judicial District Court, Clark County, Nevada. On September 24, 2013, Minds that Matter, LLC ("MTM"), filed a complaint, naming, among others, BFK Franchise Company, LLC, as a defendant, alleging deceptive trade practices. The plaintiff elected not to serve BFK or any of the other defendants named in the September 24 complaint. Under a settlement agreement executed on December 26, 2013, MTM agreed to file a motion of dismissal and we agreed to pay MTM the sum of \$95,000 (paid in installments) and pay MTM's outstanding debt in the approximate amount of \$24,000 owed to former Bricks 4 Kidz franchisees from whom MTM acquired the right to develop Bricks 4 Kidz Businesses. The case was dismissed with prejudice on January 10, 2014.

Franventures, LLC v. Creative Learning Corporation, and BFK Franchise Company, LLC, Case No. CA16-0236 (Circuit Court of the Seventh Judicial Circuit, in and for St. Johns County, Florida). On March 7, 2016, Brian Pappas, former CEO of Creative Learning Corporation and member of FranVentures, LLC, filed suit for breach of contract alleging the Company failed to pay amounts due under an operating agreement, and for a declaratory judgment determining the enforceability of the operating agreement. The Company is contesting these allegations and its liability for any damages. On June 23, 2016, the Company filed a counterclaim against FranVentures, LLC and Brian Pappas for breach of fiduciary duty, breach of duty of loyalty, conversion, unjust enrichment, civil conspiracy and fraud, alleging various forms of self-dealing, abuse of authority, and the misuse of Company funds to pay for personal expenses and the benefit his spouse and relatives. We will vigorously defend our interests in this matter.

Creative Learning Corporation v. Brian Pappas, Case No. CA15-1076 (Circuit Court for the Seventh Judicial Circuit, in and for St. Johns County, Florida) On October 2, 2015, Creative Learning Corporation filed suit against Brian Pappas ("Pappas"), former CEO of Creative Learning Corporation and member of FranVentures, LLC, for various claims related to his conduct as CEO. On December 11, 2017, Pappas filed a counterclaim alleging he is entitled to indemnification from Creative Learning Corporation for any damages, fines, or fees accrued against him in as a result of actions or investigations related to his conduct as CEO. We dispute this counterclaim, and intend to ardently pursue our claims, and defend our interest in these matters.

Back and 4<sup>th</sup>, LLC and Kristena Bins-Turner v. BFK Franchise Company, LLC, American Arbitration Association Case No. 01-16-0004-3745. Our current franchisee, Back and 4<sup>th</sup>, LLC, and its owner, Kristena Bins-Turner, filed a demand for arbitration on October 7, 2016, alleging breach of contract for our alleged failure to comply with Back and 4<sup>th</sup>'s 8 franchise agreements. The Claimants allege that we failed to: (1) provide a unique system for the operation of a Lego-based business; (2) provide a proper Operations

Manual; (3) impose uniform standards for fixtures, flooring and signage; (4) promote goodwill and protect the brand; and (5) provide effective and timely marketing materials. The Claimants also allege that our former management failed to provide Bins-Turner with certain disclosures of the conduct presented in our lawsuit against Brian Pappas prior to entering into one or more of the franchise agreements. Back and 4<sup>th</sup> and Bins-Turner seek rescission of all 8 of its Bricks 4 Kidz franchise agreements, a full refund of all fees and royalties paid by Back and 4<sup>th</sup>, and a full release of Bins-Turner from all post-termination non-competition obligations. We dispute the various claims made in the arbitration demand. This case was arbitrated in December 2017 and the arbitrator had until February 15, 2018 to issue an arbitration award. On April 24, 2018 we paid \$45,000 to Kristena Bins-Turner and Back and 4<sup>th</sup>, LLC to settle an arbitration award entered on February 13, 2018. That amount included reimbursement of \$15,381.01 for arbitration costs related to the eight franchise territories that Back and 4<sup>th</sup> LLC owned.

Team Kasa, LLC, Karen June, Alexander Gilbert, and AnnMarie Szollosi Gilbert (f/k/a AnnMarie Szollosi) v. Brian Pappas, FranVentures, LLC, Richard Humphrey, Franchise BIZ Experts, LLC, William Litster, and Ameridream Investments, LLC, Case No. 2:17-cv-01074 (E.D.N.Y. filed February 24, 2017). Franchisee, along with its three owners, filed suit against former CEO of Creative Learning Corporation, BFK Franchise Company, LLC's parent company, alleging disclosure violations under Section 683 of the New York State Franchise Sales Act, and misrepresentation and omission violations of Section 687. The Franchisee, and its owners seek damages between \$500,000 and \$1,000,000. We deny these allegations and intend to vigorously defend our interests in this matter.

Team Kasa, LLC, Karen June, Alexander Gilbert, AnnMarie Gilbert (f/k/a Zaollosi) v. BFK Franchise Company, LLC (d/b/a Bricks 4 Kidz), Case No. 01-17-0001-1968 (American Arbitration Association filed February 24, 2017, amended October 10, 2017). Franchisee, along with its three owners, initiated arbitration seeking to hold us jointly and severally liable for damages resulting from allegations against Mr. Pappas and the other Defendants identified in Case No. 2:17-cv-01074 filed in the E.D.N.Y. disclosed above. Arbitration is currently held in abeyance. Upon continuation of arbitration, we will zealously contest the allegations, and defend our interests in this matter.

Indy Bricks, LLC, Ben Schreiber, and Kate Schreiber v. BFK Franchise Company, LLC, and Creative Learning Corporation, Case No. 01-17-0006-7716 (American Arbitration Association filed November 8, 2017). Our current franchisee, Indy Bricks, LLC, and its owners, Ben & Kate Schreiber filed a demand for arbitration on November 8, 2017, alleging breach of contract for our alleged failure to comply with Indy Bricks' 2 franchise agreements, and for alleged violation of the Indiana Franchise Act, and the Indiana Deceptive Franchise Practices Act. Additionally, the Claimants allege fraud by omission and misrepresentation. Claimants seek rescission of the franchise agreements, and damages in the amount of \$100,000. On April 23, 2020 a settlement agreement was entered into between Indy Bricks, LLC and its owners, Ben and Kate Schreiber and us where the arbitration was dismissed. Indy Bricks, LLC will pay us \$4,000 of past due franchise fees, monthly marketing and royalty fees and monthly fees to utilize our FMS. Indy Bricks, LLC has satisfied their obligations.

### **Governmental Actions:**

Washington State Consent Order Number S-11-0617-11-CO01. On July 26, 2011, we entered into a Consent Order with the Washington Department of Institutions, Securities Division, whereby we agreed not to offer franchises for sale in the State of Washington. Such agreement applied until such time as we were approved to offer franchises for sale in the State of Washington. On September 23, 2011, we were granted authority to offer and sell franchises in the State of Washington under Permit No. 70014808.

Commonwealth of Virginia - Case No. SEC 2016-00025. In June 2016, we entered into a Settlement Order and Admission and Consent (the "Order") with the Commonwealth of Virginia Corporation Commission's

(the “Commission”) Division of Securities and Retail Franchising (the "Division"), whereby we agreed to (i) pay restitution, penalties, and investigative costs in the amount of \$94,900; (ii) provide a copy of the Order to all current and former Bricks 4 Kidz franchisees; (iii) offer rescission to the 5 current Bricks 4 Kidz franchisees that the Commission alleged received financial performance representations; and, (iv) refrain from violating the Virginia Retail Franchising Act (the “Act”) in the future. The Division alleged that our offer and sales activities in Virginia violated the Act by making untrue statements of a material fact and misled franchisees by misrepresenting existing Bricks 4 Kidz franchisees’ revenues by including revenues from school programs, which may not have been allowed in certain territories. We did not admit or deny any of the allegations set forth in the Order.

Commonwealth of Virginia - Case No. SEC 2015-00027. In January 2016, our former affiliate, CI Franchise Company, LLC, which offered and sold franchises under the name “Challenge Island” from 2013 to 2015, entered into a Settlement Order and Admission and Consent with the Commonwealth of Virginia Corporation Commission's (the “Commission”) Division of Securities and Retail Franchising (the "Division"), whereby CI Franchise Company, LLC agreed to (i) pay restitution, penalties, and investigative costs in the amount of \$129,450; (ii) require two executives to attend a franchise compliance training program; (iii) an injunction from offering and selling franchises in Virginia for a period of 180 days from the date of registration; and, (iv) refrain from violating the Virginia Retail Franchising Act (the “Act”) in the future. The Division alleged that CI Franchise Company, LLC’s offer and sales activities in Virginia violated the Act by CI Franchising Company, LLC selling franchises in Virginia prior to being registered, failing to advise prospective franchisees that it was not registered in Virginia, not disclosing material information to prospective franchisees, and not providing franchisees with the franchise agreements and franchise disclosure documents as required by the Act. CI Franchise Company, LLC did not admit or deny any of the allegations set forth in the Settlement Order and Admission and Consent.

United States Securities and Exchange Commission v. Brian Pappas, etc al. (Civil Action No. 3:17-cv00954-TJC-JRK). On August 21, 2017, the SEC filed a Civil Complaint against the Company and certain former executive officers and directors in the United States District Court for the Middle District of Florida, Jacksonville Division, as Civil Action No. 3:17-cv-00954-TJC-JRK. The Civil Complaint was in regards to alleged violations of federal securities law occurring between 2011 and 2015. On August 22, 2017, the SEC also filed with the court the Company’s formal Consent to a full resolution of all allegations pertaining to the Company. Pursuant to the Consent, without admitting or denying the allegations, the Company agreed to the entry of a final judgment that permanently enjoins it from violating the sections of the federal securities laws listed in the Civil Complaint. On September 20, 2017, the United States District Court for the Middle District of Florida, Jacksonville Division issued the final judgment order as to the Company in the Civil Action No. 3:17-cv-00954-TJC-JRK. The entering of the final judgment order has resolved all allegations pertaining to the Company. The Company was not assessed any monetary penalties.

Other than the actions listed above, no litigation is required to be disclosed in this Item.

#### **Item 4**

#### **BANKRUPTCY**

No bankruptcy proceedings are required to be disclosed in this Item.

#### **Item 5**

#### **INITIAL FEES**

If we grant you a franchise for a Bricks 4 Kidz Business, then when you sign the Franchise Agreement and prior to attending our initial training program, you must pay us a non-recurring initial

franchise fee (the "Initial Franchise Fee"). We calculate the Initial Franchise Fee based upon the number of public or private elementary and / or middle schools. You may purchase up to one additional franchise territory for additional schools by signing a Franchise Agreement for the additional territory, and you must do so within one year of signing your first Franchise Agreement. The Initial Franchise Fee for each franchise territory is as follows:

First Franchise (Up to 25 Schools) - \$24,995

Second Franchise and each additional Franchise (additional 25 Schools) - \$15,000

Initial Franchise Fee is fully earned by us when paid. If we terminate your Franchise Agreement (at our option) because: (1) your required attendees to our initial training program described in Item 11 below cannot complete initial training to our satisfaction; or (2) you do not commence operations of the BUSINESS within 90 days from the date your required attendees complete the initial training program to our satisfaction, then you will be eligible to receive a refund of up to \$5,000 of the Initial Franchise Fee if you sign and submit to us a release of claims in a form we designate (a sample form release of claims is attached as Exhibit G). Except as stated in the prior sentence, the Initial Franchise Fee is not refundable. The Initial Franchise Fee is uniform as to all franchisees purchasing a franchise for a Bricks 4 Kidz Business.

### Item 6

#### OTHER FEES

Type of Fee <sup>(1)</sup>	Amount	Due Date	Remarks
Continuing Service and Royalty Fee	7% of Gross Sales (the "Royalty"), subject to the Minimum Royalty Fee (defined in Note 2 below), plus any applicable taxes (See Note 2)	Due on the 3 <sup>rd</sup> business day of each month <sup>(2)</sup>	You must pay the Royalty to us following the date the BUSINESS commences operations. "Gross Sales" means all of your revenue from operating the BUSINESS, but excluding (a) all federal, state or municipal sales, use, or service taxes collected from clients and paid to the appropriate taxing authority, and (b) reduced by the amount of any documented refunds, credits, allowances, and chargebacks the BUSINESS in good faith gives to clients. See Note 2
Marketing Fund	Up to 2% of the BUSINESS' Gross Sales (currently, 2%)	Due on the 3 <sup>rd</sup> business day of each month <sup>(2)</sup>	See Item 11 for a detailed discussion about the Marketing Fund (the "Fund")
Local Advertising	Up to 3% of the BUSINESS' Gross Sales (currently, 2%)	As incurred	You must spend this amount on local marketing activities for the BUSINESS according to our guidelines

<b>Type of Fee<sup>(1)</sup></b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Additional or Renewal Training and/or Assistance	Up to \$500 per person plus travel and living expenses	As incurred	We provide initial training for you (or your managing owner) and your Designated Manager (defined in Item 15) at no additional cost (see Item 11). We may charge you for additional initial training for your employees at our training facility and for additional or special assistance or training you need or request or that we may require during the franchise term. These amounts also apply to on-site consultation services we may provide for the BUSINESS during the franchise term and for new or managers you may hire or appoint during the franchise term ( <i>See</i> Item 11)
Transfer	\$5,000, plus any applicable taxes <sup>(3)</sup>	Before transfer completed	Applicable to transfers of a controlling interest in you, the Franchise Agreement, or the assets of the BUSINESS. You must satisfy all our conditions of transfer as provided under the Franchise Agreement in order for us to approve any transfer
Renewal	\$5,000, plus any applicable taxes	Upon signing the Successor Franchise Agreement	You must meet certain conditions to have the option to acquire a successor franchise
Product and Service Purchases	Varies	When billed	You will buy products and services from us, our affiliates, designated and approved vendors whose items meet our standards and specifications, and/or other suppliers in the industry ( <i>See</i> Item 8)
Testing	Greater of \$1,000 or the actual cost inspection and testing	As incurred	This covers our costs and expenses for evaluating and testing new products or inspecting new suppliers you propose
Audit	Cost of inspection or audit	Upon invoice	Due if you do not give us reports, supporting records, or other required information
Interest on overdue amounts	18% per month or the maximum rate allowed by state law, whichever is less	As agreed	Due on all overdue amounts
Insurance	You must reimburse our costs	As incurred	If you fail to obtain insurance, we may obtain insurance for you and you must reimburse us

<b>Type of Fee<sup>(1)</sup></b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Insufficient Funds Processing Fee	\$30, plus our expenses	As agreed	Due if you have insufficient funds in your EDTA to cover a payment, or, if you pay by check, a check is returned for insufficient funds
Costs and Attorneys' Fees	Will vary under circumstances	As incurred	Due when you do not comply with the Franchise Agreement
Indemnification	Will vary under circumstances	As incurred	You must reimburse us if we are held liable for claims from your BUSINESS' operation
Management Fee	\$300 per day (plus costs and expenses)	As agreed	Due when we (or a third party we designate) manage the BUSINESS after your or your managing owner's death or disability or upon your default or abandonment
Solicitation Fee	As set by us or our affiliate (currently, 50% of the individual's annual salary, plus expenses)	As agreed	Due if you, your owners, or your or your owners' spouses employ or seek to employ any individual who is or within 6 months of employment or solicitation was, employed by us, our affiliate or any Bricks 4 Kidz Business franchise owner or location, or attempt to induce any individual to leave employment without our, our affiliate's or the Bricks 4 Kidz Business franchise owner's consent
Early Termination Fee	100% of remaining Royalty payments under the Franchise Agreement	When you elect to terminate the Franchise Agreement	Due only if you elect to terminate the Franchise Agreement on or after the 2 <sup>nd</sup> anniversary of the date the BUSINESS commences operations

1/ Except as otherwise noted in this Item 6, all fees are imposed and collected by and payable to us. Except as noted above, all fees are uniform and nonrefundable.

2/ Beginning in the third month following the date the BUSINESS commences operations, the amount of the Royalty paid to us will be subject to a minimum royalty (the "Minimum Royalty Fee"). The amount of your Minimum Royalty Fee is determined as follows:

First Franchise (Up to 25 Schools) - \$500 Minimum Royalty Fee per month  
Second Franchise (Second 25 Schools) - \$750 Minimum Royalty Fee (\$500 plus \$250) per month

Within 3 business days after the end of each month, you must pay us the greater of (i) the Royalty for the immediately preceding month or (ii) the Minimum Royalty Fee.

For second and all subsequent Bricks 4 Kidz Businesses you open, the Minimum Royalty Fee will be reduced to \$250; provided that you continue to operate the initial Bricks 4 Kidz Business and

you are not in default of any agreement with us. If you close the initial Bricks 4 Kidz Business or you are in default, you must pay the Minimum Royalty Fee noted above for your remaining Bricks 4 Kidz Businesses.

Before your BUSINESS begins operating, you must sign and deliver to us the documents we require to authorize us to debit your business checking account automatically for the Royalty Fee, Fund contributions, and other amounts due under the Franchise Agreement and for your purchases from us and/or our affiliates (the "Electronic Depository Transfer Account" or "EDTA"). We will debit the EDTA for these amounts on their due dates. Funds must be available in the EDTA for withdrawal. We may require payment other than by automatic debit, and you must comply with our payment instructions.

- 3/ There is no transfer fee due for (a) transferring your Franchise Agreement to an entity you control, or (b) transferring a non-controlling ownership interest in you or your owners, as long as in either case: (i) the proposed transferee and its owners (whether direct or indirect) are of good character and otherwise meet our then applicable standards for franchise owners (including no involvement with a Competitive Business, as defined in Item 17); (ii) you give us prior notice of the transfer and later provide us final documentation of the consummated transfer; and (iii) you reimburse us, upon our demand at any time, for any costs we incur related to the proposed transfer (regardless of whether the proposed transfer actually occurs). We will charge a reasonable amount to cover our expenses, not to exceed \$5,000.

### Item 7

#### ESTIMATED INITIAL INVESTMENT

##### YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be made
Initial Franchise Fee (1)	\$24,995	Lump Sum	Upon signing Franchise Agreement	Us
Software Fees (2)	\$250	As Agreed	As Incurred	FMS
Technology Fees (3) - 3 months	\$225	As Agreed	As Incurred	Supporting Software
Professional Fees	\$500 - \$2,000	As Agreed	As Incurred	Lawyers, Accountants and other Advisors
Computer System (4)	\$0 - \$1,500	As Agreed	As Incurred	Outside Suppliers
Office and Printing Supplies (5)	\$200 - \$300	As Agreed	As Incurred	Outside Suppliers

Business License and Permits	\$50 - \$200	As Agreed	As Incurred	Government Agencies
Products/Supplies (6)	\$200 - \$2,000	As Agreed	As Incurred	Designated and Approved Suppliers
Grand Opening Advertising (7)	\$1,000 - \$2,000	As Incurred	As Incurred	Advertising Sources
Training Expenses (out-of-pocket costs for 2 people)	\$500 - \$2,000	As Incurred	As Incurred	Third Parties
Marketing Materials (8)	\$0 - \$500	As Incurred	15 days prior to operating	Outside Supplier
Insurance (9)	\$200 - \$2,000	As Incurred	As Incurred	Insurance Company
Additional Funds – 3 months (10)	\$4,000- \$10,000	As Incurred	As Incurred	Third Parties
<b>TOTAL ESTIMATED INITIAL INVESTMENT (11)</b>	\$32,120 -\$47,970			

### Explanatory Notes

- \* Except for the Initial Franchise Fee, all amounts listed in the above table are nonrefundable.
1. We describe the Initial Franchise Fee in Item 5. If you are opening a new Bricks 4 Kidz Business, you must pay us a non-recurring Initial Franchise Fee as follows: \$24,995 for First Franchise; \$15,000 for a Second and subsequent Franchise.
  2. You must pay BFK Franchise Company, LLC a set-up fee of \$250 for the Franchise Management Tool (“FMS”) software.
  3. As part of the Computer System (defined in Item 11), you must pay BFK Franchise Company, LLC, a monthly technology fee of up to \$100 (the “Technology Fee”) (currently, \$75 per month).
  4. You must purchase a Computer System and related software that meets our specifications, which hardware and software components we detail in Item 11. The low end of the estimate assumes you already have a laptop computer system that meets our specifications.
  5. You must purchase standard office supplies.
  6. We will provide you with an initial inventory of Proprietary Products and other materials, but you may need to purchase an additional supply depending on the number of classes you conduct during the initial period. You must also purchase an initial supply of “free play” LEGO® bricks. You



must purchase the additional supply of Proprietary Products from us or our designated suppliers, and you may purchase the “free play” LEGO® bricks from any supplier.

7. You are required to spend between \$1,000 and \$2,000 on grand opening marketing during an initial period consisting of 7 days before the scheduled opening of the BUSINESS and ending 90 days after the BUSINESS commences operations. The amounts that you actually spend on initial promotion and marketing can vary depending on how much you choose to spend. The high end of the estimate contemplates grand opening marketing costs for 3 months. You must comply with our guidelines for the grand opening advertising program. Your advertising must comply with our specifications. *See* Item 11.
8. We will provide you with an initial supply of marketing materials for your BUSINESS, but you may wish to purchase additional materials.
9. You must obtain and maintain certain types and amounts of insurance. (*See* Item 8) Insurance costs depend on policy limits, types of policies, nature and value of physical assets, gross revenue, number of employees, square footage, location, business contents, and other factors bearing on risk exposure. The estimate contemplates insurance costs for 3 months.
10. This item estimates your initial start up expenses (other than the items identified separately in the table). These expenses include payroll costs (but not any draw or salary for you); equipment; installations; utility costs; incorporation fees; signage; materials; automotive expenses; and any unforeseen incidental expenses related to facilities improvements. These figures are estimates, and we cannot guarantee that you will not have additional expenses starting the business. Your costs depend on your management skill, experience, and business acumen; local economic conditions; the local market for your products and services; the prevailing wage rate; competition; and the sales level reached during the initial period. We relied on our experience of a franchisor to compile these estimates.
11. You should review these estimated figures carefully with a business advisor before deciding to acquire the franchise. These amounts are only estimates and your costs could vary considerably depending on the particular circumstance for the BUSINESS. We do not offer financing directly or indirectly for any part of the initial investment. The availability and terms of financing depend on many factors, including the availability of financing generally, your creditworthiness and collateral, and lending policies of financial institutions from which you request a loan.

## **Item 8**

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

You must operate the BUSINESS according to our System Standards. System Standards may regulate, among other things, the types, models, and brands of Proprietary Products, vehicles, equipment, and signs (collectively, “Operating Assets”); products, other equipment and supplies you must use in operating the BUSINESS; unauthorized and prohibited products, equipment, and services; inventory requirements; and designated and approved suppliers of Operating Assets, Proprietary Products and other items.

In the case of Proprietary Products, suppliers will be limited to us, our affiliates, and/or our designated third party suppliers, and you may buy Proprietary Products during the franchise term only from us, our affiliates, and/or our designated third party suppliers at the prices we and they decide to charge. We restrict your sources of Proprietary Products in order to protect our trade secrets, assure quality, assure a reliable supply of products that meet our standards, achieve better terms of purchase and delivery service,

control usage of the Marks by third parties, and monitor the manufacture, packaging, processing, and sale of these items.

In the case of Operating Assets, suppliers could, at our option, be limited to us, our affiliates, and/or other specified exclusive sources, in which case you would have to buy such Operating Assets only from us, our affiliates, and/or the other specified exclusive sources at the prices we or they decide to charge. We have the absolute right to limit the suppliers with whom you may deal. We have approved non-exclusive suppliers for certain products and services, including Operating Assets, but we do not require you to purchase or lease products or services from those suppliers. You are required to enroll in a month to month subscription with BFK Franchise Company LLC, for the Franchise Management software for the length of the Franchise Agreement.

We will provide you with an initial inventory of products and marketing and promotional materials before you commence operating your BUSINESS. We will also provide you with digital lesson plans and accompanying model plans and kits for elementary schools and preschools (which include LEGO® bricks). We will also provide you access to licenses for Stop Motion Animation software, which you can download a limited number of times. You may purchase an additional supply of these products and marketing materials to be used in the BUSINESS from our designated supplier or a supplier approved by us. If we grant you a second or additional franchise for a Bricks 4 Kidz Business, you must purchase the initial inventory of products and marketing and promotional materials from our designated suppliers or a supplier approved by us. The included supplies vary with the number of franchises you purchase.

There are no other goods, services, supplies, fixtures, equipment, inventory, computer hardware and software, real estate or comparable items for establishing or operating the BUSINESS that you currently must buy or lease from us (or an affiliate) or designated suppliers. Any purchases from us and our affiliates or designated suppliers, whether required or voluntary, generally will be at prices exceeding our or their costs. There are no approved suppliers in which any of our officers owns an interest.

To maintain the quality of the goods and services that Bricks 4 Kidz Businesses sell and our system's reputation, we may condition your right to buy or lease goods and/or services (besides those described above that you may obtain only from us, our affiliates, and/or other specified exclusive sources) on their meeting our minimum standards and specifications and/or being acquired from suppliers that we approve. We will issue and modify standards and specifications based on our and our Bricks 4 Kidz Business franchise owners' experience in operating Bricks 4 Kidz Businesses. Our standards and specifications may impose minimum requirements for production, performance, reputation, prices, quality, design, and appearance. Our confidential operating manual and other communications we may provide to you (collectively, the "Operations Manual") will identify our standards and specifications for the System. We will notify you and, where appropriate, the suppliers, of our standards and specifications. There might be situations where you can obtain items from any supplier who can satisfy our requirements and, therefore, would be an approved supplier.

If we institute any type of restrictive sourcing program (which, as noted above, we have already done for Proprietary Products and may do so for other items) and you want to use any item or service that we have not yet evaluated or to buy or lease from a supplier that we have not yet approved or designated, you first must send us sufficient information, specifications, and samples so that we can determine whether the item or service complies with System Standards or the supplier meets our approved supplier criteria. We list examples of our criteria for supplier approval in the following paragraph below in this Item, and we will make available our then current criteria to you, as necessary, upon request if we are asked to evaluate and approve a new supplier, item, or service for use with the System. We may charge you or the supplier a fee to reimburse us for our costs and expenses for the evaluation (*See* Item 6) and will decide within a reasonable time (no more than 120 days). We periodically will establish procedures for your requests and may limit the number of approved items, services, and/or suppliers as we think best.

Supplier approval might depend on product quality, delivery frequency and reliability, service standards, financial capability, customer relations, concentration of purchases with limited suppliers to obtain better prices and service, and/or a supplier's willingness to pay us and/or our system for the right to do business with our system. We and our affiliates have the right to receive payments or other material consideration from suppliers on account of their actual or prospective dealings with you and other franchise owners and to use all amounts that we and our affiliates receive without restriction (unless we and our affiliates agree otherwise with the supplier) for any purposes we and our affiliates deem appropriate. Supplier approval might be temporary until we evaluate the supplier in more detail. We may inspect a proposed supplier's facilities during and after the approval process to make sure that the supplier meets our standards. If it does not, we may revoke our approval by notifying the supplier and you in writing. We have no obligation to approve any request for a new supplier, product, or service.

Insurance. Besides these purchases or leases, you must obtain and maintain, at your own expense, the insurance coverage that we periodically require and satisfy other insurance-related obligations underwritten by an insurance company having an A.M. Best rating of A+ or higher. You currently must have professional liability insurance for the BUSINESS; comprehensive public liability, general liability, and product liability insurance; motor vehicle liability insurance against claims for bodily and personal injury, worker's compensation insurance as required by law; business interruption coverage; and any other coverage required by law or any venues at which you conduct programs or classes. Premiums depend on the insurance carrier's charges, terms of payment, and your history. All insurance policies must name us, along with our officers, agents and employees as additional insured parties. If you fail to obtain or maintain required insurance coverage, we may do so on your behalf and invoice you for reimbursement of our costs to arrange the missing coverage.

Advertising Materials. Before you use them, you must send us for review samples of all advertising, promotional, and marketing materials that we (or a supplier we may designate, at our option) have not prepared or previously approved. If you do not receive written notice of approval within 10 days after you submit materials to us, they are deemed disapproved. You may not use any advertising, promotional, or marketing materials that we have not approved or have disapproved.

Office Site. We suggest that you locate the Business Office in your residence; however, if you desire to have the Business Office at an alternative location, we must review and approve the location

Collectively, the purchases and leases described above are approximately 72% to 81% of your overall purchases and leases in establishing the BUSINESS and 14% to 21% of your overall purchases and leases in operating the BUSINESS.

During fiscal year 2020, our Parent received \$220,978.24 in required purchases or 7.27% of its total revenues of \$3,038,440.00. During fiscal year 2020, our affiliate, BFK FMS LLC, did not derive any revenue from required purchases or leases. We did not derive any revenue from required purchases or leases. Rebates are used for general operating expenses, but there are no restrictions on the use of those funds.

There currently are no purchasing or distribution cooperatives. We may negotiate purchase arrangements with suppliers (including price terms), and we have negotiated prices on certain marketing materials that you will need for your BUSINESS. We do not provide material benefits to Bricks 4 Kidz Business franchise owners (for example, renewal or granting additional franchises) based on their purchase of particular products or services or use of particular suppliers.

## Item 9

### FRANCHISEE'S OBLIGATIONS

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

OBLIGATION	SECTION IN AGREEMENT	DISCLOSURE DOCUMENT ITEM
a. Site selection and acquisition/lease	Not Applicable (mobile business)	Not Applicable
b. Pre-opening purchases/leases	Sections 2.A and B, and 8 of Franchise Agreement	Items 5, 7, 8, and 11
c. Site development and other pre-opening requirements	Section 2 of Franchise Agreement	Items 7, 8, and 11
d. Initial and ongoing training	Sections 4.A and B of Franchise Agreement	Items 6, 7, and 11
e. Opening	Section 2.C of Franchise Agreement	Item 11
f. Fees	Sections 3.A, B, C, E, and G, 4.A, B, C and D, 8.A and D, 9, 11.B, 12.C(6), 13.A, 14.E, 14.F, 15.D, 16.D, and 17.C of Franchise Agreement	Items 5, 6, and 7
g. Compliance with standards and policies/operating manual	Sections 4.C and D and 8 of Franchise Agreement	Items 8 and 11
h. Trademarks and proprietary information	Sections 5 and 6 of Franchise Agreement	Items 13 and 14
i. Restrictions on products/services offered	Sections 1.D and 8.A of Franchise Agreement	Items 8, 11, 12, and 16
j. Warranty and customer service requirements	Not Applicable	Not Applicable
k. Territorial development and sales quotas	Not Applicable	Not Applicable
l. Ongoing product/service purchases	Sections 2.B and C, and 8 of Franchise Agreement	Items 6 and 8
m. Maintenance, appearance, and remodeling requirements	Section 8 of Franchise Agreement	Item 8
n. Insurance	Section 8.D of Franchise Agreement	Items 7 and 8
o. Advertising	Section 9 of Franchise Agreement	Items 6, 7, 8, and 11
p. Indemnification	Section 16.D of Franchise Agreement	Item 6
q. Owner's participation/management/staffing	Sections 1.C, 4.A, and 8.C of Franchise Agreement	Items 11 and 15
r. Records and reports	Section 10 of Franchise Agreement	Not Applicable

s.	Inspections and audits	Section 11 of Franchise Agreement	Items 6 and 11
t.	Transfer	Section 12 of Franchise Agreement	Item 17
u.	Renewal	Section 13 of Franchise Agreement	Item 17
v.	Post-termination obligations	Section 15 of Franchise Agreement	Item 17
w.	Non-competition covenants	Sections 7, 12.C(11), 12.G, and 15.D of Franchise Agreement	Items 15 and 17
x.	Dispute resolution	Sections 17.E, F, G, H, I, and J of Franchise Agreement	Item 17
y.	Other - Guaranty	Sections 1.C, 12.C and Attachment to the Franchise Agreement	Items 1 and 15

### **Item 10**

#### **FINANCING**

After considering your financial condition and creditworthiness, the Company reserves the right to, in rare circumstances and at its sole discretion, offer to finance all or part of your Initial Franchise Fee for up to 10 year(s). You must execute a promissory note (“Note”) containing the terms of the financing, which is Exhibit J to this Disclosure Document. The Note contains waivers of defenses of presentment and notice. We do not discount this Note and payments are made via credit card or Electronic Funds Transfer via our bank and yours. The selection of this process is totally based on our decision and you agree in advance to either method of payment. We permit you to pay the calculated amount over the contract period, with interest at 10%. We do not take any security interests from you. If you elect to pay off the Note during the contract period, you will not be penalized for the remaining months as long as you pay the principal portion due on the Note in full. All interest earned prior to this conversion is considered earned by us.

Except as described above, we do not offer financing or arrange for financing from other sources. We will not guarantee your obligations to third parties. We do not receive payment from any person for the placement of financing with such person.

### **Item 11**

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

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

Before you open and begin operating the BUSINESS, we will:

1. If your office location will be located outside your residence, we will mutually agree to a location before the Franchise Agreement is signed. (Franchise Agreement – Section 1.D)
2. Designate the Territory for your BUSINESS. We will provide you a list of schools in your Territory. (Franchise Agreement – Section 1.F)

3. As discussed in Item 8, identify the Operating Assets, Proprietary Products, other products and services, equipment and supplies that you must use to develop and operate the BUSINESS, the minimum standards and specifications that you must satisfy, and the designated and approved suppliers from whom you must or may buy or lease these items (which may be limited to and/or include us, our affiliates, and/or other specified exclusive sources). (Franchise Agreement ¶ Sections 2.A, 2.B, and 8)
4. Provide you access to one digital copy of the Operations Manual, the current table of contents of which is Exhibit E. As of the date of this Disclosure Document, the Operations Manual contains approximately 43 pages. (Franchise Agreement ¶ Section 4.D)
5. Advise you on the BUSINESS' grand opening advertising program. (Franchise Agreement ¶ Section 9.A)
6. Train you (or your managing owner), your Designated Manager and additional employees (at your option and expense). (Franchise Agreement ¶ Section 4.A) We describe this training later in this Item.

During your operation of the BUSINESS, we will:

1. Provide general guidance and consultation services to you. (Franchise Agreement ¶ Section 4.C)
2. Give you, at your request (and our option), additional or special guidance, assistance, and training. (Franchise Agreement ¶ Section 4) (*See* Item 6)
3. Continue to provide you access to one copy of the Operations Manual, which consists of an operations manual for the operation of the BUSINESS and a teacher's manual. The Operations Manual could include compact disks, computer software, other electronic media, and/or written materials. The Operations Manual contains mandatory and suggested specifications, standards, operating procedures, and rules ("System Standards") that we periodically require. We may modify the Operations Manual periodically to reflect changes in System Standards. (Franchise Agreement ¶ Sections 4.D and 8)
4. Issue and modify System Standards for Bricks 4 Kidz Businesses. We periodically may modify System Standards, which may accommodate regional or local variations, and these modifications may require you to invest additional capital in the BUSINESS and/or incur higher operating costs. (Franchise Agreement ¶ Section 8) (*See* Item 16)
5. Establish, to the fullest extent allowed by applicable law, maximum, minimum, or other pricing requirements with respect to the prices you may charge for products and services. (Franchise Agreement – Section 8.E)
6. Inspect and observe the BUSINESS' operations to help you comply with the Franchise Agreement and all System Standards. (Franchise Agreement ¶ Section 11.A)
7. Provide you with access to our confidential information. (Franchise Agreement ¶ Section 6)
8. License you the right to use our Marks. (Franchise Agreement ¶ Section 5)
9. Periodically offer refresher training courses. (Franchise Agreement ¶ Section 4.B) (*See* Item 6)

## Marketing Fund

Recognizing the value of advertising and marketing to the goodwill and public image of Bricks 4 Kidz Businesses, we have established a formal Marketing Fund (the "Fund") for advertising, marketing, and public relations programs and materials we deem appropriate. You must contribute to the Fund the amounts that we periodically require, not to exceed 2% of the BUSINESS' Gross Sales (currently 2%). Bricks 4 Kidz Businesses that we or our affiliates operate will contribute to the Fund on the same basis as franchise owners. We have the right to collect for deposit into the Fund any advertising, marketing, or similar allowances paid to us by suppliers who deal with Bricks 4 Kidz Businesses and with whom we have agreed that we will so deposit these allowances.

We and/or an advertising agency that we designate will direct all programs that the Fund finances, with sole control over the creative concepts, materials, and endorsements used and their geographic, market, and media placement and allocation. The Fund may pay for preparing and producing video, audio, and written materials and electronic media; costs associated with inbound marketing channels and providers (for example, Google, Facebook and Yelp); developing, implementing, and maintaining an electronic commerce Website and/or related strategies; administering regional and multiregional marketing and advertising programs, including purchasing trade journal, direct mail, and other media advertising; using advertising, promotion, and marketing agencies and other advisors to provide assistance; and supporting public relations, market research, and other advertising, promotion, and marketing activities. The Fund may advertise locally, regionally, and/or nationally in printed materials, on radio or television, and/or on the Internet, whatever we think best.

We will account for the Fund separately from our other funds and not use the Fund for its or our general operating expenses. However, we may use the Fund to pay the reasonable salaries and benefits of personnel who manage and administer the Fund, the Fund's other administrative costs, travel expenses of personnel while they are on Fund business, meeting costs, exposition and show costs, overhead relating to Fund business, and other expenses that we incur in activities reasonably related to administering or directing the Fund and its programs, including conducting market research; public relations; preparing advertising, promotion, and marketing materials; and collecting and accounting for Fund contributions.

The Fund is not our asset. The Fund also is not a trust. We have a contractual obligation to hold all Fund contributions for the benefit of the contributors and to use contributions only for their permitted purposes (described above). We do not have a fiduciary obligation to you for administering the Fund. The Fund may spend in any fiscal year more or less than the total Fund contributions in that year, borrow from us or others (paying reasonable interest) to cover deficits, re-pay any amounts owed to us or others as borrowed by the Fund in prior periods, or invest any surplus for future use. We do not expect to use any of the Fund contributions specifically to develop materials and programs that will be used principally to solicit franchisees. However, media, materials, and programs, including our Website, prepared using Fund contributions may describe our franchise program, reference the availability of franchises and related information, and process franchise leads. We will prepare an annual, unaudited statement of Fund collections and expenses and give it to you upon written request. We may have the Fund audited annually, at the Fund's expense, by an independent certified public accountant. We may incorporate the Fund or operate it through a separate entity when we think best. The successor entity will have all of the rights and duties described here.

During fiscal year 2020, the Fund contributions were spent as follows: 47.9% on advertising production and placement, 1.4% on administrative fees, and 51.7% on website creation and hosting. Certain administrative costs are included in each category.

The Fund is to maximize recognition of the Marks and patronage of Bricks 4 Kidz Businesses. Although we may use the Fund to develop advertising and marketing materials and programs, and to place advertising and marketing, that will benefit all Bricks 4 Kidz Businesses, we need not ensure that Fund

expenditures in or affecting any geographic area are proportionate or equivalent to Fund contributions by Bricks 4 Kidz Businesses operating in that geographic area or that any Bricks 4 Kidz Business benefits directly or in proportion to its Fund contribution from the development of advertising and marketing materials or the placement of advertising. We may use collection agents and institute legal proceedings to collect Fund contributions at the Fund's expense. We also may forgive, waive, settle, and compromise all claims by or against the Fund. We assume no other direct or indirect liability or obligation to you for collecting amounts due to, maintaining, directing, or administering the Fund.

We may at any time defer or reduce a franchise owner's Fund contributions and, upon 30 days' prior written notice to you, reduce or suspend Fund contributions and operations for one or more periods of any length and terminate (and, if terminated, reinstate) the Fund. If we terminate the Fund, we will distribute all unspent monies to franchise owners, and to us and our affiliates, in proportion to their, and our, respective contributions during the preceding 12 month period. (Franchise Agreement – Section 9.B) Your Local Advertising

In addition to your Fund contributions and your grand opening advertising obligation, you must spend at least 2% of the BUSINESS' Gross Sales per month on an ongoing basis to advertise and promote the BUSINESS, which may be increased to a maximum of 3% of Gross Sales during the franchise term. You must participate at your own expense in all advertising, promotional and marketing programs that we require. You must send us monthly reports of your marketing expenditures.

Your local advertising and promotion must follow our guidelines. All advertising and promotional materials that you develop for your BUSINESS must contain notices of our Website's domain name in the manner we designate. You may not develop, maintain, or authorize any Website that mentions or describes you or the BUSINESS or displays any of the Marks without our prior written approval. We alone may establish, maintain, modify or discontinue all internet, worldwide web and electronic commerce activities pertaining to the System, including through the use of a page or profile on a social media Website such as Facebook, Instagram and Twitter. All advertising, promotion, marketing, and public relations must be completely clear, factual, and not misleading and conform to both the highest standards of ethical advertising and marketing and the policies that we periodically require. Before you use them, you must send us or our designated agency for review samples of all advertising, promotional, marketing, and public relations materials that we have not prepared or previously approved. Promotional material includes materials you provide on a Website or similar medium. If you do not receive written approval within 10 days after we or our designated agency receives the materials, they are deemed to be disapproved. You may not use any advertising, promotional, marketing, or public relations materials that we have not approved or that we have disapproved.

You must list and advertise the BUSINESS in at least one online directory listing (e.g., Google or Yelp) as we designate or approve. You must also list and advertise the BUSINESS in at least one recommended classified telephone directory distributed within the Territory (in designated business classifications) and use an approved form of classified telephone directory advertisement. If other Bricks 4 Kidz Businesses are located within the directory's distribution area, you must participate in a collective telephone directory advertisement with those Bricks 4 Kidz Businesses and pay your share. (Franchise Agreement ¶ Section 9.C) (See Items 6, 8 and 9)

### Computer System

You must obtain and use in your BUSINESS a laptop computer system and the hardware and software we may specify or that we recommend (the "Computer System"). We currently require you to use the FMS, online software provided by our affiliate BFK Franchise Company LLC, and you must pay the Technology Fees in an amount not to exceed \$100 (currently, \$75), and a one-time set-up fee of \$250. The Technology Fees and set-up fee for the FMS are paid to BFK Franchise CO LLC, the parent company of BFK FMS. The Computer System currently includes: a laptop computer system capable of running the



FMS and other software we specify from time to time. You may obtain the Computer System from any vendor so long as the Computer System meets our specifications. We may continuously evaluate alternate computer systems and software. If we convert to an alternate computer system or software, we may require you to purchase replacement or additional computer hardware or software. The current software and computer fees may increase or decrease with any replacement or additional computer hardware or software, but because computer technology is evolving rapidly, it is difficult to predict your estimated costs in the event we do convert to an alternate computer system or software. We will provide you with electronic access to Stop Motion Animation Software, which can be downloaded to your Computer System up to 5 times at no cost. You may purchase additional licenses from Tech4Learning. We estimate that your purchase of the Computer System will cost between \$500 and \$1,000. There is no requirement that you buy computer hardware and/or operating software if you already own a computer system and software that meets our specifications for the Computer System. The types of data to be generated or stored in the Computer System include sales and client information. You will be solely responsible for the ongoing maintenance, and upgrading of the Computer System. We currently do not require that you purchase a maintenance contract to service the Computer System, but we may do so in the future. The third parties whose Computer System-related products you purchase or lease have no contractual rights or obligations to provide ongoing maintenance, repairs, upgrades or updates unless you obtain a service contract or a warranty covers the product. You must also have a functioning email address so that we can send you notices and otherwise communicate with you by this method. Your first 2 emails are included with FMS subscription, additional email addresses are \$5 each.

We reserve the right to change the Computer System at any time. There are no contractual limitations on the frequency and cost of this obligation. We need not reimburse you for any of these costs. We have independent, unlimited access to the information generated by the Computer System. There is no contractual limit on our right to receive this information. We or our affiliates may condition any license of proprietary software to you, or your use of technology that we or our affiliates develop or maintain, on your signing a software license agreement or similar document that we or our affiliates prescribe to regulate your use of, and our and your respective rights and responsibilities concerning, the software or technology. We or our affiliates may charge you a monthly, annual, or other license fee for any proprietary software or technology that we or our affiliates license to you and for other maintenance and support services that we or our affiliates provide during the franchise term.

### Opening

We estimate that it will be 30 to 60 days after you sign the Franchise Agreement before you open and begin operating the BUSINESS. The specific timetable for opening and operating the BUSINESS depends on various factors, including the delivery schedule for equipment and supplies; completing training; and complying with local laws and regulations. You must notify us in writing at least 15 days before the day on which you propose to begin operating the BUSINESS. You may not open or begin operating the BUSINESS until: (1) we notify you in writing that the BUSINESS meets our standards and specifications; (2) you (or your managing owner) and your Designated Manager complete initial training to our satisfaction; (3) you pay the Initial Franchise Fee and other amounts then due to us; and (4) you give us certificates or other evidence we require for all required insurance policies. In any case, you must open and operate the BUSINESS within 90 days after the Effective Date of the Franchise Agreement. (Franchise Agreement ¶ Section 2.C)

### Training

If this is your first Bricks 4 Kidz Business, then before the BUSINESS commences operations, we will train you (or your managing owner) and your Designated Manager on operating a Bricks 4 Kidz Business. We will provide approximately 4 days of training (either classroom or online), excluding the on-site opening support we describe later in this Item (although the specific number of days depends on our opinion of your experience and needs). We will use the Operations Manual and various instructional

materials as we conduct the initial training program. If we determine that you (or your managing owner) and/or your Designated Manager cannot complete initial training to our satisfaction, we may terminate the Franchise Agreement. (Franchise Agreement ¶ Section 4.A) If you and/or your Designated Manager do not satisfactorily complete the required initial training during the normal time allotted, we may require you (or your managing owner) and/or your Designated Manager to attend additional training programs at our designated training facility in order to achieve the sufficient level of training we require. We may charge reasonable fees for such additional training, as well as for ongoing training programs we may require or offer during the franchise term. (See Item 6) You also must pay for all travel and living expenses that you, your Designated Manager and your employees incur and for your employees' wages and workers' compensation insurance while they attend such additional training at our training facility or the location we designate. (Franchise Agreement ¶ Section 4.A)

Additional people beyond the attendees we require may attend initial training, subject to our ability and capacity to accommodate these extra persons in any training session, if you pay our then current training charge for each additional person. (See Item 6) You also must pay for all travel and living expenses that you and your personnel incur and for your personnel's wages and workers' compensation insurance while they train at our training facility or the location we designate. (Franchise Agreement ¶ Section 4.A)

We or our designee conduct our initial training program once a month, or as frequently as we deem necessary, at our training location in St. Augustine, FL or another location we designate (except for the on-site support period around the commencement of the BUSINESS' operation). Initial training will occur within 45 days after the Effective Date of your Franchise Agreement and must be completed to our satisfaction at least 2 weeks before the BUSINESS commences operations. You (or your managing owner) and your Designated Manager must complete initial training to our satisfaction before you may open and begin operating your BUSINESS. As of the date of this Disclosure Document, our required initial training program includes the following:

### **TRAINING PROGRAM**

<b>Subject</b>	<b>Hours of Classroom Training</b>	<b>Hours of On-The Job Training</b>	<b>Location</b>
Franchise Management Software	3	0	St. Augustine, FL or mutually agreeable location To Be Determined (See Note 1)
Teacher Training/Camps	3	0	St. Augustine, FL or mutually agreeable location To Be Determined
Accounting/Setting up your Business	1	0	St. Augustine, FL or mutually agreeable location To Be Determined (See Note 1)
Programs Training	6	0	St. Augustine, FL or mutually agreeable location To Be Determined

Marketing, Supplies and Sales	10.5	8	St. Augustine, FL or mutually agreeable location To Be Determined (See Note 1)
<b>TOTAL</b>	23.5	8	

1. The initial training program will be conducted as frequently as needed at our training center in St. Augustine, FL or another location we designate.

We have a team of Bricks 4 Kidz’ instructors that will conduct the initial training program. The minimum experience of the instructors in the field that is relevant to the subject taught and our operations is from 2 to 11 years. The instructional materials for our required training programs currently include, or may include in the future, computer-based training courses and software, videos, handouts, the Operations Manual, and tests or other evaluations we may require you or your attendees to complete.

In addition to the initial training we outline above, within the first 90 days of your BUSINESS’ operation, we will at our own cost, send one of our representatives to a location in your Territory that we designate to assist you for a period of one day to provide on-site support in connection with pre-opening and opening activities when the BUSINESS is preparing to commence operations. We reserve the right to provide more representatives, or more days of on-site support, in your Territory during this period as we deem necessary. We solely determine the timing, scheduling and staffing of on-site support we provide according to this paragraph, including the calendar dates and times of our support. You must successfully complete all activities of this on-site support period to our satisfaction within 90 days after you complete the initial training to our satisfaction. If you request, and we agree to provide, additional or special guidance, assistance, or training during this on-site support period, then you will pay our then applicable charges, including our personnel’s per diem charges and travel and living expenses.

You (or your managing owner), your Designated Manager and/or other previously trained and experienced employees must attend and complete to our satisfaction various training courses that we periodically provide either online or in person at the times and locations we designate. We may charge reasonable registration or similar fees for these courses, and we may not require in-person attendance by you or your personnel for more than 10 days of training during any calendar year. You are responsible for all related costs incurred in connection with attending these online or in-person training courses.

Other personnel we designate may assist in our initial and other training programs, including other Bricks 4 Kidz Business representatives, or other Bricks 4 Kidz Business franchisees or qualified managers or operators of Bricks 4 Kidz Businesses. On average, representatives will have a minimum of 1 year of operational experience with Bricks 4 Kidz Businesses and 10 years overall operational experience in the industry. The Franchise Agreement may require you to assist in future training programs for other franchisees, upon our request and for which we will reimburse you for your associated expenses.

## **Item 12**

### **TERRITORY**

You will operate the BUSINESS within a specific Territory that we first must approve. You will not receive an exclusive territory. You may face competition from other Bricks 4 Kidz Business franchise owners, from outlets that we own, or from other channels of distribution or competitive brands that we control. You may operate the BUSINESS only within the approved Territory but may have the opportunity to expand or work in an unoccupied territory with the approval of the Company and by signing the Territory Expansion Agreement. You may not relocate the Office without our approval. We will describe the

Territory in the Franchise Agreement before you sign it. We will determine the size and boundaries of the Territory in our sole judgment, based upon factors including population density, location, number of schools, average age of the population, commute time, and other factors. We typically will designate a territory using one or more contiguous zip codes, and which will include an agreed upon number of public and/or private schools (including preschools, elementary and middle schools). You have no options, rights of first refusal, or similar rights to acquire additional franchises within the Territory or in contiguous territories.

Except as limited below, as long as you are in full compliance with the Franchise Agreement, we and our affiliates will not operate or grant a franchise for the operation of a Bricks 4 Kidz Business at a location in the Territory during the term of your Franchise Agreement. Otherwise, we and our affiliates retain all rights with respect to Bricks 4 Kidz Businesses, the Marks, the sale of identical, similar or dissimilar products and services, and any other activities we deem appropriate whenever and wherever we desire, including, but not limited to:

(1) the right to establish and operate, and to grant to others the right to establish and operate businesses offering similar or dissimilar products and services through similar or alternative channels of distribution, at locations inside or outside the Territory under trademarks or service marks other than the Marks and on any terms and conditions we deem appropriate;

(2) the right to provide, offer and sell and to grant others the right to provide, offer and sell goods and services that are identical or similar to and/or competitive with those products and services provided by Bricks 4 Kidz Businesses, whether identified by the Marks or other trademarks or service marks, through alternative distribution channels (including, without limitation, the Internet or similar electronic media, any other form of electronic commerce, supermarkets and department stores) both inside and outside the Territory and on any terms and conditions we deem appropriate;

(3) the right to establish and operate, and to grant to others the right to establish and operate, businesses offering dissimilar products and services, both inside and outside the Territory under the Marks and on any terms and conditions we deem appropriate;

(4) the right to operate, and to grant others the right to operate Bricks 4 Kidz Businesses anywhere outside the Territory under any terms and conditions we deem appropriate and regardless of proximity to the BUSINESS;

(5) the right to operate, and to grant others the right to operate Bricks 4 Kidz Businesses at "Non Traditional Sites" within and outside the Territory on any terms and conditions we deem appropriate. "Non Traditional Sites" are sites that generate customer traffic flow which is independent from the general customer traffic flow of the surrounding area, including military bases, educational facilities, shopping malls, major industrial or office complexes, hotels, and hospitals;

(6) the right to acquire the assets or ownership interests of one or more businesses providing products and services the same as or similar to those provided by Bricks 4 Kidz Businesses, and franchising, licensing or creating similar arrangements with respect to these businesses once acquired, wherever these businesses (or the franchisees or licensees of these businesses) are located or operating (including in the Territory); and

(7) the right to be acquired (whether through acquisition of assets, ownership interests or otherwise, regardless of the form of transaction), by a business providing products and services the same as or similar to those provided by Bricks 4 Kidz Businesses, or by another business, even if such business operates, franchises and/or licenses competitive businesses in the Territory.

We may exercise any of the retained rights without compensating you. You may not use other channels of distribution, such as the Internet or any other form of electronic commerce, catalog sales, telemarketing, or other direct marketing to make sales inside or outside the Territory. While you may place advertisements in printed media and on television and radio that are targeted to customers and prospective customers located within your Territory, and will not be deemed to be in violation of the Franchise Agreement if those advertisements, because of the natural circulation of the printed media or reach of television and radio, are viewed by prospective customers outside of your Territory, you may not make any sales or perform services to customers located outside of your Territory unless there is no Bricks 4 Kidz Business, either franchised or company-owned, located in close proximity to your Bricks 4 Kidz Business. However, you may provide Services to clients who reside outside of the Territory, provided that the Services will be performed within the Territory.

Continuation of your franchise and your territorial exclusivity (as described above) does not depend on your achieving a certain sales volume, market penetration, or other contingency.


As disclosed in Item 1, our affiliate, SFFC, franchises the right to operate businesses under the "Sew Fun Studio" name. We do not anticipate conflicts between Sew Fun Studio Businesses and Bricks 4 Kidz Businesses. Sew Fun Studio Businesses offer creative project-based activities, classes and programs in fashion and interior design and sewing to children and adults. If conflicts do arise, we and our affiliate will resolve them as we deem appropriate.

Except as described above, neither we nor our affiliate currently operates, franchises, or has present plans to operate or franchise a business under a different trademark that sells or will sell goods or services similar to those you will sell in your BUSINESS, although we have the right to do so (as described above).

**Item 13**

**TRADEMARKS**

You may use certain Marks in operating the BUSINESS. The current principal Marks are:

MARK	REGISTRATION NUMBER	REGISTRATION DATE
	4,726,557	April 28, 2015
"Bricks 4 Kidz" (Supplemental Register)	3,726,912	December 15, 2009

If you enter into a Bricks 4 Biz to provide B4B Services, you may use the following B4B Trademarks in operating the B4B Business:

MARK	REGISTRATION NUMBER	REGISTRATION DATE

"Bricks 4 Biz" (Supplemental Register)	4,381,408	August 6, 2013
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If you enter into a Bricks 4 Biz, all references to the “Marks” in this Disclosure Document and in the Franchise Agreement will include the B4B Trademarks.

We own the Marks and have registered the Marks listed above on the Principal Register or Supplemental Register (as indicated above) of the United States Patent and Trademark Office ("USPTO"). We have filed all required affidavits and intend to renew our registrations for the Marks when they become due.

You must follow our rules when you use the Marks, including giving proper notices of trademark and service mark registration and obtaining fictitious or assumed name registrations required by law. You may not use any Mark in your corporate or legal business name; with modifying words, terms, designs, or symbols (except for those we license to you); in selling any unauthorized services or products; or as part of any domain name, homepage, electronic address, or otherwise in connection with a Website.

There are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court, and no pending infringement, opposition, or cancellation proceedings or material litigation, involving the principal Marks. We do not actually know of either superior prior rights or infringing uses that could materially affect your use of the Marks in any state.

You must notify us immediately of any apparent infringement or challenge to your use of any Mark, or of any person's claim of any rights in any Mark, and you may not communicate with any person other than us, our attorneys, and your attorneys, regarding any infringement, challenge, or claim. We may take the action we deem appropriate (including no action) and control exclusively any litigation, USPTO proceeding, or other administrative proceeding arising from any infringement, challenge, or claim. You must assist us in protecting and maintaining our interests in any litigation or USPTO or other proceeding. We need not participate in your defense and/or indemnify you for damages or expenses in a proceeding involving the Marks. At our option, we may defend and/or control the defense of any proceeding arising from your use of any Mark; however, if you timely notify us and comply with our directions in response to a trademark infringement proceeding that disputes your authorized use of the Marks, then we will reimburse you for your damages and reasonable expenses you incur.

If it becomes advisable at any time for us and/or you to modify or discontinue using any Mark and/or to use one or more additional or substitute trade or service marks, you must comply with our directions within a reasonable time after receiving notice. We need not reimburse you for your direct expenses of changing the BUSINESS' signs, for any loss of revenue due to any modified or discontinued Mark, any loss of goodwill associated with any modified or discontinued Mark, or for your expenses of promoting a modified or substitute trademark or service mark.

#### **Item 14**

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

No patents or pending patent applications are material to the franchise. Except as provided below, we own no rights in, or licenses to, any copyrights. We have registered the following copyrights for our model plans with the United States Copyright Office:

<b>COPYRIGHT</b>	<b>REGISTRATION NUMBER</b>	<b>REGISTRATION OR APPLICATION DATE</b>
Amazing Animals	TX0007516463	March 12, 2012
Construction	TX0007516426	March 12, 2012
Conveyor Belt	TX0007516412	March 11, 2012
Dragster	TX0007516408	March 12, 2012
Everglades	TX0007516457	March 12, 2012
Famous Buildings	TX0007516464	March 12, 2012
Hand Mixer	TX0007516396	March 11, 2012
Laws of Motion	TX0007516461	March 12, 2012
Model Plans	TXu001967980	April 24, 2015
Optical Illusion	TX0007516393	March 11, 2012
Optical Spinner	TX0007516414	March 11, 2012
Paper Crinkler	TX0007516410	March 12, 2012
Space	TX0007516459	March 12, 2012
Transportation	TX0007516455	March 12, 2012
Turnstile	TX0007516406	March 11, 2012
Windmill	TX0007516415	March 11, 2012
Windshield Wipers	TX0007516416	March 11, 2012

None of these copyrights expire before March 11, 2105. We can renew, and currently intend to renew, these copyrights.

We also claim copyrights in the Operations Manual (which contains our trade secrets), advertising and marketing materials, and similar items used in operating Bricks 4 Kidz Businesses. We have not registered these copyrights with the United States Copyright Office, but we need not do so at this time to protect them. You may use these items only as we specify while operating your BUSINESS (and must stop using them if we so direct you).

There currently are no effective adverse determinations of the USPTO, the United States Copyright Office, or any court regarding the copyrighted materials. No agreement limits our right to use or allow others to use the copyrighted materials. We do not actually know of any infringing uses of our copyrights that could materially affect your use of the copyrighted materials in any state.

We need not protect or defend copyrights, although we intend to do so if in the best interests of the System or all or some Bricks 4 Kidz Businesses, as we solely determine. We may control any action we choose to bring, even if you voluntarily bring the matter to our attention. We need not participate in your defense and/or indemnify you for damages or expenses in a proceeding involving a copyright.

Our Operations Manual and other materials contain our confidential information (some of which constitutes trade secrets under applicable law). This information includes, or may in the future include: training and operations materials; methods, formats, specifications, standards, systems, procedures, sales and marketing techniques, knowledge, and experience used in developing and operating Bricks 4 Kidz Businesses; marketing and advertising programs for Bricks 4 Kidz Businesses; any computer software or similar technology that is proprietary to us or the system; knowledge of specifications for and suppliers of

Operating Assets, Proprietary Products, and other products and supplies; knowledge of the operating results and financial performance of Bricks 4 Kidz Businesses other than your BUSINESS; and graphic designs and related intellectual property.

All ideas, concepts, inventions, techniques, or materials concerning a Bricks 4 Kidz Business, whether or not protectable intellectual property and whether created by or for you or your owners or employees, must be promptly disclosed to us and will be deemed to be our sole and exclusive property, part of the System, and works made-for-hire for us. To the extent any item does not qualify as a "work made-for-hire" for us, you assign ownership of that item, and all related rights to that item, to us and must take whatever action (including signing assignment or other documents) we request to show our ownership or to help us obtain intellectual property rights in the item.

You may not use our confidential information in an unauthorized manner. You must take reasonable steps to prevent its improper disclosure to others. You agree to have our Non-Disclosure and Non-Competition Agreement (the current form of which is attached as Exhibit C of the Franchise Agreement) executed by all of the following persons: (i) your Designated Manager and any supervisory or other employees of yours who have received or will receive training from us, prior to their employment; (ii) if you are an entity, all your officers, directors, shareholders, partners, members and owners, and those of any entity directly or indirectly controlling you, at the same time the Franchise Agreement is signed, or at such time as they assume such status; and (iii) you, your owners and your and your owners' spouses. You agree to provide us copies of all executed Non-Disclosure and Non-Competition Agreements no later than 10 days following their execution. We will be a third-party beneficiary of each Non-Disclosure and Non-Competition Agreement with independent enforcement rights.

#### **Item 15**

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

If you are a legal entity, you must appoint a shareholder, member, or partner (as applicable) to be your "Managing Owner," responsible for overseeing and supervising the BUSINESS' operation. You must maintain a competent, conscientious, trained staff, including a fully-trained, full-time manager, which may be you (or, if you are an entity, your managing owner) or the manager-level employee you appoint (the "Designated Manager"), who must act as the general manager of the BUSINESS with responsibility for direct supervision of the BUSINESS. You (or your managing owner) or your Designated Manager must devote full time efforts to the management and supervision of the BUSINESS. You must at all times faithfully, honestly, and diligently perform your contractual obligations and use best efforts to promote and enhance the BUSINESS. System Standards may regulate the BUSINESS' staffing levels, identifying the BUSINESS' personnel, and employee qualifications, training, dress, and appearance.

You must keep us informed at all times of the identity of any supervisory employees acting as the Designated Manager or assistant managers of the BUSINESS. Your Designated Manager and assistant managers need not have an equity interest in the BUSINESS or you but must agree in writing to preserve confidential information to which they have access and not to compete with you, us, and other franchise owners. We may regulate the form of agreement that you use and be a third party beneficiary of that agreement with independent enforcement rights.

If you are a corporation, limited liability company, or partnership, your owners must personally guarantee your obligations under the Franchise Agreement and agree to be bound personally by every contractual provision, whether containing monetary or non-monetary obligations, including the covenant not to compete. The required form of "Guaranty and Assumption of Obligations" is attached to the Franchise Agreement.



Your and your owners' spouses will be required to comply with your obligations of confidentiality and noncompetition under the Franchise Agreement.

You and your owners must sign our then current form of Nondisclosure and Non-Competition Agreement (a current form of which attached as Exhibit C to the Franchise Agreement).

### Item 16

#### RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer and sell all goods and perform all services that we periodically require for Bricks 4 Kidz Businesses. You may not offer or sell any products or perform any services that we have not authorized. (See Item 8) Our System Standards may regulate: (i) required and/or authorized equipment, vehicles, materials, supplies and Proprietary Products; (ii) terms and conditions of the sale and delivery of products and services that you obtain from us and affiliated or unaffiliated suppliers, as well as the terms of payment for such products and services; and (iii) unauthorized and prohibited services, products, equipment, vehicles, materials, and supplies. We periodically may change required and/or authorized Services and Proprietary Products. There are no limits on our right to do so.

While you may place advertisements in printed media and on television and radio that are targeted to customers and prospective customers located within your Territory, and will not be deemed to be in violation of the Franchise Agreement if those advertisements, because of the natural circulation of the printed media or reach of television and radio, are viewed by prospective customers outside of your Territory, you may not make any sales or perform services to customers located outside of your Territory unless there is no Bricks 4 Kidz Business, either franchised or company-owned, located in close proximity to your Bricks 4 Kidz Business. However, you may provide Services to clients who reside outside of the Territory, provided that the Services will be performed within the Territory.

### Item 17

#### RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

##### THE FRANCHISE RELATIONSHIP

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

PROVISION	SECTION IN FRANCHISE OR OTHER AGREEMENT	SUMMARY
a. Length of the franchise term	Section 1.E of Franchise Agreement	10 years with a 5 year right to terminate from the Effective Date of the Franchise Agreement without any penalty. Bricks 4 Biz remains in effect until termination or expiration of the Franchise Agreement

PROVISION	SECTION IN FRANCHISE OR OTHER AGREEMENT	SUMMARY
b. Renewal or extension of the term	Section 13 of Franchise Agreement	If you are in full compliance, you may acquire a successor franchise term of 10 years with a 5 year right to terminate from the Effective Date of the Renewal Agreement without any penalty. The successor franchise will be on our then current form of Franchise Agreement (which may contain materially different terms and conditions than your original franchise agreement)
c. Requirements for franchisee to renew or extend	Section 13 of Franchise Agreement	To "renew," you must be in full compliance with the Franchise Agreement; give us timely notice; pay us the renewal fee; and sign our then current Franchise Agreement, a release (if law allows), and other documents we use to grant franchises. The terms of our then current Franchise Agreement that you sign for renewal of the franchise may differ materially from any and all of those contained in the Franchise Agreement attached to this Disclosure Document, including reduced Territory and increased fees.
d. Termination by franchisee	Not applicable	You may seek termination upon any grounds available by state law.
e. Termination by franchisor without cause	Not Applicable	
f. Termination by franchisor with cause	Sections 14.A, 2.C(4), 3.A(2), 4.A(4), of Franchise Agreement and Section 12 of Bricks 4 Biz	We may terminate your franchise only if you or your owners commit one of several violations if you are in default of the Franchise Agreement; or if we determine to cease offering Bricks 4 Kidz Business franchise owners the right to provide B4B Services
g. "Cause" defined-curable defaults	Section 14.A of Franchise Agreement	You have 72 hours to cure any health, safety or sanitation law, ordinance, or regulation regulating the operation of the BUSINESS; 10 days to cure monetary defaults and failure to maintain required insurance; and 30 days to cure operational defaults and other defaults not listed in (h) below

PROVISION	SECTION IN FRANCHISE OR OTHER AGREEMENT	SUMMARY
h. "Cause" defined- non-curable defaults	Sections 14.B and 14.C of Franchise Agreement	Non-curable defaults include: misrepresentation in acquiring the franchise; failure to open and operate the BUSINESS within 90 days after Franchise Agreement's Effective Date; failure to complete training; abandonment; unapproved transfers; conviction of a felony, crime or other offense involving moral turpitude, child endangerment or other crime; dishonest or unethical conduct; making an unauthorized representation or warranty on our behalf; unauthorized use or disclosure of the Operations Manual or other confidential information; failure to pay taxes; repeated defaults (even if cured); an assignment for the benefit of creditors; appointment of a trustee or receiver; violation of any antiterrorism law; knowingly maintaining false books or records or submitting false reports; refusing to permit us to attend and inspect programs and classes conducted by the BUSINESS, inspect the BUSINESS or your books, records, or accounts; termination of any other agreement between you (or your owners or affiliates) and us (or our owners and affiliates) due to your failure to comply with the agreement
i. Franchisee's obligations on termination/nonrenewal	Sections 3, 4, 8.A, 8.D, 12.C, 13.A, 14.F, 15, 16.D, 17.C of Franchise Agreement	Obligations include paying outstanding amounts; complete deidentification; assigning telephone and other numbers; and returning confidential information (also <i>see</i> (o) and (r) below)
j. Assignment of contract by franchisor	Section 12.A of Franchise Agreement	No restriction on our right to assign; we may assign without your approval
k. "Transfer" by franchisee – defined	Section 12.B of Franchise Agreement	Includes transfer of Franchise Agreement, the BUSINESS (or its profits, losses or capital appreciation) sale of BUSINESS' assets, and ownership change in you or your owners

PROVISION	SECTION IN FRANCHISE OR OTHER AGREEMENT	SUMMARY
l. Franchisor approval of transfer by franchisee	Section 12.B of Franchise Agreement	No transfer without our prior written consent.
m. Conditions for franchisor approval of transfer	Section 12.C of Franchise Agreement	New franchise owner qualifies (based on business experience, aptitude and financial resources); you pay us, our affiliates, and third party vendors all amounts due and submit all required reports; no default during 60-day period before transfer request or during period between request and transfer's proposed effective date; new franchise owner (and its owners and affiliates) are not in a Competitive Business; training completed; you or transferee signs our then current Franchise Agreement and other documents; transfer fee paid; you sign release (if law allows); we approve material terms; you subordinate amounts due to you; you deidentify; and you correct existing BUSINESS deficiencies of which we notify you (also <i>see</i> (r) below)
n. Franchisor's right of first refusal to acquire franchisee's business	Section 12.G of Franchise Agreement	We may match any offer for your BUSINESS or an ownership interest in you
o. Franchisor's option to purchase franchisee's business	Not Applicable	
p. Death or disability of franchisee	Section 12.E of Franchise Agreement	Your or your managing owner's representative must assign the franchise or an ownership interest in you to approved party within 6 months; substitute management must be appointed within 15 days; we may assume management of the BUSINESS and charge a management fee if the BUSINESS is not being managed properly
q. Non-competition covenants during the term of the franchise	Section 7 of Franchise Agreement	No diverting business; no ownership interest in, or performing services for, or lending money to, Competitive Businesses anywhere ("Competitive Business" means any business that derives more than 5% of its revenue from providing project-based engineering or "STEAM" (science,

PROVISION	SECTION IN FRANCHISE OR OTHER AGREEMENT	SUMMARY
		<p>technology, engineering, arts and math) programs to children and/or selling or offering products similar to the Proprietary Products or any business granting franchises or licenses to others to operate such a business); no interference with or solicitation of our or other franchise owners' employees; no engagement in activities that may injure goodwill of Marks</p> <p>If you enter into Bricks 4 Biz, "Competitive Business" will include any business that derives more than 5% of its revenue from providing team-building or development classes and programs to businesses and adults over the age of 18</p>
<p>r. Non-competition covenants after the franchise is terminated or expires</p>	<p>Section 15.D of Franchise Agreement</p>	<p>No direct or indirect ownership interest in, or performing services for, a Competitive Business for 2 years within the Territory; within 25 miles of the radius of the Territory; or within the territory of any other Bricks 4 Kidz Business in operation or in the process of opening as of date Franchise Agreement expires or is terminated; no solicitation, diversion or hire away, or attempt to induce, solicit, divert or hire away for 2 years (i) any of our or our affiliates' current or former employees; (ii) any employees of any other franchise owner; or (iii) any of our or our affiliates' clients or any clients of any other franchise owner (same restrictions apply after transfer)</p>
<p>s. Modification of the agreement</p>	<p>Section 17.I of Franchise Agreement</p>	<p>No modifications except by written agreement signed by both us and you, but we may change Operations Manual and System Standards</p>
<p>t. Integration/merger clause</p>	<p>Section 17.K of Franchise Agreement</p>	<p>Only the terms of the Franchise Agreement are binding (subject to state law). However, nothing in the Franchise Agreement or any related agreement is intended to disclaim our representations made in this Disclosure Document</p>

<b>PROVISION</b>	<b>SECTION IN FRANCHISE OR OTHER AGREEMENT</b>	<b>SUMMARY</b>
u. Dispute resolution by arbitration or mediation	Not applicable	
v. Choice of forum	Section 17.E.	Subject to state law, you must file any suit only in a court having jurisdiction where our principal offices are located at the time suit is filed (currently St Augustine, FL) We may file suit in a court located in the jurisdiction where our principal offices are located at the time suit is filed or in the jurisdiction where you reside or do business or where your Business is or was operated or where the claim arose.
w. Choice of law	Section 17.F of Franchise Agreement	Subject to state law, Florida law governs

### **Item 18**

### **PUBLIC FIGURES**

We do not use any public figures to promote franchises for Bricks 4 Kidz Businesses.

### **Item 19**

### **FINANCIAL PERFORMANCE REPRESENTATIONS**

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

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. 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 Rod Whiton, 475 W. Town Place, Suite 205, Saint Augustine, Florida 39092, the Federal Trade Commission, and the appropriate state regulatory agencies.

### **Item 20**

### **OUTLETS AND FRANCHISEE INFORMATION**

All year end numbers in the tables below are as of September 30 for each year.

**Table 1**  
**Systemwide Outlet Summary**  
**For years 2018 to 2020**

<b>Outlet Type</b>	<b>Year</b>	<b>Outlets at the Start of Year</b>	<b>Outlets at the End of Year</b>	<b>Net Change</b>
Franchised	2018	424	385	-39
	2019	385	311	-74
	2020	311	271	-40
Company Owned	2018	0	0	0
	2019	0	0	0
	2020	0	0	0
<b>Total Outlets</b>	2018	424	385	-39
	2019	385	303	-82
	2020	311	271	-40

**Table 2**  
**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)**  
**For years 2018 to 2020**

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
Alabama	2018	0
	2019	0
	2020	0
Arizona	2018	0
	2019	0
	2020	0
California	2018	1
	2019	3
	2020	23
Colorado	2018	0
	2019	0
	2020	0
Florida	2018	0
	2019	2
	2020	1
Georgia	2018	1
	2019	0
	2020	1
Indiana	2018	0
	2019	0
	2020	0

Kentucky	2018	0
	2019	0
	2020	0
Maryland	2018	0
	2019	0
	2020	0
Michigan	2018	1
	2019	0
	2020	0
Missouri	2018	0
	2019	0
	2020	0
Nevada	2018	1
	2019	0
	2020	0
New Jersey	2018	0
	2019	0
	2020	12
New York	2018	0
	2019	1
	2020	0
New Mexico	2018	0
	2019	1
	2020	0
North Carolina	2018	0
	2019	0
	2020	0
Ohio	2018	0
	2019	0
	2020	0
Pennsylvania	2018	0
	2019	1
	2020	0
South Carolina	2018	0
	2019	1
	2020	0
Texas	2018	0
	2019	0
	2020	0
Virginia	2018	0
	2019	1



	2020	1
Washington	2018	1
	2019	3
	2020	0
Totals	2018	5
	2019	14
	2020	38

**Table 3**  
**Status of Franchised Outlets**  
**For years 2018 to 2020**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired By Franchisor	Ceased Operations - Other Reasons	Outlets at End of the Year
Alabama	2018	7	0	1	0	0	0	6
	2019	6	0	5	0	0	0	1
	2020	1	0	0	0	0	0	1
Alaska	2018	2	0	0	0	0	0	2
	2019	2	0	0	0	0	0	2
	2020	2	0	2	0	0	0	0
Arizona	2018	5	0	0	0	0	0	5
	2019	5	0	0	0	0	0	5
	2020	5	0	0	0	0	0	5
California	2018	59	1	4	0	0	0	56
	2019	56	3	17	0	0	0	36
	2020	36	0	5	0	0	0	31
Colorado	2018	10	0	1	0	0	0	9
	2019	9	0	2	0	0	0	7
	2020	7	0	4	0	0	0	3
Connecticut	2018	2	0	0	0	0	0	2
	2019	2	0	0	0	0	0	2

	2020	2	0	0	0	0	0	2
Delaware	2018	2	0	2	0	0	0	0
	2019	0	0	2	0	0	0	0
	2020	0	0	0	0	0	0	0
District of Columbia	2018	1	0	0	0	0	0	1
	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
Florida	2018	30	0	1	0	0	0	29
	2019	29	0	8	0	0	0	21
	2020	21	0	5	0	0	0	16
Georgia	2018	14	0	0	0	0	0	14
	2019	14	0	6	0	0	0	8
	2020	8	0	0	0	0	0	8
Hawaii	2018	2	0	0	0	0	0	2
	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
Illinois	2018	19	0	0	0	0	0	19
	2019	19	0	3	0	0	0	16
	2020	16	0	2	0	0	0	14
Indiana	2018	14	0	0	0	0	0	14
	2019	14	1	4	0	0	0	11
	2020	11	0	0	0	0	0	11
Iowa	2018	1	0	0	0	0	0	1
	2019	1	0	0	0	0	0	1
	2020	1	0	1	0	0	0	0
Kansas	2018	2	0	1	0	0	0	1
	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
Kentucky	2018	3	0	0	0	0	0	3
	2019	3	0	0	0	0	0	3

	2020	3	0	0	0	0	0	3
Louisiana	2018	13	0	0	0	0	0	13
	2019	13	0	5	0	0	0	8
	2020	8	0	6	0	0	0	2
Maryland	2018	17	0	6	0	0	0	11
	2019	11	0	5	0	0	0	6
	2020	6	0	4	0	0	0	2
Massachusetts	2018	5	0	2	0	0	0	3
	2019	3	0	3	0	0	0	0
	2020	0	0	0	0	0	0	0
Michigan	2018	13	1	0	0	0	0	14
	2019	14	0	5	0	0	0	9
	2020	9	0	2	0	0	0	7
Minnesota	2018	2	0	0	0	0	0	2
	2019	2	0	1	0	0	0	1
	2020	1	0	1	0	0	0	0
Mississippi	2018	2	0	0	0	0	0	2
	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
Missouri	2018	4	0	0	0	0	0	4
	2019	4	0	0	0	0	0	4
	2020	4	0	0	0	0	0	4
Montana	2018	1	0	1	0	0	0	0
	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
Nevada	2018	2	0	0	0	0	0	2
	2019	2	0	0	0	0	0	2
	2020	2	0	1	0	0	0	1
New Jersey	2018	26	0	1	0	0	0	25
	2019	25	1	2	0	0	0	24

	2020	24	0	4	0	0	0	20
New Mexico	2018	2	0	0	0	0	0	2
	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
New York	2018	31	1	8	0	0	0	24
	2019	24	0	2	0	0	0	22
	2020	22	0	6	0	0	0	16
North Carolina	2018	13	0	3	0	0	0	10
	2019	10	0	1	0	0	0	9
	2020	9	0	0	0	0	0	9
Ohio	2018	8	0	1	0	0	0	7
	2019	7	0	1	0	0	0	6
	2020	6	0	2	0	0	0	4
Oklahoma	2018	2	1	0	0	0	0	3
	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3
Oregon	2018	3	0	0	0	0	0	3
	2019	3	0	2	0	0	0	1
	2020	1	0	0	0	0	0	1
Pennsylvania	2018	14	0	5	0	0	0	9
	2019	9	0	3	0	0	0	6
	2020	6	0	0	0	0	0	6
Puerto Rico	2018	2	1	0	0	0	0	3
	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3
South Carolina	2018	5	1	0	0	0	0	6
	2019	6	0	1	0	0	0	5
	2020	5	0	2	0	0	0	3
Tennessee	2018	8	0	0	0	0	0	8
	2019	8	0	2	0	0	0	6

	2020	6	0	2	0	0	0	4
Texas	2018	44	0	9	0	0	0	35
	2019	35	0	10	0	0	0	25
	2020	25	0	1	0	0	0	24
Utah	2018	2	0	1	0	0	0	1
	2019	1	0	1	0	0	0	0
	2020	1	0	1	0	0	0	0
Virginia	2018	10	0	0	0	0	0	10
	2019	10	0	0	0	0	0	10
	2020	10	0	0	0	0	0	10
Washington	2018	16	0	0	0	0	0	16
	2019	16	0	2	0	0	0	14
	2020	14	0	1	0	0	0	13
Wisconsin	2018	5	0	0	0	0	0	5
	2019	5	0	1	0	0	0	4
	2020	5	0	1	0	0	0	4
Wyoming	2018	1	0	0	0	0	0	1
	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
Totals	2018	424	6	45	0	0	0	385
	2019	385	8	82	0	0	0	311
	2020	311	0	40	0	0	0	271

**Table 4**  
**Status of Company-Owned Outlets**  
**For years 2018 to 2020**

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
All States	2018	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0

Totals	2018	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0

**Table 5  
Projected Openings as September 30, 2020**

<b>State</b>	<b>Franchise Agreements Signed but Outlets Not Opened</b>	<b>Projected New Franchised Outlets In The New Fiscal Year</b>	<b>Projected New Company-Owned Outlets In The New Fiscal Year</b>
<b>TOTAL</b>	0	0	0

Exhibit F lists the names of all operating franchised Bricks 4 Kidz Businesses as of September 30, 2020 including the franchisee’s name, address and telephone number. Exhibit F also contains a list of the names, addresses, and last known telephone numbers of the former Bricks 4 Kidz Business franchise owners who had their Bricks 4 Kidz Business terminated, cancelled, or not renewed or otherwise voluntarily or involuntarily ceased to do business under our Franchise Agreement as of September 30, 2020, or who has not communicated with us within 10 weeks of this Disclosure Document's issuance date.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the Bricks 4 Kidz franchise system.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with the Bricks 4 Kidz franchise system. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

The following is the name, address, telephone number, email address, and Web address (to the extent known) of the independent, trademark-specific franchisee organization associated with the franchise system being offered that has asked to be included in this Disclosure Document:

B4K I.F.A., Inc. c/o Singler PLC  
127 S. Main Street, Sebastopol, California 95472  
(707) 823-8719 (phone); (707) 823-8737 (fax)  
admin@bricksfa.org

**Item 21**

**FINANCIAL STATEMENTS**

Exhibit D contains the audited financial statements of our parent, CLC, as of September 30, 2018, September 30, 2019 and September 30, 2020. CLC has absolutely and unconditionally guaranteed to assume our duties and obligations under the Franchise Agreement. The CLC Guaranty of Performance also appears at Exhibit D.

**Item 22**

**CONTRACTS**

The following agreements are exhibits:

- (a) Exhibit C — Franchise Agreement and exhibits
- (b) Exhibit I — Sample Form of General Release
- (c) Exhibit J — Franchisee Disclosure Questionnaire

**Item 23**

**RECEIPTS**

Our and your copies of the receipt to this Disclosure Document are located at the last 2 pages of this Disclosure Document.

## EXHIBIT A TO FDD

### LIST OF STATE ADMINISTRATORS

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

<b>State</b>	<b>State Agency</b>	<b>Agent for Service of Process</b>
CALIFORNIA	Commissioner of the Department of Financial Protection and Innovation  Department of Financial Protection and Innovation  320 West 4 <sup>th</sup> Street, Suite 750  Los Angeles, CA 90013  (213) 576-7505  Toll-free (866-275-2677)	Commissioner of the Department of Financial Protection and Innovation
CONNECTICUT	State of Connecticut  Department of Banking  Securities & Business Investments Division  260 Constitution Plaza  Hartford, CT 06103-1800  (860) 240-8230	Banking Commissioner
HAWAII	Business Registration Division  Department of Commerce and Consumer Affairs  335 Merchant Street, Room 203  Honolulu, HI 96813  (808) 586-2722	Commissioner of Securities of the State of Hawaii
ILLINOIS	Office of Attorney General  Franchise Division  500 South Second Street  Springfield, IL 62706  (217) 782-4465	Illinois Attorney General



State	State Agency	Agent for Service of Process
INDIANA	Indiana Secretary of State Securities Division 302 West Washington St., Room E-111 Indianapolis, IN 46204 (317) 232-6681	Indiana Secretary of State 201 State House Indianapolis, IN 46204
MARYLAND	Office of the Attorney General Division of Securities 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360	Maryland Securities Commissioner 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360
MICHIGAN	Michigan Department of Attorney General Consumer Protection Division Antitrust and Franchise Unit 670 Law Building Lansing, MI 48913 (517) 373-7117	Michigan Department of Commerce, Corporations and Securities Bureau
MINNESOTA	Minnesota Department of Commerce 85 7 <sup>th</sup> Place East, Suite 280 St. Paul, MN 55101-2198 (651) 539-1500	Minnesota Commissioner of Commerce
NEW YORK	Office of the New York State Attorney General Investor Protection Bureau, Franchise Section 28 Liberty Street, 21 <sup>st</sup> Floor New York, NY 10005 (212) 416-8211 Phone (212) 416-6042 Fax	Attention: New York Secretary of State New York Department of State One Commerce Plaza 99 Washington Avenue, 6 <sup>th</sup> Floor Albany, NY 11231-0001 (518) 473-2492
NORTH DAKOTA	North Dakota Securities Department 600 East Boulevard, 5 <sup>th</sup> Floor Bismarck, ND 58505-0510 (701) 328-4712	North Dakota Securities Commissioner

State	State Agency	Agent for Service of Process
OREGON	Department of Consumer and Business Services Division of Finance and Corporate Labor and Industries Building Salem, Oregon 97310 (503) 378-4387	Director of the Department of Consumer and Business Services
RHODE ISLAND	Department of Business Regulation Division of Securities 1511 Pontiac Avenue, Building 69-1 Cranston, RI 02920 (401) 462-9585	Director of Rhode Island Department of Business Regulation
SOUTH DAKOTA	Division of Insurance Securities Regulation 124 South Euclid, Suite 104 Pierre, SD 57501 (605) 773-3563	Director of Insurance-Securities Regulation
VIRGINIA	State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9 <sup>th</sup> Floor Richmond, VA 23219 (804) 371-9051	Clerk of State Corporation Commission 1300 East Main Street, 1 <sup>st</sup> Floor Richmond, VA 23219 (804) 371-9733
WASHINGTON	Department of Financial Institutions Securities Division P.O. Box 9033 Olympia, WA 98507-9033 (360) 902-8760	Director of Washington Financial Institutions Securities Division 150 Israel Road, SW Tumwater, WA 98501
WISCONSIN	Wisconsin Securities Commissioner Securities and Franchise Registration 345 W. Washington Avenue Madison, WI 53703 (608) 266-8559	Commissioner of Securities of Wisconsin

## EXHIBIT B TO FDD

### LIST OF STATE AGENTS FOR SERVICE OF PROCESS

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

<b>State</b>	<b>State Agency</b>	<b>Agent for Service of Process</b>
CALIFORNIA	Commissioner of the Department of Financial Protection and Innovation Department of Financial Protection and Innovation 320 West 4 <sup>th</sup> Street, Suite 750 Los Angeles, CA 90013 (213) 576-7505 Toll-free (866-275-2677)	Commissioner of the Department of Financial Protection and Innovation
CONNECTICUT	State of Connecticut Department of Banking Securities & Business Investments Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8230	Banking Commissioner
HAWAII	Business Registration Division Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, HI 96813 (808) 586-2722	Commissioner of Securities of the State of Hawaii
ILLINOIS	Office of Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465	Illinois Attorney General
INDIANA	Indiana Secretary of State Securities Division 302 West Washington St., Room E-111 Indianapolis, IN 46204 (317) 232-6681	Indiana Secretary of State 201 State House Indianapolis, IN 46204
MARYLAND	Office of the Attorney General Division of Securities 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360	Maryland Securities Commissioner 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360
MICHIGAN	Michigan Department of Attorney General Consumer Protection Division Antitrust and Franchise Unit 670 Law Building Lansing, MI 48913 (517) 373-7117	Michigan Department of Commerce, Corporations and Securities Bureau
MINNESOTA	Minnesota Department of Commerce 85 7 <sup>th</sup> Place East, Suite 280 St. Paul, MN 55101-2198 (651) 539-1500	Minnesota Commissioner of Commerce

<b>State</b>	<b>State Agency</b>	<b>Agent for Service of Process</b>
NEW YORK	Office of the New York State Attorney General Investor Protection Bureau, Franchise Section 28 Liberty Street, 21 <sup>st</sup> Floor New York, NY 10005 (212) 416-8211 Phone (212) 416-6042 Fax	Attention: New York Secretary of State New York Department of State One Commerce Plaza 99 Washington Avenue, 6 <sup>th</sup> Floor Albany, NY 11231-0001 (518) 473-2492
NORTH DAKOTA	North Dakota Securities Department 600 East Boulevard, 5 <sup>th</sup> Floor Bismarck, ND 58505-0510 (701) 328-4712	North Dakota Securities Commissioner
OREGON	Department of Consumer and Business Services Division of Finance and Corporate Labor and Industries Building Salem, Oregon 97310 (503) 378-4387	Director of the Department of Consumer and Business Services
RHODE ISLAND	Department of Business Regulation Division of Securities 1511 Pontiac Avenue, Building 69-1 Cranston, RI 02920 (401) 462-9585	Director of Rhode Island Department of Business Regulation
SOUTH DAKOTA	Division of Insurance Securities Regulation 124 South Euclid, Suite 104 Pierre, SD 57501 (605) 773-3563	Director of Insurance-Securities Regulation
VIRGINIA	State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9 <sup>th</sup> Floor Richmond, VA 23219 (804) 371-9051	Clerk of State Corporation Commission 1300 East Main Street, 1 <sup>st</sup> Floor Richmond, VA 23219 (804) 371-9733
WASHINGTON	Department of Financial Institutions Securities Division P.O. Box 9033 Olympia, WA 98507-9033 (360) 902-8760	Director of Washington Financial Institutions Securities Division 150 Israel Road, SW Tumwater, WA 98501
WISCONSIN	Wisconsin Securities Commissioner Securities and Franchise Registration 345 W. Washington Avenue Madison, WI 53703 (608) 266-8559	Commissioner of Securities of Wisconsin

**EXHIBIT C TO FDD**  
**FRANCHISE AGREEMENT**

**BFK FRANCHISE COMPANY LLC**

**FRANCHISE AGREEMENT**

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**FRANCHISE OWNER**

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**DATE OF AGREEMENT**

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**EXHIBITS**

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EXHIBIT B	OFFICE AND TERRITORY
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# **BFK FRANCHISE COMPANY LLC**

## **FRANCHISE AGREEMENT**

**THIS FRANCHISE AGREEMENT** (the “Agreement”) is made and entered into by and between **BFK FRANCHISE COMPANY LLC**, a limited liability company organized under the laws of Nevada located at 475 W Town Place Suite 205 A, St. Augustine, FL 32092 (“we,” “us,” or “our”), and \_\_\_\_\_, whose principal business address is \_\_\_\_\_ (“you” or “your”) as of the date signed by us and set forth opposite our signature on this Agreement (the “Effective Date”).

### **1. PREAMBLES, ACKNOWLEDGMENTS, AND GRANT OF FRANCHISE.**

#### **A. PREAMBLES.**

(1) We and our affiliates have, over a considerable time period and with considerable effort, developed (and continue to develop and modify) a system and franchise opportunity for the operation of mobile businesses (each, a “Bricks 4 Kidz Business”) offering project-based programs designed to teach principles and methods of engineering to children between the ages of 3 and 13+ using LEGO® plastic bricks and other LEGO® products through classes, workshops, and other organized activities at locations such as preschools, elementary and middle schools, camps, birthday parties, community centers and churches (collectively, the “Services”) utilizing the System (as defined below) and specialized and proprietary products, lesson plans, model plans and projects kits (the “Proprietary Products”). These Services are provided by Bricks 4 Kidz franchisees operating Bricks 4 Kidz Businesses, which operate under distinctive business formats, methods, procedures, signage designs, layouts, standards, and specifications, and the Marks (as defined below), all of which we may improve, further develop, or otherwise modify from time to time (collectively, the “System”).

(1) We and our affiliates use, promote, and license certain trademarks, service marks, and other commercial symbols in operating Bricks 4 Kidz Businesses, which have gained and will continue to gain public acceptance and goodwill, and may create, use, and license other trademarks, service marks, and commercial symbols for Bricks 4 Kidz Businesses (collectively, the “Marks”).

(2) We grant to persons who meet our qualifications, and are willing to undertake the investment and effort, a franchise to own and operate a Bricks 4 Kidz Business using the System and Proprietary Products and offering the Services and related products we authorize.

(3) As a franchise owner of a Bricks 4 Kidz Business, you will comply with this Agreement and all System Standards (defined in Subsection 4.D) in order to maintain the high and consistent quality that is critical to attracting and maintaining clients for Bricks 4 Kidz Businesses.

(4) You have applied for a franchise to own and operate a Bricks 4 Kidz Business.

**B. ACKNOWLEDGMENTS.**

You acknowledge:

(1) That you have independently investigated the Bricks 4 Kidz Business franchise opportunity and recognize that, like any other business, the nature of the business a Bricks 4 Kidz Business conducts may, and probably will, evolve and change over time.

(2) That an investment in a Bricks 4 Kidz Business involves business risks that could result in the loss of a significant portion or all of your investment.

(3) That your business abilities and efforts are vital to your success.

(4) That attracting clients for your Bricks 4 Kidz Business will require you to make consistent marketing efforts in your community through various methods, including media advertising, direct mail advertising, and display and use of promotional materials.

(5) That retaining clients for your Bricks 4 Kidz Business will require you to have a high level of customer service and adhere strictly to the System and our System Standards and that you are committed to maintaining System Standards.

(6) That you have not received from us, and are not relying upon, any representations or guarantees, express or implied, as to the potential volume, sales, income, or profits of a Bricks 4 Kidz Business.

(7) That in all of their dealings with you, our officers, directors, employees, and agents act only in a representative, and not in an individual, capacity and that business dealings between you and them as a result of this Agreement are deemed to be only between you and us.

(8) That you have represented to us, to induce our entry into this Agreement, that all statements you have made and all materials you have given us are accurate and complete and that you have made no misrepresentations or material omissions in obtaining the franchise.

(9) That you and your guarantors have received as one document at one time, either personally or by registered mail, a copy of the form of this Agreement, the exhibits hereto, and the applicable complete Franchise Disclosure Document not less than fourteen (14) days prior to the earlier of: (i) the date on which this Agreement or any other agreement relating thereto was executed, and (ii) the payment of any consideration by or on behalf of you relating to this Agreement, and the franchise associated therewith (except, where applicable, any deposit permitted under applicable law).

(10) That you have read this Agreement and our Franchise Disclosure Document and understand and accept that this Agreement's terms and covenants are reasonably necessary for us to maintain our high standards of quality and service, as well as the uniformity of those standards at each Bricks 4 Kidz Business, and to protect and preserve the goodwill of the Marks.

(11) That we will restrict your sources of Proprietary Products and have the right to restrict your sources of other goods and services as well, as provided in various sections of this Agreement, including Section 8 below.

(12) That we have not made any representation, warranty, or other claim regarding this Bricks 4 Kidz Business franchise opportunity, other than those made in this Agreement and our Franchise Disclosure Document, and that you have independently evaluated this opportunity, including by using your business professionals and advisors, and have relied solely upon those evaluations in deciding to enter into this Agreement.

(13) That you have been afforded an opportunity to ask any questions you have and to review any materials of interest to you concerning the Bricks 4 Kidz Business franchise opportunity.

(14) That you have been afforded an opportunity, and have been encouraged by us, to have this Agreement and all other agreements and materials we have given or made available to you reviewed by an attorney and have either done so or waived your right to do so.

C. **CORPORATION, LIMITED LIABILITY COMPANY, OR PARTNERSHIP.**

If you are at any time a corporation, limited liability company, general or limited partnership, or other form of business entity (each, an “Entity”), then you agree and represent that:

(1) You will have the authority to execute, deliver, and perform your obligations under this Agreement and all related agreements and are duly organized or formed and validly existing in good standing under the laws of the state of your incorporation or formation;

(2) Your organizational documents, operating agreement, or partnership agreement, as applicable, will recite that this Agreement restricts the issuance and transfer of any ownership interests in you, and all certificates and other documents representing ownership interests in you will bear a legend referring to this Agreement’s restrictions;

(3) **Exhibit A** to this Agreement completely and accurately describes all of your owners and their interests in you as of the Effective Date;

(4) Each of your owners during the Term (as defined in Subsection E below) and any Renewal Term (as defined in Subsection E below) will execute a guaranty in the form attached to this Agreement undertaking personally to be bound, jointly and severally, by all provisions of this Agreement and any ancillary agreements between you and us. Subject to our rights and your obligations under Section 12, you and your owners agree to promptly sign and deliver to us revisions to **Exhibit A** to reflect any permitted changes in the information that **Exhibit A** now contains;

(5) You will appoint a shareholder, member, or partner, as applicable, to be your “Managing Owner,” who will be responsible for overseeing and supervising the operation of the BUSINESS (as defined in Subsection D below). The Managing Owner as

of the Effective Date is identified in **Exhibit A**. You may not change the Managing Owner without our prior written consent; and

(6) The BUSINESS and other Bricks 4 Kidz Businesses, if applicable, will be the only businesses you operate (although your owners may have other, non-competitive business interests).

D. **GRANT OF FRANCHISE.**

You have applied for a franchise to own and operate a Bricks 4 Kidz Business. Subject to this Agreement's terms, we grant you a franchise (the "Franchise") to operate a Bricks 4 Kidz Business (the "BUSINESS") and to use the System in its operation for the Term. You agree that the BUSINESS will be operated from an office that will be located in your residence or at a location that we review and accept (address to be listed on **Exhibit B**) (the "Office"). The Office may not be relocated without our prior written approval. No additional Offices may be established by you without our prior written approval. You must commence operations of the BUSINESS within ninety (90) days following the Effective Date of this Agreement. You agree at all times faithfully, honestly, and diligently to perform your obligations under this Agreement and to use your best efforts to promote the BUSINESS.

E. **TERM AND RENEWAL.**

(1) **Term.** The term of this Agreement (the "Term") will begin on the Effective Date and will expire on the tenth (10<sup>th</sup>) anniversary of the Effective Date, unless this Agreement is sooner terminated as provided herein. You have a five (5) year right to terminate from the Effective Date of the Franchise Agreement without any penalty.

(2) **Renewal Term.** You will have the right, but not the obligation, to enter into a Successor Franchise Agreement (as defined in Subsection 13.A below) for an additional franchise term following the Term (the "Renewal Term"). The duration of the Renewal Term will be ten (10) years with a five (5) year right to terminate from the Effective Date of the Renewal Agreement without any penalty, provided that you have complied with the conditions and procedures for renewal in Section 13 of this Agreement in connection with the Renewal Term.

F. **LIMITED EXCLUSIVE TERRITORIAL RIGHTS.**

Before this Agreement is executed, we will describe the Territory in **Exhibit B**. The size of the Territory shall be determined in our sole judgment. If you request before this Agreement is executed, we may grant you an additional geographic area to increase the size of the Territory, subject to the additional fee set forth in Subsection 3.A below. Provided that you are in full compliance with this Agreement, and except as provided in Subsection G below, we and our affiliates will not operate or grant a franchise for the operation of another Bricks 4 Kidz Business at a location, or that will provide Services, within the Territory during the Term. You may not operate the BUSINESS or provide Services outside of the Territory. While you may place advertisements in printed media and on television and radio that are targeted to customers and prospective customers located within your Territory, and will not be deemed to be in violation of the Franchise Agreement if those advertisements, because of the natural circulation of the printed

media or reach of television and radio, are viewed by prospective customers outside of your Territory, you may not make any sales or perform services to customers located outside of your Territory unless there is no Bricks 4 Kidz Business, either franchised or company-owned, located in close proximity to your Bricks 4 Kidz Business. However, you may provide Services to clients who reside outside of the Territory, provided that the Services will be performed within the Territory.

**G. RIGHTS WE RESERVE.**

Except as expressly limited by Subsection F above, we and our affiliates retain all rights with respect to Bricks 4 Kidz Businesses, the Marks, the sale of identical, similar or dissimilar products and services, and any other activities we deem appropriate whenever and wherever we desire. Specifically, but without limitation, we reserve the following rights:

(1) the right to establish and operate, and to grant to others the right to establish and operate businesses offering similar or dissimilar products and services through similar or alternative channels of distribution, at any locations inside or outside the Territory under trademarks or service marks other than the Marks and on any terms and conditions we deem appropriate;

(2) the right to provide, offer and sell and to grant others the right to provide, offer and sell products and services that are identical or similar to and/or competitive with those products and services provided by Bricks 4 Kidz Businesses, whether identified by the Marks or other trademarks or service marks, through alternative distribution channels (including, without limitation, the internet or similar electronic media, supermarkets and department stores) both inside and outside the Territory and on any terms and conditions we deem appropriate;

(3) the right to establish and operate, and to grant to others the right to establish and operate, businesses offering dissimilar products and services, both inside and outside the Territory under the Marks and on any terms and conditions we deem appropriate;

(4) the right to operate, and to grant others the right to operate Bricks 4 Kidz Businesses located anywhere outside the Territory under any terms and conditions we deem appropriate and regardless of proximity to the BUSINESS;

(5) the right to operate, and to grant others the right to operate Bricks 4 Kidz Businesses at “Non Traditional Sites” within and outside the Territory on any terms and conditions we deem appropriate. “Non Traditional Sites” are sites that generate customer traffic flow which is independent from the general customer traffic flow of the surrounding area, including, without limitation, military bases, educational facilities, shopping malls, major industrial or office complexes, hotels and hospitals;

(6) the right to acquire the assets or ownership interests of one or more businesses providing products and services the same as or similar to those provided at Bricks 4 Kidz Businesses, and franchising, licensing or creating similar arrangements with respect to these businesses once acquired, wherever these businesses (or the franchisees or licensees of these businesses) are located or operating (including in the Territory); and

(7) the right to be acquired (whether through acquisition of assets, ownership interests or otherwise, regardless of the form of transaction), by a business providing products and services the same as or similar to those provided at Bricks 4 Kidz Businesses, or by another business, even if such business operates, franchises and/or licenses competitive businesses in the Territory.

#### H. **MODIFICATION OF SYSTEM.**

Because complete and detailed uniformity under many varying conditions might not be possible or practical, you acknowledge that we specifically reserve the right and privilege, as we deem best, to vary System Standards (defined below) for any franchise owner based upon the peculiarities of any condition that we consider important to that franchise owner's successful operation. You have no right to require us to grant you a similar variation or accommodation. By way of example only, we or our affiliates may authorize the operation of various operating categories, models, or layouts for Bricks 4 Kidz Businesses as part of the System, such as for Bricks 4 Kidz Businesses established at one or more Non Traditional Sites.

## 2. **COMMENCEMENT OF OPERATIONS.**

### A. **OPERATING ASSETS.**

You agree to use in operating the BUSINESS only the required vehicles, equipment (including a required or recommended computer and facsimile), and signs (collectively, the "Operating Assets") that we approve for Bricks 4 Kidz Businesses as meeting our specifications and standards for quality, design, appearance, function, and performance. You agree to place or display at the locations where the BUSINESS performs the Services and on any vehicles used in connection with the BUSINESS only the signs, emblems, lettering, logos, and display materials that we approve at any time and from time to time. You agree to purchase or lease approved brands, types, or models of Operating Assets only from suppliers we designate or approve (which may include or be limited to us and/or our affiliates). Before the BUSINESS begins operating, we will provide you with an initial inventory of products and marketing and promotional materials as specified in the Operations Manual (as defined in Subsection 4.C below).

### B. **COMPUTER SYSTEM.**

You agree to obtain and use the computer hardware and/or operating software we specify at any time and from time to time (the "Computer System"). We may modify specifications for and components of the Computer System. You also agree to maintain a functioning e-mail address. Our modification of specifications for the Computer System, and/or other technological developments or events, might require you to purchase, lease, and/or license new or modified computer hardware and/or software and to obtain service and support for the Computer System. Although we cannot estimate the future costs of the Computer System or required service or support, and although these costs might not be fully amortizable over this Agreement's remaining Term, you agree to incur the costs of obtaining the computer hardware and software comprising the Computer System (or additions and modifications) and required service or support. We have no obligation to reimburse you for any Computer System costs. Within sixty (60) days after you receive notice from us, you agree to obtain the Computer System components that we designate and to ensure that your Computer System, as modified, is functioning properly.

You agree that we or our affiliates may condition any license of proprietary software to you, or your use of technology that we or our affiliates develop or maintain, on your signing a software license agreement or similar document that we or our affiliates prescribe to regulate your use of, and our and your respective rights and responsibilities with respect to, the software or technology. We, our affiliates, or designated suppliers may charge you a monthly or other fee for any proprietary software or technology that we or they license to you and for other maintenance and support services that we or they may require you to receive during the Term.

Despite the fact that you agree to buy, use, and maintain the Computer System according to our standards and specifications, you will have sole and complete responsibility for: (1) the acquisition, operation, maintenance, and upgrading of the Computer System; (2) the manner in which your Computer System interfaces with our and any third party's computer system; and (3) any and all consequences if the Computer System is not properly operated, maintained, and upgraded.

We reserve the right to connect remotely to your Computer System.

You hereby consent to us obtaining, using and disclosing to third parties (including, without limitation, prospective franchisees, financial institutions, legal and financial advisors), for any purpose or as may be required by law, any financial or other information contained in or resulting from information, data, materials, statements and reports received by us or disclosed to us, whether by means of the Computer System or otherwise, in accordance with this Agreement. You will obtain such consents from third parties, including your customers, as are necessary in order to give effect to the foregoing.

C. **BUSINESS OPENING.**

You must notify us in writing at least fifteen (15) days prior to the day on which you propose to begin operating the BUSINESS. You agree not to begin operating the BUSINESS until:

(1) we notify you in writing that the BUSINESS meet our standards and specifications (although our acceptance is not a representation or warranty, express or implied, that the BUSINESS complies with any licensing, environmental, labor, health, occupational, insurance, safety, tax, governmental, or other statutes, rules, regulations, requirements, or recommendations nor a waiver of our right to require continuing compliance with our requirements, standards, or policies);

(2) you (or your Managing Owner) and your other employees satisfactorily complete training;

(3) you pay any amounts then due to us; and

(4) you give us certificates for all required insurance policies, or such other evidence of insurance coverage and payment of premiums as we may request.

Subject to your compliance with these conditions, you agree to begin operating the BUSINESS within ninety (90) days after the Effective Date of this Agreement, and you acknowledge that your failure to timely commence operations shall be grounds for termination as set forth in Section 14 below.



### 3. **FEES.**

#### A. **INITIAL FRANCHISE FEE.**

(1) In consideration of our granting you the Franchise, you agree to pay us a nonrecurring and, except as specifically provided in this Agreement, nonrefundable initial franchise fee (the "Initial Franchise Fee") as set forth in Exhibit B. The Initial Franchise Fee is due, and fully earned by us, when you sign this Agreement.

(2) You may be eligible to receive a refund of up to Five Thousand Dollars (\$5,000) of amounts you have paid to us for the Initial Franchise Fee in any one of the following circumstances:

(i) if your required attendees to our initial training program cannot complete initial training to our satisfaction, then we may terminate this Agreement (at our option), and receive from you a signed release of claims in a form we prescribe; or

(ii) if you do not commence operations of the BUSINESS within ninety (90) days from the date your required attendees complete the initial training program to our satisfaction, then we may terminate this Agreement (at our option), and receive from you a signed release of claims in a form we prescribe.

#### B. **CONTINUING SERVICE AND ROYALTY FEE.**

You agree to pay us, in the manner provided below (or as the Operations Manual otherwise prescribes), a monthly Continuing Service and Royalty Fee equal to seven percent (7%) of the BUSINESS's Gross Sales (defined in Subsection D below) per month (the "Royalty"). Commencing in the third (3<sup>rd</sup>) month following the date the BUSINESS commences operations, the Royalty you pay us will be subject to a Minimum Royalty Fee as set forth in Exhibit B. On or before the third (3<sup>rd</sup>) business day of each month, you agree to send us on a form we approve (or as we otherwise direct) a signed statement of the BUSINESS's Gross Sales for the preceding month. Each monthly statement of Gross Sales must be accompanied by the greater of (a) the Royalty due for the preceding month, or (b) the Minimum Royalty Fee.

#### C. **ADVERTISING AND DEVELOPMENT FUND CONTRIBUTION.**

You agree to contribute to the Fund (as defined in Subsection 9.B below) in the amounts that we prescribe at any time and from time to time, not to exceed two percent (2%) of the BUSINESS's Gross Sales (defined in Subsection D below). Your contributions to the Fund are payable on a monthly basis for the preceding month's Gross Sales and are due on or before the third (3<sup>rd</sup>) business day of each calendar month. The Fund contributions will be administered and used as set forth in Subsection 9.B below.

#### D. **DEFINITION OF "GROSS SALES".**

As used in this Agreement, the term "Gross Sales" means all revenue that you derive from operating the BUSINESS, including, but not limited to, all amounts that you receive for Services and products sold or rendered by the BUSINESS, and whether from cash, check, credit and debit

card, barter exchange, trade credit, or other credit transactions and all other income of every kind and nature related to the BUSINESS, but (1) excluding all federal, state, or municipal sales, use, or service taxes collected from clients and paid to the appropriate taxing authority and (2) reduced by the amount of any documented refunds, credits, allowances, and charge-backs the BUSINESS in good faith gives to clients.

E. **LATE FEES AND INTEREST.**

All amounts which you owe us or our affiliate for any reason, will bear interest accruing as of their original due date at eighteen percent (18%) per month or the maximum rate allowed by state law, whichever is less. We may debit your bank account automatically for late fees and interest. You acknowledge that this Subsection 3.E is not our agreement to accept any payments after they are due or our commitment to extend credit to, or otherwise finance your operation of, the BUSINESS.

F. **APPLICATION OF PAYMENTS.**

Despite any designation you make, we may apply any of your payments to any of your past due indebtedness to us. We may set off any amounts you or your owners owe us or our affiliates against any amounts we or our affiliates owe you or your owners. You may not withhold payment of any amounts you owe us due to our alleged nonperformance of any of our obligations under this Agreement.

G. **METHOD OF PAYMENT.**

Before the BUSINESS begins operating, you agree to sign and deliver to us the documents we require (including the attached EFT Authorization) to authorize us to debit your business checking account automatically for the Royalty, Fund contributions and other amounts due under this Agreement and for your purchases from us and/or our affiliates (the "Electronic Depository Transfer Account" or "EDTA"). We will debit the EDTA for these amounts on their due dates. You agree to ensure that funds are available in the EDTA to cover our withdrawals. If there are insufficient funds in the EDTA to cover any such amount owed (or, if you are paying by check and a check is returned for insufficient funds), you must pay us, on demand, a processing fee of Thirty Dollars (\$30), plus reimbursement of our additional administrative expenses and charges. If there are insufficient funds in the EDTA, or if your check is returned for insufficient funds, then we may require you to make all subsequent payments to us by certified check.

We may require you to pay any amounts due under this Agreement or otherwise by means other than automatic debit (*e.g.*, by check) whenever we deem appropriate, and you agree to comply with our payment instructions.

**4. TRAINING AND ASSISTANCE.**

A. **INITIAL TRAINING.**

(1) If this is your first Bricks 4 Kidz Business, then before the BUSINESS is scheduled to commence operations, we will train you (or, if you are an Entity, your Managing Owner) and the manager-level employee you appoint (your "Designated Manager") on the material aspects of operating a Bricks 4 Kidz Business. These persons

must begin the initial training (excluding the on-site support period described below in this Subsection 4.A) within forty-five (45) days after the Effective Date, and must complete the initial training to our satisfaction at least two (2) weeks before the BUSINESS commences operations.

(2) We will provide the initial training program at a designated training facility of our choice, except for the on-site support period that we will provide on-site at a location in your Territory (as discussed below in this Subsection 4.A).

(3) We will provide initial training for no additional fee for your two (2) attendees specified above in this Subsection 4.A. Additional people beyond these two (2) attendees may attend initial training (subject to our capacity and ability to accommodate additional persons in the training session) if you pay our then current training charge for each additional person. We reserve the right to refuse to provide training to you or any of your proposed attendees for whom we have not received the relevant training fee. In addition to the initial training program fees, you also agree to pay for all travel and living expenses that you (or your Managing Owner) and any of your personnel incur, all accrued wages, and related workers' compensation insurance while these persons train at a designated training facility of our choice and/or on-site at a location in your Territory.

(4) You (or your Managing Owner) and your Designated Manager must satisfactorily complete initial training. If we determine that you (or your Managing Owner) and your Designated Manager cannot complete initial training to our satisfaction, we may terminate this Agreement. In that case, you will be eligible to receive a refund of up to Five Thousand Dollars (\$5,000) of any initial franchise fee specified under Subsection 3.A above that you have already paid if you sign our required form of release of claims.

(5) You (or your Managing Owner) may request additional training at the end of the initial training, to be provided at our then current per diem charges, if you (or your Managing Owner) feel that you or any of your attendees are not sufficiently trained to operate a Bricks 4 Kidz Business. We and you (or your Managing Owner) will jointly determine the time and duration of this additional training. However, if you (or your Managing Owner) and the other attendees satisfactorily complete our initial training program and you do not expressly inform us at the end of the program that you (or your Managing Owner) or other attendees do not feel sufficiently trained in the operation of a Bricks 4 Kidz Business, then you (or your Managing Owner) and all other attendees to the initial training program will be deemed to have been trained sufficiently to operate a Bricks 4 Kidz Business.

(6) Within the first ninety (90) days of your BUSINESS's operation, we will, at our own cost, send one (1) of our representatives to a location we designate in your Territory to assist you for a period of one (1) day. We reserve the right to provide more representatives, or more days of support, during this period as we deem necessary. For avoidance of doubt, we solely determine the timing, scheduling and staffing of the support we provide according to this subparagraph, including the calendar dates, times of our support, and whether we provide these days consecutively or intermittently. You must successfully complete all activities of this on-site support period to our satisfaction within ninety (90) days of completion of the initial training described above in this Subsection

4.A. If you request, and we agree to provide, additional or special guidance, assistance, or training during this on-site support period, then you agree to pay our then applicable charges, including our personnel's per diem charges and travel and living expenses.

**B. ONGOING TRAINING.**

We may require you (or your Managing Owner) and/or other previously trained and experienced employees to attend and complete satisfactorily various training courses that we periodically choose to provide either online or in-person at the times and locations that we designate. We may charge reasonable registration or similar fees for these courses. We will not require in-person attendance for more than a total of ten (10) days during a calendar year. You agree to pay all costs to attend these online or in-person training courses.

We may require that any Designated Managers you hire or appoint after your BUSINESS commences operations to satisfactorily complete our initial and ongoing training programs. We may charge reasonable fees for training Designated Managers, not to exceed Five Hundred Dollars (\$500) per person. You agree to pay all travel and living expenses which you and your employees incur during all training courses and programs.

You understand and agree that any specific ongoing training or advice we provide does not create an obligation (whether by course of dealing or otherwise) to continue to provide such specific training or advice, all of which we may discontinue and modify at any time and from time to time.

**C. GENERAL GUIDANCE AND CONSULTATION SERVICES.**

We will advise you at any time and from time to time regarding the BUSINESS's operation based on your reports or our inspections and will guide you with respect to: (1) standards, specifications, and operating procedures and methods that Bricks 4 Kidz Businesses use; (2) purchasing required and authorized Operating Assets, Proprietary Products and related products and services and other items and arranging for their distribution to you; (3) advertising and marketing materials and programs; (4) employee training; and (5) administrative, bookkeeping and accounting procedures.

We will guide you in our operations manual (the "Operations Manual"); in bulletins or other written materials; by electronic media; by telephone consultation; at our office and/or at one of the BUSINESS's programs. If you request, and we agree to provide (subject to our availability), additional or special guidance, assistance, or training, you agree to pay our then applicable charges, including our personnel's per diem charges and travel and living expenses.

If you request, and we agree to provide (subject to our availability) either (i) additional guidance, assistance, or training, or (ii) specialized Consultation Services, then you agree to pay our then applicable charges, including our personnel's per diem charges and travel and living expenses. For purposes of this Agreement, "Consultation Services" may include any advice related to the operation of your BUSINESS, on-site reviews of your operations and additional training as needed, on-site training for you (or your Managing Owner), Designated Managers, or any of your other personnel, and other specialized assistance.

#### **D. OPERATIONS MANUAL.**

We will provide you (digital) access during the Term to one (1) copy of our Operations Manual, which could include compact disks, computer software, other electronic media, and/or written materials. The Operations Manual contains mandatory and suggested specifications, standards, operating procedures, and rules ("System Standards") that we periodically prescribe for operating a Bricks 4 Kidz Business and information on your other obligations under this Agreement. We may modify the Operations Manual periodically, in our sole judgment, to reflect changes in System Standards. For purposes of this Agreement, all written instructions or communications we or our affiliates provide to all, or a substantial number of, Bricks 4 Kidz Business franchise owners concerning aspects or modifications to the System shall be deemed part of the Operations Manual.

You agree to keep your copy of the Operations Manual current and in a secure location at the Office. If there is a dispute over its contents, our master copy of the Operations Manual controls. You agree that the Operations Manual's contents are confidential and that you will not disclose the Operations Manual to any person other than the BUSINESS's employees who need to know its contents. You may not at any time copy, duplicate, record, or otherwise reproduce any part of the Operations Manual. If your copy of the Operations Manual is lost, destroyed, or significantly damaged, you agree to obtain a replacement copy at our then applicable charge.

At our option, we may post some or all of the Operations Manual on a restricted Website or extranet to which you will have access. (For purposes of this Agreement, "Website" means an interactive electronic document contained in a network of computers linked by communications software, including, without limitation, the internet and World Wide Web home pages). If we do so, you agree to monitor and access the Website or extranet for any updates to the Operations Manual or System Standards. Any passwords or other digital identifications necessary to access the Operations Manual on a Website or extranet will be deemed to be part of Confidential Information (defined in Section 6 below).

#### **E. DELEGATION OF PERFORMANCE.**

You agree that we have the right to delegate the performance of any portion or all of our obligations under this Agreement to third-party designees, whether these designees are our agents or independent contractors with whom we have contracted to perform these obligations. If we do so, such third-party designees will be obligated to perform the delegated functions for you in compliance with this Agreement.

### **5. MARKS.**

#### **A. OWNERSHIP AND GOODWILL OF MARKS.**

We own or have the right to license others to use the Marks in connection with the franchising, development, and operation of Bricks 4 Kidz Businesses. Therefore, you agree and acknowledge that the Marks are our (or our affiliate's) exclusive property, and that we are granting you a license (or sublicense, as applicable) to use the Marks in connection with the BUSINESS's development and operation. Your right to use the Marks is derived only from this Agreement and is limited to your operating the BUSINESS according to this Agreement and all System Standards we prescribe during the Term. Your unauthorized use of the Marks is a breach of this Agreement

and infringes our and/or our affiliate's rights in the Marks. You acknowledge and agree that your use of the Marks and any goodwill established by that use are exclusively for our and/or our affiliate's benefit and that this Agreement does not confer any goodwill or other interests in the Marks upon you (other than the right to operate the BUSINESS under this Agreement). All provisions of this Agreement relating to the Marks apply to any additional proprietary trade and service marks we authorize you to use. You may not at any time during or after the Term and any Renewal Term contest, or assist any other person in contesting, the validity, or our and/or our affiliate's ownership, of the Marks.

**B. LIMITATIONS ON YOUR USE OF MARKS.**

You agree to use the Marks within the Territory as the BUSINESS's sole identification, except that you agree to identify yourself as its independent owner in the manner we prescribe. You may not use any Mark (1) as part of any corporate or legal business name, (2) with any prefix, suffix, or other modifying words, terms, designs, or symbols (other than logos we have licensed to you), (3) in selling any unauthorized services or products, (4) as part of any domain name, homepage, electronic address, or otherwise in connection with a Website (other than our Website), or (5) in any other manner that we have not expressly authorized in writing.

You may not use any Mark in advertising the transfer, sale, or other disposition of the BUSINESS or an ownership interest in you without our prior written consent, which we will not unreasonably withhold. You agree to display the Marks prominently as we prescribe on forms, advertising, supplies, and other materials we designate. You agree to use the notices of trade and service mark registrations that we specify and to obtain any fictitious or assumed name registrations required under applicable law.

**C. NOTIFICATION OF INFRINGEMENTS AND CLAIMS.**

You agree to notify us immediately of any apparent infringement or challenge to your use of any Mark, or of any person's claim of any rights in any Mark, and not to communicate with any person other than us, our attorneys, and your attorneys, regarding any infringement, challenge, or claim. We may take the action we deem appropriate (including no action) and control exclusively any litigation, U.S. Patent and Trademark Office ("USPTO") proceeding, or other administrative proceeding arising from any infringement, challenge, or claim or otherwise concerning any Mark. You agree to sign any documents and take any other reasonable action that, in the opinion of our attorneys, are necessary or advisable to protect and maintain our interests in any litigation or USPTO or other proceeding or otherwise to protect and maintain our interests in the Marks.

**D. DISCONTINUANCE OF USE OF MARKS.**

If, in our sole judgment, it becomes advisable at any time for us and/or you to modify or discontinue using any Mark and/or to use one or more additional or substitute trade or service marks, you agree to comply with our directions within a reasonable time after receiving notice. We need not reimburse you for your direct expenses of changing signage, for any loss of revenue due to any modified or discontinued Mark, or for your expenses of promoting a modified or substitute trademark or service mark.

Our rights in this Subsection 5.D apply to any and all of the Marks (and any portion of any Mark) that we authorize you to use in this Agreement. We may exercise these rights at any time

and for any reason, business or otherwise, that we think best. You acknowledge both our right to take this action and your obligation to comply with our directions.

**E. INDEMNIFICATION FOR USE OF MARKS.**

We agree to reimburse you for all damages and reasonable expenses that you incur in any trademark infringement proceeding disputing your authorized use of any Mark under this Agreement if you have timely notified us of, and comply with our directions in responding to, the proceeding. At our option, we may defend and control the defense of any proceeding arising from your use of any Mark under this Agreement.

**6. CONFIDENTIAL INFORMATION.**

We possess (and will continue to develop and acquire) certain confidential information, some of which constitutes trade secrets under applicable law (the "Confidential Information"), relating to developing and operating Bricks 4 Kidz Businesses, including (without limitation):

- (1) course and program content, including lesson plans and model plans;
- (2) training and operations materials and manuals;
- (3) methods, formats, specifications, standards, systems, procedures, sales and marketing techniques, knowledge, and experience used in developing and operating Bricks 4 Kidz Businesses;
- (4) all client lists and records generated and/or otherwise maintained by Bricks 4 Kidz Businesses;
- (5) marketing, promotional and advertising research and programs for Bricks 4 Kidz Businesses;
- (6) knowledge of specifications for and suppliers of Operating Assets, Proprietary Products and other products and supplies, including supplier pricing and related terms;
- (7) any computer software or similar technology which is proprietary to us or the System, including, without limitation, digital passwords and identifications and any source code of, and data, reports, and other printed materials generated by, the software or similar technology;
- (8) knowledge of the operating results and financial performance of Bricks 4 Kidz Businesses other than the BUSINESS;
- (9) graphic designs and related intellectual property;
- (10) client solicitation, communication and retention programs, along with data and information used or generated in connection with those programs;
- (11) all data and other information generated by, or used in, the operation of the BUSINESS, including client names, addresses, phone numbers and other information

supplied by any client (such as credit card information or personal information), and any other information contained at any time and from time to time in the Computer System or that visitors to the BUSINESS (including you and your personnel) provide to the Website for the network of Bricks 4 Kidz Businesses;

(12) future business plans relating to Bricks 4 Kidz Businesses and the Bricks 4 Kidz franchise opportunity, including expansion and development plans; and

(13) any other information that we reasonably designate as confidential or proprietary.

You acknowledge and agree that you will not acquire any interest in Confidential Information, other than the right to use it as we specify in operating the BUSINESS during the Term and any Renewal Term, and that Confidential Information is proprietary, includes our trade secrets, and is disclosed to you only on the condition that you agree, and you in fact do agree, that you:

(a) will not use Confidential Information in any other business or capacity;

(b) will keep each item deemed to be part of Confidential Information absolutely confidential, both during the Term and any Renewal Term and then thereafter for as long as the item is not generally known in the youth educational and entertainment industry;

(c) will not sell, trade or otherwise profit in any way from the Confidential Information (including by selling or assigning any client names, addresses, phone numbers, e-mail contact information, or related data), except using methods that we may have authorized or approved in our sole judgment;

(d) will not make unauthorized copies of any Confidential Information disclosed via electronic medium or in written or other tangible form; and

(e) will adopt and implement reasonable procedures to prevent unauthorized use or disclosure of Confidential Information, including, without limitation, restricting its disclosure to BUSINESS personnel and others and using non-disclosure and noncompetition agreements with those having access to Confidential Information. We have the right to regulate the form of agreements that you use and to be a third party beneficiary of those agreements with independent enforcement rights.

Confidential Information does not include information, knowledge, or know-how which you can demonstrate lawfully came to your attention before we provided it to you directly or indirectly; which, at the time we disclosed it to you, already had lawfully become generally known in the youth educational and entertainment industry through publication or communication by others (without violating an obligation to us); or which, after we disclose it to you, lawfully becomes generally known in the youth educational and entertainment industry through publication or communication by others (without violating an obligation to us). However, if we include any matter in Confidential Information, anyone who claims that it is not Confidential Information must prove that one of the exclusions provided in this paragraph is fulfilled.



All ideas, concepts, techniques, or materials relating to a Bricks 4 Kidz Business, whether or not protectable intellectual property and whether created by or for you or your owners or employees, must be promptly disclosed to us and will be deemed to be our sole and exclusive property, part of the System, and works made-for-hire for us. To the extent that any item does not qualify as a "work made-for-hire" for us, by this paragraph you hereby assign ownership of that item, and all related rights to that item, to us, hereby waive all moral rights in that item, and hereby agree to take whatever action (including signing assignment or other documents) we request to evidence our ownership or to help us obtain intellectual property rights in the item (including signing assignment or other documents, and causing your owners, employees and contractors to do the same). You may not use any such idea, concept, technique or material in connection with the BUSINESS without our prior approval.

## **7. EXCLUSIVE RELATIONSHIP.**

You acknowledge that we have granted you the Franchise in consideration of and reliance upon your agreement to deal exclusively with us. You therefore agree that, during the Term and any Renewal Term, neither you, any of your owners, nor any of your or your owners' spouses will:

- (a) have any direct or indirect controlling or non-controlling interest as an owner – whether of record, beneficially, or otherwise – in a Competitive Business, wherever located or operating (except that equity ownership of less than two percent (2%) of a Competitive Business whose stock or other forms of ownership interest are publicly traded on a recognized United States stock exchange will not be deemed to violate this subparagraph);
- (b) perform services as a director, officer, manager, employee, consultant, representative, or agent for a Competitive Business, wherever located or operating;
- (c) divert or attempt to divert any actual or potential business or client of the BUSINESS to a Competitive Business;
- (d) directly or indirectly loan any money or other thing of value to, or guarantee any other person's loan to, any Competitive Business or any owner, director, officer, manager, employee or agent of any Competitive Business, wherever located or operating;  
or
- (e) engage in any other activity which, in our sole opinion, might injure the goodwill of the Marks and System.

The term "Competitive Business" means (i) any business which derives more than five percent (5%) of its revenue from providing project-based engineering or "STEM" (science, technology, engineering and math) programs to children and/or selling or offering products similar to the Proprietary Products or (ii) any business granting franchises or licenses to others to operate the type of business specified in subparagraph (i) (other than a Bricks 4 Kidz Business operated under a franchise agreement with us).

You agree to have all of the following persons sign, and you will submit to us an executed copy of, our then current form of Nondisclosure and Non-Competition Agreement (a current form of which is set forth in **Exhibit C**) from all of the following persons: (i) your Designated Manager

and any supervisory or other employees who have received or will receive training from us, prior to their employment; (ii) if you are an Entity, all your officers, directors, shareholders, partners, members and owners, and those of any Entity directly or indirectly controlling you, concurrent with the execution of this Agreement, or at such time as they assume such status; and (iii) all of the persons enumerated in this Section 7 and Subsection 15.D below. You agree to provide us copies of all executed Nondisclosure and Non-Competition Agreements no later than ten (10) days following their execution.

## **8. SYSTEM STANDARDS.**

### **A. APPROVED PRODUCTS, SERVICES, DISTRIBUTORS AND SUPPLIERS.**

In order to protect our interest in the Services and Proprietary Products and to ensure the quality, uniformity, and distinctiveness of the Services and Proprietary Products, you shall offer, provide and sell through the BUSINESS only such Services and Proprietary Products as have been expressly approved in writing by us. You shall provide the Services using only the Marks, the Proprietary Products and the System, and such other equipment and products which may from time to time be expressly in writing approved by us for use and/or sale. You acknowledge that (i) the Services offered and sold under the System are created from proprietary methods and procedures developed and owned by us, (ii) any required Proprietary Products or equipment we may develop for the BUSINESS will be produced or manufactured using Marks and designs developed and owned by us, and (iii) you have entered into this Agreement in order to obtain the right to provide such Services offered under the System using Proprietary Products.

We have developed or may develop standards and specifications for types, models and brands of required Operating Assets, Proprietary Products and other products, materials and supplies. We reserve the right at any time and from time to time to approve specifications or suppliers and distributors of the above or other products and services that meet our reasonable standards and requirements. If we do so, you agree to purchase only such products and services meeting those specifications, and if we require it, only from distributors and other suppliers we have approved, including or limited to ourselves or our affiliates.

We may limit the number of approved distributors or suppliers (collectively "suppliers") with whom you may deal, designate sources that you must use, and/or refuse any of your requests for any reason, including that we have already designated an exclusive source (which might be us or our affiliate) for a particular item or service.

We and our affiliates may mark up and profit on the sale of goods or services to you and/or receive payments, rebates, or other material consideration from suppliers on account of such suppliers' dealings with us, you and other franchise owners, and may keep or use any amounts so received without restriction and for any purpose we and our affiliates deem appropriate. We may concentrate purchases with one or more suppliers or distributors to obtain lower prices or the best advertising support or services. Approval of a supplier or distributor may be conditioned on requirements relating to product quality, prices, consistency, reliability, financial capability, labor relations, client relations, frequency of delivery, concentration of purchases, standards of service,

including prompt attention to complaints, or other criteria and may be temporary, pending our continued evaluation of the supplier or distributor at any time and from time to time.

If you would like to purchase any items from any unapproved supplier or distributor, you must submit to us a written request for approval of the proposed supplier or distributor. We have the right to inspect the proposed supplier's or distributor's facilities, and to require product samples from the proposed supplier or distributor to be delivered at our option either directly to us or to any independent, certified laboratory which we designate for testing. Either you or the proposed supplier or distributor must pay us a fee (not to exceed the reasonable cost of the inspection and the actual cost of the test) to make the evaluation. We have no obligation to approve any new supplier, product, or service you propose. We reserve the right to periodically re-inspect the facilities and products of any approved supplier or distributor and to revoke our approval if the supplier or distributor does not continue to meet any of our criteria.

**B. 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 BUSINESS and must operate the BUSINESS in full compliance with all applicable laws, ordinances and regulations, including, without limitation, government regulations relating to youth education and entertainment, child safety, occupational hazards, health, worker's compensation and unemployment insurance and withholding and payment of federal and state income taxes, social security taxes and sales and service taxes. You, your Designated Manager, any personnel you hire to perform Services for the BUSINESS (sometimes referred to as "teachers") or any other personnel who attend the initial training program or will otherwise have contact with children must first pass a background check to determine whether you, your Designated Manager or such teachers and/or personnel have any criminal convictions or have engaged in any behavior that endangers the health, welfare, safety or education of children. All advertising and promotion by you must be completely factual and must conform to the highest standards of ethical advertising. The BUSINESS must in all dealings with its clients, suppliers, us and the public adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business or advertising practice which may be injurious to our business and the goodwill associated with the Marks and other Bricks 4 Kidz Business. You must notify us in writing within five (5) days of the commencement of any action, suit or proceeding, and of the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality, which may adversely affect your operation or financial condition or that of the BUSINESS and of any notice of violation of any law, ordinance, or regulation relating to the BUSINESS.

**C. MANAGEMENT OF THE BUSINESS/CONFLICTING INTERESTS.**

You shall maintain a competent, conscientious, trained staff, including a fully-trained, full-time manager, which may be you (or your Managing Owner) or your Designated Manager, with responsibility for direct supervision of the BUSINESS, both of whom must have successfully completed the initial training program that we describe above in this Agreement. You shall take such steps as are necessary to ensure that any and all of the BUSINESS's teachers and other employees preserve good client relations; render competent, prompt, courteous, and knowledgeable service; and meet such minimum standards as we may establish from time to time in the Operations Manual or otherwise in writing. You and your employees shall handle all client

complaints, refunds, returns, and other adjustments in a manner that will not detract from the name and goodwill of the Marks, the System or us.

We reserve the right to approve or disapprove of any Designated Manager you appoint. If we disapprove of any Designated Manager you propose, you must promptly appoint a replacement Designated Manager satisfactory to us. If your relationship with a Designated Manager terminates for any reason, then you must promptly appoint a replacement Designated Manager that meets our approval. Even if you appoint a Designated Manager for day-to-day operations, you (or your Managing Owner) must remain active in overseeing the BUSINESS's ongoing business activities. If you (or your Managing Owner) own more than one Bricks 4 Kidz Business, then each such Bricks 4 Kidz Business must be under the full time, direct supervision of a Designated Manager we have approved and the supervision of you (or your Managing Owner).

You (or your Managing Owner) must keep us informed at all times of the identity of the Designated Manager, and ensure that such personnel are competent and proficient in their duties. You (or your Managing Owner) are solely responsible for all employment decisions for the BUSINESS, including hiring, firing, remuneration, personnel policies, training, benefits, and maintaining supervision and discipline, regardless of whether you received advice from us on any of these subjects.

#### **D. INSURANCE.**

During the Term you must maintain the following categories of insurance coverage, in force at your sole expense, all containing the minimum liability coverage we prescribe at any time and from time to time in the Operations Manual (unless otherwise indicated below):

- (1) Broad form comprehensive public liability, general liability, product liability, and contractual liability insurance against claims for bodily and personal injury, death and property damage caused by or occurring in connection with the BUSINESS's operation;
- (2) All risk or special form coverage for the BUSINESS against claims for bodily and personal injury, death and property damage caused by, or occurring in connection with, the BUSINESS's operation;
- (3) If any vehicle is used in connection with the operation of the BUSINESS, motor vehicle liability insurance against claims for bodily and personal injury, death and property damage caused by or occurring in connection with the BUSINESS's operation;
- (4) Worker's compensation and employer's liability insurance (in amounts authorized by statute), unemployment insurance and state disability insurance (as required by governing law) for your employees; and
- (5) Insurance coverage of such type, nature and scope sufficient to satisfy your indemnification obligations under Subsection 16.D below.

We may periodically increase the amounts of coverage required under these insurance policies and/or require different or additional insurance coverage (including reasonable excess liability insurance and employment practices liability insurance) at any time to reflect inflation,

identification of new risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances. Required coverage shall include insurers' waiver of subrogation against us and you shall waive rights of recovery against us.

These insurance policies must name us, any affiliates we designate, and the Indemnified Parties (as defined in Subsection 16.D below) as additional named insureds for claims arising from the BUSINESS's operation and provide for thirty (30) days' prior written notice to us of a policy's material modification, cancellation or expiration. These insurance policies must be primary to and without right of contribution from any other insurance policy purchased by us or any other Indemnified Party; must not limit or reduce coverage for you if there is a claim by us or any one or more of the other Indemnified Parties; and must extend to and provide indemnity for all of your indemnification obligations to us and the other Indemnified Parties under this Agreement. You agree not to reduce the policy limits, restrict coverage, cancel or otherwise alter or amend your insurance policies without our prior written consent. If there is a claim by us or any one or more of the other Indemnified Parties against you, you must, upon our request, assign to us all rights which you then have or thereafter may have with respect to the claim against the insurer(s) providing the coverages described above.

You must provide us with copies of your Certificates of Insurance or other evidence we require evidencing the required coverages no later than ten (10) days before you commence operations at your BUSINESS. You must furnish us, on an annual basis, copies of your Certificates of Insurance or other evidence we require of your maintaining this insurance coverage and paying premiums. You must furnish us the original policies evidencing all such insurance coverages within five (5) days of our written request. You agree to renew all policies and documents, and to furnish us copies of renewal Certificates of Insurance or other evidence we require of your maintaining this insurance coverage and paying premiums prior to the expiration date of the policy.

If you fail or refuse to obtain and maintain the insurance we specify, in addition to our other remedies, we may (but need not) obtain such insurance for you and the BUSINESS on your behalf, in which event you shall cooperate with us and reimburse us for all premiums, costs and expenses we incur in obtaining and maintaining the insurance, plus a reasonable fee for our time incurred in obtaining such insurance. If we obtain such insurance for you and the BUSINESS on your behalf, you must furnish all information necessary to obtain and maintain such insurance within fifteen (15) days of our request.

#### **E. PRICING.**

We reserve the right, to the fullest extent allowed by applicable law, to establish maximum, minimum, or other pricing requirements with respect to the prices you may charge for products and services. These rights may include (without limitation) prescribing the maximum and/or minimum retail prices which you may charge clients for the products and/or services offered by your BUSINESS; recommending retail prices; advertising specific retail prices for some or all products or services sold at your BUSINESS; to engage in marketing, promotional and related campaigns which you must participate in and which may directly or indirectly impact your retail prices; and, otherwise mandating, directly or indirectly, the maximum and/or minimum retail prices which your BUSINESS may charge the public for the products and services it offers. We may engage in any such activity either periodically or throughout the Term. Further, we may engage in such activity only in certain geographic areas (cities, states, regions) and not others, or

with regard to certain subsets of franchisees and not others. You acknowledge that the prices we prescribe or suggest may or may not optimize the revenues or profitability of your BUSINESS and you irrevocably waive any and all claims arising from the establishment or suggestion of your BUSINESS's retail prices.

**F. DISCOUNTS, GIVEAWAYS AND OTHER PROMOTIONS.**

You acknowledge and agree that periodic discounts, giveaways and other promotions are an integral part of the System. Therefore, you agree to offer and participate in such discounts, giveaways and other promotions at your sole cost and expense, in accordance with our specifications. You further agree to honor the discounts, giveaways and other promotions offered by other Bricks 4 Kidz Business franchise owners under any such program we establish, as long as such compliance does not contravene any applicable law, rule or regulation.

**G. COMPLIANCE WITH SYSTEM STANDARDS.**

You acknowledge and agree that operating and maintaining the BUSINESS according to System Standards are essential to preserve the goodwill of the Marks and all Bricks 4 Kidz Businesses. Therefore, you agree at all times to operate and maintain the BUSINESS according to all of our System Standards, as we periodically modify and supplement them, even if you believe that a System Standard, as originally issued or subsequently modified, is not in the System's or the BUSINESS's best interests. Although we retain the right to establish and periodically modify System Standards that you have agreed to maintain, you retain the right to and responsibility for the day-to-day management and operation of the BUSINESS and implementing and maintaining System Standards at the BUSINESS.

As examples, and without limitation, System Standards may regulate any one or more of the following, in addition to the items described in Subsections 8.A through 8.F above:

- (1) procedures, methods, and techniques for the Services, including lesson plans, model plans, and project kits;
- (2) purchasing and inventory requirements for Proprietary Products and other products and supplies so that the BUSINESS may operate at full capacity;
- (3) terms and conditions of the sale and delivery of, and terms and methods of payment for, Proprietary Products and other products and services that you obtain from us and affiliated and unaffiliated suppliers; and our and our affiliates' right not to sell you Proprietary Products, or other products or to provide you with services, or to do so only on a "cash-on-delivery" or other basis, if you are in default under any agreement with us;
- (4) sales, marketing, advertising, promotional and loyalty programs and materials and media, including social media, used in these programs ("social media" includes personal blogs, common social networks like Facebook, professional networks like LinkedIn, live-blogging tools like Twitter, virtual worlds, file, audio and videosharing sites, and other similar social networking or media sites or tools);
- (5) use and display of the Marks on uniforms, stationery, forms, products, and other supplies;

- (6) issuing and honoring gift certificates;
- (7) staffing levels for the BUSINESS; identifying the BUSINESS's personnel; and employee qualifications, training, dress, and appearance (although you have sole responsibility and authority concerning employee selection and promotion, hours worked, rates of pay and other benefits, work assigned, and working conditions);
- (8) days and hours of operation;
- (9) participation in market research and testing and product and service development programs and preparation of reports and other relevant information we may request regarding the market research, as well as participation in, and dues assessed for, advisory councils;
- (10) accepting credit and debit cards, other payment systems, and check verification services;
- (11) bookkeeping, accounting, data processing, and recordkeeping systems and forms; formats, content, and frequency of reports to us of sales, revenue, financial performance, and condition; and giving us copies of tax returns and other operating and financial information concerning the BUSINESS;
- (12) use of social media in connection with your BUSINESS's operation or otherwise referencing the System; and
- (13) any other aspects of operating and maintaining the BUSINESS that we determine to be useful to preserve or enhance the efficient operation, image, or goodwill of the Marks and Bricks 4 Kidz Businesses.

You agree that you are obligated to comply with all System Standards we prescribe in the Operations Manual, or otherwise communicate to you in writing or another tangible form during the Term (for example, via System extranet or Website), as we periodically modify them.

#### **H. MODIFICATION OF SYSTEM STANDARDS.**

We periodically may modify System Standards, which may accommodate regional or local variations, and these modifications may obligate you to invest additional capital in the BUSINESS and/or incur higher operating costs. You agree to implement any changes in System Standards within the time period we request, whether they involve buying new Proprietary Products or Operating Assets, adding new Services, or otherwise modifying the nature of your operations, as if they were part of this Agreement as of the Effective Date.

### **9. MARKETING.**

#### **A. GRAND OPENING ADVERTISING.**

You agree to spend a minimum of One Thousand Dollars (\$1,000) to advertise and promote the BUSINESS during a grand opening period beginning seven (7) days before the scheduled

opening of the BUSINESS and ending ninety (90) days after your BUSINESS commences operations. You agree to comply with our guidelines for this grand opening advertising program.

**B. ADVERTISING AND DEVELOPMENT FUND.**

Recognizing the value of advertising and marketing to the goodwill and public image of Bricks 4 Kidz Businesses, we have established an Advertising and Development Fund (the "Fund") for the advertising, marketing, and public relations programs and materials we deem appropriate. You agree to contribute to the Fund the amounts we require as set forth in Subsection 3.C above.

We have the right to collect for deposit into the Fund any advertising, marketing, or similar allowances paid to us by suppliers who deal with Bricks 4 Kidz Businesses and with whom we have agreed that we will so deposit these allowances. (These payments are different from those which are not designated by suppliers to be used exclusively for advertising or similar purposes, and which we and our affiliates therefore may use for any purposes we and they deem appropriate, as provided in Subsection 8.A above.)

We will direct all programs that the Fund finances, with sole control over the creative concepts, materials, and endorsements used and their geographic, market, and media placement and allocation. The Fund may pay for preparing and producing video, audio, and written materials and electronic media; developing, implementing, and maintaining an electronic commerce Website and/or related strategies; administering regional and multi-regional marketing and advertising programs, including, without limitation, purchasing trade journal, direct mail, and other media advertising and using advertising, promotion, and marketing agencies and other advisors to provide assistance; and supporting public relations, market research, and other advertising, promotion, and marketing activities.

We will account for the Fund separately from our other funds and not use the Fund for any of our general operating expenses. However, we may use the Fund to pay the reasonable salaries and benefits of personnel who manage and administer the Fund, the Fund's other administrative costs, travel expenses of personnel while they are on Fund business, meeting costs, overhead relating to Fund business, and other expenses that we incur in activities reasonably related to administering or directing the Fund and its programs, including, without limitation, conducting market research, public relations, preparing advertising, promotion, and marketing materials, and collecting and accounting for Fund contributions.

The Fund will not be our asset. Although the Fund is not a trust, we will hold all Fund contributions for the benefit of the contributors and use contributions only for the purposes described in this Subsection 9.B. We do not owe any fiduciary obligation to you for administering the Fund or any other reason. The Fund may spend in any fiscal year more or less than the total Fund contributions in that year, borrow from us or others (paying reasonable interest) to cover deficits, pay back outstanding principal amounts borrowed in prior years from us or third parties, or invest any surplus for future use. We will use all interest earned on Fund contributions to pay costs before using the Fund's other assets.

We will prepare an annual, unaudited statement of Fund collections and expenses and give you the statement upon written request. We reserve the right, in our sole determination, to have the Fund audited annually at the Fund's expense by an independent certified public accountant.



We may incorporate the Fund or operate it through a separate entity whenever we deem appropriate. The successor entity will have all of the rights and duties specified in this Subsection 9.B.

We intend the Fund to maximize recognition of the Marks and patronage of Bricks 4 Kidz Businesses. Although we will try to use the Fund to develop advertising and marketing materials and programs, and to place advertising and marketing, that will benefit all Bricks 4 Kidz Businesses, we need not ensure that Fund expenditures in or affecting any geographic area are proportionate or equivalent to Fund contributions by Bricks 4 Kidz Businesses operating in that geographic area or that any Bricks 4 Kidz Business benefits directly or in proportion to its Fund contribution from the development of advertising and marketing materials or the placement of advertising and marketing.

We have the right, but no obligation, to use collection agents and institute legal proceedings to collect Fund contributions at the Fund's expense. We also may forgive, waive, settle, and compromise all claims by or against the Fund. Except as expressly provided in this Subsection 9.B, we assume no direct or indirect liability or obligation to you for collecting amounts due to, maintaining, directing, or administering the Fund.

We may at any time defer or reduce contributions of a Bricks 4 Kidz Business franchise owner and, upon thirty (30) days' prior written notice to you, reduce or suspend Fund contributions and operations for one or more periods of any length and terminate (and, if terminated, reinstate) the Fund. If we terminate the Fund, we will distribute all unspent monies to our franchise owners, and to us and our affiliates, in proportion to their, and our, respective Fund contributions during the preceding twelve (12) month period.

C. **BY YOU.**

You agree to list and advertise the BUSINESS in at least one (1) online directory listing (e.g., Google or Yelp) as we designate or approve from time to time and at least one (1) recommended classified telephone directory distributed within the BUSINESS's market area (in the business classifications we prescribe at any time and from time to time) and to use an approved form of classified telephone directory advertisement. If other Bricks 4 Kidz Businesses are located within the directory's distribution area, we may require you to participate in a collective telephone directory advertisement with those other Bricks 4 Kidz Businesses and to pay your share of that collective advertisement.

In addition to your grand opening obligation in Subsection 9.A above and your Fund contribution obligations in Subsection 9.B above, you agree to spend at least two percent (2%) of the BUSINESS's Gross Sales per month on an ongoing basis to advertise and promote your BUSINESS (this may include the costs of yellow pages advertising). We may increase this required amount to a maximum of three percent (3%) of the BUSINESS's Gross Sales per month at our sole determination and upon notice to you. Within thirty (30) days after the end of each month, you agree to send us, in the manner we prescribe, an accounting of your expenditures for local advertising and promotion during the preceding month.

Your local advertising and promotion must follow our guidelines. All advertising and promotional materials that you develop for your BUSINESS must contain notices of our Website's

domain name in the manner we designate. You may not develop, maintain, or authorize any Website that mentions or describes you or the BUSINESS or displays any of the Marks without our prior written approval. You agree that your advertising, promotion, and marketing will be completely clear, factual, and not misleading and conform to both the highest standards of ethical advertising and marketing and the advertising and marketing policies that we prescribe at any time and from time to time.

Before you use them, you agree to send us or our designated agency for approval samples of all advertising, promotional, and marketing materials which we have not prepared or previously disapproved including, but not limited to, press releases and interviews for publication in any media. If you do not receive written approval within ten (10) days after we or our designated agency receives the materials, they are deemed to be disapproved. You may not use any advertising, promotional, or marketing materials that we have not approved or that we have (or were deemed) disapproved.

#### **10. RECORDS, REPORTS, AND FINANCIAL STATEMENTS.**

You agree to establish and maintain at your own expense a bookkeeping, accounting, and recordkeeping system conforming to the requirements and formats we prescribe at any time and from time to time. We may require you to use a Computer System to maintain certain sales data and other information and to report such information to us via a website or other means. We shall have independent access to the data when using the system from BFK FMS. You agree to give us in the manner and format that we prescribe at any time and from time to time:

- (a) On or before Wednesday of each week, a report on the BUSINESS's Gross Sales during the preceding week;
- (b) On or before the first (1<sup>st</sup>) day of each month, the BUSINESS's planned class and program schedule for the following sixty (60) days;
- (c) On or before the first (1<sup>st</sup>) day of each month, a report which includes the following: the BUSINESS's current class schedule, roster of clients and contact information for each class, locations and contact information where the BUSINESS is scheduled to perform the Services or performed the Services during the preceding month, class and program attendance records, client payment records, copies of any contracts entered into for the operation of the BUSINESS, and any other information we may require;
- (d) on or before the third (3<sup>rd</sup>) day of each month, a report on the BUSINESS's Gross Sales during the preceding month;
- (e) within thirty (30) days after the end of each calendar quarter, the operating statements, financial statements, statistical reports, purchase records, and other information we request regarding you and the BUSINESS covering the previous calendar quarter and the fiscal year to date, and you must certify these statements are true and correct;
- (f) within ninety (90) days following the end of each fiscal year during the Term, annual profit and loss and source and use of funds statements and a balance sheet for the BUSINESS as of the end of the prior calendar year;

(g) within thirty (30) days following your filing of tax returns for the BUSINESS, exact copies of federal and state income tax returns, sales tax returns, and any other forms, records, books, and other information we periodically require relating to the BUSINESS and the Franchise.

You agree to verify and sign each report and financial statement in the manner we prescribe. We may disclose data derived from these reports, although we will not without your consent (unless required by law) disclose your identity in any materials that we circulate publicly. Moreover, we may, as often as we deem appropriate (including on a daily basis), access the Computer System and retrieve all information relating to the BUSINESS's operation.

You agree to preserve and maintain all records in a secure location at the Office for at least three (3) years (including, but not limited to, sales checks, purchase orders, invoices, payroll records, client lists, check stubs, sales tax records and returns, cash receipts and disbursement journals, and general ledgers). We may require you to have audited financial statements prepared annually during the Term.

## **11. INSPECTIONS AND AUDITS.**

### **A. OUR RIGHT TO INSPECT THE BUSINESS.**

To determine whether you and the BUSINESS are complying with this Agreement and all System Standards, we and our designated agents or representatives may at all times and without prior notice to you: (1) attend and inspect the programs and classes conducted by the BUSINESS; (2) inspect, observe, photograph and videotape the programs and classes conducted by the BUSINESS and the BUSINESS's operation for consecutive or intermittent periods we deem necessary; (3) remove samples of any products and supplies; (4) interview the BUSINESS's personnel and clients; and (5) inspect and copy any books, records, and documents relating to the BUSINESS's operation. You agree to cooperate with us fully. If we exercise any of these rights, we will not interfere unreasonably with the BUSINESS's operation. You acknowledge that any evaluation or inspection that we or our designated agents or representatives conduct is conducted in order to protect our interests in the System and Marks and is not intended to exercise, and does not constitute, in whole or in part, control over the day-to-day operation of the BUSINESS and you agree to never contend otherwise.

### **B. OUR RIGHT TO AUDIT.**

We may at any time during your business hours, and without prior notice to you, examine your (if you are an Entity) and the BUSINESS's business, bookkeeping, and accounting records, sales and income tax records and returns, and other records. You agree to cooperate fully with our representatives and independent accountants in any examination. If any examination discloses an understatement of any amounts owed to us under this Agreement, you agree to pay us, within fifteen (15) days after receiving the examination report, the amount of the understatement, plus our service charges and interest (to be calculated as set forth in Subsection 3.E above) on the understated amounts from the date originally due until the date of payment. Furthermore, if an examination is necessary due to your failure to furnish reports, supporting records, or other information as required, or to furnish these items on a timely basis, you agree to reimburse us for the costs of the examination, including, without limitation, the charges of attorneys and

independent accountants and the travel expenses, room and board, and compensation of our employees. These remedies are in addition to our other remedies and rights under this Agreement and applicable law.

## **12. TRANSFER.**

### **A. BY US.**

You acknowledge that we maintain a staff to manage and operate the System and that staff members can change as employees come and go. You represent that you have not signed this Agreement in reliance on any particular shareholder, director, officer, member or employee remaining with us in that capacity. We may change our ownership or form and/or assign this Agreement or any interest therein and any other agreement to a third party without restriction or notice to you. After our assignment of this Agreement to a third party who expressly assumes the obligations under this Agreement, we no longer will have any performance or other obligations under this Agreement.

### **B. BY YOU.**

You understand and acknowledge that the rights and duties this Agreement creates are personal to you (or, if you are an Entity, to your owners) and that we have granted you the Franchise in reliance upon our perceptions of your (or your owners') individual or collective character, skill, aptitude, attitude, business ability, and financial capacity. Accordingly, none of the following may be transferred without our prior written approval: (i) this Agreement (or any interest in this Agreement); (ii) the BUSINESS (or any right to receive all or a portion of the BUSINESS's profits or losses or capital appreciation related to the BUSINESS); (iii) all or substantially all of the assets of the BUSINESS; (iv) any ownership interest in you (regardless of its size); or (v) any ownership interest in any of your owners (if such owners are legal entities). A transfer of the BUSINESS's ownership, possession, or control, or substantially all of its assets, may be made only with a transfer of this Agreement. Any transfer without our approval is a breach of this Agreement and has no effect.

In this Agreement, the term "transfer" includes a voluntary, involuntary, direct, or indirect assignment, sale, gift, or other disposition. An assignment, sale, gift, or other disposition includes the following events:

- (a) transfer of ownership of capital stock, a partnership or membership interest, or another form of ownership interest;
- (b) merger or consolidation or issuance of additional securities or other forms of ownership interest;
- (c) any sale of a security convertible to an ownership interest;
- (d) transfer of an interest in you, this Agreement, the BUSINESS or all or substantially all of its assets, or your owners in a divorce, insolvency, or entity dissolution proceeding or otherwise by operation of law;

(e) if you, one of your owners, or an owner of one of your owners dies, a transfer of an interest in you, this Agreement, the BUSINESS or substantially all of its assets, or your owner by will, declaration of or transfer in trust, or under the laws of intestate succession; or

(f) pledge of this Agreement (to someone other than us) or of an ownership interest in you or your owners as security, foreclosure upon the BUSINESS, or your transfer, surrender, or loss of the BUSINESS's possession, control, or management. You may grant a security interest (including a purchase money security interest) in the BUSINESS's assets (not including this Agreement) to a lender that finances your acquisition, development, and/or operation of the BUSINESS without having to obtain our prior written approval as long as you give us ten (10) days' prior written notice.

C. **CONDITIONS FOR APPROVAL OF TRANSFER.**

If you (and your owners) are fully complying with this Agreement, then, subject to the other provisions of this Section 12, we will approve a transfer that meets all of the requirements in this Subsection 12.C.

If you are an entity, your owners may transfer a non-controlling ownership interest in you or your owners (determined as of the date on which the proposed transfer will occur) if: (i) the proposed transferee and its direct and indirect owners (if the transferee is an Entity) are of good character and otherwise meet our then applicable standards for Bricks 4 Kidz Business franchise owners (including no ownership interest in or performance of services for a Competitive Business); (ii) you give us prior written notice of the transfer at least thirty (30) days before the proposed transfer, and later provide us final documentation of the consummated transfer; and (iii) you reimburse us, upon our demand at any time, for any costs we incur in connection with the proposed transfer (regardless of whether the proposed transfer actually transpires).

For any other proposed transfer (including a transfer of this Agreement, a transfer of a controlling ownership interest in you or one of your owners, or a transfer that is one of a series of transfers (regardless of the time period over which these transfers take place) which in the aggregate transfer this Agreement or a controlling ownership interest in you or one of your owners), all of the following conditions must be met before or concurrently with the effective date of the transfer:

(1) the transferee has sufficient business experience, aptitude, and financial resources to operate the BUSINESS and passes a background check to our satisfaction;

(2) you have paid all Royalties, Fund contributions and other amounts owed to us, our affiliates, and third party vendors; have submitted all required reports and statements; and have not violated any provision of this Agreement or any other agreement with us during both the sixty (60) day period before you requested our consent to the transfer and the period between your request and the effective date of the transfer;

(3) neither the transferee nor its owners (if the transferee is an Entity) or affiliates have an ownership interest (direct or indirect) in or perform services for a Competitive Business;

(4) the transferee (or its managing owner) satisfactorily completes our training program;

(5) the transferee shall (if the transfer is of this Agreement), or you shall (if the transfer is of a controlling ownership interest in you or one of your owners), sign our then current form of franchise agreement and related documents (including, without limitation, our then current form of Nondisclosure and Non-Competition Agreement and our then current form of Guaranty and Assumption of Obligations, if applicable), any and all of the provisions of which may differ materially from any and all of those contained in this Agreement, including the Royalty and the Fund contributions, provided, however, that the execution of the new franchise agreement will terminate this Agreement (except for your guarantees, the post-termination obligations under this Agreement, and all other rights and obligations that survive termination or expiration of this Agreement), and the term of the new franchise agreement signed will expire on the expiration of this Agreement, unless we and the transferee otherwise agree in writing;

(6) you or the transferee pays us a transfer fee equal to Five Thousand Dollars (\$5,000);

(7) you (and your transferring owners) sign a general release, in a form satisfactory to us, of any and all claims against us and our shareholders, officers, directors, members, employees, and agents;

(8) we have determined that the purchase price and payment terms will not adversely affect the transferee's operation of the BUSINESS;

(9) if you or your owners finance any part of the purchase price, you and/or your owners agree that all of the transferee's obligations under promissory notes, agreements, or security interests reserved in the BUSINESS are subordinate to the transferee's obligation to pay Royalties, Fund contributions, and other amounts due to us, our affiliates, and third party vendors and otherwise to comply with this Agreement;

(10) (a) you have corrected any existing deficiencies of the BUSINESS of which we have notified in any communications and/or (b) the transferee agrees (regardless of cost) to add or replace Services, vehicles used by the BUSINESS, Operating Assets and/or Proprietary Products, and otherwise modify the BUSINESS in accordance with our then current requirements and specifications for Bricks 4 Kidz Businesses within the time period we specify following the effective date of the transfer (we will advise the transferee before the effective date of the transfer of the specific actions that it must take and the time period within which such actions must be taken);

(11) you and your transferring owners (and your and your owners' spouses) will not, for two (2) years beginning on the transfer's effective date, engage in any of the activities proscribed in Subsection 15.D below; and

(12) you and your transferring owners will not directly or indirectly at any time or in any manner (except with respect to other Bricks 4 Kidz Businesses you own and operate) identify yourself or themselves or any business as a current or former Bricks 4 Kidz Business or as one of our franchise owners; use any Mark, any colorable imitation of

a Mark, or other indicia of a Bricks 4 Kidz Business in any manner or for any purpose; or utilize for any purpose any trade name, trade or service mark, or other commercial symbol that suggests or indicates a connection or association with us.

We may review all information regarding the BUSINESS that you give the transferee, correct any information that we believe is inaccurate, and give the transferee copies of any reports that you have given us or we have made regarding the BUSINESS. In addition, you agree to reimburse us, upon our demand at any time before or after the intended effective date of the proposed transfer, for any costs we incur in connection with any proposed transfer that is subject to the immediately preceding conditions (1) through (12), regardless of whether the proposed transfer actually transpires.

D. **TRANSFER TO A WHOLLY-OWNED CORPORATION OR LIMITED LIABILITY COMPANY.**

Despite Subsection 12.C above, if you are fully complying with this Agreement, you may transfer this Agreement to a corporation or limited liability company which conducts no business other than the BUSINESS and, if applicable, other Bricks 4 Kidz Businesses, in which you maintain management control, and of which you own and control one hundred percent (100%) of the equity and voting power of all issued and outstanding ownership interests, provided that all of the BUSINESS's assets are owned, and the BUSINESS's business is conducted, only by that single corporation or limited liability company. The corporation or limited liability company must expressly assume all of your obligations under this Agreement. Transfers of ownership interests in the corporation or limited liability company are subject to the conditions of Subsection 12.C above that otherwise apply to non-controlling transfers. You agree to remain personally liable under this Agreement as if the transfer to the corporation or limited liability company did not occur.

E. **YOUR DEATH OR DISABILITY.**

(1) **Transfer Upon Death or Disability.** Upon your or your Managing Owner's death or disability, your or the Managing Owner's executor, administrator, conservator, guardian, or other personal representative must transfer your interest in this Agreement, or the Managing Owner's ownership interest in you, to a third party (which may be your or the Managing Owner's heirs, beneficiaries, or devisees). That transfer must be completed within a reasonable time, not to exceed six (6) months from the date of death or disability, and is subject to all of the terms and conditions in this Section 12. A failure to transfer your interest in this Agreement or the Managing Owner's ownership interest in you within this time period is a breach of this Agreement.

The term "disability" means a mental or physical disability, impairment, or condition that is reasonably expected to prevent or actually does prevent you or the Managing Owner from supervising the BUSINESS's management and operation.

(2) **Operation Upon Death or Disability.** Upon your or the Managing Owner's death or disability, your or the Managing Owner's executor, administrator, conservator, guardian, or other personal representative must within a reasonable time, not to exceed fifteen (15) days from the date of death or disability, appoint a manager. The manager must complete our standard training program at your expense. A new Managing

Owner acceptable to us also must be appointed for the BUSINESS, and that new Managing Owner must complete our standard training program, within sixty (60) days after the date of death or disability.

If, in our judgment, the BUSINESS is not being managed properly any time after your or the Managing Owner's death or disability, we may, but need not, assume the BUSINESS's management (or appoint a third party to assume its management). All funds from the BUSINESS's operation while it is under our (or the third party's) management will be kept in a separate account, and all expenses will be charged to this account. We may charge you (in addition to the Royalty, Fund contributions, and other amounts due under this Agreement) Three Hundred Dollars (\$300) per day, plus our (or the third party's) direct out-of-pocket costs and expenses, if we (or a third party) assume the BUSINESS's management under this subparagraph. We (or a third party) have a duty to utilize only reasonable efforts and will not be liable to you or your owners for any debts, losses, or obligations the BUSINESS incurs, or to any of your creditors for any products, other assets, or services the BUSINESS purchases, while we (or a third party) manage it.

**F. EFFECT OF CONSENT TO TRANSFER.**

Our consent to a transfer of this Agreement and the BUSINESS, or any interest in you or your owners, is not a representation of the fairness of the terms of any contract between you and the transferee, a guarantee of the BUSINESS's or transferee's prospects of success, or a waiver or release of any claims we have against you (or your owners) or of our right to demand the transferee's full compliance with this Agreement.

**G. OUR RIGHT OF FIRST REFUSAL.**

If you (or any of your owners) at any time determine to sell or transfer for consideration an interest in this Agreement and the BUSINESS, or an ownership interest in you (except to or among your current owners, which is not subject to this Subsection 12.G), in a transaction that otherwise would be allowed under Subsections 12.B and C above, you (or your owners) agree to obtain from a responsible and fully disclosed buyer, and send us, a true and complete copy of a bona fide, executed written offer (which may include a letter of intent) relating exclusively to an interest in you or in this Agreement and the BUSINESS. The offer must include details of the payment terms of the proposed sale and the sources and terms of any financing for the proposed purchase price. To be a valid, bona fide offer, the proposed purchase price must be in a dollar amount, and the proposed buyer must submit with its offer an earnest money deposit equal to five percent (5%) or more of the offering price.

The right of first refusal process will not be triggered by a proposed transfer that would not be allowed under Subsections 12.B and C above. We may require you (or your owners) to send us copies of any materials or information sent to the proposed buyer or transferee regarding the possible transaction.

We may, by written notice delivered to you or your selling owner(s) within thirty (30) days after we receive both an exact copy of the offer and all other information we request, elect to purchase the interest offered for the price and on the terms and conditions contained in the offer, provided that:



(1) we may substitute cash for any form of payment proposed in the offer (such as ownership interests in a privately-held entity);

(2) our credit will be deemed equal to the credit of any proposed buyer (meaning that, if the proposed consideration includes promissory notes, we or our designee may provide promissory notes with the same terms as those offered by the proposed buyer);

(3) we will have an additional thirty (30) days to prepare for closing after notifying you of our election to purchase; and

(4) we must receive, and you and your owners agree to make, all customary representations and warranties given by the seller of the assets of a business or the ownership interests in a legal entity, as applicable, including, without limitation, representations and warranties regarding: (a) ownership and condition of and title to ownership interests and/or assets; (b) liens and encumbrances relating to ownership interests and/or assets; and (c) validity of contracts and the liabilities, contingent or otherwise, of the entity whose assets or ownership interests are being purchased.

If we exercise our right of first refusal, you and your selling owner(s) agree that, for two (2) years beginning on the closing date, you and they will be bound by the non-competition and non-solicitation covenants contained in Subsection 15.D below. We have the unrestricted right to assign this right of first refusal to a third party, who then will have the rights described in this Subsection 12.G.

If we do not exercise our right of first refusal, you or your owners may complete the sale to the proposed buyer on the original offer's terms, but only if we otherwise approve the transfer in accordance with, and you (and your owners) and the transferee comply with the conditions in, Subsections 12.B and C above. This means that, even if we do not exercise our right of first refusal (whether or not it is properly triggered as provided above), if the proposed transfer otherwise would not be allowed under Subsections 12.B and C above, you (or your owners) may not move forward with the transfer at all.

If you do not complete the sale to the proposed buyer within sixty (60) days after we notify you that we do not intend to exercise our right of first refusal, or if there is a material change in the terms of the sale (which you agree to tell us promptly), we or our designee will have an additional right of first refusal during the thirty (30) day period following either the expiration of the sixty (60) day period or our receipt of notice of the material change(s) in the sale's terms, either on the terms originally offered or the modified terms, at our or our designee's option.

### **13. EXPIRATION OF THIS AGREEMENT.**

#### **A. YOUR RIGHT TO ACQUIRE A SUCCESSOR FRANCHISE.**

If you meet certain conditions, then you will have the option to acquire an additional successor Renewal Term. The Renewal Term will be ten (10) years in duration with a five (5) year right to terminate from the Effective Date of the Renewal Agreement without any penalty. The qualifications and conditions for the Renewal Term are described below.

When this Agreement expires:

(1) if you (and each of your owners) have substantially complied with this Agreement during the Term; and

(2) if you (and each of your owners) are, both on the date you give us written notice of your election to acquire a successor franchise (as provided in Subsection 13.B below) and on the date on which the Renewal Term of the successor franchise would commence, in full compliance with this Agreement and all System Standards; and

(3) provided you agree (regardless of cost) to add or replace Services, vehicles used by the BUSINESS, Operating Assets and/or Proprietary Products, and otherwise modify the BUSINESS as we require to comply with System Standards then applicable for new Bricks 4 Kidz Businesses,

then you have the option to acquire a Renewal Term of ten (10) years commencing immediately upon the expiration of this Agreement with a five (5) year right to terminate from the Effective Date of the Renewal Agreement without any penalty, if you comply with our terms and conditions of renewal under this Agreement. You agree to sign the form of franchise agreement we then use to grant franchises for Bricks 4 Kidz Businesses (modified as necessary to reflect the fact that it is for a successor franchise), which may contain provisions that differ materially from any and all of those contained in this Agreement (the "Successor Franchise Agreement"). You must pay us a renewal fee of Five Thousand Dollars (\$5,000) upon signing the Successor Franchise Agreement in connection with your purchase of a successor Franchise for the Renewal Term.

If you (and each of your owners) are not, both on the date you give us written notice of your election to acquire a successor franchise and on the date on which the Renewal Term commences, in full compliance with this Agreement and all System Standards, then you acknowledge that we need not grant you a successor franchise, whether or not we had, or chose to exercise, the right to terminate this Agreement during the Term under Subsection 14.A

**B. GRANT OF A SUCCESSOR FRANCHISE.**

You agree to give us written notice of your election to acquire a successor franchise no more than two hundred twenty (220) days and no less than one hundred eighty (180) days before this Agreement expires. We agree to give you written notice of our decision ("Our Notice"):

(1) to grant you a successor franchise;

(2) to grant you a successor franchise on the condition that you correct existing deficiencies in your operation of the BUSINESS; or

(3) not to grant you a successor franchise based on our determination that you and your owners have not substantially complied with this Agreement during the Term or were not in full compliance with this Agreement and all System Standards on the date you gave us written notice of your election to acquire a successor franchise.

If applicable, Our Notice will:

(a) describe the remodeling, expansion, improvements, and/or modifications required to bring the BUSINESS into compliance with then applicable System Standards for new Bricks 4 Kidz Businesses; and

(b) state the actions you must take to correct operating deficiencies and the time period in which you must correct these deficiencies.

If we elect not to grant you a successor franchise, Our Notice will describe the reasons for our decision. If we elect to grant you a successor franchise, your right to acquire a successor franchise is subject to your full compliance with all of the terms and conditions of this Agreement through the date of its expiration, in addition to your compliance with the obligations described in Our Notice.

If Our Notice states that you must cure certain deficiencies in the BUSINESS's operation as a condition to our granting you a successor franchise, we will give you written notice of our decision not to grant a successor franchise, based upon your failure to cure those deficiencies. If you fail to notify us of your election to acquire a successor franchise within the prescribed time period, we need not grant you a successor franchise.

#### C. **AGREEMENTS/RELEASES.**

If you satisfy all of the other conditions for a successor franchise, you and your owners agree to execute the Successor Franchise Agreement and any ancillary agreements we then customarily use in granting franchises for Bricks 4 Kidz Businesses (modified as necessary to reflect the fact that it is for a successor franchise), which may contain provisions that differ materially from any and all of those contained in this Agreement. You and your owners further agree to sign our current form of general release of any and all claims against us and our affiliates, shareholders, officers, directors, members, employees, agents, successors, and assigns. We will consider your or your owners' failure to sign these agreements and releases and to deliver them to us for acceptance and execution within thirty (30) days prior to the expiration of this Agreement to be an election by you not to acquire a successor franchise.

### **14. TERMINATION OF AGREEMENT.**

#### A. **BY US.**

We may terminate this Agreement, effective upon delivery of written notice of termination to you, if:

(1) you (or any of your owners) have made or make any material misrepresentation or omission in acquiring the Franchise or operating the BUSINESS;

(2) you do not begin operating the BUSINESS within ninety (90) days after the Effective Date;

(3) you (or your Managing Owner) and the Designated Manager do not satisfactorily complete the initial training program or you do not successfully complete all activities of the on-site support period to our satisfaction within ninety (90) days of completion of the initial training program;

(4) you abandon or fail actively to operate the BUSINESS for fourteen (14) or more consecutive days, unless you close the BUSINESS for a purpose we approve or because of casualty or government order;

(5) you (or your owners) make or attempt to make any transfer in violation of Section 12;

(6) you (or any of your owners) are or have been convicted by a trial court of, or plead or have pleaded no contest to, a felony, crime or other offense involving moral turpitude, child endangerment, or any other crime or offense which we reasonably believe adversely affects the System's reputation or the goodwill associated with the Marks;

(7) you fail to maintain the insurance we require and do not correct the failure within ten (10) days after we deliver written notice of that failure to you;

(8) you (or any of your owners) engage in any dishonest or unethical conduct which, in our opinion, adversely affects the BUSINESS's reputation or the goodwill associated with the Marks;

(9) you make any representation or warranty on our behalf that has not been specifically authorized in writing by us;

(10) you (or any of your owners) knowingly make any unauthorized use or disclosure of any part of the Operations Manual or any other Confidential Information;

(11) you violate any safety or sanitation law, ordinance, or regulation regulating the operation of the BUSINESS, or operate the BUSINESS in an unsafe manner, and do not begin to cure the violation immediately, and correct the violation within seventy-two (72) hours, after you receive notice from us or any other party;

(12) you fail to pay us (or our affiliates) any amounts due and you do not correct the failure within ten (10) days after we deliver written notice of that failure to you;

(13) you interfere with our right to attend and inspect the programs and classes conducted by the BUSINESS, or to inspect, observe, photograph and videotape the BUSINESS's operation, as provided in Section 11;

(14) you fail to pay when due any amounts owed to clients, Bricks 4 Kidz Business franchise owners or third parties;

(15) you fail to pay when due any federal or state income, service, sales, or other taxes due on the BUSINESS's operation, unless you are in good faith contesting your liability for these taxes;

(16) you (or any of your owners) fail on two (2) or more separate occasions within any twelve (12) consecutive month period to comply with this Agreement, whether or not we notify you of the failures, and, if we do notify you of the failures, whether or not you correct the failures after our delivery of notice to you;

(17) you make an assignment for the benefit of creditors or admit in writing your insolvency or inability to pay your debts generally as they become due; you consent to the appointment of a receiver, trustee, or liquidator of all or the substantial part of your property; the BUSINESS is attached, seized, subjected to a writ or distress warrant, or levied upon, unless the attachment, seizure, writ, warrant, or levy is vacated within thirty (30) days; or any order appointing a receiver, trustee, or liquidator of you or the BUSINESS is not vacated within thirty (30) days following the order's entry;

(18) your or any of your owners' assets, property, or interests are blocked under any law, ordinance, or regulation relating to terrorist activities, or you or any of your owners otherwise violate any such law, ordinance, or regulation;

(19) you knowingly maintain false books or records, or submit any false reports to us;

(20) you refuse to permit us to inspect the BUSINESS's books, records, or accounts upon request;

(21) we (or any of our owners or affiliates) terminate any other agreement between you (or any of your owners or affiliates) and us (or any of our owners or affiliates) due to your (or any of your owners' or affiliates') failure to comply with the terms of such agreement; or

(22) you (or any of your owners) fail to comply with any other provision of this Agreement or any System Standard and do not correct the failure within thirty (30) days after we deliver written notice of the failure to you.

**B. OUR ALTERNATE REMEDIES UPON YOUR DEFAULT.**

In addition to, and without limiting, our other rights and remedies under this Agreement, any other agreement or applicable law, upon the occurrence of any event giving rise to our right to terminate this Agreement under the preceding Subsection 14.A, we may instead elect, at our sole option and upon providing you written notice, to take any or all of the following actions without terminating this Agreement:

(1) temporarily or permanently reduce the size of the Territory, in which case the restrictions on us or our affiliates under Section 1 above will not apply in any geographic area removed from the preceding territorial boundaries;

(2) temporarily remove information concerning the BUSINESS from any Website or extranet operated for the network of Bricks 4 Kidz Businesses, and/or restrict your or the BUSINESS's participation in other programs or benefits offered on or through any such Website or extranet;

(3) suspend your and the BUSINESS's right to participate in any advertising, marketing, promotional, or public relations programs that we or the Fund provide, authorize, or administer; or

(4) assume, or appoint a third party to assume, management of the BUSINESS in the manner provided in Subsection 14.E below.

**C. CROSS DEFAULT.**

Any default or breach by you (or any of your owners), or your affiliate (or any of your owner's affiliates) of any other agreement with us or our affiliate will be considered an event of default under this Agreement, and any default or breach by you (or any of your owners) of this Agreement will be considered an event of default or breach by you under any and all agreements between us or our affiliate and you (or any of your owners), or your affiliate (or any of your owner's affiliates). If the nature of the default under any other agreement would have been considered an event of default under this Agreement, then we or our affiliate will have the right to terminate all other agreements between us or our affiliate and you (or any of your owners), or your affiliate (or any of your owner's affiliates) in accordance with the termination provisions of this Agreement.

**D. FAILURE TO CURE MAY BE DEEMED TERMINATION BY YOU.**

Your failure to cure timely any breach by you of this Agreement about which we have provided you notice (and opportunity to cure, if applicable) pursuant to Subsection 14.A above, including but not limited to your failure to pay overdue Royalties, Fund contributions, or any other amounts due and owing to us or our affiliates under this Agreement, may be irrevocably deemed a unilateral rejection and termination by you of this Agreement and all related agreements between you and us or our affiliates, even if we ultimately issue a formal notice of such termination, and you shall never contend or complain otherwise.

**E. ASSUMPTION OF MANAGEMENT.**

We have the right (but not the obligation), under the circumstances described below, to assume the BUSINESS's management (or to appoint a third party to assume its management) for any period of time we deem appropriate. If we (or a third party) assume the BUSINESS's management under subparagraphs (1) and (2) below, you agree to pay us (in addition to the Royalty, Fund contributions, and other amounts due under this Agreement) Three Hundred Dollars (\$300) per day, plus our (or the third party's) direct out-of-pocket costs and expenses, if we (or a third party) assume the BUSINESS's management under this subparagraph.

If we (or a third party) assume the BUSINESS's management, you acknowledge that we (or the third party) will have a duty to utilize only reasonable efforts and will not be liable to you or your owners for any debts, losses, or obligations the BUSINESS incurs, or to any of your creditors for any supplies, products, or other assets or services the BUSINESS purchases, while we (or the third party) manage it.

We (or a third party) may assume the BUSINESS's management under the following circumstances: (1) if you abandon or fail actively to operate the BUSINESS; (2) if you fail to comply with any provision of this Agreement or any System Standard and do not cure the failure within the time period we specify in our notice to you; or (3) if this Agreement expires or is terminated and we are deciding whether to exercise our option to purchase the BUSINESS under Subsection 15.E below.

Any exercise of our rights under subparagraphs (1) or (2) above in this Subsection 14.E will not affect our right to terminate this Agreement under Subsection 14.A above.

F. **EARLY TERMINATION FEE.**

Commencing on the second (2<sup>nd</sup>) anniversary of the date the BUSINESS commences operations and at any time thereafter during the Term, you will have the option to terminate this Agreement subject to the conditions set forth herein. Upon such termination, you will compensate us by paying us, as liquidated damages but not as a penalty, an early termination fee equal to one hundred percent (100%) of the total remaining Royalty payments for the initial term of this Agreement, and you must provide us a signed release of claims in a form we prescribe. Such termination under this Subsection 14.F will be subject to this Agreement's provisions relating to your obligations upon termination or expiration of this Agreement.

CLIENTS ARE RESPONSIBLE FOR RETURNING ALL SUPPLIES

**15. OUR AND YOUR RIGHTS AND OBLIGATIONS UPON TERMINATION OR EXPIRATION OF THIS AGREEMENT.**

A. **PAYMENT OF AMOUNTS OWED TO US.**

(1) You agree to pay us within fifteen (15) days after this Agreement expires or is terminated, or on any later date that we determine the amounts due to us, the Royalties, Fund contributions, interest, and all other amounts owed to us (and our affiliates) which then are unpaid. You agree we may collect funds from third parties owed to the BUSINESS to offset any amounts due to us. We will remit any remaining proceeds to you after all amounts due to us have been paid in full.

(2) Your foregoing payment obligation arising under Subsection (1) above will give rise to, and remain until paid in full, a lien in our favor: (i) against any and all assets, property, equipment, signs and inventory owned by you or the BUSINESS at the time of termination or expiration; and (ii) against any payment obligation you may allege we have to you, any of your money we are holding, or any other amounts of yours which are otherwise in our possession on or after the effective date of termination or expiration. Our rights and your obligations under this Subsection 15.A shall survive termination or expiration of this Agreement until they are satisfied or later expire by their terms.

B. **MARKS.**

When this Agreement expires or is terminated:

(1) you may not directly or indirectly at any time or in any manner (except with other Bricks 4 Kidz Businesses you own and operate) identify yourself or any business as a current or former Bricks 4 Kidz Business or as one of our current or former franchise owners; use any Mark, any colorable imitation of a Mark, or other indicia of a Bricks 4 Kidz Business in any manner or for any purpose; or use for any purpose any trade name, trade or service mark, or other commercial symbol that indicates or suggests a connection or association with us;

(2) you agree to discontinue the use of any Website and social media used in connection with the BUSINESS or otherwise referring to the Marks or Bricks 4 Kidz Businesses;

(3) you agree, at your expense, to take the action required to cancel all fictitious or assumed name or equivalent registrations relating to your use of any Mark;

(4) you agree, at your expense, to deliver to us within five (5) days all signs, marketing materials, forms, and other materials containing any Mark or otherwise identifying or relating to a Bricks 4 Kidz Business that we request and allow us, without liability to you or third parties for trespass or any other claim, to enter the Office and remove these items from the BUSINESS;

(5) you agree to notify within five (5) days the telephone company, all telephone directory publishers and all online listings (e.g., Google and Yelp) of the termination or expiration of your right to use any telephone, facsimile, or other numbers, telephone directory listings, and email addresses associated with any Mark; to authorize the transfer of these numbers and directory listings to us or at our direction; and/or to instruct the telephone company to forward all calls made to your numbers to numbers we specify. If you fail to do so, we may take whatever action and sign whatever documents we deem appropriate on your behalf to effect these events; and

(6) you agree to give us, within thirty (30) days after the expiration or termination of this Agreement, evidence satisfactory to us of your compliance with these obligations.

(7) YOU AGREE TO RETURN TO US ALL PROJECT KITS and equipment that was included with the original purchase of the business.

C. **CONFIDENTIAL INFORMATION.**

You agree that, when this Agreement expires or is terminated, (1) you will immediately cease using any of our Confidential Information (including computer software or similar technology and digital passwords and identifications that we have licensed to you or that otherwise are proprietary to us or the System) in any business or otherwise; (2) return to us all copies of the Operations Manual and any other confidential materials that we have provided you for your use during the Term; and (3) immediately deliver to us all training or other manuals furnished to you (including the Operations Manual and any supplements to the Operations Manual), computer software and database material, client lists, records and files, documents, instructions, display items, advertising and promotional material, any and all materials, signs and related items which bear our Marks or slogans and insignias and designs, advertising contracts, forms and other materials or property of ours, and any copies of them in your possession which relate to the operation of the BUSINESS. You may retain no copy or record of any of these items, except for your copy of this Agreement, any correspondence between the parties and any other documents which you reasonably need for compliance with any provision of law. You agree that the foregoing items, materials, client lists, files, software and other similar items are at all times considered to be our property for all purposes.



D. **COVENANT NOT TO COMPETE AND NOT TO SOLICIT.**

- (1) Upon
- (a) our or your termination of this Agreement according to its terms and conditions,
  - (b) your termination of this Agreement without cause, or
  - (c) expiration of this Agreement (if we offer, but you elect not to acquire, a successor franchise, or if we do not offer you a successor franchise due to your failure to satisfy the conditions for a successor franchise set forth in Section 13),

you and your owners agree that, for two (2) years beginning on the effective date of termination or expiration of this Agreement, whichever is later, neither you nor any of your owners will have any direct or indirect interest (e.g., through a spouse) as an owner (whether of record, beneficially, or otherwise), investor, partner, director, officer, employee, consultant, representative, or agent in any Competitive Business (as defined in Section 7 above) located or

operating:

- (i) within the Territory;
- (ii) within a twenty-five (25) mile radius of the Territory; or
- (iii) within the territory of any other Bricks 4 Kidz Business in operation or in the process of opening on the later of the effective date of the termination or expiration of this Agreement or the date on which all persons restricted by this Subsection 15.D begin to comply with this Subsection 15.D.

(2) During the Term and for two (2) years beginning on the effective date of termination or expiration of this Agreement, whichever is later, neither you, any of your owners, nor any of your or your owners' spouses will employ or seek to employ any individual who is, or within six (6) months of such employment or solicitation was, employed by us, our affiliate or any Bricks 4 Kidz Business owner or location, or otherwise directly or indirectly induce or attempt to induce any such individual to leave that employment, without our or the prior employer's prior written consent. Notwithstanding anything to the contrary in this Agreement and in addition to our other remedies, you must pay us our then current solicitation fee for violation of this subparagraph, which obligation shall survive termination or expiration of this Agreement.

(3) The restrictions above in this Subsection 15.D also apply after transfers, as provided in Section 12.C(11) above. If any person restricted by this Subsection 15.D refuses voluntarily to comply with these obligations, the two (2) year period for that person will commence with the entry of a court order enforcing this provision. The two (2) year period will be tolled, if applicable, for the period during which a restricted person is in breach of this Subsection 15.D and will resume when that person begins or resumes

compliance. You and your owners expressly acknowledge that you possess skills and abilities of a general nature and have other opportunities for exploiting these skills. Consequently, our enforcing the covenants made in this Subsection 15.D will not deprive you of your personal goodwill or ability to earn a living.

**E. OUR RIGHT TO PURCHASE CERTAIN ASSETS OF THE BUSINESS.**

Upon either party's termination of this Agreement, or upon expiration of this Agreement without renewal, we shall have the right and option, but not the obligation, to purchase some or all of the assets of the BUSINESS, including, without limitation, the Operating Assets at a purchase price equal to its then current book value determined using the straight-line method of depreciation. If we elect to exercise this option, we will deliver written notice to you of our election within thirty (30) days after the date of termination or expiration of this Agreement. We will have the right to inspect the assets of the BUSINESS at any time during this thirty (30) day period. You agree not to sell the assets of the BUSINESS to any third party during this thirty (30) day period. If we elect to purchase the Operating Assets, we will be entitled to, and you must provide, all customary warranties and representations relating to the purchase of the assets of the BUSINESS, including, without limitation, representations and warranties as to the maintenance, function and condition of the assets and your good title to the assets (including that you own the assets free and clear of any liens and encumbrances), the validity of contracts and agreements, and the liabilities affecting the assets, contingent or otherwise. You and your owners further agree to execute general releases, in a form satisfactory to us, of any and all claims against us and our shareholders, officers, directors, employees, agents, successors and assigns. You shall deliver the assets to us within fifteen (15) days of receipt of our written notice to you of our election to purchase.

Regardless of whether or not we exercise our right to purchase the assets under this Subsection 15.E, we shall have the option, exercisable upon written notice to you within thirty (30) days after the date of termination or expiration of this Agreement, to repurchase some or all (at our option) of the Proprietary Products then owned by you. We have the unrestricted right to assign this option to purchase. The purchase price of all Proprietary Products will be as agreed upon by the parties, provided that the purchase price shall not exceed the prices paid by you for such products (less any freight and insurance charges). All purchase prices are freight-on-board ("F.O.B.") our premises. We may set off against the purchase price any and all amounts you then owe to us, if applicable.

**F. CONTINUING OBLIGATIONS.**

All of our and your (and your owners') obligations which expressly or by their nature survive this Agreement's expiration or termination will continue in full force and effect subsequent to and notwithstanding its expiration or termination and until they are satisfied in full or by their nature expire.

**16. RELATIONSHIP OF THE PARTIES/INDEMNIFICATION.**

**A. INDEPENDENT CONTRACTORS.**

You and we understand and agree that this Agreement does not create a fiduciary relationship between you and us, that you and we are and will be independent contractors, and that nothing in this Agreement is intended to make either you or us a general or special agent, joint

venture, partner, or employee of the other for any purpose. You agree to identify yourself conspicuously in all dealings with clients, suppliers, public officials, BUSINESS personnel, and others as the BUSINESS's owner under a franchise we have granted and to place notices of independent ownership on the forms, business cards, stationery, advertising, and other materials we require at any time and from time to time.

None of your employees or other personnel will be considered to be our employees or personnel. Neither you nor any of your employees or personnel whose compensation you pay may in any way, directly or indirectly, expressly or by implication, be construed to be our employee or personnel for any purpose, most particularly with respect to any mandated or other insurance coverage, tax or contributions, or requirements pertaining to withholdings, levied or fixed by any city, state, provincial, or federal governmental agency. We will not have the power to hire or fire your employees or personnel. You expressly agree, and will never contend otherwise, that our authority under this Agreement to certify certain of your employees or personnel for qualification to perform certain functions for the BUSINESS does not directly or indirectly vest in us the power to hire, fire or control any such employee. You acknowledge and agree, and will never contend otherwise, that you alone will exercise day-to-day control over all operations, activities and elements of the BUSINESS and that under no circumstance shall we do so or be deemed to do so. You further acknowledge and agree, and will never contend otherwise, that the various requirements, restrictions, prohibitions, specifications and procedures of the System which we are required to comply with under this Agreement, whether set forth in the Operations Manual or otherwise, do not directly or indirectly constitute, suggest, infer or imply that we control any aspect or element of the day-to-day operations of the BUSINESS, which you alone control, but only constitute standards you must adhere to when exercising your control of the day-to-day operations of the BUSINESS.

**B. NO LIABILITY FOR ACTS OF OTHER PARTY.**

We and you may not make any express or implied agreements, warranties, guarantees, or representations, or incur any debt, in the name or on behalf of the other or represent that our respective relationship is other than franchisor and franchise owner. We will not be obligated for any damages to any person or property directly or indirectly arising out of the BUSINESS's operation or the business you conduct under this Agreement.

**C. TAXES.**

We will have no liability for any sales, use, service, occupation, excise, gross receipts, income, property, or other taxes, whether levied upon you or the BUSINESS, due to the business you conduct (except for our income taxes). You are responsible for paying these taxes and must reimburse us for any taxes that we must pay to any state taxing authority on account of either your operation or payments that you make to us.

**D. INDEMNIFICATION.**

You agree to indemnify, defend, and hold harmless us, our affiliates, and our and their respective shareholders, members, directors, officers, employees, agents, successors, and assignees (the "Indemnified Parties") against, and to reimburse any one or more of the Indemnified Parties for, all claims, obligations, and damages directly or indirectly arising out of the BUSINESS's

operation, employment matters in connection with the BUSINESS, the business you conduct under this Agreement, or your breach of this Agreement, including, without limitation, those alleged to be or found to have been caused by the Indemnified Party's negligence, unless (and then only to the extent that) the claims, obligations, or damages are determined to be caused solely by our gross negligence or willful misconduct in a final, unappealable ruling issued by a court or arbitrator with competent jurisdiction. You agree to give us and the Indemnified Parties written notice of any action, suit, proceeding, claim, demand, inquiry or investigation that could be the basis for a claim for indemnification by any of the Indemnified Parties within three (3) days of your actual or constructive knowledge of it. The Indemnified Parties shall have the right, in their sole discretion to: (i) retain counsel of their own choosing to represent them with respect to any claim; and (ii) control the response thereto and the defense thereof, including the right to enter into settlements or take any other remedial, corrective, or other actions. You agree to give your full cooperation to the Indemnified Parties in assisting the Indemnified Parties with the defense of any such claim, and to reimburse the Indemnified Parties for all of their costs and expenses in defending any such claim, including court costs and reasonable attorneys' fees, within ten (10) days of the date of each invoice delivered by the Indemnified Parties to you enumerating such costs, expenses and attorneys' fees.

For purposes of this indemnification, "claims" include all obligations, damages (actual, consequential, or otherwise), and costs that any Indemnified Party reasonably incurs in defending any claim against it, including, without limitation, reasonable accountants', arbitrators', attorneys', and expert witness fees, costs of investigation and proof of facts, court costs, travel and living expenses, and other expenses of litigation, arbitration, or alternative dispute resolution, regardless of whether litigation, arbitration, or alternative dispute resolution is commenced.

This indemnity will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination. An Indemnified Party need not seek recovery from any insurer or other third party, or otherwise mitigate its or their losses and expenses, in order to maintain and recover from third parties fully a claim against you under this subparagraph. You agree that a failure to pursue a recovery or mitigate a loss will not reduce or alter the amounts that an Indemnified Party may recover from you under this subparagraph. Your or any of the other Indemnified Parties' undertaking of defense and/or settlement will in no way diminish your obligation to indemnify us and the other Indemnified Parties and to hold us and any of the Indemnified Parties harmless.

## **17. ENFORCEMENT.**

### **A. SEVERABILITY AND SUBSTITUTION OF VALID PROVISIONS.**

Except as expressly provided to the contrary in this Agreement, each section, paragraph, term, and provision of this Agreement is severable, and if, for any reason, any part is held to be invalid or contrary to or in conflict with any applicable present or future law or regulation in a final, unappealable ruling issued by any court, agency, or tribunal with competent jurisdiction, that ruling will not impair the operation of, or otherwise affect, any other portions of this Agreement, which will continue to have full force and effect and bind the parties.

If any covenant which restricts competitive activity is deemed unenforceable by virtue of its scope in terms of area, business activity prohibited, and/or length of time, but would be

enforceable if modified, you and we agree that the covenant will be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction whose law determines the covenant's validity.

If any applicable and binding law or rule of any jurisdiction requires more notice than this Agreement requires of this Agreement's termination or of our refusal to enter into the Successor Franchise Agreement, or some other action that this Agreement does not require, or if, under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement or any System Standard is invalid, unenforceable, or unlawful, the notice and/or other action required by the law or rule will be substituted for the comparable provisions of this Agreement, and we may modify the invalid or unenforceable provision or System Standard to the extent required to be valid and enforceable or delete the unlawful provision in its entirety. You agree to be bound by any promise or covenant imposing the maximum duty the law permits which is subsumed within any provision of this Agreement, as though it were separately articulated in and made a part of this Agreement.

## **B. WAIVER OF OBLIGATIONS.**

We and you may by written instrument unilaterally waive or reduce any obligation of or restriction upon the other under this Agreement, effective upon delivery of written notice to the other or another effective date stated in the notice of waiver. Any waiver granted will be without prejudice to any other rights we or you have, will be subject to continuing review, and may be revoked at any time and for any reason effective upon delivery of ten (10) days' prior written notice.

We and you will not waive or impair any right, power, or option this Agreement reserves (including, without limitation, our right to demand exact compliance with every term, condition, and covenant or to declare any breach to be a default and to terminate this Agreement before its term expires) because of any custom or practice at variance with this Agreement's terms; our or your failure, refusal, or neglect to exercise any right under this Agreement or to insist upon the other's compliance with this Agreement, including, without limitation, any System Standard; our waiver of or failure to exercise any right, power, or option, whether of the same, similar, or different nature, with other Bricks 4 Kidz Businesses; the existence of franchise agreements for other Bricks 4 Kidz Businesses which contain provisions different from those contained in this Agreement; or our acceptance of any payments due from you after any breach of this Agreement. No special or restrictive legend or endorsement on any check or similar item given to us will be a waiver, compromise, settlement, or accord and satisfaction. We are authorized to remove any legend or endorsement, which then will have no effect.

Neither we nor you will be liable for loss or damage or be in breach of this Agreement if our or your failure to perform our or your obligations results from: (1) compliance with the orders, requests, regulations, or recommendations of any federal, state, or municipal government; (2) acts of God; (3) fires, strikes, embargoes, war, acts of terrorism or similar events, or riot; or (4) any other similar event or cause. Any delay resulting from any of these causes will extend performance accordingly or excuse performance, in whole or in part, as may be reasonable, except that these causes will not excuse payments of amounts owed at the time of the occurrence or payment of Royalties or Fund contributions due afterward.

C. **COSTS AND ATTORNEYS' FEES.**

If we incur costs and expenses due to your failure to pay when due amounts owed to us, to submit when due any reports, information, or supporting records, or otherwise to comply with this Agreement, you agree, whether or not we initiate a formal legal proceeding, to reimburse us for all of the costs and expenses that we incur, including, without limitation, reasonable accounting, attorneys', arbitrators', and related fees.

D. **RIGHTS OF PARTIES ARE CUMULATIVE.**

Our and your rights under this Agreement are cumulative, and our or your exercise or enforcement of any right or remedy under this Agreement will not preclude our or your exercise or enforcement of any other right or remedy which we or you are entitled by law to enforce.

E. **CHOICE OF FORUM**

**THE PARTIES AGREE THAT, TO THE EXTENT ANY DISPUTES CANNOT BE RESOLVED DIRECTLY BETWEEN THEM, YOU MUST FILE ANY SUIT AGAINST US ONLY IN THE FEDERAL OR STATE COURT HAVING JURISDICTION WHERE OUR PRINCIPAL OFFICES ARE LOCATED AT THE TIME SUIT IS FILED. WE MAY FILE SUIT IN THE FEDERAL OR STATE COURT LOCATED IN THE JURISDICTION WHERE OUR PRINCIPAL OFFICES ARE LOCATED AT THE TIME SUIT IS FILED OR IN THE JURISDICTION WHERE YOU RESIDE OR DO BUSINESS OR WHERE THE FRANCHISED BUSINESS IS OR WAS OPERATED OR WHERE THE CLAIM AROSE. YOU CONSENT TO THE PERSONAL JURISDICTION OF THOSE COURTS OVER YOU AND VENUE IN THOSE COURTS.**

F. **GOVERNING LAW.**

**EXCEPT TO THE EXTENT GOVERNED BY THE UNITED STATES TRADEMARK ACT OF 1946 (LANHAM ACT, 15 U.S.C. SECTIONS 1051 ET SEQ.) OR OTHER FEDERAL LAW, THIS AGREEMENT, THE FRANCHISE, AND ALL CLAIMS ARISING FROM THE RELATIONSHIP BETWEEN US AND YOU WILL BE GOVERNED BY THE LAWS OF THE STATE OF FLORIDA, WITHOUT REGARD TO ITS CONFLICT OF LAWS RULES, EXCEPT THAT ANY FLORIDA LAW REGULATING THE SALE OF FRANCHISES OR GOVERNING THE RELATIONSHIP OF A FRANCHISOR AND ITS FRANCHISEE WILL NOT APPLY UNLESS ITS JURISDICTIONAL REQUIREMENTS ARE MET INDEPENDENTLY WITHOUT REFERENCE TO THIS SUBSECTION 17.F.**

G. **CONSENT TO JURISDICTION.**

**SUBJECT TO SUBSECTIONS 17.E AND F ABOVE AND THE PROVISIONS BELOW, YOU AND YOUR OWNERS AGREE THAT ALL ACTIONS ARISING UNDER THIS AGREEMENT OR OTHERWISE AS A RESULT OF THE RELATIONSHIP BETWEEN YOU AND US MUST BE COMMENCED IN THE STATE OR FEDERAL COURT OF COMPETENT JURISDICTION LOCATED CLOSEST TO**

**OUR THEN CURRENT PRINCIPAL BUSINESS ADDRESS (CURRENTLY, ST. AUGUSTINE, FLORIDA), AND YOU (AND EACH OWNER) IRREVOCABLY SUBMIT TO THE JURISDICTION OF THOSE COURTS AND WAIVE ANY OBJECTION YOU (OR THE OWNER) MIGHT HAVE TO EITHER THE JURISDICTION OF OR VENUE IN THOSE COURTS. NONETHELESS, YOU AND YOUR OWNERS AGREE THAT WE MAY ENFORCE THIS AGREEMENT AND ANY AWARDS IN THE COURTS OF THE STATE OR STATES IN WHICH YOU ARE DOMICILED OR THE BUSINESS IS LOCATED.**

**H. WAIVER OF PUNITIVE DAMAGES AND JURY TRIAL.**

**EXCEPT FOR YOUR OBLIGATION TO INDEMNIFY US FOR THIRD PARTY CLAIMS UNDER SUBSECTION 16.D AND EXCEPT FOR PUNITIVE DAMAGES AVAILABLE TO EITHER PARTY UNDER FEDERAL LAW, WE AND YOU (AND YOUR OWNERS) WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT TO OR CLAIM FOR ANY PUNITIVE, EXEMPLARY, OR CONSEQUENTIAL DAMAGES AGAINST THE OTHER AND AGREE THAT, IN THE EVENT OF A DISPUTE BETWEEN US AND YOU, THE PARTY MAKING A CLAIM WILL BE LIMITED TO EQUITABLE RELIEF AND TO RECOVERY OF ANY ACTUAL DAMAGES IT SUSTAINS. WE AND YOU IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER OF US.**

**I. BINDING EFFECT.**

This Agreement is binding upon us and you and our and your respective executors, administrators, heirs, beneficiaries, permitted assigns, and successors in interest. Subject to our right to modify the Operations Manual and System Standards, this Agreement may not be modified except by a written agreement signed by both our and your duly-authorized officers.

**J. LIMITATIONS OF CLAIMS.**

**EXCEPT FOR CLAIMS ARISING FROM YOUR NON-PAYMENT OR UNDERPAYMENT OF AMOUNTS YOU OWE US, ANY AND ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR OUR RELATIONSHIP WITH YOU WILL BE BARRED UNLESS A JUDICIAL PROCEEDING IS COMMENCED WITHIN EIGHTEEN (18) MONTHS FROM THE DATE ON WHICH THE PARTY ASSERTING THE CLAIM KNEW OR SHOULD HAVE KNOWN OF THE FACTS GIVING RISE TO THE CLAIMS.**

**K. CONSTRUCTION.**

The preambles and exhibits are a part of this Agreement which, together with any addenda or riders signed at the same time as this Agreement, constitutes our and your entire agreement, and supersedes all prior and contemporaneous oral or written agreements and understandings between us and you relating to the subject matter of this Agreement. There are no other oral or written understandings or agreements between us and you, or oral or written representations by us, relating to the subject matter of this Agreement, the franchise relationship, or the BUSINESS (any understandings or agreements reached, or any representations made, before this Agreement are

superseded by this Agreement). Notwithstanding the foregoing, nothing in this Agreement shall disclaim or require you to waive reliance on any representation made by us in our most recent franchise disclosure document (including exhibits and amendments) delivered to you or your representative.

Any policies that we adopt and implement at any time and from time to time to guide us in our decision-making are subject to change, are not a part of this Agreement, and are not binding on us.

Except as provided in Subsections 16.D and 17.F, nothing in this Agreement is intended or deemed to confer any rights or remedies upon any person or legal entity not a party to this Agreement.

Except where this Agreement expressly obligates us reasonably to approve or not unreasonably to withhold our approval of any of your actions or requests, we have the absolute right to refuse any request you make or to withhold our approval of any of your proposed, initiated, or completed actions that require our approval. The headings of the sections and paragraphs are for convenience only and do not define, limit, or construe the contents of these sections or paragraphs.

References in this Agreement to "we," "us," and "our," with respect to all of our rights and all of your obligations to us under this Agreement, include any of our affiliates with whom you deal. The term "affiliate" means any person or entity directly or indirectly owned or controlled by, under common control with, or owning or controlling you or us. "Control" means the power to direct or cause the direction of management and policies. The words "include" and "including" are meant to be illustrative and not exhaustive and are deemed to be read in all cases as "including, without limitation" and/or "including but not limited to."

If two or more persons are at any time the owners of the Franchise and the BUSINESS, whether as partners or joint venturers, their obligations and liabilities to us will be joint and several. References to "owner" mean any person holding a direct or indirect ownership interest (whether of record, beneficially, or otherwise) or voting rights in you (or a transferee of this Agreement and the BUSINESS or an ownership interest in you), including, without limitation, any person who has a direct or indirect interest in you (or a transferee), this Agreement, the Franchise, or the BUSINESS and any person who has any other legal or equitable interest, or the power to vest in himself or herself any legal or equitable interest, in their revenue, profits, rights, or assets.

References to a "controlling ownership interest" in you or one of your owners (if an Entity) mean the percent of the voting shares or other voting rights that results from dividing one hundred percent (100%) of the ownership interests by the number of owners. In the case of a proposed transfer of an ownership interest in you or one of your owners, the determination of whether a "controlling ownership interest" is involved must be made as of both immediately before and immediately after the proposed transfer to see if a "controlling ownership interest" will be transferred (because of the number of owners before the proposed transfer) or will be deemed to have been transferred (because of the number of owners after the proposed transfer).

"Person" means any natural person, corporation, limited liability company, general or limited partnership, unincorporated association, cooperative, or other legal or functional entity.



Unless otherwise specified, all references to a number of days shall mean calendar days and not business days.

The term "BUSINESS" includes all of the assets of the Bricks 4 Kidz Business you operate under this Agreement, including its revenue.

The term "employee" includes all of the BUSINESS's personnel, including all managers, administrators, teachers and other personnel that perform Services for the BUSINESS, whether such person is classified as an employee of yours or an independent contractor.

This Agreement may be executed in multiple copies, each of which will be deemed an original.

## **18. NOTICES AND PAYMENTS.**

All written notices, reports, and payments permitted or required to be delivered by this Agreement or the Operations Manual will be deemed to be delivered:

- (a) at the time delivered by hand;
- (b) at the time delivered via computer transmission and, in the case of the Royalty, Fund contributions, and other amounts due, at the time we actually receive payment via the EDTA;
- (c) one (1) business day after transmission by facsimile or other electronic system if the sender has confirmation of successful transmission;
- (d) one (1) business day after being placed in the hands of a nationally recognized commercial courier service for next business day delivery; or
- (e) three (3) business days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid.

Any notice to us must be sent to the address specified on the first page of this Agreement. We may change these addresses for notice by giving you notice of the new address(es). Any notice that we send to you may be sent only to the one (1) person identified on **Exhibit A**, even if you have multiple owners, at the email or postal address specified on **Exhibit A**. You may change the person and/or address for notice only by giving us thirty (30) days' prior notice by any of the means specified in subparagraphs (a) through (e) above.

Any required payment or report which we do not actually receive during regular business hours on the date due will be deemed delinquent.

## **19. COMPLIANCE WITH ANTI-TERRORISM LAWS.**

You and your owners agree to comply, and to assist us to the fullest extent possible in our efforts to comply, with Anti-Terrorism Laws (defined below). In connection with that compliance, you and your owners certify, represent, and warrant that none of your property or interests is subject to being blocked under, and that you and your owners otherwise are not in violation of, any of the Anti-Terrorism Laws. "Anti-Terrorism Laws" mean Executive Order 13224 issued by the

President of the United States, the USA PATRIOT Act, and all other present and future federal, state, and local laws, ordinances, regulations, policies, lists, and other requirements of any governmental authority addressing or in any way relating to terrorist acts and acts of war. Any violation of the Anti-Terrorism Laws by you or your owners, or any blocking of your or your owners' assets under the Anti-Terrorism Laws, shall constitute good cause for immediate termination of this Agreement, as provided in Subsection 14.A(18) above.

**20. ELECTRONIC MAIL.**

You acknowledge and agree that exchanging information with us by e-mail is efficient and desirable for day-to-day communications and that we and you may utilize e-mail for such communications. You authorize the transmission of e-mail by us and our employees, vendors, and affiliates ("**Official Senders**") to you during the Term.

You further agree that: (a) Official Senders are authorized to send e-mails to those of your employees as you may occasionally authorize for the purpose of communicating with us; (b) you will cause your officers, directors, and employees to give their consent to Official Senders' transmission of e-mails to them; (c) you will require such persons not to opt out or otherwise ask to no longer receive e-mails from Official Senders during the time that such person works for or is affiliated with you; and (d) you will not opt out or otherwise ask to no longer receive e-mails from Official Senders during the Term.

The consent given in this Section 20 shall not apply to the provision of notices by either party under this Agreement pursuant to Section 18 using e-mail unless the parties otherwise agree in a written document manually signed by both parties.

**21. ELECTRONIC SIGNATURES.**

The counterparts of this Agreement and all ancillary documents executed or delivered in connection with this Agreement may be executed and signed by electronic signature by any of the parties to this Agreement, and delivered by electronic or digital communications to any other party to this Agreement, and the receiving party may rely on the receipt of such document so executed and delivered by electronic or digital communications signed by electronic signature as if the original has been received. For the purposes of this Agreement, electronic signature means, without limitation, an electronic act or acknowledgement (e.g., clicking an "I Accept" or similar button), sound, symbol (digitized signature block), or process attached to or logically associated with a record and executed or adopted by a person with the intent to sign the record.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK  
SIGNATURES ON FOLLOWING PAGE

**IN WITNESS WHEREOF**, the parties have executed and delivered this Agreement on the dates noted below, to be effective as of the Effective Date.

**BFK FRANCHISE COMPANY LLC,**  
a Nevada limited liability company

**FRANCHISE OWNER  
IF YOU ARE TAKING THE  
FRANCHISE AS A CORPORATION,  
LIMITED LIABILITY COMPANY, OR  
PARTNERSHIP):**

**By:**

**[Print Name of Franchisee Entity]**

**Print Name:** \_\_\_\_\_

**By:**

**[signature of person signing on behalf of entity]**

**DATED\*:**

**Title of Signator:**

**(\*Effective Date of this Agreement)**

**(IF YOU ARE TAKING THE  
FRANCHISE INDIVIDUALLY AND  
NOT AS A LEGAL ENTITY):**

[signature of individual franchisee] \_\_\_\_\_

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

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

[signature of individual franchisee] \_\_\_\_\_

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

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

**EXHIBIT A**  
**TO THE FRANCHISE AGREEMENT**  
**LISTING OF OWNERSHIP INTERESTS**

Effective Date: This Exhibit A is current and complete  
as of \_\_\_\_\_, 20\_\_\_\_

**You and Your Owners**

1. **Form of Owner.** (Choose (a) or (b))

(a) **Individual Proprietorship.** List individual(s):

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

(b) **Corporation, Limited Liability Company, or Partnership.** (CIRCLE ONE) You were incorporated or formed on \_\_\_\_\_, under the laws of the State of \_\_\_\_\_. You have not conducted business under any name other than your corporate, limited liability company, or partnership name and \_\_\_\_\_\_. The following is a list of your directors, if applicable, and officers as of the effective date shown above:

<b><u>Name of Each Director/Officer</u></b>	<b><u>Position(s) Held</u></b>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

2. **Owners.** The following list includes the full name of each person who is one of your owners (as defined in the Franchise Agreement), or an owner of one of your owners, and fully describes the nature of each owner's interest (attach additional pages if necessary).

<b><u>Owner's Name</u></b>	<b><u>Percentage/Description of Interest</u></b>
(a) _____	_____

- (b) \_\_\_\_\_
- (c) \_\_\_\_\_
- (d) \_\_\_\_\_

3. **Name and Address of Person to Receive Notice for Franchise Owner.**

- (a) Name: \_\_\_\_\_
- (b) Postal Address: \_\_\_\_\_
- (c) E-mail \_\_\_\_\_ Address: \_\_\_\_\_

4. **Identification of Managing Owner.** Your Managing Owner as of the Effective Date is \_\_\_\_\_ (must be one of the individuals listed in paragraph 2 above). You may not change the Managing Owner without prior written approval.

[Signatures on following page.]

**DATED\*:** \_\_\_\_\_  
 (\*Effective Date of this Agreement)  
**FRANCHISE OWNER**

**BFK FRANCHISE COMPANY LLC,**  
 a Nevada limited liability company

**(IF YOU ARE TAKING THE  
 FRANCHISE AS A CORPORATION,  
 LIMITED LIABILITY COMPANY, OR  
 PARTNERSHIP):**

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

\_\_\_\_\_  
 [Print Name of Franchisee Entity]

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

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

[signature of person signing on behalf of entity]

Signator:

Title of \_\_\_\_\_

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

**(IF YOU ARE TAKING THE**

**FRANCHISE INDIVIDUALLY AND NOT AS A LEGAL ENTITY):**

\_\_\_\_\_  
[signature of individual franchisee]

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

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

\_\_\_\_\_  
[signature of individual franchisee]

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

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

**EXHIBIT B**

**TO THE FRANCHISE AGREEMENT**

**THE INITIAL FRANCHISE FEE, OFFICE AND TERRITORY**

1. The Initial Franchise Fee is: We calculate the Initial Franchise Fee based upon the number of public or private preschools and elementary and / or middle schools (or similar schools as defined by us) in the Territory purchased at the same time. Your Initial Franchise Fee is: \_\_\_\_\_; which was determined based upon the information below.

First Franchise (Up to 25 Schools) - \$24,995

Second Franchise (Additional 25 Schools) - \$15,000

2. Minimum Royalty Fee is: We calculate the Minimum Royalty Fee based upon the number of public or private preschools and elementary and / or middle schools (or similar schools as defined by us) in the Territory. Your Minimum Royalty Fee is: \_\_\_\_\_; which was determined based upon the information below:

First Franchise (Up to 25 Schools) - \$500 Minimum Royalty

Second Franchise (25 Additional Schools) - \$750 Minimum Royalty (\$500 plus \$250)

For Second and Subsequent Businesses you open, the Minimum Royalty Fee will be reduced to \$250; provided that you continue to operate a prior Bricks 4 Kidz Business and you are not in default of any agreement with us. If you close the prior Bricks 4 Kidz Business or you are in default, you must pay the Minimum Royalty Fee noted above.

3. The Office will be located at: \_\_\_\_\_

4. The Territory shall be (described as the following zip codes): \_\_\_\_\_

\_\_\_\_\_

**EXHIBIT C**  
**TO THE FRANCHISE AGREEMENT**  
**NONDISCLOSURE AND NON-COMPETITION AGREEMENT**

**THIS NONDISCLOSURE AND NON-COMPETITION AGREEMENT** (this "Agreement") is made as of the \_\_\_\_ day of \_\_\_\_\_, 201\_\_, is executed by \_\_\_\_\_ ("Individual," "me," or "I") for the benefit of **BFK FRANCHISE COMPANY LLC**, a Nevada limited liability company ("Company"), and for \_\_\_\_\_, a/an \_\_\_\_\_ ("Franchisee").

Franchisee is a franchisee of Company pursuant to a franchise agreement entered into by those parties concerning a business operating, or to be operated, under the "Bricks 4 Kidz" name at \_\_\_\_\_ (the "Franchise Agreement"). The franchised business Company authorizes Franchisee to operate under the Franchise Agreement is known as the "Business," which Business is one among all businesses that Company owns, operates, or franchises under the "Bricks 4 Kidz" name. I agree that, unless otherwise specified, all capitalized terms in this Agreement have those meanings ascribed to them in the Franchise Agreement.

I agree that during the term of my employment by, ownership participation in, association with or service to Franchisee, or at any time thereafter, I will not communicate, divulge or use for the benefit of any other person, persons, partnership, proprietorship, association, corporation or entity, Company's proprietary and confidential information relating to the development and operation of Bricks 4 Kidz Businesses, including but not limited to the following concerning Bricks 4 Kidz Businesses: (1) course and program content, including lesson plans and model plans; (2) training and operations materials and manuals; (3) sales, marketing and advertising programs and techniques; (4) client lists and records; (5) identity of suppliers, and knowledge of specifications and pricing for products, materials, supplies and equipment that Company authorizes; (6) knowledge of operating results and financial performance of businesses in the network, other than those franchised businesses that Franchisee owns; (7) computer systems and software programs; and (8) any and all other information Company provides to me, Franchisee, Franchisee's Owners or Affiliates that is designated orally or in writing as proprietary or confidential, or by its nature would reasonably be understood to be proprietary or confidential, regardless of whether such information is specifically designated as proprietary or confidential (collectively, all information referenced above, including examples (1) through (8), is known as the "Confidential Information").

Furthermore, any and all information, knowledge, know-how, techniques and information which the entities mentioned above (or their officers) designate as confidential is considered, and hereby acknowledged by me, to be Confidential Information for the purposes of this Agreement, except information which I can demonstrate came to my attention before disclosure or which had become or becomes a part of the public domain through publication or communication by others (unless the publication or communication violates a similar confidentiality agreement), but in no event through any act of mine.

I specifically understand that, without limitation, all the above items, concepts, and/or examples contained in the preceding paragraph constitute Confidential Information of Company,



and I will not divert any business to competitors of Franchisee and/or Company. I will at no time copy, duplicate, record or otherwise reproduce any of the Confidential Information or material containing it, in whole or in part, store them in a computer retrieval or database, nor otherwise make the them available to any unauthorized person.

I further agree that, during the term of my employment/service/association or ownership participation, I will not, directly or indirectly, engage or participate in any Competitive Business (defined below in this paragraph), any of which such prohibited behavior I understand and hereby explicitly acknowledge would or could be injurious to, or (in Company's sole judgment) have an adverse effect upon, Company's protectable interests in the Confidential Information, the "Bricks 4 Kidz" trademark or related Marks, or the goodwill and/or reputation of Bricks 4 Kidz Businesses generally. I agree that I am prohibited from engaging in any Competitive Business as a proprietor, partner, investor, shareholder, director, officer, employee, principal, agent, advisor, or consultant. For purposes of this Agreement, a "Competitive Business" means any business that: (i) operates a business providing project-based engineering or "STEM" (science, technology, engineering and math) programs to children and/or selling or offering products similar to the Proprietary Products; or (ii) grants franchises or licenses to others to operate the type of business specified in the preceding subparagraph (i) (other than a Bricks 4 Kidz Business operated under a franchise agreement with Company). Despite the foregoing definition of a Competitive Business, nothing under this Agreement or the Franchise Agreement will prevent Individual from owning for investment purposes less than two percent (2%) of a Competitive Business whose stock or other forms of ownership interest are publicly traded on a recognized United States stock exchange, and so long as neither Individual nor Franchisee controls the company in question.

Upon the expiration or other termination for any reason of my employment, association, service or ownership participation, I agree:

- (i) to return immediately to Company or Franchisee, as the case may be, all Confidential Information, and any material(s) containing a subset thereof, in my possession that was utilized, or to which I had access, during my employment, association, service or ownership participation;
- (ii) to refrain, beginning upon such expiration or termination and forever thereafter, from any and all contacts with clients of Bricks 4 Kidz Businesses for any purpose whatsoever; and
- (iii) for a period of two (2) years, starting on the effective date of termination or expiration of my employment/service/association or ownership participation, to refrain from directly or indirectly (such as through any one or more of my spouse, legally-recognized domestic partner, parents, children or sibling(s) (collectively, "Immediate Family")) owning a legal or beneficial interest in, or rendering services or giving advice to: (a) any Competitive Business operating within the Territory or within a twenty-five (25)-mile radius of the Territory; (b) any Competitive Business operating within the territory of any Bricks 4 Kidz Business

in operation or under construction on the effective date of termination or expiration of my employment/service/association/ ownership participation; or (c) any entity which grants franchises, licenses or other interests to others to operate any Competitive Business.

I acknowledge and understand that the provisions of this Agreement, including my representations, covenants, and warranties (as applicable) given hereunder, are necessary and integral to this Agreement and to Company's and Franchisee's interests under the Franchise Agreement, and are intended to:

- (i) preclude not only direct competition, but also all forms of indirect competition, such as consultation for Competitive Businesses, service as an independent contractor for Competitive Businesses, or any assistance or transmission of information of any kind which would be of any material assistance to a competitor;
- (ii) bind any person or entity having any legal or beneficial interest in me, or traceable to, down or through me, including (without limitation) any of member of my Immediate Family, any direct or indirect beneficiary, any partner (general or limited) or proprietor of mine, and any other such related person or entity, regardless of how many levels or tiers there may be between any such described person or entity and me; and
- (iii) identify for me, toward the goal of preserving through this Agreement, Company's protectable legal interests in the System, clients of Bricks 4 Kidz Businesses, the Confidential Information, and the goodwill associated with the Marks.

I also expressly acknowledge my possession of skills and abilities of a general nature, and the opportunity for exploiting such skills in other ways than the operation or involvement in the activities of a Bricks 4 Kidz Business or a Competitive Business, so that enforcement of my covenants made in this Agreement will not deprive me of my personal goodwill or ability to earn a living after the effective date of expiration or termination of my relationship with Franchisee, the Business, or Bricks 4 Kidz Businesses generally. If I fail or refuse to abide by any of my foregoing obligations or promises made under this Agreement, and Company or Franchisee obtains enforcement in a judicial proceeding, then my obligations and responsibilities specified under the breached covenant will be tolled during the period(s) of time that the covenant is breached and/or Company or Franchisee seeks to enforce it, and will continue for two (2) years starting from the effective date of the order enforcing the covenant.

**I acknowledge that violation of the covenants not to compete contained in this Agreement would result in immediate and irreparable injury to Company and Franchisee, for which no adequate remedy at law will be available. Accordingly, I hereby consent to the entry of an injunction procured by Company or Franchisee (or both), in any appropriate jurisdiction and venue (notwithstanding other references to resolution of actions exclusively in Company's home prohibiting any conduct by me in violation of the terms of those covenants not to compete and/or restrictions on the use of Confidential Information under this Agreement. I expressly agree that it may conclusively be presumed in any legal action that any violation of the terms of these covenants not to compete was accomplished by and through my unlawful utilization of Company's Confidential Information. Further, I expressly agree that any claims I may have against Company will not constitute a defense to Company's enforcement of the covenants not to compete under this Agreement. I further agree to pay all costs and expenses (including reasonable attorneys' and experts' fees) incurred by Company in connection with the enforcement of those covenants not to compete set forth in this Agreement.**

If all, or any portion of, this covenant not to use Confidential Information and not to compete is held unreasonable, void, vague or illegal by any court or agency having valid jurisdiction in an unappealed final decision to which Franchisee and/or Company is a party, the court or agency will be empowered to revise and/or construe the covenant to fall within permissible legal limits, and should not invalidate the entire covenant. I expressly agree to be bound by any lesser covenant subsumed within the terms of this Agreement as if the resulting covenant were separately stated in and made a part of this Agreement.

I agree that this Agreement and all relations and disputes between myself on the one hand, and Franchisee or Company on the other hand, whether sounding in contract, tort, or otherwise, are to be exclusively construed in accordance with and/or governed by (as applicable) the law of the State of Florida without recourse to Florida (or any other) choice of law or conflicts of law principles. If, however, any provision of this Agreement would not be enforceable under the laws of the State of Florida, and if the Business is located outside of the State of Florida and the provision would be enforceable under the laws of the state in which the Business is located, then the provision (and only that provision) will be interpreted and construed under the laws of that state. Nothing in this Agreement is intended to invoke the application of any franchise, business opportunity, antitrust, "implied covenant", unfair competition, fiduciary or any other doctrine of law of the State of Florida or any other state, which would not otherwise apply.

I further agree that any litigation arising out of or related to this Agreement, any breach of this Agreement, and any and all relations and/or disputes between myself on the one hand, and Franchisee or Company on the other hand, whether sounding in contract, tort, or otherwise, will be instituted exclusively in the U.S. District Court sitting nearest to Company's corporate headquarters (currently, St. Augustine, Florida). I agree that any dispute as to the aforementioned venue will be submitted to and resolved exclusively by such aforementioned court. Nonetheless, I agree that Franchisee or Company may enforce this Agreement and any awards in the courts of the state or states in which I am domiciled or the Business is located.

**I IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY ME, FRANCHISEE OR COMPANY.** I hereby waive and covenant never to assert or claim that said venue is for any reason improper, inconvenient, prejudicial or otherwise inappropriate (including, without limitation, any claim under the judicial doctrine of forum non conveniens).

**IN WITNESS WHEREOF**, Franchisee has hereunto caused this Agreement to be executed by its duly authorized officer, and Individual has executed this Agreement, as of the day and year first written above.

**ATTESTED TO BY FRANCHISEE:**

\_\_\_\_\_  
a/an \_\_\_\_\_

**INDIVIDUAL:**

\_\_\_\_\_  
(Print Name)

By: \_\_\_\_\_  
(Name of Franchisee's Officer)

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

Signed: \_\_\_\_\_  
(Signature of Franchisee's Officer)

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

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

**WITNESS TO INDIVIDUAL'S  
SIGNATURE:**

\_\_\_\_\_  
(Print Witness Name)

\_\_\_\_\_  
(Signature of Witness)

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

**EXHIBIT D TO THE FRANCHISE AGREEMENT**  
**EFT AUTHORIZATION**

**DIRECT DEBIT AUTHORIZATION:**

**AUTHORIZATION TO HONOR ELECTRONIC FUNDS TRANSFERS DRAWN BY AND PAYABLE TO:**

**BFK FRANCHISE COMPANY LLC**

Full Name and Phone # of Bank: \_\_\_\_\_

Bank Branch Location: \_\_\_\_\_

Bank Address: \_\_\_\_\_ City, State,

Zip: \_\_\_\_\_

Bank Account in the name of: \_\_\_\_\_

BANK ROUTING NUMBER: \_\_\_\_\_

BANK ACCOUNT NUMBER: \_\_\_\_\_

Until further written notice by me, I authorize BFK FRANCHISE COMPANY LLC, to debit the account described above for payment of Royalty fees and Marketing fees, per the terms of my Franchise Agreement that I have agreed to pay to BFK FRANCHISE COMPANY LLC, on a monthly basis.

Date \_\_\_\_\_

Signature of Franchisee: \_\_\_\_\_

Name of Franchisee: \_\_\_\_\_

Address & Phone# of Franchisee: \_\_\_\_\_

**Please complete this form and attach a voided check.**

BFK FRANCHISE COMPANY LLC  
475 W Town Place Suite 205 A, St. Augustine, FL 32092

EFT Authorization  
1 of 1

**EXHIBIT E TO THE FRANCHISE AGREEMENT**

**GUARANTY AND ASSUMPTION OF OBLIGATIONS**

**THIS GUARANTY AND ASSUMPTION OF OBLIGATIONS** is given this \_\_\_\_ day  
of \_\_\_\_\_, 20\_\_

By (list each guarantor):

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

In consideration of, and as an inducement to, the execution of that certain Franchise Agreement (the "Agreement") on this date by **BFK FRANCHISE COMPANY LLC**, a Nevada limited liability company ("us," "we," or "our"), each of the undersigned personally and unconditionally (a) guarantees to us and our successors and assigns, for the term of the Agreement (including extensions) and afterward as provided in the Agreement, that \_\_\_\_\_ ("Franchisee") will punctually pay and perform each and every undertaking, agreement, and covenant set forth in the Agreement (including any amendments or modifications of the Agreement) and (b) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement (including any amendments or modifications of the Agreement), both monetary obligations and obligations to take or refrain from taking specific actions or to engage or refrain from engaging in specific activities, including the non-competition, confidentiality, transfer, and enforcement requirements.

Each of the undersigned consents and agrees that: (1) his or her direct and immediate liability under this Guaranty will be joint and several, both with Franchisee and among other guarantors; (2) he or she will render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so; (3) this liability will not be contingent or conditioned upon our pursuit of any remedies against Franchisee or any other person; (4) this liability will not be diminished, relieved, or otherwise affected by any extension of time, credit, or other indulgence which we may at any time and from time to time grant to Franchisee or to any other person, including, without limitation, the acceptance of any partial payment or performance or the compromise or release of any claims (including the release of other guarantors), none of which will in any way modify or amend this Guaranty, which will be continuing and irrevocable during the term of the Agreement (including extensions), for so long as any performance is or might be owed under the Agreement by Franchisee or its owners, and for so long as we have any cause of action against Franchisee or its owners; and (5) this Guaranty will continue in full force and effect for (and as to) any extension or modification of the Agreement and despite the transfer of any interest in the Agreement or Franchisee, and each of the undersigned waives notice of any and all renewals, extensions, modifications, amendments, or transfers.

Each of the undersigned waives: (i) all rights to payments and claims for reimbursement or subrogation which any of the undersigned may have against Franchisee arising as a result of the undersigned's execution of and performance under this Guaranty; and (ii) acceptance and

notice of acceptance by us of his or her undertakings under this Guaranty, notice of demand for payment of any indebtedness or non-performance of any obligations hereby guaranteed, protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed, and any other notices to which he or she may be entitled.

If we are required to enforce this Guaranty in a judicial proceeding, and prevail in such proceeding, we shall be entitled to reimbursement of our costs and expenses, including, but not limited to, reasonable accountants', attorneys', attorneys' assistants', arbitrators', and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses, whether incurred prior to, in preparation for, or in contemplation of the filing of any such proceeding. If we are required to engage legal counsel in connection with any failure by the undersigned to comply with this Guaranty, the undersigned shall reimburse us for any of the above-listed costs and expenses we incur.

Each of the undersigned agrees that all actions arising under this Guaranty or the Agreement, or otherwise as a result of the relationship between us and the undersigned, must be commenced in the state or federal court of competent jurisdiction located closest to our then current principal business address (currently, St Augustine, Florida), and each of the undersigned irrevocably submits to the jurisdiction of those courts and waives any objection he or she might have to either the jurisdiction of or venue in those courts. Nonetheless, each of the undersigned agrees that we may enforce this Guaranty and any awards in the courts of the state or states in which he or she is domiciled.

**IN WITNESS WHEREOF**, each of the undersigned has affixed his or her signature on the same day and year as the Agreement was executed.

**Signatures Of Each Guarantor**

**Percentage Of Ownership  
In Franchisee**

\_\_\_\_\_%  
\_\_\_\_\_%  
\_\_\_\_\_%  
\_\_\_\_\_%  
\_\_\_\_\_%

Guaranty  
2 of 2

**EXHIBIT F TO THE FRANCHISE AGREEMENT**

**STATE RIDER ADDENDA TO FRANCHISE AGREEMENT**



**RIDER TO THE BFK FRANCHISE COMPANY LLC  
FRANCHISE AGREEMENT  
FOR USE IN ILLINOIS**

**This Rider** (the “**Rider**”) is made and entered into as of the Effective Date as stated in the Franchise Agreement (defined below), by and between BFK FRANCHISE COMPANY LLC, a Nevada limited liability company with its principal business address at 475 W Town Place Suite 205 A, St. Augustine, FL 32092 (“**we,**” “**us,**” “**our,**” or “**Franchisor**”), and \_\_\_\_\_ a \_\_\_\_\_ whose principal business address is \_\_\_\_\_ (“**you,**” “**your,**” or “**Franchisee**”).

1. **Background.** We and you are parties to that certain Franchise Agreement that has been signed at the same time as the signing of this Rider (the “**Franchise Agreement**”). This Rider is part of the Franchise Agreement. This Rider is being signed because (a) the offer or sale of the franchise for the franchised business that you will operate under the Franchise Agreement was made in the State of Illinois and the franchised business will be located in Illinois, and/or (b) you are a resident of Illinois.

2. **Governing Law.** The following language is added to the end of Section 17.F of the Franchise Agreement:

However, Illinois law will apply to claims arising under the Illinois Franchise Disclosure Act.

3. **Consent to Jurisdiction.** The following language is added to the end of Section 17.G of the Franchise Agreement:

However, the parties submit to the jurisdiction and venue of the state and federal courts of competent jurisdiction in Illinois for claims arising under the Illinois Franchise Disclosure Act.

4. **Waiver of Jury Trial.** The following language is added to the end of the second paragraph of Section 17.H of the Franchise Agreement:

However, this waiver shall not apply to the extent prohibited by Section 705/41 of the Illinois Franchise Disclosure Act of 1987 or Illinois Regulations at Section 260.609.

5. **Limitation of Claims.** The following language is added to the end of Section 17.J of the Franchise Agreement:

However, nothing in this Section shall shorten any period within which Franchisee may bring a claim under Section 705/27 of the Illinois Franchise Disclosure Act or constitute a condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of the Illinois Franchise Disclosure Act of 1987 or any other Illinois law (as long as the jurisdictional requirements of that Illinois law are met).

6. **Waivers Void**. The following language is added as a new Section 17.L of the Franchise Agreement:

Nothing in this Agreement shall constitute a condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of the Illinois Franchise Disclosure Act of 1987 or any other Illinois law (as long as the jurisdictional requirements of that Illinois law are met).

7. **Termination Rights**. Franchisee rights upon termination and nonrenewal are set forth in Sections 705/19 and 705/20 of the Illinois Franchise Disclosure Act.

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider effective on the Effective Date shown below.

**BFK FRANCHISE COMPANY LLC**,  
a Nevada limited liability company

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

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

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

**FRANCHISEE**

**(IF YOU ARE TAKING THE  
FRANCHISE AS A CORPORATION,  
LIMITED LIABILITY COMPANY, OR  
PARTNERSHIP):**

\_\_\_\_\_  
[Print Name of Franchisee Entity]

By: \_\_\_\_\_  
[Signature of person signing on behalf of  
entity]

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

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

**(IF YOU ARE TAKING THE  
FRANCHISE INDIVIDUALLY AND  
NOT AS A LEGAL ENTITY):**

\_\_\_\_\_  
[Signature of individual franchisee]

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

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

**RIDER TO THE BFK FRANCHISE COMPANY LLC  
FRANCHISE AGREEMENT  
FOR USE IN MARYLAND**

**This Rider** (the “**Rider**”) is made and entered into as of the Effective Date as stated in the Franchise Agreement (defined below), by and between BFK FRANCHISE COMPANY LLC, a Nevada limited liability company with its principal business address at 475 W Town Place Suite 205 A, St. Augustine, FL 32092 (“**we,**” “**us,**” “**our,**” or “**Franchisor**”), and \_\_\_\_\_ a \_\_\_\_\_ whose principal business address is \_\_\_\_\_ (“**you,**” “**your,**” or “**Franchisee**”).

1. **Background.** We and you are parties to that certain Franchise Agreement that has been signed at the same time as the signing of this Rider (the “**Franchise Agreement**”) that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) you are a resident of the State of Maryland, and/or (b) the franchised business that you will operate under the Franchise Agreement will be located in Maryland.

2. **Acknowledgments.** The following language is added to the end of Section 1.B of the Franchise Agreement:

The acknowledgments and representations of the franchisee made in the franchise agreement which disclaim the occurrence and/or acknowledge the non-occurrence of acts that would constitute a violation of the Franchise Law are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

3. **Releases.** The following language is added to the end of Sections 4.A(4), 12.C(7), 13.C, and the first paragraph of Section 15.E of the Franchise Agreement:

However, such general release will not apply to claims arising under the Maryland Franchise Registration and Disclosure Law.

4. **Insolvency.** The following language is added to the end of Section 14.A(17) of the Franchise Agreement:

; termination upon insolvency might not be enforceable under federal insolvency law (11 U.S.C. Sections 101 et seq.), but we and you agree to enforce this provision to the maximum extent the law allows.

5. **Governing Law.** The following language is added to the end of Section 17.F of the Franchise Agreement:

However, Maryland law will apply to claims arising under the Maryland Franchise Registration and Disclosure Law.

6. **Consent to Jurisdiction.** The following language is added to the end of Section 17.G of the Franchise Agreement:

However, you may bring an action in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

7. **Limitation of Claims.** The following language is added to the end of Section 17.J of the Franchise Agreement:

However, the limitation of such claims shall not act to reduce the three (3)-year statute of limitations afforded to you for bringing a claim under the Maryland Franchise Registration and Disclosure Law.

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider effective on the Effective Date shown below.

**BFK FRANCHISE COMPANY LLC,** a  
Nevada limited liability company

**FRANCHISEE**

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

**(IF YOU ARE TAKING THE  
FRANCHISE AS A CORPORATION,  
LIMITED LIABILITY COMPANY, OR  
PARTNERSHIP):**

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

\_\_\_\_\_  
[Print Name of Franchisee Entity]

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

By: \_\_\_\_\_  
[Signature of person signing on behalf of entity]

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

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

**(IF YOU ARE TAKING THE  
FRANCHISE INDIVIDUALLY AND  
NOT AS A LEGAL ENTITY):**

\_\_\_\_\_  
[Signature of individual franchisee]

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

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

**THE FOLLOWING PROVISIONS APPLY ONLY TO TRANSACTIONS GOVERNED BY THE  
MICHIGAN FRANCHISE INVESTMENT LAW**

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

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

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE ATTORNEY GENERAL. ANY QUESTIONS REGARDING THIS NOTICE SHOULD BE DIRECTED TO:

State of Michigan  
Office of the Attorney General  
Consumer Protection Division  
Attention: Franchise Section  
670 Law Building  
525 West Ottawa Street  
Lansing, Michigan 48913  
Telephone Number: (517) 335-7567

**RIDER TO THE BFK FRANCHISE COMPANY LLC  
FRANCHISE AGREEMENT  
FOR USE IN MINNESOTA**

**This Rider** (the “**Rider**”) is made and entered into as of the Effective Date as stated in the Franchise Agreement (defined below), by and between BFK FRANCHISE COMPANY LLC, a Nevada limited liability company with its principal business address at 475 W Town Place Suite 205 A, St. Augustine, FL 32092 (“**we**,” “**us**,” “**our**,” or “**Franchisor**”), and \_\_\_\_\_ a \_\_\_\_\_ whose principal business address is \_\_\_\_\_ (“**you**,” “**your**,” or “**Franchisee**”).

1. **Background.** We and you are parties to that certain Franchise Agreement that has been signed at the same time as the signing of this Rider (the “**Franchise Agreement**”) that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) the franchised business that you will operate under the Franchise Agreement will be located in Minnesota; and/or (b) any of the offering or sales activity relating to the Franchise Agreement occurred in Minnesota.

2. **Releases.** The following language is added to the end of Sections 4.A(4), 12.C(7), 13.C, and the first paragraph of Section 15.E of the Franchise Agreement:

; however, any release required as a condition of renewal and/or assignment/transfer will not apply to the extent prohibited by the Minnesota Franchises Law.

3. **Infringement.** The following language is added to the end of Section 5.C of the Franchise Agreement:

To the extent required by Minnesota Stat. Sec. 80C.12, Subd. 1(g), we will protect your right to use the Marks and indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the Marks.

4. **Renewal and Termination.** The following is added to the end of Sections 13.B, 13.C, and 14.B of the Franchise Agreement:

However, with respect to franchises governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which 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 of non-renewal of this Agreement.

5. **Governing Law.** The following is added to the end of Section 17.F of the Franchise Agreement:

However, nothing in this Section 17.F shall abrogate or reduce any of your rights under Minnesota Statutes Chapter 80C or your right to any procedure, forum or remedies that the laws of the jurisdiction provide.

6. **Consent to Jurisdiction.** The following is added to the end of Section 17.G of the Franchise Agreement:

However, Minn. Stat. Sec. 80C.21 and Minn. Rule 2860.4400J prohibit us, except in certain specified cases, from requiring litigation to be conducted outside Minnesota. Nothing in this Section 17.G shall abrogate or reduce any of your rights under Minnesota Statutes Chapter 80C or your right to any procedure, forum or remedies that the laws of the jurisdiction provide.

7. **Waiver of Punitive Damages and Jury Trial.** If required by the Minnesota Franchises Law, Section 17.H of the Franchise Agreement is deleted.

8. **Limitations of Claims.** The following is added to the end of Section 17.J of the Franchise Agreement:

However, Minnesota law provides that no action may be commenced under Minn. Stat. Sec. 80C.17 more than three (3) years after the cause of action accrues.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

**[SIGNATURES ON FOLLOWING PAGE]**



**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider effective on the Effective Date shown below.

**BFK FRANCHISE COMPANY LLC**,  
a Nevada limited liability company

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

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

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

**FRANCHISEE**

**(IF YOU ARE TAKING THE FRANCHISE AS A CORPORATION, LIMITED LIABILITY COMPANY, OR PARTNERSHIP):**

\_\_\_\_\_

[Print Name of Franchisee Entity]

By:

[Signature of person signing on behalf of entity]

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

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

**(IF YOU ARE TAKING THE FRANCHISE INDIVIDUALLY AND NOT AS A LEGAL ENTITY):**

\_\_\_\_\_

[Signature of individual franchisee]

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

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

\_\_\_\_\_

[Signature of individual franchisee]

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

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

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

**RIDER TO THE BFK FRANCHISE COMPANY LLC  
FRANCHISE AGREEMENT  
FOR USE IN NEW YORK**

**This Rider** (the “**Rider**”) is made and entered into as of the Effective Date as stated in the Franchise Agreement (defined below), by and between BFK FRANCHISE COMPANY LLC, a Nevada limited liability company with its principal business address at 5475 W Town Place Suite 205 A, St. Augustine, FL 32092 (“**we,**” “**us,**” “**our,**” or “**Franchisor**”), and \_\_\_\_\_ a \_\_\_\_\_ whose principal business address is \_\_\_\_\_ (“**you,**” “**your,**” or “**Franchisee**”).

1. **Background.** We and you are parties to that certain Franchise Agreement that has been signed concurrently with the signing of this Rider (the “**Franchise Agreement**”). This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) the offer or sale of the franchise for the franchised business that you will operate under the Franchise Agreement was made in the State of New York, and/or (b) you are a resident of New York and will operate the franchised business in New York.

2. **Releases.** The following language is added to the end of Sections 4.A(4), 12.C(7), 13.C, and the first paragraph of Section 15.E of the Franchise Agreement:

, provided, however, that to the extent required by Article 33 of the General Business Law of the State of New York, 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 the proviso that the non-waiver provisions of GBL 687 and 687.5 be satisfied.

3. **Transfer by Us.** The following language is added to the end of Section 12.A of the Franchise Agreement:

However, to the extent required by applicable law, no assignment will be made except to an assignee who, in our good faith judgment, is willing and able to assume our obligations under this Agreement.

4. **Termination by You.** The following language is added to the end of Section 14 of the Franchise Agreement:

You may terminate this Agreement on any grounds available by law under the provisions of Article 33 of the General Business Law of the State of New York.

5. **Governing Law and Consent to Jurisdiction.** The following language is added to the end of Sections 17.G and 17.H of the Franchise Agreement:

However, to the extent required by Article 33 of the General Business Law of the State of New York, this Section shall not be considered a waiver of any right conferred upon you by the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder.

6. **Limitation of Claims**. The following language is added to the end of Section 17.J of the Franchise Agreement:

However, to the extent required by Article 33 of the General Business Law of the State of New York, all rights 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 provision that the non-waiver provisions of GBL Sections 687.4 and 687.5 be satisfied

7. **Application of Rider**. There are circumstances in which an offering made by us would not fall within the scope of the New York General Business Law, Article 33, such as when the offer and acceptance occurred outside the State of New York. However, an offer or sale is deemed to be made in New York if you are domiciled in and the franchise will be opened in New York. We are required to furnish a New York prospectus to every prospective franchisee who is protected under the New York General Business Law, Article 33.

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider effective on the Effective Date shown below.

**BFK FRANCHISE COMPANY LLC,** a  
Nevada limited liability company

**FRANCHISEE**

**(IF YOU ARE TAKING THE  
FRANCHISE AS A CORPORATION,  
LIMITED LIABILITY COMPANY, OR  
PARTNERSHIP):**

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

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

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

\_\_\_\_\_  
[Print Name of Franchisee Entity]

By: \_\_\_\_\_  
[Signature of person signing on behalf of entity]

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

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

2

**(IF YOU ARE TAKING THE  
FRANCHISE INDIVIDUALLY AND  
NOT AS A LEGAL ENTITY):**

\_\_\_\_\_  
[Signature of individual franchisee]

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

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

[Signature of individual franchisee] \_\_\_\_\_

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

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

**RIDER TO THE BFK FRANCHISE COMPANY LLC  
FRANCHISE AGREEMENT  
FOR USE IN NORTH DAKOTA**

**This Rider** (the “**Rider**”) is made and entered into as of the Effective Date as stated in the Franchise Agreement (defined below), by and between BFK FRANCHISE COMPANY LLC, a Nevada limited liability company with its principal business address at 475 W Town Place Suite 205 A, St. Augustine, FL 32092 (“**we**,” “**us**” or “**our**”), and \_\_\_\_\_ a \_\_\_\_\_ whose principal business address is \_\_\_\_\_ (“**you**” or “**your**”).

1. **Background.** We and you are parties to that certain Franchise Agreement that has been signed concurrently with the signing of this Rider (the “**Franchise Agreement**”). This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) you are a resident of North Dakota and the franchised business will be located in North Dakota, and/or (b) the offer or sale of the franchise for the franchised business that you will operate under the Franchise Agreement was made in the State of North Dakota.

2. The Agreement shall be amended by the addition of the following Section 22:

22. The parties acknowledge and agree that they have been advised that the North Dakota Securities Commissioner has determined the following agreement provisions are unfair, unjust or inequitable to North Dakota franchisees:

- A. **Restrictive Covenants:** Any provision which discloses the existence of covenants restricting competition contrary to Section 9-08-06, N.D.C.C., without further disclosing that such covenants will be subject to this statute.
- B. **Situs of Arbitration Proceedings:** Any provision requiring that the parties must agree to arbitrate disputes at a location that is remote from the site of the franchisee's business.
- C. **Restriction on Forum:** Any provision requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.
- D. **Liquidated Damages and Termination Penalties:** Any provision requiring North Dakota franchisees to consent to liquidated damages or termination penalties.
- E. **Applicable Laws:** Any provision which specifies that any claims arising under the North Dakota franchise law will be governed by the laws of a state other than North Dakota.
- F. **Waiver of Trial by Jury:** Any provision requiring North Dakota franchisees to consent to the waiver of a trial by jury.

- G. Waiver of Exemplary and Punitive Damages: Any provision requiring North Dakota franchisees to consent to a waiver of exemplary and punitive damages.
- H. General Release: Any provision requiring North Dakota franchisees to execute a general release of claims as a condition of renewal or transfer of a franchise.
- I. Limitation on Claims. Requiring North Dakota franchisees to consent to a limitation on when claims may be brought.

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider effective on the Agreement Date.

**BFK FRANCHISE COMPANY LLC,** a  
Nevada limited liability company

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

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

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

By:

\_\_\_\_\_  
[Signature of person signing on behalf of  
entity]

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

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

**(IF YOU ARE TAKING THE  
FRANCHISE INDIVIDUALLY AND  
NOT AS A LEGAL ENTITY):**

\_\_\_\_\_  
[Signature of individual franchisee]

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

**DATED:**

\_\_\_\_\_

**FRANCHISE OWNER**

**(IF YOU ARE TAKING THE  
FRANCHISE AS A CORPORATION,  
LIMITED LIABILITY COMPANY,  
OR PARTNERSHIP):**

\_\_\_\_\_  
[Signature of individual franchisee]

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

**DATED:**

\_\_\_\_\_

\_\_\_\_\_  
[Print Name of Franchisee Entity]

**RIDER TO THE BFK FRANCHISE COMPANY LLC  
FRANCHISE AGREEMENT  
FOR USE IN RHODE ISLAND**

**This Rider** (the "**Rider**") is made and entered into as of the Effective Date as stated in the Franchise Agreement (defined below), by and between BFK FRANCHISE COMPANY LLC, a Nevada limited liability company with its principal business address at 475 W Town Place Suite 205 A, St. Augustine, FL 32092 ("**we**," "**us**" or "**our**"), and \_\_\_\_\_ whose principal place of business is \_\_\_\_\_ ("**you**" or "**your**").

1. **Background.** We and you are parties to that certain Franchise Agreement effective as of \_\_\_\_\_, 201\_\_ (the "Franchise Agreement") that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) you are a resident of Rhode Island and the franchised business that you will operate under the Franchise Agreement will be located in Rhode Island; and/or (b) any of the offering or sales activity relating to the Franchise Agreement occurred in Rhode Island.

2. **Governing Law.** The following language is added to the end of Section 17.F of the Franchise Agreement:

Notwithstanding the foregoing, to the extent required by applicable law, Rhode Island law will apply to claims arising under the Rhode Island Franchise Investment Act. Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that "A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act."

3. **Consent to Jurisdiction.** The following language is added to the end of Section 17.G of the Franchise Agreement:

To the extent required by applicable law, you may bring an action in Rhode Island for claims arising under the Rhode Island Franchise Investment Act.

**[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]**

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider effective on the Agreement Date. **DATED:** \_\_\_\_\_

**BFK FRANCHISE COMPANY LLC,** a  
Nevada limited liability company

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

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

**YOU**

**(IF YOU ARE A CORPORATION,  
LIMITED LIABILITY COMPANY,  
OR PARTNERSHIP):**

[Print Name] \_\_\_\_\_

[Signature] \_\_\_\_\_

[Name] \_\_\_\_\_

[Print Name] \_\_\_\_\_

By:

\_\_\_\_\_

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

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

**(IF YOU ARE AN INDIVIDUAL AND  
NOT A LEGAL ENTITY):**

[Signature] \_\_\_\_\_

2



**RIDER TO THE BFK FRANCHISE COMPANY LLC  
FRANCHISE AGREEMENT  
FOR USE IN WASHINGTON**

**This Rider** (the “**Rider**”) is made and entered into as of the Effective Date as stated in the Franchise Agreement (defined below), by and between BFK FRANCHISE COMPANY LLC, a Nevada limited liability company with its principal business address at 475 W Town Place Suite 205 A, St. Augustine, FL 32092 (“**we,**” “**us,**” “**our,**” or “**Franchisor**”), and \_\_\_\_\_ a \_\_\_\_\_ whose principal business address is \_\_\_\_\_ (“**you,**” “**your,**” or “**Franchisee**”).

1. **Background.** We and you are parties to that certain Franchise Agreement that has been signed at the same time as the signing of this Rider (the “**Franchise Agreement**”) that has been signed concurrently with the signing of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being signed because (a) the franchised business that you will operate under the Franchise Agreement will be located in Washington; and/or (b) you are a resident of Washington; and/or (c) any of the offering or sales activity relating to the Franchise Agreement occurred in Washington.

2. **Addition of Paragraphs.** The following is added to the end of the Franchise Agreement:

In recognition of the requirements by the Washington Franchise Investment Protection Act and the Rules and Regulations promulgated thereunder (the “**Act**”), the Franchise Agreement shall be modified as follows:

The State of Washington has a statute, RCW 19.100.180, which might supersede this Agreement in your relationship with us, including the areas of termination and renewal of your franchise. There may also be court decisions which might supersede this Agreement in your relationship with us, including the areas of termination and renewal of your franchise.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the State of Washington, or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

In the event of a conflict of laws, the provisions of the Act, Chapter 19.100 RCW shall prevail.

A release or waiver of rights executed by a franchisee shall not include rights under the Act 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, might not be enforceable.

Transfer fees are collectable to the extent that they reflect our reasonable estimate or actual costs in effecting a transfer.

**IN WITNESS WHEREOF**, the parties have executed and delivered this Rider effective on the Effective Date shown below.

**BFK FRANCHISE COMPANY LLC**,  
a Nevada limited liability company

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

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

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

**FRANCHISEE**

**(IF YOU ARE TAKING THE  
FRANCHISE AS A CORPORATION,  
LIMITED LIABILITY COMPANY, OR  
PARTNERSHIP):**

\_\_\_\_\_  
[Print Name of Franchisee Entity]

By: \_\_\_\_\_  
[Signature of person signing on behalf of entity]

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

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

**(IF YOU ARE TAKING THE  
FRANCHISE INDIVIDUALLY AND  
NOT AS A LEGAL ENTITY):**

\_\_\_\_\_  
[Signature of individual franchisee]

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

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

\_\_\_\_\_  
[Signature of individual franchisee]

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

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

**EXHIBIT D TO FDD**  
FINANCIAL STATEMENTS

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of Creative Learning Corporation

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Creative Learning Corporation and its subsidiaries (the Company) as of September 30, 2020 and 2019, the related consolidated statement of operations, stockholders' equity (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Mac Accounting Group, LLP

We have served as the Company's auditor since 2019.

Midvale, Utah  
December 30, 2020

**CREATIVE LEARNING CORPORATION**  
**Consolidated Balance Sheets**

	<u>September 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>
<b>Current Assets:</b>		
Cash	\$ 427,659	\$ 522,071
Restricted Cash (marketing fund)	20,194	17,950
Accounts receivable, less allowance for doubtful accounts of approximately \$942,000 and \$663,000, respectively	269,211	279,109
Prepaid commission expense	212,122	235,129
Prepaid expense	10,452	7,867
Marketing Fund	—	—
Notes receivables - current portion, less allowance for doubtful accounts of approximately \$91,000 and \$91,000, respectively	9,159	3,000
<b>Total Current Assets</b>	<u>948,797</u>	<u>1,065,126</u>
Prepaid commission expense- net of current portion	512,756	773,062
Notes receivables - net of current portion	—	—
Property and equipment, net of accumulated depreciation of approximately \$416,000 and \$383,000, respectively	131,618	323,789
Deposits	833	—
<b>Total Assets</b>	<u>\$ 1,594,004</u>	<u>\$ 2,161,977</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 69,527	\$ 107,697
Notes payable	119,980	—
Deferred revenue	915,103	986,039
Accrued liabilities	8,743	125,720
Accrued marketing fund	—	—
<b>Total Current Liabilities</b>	<u>1,113,353</u>	<u>1,219,456</u>
Deferred revenue - net of current portion	2,297,576	3,382,107
<b>Total Liabilities</b>	<u>3,410,929</u>	<u>4,601,563</u>
Commitments and Contingencies (Note 10)	—	—
<b>Stockholders' Equity (Deficit)</b>		
Preferred stock, \$.0001 par value; 10,000,000 shares authorized; -0- shares issued and outstanding	—	—
Common stock, \$.0001 par value; 50,000,000 shares authorized 13,363,410 shares issued and 13,298,310 shares outstanding as of September 30, 2020; 13,607,102 shares issued and 13,542,002 shares outstanding as of September 30, 2019	1,334	1,360
Additional paid in capital	2,990,080	2,987,554
Treasury Stock 65,100 shares, at cost	(34,626)	(34,626)
Accumulated Deficit	(4,773,713)	(5,393,874)
<b>Total Stockholders' Equity (Deficit)</b>	<u>(1,816,925)</u>	<u>(2,439,586)</u>
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	<u>\$ 1,594,004</u>	<u>\$ 2,161,977</u>

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

**CREATIVE LEARNING CORPORATION**  
**Consolidated Statements of Operations**

	<b>September 30, 2020</b>	<b>September 30, 2019</b>
<b>REVENUES</b>		
Royalties fees	\$ 1,448,228	\$ 1,695,788
Initial franchise fees	1,237,994	2,479,921
Marketing fund revenue	130,496	222,653
Technology fees	221,722	118,504
Merchandise sales	—	1,098
<b>TOTAL REVENUES</b>	<b>3,038,440</b>	<b>4,517,964</b>
<b>COST OF GOODS SOLD</b>	<b>—</b>	<b>272</b>
<b>GROSS PROFIT</b>	<b>3,038,440</b>	<b>4,517,692</b>
<b>OPERATING EXPENSES</b>		
Salaries, payroll taxes and stock-based compensation	613,683	884,715
Professional, legal and consulting fees	565,996	540,196
Bad debt expense	349,794	(67,018)
Other general and administrative expenses	279,775	206,628
Franchise commissions	288,734	605,620
Franchise training and expenses	3,381	14,880
Depreciation	112,543	115,627
General Advertising	81,413	21,013
Franchisee marketing fund expense	130,496	222,653
Office expense	27,170	19,535
<b>TOTAL OPERATING EXPENSES</b>	<b>2,452,985</b>	<b>2,563,849</b>
<b>OPERATING INCOME (LOSS)</b>	<b>585,455</b>	<b>1,953,843</b>
<b>OTHER INCOME (EXPENSE)</b>	<b>34,706</b>	<b>63,497</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>620,161</b>	<b>2,017,340</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>—</b>	<b>—</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 620,161</b>	<b>\$ 2,017,340</b>
<b>NET INCOME (LOSS) PER SHARE</b>		
Basic	\$ 0.05	\$ 0.17
Diluted	\$ 0.04	\$ 0.17
Basic weighted average number of common shares outstanding	13,402,981	12,043,558
Diluted weighted average number of common shares outstanding	13,784,990	12,043,558

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

**Creative Learning Corporation**  
**Consolidated Statement of Changes in Stockholders' Equity/(Deficit)**

	<u>Treasury Stock</u>		<u>Common stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholder's Equity/ (Deficit)</u>
	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Amount</u>			
<b>Balance October 1, 2018</b>	(65,100)	\$ (34,626)	12,075,875	\$ 1,207	\$ 2,897,285	\$ (2,391,525)	\$ 472,341
Stock-based compensation			1,531,227	153	90,269	—	90,422
Adoption of ASC 606	—	—	—	—	—	(5,019,689)	(5,019,689)
Net loss	—	—	—	—	—	2,017,340	2,017,340
<b>Balance September 30, 2019</b>	(65,100)	(34,626)	13,607,102	1,360	2,987,554	(5,393,874)	(2,439,586)
Stock based compensation	—	—	35,714	2	2,498	—	2,500
Shares cancelled	—	—	(279,406)	(28)	28	—	—
Net Income	—	—	—	—	—	620,161	620,161
<b>Balance, September 30, 2020</b>	(65,100)	\$ (34,626)	13,363,410	\$ 1,334	\$ 2,990,080	\$ (4,773,713)	\$ (1,816,925)

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

**CREATIVE LEARNING CORPORATION**  
**Consolidated Statements of Cash Flows**

	<b>For the Fiscal Years ended September 30,</b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Cash flows from operating activities:</b>		
Net Income/(Loss)	\$ 620,161	\$ 2,017,340
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities:		
Depreciation	112,543	115,627
Gain on sale of assets held for sale	(20,603)	(65,257)
Bad debt expense	349,794	(67,018)
Stock based compensation	2,500	90,422
Changes in operating assets and liabilities:		
Accounts receivable	(339,896)	(17,256)
Prepaid expenses	(2,585)	21,858
Prepaid commission expense	283,313	599,992
Deposits	(833)	1,425
Accounts payable	(38,170)	(53,314)
Accrued liabilities	(116,977)	111,115
Deferred revenue	(1,155,467)	(2,259,726)
Accrued marketing fund	-	(97,334)
Net cash provided by (used in) operating activities	<u>(306,220)</u>	<u>397,874</u>
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	-	(118,838)
Proceeds from the sale of assets	100,231	145,787
(Issuance)/Collection of Notes receivable	<u>(6,159)</u>	<u>12,000</u>
Net cash provided by investing activities	94,072	38,949
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	119,980	-
Net cash provided by financing activities	<u>119,980</u>	<u>-</u>
Net change in cash, cash equivalents and restricted cash	(92,168)	436,823
Cash, cash equivalents and restricted cash at beginning of period	540,021	103,198
Cash, cash equivalents and restricted cash at end of period	<u>\$ 447,853</u>	<u>\$ 540,021</u>
<b>Noncash financing activity:</b>		
Shares cancelled	<u>\$ 28</u>	<u>\$ -</u>
Noncash activity related to FASB ASC 606:	<u>\$ -</u>	<u>\$ 5,019,689</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

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



**CREATIVE LEARNING CORPORATION**  
**Notes to Consolidated Financial Statements**  
**September 30, 2020 and 2019**

**(1) Nature of Organization and Summary of Significant Accounting Policies**

*Nature of Organization*

Creative Learning Corporation ("CLC"), formerly B2 Health, Inc., was incorporated March 8, 2006 in the State of Delaware. BFK Franchise Company LLC ("BFK") was formed in the State of Nevada on May 19, 2009. Effective July 2, 2010, CLC was acquired by BFK in a transaction classified as a reverse acquisition. CLC concurrently changed its name from B2 Health, Inc. to Creative Learning Corporation. During fiscal year 2020, BFK eLearning LLC was formed in the State of Delaware.

In addition to the accounts of CLC and BFK, the accompanying consolidated financial statements include the accounts of CLC's subsidiaries, BFK Development Company LLC ("BFKD"), BFK eLearning LLC ("B4KEL") and SF LLC ("Sew Fun Studios"). In 2020, the Company decided to put on hold the Sew Fun Studios business.

The organizational documents for BFK Development Company LLC, B4KEL and SF LLC do not specify a termination date. Each of the above listed LLC's has a single member, controlled 100% by CLC.

The Company also owns a 49% non-controlling interest in Bricks4Schoolz, LLC, which is accounted for under the cost method (subject to the Company's rescission of its interest).

CLC operates wholly-owned subsidiaries BFK and SF under the trade names Bricks 4 Kidz® and Sew Fun Studios™ respectively, that offer children's enrichment and education franchises.

CLC and its wholly owned subsidiaries BFK, BFKD, B4KEL, and SF LLC are hereinafter referred to collectively as the "Company".

*Basis of Presentation*

The Company financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

International franchise fees vary and are set relative to the potential of the franchised territories. In addition, the Company awards master agreements outside of the United States and Canada. The royalty structure is the same for both our US and International franchisees. Contracts are structured such that the Company collects revenue from foreign franchises in US dollars. We do not have international subsidiaries.

The Company has multiple franchise concepts, but all concepts are managed centrally as one segment and are reviewed by the Company in total. Accordingly, decision-making regarding the Company's overall operating performance and allocation of Company resources are assessed on a consolidated basis. As such, the Company operates as one reporting segment.

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of CLC and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying financial statements do not include the accounts of Bricks4Schoolz, LLC, a 49% owned entity which is accounted for under the cost method (subject to the Company's rescission of its interest).

*Fiscal year*

The Company operates on a September 30 fiscal year-end.

### *Use of Estimates*

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates and assumptions made by management include allowance for doubtful accounts, allowance for deferred tax assets, depreciation of property and equipment, recoverability of long lived assets and fair value of equity instruments. Actual results could differ from those estimates as the current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

### *Cash, Restricted Cash, and Cash Equivalents*

The Company considers all highly liquid securities with original maturities of three months or less when acquired, to be cash equivalents. The Company records restricted cash for marketing funds collected from the franchisees in excess of amounts spent for marketing. Per the franchise agreements, a marketing fund of 2% of franchisees' gross cash receipts is collected by the Company and held to be spent on the promotion of the brand (see Note 8).

Amounts recorded as cash, cash equivalents, and restricted cash in the statement of cash flows is as follows:

	<u>September 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash	\$ 427,659	\$ 522,071
Cash Equivalents	—	—
Restricted Cash	20,194	17,950
Total	<u>\$ 447,853</u>	<u>\$ 540,021</u>

The Company maintains cash balances which at times exceed the federally insured limit of \$250,000. The Company believes there is no significant risk with respect to these deposits. The Company had approximately \$-0-cash in excess of the federally insured limit at September 30, 2020 as compared to \$241,000 at September 30, 2019.

### *Accounts Receivable*

The Company reviews accounts receivable periodically for collectability and establishes an allowance for doubtful accounts and records bad debt expense when deemed necessary. The Company records an allowance for doubtful accounts that is based on historical trends, customer knowledge, any known disputes, and considers the aging of the accounts receivable balances combined with management's estimate of future potential recoverability. Accounts and receivables are written off against the allowance after all attempts to collect a receivable have failed. The Company believes its allowances for doubtful accounts at September 30, 2020 and 2019 are adequate, but actual write-offs could exceed the recorded allowance. During the years ended September 30, 2020 and 2019 the balance in the allowance for doubtful accounts was approximately \$942,000 and \$663,000, respectively.

### *Notes Receivable*

Accounting Standards Codification ("ASC") 310, Receivables, provides guidance for receivables and notes that arise from credit sales, loans or other transactions. Financing receivable includes loans and notes receivable. Originated loans we hold for which we have the intent and ability to hold for the foreseeable future or to maturity (or payoff) are classified as held for investment. Financing receivables held for investment are reported in our consolidated balance sheets at the outstanding principal balance adjusted for any write -offs, allowance for loan losses, deferred fees or costs, and any unamortized premiums or discounts. Interest income is accrued on outstanding principal as earned. Unamortized discounts and premiums are amortized using the interest method with the amortization recognized as part of interest income in the consolidated statements of operations. During the years ended September 30, 2020 and 2019 the balance in the allowance for doubtful notes receivable was approximately \$91,000 and \$91,000, respectively.

### *Long-Lived Assets*

The Company's long-lived assets currently consist of property and equipment, and prior to the year ended September 30, 2019 included intangible assets. The Company tests for impairment losses on long-lived assets used in operations whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Impairment evaluations involve management's estimates of asset useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management which could have a material effect on our reporting results and financial positions. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

### ***Property, Equipment and Depreciation***

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Expenditures for additions and improvements are capitalized, while repairs and maintenance costs are expensed as incurred. The cost and related accumulated depreciation of property and equipment sold or otherwise disposed of are removed from the accounts and any gain or loss is recorded in the year of disposal.

<b>Property and Equipment</b>	<b>Useful Life</b>
Equipment	5 years
Furniture and Fixtures	5 years
Property Improvements	15-40 years
Software	3 years

### ***Treasury stock***

The Company records treasury stock at cost. Treasury stock is comprised of shares of common stock purchased by the Company in the secondary market.

### ***Fair Value of Financial Instruments***

The carrying amounts of cash, accounts receivable, and accounts payable approximate fair value because of the relative short-term maturity of these items and current payment expected. These fair value estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The Company does not hold or issue financial instruments for trading purposes, nor does it utilize derivative instruments. Notes receivable are recorded at par value less allowance for doubtful accounts. The carrying amount is consistent with fair value based upon similar notes issued to other franchisees.

ASC 825, Financial Instruments, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. It also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability.
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of financial assets and liabilities recorded at fair value is measured on a recurring or nonrecurring basis. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. The Company had no financial assets or liabilities carried and measured on a recurring basis during the reporting periods. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared.

## ***Revenue Recognition***

The Company generates almost all of its revenue from contracts with customers. The Company's franchise agreements enter the parties into a contractual agreement, typically over a ten years term, and include performance obligations as follows: protected territory designation, access to proprietary manuals and handbooks, initial training and on-going assistance, consulting, promotion of goodwill, administration of marketing fund, marketing and promotion items, initial marketing program development assistance, company website access, Franchise Management Tool access, lessons and model plans, project kits, Duplo bricks, frames stop motion animation software, and use of the franchisor's intellectual property (IP) (e.g., trade name – Bricks for Kidz). Upon entering into a franchise agreement, the Company charges an initial franchise fee, which is fully collectible and nonrefundable as of the date of the signing of the franchise agreement. Further, because the Company's franchises are primarily a mobile concept and do not require finding locations or construction, the franchisees can begin operations as soon as they complete training.

Per the terms of the franchise agreements, the Company charges for royalty fees on a monthly basis, generally set at a fixed amount, but in some cases are based on a percentage of franchisee's monthly gross revenues. The Company also charges fees for a marketing fund, generally based on 2% of franchisee's monthly gross revenues, which is managed by the Company, to allocate towards national branding of the Company's concepts to benefit the franchisees. Lastly, the Company charges for technology fees on a monthly basis, generally at a fixed amount, for the use of the company Franchise Management tool as well as company emails, etc.

The Company adopted the new revenue standard (ASC 606) on October 1, 2018 for contracts with remaining performance obligations as of October 1, 2018. The Company elected to apply the new standard retrospectively with an adjustment to the opening balance of retained earnings as of the date of adoption. Under ASC 606, the Company considers initial franchise fees to be a part of the license of symbolic intellectual property ("IP"), therefore the performance obligation related to these fees is satisfied over time as the Company fulfills its promise to grant the customer rights to use, and benefit from, the Company's IP, as well as support and maintain the IP. The initial franchise fee, then, is recorded as deferred revenue at inception and recognized on a straight-line basis over the contract term.

In accordance with ASC 606-10-55-65, the Company has determined that the royalty fees, marketing fees, and technology fees are subject to a sales and usage-based royalties' constraint on licenses of IP. Accordingly, these fees are recognized as revenue at the later of when the sales or usage occurs or the related performance obligation is satisfied. Technology fees are recorded net of processing fees. Marketing fees are limited to marketing amounts expensed; therefore, the Company will recognize amounts received in excess of amounts spent on the balance sheet in the accrued marketing fund liability.

The Company collects transfer fees when contracts are transferred between parties and accounts for the transfer as a contract modification under ASC 606. Because the transfer does not increase the scope of the contract or promise any additional goods or services and there are no new distinct services that will be provided after the transfer the Company considers the transfer fee part of the existing contract. Transfer fees, then, are recorded as deferred revenue at inception and recognized on a straight-line basis over the remaining contract term.

When contracts are terminated due to default, or in conjunction with an early termination agreement, the Company accounts for the early termination as a contract modification under ASC 606. Because the termination eliminates any future performance obligations of the Company any deferred revenue associated with the terminated contract is recognized into revenue at the time of termination, along with any early termination fees, in the initial franchise fee line on the Company's Statement of Operations.

The Company generates revenue from sales of merchandise where the performance obligation is met, and therefore revenue recognized, upon the delivery of merchandise to the customer.

### ***Contract Liability – Deferred Revenue***

In conjunction with the adoption of ASC 606, effective October 1, 2018 the Company recorded deferred revenue as a contract liability for its initial franchise fees collected and related to contracts with remaining performance obligations. During the year ended September 30, 2019 and 2020 the activity in the deferred revenue account was as follows:

Balance, September 30, 2018	\$ -
Deferred revenue recognized upon adoption of ASC 606	6,627,872
Initial franchise fees collected	220,195
Revenue recognized into revenue	(2,479,921)
Balance, September 30, 2019	4,368,146
Initial franchise fees collected	82,527
Revenue recognized into revenue	(1,237,994)
Balance, September 30, 2020	3,212,679
Current portion	(915,103)
Deferred revenue, net of current portion	<u>\$ 2,297,576</u>

Amounts expected to be recognized into revenue related to performance obligations that are unsatisfied (or partially unsatisfied) as of September 30, 2020 were as follows:

Year ended September 30, 2021	\$ 915,103
Year ended September 30, 2022	832,477
Year ended September 30, 2023	698,778
Year ended September 30, 2024	409,865
Year ended September 30, 2025 and thereafter	356,456
Total	<u>\$ 3,212,679</u>

### ***Contract Liability – Accrued Marketing Fund***

Per the terms of the franchise agreements, the Company collects 2% of franchisee's gross revenues for a marketing fund, managed by the Company, to allocate toward national branding of the Company's concepts to benefit the franchisees.

The marketing fund amounts owed to the Company are accounted for as a liability on the balance sheet and the actual collections are deposited into a marketing fund bank account, presented as restricted cash on the balance sheet. Expenses pertaining to the marketing fund activities are paid from the marketing fund and reduce the liability account. Upon adoption of FASB 606 on October 1, 2018, the Company presented these marketing fund revenues and expenses on a gross basis on its statement of operations. Any unused funds at the end of the period are recorded as accrued marketing fees. During the year ended September 30, 2019 and 2020 the activity in the accrued marketing fund liability account was as follows:

Balance, September 30, 2018	\$ 97,334
Marketing fund billings	125,319
Commissions recognized into expense	(222,653)
Balance, September 30, 2019	-
Marketing fund billings	130,496
Commissions recognized into expense	(130,496)
Balance, September 30, 2020	<u>\$ -</u>

### ***Contract Asset – Prepaid Commission Expense***

In accordance with ASC 606 the costs related to obtaining a contract are to be capitalized as long as the costs are recoverable and incremental. Effective October 1, 2019, the date the Company adopted ASC 606, they capitalized the value of sales commissions as a contract asset and is amortizing those costs straight-line over the contract life of the franchise agreement to which they relate. During the year ended September 30, 2019 and 2020 the activity in the contract asset account was as follows:

Balance, September 30, 2018	\$ -
Prepaid commissions recognized upon adoption of ASC 606	1,608,185
Commissions paid	5,413
Commissions recognized into expense	(605,404)
Balance, September 30, 2019	1,008,191
Commissions paid	5,421
Commissions recognized into expense	(288,734)
Balance, September 30, 2020	724,878
Current portion	(212,122)
Prepaid commission expense, net of current portion	<u>\$ 512,756</u>

### ***General Marketing Costs***

General marketing costs are expensed as incurred. The Company incurred general marketing costs for the years ended September 30, 2020 and 2019 of approximately \$81,000 and \$21,000, respectively.

***Income Taxes***

The provision for income taxes and deferred income taxes are determined using the asset and liability method. Deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. On a periodic basis, the Company assesses the probability that its net deferred tax assets, if any, will be recovered. If after evaluating all of the positive and negative evidence, a conclusion is made that it is more likely than not that some portion or all of the net deferred tax assets will not be recovered, a valuation allowance is provided by a charge to tax expense to reserve the portion of the deferred tax assets which are not expected to be realized.

The Company reviews its filing positions for all open tax years in all U.S. federal and state jurisdictions where the Company is required to file.

When there are uncertainties related to potential income tax benefits, in order to qualify for recognition, the position the Company takes has to have at least a “more likely than not” chance of being sustained (based on the position’s technical merits) upon challenge by the respective authorities. The term “more likely than not” means a likelihood of more than 50 percent. Otherwise, the Company may not recognize any of the potential tax benefit associated with the position. The Company recognizes a benefit for a tax position that meets the “more likely than not” criterion at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon its effective resolution. Unrecognized tax benefits involve management’s judgment regarding the likelihood of the benefit being sustained. The final resolution of uncertain tax positions could result in adjustments to recorded amounts and may affect our results of operations, financial position and cash flows.

The Company’s policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at September 30, 2020 and 2019, respectively, and has not recognized interest and/or penalties during the years ended September 30, 2020 and 2019, respectively, since there are no material unrecognized tax benefits. Management believes no material change to the amount of unrecognized tax benefits will occur within the next twelve months.

The tax years subject to examination by major tax jurisdictions include the years 2017 and forward by the U.S. Internal Revenue Service, and the years 2016 and forward for various states.

### ***Net earnings (loss) per share***

Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted during the period. FASB ASC 260, *Earnings per Share*, requires a dual presentation of basic and diluted earnings per share. Any stock options or warrants that would have anti-dilutive effect have been excluded from the computation of earnings per share. The number of such shares excluded from the computations of diluted loss per share totaled 1,795,562 at September 30, 2020 and 2,177,571 at September 30, 2019.

### ***Stock-based compensation***

The Company accounts for employee stock awards for services based on the grant date fair value of the instrument issued and those issued to non-employees are recorded based on the grant date fair value of the consideration received or the fair value of the equity instrument, whichever is more reliably measurable. Stock Awards are expensed over the service period. Forfeitures are recognized as they occur.

### ***Reclassifications***

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

### ***Recent accounting pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, “Leases”, which requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, are required. The new standard was adopted by the Company in fiscal year 2020 but had no impact on the Company’s financial statements as the Company does not have any leases that meet the criteria under this standard.

All other newly issued accounting pronouncements, but not yet effective, have been deemed either immaterial or not applicable.

## **(2) Liquidity**

During the current year, the Company had net income of approximately \$620,000 and has sufficient cash on hand to cover expenses for the next 12 months.

The recent COVID-19 outbreak has been declared a pandemic by the World Health Organization, has spread to the United States and many other parts of the world and has adversely affected our business operations, employee availability, financial condition, liquidity and cash flow and the length of such impacts are uncertain.

The outbreak of COVID-19 continues to grow both in the United States and globally, and related government and private sector responsive actions have and will continue to adversely affect our business operations. It is impossible to predict the effect and ultimate impact of the COVID-19 pandemic as the situation is rapidly evolving.

The spread of COVID-19 has caused public health officials to recommend precautions to mitigate the spread of the virus, including warning against congregating in heavily populated areas, such as malls and shopping centers. Among the precautions has been the closure of a substantial portion of the schools in the United States, which has

adversely impacted our royalty revenue from franchisees and our ability to sell new franchises. There is significant uncertainty around the breadth and duration of these school closures and other business disruptions related to COVID-19, as well as its impact on the U.S. and global economy. The extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and the actions taken to contain it or treat its impact. We have asked our corporate employees whose jobs allow them to work remotely to do so for the foreseeable future. Such precautionary measures could create operational challenges, as we adjust to a remote workforce, which could adversely impact our business.



We had cash flows used in operating activities of approximately \$306,000 for the year ended September 30, 2020 compared to cash flows provided by operating activities of approximately \$398,000 for the year ended September 30, 2019. The decrease in cash flows provided by operating activities for the year ended September 30, 2020 compared to the year ended September 30, 2019 relates primarily to lower franchise and royalty revenues.

We had cash flows provided by investing activities of approximately \$94,000 for the year ended September 30, 2020 compared to cash flows provided by investing activities of approximately \$39,000 for the year ended September 30, 2019. The increase in cash flows provided investing activities was primarily due to acquiring no property and equipment during the year ended September 30, 2020 compared to acquiring approximately \$119,000 during the year ended September 30, 2019.

We had cash flows provided by financing activities of approximately \$120,000 for the year ended September 30, 2020, compared to \$0 for the year ended September 30, 2019. This was due to the Company receiving proceeds from a loan from the Small Business Administration as further described in Note 10.

The Company is dependent upon both franchise sales and royalty fees to continue current business operations and liquidity.

### **(3) Related Party Transactions**

In December 2017, the Company granted a total of 14,286 warrants to two Directors of the Company. These warrants were granted in conjunction with the issuance of standby letters of credit from the two directors. The warrants had an exercise price of \$0.14 per share and expired five years from the date of grant. These warrants were valued using the Black Scholes method. The fair value of the warrants on the date of grant were \$2,000, and the warrants vested immediately. The Company expensed \$2,000 in connection with the grant during the year ended September 30, 2018. These warrants were exercised in September 2019 for 14,286 shares of common stock. The Company agreed to waive the \$2,000 exercise price owed in total from these warrant holders.

Effective September 30, 2019, Blake Furlow resigned as Chief Executive Officer of the Company. Mr. Furlow received a severance payment of \$30,000 pursuant to the terms of a Severance Agreement. Pursuant to his employment agreement, the Company also issued an aggregate of 566,176 shares of Common Stock to Mr. Furlow.

Effective September 30, 2019, Bart Mitchell, the Company's Chief Financial Officer, was appointed Chief Executive Officer of the Company. In connection with his appointment, Mr. Mitchell entered into an Employment Agreement with the Company as of October 1, 2019 for the term of one year. In addition to cash compensation, he was entitled to receive stock grants valued at the lesser of \$15,000 or 200,000 Shares of Common Stock on the last day of the completed year of employment. Mr. Mitchell continued to serve as a member of the Board of Directors of the Company, but no longer served as the Company's Chief Financial Officer. On September 30, 2019, the Company approved the issuance of 166,667 shares to Mr. Mitchell pursuant to his prior employment agreement for compensation earned during the year ended September 30, 2019. Mr. Mitchell resigned as President on June 8, 2020. At such time he received a severance package of \$50,000. During fiscal year 2020, Mr. Mitchell no longer wanted his 279,406 shares and returned them to the Company for no consideration and then the Company cancelled them.

On September 27, 2019, in connection with their service on the Board of Directors for fiscal years 2017, 2018 and 2019, the Company approved the issuance of (i) 99,362, (ii) 272,472, (iii) 112,739 and (iv) 272,472 shares of Common Stock to Blake Furlow, Gary Herman, Bart Mitchell and JoyAnn Kenny-Charlton, respectively as well as a total of cash payments of \$85,041.

Christopher Rego has been a director since February 5, 2020, and our Chief Executive Officer since May 1, 2020. Prior to his appointment, Mr. Rego purchased an active franchise in California. During the year ended September 30, 2020 the Company recognized royalty revenue from the franchise of \$16,650 and recognized marketing fee revenue from the franchise of \$829. Total payments made by the franchisee were \$7,681. As of September 30, 2020 and 2019 the accounts receivable balance with the franchise was \$11,894 and \$21,536, respectively and the franchises had deferred revenue balances of \$0.

John Simento has been a director of the Company since May 19, 2020. Prior to Mr. Rego's and Mr. Simento's appointments with the Company, they purchased a Company franchise in the United Arab Emirates (the "UAE"). The Company filed an arbitration complaint against them in December 2019 regarding issues related to opening the franchise. The complaint was resolved by a Settlement Agreement dated February 5, 2020. Under the Settlement Agreement, the Company forgave all back royalty fees through July 2019, equally \$18,825, and agreed to defer all other fees until the franchise was able to obtain a business license to operate in the U.A.E., which is currently delayed due to the Coronavirus pandemic. The franchise is currently non-operational as a result of an inability to obtain the issuance of a business license from the UAE due to the Coronavirus pandemic. If the franchise is not able to procure the necessary authorizations to operate, the franchisees would not owe any franchise fees. As a consequence, we have not realized any revenue from the franchise.

Mr. Rego is also the CEO of Teknowland, a software development company, with which the Company entered into an agreement on March 10, 2020. The term of the agreement is nine months and calls for a development fee of \$12,900 per month. During the year ended September 30, 2020 the Company paid seven monthly payments of \$12,900 in accordance with the terms of the agreement and paid an additional \$15,700 for additional services, for a total of \$106,000.

On or about December 6, 2019, Christopher Rego and Rod Whiton (the “Solicitors”), prior to their appointments as officers or directors of the Company, commenced a consent solicitation to the shareholders of the Company and on February 5, 2020, the Company and the Solicitors entered into an agreement to settle their dispute over the consent solicitation. The settlement resulted in the Company paying \$10,000 as reimbursement for certain costs that they incurred related to the consent solicitation, the Company agreeing to appoint Mr. Rego and Mr. Whiton to the board, and the Company’s agreeing to appoint Mr. Rego as chief executive officer, among other provisions. The Company ultimately paid a total of \$20,000 in costs incurred by Messrs. Rego and Whiton in relation to the consent solicitation.

#### (4) Property and Equipment

Property and equipment consisted of the following:

Description	September 30,	
	2020	2019
Depreciable Property and Equipment:		
Equipment	\$ 76,434	\$ 76,434
Furniture and Fixtures	83,427	83,427
Property and Improvements	—	127,723
Software	418,570	418,572
Total Depreciable Property and Equipment	578,431	706,156
Accumulated Depreciation	(446,813)	(382,367)
Total Net Property and Equipment	<u>\$ 131,618</u>	<u>\$ 323,789</u>

Prior to the end of fiscal 2018, the Company listed one of its owned condominiums for sale located at 701 Market Street, Suite 113, St. Augustine, FL for \$98,900. Property and equipment of \$43,178 related to the net book value of this asset was classified as Assets Held for Sale in the Consolidated Balance Sheet at September 30, 2018. This condominium was sold in November 2018 for proceeds of approximately \$86,000, therefore a gain on the sale of assets of approximately \$43,000 was recorded in other income on the statement of operations.

On July 9, 2019 the Company completed the sale of a condominium conference space listed for sale for proceeds of \$60,000 and recorded a gain of approximately \$22,000 which represented the excess of the proceeds over the carrying value on that date.

On October 30, 2019, the Company completed the sale of a condominium conference space for proceeds of approximately \$100,000 and recorded a gain of approximately \$21,000, which represented the excess of the proceeds over the carrying value on that date.

Depreciation expense totaled approximately \$113,000 and \$116,000, respectively, for the years ended September 30, 2020 and 2019.

#### (5) Notes and Other Receivables

At September 30, 2020 and 2019, respectively, the Company held certain notes receivable totaling approximately \$100,000 and \$94,000 respectively for extended payment terms of franchise fees. The Company had an allowance on notes receivable of \$91,000 and \$91,000 as of September 30, 2020 and 2019, respectively. The net notes receivable was approximately \$9,000 and \$3,000 and was included in the consolidated balance sheet as of September 30, 2020 and 2019 respectively. The notes were generally non-interest-bearing notes with monthly payments, payable within one to two years.

	2020	Total
Payment schedules for Notes Receivable	<u>\$ 100,000</u>	<u>\$ 94,000</u>

## (6) Accrued Liabilities

The Company had accrued liabilities at September 30, 2020, and September 30, 2019 as follows:

Accrued Liabilities	September 30, September 30,	
	2020	2019
Accrued Board Compensation	\$ 5,000	\$ 85,041
Accrued Compensation and payroll taxes	3,743	10,679
Accrued Severance	—	30,000
	<u>\$ 8,743</u>	<u>\$ 125,720</u>

## (7) Stock-Based Compensation

In December 2017, the Company granted a total of 14,286 warrants to two Directors of the Company. These warrants were granted in conjunction with the issuance of standby letters of credit from the two directors. The warrants had an exercise price of \$0.14 per share and expired five years from the date of grant. These warrants were valued using the Black Scholes method. The fair value of the warrants on the date of grant were \$2,000, and the warrants vested immediately. The Company expensed \$2,000 in connection with the grant during the year ended September 30, 2018. These warrants were exercised in September 2019 for 14,286 shares of common stock. The Company agreed to waive the \$2,000 exercise price owed in total from these warrant holders.

On March 27, 2019 and July 19, 2019, the Company approved the issuance of 13,265 and 13,788 shares of common stock, respectively, to a former President of the Company due to a calculation error in relation to her terminated employment agreement. All equity compensation relating to this agreement was properly fully recognized during the year ended September 30, 2017.

On March 21, 2019, the Company agreed to cancel 260,630 outstanding stock options granted to the former President of the Company in connection with her terminated employment agreement and grant her 294,778 new options. The Company utilized the Black-Scholes valuation model for estimating fair value of these new options. Each grant was evaluated based upon assumptions at the time of the grant. The assumptions used in the calculations included no dividend yield, expected volatility of approximately 110%, a risk-free interest rate of 2.34%, and an expected term of 5 years. The dividend yield of zero is based on the fact that the Company does not pay cash dividends and has no present intention to pay cash dividends. Expected volatility is estimated based on the Company's historical stock prices over a period equivalent to the expected life in years. The risk-free interest rate is based on the U.S. Treasury's Daily Treasury Yield Curve Rates at the date of grant with a term consistent with the expected life of the options granted. The expected term calculation is based on the "simplified method" allowed by the Securities and Exchange Commission (the "SEC"), due to no applicable historical exercise data available. The fair value of these new stock options did not exceed the fair value of the initially granted options. As per FASB ASC 718-20-35, additional compensation cost is required to be recorded for any incremental value between the initial equity award and any modifications, therefore no additional compensation was recorded for these new stock options.

Effective September 30, 2019, Blake Furlow resigned as Chief Executive Officer of the Company. Mr. Furlow received a severance payment of \$30,000 pursuant to the terms of a Severance Agreement. Pursuant to his employment agreement, the Company also issued an aggregate of 566,176 shares of Common Stock to Mr. Furlow valued at \$35,000.

Effective September 30, 2019, Bart Mitchell, the Company's Chief Financial Officer, was appointed Chief Executive Officer of the Company. In connection with his appointment, Mr. Mitchell entered into an Employment Agreement with the Company as of October 1, 2019 for the term of one year. In addition to cash compensation, he was entitled to receive stock grants valued at the lesser of \$15,000 or 200,000 Shares of Common Stock on the last day of the completed year of employment. Mr. Mitchell continued to serve as a member of the Board of Directors of the Company, but no longer served as the Company's Chief Financial Officer. On September 30, 2019, the Company approved the issuance of 166,667 shares to Mr. Mitchell pursuant to his prior employment agreement for compensation earned during the year ended September 30, 2019, which were valued at \$10,000. Mr. Mitchell resigned as President on June 8, 2020. At such time he received a severance package of \$50,000.

On September 27, 2019, in connection with their service on the Board of Directors for fiscal years 2017, 2018 and 2019, the Company approved the issuance of (i) 99,362, (ii) 272,472, (iii) 112,739 and (iv) 272,472 shares of Common Stock to Blake Furlow, Gary Herman, Bart Mitchell and JoyAnn Kenny-Charlton, respectively, for a value of \$45,423, as well as a total of cash payments of \$85,041.

The following table represents option activity during the years ended September 30, 2020 and 2019:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Weighted Average Grant Date Fair Value
Vested and Exercisable at September 30, 2018	2,143,423	\$ 0.28	3.68	\$ 0.16
Cancelled options	(260,630)	\$ 0.20	—	—

Options granted March 21, 2019	<u>294,778</u>	\$	0.16	—	\$	0.05
Vested and Exercisable at September 30, 2019	2,177,571	\$	0.26	2.89	\$	0.15
Cancelled options	—	\$	—	—	\$	—
Options granted	—	\$	—	—	\$	—
Vested and Exercisable at September 30, 2020	<u>2,177,571</u>	\$	0.27	1.89	\$	0.15

The following table represents all outstanding options as of September 30, 2020:

	<b>Number of</b>	<b>Average</b>	<b>Expiration</b>	<b>Average</b>	<b>Weighted</b>
	<b>Options</b>	<b>Exercise</b>	<b>Date</b>	<b>Remaining</b>	<b>Average</b>
		<b>Price</b>		<b>Life</b>	<b>Grant</b>
				<b>(years)</b>	<b>Date</b>
					<b>Fair Value</b>
Granted May 13, 2017	1,764,000	\$ 0.30	05/13/22	1.62	\$ 0.17
Granted September 30, 2017	118,793	\$ 0.18	09/30/22	2.00	\$ 0.13
Granted March 21, 2019	<u>294,778</u>	\$ 0.17	03/19/24	3.47	\$ 0.05
Vested and Exercisable at September 30, 2019	<u>2,177,571</u>	\$ 0.23			\$ 0.15

## **(8) Commitments and Contingencies**

### ***Litigation***

The Company is subject to litigation claims arising in the ordinary course of business. The Company believes that it has adequately accrued for legal matters in accordance with the requirements of GAAP. The Company records litigation accruals for legal matters which are both probable and estimable and for related legal costs as incurred. The Company does not reduce these liabilities for potential insurance or third-party recoveries.

On October 2, 2015, the Company filed suit in the state court in St. John's County, Florida, Case No. CA 15-1076, against its former Chief Executive Officer Brian Pappas, Christine Pappas, its former Human Resources officer, and an independent company controlled by Mr. Pappas named Franventures, LLC ("Franventures"). The lawsuit seeks return of Company emails and other electronic materials in the possession of the defendants, Company control over the process by which the Company's documents are identified, and a court judgment that the property is the Company's. Mr. and Mrs. Pappas have returned certain Company documents that they have identified, but other issues remain. On December 11, 2017, Brian Pappas filed a counterclaim alleging the Company is required to indemnify him for a multitude of matters. On October 8, 2020 the Court dismissed Brian Pappas' indemnity counterclaim without prejudice.

In a separate suit, filed on March 7, 2016 in the state court in St. John's County, Florida (Case No. CA 16-236), Franventures, LLC ("FV") filed suit against the Company alleging that it is due an unstated amount of money from the Company pursuant to a contract the Company had previously terminated. On June 23, 2016, the Company filed a counterclaim against Franventures, which also included a complaint against former Chairman of the Board and Chief Executive Officer Brian Pappas. The counterclaim seeks redress for losses and expenditures caused by alleged fraud, conversion of company assets, and breaches of fiduciary duty that the Company alleges that defendants perpetrated upon CLC, including assertions regarding actions by Brian Pappas that the Company alleges occurred while Mr. Pappas was serving as the Chief Executive Officer of CLC and as a member of its board of directors. The Company is actively litigating this matter. On October 27, 2016, Brian Pappas filed a motion to amend the complaint in Case No. CA 16-236 to add a claim alleging that the Company slandered him by virtue of a press release issued on or about August 1, 2016, in which the Company reported to shareholders on steps it had taken and improvements it had implemented. The motion has still not been ruled upon by the Court. If Mr. Pappas is granted the right to amend his complaint and does so, the Company will vigorously defend the proposed claim.

The Company's complaint against Mr. Pappas and Franventures (Case No. CA 15-1076) has been consolidated with Mr. Pappas' and Franventures' complaint against the Company (Case No. CA 16-236) for purposes of discovery, but not for any other purpose.

On February 24, 2017, franchisee, Team Kasa, LLC, along with its three owners, filed suit in the Eastern District of New York (Case No. 2:17-cv-01074) against former CEO Brian Pappas and Franventures, as well as four other defendants seeking damages under the New York Franchise Sales Act. The same Plaintiffs also initiated an arbitration proceeding against the Company on the same issues (American Arbitration Association, Case No. 01-17-0001-1968), alleging the Company is jointly and severally liable for damages resulting from the allegations against Mr. Pappas and Franventures. The Company is contesting the allegations and its liability for any damages in the arbitration case. Both cases have been held in abeyance as the parties seek a resolution.

On November 8, 2017, franchisee, Indy Bricks, LLC, along with its two owners, Ben and Kate Schreiber, initiated arbitration against the Company (American Arbitration Association, Case No. 01-17-0006-8120). The Plaintiffs allege breach of contract, fraud, material misrepresentations and omissions, violations of the Indiana Franchise Act, and violations of the Indiana Deceptive Franchise Practices Act. On April 23, 2020, a settlement agreement was entered into between the Plaintiffs and the Company under which the arbitration was dismissed. Pursuant to the settlement agreement, Indy Bricks, LLC will pay the Company an agreed amount of past due franchise fees, monthly marketing and royalty fees, and monthly fees to utilize the Company's franchise management software.

On December 6, 2019, the Company initiated arbitration against two franchise owners. This case was settled on February 5, 2020.

In July 2019, the Company entered into an operating agreement for a joint venture known as Bricks4Schoolz, LLC, with BPL Enterprises for Bricks4Schoolz LLC ("BPL"). Under the operating agreement, the joint venture is granted a license to distribute certain intellectual property of the Company through a software system developed by BPL for the joint venture, provided that the joint venture may only distribute the intellectual property to elementary and middle schools in territories which are not covered by an existing franchisee of the Company. Due to disputes regarding the scope of the license, and the fact that neither Bricks4Schoolz, LLC or BPL were legal entities at the time the operating agreement was executed, the Company has rescinded the operating agreement.

## (9) Income Taxes

The components of the deferred tax assets at September 30, 2020 and September 30, 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Allowance for bad debt	\$ 79,399	\$ 191,083
Charitable contributions	127	127
Stock-based compensation	87,675	87,675
Foreign tax credit	149,238	123,127
Net operating loss	463,512	283,342
Total gross deferred tax asset	<u>779,951</u>	<u>685,355</u>
Deferred tax liabilities:		
Depreciation timing difference	(16,614)	(31,324)
ASC 606 Adjustment	(797,356)	(797,356)
Total deferred tax liability	<u>(813,970)</u>	<u>(828,680)</u>
Gross net deferred tax asset	(34,019)	(143,325)
Less: Valuation allowances	34,019	143,325
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

The Company has recorded various deferred tax assets and liabilities as reflected above. In assessing the ability to realize the deferred tax assets, management considers, whether it is more likely than not, that some portion, or all of the deferred tax assets and liabilities will be realized. The ultimate realization is dependent on generating sufficient taxable income in future years. The valuation allowance is equal to 100% of the net deferred tax asset. Given recurring losses, the Company cannot conclude that it is more likely than not that such assets will be realized, therefore a full valuation allowance has been recorded.

The components of the provisions for income taxes for the fiscal years ended September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Current:		
Federal	\$ —	\$ —
State	—	—
Total	<u>—</u>	<u>—</u>
Deferred:		
Additional deferred tax related to book tax differences	(179,955)	109,081
Valuation allowance	179,955	(109,081)
Total tax provision	<u>\$ —</u>	<u>\$ —</u>

A reconciliation of the provisions for income taxes for the fiscal years ended September 2020 and 2019 as compared to statutory rates is as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Provision at statutory rates	\$ (141,072)	19.85%	\$ 30,835	19.85%
State income tax, net of federal benefit	(39,098)	5.50%	8,546	5.50%
Penalties	—	0.00%	—	0.00%
Meals & entertainment	215	-0.03%	2,923	1.88%
Stock-based compensation	—	0.00%	—	0.00%
Tax credits	—	0.00%	—	0.00%
Other tax differences	—	0.00%	—	0.00%
Change in rate	—	0.00%	—	0.00%
Valuation allowance on deferred tax assets	179,955	-25.3%	(42,304)	-27.2%
Total income tax provision	<u>\$ —</u>	<u>0.00%</u>	<u>\$ —</u>	<u>0.00%</u>

**(10) Note Payable**

On April 28, 2020, the Company was granted a loan (the "Loan") from First Bank of the Lake in aggregate amount of \$119,980, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The Loan, which was in the form of a Note dated April 24, 2020 issued by the Company, matures on April 23, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on October 23, 2020. The Note may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties. Funds from the Loan may only be used for payroll costs, cost used to continue group health care benefits, mortgage payments, rent, utilities and interest on other debt obligations incurred before February 15, 2020. The Company used the entire Loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

**(11) Subsequent Events**

The Company performed a review of events subsequent to the balance sheet date through the date the financial statements were issued and determined that there were no such events requiring recognition or disclosure in the financial statements.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### CREATIVE LEARNING CORPORATION

Dated: December 30, 2020

By: /s/ Rod Whiton

Rod Whiton, President  
(Principal Executive Officer)

Dated: December 30, 2020

By: /s/ Mike Elkin

Mike Elkin, Chief Financial Officer  
(Principal Financial and Accounting  
Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Christopher Rego</u> Christopher Rego	Director and Chief Executive Officer	December 30, 2020
<u>/s/ JoyAnn Kenny-Charlton</u> JoyAnn Kenny-Charlton	Director	December 30, 2020
<u>/s/ Rod Whiton</u> Rod Whiton	President and Director	December 30, 2020
<u>/s/ John Simento</u> John Simento	Director	December 30, 2020
<u>/s/ R. Gary Zell, II</u> R. Gary Zell, II	Director	December 30, 2020



# Contact Us

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**Phone**

1-408-596-1459

**Offshore Development Address**

Cyber Towers, 2nd Floor A1,Q4,  
HITEC City, Madhapur,  
Hyderabad - 500 081 , India

## Master Software Development Agreement Software Development Agreement

**This Software Development Agreement is made on March 10th, 2020 (the “Effective Date”) between Teknowland Inc., a California corporation with its principal place of business located at 1551 McCarthy Blvd, Milpitas, CA 95035 (the “Developer”), and Creative Learning Corporation, a Delaware corporation with its principal place of business located at P.O. BOX 3402, Boise, ID 83711 (the “Customer”).**

**WHEREAS**, the Client has conceptualized the development and maintenance of the online Franchise Management Tool, Website/Mini Site and any new software tool (the “**Software System Software, Application Software, Programming Languages**”), and the Developer is a contractor with whom the Client has come to an agreement to enhance, develop and maintain the Software. The Software will not include any new development and maintenance for an online subscription model portal.

The parties agree as follows:

1. Definitions. In addition to the terms defined above, the following definitions apply:
  1. “Confidential Information” means all non-public and business-related information, written or oral, that the Customer discloses or makes available to the Developer, directly or indirectly, through any means of communication or observation.
  2. “Software” means Customer’s web-based Franchise Management Tool, Website/Min Site and any new software tools., and all associated documentation and other instructions.
  3. “Specifications” has the meaning given to it in section 3.1.
2. **Software Development Services. The Customer engages the Developer, and the Developer agrees, to perform services for the Customer to develop, modify, improve, deliver and install the Software in accordance with the terms of this agreement.**
3. Developer’s Duties and Responsibilities
  1. Specifications. The Customer shall define the specifications, requirements, and deliverables (the “Specifications”) with input from the Developer to make sure each specification conforms to the Developer’s written guidelines. Each specification must be able to be worked *I*ndependently. The goals of all specifications must be *N*egotiable. Every specification must be *E*stimable by the Developer. Scope of specifications should be *S*mall to *M*edium for lowering the risk associated with changes to code. *T*ests must be defined for every functional requirement. Finally, *E*xample cases and outcomes must be defined when possible.
  2. Development. The Developer shall design, develop, modify, improve and install the Software in accordance with the Specifications.
  3. Delivery. The Developer shall grant the Customer access to the source code of the Software from the Effective Date of the agreement or as soon as practicable thereafter. The initial installation of the Software and any updates shall be installed as soon as is practicable and according to agreements between the Customer and Developer during periodic project management meetings.
  4. The developer acknowledges and agrees that the source code and the software shall, at all times both during and after the term of this agreement, belong exclusively to the Customer.
  5. Installation. The Developer will be responsible for conducting at least one installation of the Software and producing documentation outlining the steps required for the Customer to install the Software.
4. Acceptance
  1. Acceptance Period. The Customer will have 14 days following each date of delivery OR installation to assess and test the Software.
  2. Completion. If the Developer delivers the Software in accordance with the Specifications, then the Developer will be deemed to have completed its delivery obligations.
  3. Rejection. If the Developer fails to deliver the Software in accordance with the Specifications, the Customer shall detail in writing its grounds for rejection using the Jira tool. In that case, the Developer shall use reasonable efforts to correct the Software, in which case upon delivery of the corrected Software, the process of acceptance testing will restart.
  4. Continued Failure. If the Developer’s corrections fail to deliver the Software in accordance with the Specifications, then the Customer may elect to terminate this agreement or adjust the Specifications accordingly.

## 5. Change Orders

1. Changes. The Customer may at any time request changes to the Specifications. Changes must be submitted in writing into the Developer's issue tracking system (JIRA), or to the Developer's project management contact.
2. Additional Time. If the proposed change will, in the Developer's reasonable opinion, require a delay in the delivery OR installation of the Software, then the Customer and the Developer shall confer. The Customer may in that case elect to either:
  1. withdraw its proposed change, or
  2. require the Developer to deliver the Software with the proposed change, subject to the delay.

## 6. Training

1. Scope. The Developer shall provide the Customer with training on how to use the Software during weekly project management meetings. Additional training can be requested by the Customer.
2. Dates and Locations. The Developer shall conduct the training on the dates and at the locations that the parties agree upon.

## 7. Support and Maintenance

1. The Customer may obtain support and maintenance services from the Developer from 6 am to 6 pm Pacific Time. Support will also be available over the weekends for any production defect that needs to be fixed.

## 8. Fees and Expenses

1. Fees. The Customer shall pay for four (4) Full time Developers according to a fixed monthly rate of \$12,900 only.
2. Expenses. The Customer shall reimburse the Developer for all reasonable travel expenses that are pre-approved by the Customer in writing.
3. Payment Due Date. All fees under this agreement will be due and payable in full to the Developer no later than Thirty (30) days after the date of the Developer's invoice.
4. Late Payments. Any amount not paid when due will bear interest from the due date until paid at a rate equal to 5.0% annually. or the maximum allowed by law, whichever is less.

9. Term. This agreement shall be for a period of six (6) months and automatically renew until the Developer has performed all its obligations under this agreement. Regardless, the Parties retain the right to terminate this agreement at anytime pursuant to Section 18 below.

10. Representations. The Developer represents and warrants to the Customer as follows, acknowledging that the Customer is relying on these representations and warranties:

1. Right to Assign. The Developer acknowledges and agrees that the Customer owns all right, title and interest in and to the software and the source code, including any and all improvements, modifications, developments, enhancements and other software developed for Customer.
2. No Infringement. The Developer's use of the Software will not infringe upon the intellectual property, contractual, or other proprietary or personal rights of any person.

## 11. Warranties

1. Limited Media Warranty. The Developer warrants that, for a period of 60 days following the termination of this agreement the Developer will be able to provide the Customer with a copy of the Software's source code via Internet file transfer as soon as practicable and when given written notice. Developer will not retain any copies of the source code or any confidential information following the expiration or earlier termination of this agreement.
2. Limited Support Warranty. For a period of 60 days following the delivery OR installation of the Software, the Developer shall perform its maintenance and support services consistent with generally accepted industry standards, but only if the Software is installed and operated in accordance with the Developer's documentation and written other instructions.
3. Limited Performance Warranty. The Developer warrants that, for a period of 60 days starting on the date of delivery OR installation of the Software, the Software will perform in accordance with the functional Specifications set forth in the documentation, but only if the Software is installed and operated in accordance with the Developer's documentation and other written instructions.
4. Disclaimer. The Developer does not warrant that the functions contained in the Software will meet the Licensee's requirements or operate in the combination desired by the Licensee, or that the Software's operation will be uninterrupted or error free. The Developer does not make and will not be liable for any warranties other than those expressly included in this agreement.

## 12. Acknowledgments

1. Independent Contractor. The Developer is an independent contractor. Nothing contained in this agreement creates a partnership, joint venture, employer/employee, principal-and-agent, or any similar relationship between the parties.
2. Proprietary Rights. The parties acknowledge that the development of the Software is “work for hire” within the meaning of the Copyright Act of 1976, as amended on one or more occasions, and that the Software written under this agreement will be the Customer’s property.
3. Consent to Use of Data. The Developer may collect and use technical information gathered as part of its support services but may only use this information to improve its products and services and for no other purpose. The Developer shall not disclose any of this information in a form that personally identifies the Customer or its clients.
4. Government End Users. If the Software and related documentation are supplied to or purchased by or on behalf of the United States Government, then the Software is deemed to be “commercial software” as that term is used in the Federal Acquisition Regulation system. The rights of the United States will not exceed the minimum rights set forth in FAR 52.227-19 for “restricted computer software”. All other terms and conditions of this agreement otherwise apply.

### 13. Confidentiality

1. Confidentiality Obligations. During the term of this agreement for 25 years afterward, the Developer shall hold all Confidential Information in confidence in accordance with the terms of this agreement.
2. Use Solely for Purpose. The Developer shall use the Confidential Information in accordance with, and solely for the purpose of providing its services under, the terms of this agreement.

14. Source Code Management. Delivery and Update of Source Code. The Developer shall provide access to the source code to the Customer during the entire term of the agreement and maintain backups for a minimum of 90 days after the termination of the agreement. At all times during and after the term of this agreement, the source code does and will belong to the Customer. Developer must provide the source code to Customer at all times during the term of this Agreement, as well as upon termination or expiration of this agreement.

15. Intellectual property rights. The Parties acknowledge and agree that the Customer will hold all intellectual property rights in the Software including, but not limited to, copyright and trade mark rights. The Developer agrees not to claim any such ownership in the Software's intellectual property at any time prior to or after the completion and delivery of the Software to the Customer.

### 16. Indemnification

1. Developer's Indemnity. The Developer shall indemnify the Customer and its officers, directors, employees, agents, and affiliates, against all claims, liability, costs, and expenses (including attorneys' fees) arising from any third party claim or proceeding against the Customer
  1. based on any claim that the Software infringes or violates any intellectual or other property right, or
  2. that alleges any negligent act or omission or willful conduct of the Developer or its directors, officers, employees, agents, or affiliates.
  3. Developer's breach of its obligation under this Agreement or violation of any application law, rule or regulation.
2. Notice of Claim. The Customer shall give prompt written notice to the Developer of any claim or potential claim for indemnification under this agreement.

### 17. Limitation of Liability

1. Neither party will be liable for breach-of-contract damages that the breaching party could not reasonably have foreseen upon entering into this agreement.
2. Neither party will be liable to the other for any indirect, special, punitive, exemplary or consequential damages, or incidental losses or damages of any kind, including, but not limited to, lost profits, lost savings or loss of use of facilities or equipment, regardless of whether arising from breach of contract, warranty, tort, strict liability or otherwise, even if advised of the possibility of such loss or damage, or if such loss or damage could have been reasonably foreseen.
3. Developer's liability for any negligent acts, errors, or omissions is limited to the Developer's insurance policy agreement.
4. At all times during the term of this Agreement, the Developer shall maintain liability insurance policies in the minimum coverage and limit requirements [ General Liability \$ 1,000,000 EACH OCCURRENCE| DAMAGE TO RENTED PREMISES (Ea occurrence) \$1,000,000 | General Liability MED EXP (Any one person) \$10,000 |PERSONAL & ADV INJURY \$1,000,000 | GEN'L AGGREGATE LIMIT APPLIES PER: GENERAL AGGREGATE \$2,000,000 | Product and Completed Operations \$2,000,000 | Workers Compensation EACH ACCIDENT \$1,000,000]. Developer will cause the Customer to be named as an additional insured under such policies and will provide to Customer on an annual basis and also upon request from Customer, a copy of Developer Certificate of Insurance establishing Developer's compliance with its obligations under this Agreement. Developer's failure to comply with its obligations under this Section will be deemed a material default giving Customer the right to terminate this Agreement if not cured within 5 business days following Developer's receipt of written notice from Customer.

### 18. Termination

1. Termination upon Notice. Either party may terminate this agreement for any reason upon 30 days' notice to the other party.
2. Termination for Cause. If either party
  1. commits a material breach or material default in the performance or observance of any of its obligations under this agreement, and
  2. the breach or default continues for a period of 30 days after delivery by the other party of written notice reasonably detailing such breach or default, then the non-breaching or nondefaulting party may terminate this agreement, with immediate effect, upon written notice to the breaching or defaulting party.
3. Termination upon Insolvency. This agreement will terminate immediately upon the Developer's insolvency, bankruptcy, receivership, dissolution, or liquidation.
4. Effect of Termination
  1. Termination for Customer's Breach. In the event of termination of this agreement due to a material breach or default committed by the Customer,

2. the assignment of rights to the Customer in this agreement will terminate, and
3. Termination for any other Reason. In the event of termination of this agreement for any other reason,
4. the Customer will continue to exercise all rights to the Software that it has acquired under this agreement,
5. the Developer shall immediately deliver in the format specified by the Customer, to the Customer all Software, documentation, source code, and other Customer property in its possession relating to the Software and then destroy all copies in its possession or control.
6. the Customer shall pay the Developer for all services rendered and work performed up to the effective date of termination, unless the Customer has terminated for cause, in which case it will only be required to pay fair value. The Developer shall provide the Customer with an invoice for its fees within 30 days of the effective date of the termination, and the Client shall pay the invoice within 15 days of receipt.
7. the Developer will not develop for any client the same functional software system for a period of 10 years.

19. General

1. Entire Agreement. This agreement contains all the terms agreed to by the parties relating to its subject matter. It replaces all previous discussions, understandings, and agreements.
2. Amendment. This agreement may only be amended by a written document signed by both parties.
3. Assignment. The Developer may not assign this agreement or any of its rights under it. The Customer may assign this agreement or any of its rights without notice or the need for the Developer's consent.
4. Remedies Cumulative. The rights and remedies available to a party under this agreement are cumulative and in addition to, not exclusive of or in substitution for, any rights or remedies otherwise available to that party.
5. Survival. Sections 13 (Confidentiality), 15 (Assignment of Rights), 16 (Indemnification), 17 (Limitation of Liability), and 18.4 (Effect of Termination), survive the termination or expiration of this agreement.
6. Severability. If any part of this agreement is declared unenforceable or invalid, the remainder will continue to be valid and enforceable.
7. Waiver. A party's failure or neglect to enforce any of rights under this agreement will not be deemed to be a waiver of that party's rights.
8. Governing Law. This agreement will be governed by and construed in accordance with the laws of the State of California, without regard to its conflict of laws rules.
9. Waiver of Jury Trial. The parties waive their respective rights to trial by jury in any action or proceeding involving this agreement or the transactions relating to its subject matter.
10. Headings. The headings used in this agreement and its division into articles, sections, schedules, and other subdivisions do not affect its interpretation.

**This agreement has been signed by the parties. Teknowland, Inc.**

Signed : /s/ Christopher Rego

Name : Christopher Rego  
Title : CEO  
Date :

Creative Learning Corporation

Signed : /s/ Bart Mitchell

Name : Bart Mitchell  
Title : CEO  
Date: 3/21/2020

**EXHIBIT 21**

**SUBSIDIARIES OF CREATIVE LEARNING CORPORATION**

<b>Subsidiary</b>	<b>Jurisdiction of Organization</b>	<b>Ownership</b>
BFK Franchise Company, LLC	Nevada	100% by the Company
BFK Development Company LLC	Nevada	100% by the Company
Sew Fun Franchise Company LLC	Florida	100% by the Company
B4K eLearning Company LLC	Delaware	100% by the Company
Bricks4Schools LLC	Georgia	49% by the Company*

\* The Company's ownership interest is subject to the Company's rescission of the operating agreement under which the interest was issued.

**EXHIBIT 31.1**

**CERTIFICATIONS**

I, Rod Whiton, certify that:

1. I have reviewed this annual report on Form 10-K of Creative Learning Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;



4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 30, 2020

/s/ Rod Whiton  
\_\_\_\_\_  
Rod Whiton  
President  
(Principal Executive Officer)

**EXHIBIT 31.2**

### **CERTIFICATIONS**

I, Mike Elkin certify that:

1. I have reviewed this annual report on Form 10-K of Creative Learning Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 30, 2020

/s/ Mike Elkin

Mike Elkin  
Chief Executive Officer  
(Principal Financial and Accounting Officer)

**EXHIBIT 32.1**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER AND PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Creative Learning Corporation (the "Company") on Form 10-K for the period ending September 30, 2020 as filed with the Securities and Exchange Commission (the "Report"), Rod Whiton, the Company's President, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of the Company.

December 30, 2020

/s/ Rod Whiton

Rod Whiton  
President  
(Principal Executive Officer)

**EXHIBIT 32.2**

**CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Creative Learning Corporation (the "Company") on Form 10-K for the period ending September 30, 2020 as filed with the Securities and Exchange Commission (the "Report"), Mike Elkin the Company's Chief Financial Officer, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of the Company.

December 30, 2020

/s/ Mike Elkin

Mike Elkin  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of Creative Learning Corporation

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Creative Learning Corporation and its subsidiaries (the Company) as of September 30, 2019, the related consolidated statement of operations, stockholders' equity (deficit) and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2019, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Adoption of New Accounting Pronouncement**

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for revenue recognition in 2019 due to the adoption of Accounting Standards Codification 606.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Mac Accounting Group, LLP

We have served as the Company's auditor since 2019.

Midvale, Utah

April 1, 2020

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders' and Board of Directors of  
**Creative Learning Corporation**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Creative Learning Corporation (the "Company") as of September 30, 2018, the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year ended September 30, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018, and the results of its operations and its cash flows for the year ended September 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

### **Explanatory Paragraph – Going Concern**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has a significant working capital deficiency, has incurred significant losses and is reliant on its ability to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Marcum LLP

We have served as the Company's auditor from 2018 to 2019.

West Palm Beach, FL

September 4, 2019

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**CREATIVE LEARNING CORPORATION**  
**Consolidated Balance Sheets**

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
<b>Assets</b>		
Current Assets:		
Cash	\$ 522,071	\$ 80,693
Restricted Cash (marketing fund)	17,950	22,505
Accounts receivable, less allowance for doubtful accounts of approximately \$663,000 and \$938,000, respectively	279,109	194,835
Prepaid commission expense	235,129	—
Prepaid expense	7,867	29,725
Assets held for sale	—	43,178
Notes receivables - current portion, less allowance for doubtful accounts of approximately \$91,000 and \$91,000, respectively	3,000	11,955
Total Current Assets	<u>1,065,126</u>	<u>382,891</u>
Prepaid commission expense- net of current portion	773,062	—
Notes receivables - net of current portion	—	3,045
Property and equipment, net of accumulated depreciation of approximately \$383,000 and \$273,000, respectively	323,789	357,930
Deposits	—	1,425
Total Assets	<u><u>\$ 2,161,977</u></u>	<u><u>\$ 745,291</u></u>
<b>Liabilities and Stockholders' Equity ( Deficit)</b>		
Current Liabilities:		
Accounts payable	\$ 107,697	\$ 161,011
Deferred revenue	986,039	—
Accrued liabilities	125,720	14,605
Accrued marketing fund	—	97,334
Total Current Liabilities	<u>1,219,456</u>	<u>272,950</u>
Deferred revenue - net of current portion	<u>3,382,107</u>	<u>—</u>
Total Liabilities	<u>4,601,563</u>	<u>272,950</u>

Commitments and Contingencies (Note 10)	—	—
Stockholders' Equity (Deficit)		
Preferred stock, \$.0001 par value; 10,000,000 shares authorized; -0- shares issued and outstanding	—	—
Common stock, \$.0001 par value; 50,000,000 shares authorized 13,607,102 shares issued and 13,542,002 shares outstanding as of September 30, 2019		
12,075,875 shares issued and 12,010,775 shares outstanding as of September 30, 2018	1,360	1,207
Additional paid in capital	2,987,554	2,897,285
Treasury Stock 65,100 shares, at cost	(34,626)	(34,626)
Accumulated Deficit	(5,393,874)	(2,391,525)
Total Stockholders' Equity (Deficit)	<u>(2,439,586)</u>	<u>472,341</u>
Total Liabilities and Stockholders' Equity (Deficit)	<u>\$ 2,161,977</u>	<u>\$ 745,291</u>

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



**CREATIVE LEARNING CORPORATION**  
**Consolidated Statements of Operations**

	<b>For the Fiscal Years Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>REVENUES</b>		
Royalties fees	\$ 1,695,788	\$ 2,207,442
Initial franchise fees	2,479,921	191,503
Marketing fund revenue	222,653	—
Technology fees	118,504	—
Merchandise sales	1,098	17,781
<b>TOTAL REVENUES</b>	<b>4,517,964</b>	<b>2,416,726</b>
<b>COST OF GOODS SOLD</b>	<b>272</b>	<b>6,662</b>
<b>GROSS PROFIT</b>	<b>4,517,692</b>	<b>2,410,064</b>
<b>OPERATING EXPENSES</b>		
Salaries, payroll taxes and stock-based compensation	884,715	695,884
Professional, legal and consulting fees	540,196	598,237
Bad debt expense	(67,018)	732,590
Other general and administrative expenses	206,628	391,923
Franchise commissions	605,620	50,699
Franchise training and expenses	14,880	46,567
Depreciation	115,627	51,607
General Advertising	21,013	30,323
Franchisee marketing fund expense	222,653	—
Impairment expense	—	23,200
Office expense	19,535	4,114
<b>TOTAL OPERATING EXPENSES</b>	<b>2,563,849</b>	<b>2,625,144</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,953,843</b>	<b>(215,080)</b>
<b>OTHER INCOME (EXPENSE)</b>	<b>63,497</b>	<b>(3,753)</b>

<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<u>2,017,340</u>	<u>(218,833)</u>
<b>PROVISION FOR INCOME TAXES</b>	—	—
<b>NET INCOME (LOSS)</b>	<u><u>\$ 2,017,340</u></u>	<u><u>\$ (218,833)</u></u>
<b>NET INCOME (LOSS) PER SHARE</b>		
Basic and diluted	<u><u>\$ 0.17</u></u>	<u><u>\$ (0.02)</u></u>
Basic and diluted weighted average number of common shares outstanding	<u><u>12,043,558</u></u>	<u><u>12,010,775</u></u>

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

**CREATIVE LEARNING CORPORATION**  
**Consolidated Statement of Changes in Stockholders' Equity (Deficit)**

	<u>Treasury Stock</u>		<u>Common stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>		
					<u>Capital</u>		<u>Equity(Deficit)</u>
<b>Balance October 1, 2017</b>	(65,100)	\$ (34,626)	12,075,875	\$ 1,207	\$ 2,895,285	\$ (2,172,692)	\$ 689,174
Stock-based compensation	—	—	—	—	2,000	—	2,000
Net loss	—	—	—	—	—	(218,833)	(218,833)
<b>Balance September 30, 2018</b>	(65,100)	(34,626)	12,075,875	1,207	2,897,285	(2,391,525)	472,341
Stock based compensation			1,531,227	153	90,269	—	90,422
Adoption of ASC 606	—	—	—	—	—	(5,019,689)	(5,019,689)
Net income	—	—	—	—	—	2,017,340	2,017,340
<b>Balance, September 30, 2019</b>	<u>(65,100)</u>	<u>\$ (34,626)</u>	<u>13,607,102</u>	<u>\$ 1,360</u>	<u>\$ 2,987,554</u>	<u>\$ (5,393,874)</u>	<u>\$ (2,439,586)</u>

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

**CREATIVE LEARNING CORPORATION**  
**Consolidated Statements of Cash Flows**

	<b>For the Fiscal Years ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Net		
Income/(Loss)	\$ 2,017,340	\$ (218,833)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities:		
Depreciation	115,627	51,607
Gain on sale of assets held for sale	(65,257)	-
Bad debt expense	(67,018)	732,590
Stock based compensation	90,422	2,000
Impairment loss on intangible assets	-	23,300
Changes in operating assets and liabilities:		
Accounts receivable	(17,256)	(513,107)
Prepaid expenses	21,858	72,420
Prepaid commission expense	599,992	-
Deposits	1,425	13,628
Accounts payable	(53,314)	(15,818)
Accrued liabilities	111,115	(139,072)
Deferred revenue	(2,259,726)	-
Accrued marketing fund	(97,334)	(34,575)
Net cash provided by (used in) operating activities	397,874	(25,860)
Cash flows from investing activities:		
Acquisition of property and equipment	(118,838)	(192,621)
Sale of assets held for sale	145,787	
(Issuance)/Collection of Notes receivable	12,000	(10,608)
Net cash provided by (used in) investing activities	38,949	(203,229)
Cash flows from financing activities:		

Net cash provided by (used in) financing activities	-	-
Net change in cash, cash equivalents and restricted cash	436,823	(229,089)
Cash, cash equivalents and restricted cash at beginning of period	103,198	332,287
Cash, cash equivalents and restricted cash at end of period	<u>\$ 540,021</u>	<u>\$ 103,198</u>
Noncash financing activity:		
Financed Insurance	<u>\$ -</u>	<u>\$ 28,808</u>
Noncash activity related to FASB ASC 606	<u>5,019,689</u>	<u>\$ -</u>

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

**CREATIVE LEARNING CORPORATION**  
**Notes to Consolidated Financial Statements**  
**September 30, 2019 and 2018**

**(1) Nature of Organization and Summary of Significant Accounting Policies**

*Nature of Organization*

Creative Learning Corporation (“CLC”), formerly B2 Health, Inc., was incorporated March 8, 2006 in the State of Delaware. BFK Franchise Company LLC (“BFK”) was formed in the State of Nevada on May 19, 2009. Effective July 2, 2010, CLC was acquired by BFK in a transaction classified as a reverse acquisition. CLC concurrently changed its name from B2 Health, Inc. to Creative Learning Corporation.

In addition to the accounts of CLC and BFK, the accompanying consolidated financial statements include the accounts of CLC’s subsidiaries, BFK Development Company LLC (“BFKD”), and SF LLC (“Sew Fun Studios”).

The organizational documents for BFK Development Company LLC and SF LLC do not specify a termination date. Each of the above listed LLC’s has a single member, controlled 100% by CLC.

CLC operates wholly-owned subsidiaries BFK and SF under the trade names Bricks 4 Kidz® and Sew Fun Studios™ respectively, that offer children's enrichment and education franchises.

CLC and its wholly owned subsidiaries BFK, BFKD, and SF LLC are hereinafter referred to collectively as the "Company".

*Basis of Presentation*

The Company financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

International franchise fees vary and are set relative to the potential of the franchised territories. In addition, the Company awards master agreements outside of the United States and Canada. The royalty structure is the same for both our US and International franchisees. Contracts are structured as such that the Company collects revenue from foreign franchises in US dollars. We do not have international subsidiaries.

The Company has multiple franchise concepts, but all concepts are managed centrally as one segment and are reviewed by the Company in total. Accordingly, decision-making regarding the Company's overall operating performance and allocation of Company resources are assessed on a consolidated basis. As such, the Company operates as one reporting segment.

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of CLC and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

***Fiscal year***

The Company operates on a September 30 fiscal year-end.

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### *Use of Estimates*

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates and assumptions made by management include allowance for doubtful accounts, allowance for deferred tax assets, depreciation of property and equipment, recoverability of long lived assets and fair value of equity instruments. Actual results could differ from those estimates as the current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

### *Cash, Restricted Cash, and Cash Equivalents*

The Company considers all highly liquid securities with original maturities of three months or less when acquired, to be cash equivalents. The Company records restricted cash for marketing funds collected from the franchisees in excess of amounts spent for marketing. Per the franchise agreements, a marketing fund of 2% of franchisees' gross cash receipts is collected by the Company and held to be spent on the promotion of the brand (see Note 8).

Amounts recorded as cash, cash equivalents, and restricted cash in the statement of cash flows is as follows:

	<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>
Cash	\$ 522,071	\$ 80,693
Cash Equivalents	—	—
Restricted Cash	17,950	22,505
Total	<u>\$ 540,021</u>	<u>\$ 103,198</u>

The Company maintains cash balances which at times exceed the federally insured limit of \$250,000. The Company believes there is no significant risk with respect to these deposits. The Company had approximately \$241,000 of cash in excess of the federally insured limit at September 30, 2019 as compared to \$0 at September 30, 2018.

### *Accounts Receivable*

The Company reviews accounts receivable periodically for collectability and establishes an allowance for doubtful accounts and records bad debt expense when deemed necessary. The Company records an allowance for doubtful accounts that is based on historical trends, customer knowledge, any known disputes, and considers the aging of the accounts receivable balances combined with management's estimate of future potential recoverability. Accounts and receivables are written off against the allowance after all attempts to collect a receivable have failed. The



Company believes its allowances for doubtful accounts at September 30, 2019 and 2018 are adequate, but actual write-offs could exceed the recorded allowance. During the years ended September 30, 2019 and 2018 the balance in the allowance for doubtful accounts was approximately \$663,000 and \$938,000, respectively.

### ***Notes Receivable***

Accounting Standards Codification (“ASC”) 310, Receivables, provides guidance for receivables and notes that arise from credit sales, loans or other transactions. Financing receivable includes loans and notes receivable. Originated loans we hold for which we have the intent and ability to hold for the foreseeable future or to maturity (or payoff) are classified as held for investment. Financing receivables held for investment are reported in our consolidated balance sheets at the outstanding principal balance adjusted for any write -offs, allowance for loan losses, deferred fees or costs, and any unamortized premiums or discounts. Interest income is accrued on outstanding principal as earned. Unamortized discounts and premiums are amortized using the interest method with the amortization recognized as part of interest income in the consolidated statements of operations. During the years ended September 30, 2019 and 2018 the balance in the allowance for doubtful notes receivable was approximately \$91,000 and \$91,000, respectively.

### ***Long-Lived Assets***

The Company’s long-lived assets currently consist of property and equipment, and prior to the year ended September 30, 2018 included intangible assets. The Company tests for impairment losses on long-lived assets used in operations whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Impairment evaluations involve management’s estimates of asset useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management which could have a material effect on our reporting results and financial positions. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

During fiscal year 2018, the Company recognized an Impairment Loss on long-lived assets relating to concepts and trademarks for SF LLC. The Company abandoned the revenue stream for Sew Fun Studios, for which the previously recorded intangible assets were intended to provide future economic value, and therefore determined that the intangible assets were fully impaired as of September 30, 2018. \$23,200 was recorded as an impairment loss in the operating expenses on the Consolidated Statements of Operations for the year ended September 30, 2018.

### ***Property, Equipment and Depreciation***

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Expenditures for additions and improvements are capitalized, while repairs and maintenance costs are expensed as incurred. The cost and related accumulated depreciation of property and equipment sold or otherwise disposed of are removed from the accounts and any gain or loss is recorded in the year of disposal.

<b>Property and Equipment</b>	<b>Useful Life</b>
Equipment	5 years
Furniture and Fixtures	5 years
Property Improvements	15-40 years
Software	3 years

### ***Treasury stock***

The Company records treasury stock at cost. Treasury stock is comprised of shares of common stock purchased by the Company in the secondary market.

### ***Fair Value of Financial Instruments***

The carrying amounts of cash, accounts receivable, and accounts payable approximate fair value because of the relative short-term maturity of these items and current payment expected. These fair value estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The Company does not hold or issue financial instruments for trading purposes, nor does it utilize derivative instruments. Notes receivable are recorded at par value less allowance for doubtful accounts. The carrying amount is consistent with fair value based upon similar notes issued to other franchisees.

ASC 825, Financial Instruments, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. It also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability.
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of financial assets and liabilities recorded at fair value is measured on a recurring or nonrecurring basis. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. The Company had no financial assets or liabilities carried and measured on a recurring basis during the reporting periods. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared.

## ***Revenue Recognition***

The Company generates almost all of its revenue from contracts with customers. The Company's franchise agreements enter the parties into a contractual agreement, typically over a ten years term, and include performance obligations as follows: protected territory designation, access to proprietary manuals and handbooks, initial training and on-going assistance, consulting, promotion of goodwill, administration of marketing fund, marketing and promotion items, initial marketing program development assistance, company website access, Franchise Management Tool access, lessons and model plans, project kits, Duplo bricks, frames stop motion animation software, and use of the franchisor's intellectual property (IP) (e.g., trade name – Bricks for Kidz). Upon entering into a franchise agreement, the Company charges an initial franchise fee, which is fully collectible and nonrefundable as of the date of the signing of the franchise agreement. Further, because the Company's franchises are primarily a mobile concept and do not require finding locations or construction, the franchisees can begin operations as soon as they complete training.

Per the terms of the franchise agreements, the Company charges for royalty fees on a monthly basis, generally set at a fixed amount, but in some cases are based on a percentage of franchisee's monthly gross revenues. The Company also charges fees for a marketing fund, generally based on 2% of franchisee's monthly gross revenues, which is managed by the Company, to allocate towards national branding of the Company's concepts to benefit the franchisees. Lastly, the Company charges for technology fees on a monthly basis, generally at a fixed amount, for the use of the company Franchise Management tool as well as company emails, etc.

The Company adopted the new revenue standard (ASC 606) on October 1, 2018 for contracts with remaining performance obligations as of October 1, 2018. The Company elected to apply the new standard retrospectively with an adjustment to the opening balance of retained earnings, therefore comparative information from prior year periods has not been adjusted and continue to be reported under the accounting standards in effect for those periods, specifically under ASC 605.

For the year ended September 30, 2018, under ASC 605, the Company recognized revenue on an accrual basis after services were performed under contract terms and in accordance with regulatory requirements, the service price to the client was fixed or determinable, and collectability was reasonably assured. Accordingly, initial franchise fees were not recognized as revenue until initial training was completed and when substantially all of the services required by the franchise agreement were fulfilled by the Company in accordance with ASC Topic 952-605 *Revenue Recognition-Franchisor*. Further, royalties and technology fees were recognized as earned on a monthly basis. Lastly, the Company recorded marketing funds collected as a liability on the balance sheet with expenses pertaining to the marketing fund reducing the liability account, thus no income statement impact. At September 30, 2018 the Company had no unearned revenue for franchise fees collected but not yet earned per their ASC 605 revenue recognition policy.

Effective October 1, 2018 the Company began recognizing revenue under ASC 606. The Company considers initial franchise fees to be a part of the license of symbolic intellectual property ("IP"), therefore the performance obligation related to these fees is satisfied over time as the Company fulfills its promise to grant the customer rights to use, and benefit from, the Company's IP, as well as support and maintain the IP. The initial franchise fee, then, is recorded as deferred revenue at inception and recognized on a straight-line basis over the contract term.

In accordance with ASC 606-10-55-65, the Company has determined that the royalty fees, marketing fees, and technology fees are subject to a sales and usage-based royalties' constraint on licenses of IP. Accordingly, these fees are recognized as revenue at the later of when the sales or usage occurs or the related performance obligation is satisfied. Technology fees are recorded net of processing fees. Marketing fees are limited to marketing amounts expensed; therefore, the Company will recognize amounts received in excess of amounts spent on the balance sheet in the accrued marketing fund liability.

The Company collects transfer fees when contracts are transferred between parties and accounts for the transfer as a contract modification under ASC 606. Because the transfer does not increase the scope of the contract or promise any additional goods or services and there are no new distinct services that will be provided after the transfer the Company considers the transfer fee part of the existing contract. Transfer fees, then, are recorded as deferred revenue at inception and recognized on a straight-line basis over the remaining contract term.

When contracts are terminated due to default, or in conjunction with an early termination agreement, the Company accounts for the early termination as a contract modification under ASC 606. Because the termination eliminates any future performance obligations of the Company any deferred revenue associated with the terminated contract is recognized into revenue at the time of termination, along with any early termination fees, in the initial franchise fee line on the Company's Statement of Operations.

The Company generates revenue from sales of merchandise where the performance obligation is met, and therefore revenue recognized, upon the delivery of merchandise to the customer.

***Contract Liability – Deferred Revenue***

In conjunction with the adoption of ASC 606, effective October 1, 2018 the Company recorded deferred revenue as a contract liability for its initial franchise fees collected and related to contracts with remaining performance obligations. During the year ended September 30, 2019 the activity in the deferred revenue account was as follows:

Balance, September 30, 2018	\$	---
Deferred revenue recognized upon adoption of ASC 606		6,627,872
Initial franchise fees collected		220,195
Revenue recognized into revenue		(2,479,921)
Balance, September 30, 2019		<u>4,368,146</u>
Current portion		(986,039)
Deferred revenue, net of current portion	\$	<u><u>3,382,107</u></u>

Prior to September 30, 2018 the Company had no activity in its deferred revenue account.

Amounts expected to be recognized into revenue related to performance obligations that are unsatisfied (or partially unsatisfied) as of September 30, 2019 were as follows:

Year ended September 30, 2020	\$	986,039
Year ended September 30, 2021		954,648
Year ended September 30, 2022		883,048
Year ended September 30, 2023		741,398
Year ended September 30, 2024 and thereafter		803,013
Total	\$	<u><u>4,368,146</u></u>

***Contract Liability – Accrued Marketing Fund***

Per the terms of the franchise agreements, the Company collects 2% of franchisee's gross revenues for a marketing fund, managed by the Company, to allocate toward national branding of the Company's concepts to benefit the franchisees.

The marketing fund amounts owed to the Company are accounted for as a liability on the balance sheet and the actual collections are deposited into a marketing fund bank account, presented as restricted cash on the balance sheet. Expenses pertaining to the marketing fund activities are paid from the marketing fund and reduce the liability account. Upon adoption of FASB 606 on October 1, 2018, the Company presented these marketing fund revenues and expenses on a gross basis on its statement of operations. Prior to October 1, 2018 the revenues and expenses were

presented at a net zero value on the Statement of Operations. Any unused funds at the end of the period are recorded as accrued marketing fees. During the year ended September 30, 2019 the activity in the accrued marketing fund liability account was as follows:

Balance, September 30, 2018	\$	97,334
Marketing fund billings		125,319
Commissions recognized into expense		(222,653)
Balance, September 30, 2019	\$	<u>—</u>

***Contract Asset – Prepaid Commission Expense***

In accordance with ASC 606 the costs related to obtaining a contract are to be capitalized as long as the costs are recoverable and incremental. Effective October 1, 2019, the date the Company adopted ASC 606, they capitalized the value of sales commissions as a contract asset and is amortizing those costs straight-line over the contract life of the franchise agreement to which they relate. During the year ended September 30, 2019 the activity in the contract asset account was as follows:

Balance, September 30, 2018	\$	—
Prepaid commissions recognized upon adoption of ASC 606		1,608,182
Commissions paid		5,413
Commissions recognized into expense		(605,404)
Balance, September 30, 2019		<u>1,008,191</u>
Current portion		(235,129)
Prepaid commission expense, net of current portion	\$	<u>773,062</u>

Prior to September 30, 2018 the Company had no activity in its prepaid commission expense account.

### ***General Marketing Costs***

General marketing costs are expensed as incurred. The Company incurred general marketing costs for the years ended September 30, 2019 and 2018 of approximately \$21,000 and \$30,000, respectively.

### ***Income Taxes***

The provision for income taxes and deferred income taxes are determined using the asset and liability method. Deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. On a periodic basis, the Company assesses the probability that its net deferred tax assets, if any, will be recovered. If after evaluating all of the positive and negative evidence, a conclusion is made that it is more likely than not that some portion or all of the net deferred tax assets will not be recovered, a valuation allowance is provided by a charge to tax expense to reserve the portion of the deferred tax assets which are not expected to be realized.

The Company reviews its filing positions for all open tax years in all U.S. federal and state jurisdictions where the Company is required to file.

When there are uncertainties related to potential income tax benefits, in order to qualify for recognition, the position the Company takes has to have at least a “more likely than not” chance of being sustained (based on the position’s technical merits) upon challenge by the respective authorities. The term “more likely than not” means a likelihood of more than 50 percent. Otherwise, the Company may not recognize any of the potential tax benefit associated with the position. The Company recognizes a benefit for a tax position that meets the “more likely than not” criterion at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon its effective resolution. Unrecognized tax benefits involve management’s judgment regarding the likelihood of the benefit being sustained. The final resolution of uncertain tax positions could result in adjustments to recorded amounts and may affect our results of operations, financial position and cash flows.

The Company’s policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at September 30, 2019 and 2018, respectively, and has not recognized interest and/or penalties during the years ended September 30, 2019 and 2018, respectively, since there are no material unrecognized tax benefits. Management believes no material change to the amount of unrecognized tax benefits will occur within the next twelve months.

The tax years subject to examination by major tax jurisdictions include the years 2016 and forward by the U.S. Internal Revenue Service, and the years 2015 and forward for various states.

### ***Net earnings (loss) per share***

Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if stock options or other contracts to issue common stock were



exercised or converted during the period. FASB ASC 260, *Earnings per Share*, requires a dual presentation of basic and diluted earnings per share. Any stock options or warrants that would have anti-dilutive effect have been excluded from the computation of earnings per share. The number of such shares excluded from the computations of diluted loss per share totaled 2,177,571 at September 30, 2019 and 2,157,709 at September 30, 2018.

### ***Stock-based compensation***

The Company accounts for employee stock awards for services based on the grant date fair value of the instrument issued and those issued to non-employees are recorded based on the grant date fair value of the consideration received or the fair value of the equity instrument, whichever is more reliably measurable. Stock Awards are expensed over the service period. Forfeitures are recognized as they occur.

### ***Reclassifications***

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

### ***Recent accounting pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, “Leases”, which requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, will be required. The new standard will become effective for the Company beginning with the first quarter in the fiscal year ending September 30, 2020 and requires a modified retrospective transition approach and includes a number of practical expedients. Early adoption of the standard is permitted. The Company is currently evaluating the impact the adoption of this accounting guidance will have on the consolidated financial statements.

All other newly issued accounting pronouncements, but not yet effective, have been deemed either immaterial or not applicable.

## **(2) Liquidity**

The Company’s consolidated financial statements for the year ended September 30, 2018 were prepared on the basis that the Company would continue as a going concern, which accordingly assumes, among other things, the realization of assets and the satisfaction of liabilities in the ordinary course of business. The Company had losses of \$218,833, had negative cash flows from operating activities and had incurred accumulated losses of \$2,391,525 as of September 30, 2018. These conditions raised substantial doubt about the Company’s ability to continue as a going concern.

As of September 30, 2019, the Company had net income of approximately \$2,000,000, cash provided by operating activities of approximately \$400,000 and sufficient cash to cover projected expenses for the next twelve months. During the year ended September 30, 2019, the Company began using newly developed software to improve communications and revenue reporting capabilities from its franchisees. This new development has allowed for more accurate billing and collections of royalty fees and marketing fees. The Company intends to continue using this new software and expects to continue to see consistent amounts of royalty fee and marketing fee revenues in the next 12 months and beyond. These

positive conditions and events have led management to determine that the substantial doubt about the Company's ability to continue as a going concern has been alleviated.

### **(3) Related Party Transactions**

In December 2017, the Company granted a total of 14,286 warrants to two Directors of the Company. These warrants were granted in conjunction with the issuance of standby letters of credit from the two directors. The warrants had an exercise price of \$0.14 per share and expired five years from the date of grant. These warrants were valued using the Black Scholes method. The fair value of the warrants on the date of grant were \$2,000, and the warrants vested immediately. The Company expensed \$2,000 in connection with the grant during the year ended September 30, 2018. These warrants were exercised in September 2019 for 14,286 shares of common stock. The Company agreed to waive the \$2,000 exercise price owed in total from these warrant holders, therefore this exercise was done on a cashless basis.

Effective September 30, 2019, Blake Furlow resigned as Chief Executive Officer of the Company. Mr. Furlow was entitled to receive a severance payment of \$30,000 pursuant to the terms of a Severance Agreement. In connection with the obligations of his former employment agreement, the Company issued an aggregate of 566,176 shares of Common Stock to Mr. Furlow. See Note 7.

Mr. Mitchell entered into an Employment Agreement with the Company as of October 1, 2019 for the term of one year. In addition to cash compensation, he will receive stock grants valued at lesser of \$15,000 or 200,000 Shares of Common Stock on the last day of the completed year of employment. Mr. Mitchell continued to serve as a member of the Board of Directors of the Company, but no longer served as the Company's Chief Financial Officer. On September 30, 2019, the Company approved the issuance of 166,667 shares to Mr. Mitchell pursuant to his employment agreement for compensation earned during the year ended September 30, 2019. See Note 7.

On September 27, 2019, in connection with their service on the Board of Directors for fiscal years 2017, 2018 and 2019, the Company approved the issuance of (i) 99,362, (ii) 272,472, (iii) 112,739 and (iv) 272,472 shares of Common Stock to Blake Furlow, Gary Herman, Bart Mitchell and JoyAnn Kenny-Charlton, respectively as well as a total of cash payments of \$85,041. See Note 7.

**(4) Property and Equipment**

Property and equipment consisted of the following:

Description	September 30,	
	2019	2018
Depreciable Property and Equipment:		
Equipment	\$ 76,434	\$ 74,456
Furniture and Fixtures	83,427	83,427
Property and Improvements	127,723	180,878
Software	418,572	114,884
Total Depreciable Property and Equipment	706,156	453,645
Accumulated Depreciation	(382,367)	(282,541)
Total Net Depreciable Property and Equipment	323,789	171,104
Non-depreciable Property and Equipment:		
Work in progress	—	186,826
Total Net Property and Equipment	\$ 323,789	\$ 357,930

Prior to the end of fiscal 2018, the Company listed one of its owned condominiums for sale located at 701 Market Street, Suite 113, St. Augustine, FL for \$98,900. Property and equipment of \$43,178 related to the net book value of this asset was classified as Assets Held for Sale in the Consolidated Balance Sheet at September 30, 2018. This condominium was sold in November 2018 for proceeds of approximately \$86,000, therefore a gain on the sale of assets of approximately \$43,000 was recorded in other income on the statement of operations.

On July 9, 2019 the Company completed the sale of a condominium conference space listed for sale for proceeds of \$60,000 and recorded a gain of approximately \$22,000 which represented the excess of the proceeds over the carrying value on that date.

During the year ended September 30, 2018, the Company began the development of a software program to communicate with franchisees and track gross receipts. At September 30, 2018, the amount of work in progress related to this software was \$186,826. The development of this software was completed in December 2018 and it was placed into service. The balance of the work in progress was classified as software and began being amortized on the date the software was placed into service.

Depreciation expense totaled approximately \$116,000 and \$52,000, respectively, for the years ended September 30, 2019 and 2018.

**(5) Notes and Other Receivables**

At September 30, 2019 and 2018, respectively, the Company held certain notes receivable totaling approximately \$94,000 and \$106,000 respectively for extended payment terms of franchise fees. The Company had an allowance on notes receivable of \$91,000 and \$91,000 as of September 30, 2019 and 2018, respectively. The net notes receivable was approximately \$3,000 and \$15,000 and was included in the consolidated balance sheet as of September 30, 2019 and 2018 respectively. The notes were generally non-interest-bearing notes with monthly payments, payable within one to two years.

	<u>2020</u>	<u>Total</u>
Payment schedules for Notes Receivable	<u>\$ 94,000</u>	<u>\$ 94,000</u>

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**(6) Accrued Liabilities**

The Company had accrued liabilities at September 30, 2019, and September 30, 2018 as follows:

<b>Accrued Liabilities</b>	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Accrued Board Compensation	\$ 85,041	\$ —
Accrued Compensation and payroll taxes	10,679	14,605
Accrued Severance	30,000	—
	\$ 125,720	\$ 14,605

**(7) Stock-Based Compensation**

In December 2017, the Company granted an aggregate of 14,286 warrants to two Directors of the Company in connection with standby letters of credit. (See Note 3). The Company utilized the Black-Scholes valuation model for estimating fair value of the warrants. Each grant was evaluated based upon assumptions at the time of the grant. The assumptions used in our calculations are no dividend yield, expected volatility of approximately 247%, a risk-free interest rate of 1.76%, and an expected term of 5 years. The dividend yield of zero is based on the fact that the Company does not pay cash dividends and has no present intention to pay cash dividends. Expected volatility is estimated based on the Company's historical stock prices over a period equivalent to the expected life in years. The risk-free interest rate is based on the U.S. Treasury's Daily Treasury Yield Curve Rates at the date of grant with a term consistent with the expected life of the options granted. The expected term calculation is based on the "simplified method" allowed by the Securities and Exchange Commission (the "SEC"), due to no applicable historical exercise data available. These warrants were fully exercised during the year ended September 30, 2019 and 14,286 common shares were issued (see Note 3).

On March 27, 2019 and July 19, 2019, the Company approved the issuance of 13,265 and 13,788 shares of common stock, respectively, to a former President of the Company due to a calculation error in relation to her terminated employment agreement. All equity compensation relating to this agreement was properly fully recognized during the year ended September 30, 2017.

On March 21, 2019, the Company agreed to cancel 260,630 outstanding stock options granted to the former President of the Company in connection with her terminated employment agreement and grant her 294,778 new options. The Company utilized the Black-Scholes valuation model for estimating fair value of these new options. Each grant was evaluated based upon assumptions at the time of the grant. The assumptions used in the calculations included no dividend yield, expected volatility of approximately 110%, a risk-free interest rate of 2.34%, and an expected term of 5 years. The dividend yield of zero is based on the fact that the Company does not pay cash dividends and has no present intention to pay cash dividends. Expected volatility is estimated based on the Company's historical stock prices over a period equivalent to the expected life in years. The risk-free interest rate is based on the U.S. Treasury's Daily Treasury Yield Curve Rates at the date of grant with a term consistent with the expected life of the options granted. The expected term calculation is based on the "simplified method" allowed by the Securities and Exchange Commission

(the “SEC”), due to no applicable historical exercise data available. The fair value of these new stock options did not exceed the fair value of the initially granted options. As per FASB ASC 718-20-35, additional compensation cost is required to be recorded for any incremental value between the initial equity award and any modifications, therefore no additional compensation was recorded for these new stock options.

On September 27, 2019, the Company approved the issuance of shares of common stock consistent with its corporate by-laws to each of the members of the Company’s Board Members for board compensation, as follows: Blake Furlow – 99,362 shares, Gary Herman – 272,472 shares, Bart Mitchell – 112,739 shares and JoyAnn Kenny-Charlton, 272,472 shares. These shares were recorded at an aggregate fair value of \$45,423 at September 27, 2019 based on the common share price of recent stock issuances.

On September 27, 2019, the Company issued 566,176 shares of common stock to its former CEO for compensation earned during the year as per his employment agreement. The shares were valued based on the common share price of recent stock issuances for a total amount of \$35,000.

On September 27, 2019, the Company approved the issuance of 166,667 shares of common stock to its former CFO for compensation earned during the year as per his employment agreement. The shares were valued based on the common share price of recent stock issuances for a total amount of \$10,000.

The following table represents option activity during the years ended September 30, 2019 and 2018:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Weighted Average Grant Date Fair Value
Vested and Exercisable at September 30, 2017	2,143,423	\$ 0.28	4.68	
Cancelled options	—	\$ —		
Options granted	—	\$ —		
Vested and Exercisable at September 30, 2018	<u>2,143,423</u>	\$ 0.28	3.68	\$ 0.16
Cancelled options	(260,630)	\$ 0.20		
Options granted March 21, 2019	<u>294,778</u>	\$ 0.16		\$ 0.05
Vested and Exercisable at September 30, 2019	<u><u>2,177,571</u></u>	\$ 0.26	2.89	\$ 0.15

The following table represents all outstanding options as of September 30, 2019:

	Number of Options	Average Exercise Price	Expiration Date	Average Remaining Life	Weighted Average Grant Date Fair Value
Granted May 13, 2017	1,764,000	\$ 0.30	05/13/22	32 Months	\$ 0.17
Granted September 30, 2017	118,793	\$ 0.18	09/30/22	36 Months	\$ 0.13
Granted March 21, 2019	294,778	\$ 0.17	03/19/24	54 Months	\$ 0.05
Vested and Exercisable at September 30, 2018	<u>2,177,571</u>	\$ 0.23			\$ 0.15

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## **(8) Commitments and Contingencies**

### ***Litigation***

The Company is subject to litigation claims arising in the ordinary course of business. The Company believes that it has adequately accrued for legal matters in accordance with the requirements of GAAP. The Company records litigation accruals for legal matters which are both probable and estimable and for related legal costs as incurred. The Company does not reduce these liabilities for potential insurance or third-party recoveries.

On October 2, 2015, the Company filed suit in the state court in St. John's County, Florida, Case No. CA 15-1076, against its former Chief Executive Officer Brian Pappas, Christine Pappas, its former Human Resources officer, and an independent company controlled by Mr. Pappas named Franventures, LLC ("Franventures"). The lawsuit seeks return of company emails and other electronic materials in the possession of the defendants, company control over the process by which the company's documents are identified, and a court judgment that the property is the Company's. Mr. and Mrs. Pappas have returned certain company documents that they have identified, but other issues remain. On December 11, 2017, Brian Pappas filed a counterclaim alleging the Company is required to indemnify him for a multitude of matters. The Company denies the allegation and is actively litigating this matter.

In a separate suit, filed on March 7, 2016 in the state court in St. John's County, Florida (Case No. CA 16-236), Franventures, LLC ("FV") alleged that it is due an unstated amount of money from the Company pursuant to a contract the Company had previously terminated. On June 23, 2016, the Company filed a counterclaim against Franventures, which also included a complaint against former Chairman of the Board and Chief Executive Officer Brian Pappas. The counterclaim seeks redress for losses and expenditures caused by alleged fraud, conversion of company assets, and breaches of fiduciary duty that the Company alleges that defendants perpetrated upon CLC, including assertions regarding actions by Brian Pappas that the Company alleges occurred while Mr. Pappas was serving as the Chief Executive Officer of CLC and as a member of its board of directors. The Company is actively litigating this matter.

On October 27, 2016, Brian Pappas filed a motion to amend the complaint in CA 15-1076 to add a claim alleging that the Company slandered him by virtue of a press release issued on or about August 1, 2016, in which the Company reported to shareholders on steps it had taken and improvements it had implemented. The motion has still not been ruled upon by the Court. If Mr. Pappas does amend his complaint, the Company will vigorously defend the proposed claim.

On February 24, 2017, franchisee, Team Kasa, LLC, along with its three owners, filed suit in the Eastern District of New York (Case No. 2:17-cv-01074) against former CEO Brian Pappas, and Franventures. The same Plaintiffs also initiated arbitration on the same issues (American Arbitration Association, Case No. 01-17-0001-1968), alleging the Company is jointly and severally liable for damages resulting from the allegations against Mr. Pappas and Franventures. The Company is contesting the allegations and its liability for any damages. This case has been held in abeyance as the parties seek a resolution.

On November 8, 2017, franchisee, Indy Bricks, LLC, along with its two owners, Ben and Kate Schreiber initiated arbitration against the Company. (American Arbitration Association, Case No. 01-17-0006-8120). Plaintiffs allege breach of contract, fraud, material misrepresentations and omissions, violations of the Indiana Franchise Act, and violations of the Indiana Deceptive Franchise Practices Act. The Company is vigorously contesting the allegations and its liability for any damages.

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**(9) Income Taxes**

The components of the deferred tax assets at September 30, 2019 and September 30, 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax assets:		
Allowance for bad debt	\$ 191,083	\$ 159,907
Charitable contributions	127	127
Stock-based compensation	87,675	87,675
Foreign Tax Credit	123,127	96,491
Net operating loss	283,342	304,953
Total gross deferred tax asset	<u>685,355</u>	<u>649,153</u>
Deferred tax liabilities:		
Depreciation timing difference	(31,324)	(10,444)
ASC 606 Adjustment	(797,356)	—
Total deferred tax liability	<u>(828,680)</u>	<u>(10,444)</u>
Gross net deferred tax asset	(143,325)	638,709
Less: Valuation allowances	(143,325)	(638,709)
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

The Company has recorded various deferred tax assets and liabilities as reflected above. In assessing the ability to realize the deferred tax assets, management considers, whether it is more likely than not, that some portion, or all of the deferred tax assets and liabilities will be realized. The ultimate realization is dependent on generating sufficient taxable income in future years. The valuation allowance is equal to 100% of the Net deferred tax asset. Given recurring losses, the Company cannot conclude that it is more likely than not that such assets will be realized, therefore a full valuation allowance has been recorded.

The components of the provisions for income taxes for the fiscal years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Current:		
Federal	\$ —	\$ —
State	—	—
Total	<u>—</u>	<u>—</u>
Deferred:		

Additional deferred tax related to book tax differences	42,403	109,081
Valuation allowance	<u>(42,403)</u>	<u>(109,081)</u>
Total Tax Provision	<u>\$ —</u>	<u>\$ —</u>

A reconciliation of the provisions for income taxes for the fiscal years ended September 2019 and 2018 as compared to statutory rates is as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Provision at statutory rates	\$ 30,835	19.85%	\$ (53,125)	24.28%
State income tax, net of federal benefit	8,546	5.50%	(7,477)	3.42%
Penalties	—	0.00%	—	0.00%
Meals & Entertainment	2,923	1.88%	2,158	-0.99%
Stock-based compensation	—	0.00%	—	0.00%
Tax credits	—	0.00%	(23,024)	10.52%
Other tax differences	—	0.00%	(10,754)	4.91%
Change in rate	—	0.00%	201,303	-91.99%
Valuation Allowance on deferred tax assets	<u>(42,304)</u>	<u>-27.2%</u>	<u>(109,081)</u>	<u>49.85%</u>
Total income tax provision	<u>\$ —</u>	<u>0.00%</u>	<u>\$ —</u>	<u>0.00%</u>

## **(10) Subsequent Events**

The Company evaluates subsequent events that occur after the balance sheet date through the financial statements were issued. The following are subsequent events requiring disclosure:

Mr. Mitchell entered into an Employment Agreement with the Company as of October 1, 2019. The employment agreement provided for a one year term, annual cash compensation of \$150,000 and entitled Mr. Mitchell to receive stock grants valued at lesser of \$15,000 or 200,000 Shares of Common Stock. Effective October 1, 2019, Mr. Mitchell was continuing to serve as a member of the Board of Directors of the Company, but was no longer serving as the Company's Chief Financial Officer.

Effective October 1, 2019, Robert Boyd was appointed Chief Accounting Officer of the Company. Mr. Boyd and the Company entered into a one year employment agreement which provides that Mr. Boyd's compensation will be \$40,000 per annum.

On October 30, 2019 the Company completed the sale of a condominium conference space for proceeds of approximately \$99,000.

In October 2019 the Company signed a 21 month lease for office space at 5995 W State Street Suite B, Garden City, ID 83703. The monthly lease amount is \$833.

On January 13, 2020, 35,714 shares of common stock were approved to be issued to each Gary Herman and to JoyAnn Kenny-Charlton for first quarter 2020 board compensation.

On February 5, 2020, the Company entered into an agreement with Christopher Rego and Rod Whiton, pursuant to which Bart Mitchell resigned from the Company's board of directors, and Christopher Rego and Rod Whiton were appointed to the Company's board of directors. In connection with Mr. Rego's appointment, he was also named chief executive officer of BFK Franchise Company, LLC ("BFK"), a subsidiary of the Company, and will become chief executive officer of the Company at the earlier of March 31, 2020 or when the Company files its Form 10-K for the year ended September 30, 2019 and its Form 10-Q for the period ended December 31, 2019. Upon Mr. Rego's appointment as chief executive officer, Mr. Mitchell will become the president of the Company. The Company and Mr. Rego have not determined his compensation for serving as an officer of BFK Franchise Company, LLC or the Company.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the Company operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the company, to date, the Company is experiencing declining royalty fee revenue from some of its franchisees whose revenues have been decreasing due to school closures and rules about social distancing.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including expected collections on receivables.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders' and Board of Directors of  
**Creative Learning Corporation**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Creative Learning Corporation (the "Company") as of September 30, 2018, the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year ended September 30, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018, and the results of its operations and its cash flows for the year ended September 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

### **Explanatory Paragraph – Going Concern**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has a significant working capital deficiency, has incurred significant losses and is reliant on its ability to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Marcum LLP

We have served as the Company's auditor since 2018.

West Palm Beach, FL  
September 4, 2019

## Report of Independent Registered Certified Public Accounting Firm

Board of Directors and Stockholders  
Creative Learning Corporation

We have audited the accompanying consolidated balance sheet of Creative Learning Corporation as of September 30, 2017, and the related consolidated statements of operations, stockholder's equity, and cash flows for the year ended September 30, 2017. Creative Learning Corporation's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Creative Learning Corporation as of September 30, 2017, and the results of its operations and its cash flows for the year ended September 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Savannah, Georgia  
December 29, 2017



**CREATIVE LEARNING CORPORATION**  
**Consolidated Balance Sheets**

	<u>September 30,</u> <u>2018</u>	<u>September 30,</u> <u>2017</u>
<b>Assets</b>		
Current Assets:		
Cash	\$ 80,693	\$ 213,950
Restricted Cash (marketing fund)	22,505	118,337
Accounts receivable, less allowance for doubtful accounts of approximately \$938,000 and \$262,000, respectively	194,835	356,830
Prepaid expense	29,725	73,337
Assets held for sale	43,178	52,737
Notes receivables - current portion, less allowance for doubtful accounts of approximately \$91,000 and \$33,000, respectively	11,955	2,730
Total Current Assets	<u>382,891</u>	<u>817,921</u>
Notes receivables - net of current portion	3,045	59,150
Property and equipment, net of accumulated depreciation of approximately \$273,000 and \$232,000, respectively	357,930	207,537
Intangible assets	-	23,300
Deposits	1,425	15,053
Total Assets	<u>\$ 745,291</u>	<u>\$ 1,122,781</u>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 161,011	\$ 148,021
Accrued liabilities	14,605	153,677
Accrued marketing fund	97,334	131,909
Total Current Liabilities	<u>272,950</u>	<u>433,607</u>
Commitments and Contingencies (Note 10)		
Stockholders' Equity:		
Preferred stock, \$.0001 par value; 10,000,000 shares authorized; -0- shares issued and outstanding	-	-
Common stock, \$.0001 par value; 50,000,000 shares authorized; 12,075,875 shares issued and 12,010,775 shares outstanding as of September 30, 2018 and 2017	1,207	1,207
Additional paid-in capital	2,897,285	2,895,285
Treasury Stock, 65,100 shares, at cost	(34,626)	(34,626)
Accumulated Deficit	(2,391,525)	(2,172,692)
Total Stockholders' Equity	<u>472,341</u>	<u>689,174</u>
Total Liabilities and Stockholders' Equity	<u>\$ 745,291</u>	<u>\$ 1,122,781</u>

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

**CREATIVE LEARNING CORPORATION**  
**Consolidated Statements of Operations**

	<u>September 30,</u> <u>2018</u>	<u>September 30,</u> <u>2017</u>
<b>REVENUES</b>		
Royalties fees	\$ 2,207,442	\$ 2,249,023
Initial franchise fees	191,503	206,950
Merchandise sales	17,781	60
<b>TOTAL REVENUES</b>	<u>2,416,726</u>	<u>2,456,033</u>
<b>COST OF GOODS SOLD</b>	<u>6,662</u>	<u>-</u>
<b>GROSS PROFIT</b>	2,410,064	2,456,033
<b>OPERATING EXPENSES</b>		
Salaries and payroll taxes, including \$2,000 and \$360,738 of stock-based compensation in 2018 and 2017	695,884	1,077,348
Professional fees and legal settlements	598,237	1,316,838
Bad debt expense	732,590	177,288
Other general and administrative expenses	391,923	312,809
Franchise consulting and commissions	50,699	161,776
Franchise training and expenses	46,567	15,710
Depreciation	51,607	57,175
Advertising	30,323	21,027
Impairment expense	23,200	-
Office expense	4,114	8,514
<b>TOTAL OPERATING EXPENSES</b>	<u>2,625,144</u>	<u>3,148,485</u>
<b>OPERATING LOSS</b>	(215,080)	(692,452)
<b>OTHER INCOME (EXPENSE)</b>	<u>(3,753)</u>	<u>26,103</u>
<b>LOSS BEFORE INCOME TAXES</b>	<u>(218,833)</u>	<u>(666,349)</u>
<b>PROVISION FOR INCOME TAXES</b>	-	(364,653)
<b>NET LOSS</b>	<u>\$ (218,833)</u>	<u>\$ (1,031,002)</u>
<b>NET LOSS PER SHARE</b>		
Basic and diluted	<u>(0.02)</u>	<u>\$ (0.09)</u>
Basic and diluted weighted average number of common shares outstanding	<u>12,010,775</u>	<u>12,007,736</u>

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

**CREATIVE LEARNING CORPORATION**  
**Consolidated Statement of Changes in Stockholders' Equity**

	<u>Treasury Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholder's Equity</u>
	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Amount</u>			
<b>Balance October 1, 2016</b>	(65,100)	\$ (34,626)	12,001,409	\$ 1,200	\$ 2,534,554	\$ (1,141,690)	\$ 1,359,438
Compensatory stock issuances	-	-	74,466	7	14,493	-	14,500
Compensatory stock option issuances	-	-	-	-	346,238	-	(346,238)
Net loss						(1,031,002)	(1,031,002)
<b>Balance September 30, 2017</b>	(65,100)	(34,626)	12,075,875	1,207	2,895,285	(2,172,692)	689,174
Stock-based compensation	-	-	-	-	2,000	-	2,000
Net loss	-	-	-	-	-	(218,833)	(218,833)
<b>Balance September 30, 2018</b>	<u>(65,100)</u>	<u>\$ (34,626)</u>	<u>12,075,875</u>	<u>\$ 1,207</u>	<u>\$ 2,897,285</u>	<u>\$ (2,391,525)</u>	<u>\$ 472,341</u>

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

**CREATIVE LEARNING CORPORATION**  
**Consolidated Statements of Cash Flows**

**For the Fiscal Years ended  
September 30,**

**2018                      2017**

Cash flows from operating activities:

Net Loss	\$	(218,833)	\$	(1,031,002)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities:				
Depreciation		51,607		57,175
Bad debt expense		732,590		177,288
Deferred income taxes		-		343,444
Stock issued for compensation		-		14,500
Stock options issued for compensation		-		50,312
Stock options issued for directors fees		-		295,926
Stock based compensation		2,000		-
Impairment loss on intangible assets		23,300		78,604
Changes in operating assets and liabilities:				
Restricted cash		95,832		44,110
Accounts receivable		(513,107)		(285,604)
Prepaid expenses		72,420		46,663
Deposits		13,628		(13,628)
Accounts payable		(15,818)		(23,807)
Accrued liabilities		(139,072)		(208,978)
Accrued marketing fund		(34,575)		(15,318)
Income tax receivable		-		424,938
Customer deposits		-		(5,000)
Net cash provided by (used in) operating activities		<u>69,972</u>		<u>(50,377)</u>

Cash flows from investing activities:

Acquisition of property and equipment		(192,621)		(19,349)
(Issuance)/Collection of Notes receivable		(10,608)		6,991
Net cash used in investing activities		<u>(203,229)</u>		<u>(12,358)</u>

Net change in cash		(133,257)		(62,735)
Cash, beginning of year		<u>213,950</u>		<u>276,685</u>
Cash, end of year	\$	<u>80,693</u>	\$	<u>213,950</u>
Noncash financing activity:				
Financed Insurance	\$	<u>28,808</u>	\$	<u>-</u>

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

**CREATIVE LEARNING CORPORATION**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018 and 2017**

**(1) Nature of Organization and Summary of Significant Accounting Policies**

***Nature of Organization***

Creative Learning Corporation (“CLC”), formerly B2 Health, Inc., was incorporated March 8, 2006 in the State of Delaware. BFK Franchise Company LLC (“BFK”) was formed in the State of Nevada on May 19, 2009. Effective July 2, 2010, CLC was acquired by BFK in a transaction classified as a reverse acquisition. CLC concurrently changed its name from B2 Health, Inc. to Creative Learning Corporation.

In addition to the accounts of CLC and BFK, the accompanying consolidated financial statements include the accounts of CLC’s subsidiaries, BFK Development Company LLC (“BFKD”), and SF LLC (“Sew Fun Studios”).

The organizational documents for BFK Development Company LLC and SF LLC do not specify a termination date. Each of the above listed LLC’s has a single member, controlled 100% by CLC.

CLC operates wholly-owned subsidiaries BFK and SF under the trade names Bricks 4 Kidz® and Sew Fun Studios™ respectively, that offer children's enrichment and education franchises.

CLC and its wholly own subsidiaries BFK, BFKD, and SF LLC are hereinafter referred to collectively as the "Company".

***Basis of Presentation***

The Company financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

International franchise fees vary and are set relative to the potential of the franchised territories. In addition, the Company awards master agreements outside of the United States and Canada. The royalty structure is the same for both our US and International franchisees. Contracts are structured as such that the Company collects revenue from foreign franchises in US dollars. We do not have international subsidiaries.

The Company has multiple franchise concepts, but all concepts are managed centrally as one segment and are reviewed by the Company in total. Accordingly, decision-making regarding the Company's overall operating performance and allocation of Company resources are assessed on a consolidated basis. As such, the Company operates as one reporting segment.

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of CLC and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

***Fiscal year***

The Company operates on a September 30 fiscal year-end.

## ***Use of Estimates***

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates and assumptions made by management include allowance for doubtful accounts, allowance for deferred tax assets, depreciation of property and equipment, recoverability of long lived assets and fair value of equity instruments. Actual results could differ from those estimates as the current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

## ***Cash, Restricted Cash, and Cash Equivalents***

The Company considers all highly liquid securities with original maturities of three months or less when acquired, to be cash equivalents. We had no cash equivalents at September 30, 2018 and 2017.

The Company had restricted cash of approximately \$23,000 and \$118,000, respectively at fiscal years ended September 30, 2018 and 2017, associated with marketing funds collected from the franchisees. Per the franchise agreements, a marketing fund of 2% of franchisees' gross cash receipts is collected by the Company and held to be spent on the promotion of the brand (see Note 8).

The Company maintains cash balances which at times exceed the federally insured limit of \$250,000. The Company believes there is no significant risk with respect to these deposits.

## ***Accounts Receivable***

The Company reviews accounts receivable periodically for collectability and establishes an allowance for doubtful accounts and records bad debt expense when deemed necessary. The Company records an allowance for doubtful accounts that is based on historical trends, customer knowledge, any known disputes, and considers the aging of the accounts receivable balances combined with management's estimate of future potential recoverability. Accounts and receivables are written off against the allowance after all attempts to collect a receivable have failed. The Company believes its allowances for doubtful accounts at September 30, 2018 and 2017 are adequate, but actual write-offs could exceed the recorded allowance. During the years ended September 30, 2018 and 2017 the balance in the allowance for doubtful accounts was approximately \$938,000 and \$262,000, respectively.

## ***Notes Receivable***

ASC 310, Receivables, provides guidance for receivables and notes that arise from credit sales, loans or other transactions. Financing receivable includes loans and notes receivable. Originated loans we hold for which we have the intent and ability to hold for the foreseeable future or to maturity (or payoff) are classified as held for investment. Financing receivables held for investment are reported in our consolidated balance sheets at the outstanding principal balance adjusted for any write -offs , allowance for loan losses, deferred fees or costs, and any unamortized premiums or discounts. Interest income is accrued on outstanding principal as earned. Unamortized discounts and premiums are amortized using the interest method with the amortization recognized as part of interest income in the consolidated statements of operations. During the years ended September 30, 2018 and 2017 the balance in the allowance for doubtful notes receivable was approximately \$91,000 and \$33,000, respectively.

## ***Long-Lived Assets***

The Company's long-lived assets consist of property and equipment, and intangible assets. The Company tests for impairment losses on long-lived assets used in operations whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Impairment evaluations involve management's estimates of asset useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management which could have a material effect on our reporting results and financial positions. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.



During fiscal year 2018, the Company recognized an Impairment Loss on long-lived assets relating to concepts and trademarks for SF LLC. Impairment is included in operating expenses in the consolidated statement of operations. See Note 5 for more information.

### ***Property, Equipment and Depreciation***

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Expenditures for additions and improvements are capitalized, while repairs and maintenance costs are expensed as incurred. The cost and related accumulated depreciation of property and equipment sold or otherwise disposed of are removed from the accounts and any gain or loss is recorded in the year of disposal.

<b>Property and Equipment</b>	<b>Useful Life</b>
Equipment	5 years
Furniture and Fixtures	5 years
Property Improvements	15-40 years
Software	3 years

### ***Treasury stock.***

The Company records treasury stock at cost. Treasury stock is comprised of shares of common stock purchased by the Company in the secondary market.

### ***Fair Value of Financial Instruments***

The carrying amounts of cash, accounts receivable, and accounts payable approximate fair value because of the relative short-term maturity of these items and current payment expected. These fair value estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The Company does not hold or issue financial instruments for trading purposes, nor does it utilize derivative instruments. Notes receivable are recorded at par value less allowance for doubtful accounts. The carrying amount is consistent with fair value based upon similar notes issued to other franchisees.

ASC 825, Financial Instruments, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. It also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability.
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of financial assets and liabilities recorded at fair value is measured on a recurring or nonrecurring basis. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. The Company had no financial assets or liabilities carried and measured on a recurring basis during the reporting periods. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared.



## ***Revenue Recognition***

Revenue is recognized on an accrual basis after services have been performed under contract terms and in accordance with regulatory requirements, the service price to the client is fixed or determinable, and collectability is reasonably assured.

Since the Company's franchises are primarily a mobile concept and do not require finding locations or construction, the franchisees can begin operations as soon as they complete training. The franchise fees are fully collectible and nonrefundable as of the date of the signing of the franchise agreement, but the franchise fees are not recognized as revenue until initial training has been completed and when substantially all of the services required by the franchise agreement have been fulfilled by the Company in accordance with ASC Topic 952-605 *Revenue Recognition-Franchisor*. Royalties are recognized as earned on a monthly basis.

At September 30, 2018 and 2017 the Company had no unearned revenue for franchise fees collected but not yet earned per the revenue recognition policy.

## ***Advertising Costs***

Advertising costs are expensed as incurred. The Company incurred advertising costs for the years ended September 30, 2018 and 2017 of approximately \$30,000 and \$21,000, respectively.

## ***Income Taxes***

The provision for income taxes and deferred income taxes are determined using the asset and liability method. Deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. On a periodic basis, the Company assesses the probability that its net deferred tax assets, if any, will be recovered. If after evaluating all of the positive and negative evidence, a conclusion is made that it is more likely than not that some portion or all of the net deferred tax assets will not be recovered, a valuation allowance is provided by a charge to tax expense to reserve the portion of the deferred tax assets which are not expected to be realized.

The Company reviews its filing positions for all open tax years in all U.S. federal and state jurisdictions where the Company is required to file.

When there are uncertainties related to potential income tax benefits, in order to qualify for recognition, the position the Company takes has to have at least a "more likely than not" chance of being sustained (based on the position's technical merits) upon challenge by the respective authorities. The term "more likely than not" means a likelihood of more than 50 percent. Otherwise, the Company may not recognize any of the potential tax benefit associated with the position. The Company recognizes a benefit for a tax position that meets the "more likely than not" criterion at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon its effective resolution. Unrecognized tax benefits involve management's judgment regarding the likelihood of the benefit being sustained. The final resolution of uncertain tax positions could result in adjustments to recorded amounts and may affect our results of operations, financial position and cash flows.

The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at September 30, 2018 and 2017, respectively, and has not recognized interest and/or penalties during the years ended September 30, 2018 and 2017, respectively, since there are no material unrecognized tax benefits. Management believes no material change to the amount of unrecognized tax benefits will occur within the next twelve months.

The tax years subject to examination by major tax jurisdictions include the years 2015 and forward by the U.S. Internal Revenue Service, and the years 2014 and forward for various states.

### ***Net earnings (loss) per share***

Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted during the period. FASB ASC 260, *Earnings per Share*, requires a dual presentation of basic and diluted earnings per share. However, because of the Company's net losses, the effects of stock options and warrants would be anti-dilutive and, accordingly, are excluded from the computation of earnings per share. The number of such shares excluded from the computations of diluted loss per share totaled 2,157,709 at September 30, 2018 and 2,143,423 at September 30, 2017.

### ***Stock-based compensation***

The Company accounts for employee stock awards for services based on the grant date fair value of the instrument issued and those issued to non-employees are recorded based on the grant date fair value of the consideration received or the fair value of the equity instrument, whichever is more reliably measurable. Stock Awards are expensed over the service period. Forfeitures are recognized as they occur.

### ***Reclassifications***

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

### ***Recent accounting pronouncements***

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers". ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard, which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. The Company adopted this standard effective October 1, 2018 using the modified retrospective approach, which requires applying the new standard to all existing contracts not yet completed as of the effective date and recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Management has not yet completed the assessment of the impact the adoption of the standard is expected to have on the financial statements. They do, however, expect the adoption of Topic 606 to impact the accounting for initial franchise fees. Currently, the Company recognizes revenue from initial franchise fees in a single, up-front transaction, upon the completion of training of new franchisees, in the period in which all material obligations and initial services have been performed. Upon the adoption of Topic 606, we believe the Company will need to recognize the revenue related to initial franchise fees over the term of the related franchise agreement. This will result in less revenue in the short-term and more deferred revenue recognized over a period of time.

In February 2016, the FASB issued ASU No. 2016-02, "Leases", which requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, will be required. The new standard will become effective for the Company beginning with the first quarter 2020 and requires a modified retrospective transition approach and includes a number of practical expedients. Early adoption of the standard is permitted. The Company is currently evaluating the impacts the adoption of this accounting guidance will have on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance will be effective in the first quarter of the fiscal year ended September 30, 2019 and early adoption is permitted. Management determined that this will affect the presentation of consolidated statement of cash flows upon adoption in the quarter ended December 31, 2018.

In June 2016, the FASB issued ASU No. 2016-13—Measurement of Credit Losses on Financial Instruments, which changes how companies measure credit losses on most financial instruments measured at amortized cost and certain other instruments, such as loans, receivables and held-to-maturity debt securities. Rather than generally recognizing credit losses when it is probable that the loss has been incurred, the revised guidance requires companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. ASU 2016-13 is effective for fiscal periods beginning after December 15, 2019 and must be adopted as a cumulative effect adjustment to retained earnings. Early adoption is permitted. The Company does not believe adoption of this guidance will have an impact on its consolidated financial statements

All other newly issued accounting pronouncements, but not yet effective, have been deemed either immaterial or not applicable.

## **(2) Going Concern**

The accompanying consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which accordingly assumes, among other things, the realization of assets and the satisfaction of liabilities in the ordinary course of business. The Company had losses of \$218,833 in the current year. The Company had incurred accumulated losses of \$2,391,525 as of September 30, 2018. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Based on the Company's cash balance at September 30, 2018 and projected cash needs for the next 12 months from the issuance date of these financial statements, management believes that the Company will need to increase revenues, reduce costs and/or pursue other transactions to be able to continue to fund operating and capital requirements. The Company plans to implement cost cutting measures, including reducing personnel, reducing legal and professional expenses, moving the company's central location to Boise, ID, selling Company owned real estate, and incorporating technology where economic opportunity presents. The Company plans to expand its offerings to allow current franchisees to operate in unoccupied territories for a yearly fee plus a monthly percentage of revenue (see Note 10). However, should the current legal issues or unforeseen legal actions prevail against the Company, or a drastic downturn in the economy become actual, the Company expects that profitability would be affected. At such time, the Company would need to secure loans, lines of credit or other means to raise operating capital. The Company cannot be sure that it will be able to obtain any such additional funds by any of the foregoing or other means, and any such funds it may obtain may not be sufficient. If the Company is unable to obtain sufficient funds, it may be unable to continue as a going concern.

## **(3) Related Party Transactions**

In December 2017, the Company granted 14,286 warrants to two Directors of the Company. These warrants were granted in conjunction with the issuance of standby letters of credit from the two directors. The warrants were valued using the Black Scholes method. The fair value of the warrants on the date of grant were \$2,000, and the shares vested immediately. The Company expensed \$2,000 in connection with the grant during the quarter ended December 31, 2017.

#### (4) Property and Equipment

Property and equipment consisted of the following:

Description	September 30,	
	2018	2017
Depreciable Property and Equipment:		
Equipment	\$ 74,456	\$ 66,969
Furniture and Fixtures	83,427	83,427
Property and Improvements	180,878	180,878
Software	114,884	98,307
Total Depreciable Property and Equipment	453,645	429,581
Accumulated Depreciation	(282,541)	(240,493)
Total Net Depreciable Property and Equipment	171,104	189,088
Non-depreciable Property and Equipment:		
Work in progress	186,826	18,269
Total Net Property and Equipment	\$ 357,930	\$ 207,357

Prior to the end of fiscal 2018, the Company listed one of its owned condominiums for sale located at 701 Market Street, Suite 113, St. Augustine, FL for \$98,900. Property and equipment of \$43,178 and \$52,737 related to the net book value of this asset has been classified as Assets held for sale in the Consolidated Balance Sheet at September 30, 2018 and 2017 respectively.

Depreciation expense totaled approximately \$52,000 and \$57,000, respectively, for the years ended September 30, 2018 and 2017.

#### (5) Intangible Assets

Intangible Assets consist of purchased franchise rights and trademarks. The Intangible assets consists of Sew Fun Trademarks, Business Concepts and Curriculum which was purchased by the Company.

During the fiscal year 2017, the Company determined that certain long-lived assets, related to repurchases of BFK territories during fiscal year 2013 and 2014, were over-valued. The Company determined that these territories and their associated fixed assets had no fair value outside of their unimproved territory value compared to other unsold territories. The impairment loss of \$78,604 related to these assets is included in the other general and administrative expenses line on the Consolidated Statements of Operations for the year ended September 30, 2017.

The Company abandoned the revenue stream for SF for which the intangible assets were intended to provide future economic value and therefore determined that the asset was fully impaired as of September 30, 2018. \$23,300 was recorded as an impairment loss in the other general and administrative expenses line on the Consolidated Statements of Operations for the year ended September 30, 2018.

#### (6) Notes and Other Receivables

At September 30, 2018 and 2017, respectively, the Company held certain notes receivable totaling approximately \$106,000 and \$95,000 respectively for extended payment terms of franchise fees. The Company had an allowance on notes receivable of \$91,000 and \$33,000 as of September 30, 2018 and 2017, respectively. The net notes receivable was approximately \$15,000 and \$62,000 and was included in the consolidated balance sheet as of September 30, 2018 and 2017 respectively. The notes were generally non-interest-bearing notes with monthly payments, payable within one to two years.

	2019	2020	Total
Payment schedules for Notes Receivable	\$ 11,955	\$ 94,045	\$ 106,000



## (7) Accrued Marketing Fund

Per the terms of the franchise agreements, the Company collects 2% of franchisee's gross revenues for a marketing fund, managed by the Company, to allocate toward national branding of the Company's concepts to benefit the franchisees.

The marketing fund amounts are accounted for as a liability on the balance sheet and the actual collections are deposited into a marketing fund bank account. Expenses pertaining to the marketing fund activities are paid from the marketing fund and reduce the liability account.

At September 30, 2018 and 2017, the accrued marketing fund liability balances were approximately \$97,000 and \$132,000 respectively.

## (8) Accrued Liabilities

The Company had accrued liabilities at September 30, 2018, and September 30, 2017 as follows:

<b>Accrued Liabilities</b>	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Accrued legal Fees	\$ -	\$ 77,719
Accrued Legal Settlements	-	32,143
Accrued Exit Agreement	-	9,739
Accrued Compensation and payroll taxes	14,605	17,950
Accrued Other	-	16,126
	<u>\$ 14,605</u>	<u>\$ 153,677</u>

## (9) Stock-Based Compensation

In December 2017, the Company granted an aggregate of 14,286 warrants to two Directors of the Company. (See Note 3).

The Company utilized the Black-Scholes valuation model for estimating fair value of the warrants. Each grant was evaluated based upon assumptions at the time of the grant. The assumptions used in our calculations are no dividend yield, expected volatility of approximately 247%, a risk-free interest rate of 1.76%, and an expected term of 5 years. The dividend yield of zero is based on the fact that the Company does not pay cash dividends and has no present intention to pay cash dividends. Expected volatility is estimated based on the Company's historical stock prices over a period equivalent to the expected life in years. The risk-free interest rate is based on the U.S. Treasury's Daily Treasury Yield Curve Rates at the date of grant with a term consistent with the expected life of the options granted. The expected term calculation is based on the "simplified method" allowed by the Securities and Exchange Commission (the "SEC"), due to no applicable historical exercise data available.

On May 14, 2017, the Company granted options consistent with its corporate by-laws to purchase shares of the Company's common stock to each of the members of the Company's then Board, as follows: Charles Grant – 900,000 shares, Joseph Marucci – 324,000 shares, Michael Gorin – 324,000 shares and JoyAnn Kenny, 216,000 shares. Each of the options has an exercise price of \$0.30 per share, and is exercisable in full at any time during the five-year period commencing on the date of grant. The option grants were approved by the Board based upon an investigation by an independent compensation consultant, who provided analysis and compensation recommendations to the Board. Among other things, the report concluded that the directors have: (i) served entirely without compensation (other than \$4,500 paid to Mr. Marucci in or prior to July 2015) – Messrs. Grant and Marucci since March 2015 and Mr. Gorin and Ms. Kenny since July 2015; (ii) devoted more time and effort than what is to be expected or considered normal (especially the audit committee); (iii) been confronted by extenuating circumstances regarding the Company's affairs that required substantial additional effort. Finally, the analysis indicated that Board Chair, Charles Grant, had expended a particularly large amount of effort, spending considerably more time performing board services than the other board members.

On May 13, 2017, pursuant to the employment agreement of Karla Kretsch, the Company's then President, the Company issued 8,000 shares of the Company's common stock, and granted options to purchase 28,000 shares of the Company's common stock at an exercise price of \$0.25 per share, exercisable in full at any time during the five-year period commencing on the date of the grant. The shares and options were issued pursuant to the terms of Ms. Kretsch's employment agreement with the Company, on account of Ms. Kretsch's service to the Company for the quarter ended March 31, 2017. Based on the same employment agreement, for the quarter ending June 30, 2017, the Company issued 12,118 shares of the Company's common stock, and granted options to purchase 42,414 shares of the Company's common stock at an exercise price of \$0.2063 per share, exercisable in full at any time during the five-year period commencing on the date of the grant.

On July 26, 2017, Karla Kretsch informed the Company of her intention to resign as President of the Company. Since Ms. Kretsch's employment was terminated by Ms. Kretsch for "Good Reason" (as such term is defined in the Employment Agreement), Ms. Kretsch will be paid an amount equivalent to her base salary for a period of three months following the date of termination in equal amounts every two weeks, and will also be entitled to receive the Equity Awards due for the quarter in which termination occurred, as well as the immediately following three quarters, paid as scheduled at quarter-end. Therefore, for the quarter ending September 30, 2017, the Company recorded a total of approximately \$34,000 in stock-based compensation expense for the fair value of equity awards according to the Employment Agreement. The Employment Agreement requires the grant of stock options to purchase 190,216 shares of the Company's common stock at an exercise price of \$0.1840 per share, as well as stock grants for 54,348 shares.

On October 26, 2017, the Board granted options to purchase 118,793 shares of the Company's common stock at an exercise price of \$0.1840 per share, exercisable in full at any time during the five-year period commencing on the date of the grant to Christian Miller per his employment agreement from July of 2016. These options were retroactively issued on September 30, 2017 and are included in salaries and payroll taxes in the consolidated statement of operations as of September 30, 2017.

The Company utilizes the Black-Scholes valuation model for estimating fair value of stock compensation for options awarded to officers and members of the Board. Each grant is evaluated based upon assumptions at the time of the grant. The assumptions used in our calculations are no dividend yield, expected volatility between 129.03% and 134.69%, risk-free interest rate of 1.85% to 1.89%, and expected term of 2.5 years. The dividend yield of zero is based on the fact that the Company does not pay cash dividends and has no present intention to pay cash dividends. Expected volatility is estimated based on the Company's historical stock prices over a period equivalent to the expected life in years. The risk-free interest rate is based on the U.S. Treasury's Daily Treasury Yield Curve Rates at the date of grant with a term consistent with the expected life of the options granted. The expected term calculation is based on the "simplified method" allowed by the Securities and Exchange Commission (the "SEC), due to no applicable historical exercise data available.

The following are activity of options:

	<b>Number of Shares</b>	<b>Average Exercise Price</b>	<b>Expiration Date</b>	<b>Average Remaining Life</b>	<b>Weighted Average Grant Date Fair Value</b>
Granted May 13, 2017	1,792,000	\$ 0.30	05/13/22	44.5 Months	0.17
Granted June 30, 2017	42,414	\$ 0.21	06/30/22	45 Months	0.15
Granted September 30, 2017	309,009	\$ 0.18	09/30/22	48 Months	0.13
Vested and Exercisable at September 30, 2018	<u>2,143,423</u>	<u>\$ 0.28</u>			<u>0.16</u>

No options were granted or forfeited during the year ended September 30, 2018. The aggregate intrinsic value of the options as of September 30, 2018 was \$0.

## (10) Commitments and Contingencies

### *Lease Commitments*

The following table summarizes the Company's contractual lease obligations at September 30, 2018:

<b>Obligation</b>	<b>2019</b>	<b>Total</b>
Commercial Lease (Suite 114)	\$ 12,113	\$ 12,113

The lease for Suite 114 expires in June 2019 and will not be renewed. Space will be leased on a month-to-month basis in Boise, Idaho subsequent to the expiration of the above lease.

Rent expense was approximately \$18,000 and \$16,000, respectively, for the years ended September 30, 2018 and 2017.

### *Litigation*

From time to time, the Company has been and may become involved in legal proceedings arising in the ordinary course of its business. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources, and other factors.

On October 2, 2015, the Company filed suit in the state court in St. John's County, Florida, Case No. CA 15-1076, against its former Chief Executive Officer Brian Pappas, Christine Pappas, its former Human Resources officer, and an independent company controlled by Mr. Pappas named Franventures, LLC ("Franventures"). The lawsuit seeks return of company emails and other electronic materials in the possession of the defendants, company control over the process by which the company's documents are identified, and a court judgment that the property is the Company's. Mr. and Mrs. Pappas have returned certain company documents that they have identified, but other issues remain. On December 11, 2017, Brian Pappas filed a counterclaim alleging the Company is required to indemnify him for a multitude of matters. The Company denies the allegation and is actively litigating this matter.

In a separate suit, filed on March 7, 2016 in the state court in St. John's County, Florida (Case No. CA 16-236), Franventures, LLC ("FV") alleged that it is due an unstated amount of money from the Company pursuant to a contract the Company had previously terminated. On June 23, 2016, the Company filed a counterclaim against Franventures, which also included a complaint against former Chairman of the Board and Chief Executive Officer Brian Pappas. The counterclaim seeks redress for losses and expenditures caused by alleged fraud, conversion of company assets, and breaches of fiduciary duty that the Company alleges that defendants perpetrated upon CLC, including assertions regarding actions by Brian Pappas that the Company alleges occurred while Mr. Pappas was serving as the Chief Executive Officer of CLC and as a member of its board of directors. This case is being actively litigated by the Company.

On October 27, 2016, Brian Pappas filed a motion to amend the complaint to add a claim alleging that the Company slandered him by virtue of a press release issued on or about August 1, 2016, in which the Company reported to shareholders on steps it had taken and improvements it had implemented. The motion has still not been ruled upon by the Court. If Mr. Pappas does amend his complaint, the Company will vigorously defend the proposed claim.

On February 24, 2017, franchisee, Team Kasa, LLC, along with its three owners, filed suit in the Eastern District of New York (Case No. 2:17-cv-01074) against former CEO Brian Pappas, and Franventures. The same Plaintiffs also initiated arbitration on the same issues (American Arbitration Association, Case No. 01-17-0001-1968), alleging the Company is jointly and severally liable for damages resulting from the allegations against Mr. Pappas and Franventures. The Company is contesting the allegations and its liability for any damages.

On May 9, 2017, franchisee, Back and 4th, LLC, along with its owner, Kristena Bins-Turner, initiated arbitration against the Company for breach of contract, alleging that they did not receive adequate value for royalty payments made under the franchise agreement, for fraud, alleging material misrepresentations and omissions prior to entry into the franchise agreements, and for misrepresentation violations of Florida Statute 817.416. (American Arbitration Association, Case. No. 01-16-004-3745). Franchisee and its owner seek an unspecified amount of damages. The Company contested the allegations and its liability for any damages at an evidentiary hearing held December 5-7, 2017. This matter has been settled for \$45,500 and included in other general and administrative expenses in the consolidated statement of operations the year ended September 30, 2018.





On August 21, 2017, the SEC filed a Civil Complaint against the Company and certain former executive officers and directors in the United States District Court for the Middle District of Florida, Jacksonville Division, as Civil Action No. 3:17-cv-00954-TJC-JRK. The Civil Complaint was in regards to alleged violations of federal securities law occurring between 2011 and 2015. On August 22, 2017, the SEC also filed with the court the Company's formal Consent to a full resolution of all allegations pertaining to the Company. Pursuant to the Consent, without admitting or denying the allegations, the Company agreed to the entry of a final judgment that permanently enjoins it from violating the sections of the federal securities laws listed in the Civil Complaint. On September 20, 2017, the United States District Court for the Middle District of Florida, Jacksonville Division issued the final judgment order as to the Company in the Civil Action No. 3:17-cv-00954-TJC-JRK. The entering of the final judgment order has resolved all allegations pertaining to the Company. The Company was not assessed any monetary penalties. As stated in the above, this matter is resolved and closed.

On September 21, 2017, the Company filed a notice of voluntary dismissal without prejudice in the United States District Court for the Middle District of Florida, Jacksonville Division, in its lawsuit against Blake and Anik Furlow relating to their conduct in the shareholder consent the complaint on May 15, 2017, and after consideration, decided it was not in the best interest of the Company to proceed with the litigation. The action is closed. The dismissal is public record and is case # 3:17-cv-00552.

On November 8, 2017, franchisee, Indy Bricks, LLC, along with its two owners, Ben and Kate Schreiber initiated arbitration against the Company. (American Arbitration Association, Case No. 01-17-0006-8120). Plaintiffs allege breach of contract, fraud, material misrepresentations and omissions, violations of the Indiana Franchise Act, and violations of the Indiana Deceptive Franchise Practices Act. The Company is vigorously contesting the allegations and its liability for any damages.

## (11) Income Taxes

The components of the deferred tax assets at September 30, 2018 and September 30, 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Allowance for bad debt	\$ 159,907	\$ 104,056
Charitable contributions	127	176
Stock-based compensation	87,675	121,919
Foreign Tax Credit	96,491	66,085
Net operating loss	304,953	466,998
Total gross deferred tax asset	<u>649,153</u>	<u>759,234</u>
Deferred tax liabilities:		
Depreciation timing difference	(10,444)	(11,445)
Total deferred tax liability	<u>(10,444)</u>	<u>(11,445)</u>
Gross net deferred tax asset	638,709	747,789
Less: Valuation allowances	(638,709)	(747,789)
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The Company has recorded various deferred tax assets and liabilities as reflected above. In assessing the ability to realize the deferred tax assets, management considers, whether it is more likely than not, that some portion, or all of the deferred tax assets and liabilities will be realized. The ultimate realization is dependent on generating sufficient taxable income in future years. The valuation allowance is equal to 100% of the Net deferred tax asset. Given recurring losses, the Company cannot conclude that it is more likely than not that such assets will be realized, therefore a full valuation allowance has been recorded.

The components of the provisions for income taxes for the fiscal years ended September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Current:		
Federal	\$ -	\$ (53,587)
State	-	(10,497)
Total	<u>-</u>	<u>64,084</u>
Deferred:		
Additional deferred tax related to book tax differences	109,081	(56,410)
Valuation allowance	(109,081)	485,147
Total Tax Provision	<u>\$ -</u>	<u>\$ 364,653</u>

A reconciliation of the provisions for income taxes for the fiscal years ended September 2018 and 2017 as compared to statutory rates is as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Provision at statutory rates	\$ (53,125)	24.28%	\$ (226,559)	34.00%
State income tax, net of federal benefit	(7,477)	3.42%	(24,188)	3.63%
Penalties	-	0.00%	18,815	-2.82%
Meals & Entertainment	2,158	-0.99%	1,040	-0.16%
Stock-based compensation	-	0.00%	130,289	-19.55%
Tax credits	(23,024)	10.52%	-	0.00%
Other tax differences	(10,754)	4.91%	(19,891)	2.99%
Change in rate	201,303	-91.99%	-	0.00%
Valuation Allowance on deferred tax assets	(109,081)	49.85%	485,147	-72.81%
Total income tax provision	<u>\$ -</u>	<u>0%</u>	<u>\$ 364,653</u>	<u>-54.72%</u>

In December 2017, the United States Government passed new tax legislation that, among other provisions, will lower the corporate tax rate from 35% to 21%. In addition to applying the new lower corporate tax rate in 2018 and thereafter to any taxable income we may have, the legislation affects the way we can use and carryforward net operating losses previously accumulated and results in a revaluation of deferred tax assets and liabilities recorded on our balance sheet. Given that current deferred tax assets are offset by a full valuation allowance, these changes will have no net impact on the balance sheet. However, when we become profitable, we will receive a reduced benefit from such deferred tax assets. The effect of the legislation is a reduction in deferred tax assets and the corresponding valuation allowance of approximately \$201,000, as of September 30, 2018.

## **(12) Subsequent Events**

The Company evaluates subsequent events that occur after the balance sheet date through the financial statements were issued. The following are subsequent events requiring disclosure:

On November 14, 2018, the Company completed the sale of its condominium held for sale for proceeds of approximately \$86,000 and recorded a gain of approximately \$43,000, which represented the excess of the proceeds over the carrying value on that date.

On March 27, 2019, the Company issued 13,265 shares of common stock to the former President of the Company due to a calculation error in relation to her terminated employment agreement. All equity compensation relating to this agreement was properly fully recognized during the year ended September 30, 2017.

On June 24, 2019, the Company entered into a business venture with BPL Enterprises for Brickz4Schoolz (BPL) to form Bricks4Schoolz, LLC, a company that will deliver curriculum to Elementary and Middle School students which serves to help further children's academic performance and reduce anxiety in Mathematics and Sciences. The Company will provide access to its curriculum, manuals and training materials. BPL will develop digital delivery systems, market and act as manager. The Company will receive twelve percent (12%) royalty from all gross sales generated by Bricks4Schoolz, LLC. The Company did not provide any capital contributions to the venture.

On July 9, 2019 the Company completed the sale of a condominium conference space listed for sale subsequent to year end for proceeds of \$60,000 and recorded a gain of approximately \$22,000 which represented the excess of the proceeds over the carrying value on that date.

**EXHIBIT E TO THE FDD**

**OPERATIONS MANUAL TABLE OF CONTENTS**



# FRANCHISE OPERATIONS MANUAL

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**EXHIBIT F**

List of Franchisees between October 1, 2019 and September 30, 2020

Last Name	First Name	Home Address	City	State	Region	Zip	Phone
Czarnota	Carla	117 McDermotts Way	Madison	Alabama	United States	35758	(256) 722-9183
Craig	Dawn	2826 E Aster Dr	Phoenix	Arizona	United States	85032	(602) 723-0476
Kretsch	Don	3334 E. Beechnut Place	Chandler	Arizona	United States	85249	(480) 717-7573
Momen	MD	14074 E. Anacapa Dr	Vail	Arizona	United States	85641	916-337-2033
Acquista	Katherine	4465 Ocean Blvd #6	San Diego	California	United States	92109	619-988-3627
Aiken	Ben	485 Helen Ave	Lafayette	California	United States	94549	(415) 518-7583
Birbeire	Simone	22760 Hawthorne Blvd Ste. 100	Torrance	California	United States	90501	(310) 402-8555
Bower	Dave	2790 Norwich Avenue	Clovis	California	United States	93611	(559) 292-5425
Chan	Wilson	34880 Herringbone Way	Union City	California	United States	94587	510-936-8887 (business)
Fields	Zhauntel	4802 Timepiece Circle	Stockton	California	United States	95219	(209) 423-6322
Foley	Stacey	1301 Fernside Blvd.	Alameda	California	United States	94501	323-828-3193
Fujii	Brent	6507 Pacific Ave Ste 250	Stockton	California	United States	95207	(209) 298-4091
Hassan	Amer	130 Gilbert Avenue	Santa Clara	California	United States	95051	(408) 380-4955
Law	Ryan	5326 Barela Ave	Temple City	California	United States	91780	(626) 487-6101
Nguyen-Ehrenreich	Kim	340 Valley St.	San Francisco	California	United States	94131	
Noguera	Michelle	397 Barbara Lane	Daly City	California	United States	94015	(650) 255-8585
Quadri	Farooq	521 Crossless Drive	San Jose	California	United States	95111	408-622-8698
Rego	Christopher	212 Bellrose Drive	San Jose	California	United States	95128	(408) 219-8604
Soni	Harita	37050 Meadowbrook cmn #103	Fremont	California	United States	94536	408-666-9149
Soriano	Alex	14533 Tribute Way	Bakersfield	California	United States	93314	(661) 364-4608
Soto	Mark and Brenda	3382 Stiles Avenue	Camarillo	California	United States	93010	(805) 512-5891
Tran	Minh	125 Merano Drive	San Jose	California	United States	95134	(408) 750-4697
Vu	Anthony	424 S. Cooks Corner	Anaheim Hills	California	United States	92808	(657) 234-5439
Wang	Sheng (Ricky)	86 Meadowbrook Lane	Mansfield Center	Connecticut	United States	6250	(860) 861-9391
Negatu	Jamila	1130 6th Street, NW	Washington	District of Columbia	United States	20001	(202) 609-7326
Burgess	Tina	386 DaGama Dr	Clermont	Florida	United States	34715	(407) 603-5439
Carrion	David	7824 Wildlife Ct.	Jacksonville	Florida	United States	32210	(904) 312-7621
Correa	Lina	15402 SW 176 Ter.	Miami	Florida	United States	33187	(786) 308-0728
Cote	Michelle	1600 San Carlos St.	Saint Augustine	Florida	United States	32080	(904) 814-7401
Fontana	John	2218 Soho Bay Ct	Tampa	Florida	United States	33606	(813) 545-4282

Last Name	First Name	Home Address	City	State	Region	Zip	Phone
Hanna	Samer	5095 Otters Den Trail	Sanford	Florida	United States	32771	(407) 620-5782
Hubbard	Robert	1916 Brigatine Cove	Oviedo	Florida	United States	32765	407-984-0789
Lamoreaux	Freddie	3360 South Osprey Ave Apt# B109	Sarasota	Florida	United States	34239	336-260-7052
Lamport	Tracey	15731 82nd Ter. N	Palm Beach Gardens	Florida	United States	33418	(561) 707-9641
Pomponio	Sara	541 W. Hancock Street	Lakeland	Florida	United States	33803	863-333-5245
Rendon	Angela	po box 822405	Pembroke Pines	Florida	United States	33082	(786) 208-2559
Leblois	Benjamin	745 Wood Duck Court	Atlanta	Georgia	United States	30327	(678) 431-5307
Watkins	Ron		Marietta	Georgia	United States		(404) 395-0352
Baum	Frank	30 Ulana St.	Makawao	Hawaii	United States	96768	(808) 856-1012
Sur	Dawn	PO Box 5040	Kaneohe	Hawaii	United States	96744	(808) 518-6148
Arellano	Saritha	3612 Breitwieser Lane	Naperville	Illinois	United States	60564	(630) 416-9091
Onesimus	Myra	1687 Liberty St	Hanover Park	Illinois	United States	60133	847.84K.2190
Russo	Betsy	238 S. Grant Street	Westmont	Illinois	United States	60559	(630) 347-3232
Beltrame-Stark	Bridget	1617 E. 52nd Street OR 8321 Doe Ridge Ct	Indianapolis	Indiana	United States	46205	(317) 363-4871
Kosina	Joseph	13299 W. 84th Place	Saint John	Indiana	United States	46373	(219) 316-4470
Gray-Dietz	Paula	2410 NW Pleasant St.	Ankeny	Iowa	United States	50023	(515) 778-1870
Lucas	Jordan	17927 W. 158th St.	Olathe	Kansas	United States	66062	(913) 915-6693
Brown	Beth	2700 Belknap Beach Rd	Prospey	Kentucky	United States	40059	502-287-7588
Morris	Tracy	PO Box 1956	Georgetown	Kentucky	United States	40324	(859) 433-1515
McFarland	Eric	3825 Gilbert Dr. Suite 139	Shreveport	Louisiana	United States	71104	(318) 573-0444
Wages	Chad & Sarah	1350 Mitcham Orchard Rd	Ruston	Louisiana	United States	71270	(318) 514-8133
Crider	Shannon	7008 Lennox Ave	Elkridge	Maryland	United States	21075	(850) 960-1864
Blair	Eugene	3631 Meadow Grove Trail	Ann Arbor	Michigan	United States	48108	(734) 748-6039
Chintalapati	Venkata	212 Black Cherry Lane	Battle Creek	Michigan	United States	49015	(269) 288-0536
Egner	Sheryl	665 Krystal Cove NW	Grand Rapids	Michigan	United States	49534	(616)340-3625
Mack	Pamela	7425 Pinehurst Circle	Bloomfield Hills	Michigan	United States	48301	(313) 821-0155
Pickett	Sherri	25530 Southfield Rd Unit 104	Southfield	Michigan	United States	48075	(313) 784-7118
Fondren	Lacey	207 Oxford Place	Ridgeland	Mississippi	United States	39157	(646) 853-3375
Jobe	Michael	9707 N. Lewis Ave.	Kansas City	Missouri	United States	64157	(816) 328-8745
Portscheller	Nancy	1840 Sparks Ct	Wildwood	Missouri	United States	63011	(314) 610-4862
Elfrink	Amanda	825 Bernini Street	Las Vegas	Nevada	United States	89144	702-373-8416
Alagappan-Sathappan	Usha	57 Jamie Ct.	Monmouth Junction	New Jersey	United States	8852	(732) 789-8244
Chiang	Eugenia	18 Apple Tree Lane	Warren	New Jersey	United States	7059	(908) 813-2527
Espiritu	Cristina	4 Lee Court	Jersey City	New Jersey	United States	7305	(917) 309-8585
Goldstein	Karl	1308 Poplar Avenue	Voorhees	New Jersey	United States	8043	(856) 335-5346
Markferding	Della	720 Monroe Street, E-505	Hoboken	New Jersey	United States	7030	(201) 747-7070

Last Name	First Name	Home Address	City	State	Region	Zip	Phone
Shyam	Daya	27 Providence Blvd.	Kendall Park	New Jersey	United States	8824	(732) 666-5113
Stock	Melina	14 Bradley Avenue	Oceanport	New Jersey	United States	7757	(917) 570-4914
Tsocanos	Charles	748 Galloping Hill Rd	Franklin Lakes	New Jersey	United States	7417	201-562-3900
Williams	Tara	310 W. Runyon Street	Newark	New Jersey	United States	7108	973-634-1277
Williams	Tara 2	310 W. Runyon Street	Newark	New Jersey	United States	7108	973-634-1277
Andazola	Robbi	12 Calvary Road	Cedar Crest	New Mexico	United States	87008	505-231-9491
Cesare	Daniel	110 Maybury Avenue	Staten Island	New York	United States	10308	(718) 356-8172
Chernow	Mitchell	300 E 40 St./ Apt 21W	New York	New York	United States	10016	(917) 205-1280
Chi	Banghee	220 W. 26th St, Suite 411	New York City	New York	United States	10001	(646) 271-9317
Norris	Lauren	175 Main Ave, Apt 106	Wheatley Heights	New York	United States	11798	(631) 920-2466
Santos	Marj	13 Westerly Lane South	Thornwood	New York	United States	10594	(914) 741-5248
Tang	Aaron	11 Sunnyside Terrace	Eastchester	New York	United States	10709	(914) 222-9454
Varma	Arpit	4370 Kissema Blvd. Apt. 20E	Flushing	New York	United States	11355	(718) 300-7305
Winstead	LaShon	114-44 168th Street	Jamaica	New York	United States	11434	(646) 529-7280
Evans	Tahesha	PO Box 577	Wake Forest	North Carolina	United States	27588	(919) 246-9928
Gibbs	Sharon & Cecil	2933 Damascus Road	Fayetteville	North Carolina	United States	28303	(910) 229-3139
Grinder	Bobbie-Jo	218 Buckingham Drive	Winterville	North Carolina	United States	28590	(252) 320-3973
Land	Wendy	19 Golden Lane	Leicester	North Carolina	United States	28748	(828) 606-4827
Porretta	Laura	3916 Balmoral Ave	Harrisburg	North Carolina	United States	28075	(704) 559-9796
Vesel	Michelle	6624 Battleford Drive	Raleigh	North Carolina	United States	27613	(919) 412-1374
Chong	Amber	1114 South Magnolia Place	Broken Arrow	Oklahoma	United States	74012	(918) 695-4712
Christopher	Leslie	2617 Chateau Drive	Norman	Oklahoma	United States	73069	405-250-1382
Fitzgerald	Douglass	281 Pine Creek Drive	Carlisle	Pennsylvania	United States	17013	(717) 961-9022
Hurtado	Vanessa	147 Larchwood Ct	Collegeville	Pennsylvania	United States	19426	(215) 990-9763
Pelchar	Lynn	616 Valley Vista Dr.	State College	Pennsylvania	United States	16803	(814) 574-2211
Diaz	Mercedes	11-2 Cordoba Street	Torrimar,Guaynabo	Puerto Rico	United States	966	(787) 462-4910
Elfert	Jenny	619 Crosswater Ln	Fort Mill	South Carolina	United States	29708	704-649-8868
Howard	Chris	9648 Kingston Pike Ste 5	Knoxville	Tennessee	United States	37922	(865) 250-8560
Njoroge	Silas	6522 Stone Lake Drive	Bartlett	Tennessee	United States	38135	(901) 550-4331
Chomicki	Irene	1007 Woodridge Road	Waxahachie	Texas	United States	75165	(469) 383-2538
Grierson	Londa	8720 Fredrick Drive	Frisco	Texas	United States	75033	(214) 784-0687
Justice	Ginger	2108 Castle View Rd	Mansfield	Texas	United States	76063	(817) 228-3945
Lalapet	Archana	8724 Landover Place	Irving	Texas	United States	75063	(732) 947-6148
Reichardt	Jennifer	4622 Lunsford Hollow Lane	Friendswood	Texas	United States	77546	(703) 309-7216
Rodriguez	Otto	11601 Shadow Creek Pkwy, Ste 111, #193	Pearland	Texas	United States	77584	(832) 350-8645
Shew	Gloria	5024 Raisintree Drive	Keller	Texas	United States	76244	(817) 791-7519

Last Name	First Name	Home Address	City	State	Region	Zip	Phone
Burke	Robin Reaves	42823 Ravenglass Drive	Ashburn	Virginia	United States	20148	571-210-KIDZ
Dehaven	Jason	10984 Milestone Drive	Mechanicsville	Virginia	United States	23116	8049389713
DeHaven	Jason 2	10984 Milestone Drive	Chester	Virginia	United States	23831	8049389713
Tolbert	Marsha	4724 Kimmeridge Drive	Moseley	Virginia	United States	23120	(804) 833-3170
Whitaker	Shelly	181 Hayfield Drive	Boones Mill	Virginia	United States	24065	(540) 380-2485
Bonfield	Alex	4324 SW Mills Street	Seattle	Washington	United States	98136	571.436.2223
Oord	John	903 W. Pear Ave	Selah	Washington	United States	98942	(509) 945-5484
Rondel	Jennie	7349 148th Ave NE	Redmond	Washington	United States	98052	425-785-1064
Singh	Rosy	19139 NE 65th Way	Redmond	Washington	United States	98052	(425) 869-1507
Walker	Timothy & Kristi	623 N. Hawthorne St	Tacoma	Washington	United States	98406	(253) 441-0042
Walker (FMS 2)	Timothy	PO Box 7021	Olympia	Washington	United States	98507	(253) 888-0510
Walker FMS 3	Tim		Silverdale	Washington	United States		(206) 594-5884
Court - Boys and Girls Club Calgary	Randy	713, 13th Ave NE	Calgary	Alberta	Canada	T2E 1C8	(403) 457-5530
Reed	Jason	37 Courtenay Circle	Sherwood Park	Alberta	Canada	T8A 5S5	(780) 908-5170
Seggie	Elizabeth	359 Cornwall Dr	Fort McMurray	Alberta	Canada	T9K 1G7	(780) 799-0636
Donohue	Ryan	7337 Spruce Grove Lane #36	Whistler	British Columbia	Canada	V0N1B7	(604) 698-6380
Reimer	Jonathan	2090 Capilano Road	North Vancouver	British Columbia	Canada	V7P 3B8	(778) 822-5672
Sidhu	Harman	11947 Sunwood Place	Delta	British Columbia	Canada	V4E 2X6	(778) 822-5665
Tan	Rachel	1178 East 59th Avenue	Vancouver	British Columbia	Canada	V5X 1Y9	(604) 250-6665
Xiong	Mia	1413 Greehill Court	Coquitlam	British Columbia	Canada	V3B 1Y8	778-683-6653
Niu	Frank	25 Driftwood Court	Moncton	New Brunswick	Canada	E1G 2G1	506-378-1283
Yang	Ying	145 Bedell Ave	Saint John	New Brunswick	Canada	E2K2C3	1-506-608-0580
Noseworthy	Kelly	38 Turnberry Street	St. John's	Newfoundland	Canada	A1A 5P2	(709) 726-6196
Bharat	Lily	2536 Harman Gate	Oakville	Ontario	Canada	L6H 6L6	(905) 257-0632
Greige	Jodi	PO Box 35007, 1421 Grand Marais Rd., West	Windsor	Ontario	Canada	N9E 4V0	(519) 566-7270
Kresin	Alanna	118 Leo Ave	Sault Ste Marie	Ontario	Canada	P6A 3V7	(705) 541-1180
Parsons (Boys & Girls Club)	Lisa	559 Bagot Street	Kingston	Ontario	Canada	K7K 3E1	613-542-3306 x225
Jadis	Amber	40 Red Stone Drive	Scotchfort	Prince Edward Island	Canada	COA 1T0	(902) 731-2009
Arthurs	Andrea	4396 Harvard Ave	Montreal	Quebec	Canada	H4A 2X1	(514) 775-5439
Farmer	Andrew	5890 Monkland Ave Suite 16	Montreal	Quebec	Canada	H4A 1G2	514-777-4287
Barlas	Crystal	3001 Whitmore Avenue	Regina	Saskatchewan	Canada	S4S 1B7	(306) 530-6731

**EXHIBIT F**

List of Franchisees Who left the System between October 1, 2019 and September 30, 2020

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the Bricks 4 Kidz franchise system.

Name	Address	City	State/Country
Carmela Doney	2217 E Tudor Rd Suite 18	Anchorage	Alaska
Joseph Freymann	2458 Hideaway Lane	Duarte	California
Lisa Begg	17166 Pacato Way	San Diego	California
Anna Sargsyan	11012 Frutiland Drive #5	Studio City	California
Carol Lovell	22383 Driftwood Court	Santa Clarita	California
Sally & Roger Studebaker	2010 Rockville Road	Fairfield	California
Donna Rice	98 Ave De La Pointe Claire	Pointe claire/Quebec	Canada
Sandi Schwartz	678 S Pontiac Way	Denver	Colorado
Sindhu Bankapur - (04/23/19-Zarco Einhorn Salkowski Brito)	2280 Shiprock Way	Colorado Springs	Colorado
Walney Luz and Marcela Marins	9143 Outlook Rock Trail	Windermere	Florida
Brewer (The Brewer Group) Jack		Hollywood	Florida
Kim Hart	2206 Camryns Crossing	Panama City	Florida
Devadatta Gurude	910 Southfield Ln	Alpharetta	Georgia
Diane Fefferman	2648 Autumn Harvest Ln	Belleville	Illinois
Emma Givens - Carpenter	5232 Lark Lane	Alexandria	Louisiana
Robin Bergeron and Leslie Thibodaux	3911 Benton Dr	Bourg	Louisiana
Krishna Velesetti	10024 Iris Lane	Eden Prairie	Minnesota
Leah Schneider	4948 High Pass Dr	Sparks	Nevada
Raid Merlo and Sharene Hattar	15A Riverview Circle	North Bergen	New Jersey
Della Markferding	720 Monroe Street, E-505	Hoboken	New Jersey
Chatali and Pratik Patel	29 Redbud Road	Piscataway	New Jersey
Fay Nham	74 Suffern Lane	Thiells	New York

Name	Address	City	State/Country
Maria Moore	4833 Candy Lane	Manlinus	New York
Margo Nilssen	115 Soundview Ave	East Northport	New York
Frank & Jeri Ferre	5000 Arlington Centre Blvd., #2158	Columbus	Ohio
Andrew Thomas	222 Silver Birch Avenue	Toronto	Ontario
Michelle Paddenburg	Updated Address as of 9/22/2020 411 Tanner Chase Way Greenville SC 29607	Mauldin	South Carolina
Billfred Leverette	1426 Platt Springs Road	Columbia	South Carolina
Patrick Slota	7177 Nolensville Rd. Suite B-1	Nolensville	Tennessee
Sruti Ramaswamy and Anitha Shankar Narayan	19810 Maverick Creek Lane	Cypress	Texas
Vernon Waller	P.O Box 3622	Chester	Virginia
Lisa Barton	5910 147th St. SW	Edmonds	Washington
Linda Fourier	P.O. Box 2521	Silverdale	Washington
Emily Breton	1409 Kings Lynn Rd	Stoughton	Wisconsin
Amy Armstrong	W256 N4875 Inverness Dr	Pewaukee	Wisconsin

EXHIBIT G TO FDD

SAMPLE FORM OF GENERAL RELEASE



BFK FRANCHISE COMPANY LLC  
GRANT OF FRANCHISOR CONSENT AND FRANCHISEE RELEASE

BFK FRANCHISE COMPANY LLC (“we,” “us,” “our,” or “Franchisor”) and the undersigned franchisee, \_\_\_\_\_ (“you,” “your,” or “Franchisee”), currently are parties to a certain franchise agreement dated \_\_\_\_\_ (the “Franchise Agreement”). You have asked us to take the following action or to agree to the following request: [insert as appropriate for renewal or transfer situation]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

. We have the right under the Franchise Agreement to obtain a general release from you (and, if applicable, your owners) as a condition of taking this action or agreeing to this request. Therefore, we are willing to take the action or agree to the request specified above if you (and, if applicable, your owners) give us the release and covenant not to sue provided below in this document. You (and, if applicable, your owners) are willing to give us the release and covenant not to sue provided below as partial consideration for our willingness to take the action or agree to the request described above.

Consistent with the previous introduction, you, on your own behalf and on behalf of your successors, heirs, executors, administrators, personal representatives, agents, assigns, partners, shareholders, members, directors, officers, principals, employees, and affiliated entities (collectively, the “Releasing Parties”), hereby forever release and discharge us and our affiliates, our and their current and former officers, directors, shareholders, principals, employees, agents, representatives, affiliated entities, successors, and assigns (collectively, the “Franchisor Parties”) from any and all claims, damages (known and unknown), demands, causes of action, suits, duties, liabilities, and agreements of any nature and kind (collectively, “Claims”) that you and any of the other Releasing Parties now has, ever had, or, but for this document, hereafter would or could have against any of the Franchisor Parties (1) arising out of or related to the Franchisor Parties’ obligations under the Franchise Agreement or (2) otherwise arising from or related to your and the other Releasing Parties’ relationship, from the beginning of time to the date of your signature below, with any of the Franchisor Parties. You, on your own behalf and on behalf of the other Releasing Parties, further covenant not to sue any of the Franchisor Parties on any of the Claims released by this paragraph and represent that you have not assigned any of the Claims released by this paragraph to any individual or entity that is not bound by this paragraph.

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

Sample Form of General Release - 1

BFK FRANCHISE COMPANY LLC  
a Nevada limited liability company

FRANCHISEE,  
a/an \_\_\_\_\_

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

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

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

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

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

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

Sample Form of General Release - 2

**EXHIBIT H TO FDD**

**STATE ADDENDA TO DISCLOSURE DOCUMENT**

**ADDITIONAL DISCLOSURES FOR THE  
MULTI-STATE FRANCHISE DISCLOSURE DOCUMENT OF  
BFK FRANCHISE COMPANY LLC**

The following are additional disclosures for the Franchise Disclosure Document of BFK Franchise Company LLC required by various state franchise laws. Each provision of these additional disclosures will not apply unless, with respect to that provision, the jurisdictional requirements of the applicable state franchise registration and disclosure law are met independently without reference to these additional disclosures.

**CALIFORNIA**

1. The following paragraph is added at the end of Item 3 of the Disclosure Document:

Except as disclosed above, neither we nor any person identified in Item 2 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, 15 U.S.C.A. Section 78a et seq., suspending or expelling such person from membership in such association or exchange.

2. 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.
3. OUR WEBSITE, [www.bricks4kidz.com](http://www.bricks4kidz.com), HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENT OF THE WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT [www.dbo.ca.gov](http://www.dbo.ca.gov).

4. The following paragraphs are added at the end of Item 17 of the Disclosure Document:

California Law Regarding Termination and Nonrenewal. California Business and Professions Code Sections 20000 through 20043 provide rights to franchisees concerning termination or nonrenewal of the franchise. If the Franchise Agreement contains any provision that is inconsistent with the law, and the law applies, then the law will control.

Termination Upon Bankruptcy. The Franchise Agreement provides for termination upon bankruptcy. This provision might not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.)

Covenant not to Compete. 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.

Material Modification. California Corporations Code, Section 31125 requires the franchisor to give the franchisee a disclosure document, approved by the Department of Business Oversight, prior to a solicitation of a proposed material modification of an existing franchise.

Applicable Law. The Franchise Agreement requires application of the laws of Florida. This provision may not be enforceable under California law.

Releases. The Franchise Agreement requires you to sign 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 thereunder is void. Section 31512 might void a waiver of your rights under the Franchise Investment Law (California Corporations Code Section 31000 – 31516). Business and Professions Code Section 20010 might void a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 – 20043).

## **ILLINOIS**

Illinois law governs the franchise agreements.

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' rights 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.

THIS FRANCHISOR HAS LITIGATION HISTORY. SEE ITEM 3 IN THE FRANCHISE DISCLOSURE DOCUMENT.

THE FRANCHISOR HAS RESERVED THE RIGHT, SUBJECT TO APPLICABLE LAW, TO DETERMINE THE AMOUNT TO BE CHARGED FOR PRODUCTS & SERVICES YOU PROVIDE IN YOUR FRANCHISED BUSINESS WITHOUT REGARD TO THE IMPACT SUCH PRICING WILL HAVE ON YOUR BOTTOM LINE (SEE SECTION 8E IN THE FRANCHISE AGREEMENT).

## MARYLAND

1. Item 5, "Initial Fees," shall be amended by the addition of the following language:

The Maryland Securities Commissioner has required that, due to our financial condition, we defer the payment of the Initial Franchise Fee for each Bricks 4 Kidz Business until the relevant Bricks 4 Kidz Business opens for business. Upon the opening of each Bricks 4 Kidz Business, you must pay to us the Initial Franchise Fee for that Bricks 4 Kidz Business.

2. Item 17, "Renewal, Termination, Transfer and Dispute Resolution," shall be amended by the addition of the following language:

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

The general release required as a condition of renewal, sale/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

A franchisee may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of the franchise.

3. Exhibit J, "Franchisee Disclosure Questionnaire," shall be amended by the addition of the following at the end of Exhibit J:

The representations under this Franchisee Disclosure Questionnaire 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.

### **THE FOLLOWING PROVISIONS APPLY ONLY TO TRANSACTIONS GOVERNED BY THE MICHIGAN FRANCHISE INVESTMENT LAW**

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

- (j) A prohibition on the right of a franchisee to join an association of franchisees.
- (k) A requirement that a franchisee assent to a release, assignment, novation, waiver or estoppel which deprives 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.

(l) A provision that permits 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.

(m) 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.

(n) 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.

(o) 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.

(p) A provision which permits a franchisor to refuse to permit a transfer or 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.

(q) 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).

(r) 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 service.

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE ATTORNEY GENERAL. ANY QUESTIONS REGARDING THIS NOTICE SHOULD BE DIRECTED TO:

State of Michigan  
Office of the Attorney General  
Consumer Protection Division  
Attention: Franchise Section  
670 Law Building  
525 West Ottawa Street  
Lansing, Michigan 48913  
Telephone Number: (517) 335-7567

## MINNESOTA

1. The Item 6 chart row entitled “Insufficient Funds Processing Fee” is replaced with the following to meet the requirements of Minnesota Statute 604.113 regarding the maximum allowable amount of the fee chargeable for insufficient payments:

Insufficient Funds Processing Fee	\$30, plus our expenses (or the maximum rate allowed by law, currently \$30)	As agreed	Due if you have insufficient funds in your EDTA to cover a payment, or, if you pay by check, a check is returned for insufficient funds
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2. The following language is added to the end of Item 13:

To the extent required by Minnesota Stat. Sec. 80C.12, Subd. 1(g), we will protect your right to use the Marks and indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the Marks.

3. The following is added at the end of the chart in Item 17:

With respect to franchises governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require, except in certain specified cases, that you be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the Franchise Agreement.

Minn. Stat. Sec. 80C.21 and Minn. Rule 2860.4400J might prohibit us from requiring litigation to be conducted outside Minnesota. Those provisions also provide that no condition, stipulations or provision in the Franchise Agreement shall in any way abrogate or reduce any rights you have under the Minnesota Franchises Law, including (if applicable) the right to submit matters to the



jurisdiction of the courts of Minnesota and the right to any procedure, forum or remedies that the laws of the jurisdiction provide.

Any release required as a condition of renewal or transfer/assignment will not apply to the extent prohibited by the Minnesota Franchises Law.

Minn. Rule Part 2860.4400J might prohibit a franchisee from waiving rights to a jury trial; waiving rights to any procedure, forum or remedies provided by the laws of the jurisdiction; or consenting to liquidated damages, termination penalties or judgment notes. However, we and you will enforce these provisions in our Franchise Agreement to the extent the law allows.

## **NEW YORK**

1. The following information is added to the State Cover Page of the Disclosure Document:

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, INVESTMENT PROTECTION BUREAU, 28 LIBERTY STREET, 21ST FLOOR, NEW YORK, NEW YORK 10005 .

THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE PROSPECTUS. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS PROSPECTUS.

2. The following paragraphs are added at the beginning of Item 3 of the Disclosure Document:

Except as provided below, neither the franchisor, any predecessor, any person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

(a) 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. Nor does any predecessor, any person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark have any 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.

(b) 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.

(c) 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.

3. The following paragraph is added at the beginning of Item 4 of the Disclosure Document:

Except as described below, neither the franchisor nor any of its affiliates, its predecessors, officers identified in Item 2, or general partner have, during the 10-year period immediately preceding the date of the disclosure document: (a) filed as debtor (or had filed against us, it, him, or her) a petition to start an action under the U.S. Bankruptcy Code or any foreign bankruptcy code; (b) obtained a discharge of our, its, his, or her debts under the U.S. Bankruptcy Code or any foreign bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or any foreign bankruptcy code or that obtained a discharge of its debts under the U.S. Bankruptcy Code or any foreign bankruptcy code during or within 1 year after the officer or general partner of the franchisor held this position in the company or partnership.

4. The following language is added to the end of the second paragraph in Item 5:

We use the initial franchise fee to partially defray our costs in assisting you during your opening of the BUSINESS, such as for training expenses.

5. The first paragraph of the Item 17 chart is deleted and replaced with the following:

EACH TABLE BELOW LISTS CERTAIN IMPORTANT PROVISIONS OF THE FRANCHISE AND RELATED AGREEMENTS. YOU SHOULD READ THESE PROVISIONS IN THE AGREEMENTS ATTACHED TO THIS DISCLOSURE DOCUMENT.

6. The “Summary” sections of Items 17(c), entitled **Requirements for franchisee to renew or extend**, and 17(m), entitled **Conditions for franchisor approval of transfer**, of the Franchise Agreement chart in the Disclosure Document are amended by adding the following:

, provided, however, that to the extent required by Article 33 of the General Business Law of the State of New York, 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 GBL Sections 687.4 and 687.5 be satisfied.

7. The “Summary” section of Item 17(d), entitled **Termination by franchisee**, of the Franchise Agreement chart in the Disclosure Document is amended by adding the following:

The franchisee may terminate the agreement on any grounds available by law.

8. The “Summary” section of Item 17(j), entitled **Assignment of contract by franchisor**, of the Franchise Agreement chart in the Disclosure Document is amended by adding the following:

However, to the extent required by applicable law, no assignment will be made except to an assignee who, in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor's obligations under the franchise agreement.

9. The “Summary” sections of Items 17(v), entitled **Choice of forum**, and 17(w), entitled **Choice of law**, of the Franchise Agreement chart in the Disclosure Document are amended by adding the following:

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.

10. There are circumstances in which an offering made by us would not fall within the scope of the New York General Business Law, Article 33, such as when the offer and acceptance occurred outside the State of New York. However, an offer or sale is deemed made in New York if you are domiciled in and the franchise will be operated in New York. We are required to furnish a New York prospectus to every prospective franchisee who is protected under the New York General Business Law, Article 33.

## **NORTH DAKOTA**

The North Dakota Securities Commissioner has held the following to be unfair, unjust, or inequitable to North Dakota franchisees (Section 51-19-09, N.D.C.C.):

- A. Restrictive Covenants: Franchise disclosure documents which disclose the existence of covenants restricting competition contrary to Section 9-08-06, N.D.C.C., without further disclosing that such covenants will be subject to this statute.
- B. Situs of Arbitration Proceedings: Franchise agreements providing that the parties must agree to arbitrate disputes at a location that is remote from the site of the franchisee's business.
- C. Restriction on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.
- D. Liquidated Damages and Termination Penalties: Requiring North Dakota franchisees to consent to liquidated damages or termination penalties.
- E. Applicable Laws: Franchise agreements which specify that any claims arising under the North Dakota franchise law will be governed by the laws of a state other than North Dakota.
- F. Waiver of Trial by Jury: Requiring North Dakota franchisees to consent to the waiver of a trial by jury.
- G. Waiver of Exemplary and Punitive Damages: Requiring North Dakota franchisees to consent to a waiver of exemplary and punitive damages.
- H. General Release: Requiring North Dakota franchisees to execute a general release of claims as a condition of renewal or transfer of a franchise.
- I. Limitation on Claims. Requiring North Dakota franchisees to consent to a limitation on when claims may be brought.

## **RHODE ISLAND**

1. The “Summary” sections of Item 17(v), entitled **Choice of Forum**, of the Disclosure Document is deleted and replaced with the following:

Litigation generally must be where our then current principal business address is located (currently St. Augustine, FL), except that, to the extent required by applicable law, you may bring an action in Rhode Island for claims arising under the Rhode Island Franchise Investment Act.

2. The “Summary” sections of Item 17(w), entitled **Choice of law**, of the Disclosure Document is deleted and replaced with the following:

Subject to federal law, and except as otherwise required by the Rhode Island Franchise Investment Act, the law of the state in which the majority of the Territory or the Office is located governs.

## **VIRGINIA**

1. In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the “Summary” section of Item 17(h), entitled **“Cause” defined – non-curable defaults**, is amended by adding the following:

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.

## **WASHINGTON**

1. The following paragraph is added at the end of Item 17:

If any of the provisions in this disclosure document or the Franchise Agreement are inconsistent with the relationship provisions of Revised Code of Washington Section 19.100.180 or any other requirements of the Washington Franchise Investment Protection Act (the “Act”), then (if the Act applies by its terms) the provisions of the Act will prevail over the inconsistent terms of the disclosure document and/or Franchise Agreement for any franchises sold in Washington.

**EXHIBIT J TO THE DISCLOSURE DOCUMENT  
FORM OF PROMISSORY NOTE**

**PROMISSORY NOTE**  
("Note")

**Principal Amount:** \_\_\_\_\_

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

**Borrower:**

**Location:**

FOR VALUE RECEIVED, \_\_\_\_\_, whose address is \_\_\_\_\_  
("Borrower") promises to pay to BFK FRANCHISE COMPANY, LLC ("Lender") \_\_\_\_\_  
(\$\_\_\_\_\_) in principal, plus interest at a rate of \_\_\_\_\_ percent (\_\_\_ %) annually on the unpaid  
balance as set forth herein.

1. **PAYMENT TERMS:** Borrower shall make \_\_\_\_\_ (\_\_\_) payments in the amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) per month beginning on \_\_\_\_\_  
\_\_\_\_\_. Payments are due on the \_\_\_ day of each month.
2. **TERM:** The term of this Loan is from \_\_\_\_\_ to \_\_\_\_\_.
3. **PREPAYMENT:** Borrower may prepay the loan without any penalty.
4. **INTEREST DUE IN THE EVENT OF DEFAULT:** In the event that the Borrower fails to pay the note, in full, on the due date or has failed to make an installment payment due within 15 days of the due date, unpaid principal shall accrue interest at the rate of eighteen percent (18%) per annum OR the maximum rate allowed by law, whichever is less, until the Borrower is no longer in default.
5. **LATE FEES:** If the Lender receives any installment payment more than five (5) days after the date that it is due, then a late payment fee of One Hundred and NO/100 Dollars (\$100) shall be payable with the scheduled installment payment along with any default interest due.
6. **PAYMENT APPLICATION: ALLOCATION OF PAYMENTS:** Payments shall be first credited any late fees due, then to interest due and any remainder will be credited to principal.
7. **ACCELERATION:** If (A) the Borrower is in default under this Note and fails to make any payment owed and such default is not cured within ten (10) days after written notice of such default or (B) the Borrower or any entity owned by Borrower or affiliate of Borrower fails to timely cure a default under any other agreement with Lender, then Lender may, at its option, declare all outstanding sums owed on this Note to be immediately due and payable, in addition to any other rights or remedies that Lender may have under state and federal law.

8. **ATTORNEYS' FEES AND COSTS:** Borrower shall pay all costs incurred by Lender in collecting sums due under this Note after a default, including reasonable attorneys' fees. If Lender or Borrower sues to enforce this Note or obtain a declaration of its rights hereunder, the prevailing party in any such proceeding shall be entitled to recover its reasonable attorneys' fees and costs incurred in the proceeding (including those incurred in any bankruptcy proceeding and/or appeal) from the non-prevailing party.
9. **WAIVER OF PRESENTMENTS:** Borrower waives presentment for payment, notice of dishonor, protest and notice of protest.
10. **NON-WAIVER:** No failure or delay by Lender in exercising Lender's rights under this Note shall be considered a waiver of such rights.
11. **SEVERABILITY:** In the event that any provision herein is determined to be void or unenforceable for any reason, such determination shall not affect the validity or enforceability of any other provision, all of which shall remain in full force and effect.
12. **INTEGRATION:** There are no verbal or other agreements which modify or affect the terms of this Note. This Note may not be modified or amended except by written agreement signed by Borrower and Lender.
13. **STATE LAW:** This note shall be governed in accordance with the laws of the State of Florida.
14. **MODIFICATIONS:** Any modifications of or amendments to the terms herein shall be made in writing by all of the parties hereto.
15. **NOTICE:** Any notices required or permitted to be given hereunder shall be given in writing and shall be delivered (a) in person, (b) by certified mail, postage prepaid, return receipt requested, or (c) by a commercial overnight courier that guarantees next day delivery and provides a receipt, and such notices shall be made to the parties at the addresses listed below.

Notices shall be sent to Borrower at:

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

Notices and payments shall be sent to Lender at:

BFK FRANCHISE COMPANY, LLC  
475 W Town Place Suite 205 A  
St. Augustine, FL 32092



16. **JOINT AND SEVERAL LIABILITY:** Each Borrower shall be jointly and severally liable under this Note.

17. **ASSIGNMENT:** This Note and the obligations hereunder may not be assigned by the Borrower.

18. **SUCCESSORS AND ASSIGNS:** This Note will be binding upon and inure to the benefit of the Lender and its successors and assigns. The Lender at any time may assign this Note in whole or in part.

19. **WAIVER OF JURY TRIAL: EACH OF THE BORROWER AND THE LENDER IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS NOTE, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS NOTE ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE BORROWER AND THE LENDER ACKNOWLEDGE THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.**

IN WITNESS WHEREOF the Borrower has executed this Note and this Note is effective as of the date first written above.

BORROWER:

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### **State Effective Dates**

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the states, 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 states below:

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

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.

**Item 23 - 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 BFK Franchise Company LLC offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **New York requires that we give you this Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan requires that we give 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 BFK Franchise Company LLC does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agency listed on Exhibit A.

The franchisor is BFK Franchise Company LLC, located at 475 W Town Place Suite 205 A, St. Augustine, FL 32092. Its telephone number is (904) 824-3133.

Issuance Date: March 26, 2021

The franchise seller for this offering is: \_\_\_\_\_  
475 W Town Place Suite 205 A, St. Augustine, FL 32092 (904) 824-3133

We authorize the respective state agencies identified on Exhibit B to receive service of process for us in the particular state.

I have received a Disclosure Document dated March 26, 2021 that included the following Exhibits:

- Exhibit A List of State Administrators/Agents for Service of Process
- Exhibit B List of State Agents for Service of Process
- Exhibit C Franchise Agreement
- Exhibit D Financial Statements
- Exhibit E Operations Manual Table of Contents
- Exhibit F Lists of Current and Former Franchisees
- Exhibit G Sample Form of General Release
- Exhibit H State Addenda to Disclosure Document
- Exhibit I Form of Promissory Note

Date Received: \_\_\_\_\_  
(If other than date signed)

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

\_\_\_\_\_  
(Signature of recipient)

\_\_\_\_\_  
(Printed name of recipient)

\_\_\_\_\_  
Legal residence address

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- Exhibit H State Addenda to Disclosure Document
- Exhibit I Form of Promissory Note

Date Received: \_\_\_\_\_ DATE: \_\_\_\_\_

(If other than date signed)

\_\_\_\_\_  
(Signature of recipient)

\_\_\_\_\_  
(Printed name of recipient)

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Legal residence address