

## FRANCHISE DISCLOSURE DOCUMENT

Winmark Corporation  
A Minnesota Corporation  
605 Highway 169 N, Suite 400  
Minneapolis, Minnesota 55441  
Telephone: (763) 520-8500  
[franchisedevelopment@winmarkcorporation.com](mailto:franchisedevelopment@winmarkcorporation.com)  
[www.musicgoround.com](http://www.musicgoround.com)



The franchisee will own and operate a Music Go Round® retail store from which the franchisee will sell quality used and new musical instruments, speakers, amplifiers, music-related electronics and related accessories.

The total investment necessary to begin operation of a Music Go Round® store is from \$295,500 to \$378,300. This includes \$45,000 to \$48,300, which must be paid to us.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact the Franchise Development Department at 605 Highway 169 N, Suite 400, Minneapolis, Minnesota 55441, (763) 520-8500.

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 complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "[A Consumer's Guide to Buying a Franchise](#)," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: March 15, 2022

## How to Use This Franchise Disclosure Document

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

QUESTION	WHERE TO FIND INFORMATION
<b>How much can I earn?</b>	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibits A and B.
<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 C 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 Music Go Round® business in my area?</b>	Item 12 and the “territory” provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
<b>Does the franchisor have a troubled legal history?</b>	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
<b>What’s it like to be Music Go Round® franchisee?</b>	Item 20 or Exhibits A and B list 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 the agency information in Exhibit G.

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

## Special Risks to Consider About *This Franchise*

Certain states require that the following risks be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by arbitration only in Minnesota. Out-of-state arbitration may force you to accept a less favorable settlement for disputes. It may also cost more to arbitrate with the franchisor in Minnesota than in your own state.
2. **Spousal Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the franchise agreement even though your spouse has no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.
3. **Financial Condition.** The franchisor's financial condition, as reflected in its financial statements (see Item 21), calls into question the franchisor's financial ability to provide services and support to you.
4. **Minimum Payments.** You must make minimum advertising, and other payments, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.

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

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## EXHIBITS

- A - List of Stores
- B - List of Terminated Franchises
- C - Winmark's Audited Consolidated Financial Statements
- D - Music Go Round® Franchise Agreement (and exhibits)
- E - Bank Draft Authorization
- F - Franchisee Questionnaire
- G - List of State Administrators/Agents for Service of Process
- H - State Specific Addenda
- I - State Effective Dates Page
- J - Receipts

Item 1

THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language in this disclosure document, “Winmark” or “we” means Winmark Corporation, the franchisor. “You” means the person who buys the franchise. If the Franchisee is a corporation, partnership, or other entity, “you” may also refer to its owners.

Winmark was incorporated under the laws of the State of Minnesota on July 20, 1988 under the name “Play It Again Sports Franchise Corporation.” In July 1993, Winmark’s corporate name was changed from “Play It Again Sports Franchise Corporation” to “Grow Biz International, Inc.” In November 2001, our corporate name was changed from “Grow Biz International, Inc.” to “Winmark Corporation.” Winmark’s principal business address is 605 Highway 169 N, Suite 400, Minneapolis, Minnesota 55441; our telephone number is (763) 520-8500. Winmark conducts business under the name Music Go Round®. Winmark also conducts business in 4 other separate lines of businesses under the names Play It Again Sports®, Once Upon A Child®, Plato’s Closet® and Style Encore® (see Item 1 below).

Winmark has no parent. Winmark has no predecessors that must be disclosed in this Item 1. Winmark’s affiliate is Winmark Capital Corporation. Winmark Capital Corporation was incorporated in Minnesota on April 2, 2004, for the purpose of equipment leasing to other businesses. The principal business address of Winmark Capital Corporation is 605 Highway 169 N, Suite 400, Minneapolis, Minnesota 55441. Winmark Capital Corporation is not involved in the offer or sale of franchises.

Winmark’s agents for service of process are disclosed in Exhibit G.

Franchise Offered.

Winmark franchises Music Go Round® retail stores (sometimes referred to as a “Store”) under the terms of the Franchise Agreement in the form included in this disclosure document as Exhibit D (the “Franchise Agreement”). A Music Go Round® Store is a retail store from which you will sell quality used and new musical instruments, speakers, amplifiers, music-related electronics and related accessories. A Music Go Round® franchise emphasizes consumer value by offering quality used merchandise at substantial savings from the price of new merchandise and by purchasing customers’ used goods that are no longer used. A Store also offers new merchandise to supplement the selection of used goods.

The market for the goods and services which you will offer includes parents of children who play musical instruments and professional and amateur musicians. The market for used musical instruments, speakers, amplifiers, music-related electronics and related accessories is expanding as consumers recognize the value associated with such used items. The market for

new musical instruments, speakers, amplifiers, music-related electronics and related accessories is well-developed and competitive.

Winmark has developed a marketing system which creates a certain product image in the minds of customers, a business strategy for getting and keeping customers, and a distribution method for products and services. Winmark has developed all of these as part of the business system (the “Business System”) which you will receive the right to use. Winmark uses and licenses certain service marks and trademarks, logos, trade dress and other commercial symbols, including the service mark Music Go Round® (collectively, the “Trademarks”). Winmark may, in the future, modify the Trademarks as well as add new trademarks, service marks, logos, trade dress and other commercial symbols.

The purchase of a Music Go Round® franchise permits you: (i) to use Winmark’s nationally recognized Trademarks; (ii) to obtain access to the distinctive operational and management attributes of the Music Go Round® Business System, including confidential manuals describing complete guidelines for the operation of a Store (the “Manuals”); (iii) the right, under certain conditions, to participate in Winmark’s preferred vendor program (see Item 8); and (iv) to receive the benefits of association with a nationally recognized franchise system, including various forms of opening and operational assistance from Winmark (see Item 11). You must comply with all of Winmark’s requirements described in the Franchise Agreement and the Manuals. This compliance assures uniform and consistent application of the Business System which is essential to the successful operation of your Store.

If you are an existing Music Go Round® franchisee or an existing franchisee of one of Winmark’s other brands in good standing, have been a franchisee of Winmark for at least 12 months and are opening an additional store, you must sign the Additional Store Addendum attached to the Franchise Agreement. Under special circumstances, Winmark may, at our sole discretion, waive the 12 month requirement.

#### Laws and Regulations.

You must comply with all laws, rules and regulations governing the operation of the Store, and obtain all permits and licenses necessary to operate the Store (including licenses to play music, videos or television in your Store, if applicable). In addition to laws and regulations that apply to businesses generally, your Store may be subject to local statutes or regulations that generally govern second-hand dealers and pawn shops. If applicable, these statutes and regulations may require that you report purchases of used merchandise, hold purchased items for a specified period before selling them and post a surety bond with a local government unit. You should check with state and local government entities to find out if these types of statutes or regulations will apply to your franchise. Your Store will also be subject to various federal, state and local government regulations, including those relating to site location.

#### Competition.

There is a small number of direct competitors in the used musical instrument segment of this business. For years, many local independent retailers have sold used musical instruments



and related equipment. Although the used musical instrument segment has seldom been the focus of these retailers, they will likely continue to be active in this market. In addition, you may also face competition from a small number of independent musical resale shops and consignment shops and Internet websites.

In the new musical instrument segment of this business, you will likely compete with local, regional and national independent retailers selling either a full or partial line of new musical instruments. Several of these competitors may have significantly greater financial resources than you.

### Franchise Activities.

Winmark's business includes the administration of its franchise system (see Item 11), the operation of 4 other franchise systems (described below).

Winmark has offered Music Go Round® franchises since March 1994 and operated one or more Music Go Round® Stores from February 1993 to August 2005. Winmark also offers franchises in 4 other lines of businesses. Winmark offers franchises for the operation of Play It Again Sports® retail stores which sell quality used and new sporting goods equipment and accessories. Winmark has offered Play It Again Sports® franchises since August 1988 and, as of December 25, 2021, 273 Play It Again Sports® franchised stores were in operation. In addition, Winmark offers franchises for the operation of Once Upon A Child® retail stores which sell used and new children's apparel, toys, equipment, furniture and accessories. Winmark has offered Once Upon A Child® franchises since January 1993 and, as of December 25, 2021, 401 Once Upon A Child® franchised stores were in operation. Winmark also offers franchises for the operation of Plato's Closet® retail stores which sell used and new teen and young adult clothing and accessories. Winmark has offered Plato's Closet® franchises since March 1999 and, as of December 25, 2021, 489 Plato's Closet® franchised stores were in operation. Winmark offers franchises for the operation of Style Encore® retail stores which sell used and new women's clothing and accessories. Winmark has offered Style Encore® franchises since April 2013 and, as of December 25, 2021, 71 Style Encore® franchised stores were in operation. Play It Again Sports®, Once Upon A Child®, Plato's Closet® and Style Encore® franchises are offered, if at all, in this state through separate disclosure documents describing Winmark and its franchise programs.

Winmark offered Disc Go Round® franchises (retail stores which sold used and new audio compact discs) from 1994 to 1998. Winmark offered It's About Games franchises (retail stores which sold used and new video and computer games) from 1997 to 1999. Winmark offered Computer Renaissance® franchises (retail stores which sold used and new personal computer hardware equipment, software and related accessories) from 1993 to 2000. Winmark offered ReTool® franchises (retail stores which sold used and new tools and small engine machinery) from June 1998 to November 2001. Winmark also offered Wirth Business Credit® franchises (businesses that offered small-ticket equipment leasing and financing services) from October 2005 to February 2011. Winmark no longer offers Disc Go Round®, It's About Games, Computer Renaissance®, ReTool®, or Wirth Business Credit® franchises.

## Item 2

### BUSINESS EXPERIENCE

#### Chairman of the Board, Director and Chief Executive Officer: Brett D. Heffes

Brett Heffes was elected Chairman of the Board in March 2020. Mr. Heffes was appointed to our board of directors and has served as Chief Executive Officer of Winmark since February 2016. He was President of Winmark from February 2011 to February 2016 and served as President of Finance and Administration of Winmark from December 2007 to February 2011. From November 2002 to September 2008, Mr. Heffes served as Chief Financial Officer and Treasurer of Winmark.

#### Executive Vice President and Chief Operating Officer: Renae M. Gaudette

Renae Gaudette has served as Executive Vice President and Chief Operating Officer since February 2022. Ms. Gaudette was President of Franchising from March 2020 to February 2022. She was Vice President of Franchising for the Once Upon A Child®, Plato's Closet®, Music Go Round® and Style Encore® Divisions from February 2014 to March 2020, and Play It Again Sports® Division from July 2016 to March 2020. She has been employed by Winmark in various positions since 1995, including Director of Plato's Closet® Division from March 2009 to January 2014.

#### Executive Vice President and Chief Financial Officer: Anthony D. Ishaug

Anthony Ishaug has served as Executive Vice President of Winmark since December 2016, Chief Financial Officer since September 2008 and Treasurer since November 2009.

#### Vice President, Operations: Timothy J. Kletti

Timothy Kletti has been Vice President of Operations since May 2021. Mr. Kletti was Director of the Music Go Round® Division from March 2006 to May 2021 and Director of the Play It Again Sports® Division from June 2018 to May 2021. He was the Manager of Music Go Round® Franchise Operations from February 2004 to March 2006. He has been employed by Winmark in various positions with Music Go Round® since 1994.

#### Sr. Director, Franchise and New Store Development: Shannon M. Hoppe

Shannon Hoppe has been Sr. Director of Franchise and New Store Development since October 2021. Ms. Hoppe was Director of Training and New Store Development from March 2017 to October 2021 and Training Manager from May 2012 to March 2017.

#### Director: Paul C. Reyelts

Paul Reyelts has been a member of our board of directors since May 2000 and serves as Lead Director.

Director: Mark L. Wilson

Mark Wilson has been a member of our board of directors since May 2000.

Director: Jenele C. Grassle

Jenele Grassle has been a member of our board of directors since January 2001.

Director: Lawrence A. Barbetta

Lawrence Barbetta has been a member of our board of directors since April 2012. Mr. Barbetta currently serves as Chairman of the Board and Chief Executive Officer of eLab Analytics in Wayzata, Minnesota, a position he has had since 2008.

Director: Gina D. Sprenger

Gina Sprenger has been a member of our board of directors since January 2021. Ms. Sprenger has also served as Chief Strategic Retail Officer for Fanatics, Inc. in Jacksonville, Florida since January 2020.

Director: Percy C. Tomlinson, Jr.

Percy Tomlinson, Jr. was appointed to our board of directors in December 2021. Mr. Tomlinson has also served as an Operating Partner with Blue Wolf Capital Partners LLC in New York, New York since September 2018. He served as Chief Executive Officer and Board Member of Alliance HealthCare Services in Irvine, California from October 2013 to August 2018.

### Item 3

#### LITIGATION

Romper Room, Inc., Romper Room II, Inc., Greg and Tammy Gering v. Winmark Corporation (United States District Court, Eastern District of Wisconsin, Case No. 1:14-cv-01217-WCG, filed October 1, 2014). Winmark terminated two Once Upon A Child® Franchise Agreements in Wisconsin because one of the franchisees' shareholders pleaded no contest to 3 counts of misdemeanor theft by fraud. Pursuant to requirements of the Wisconsin Fair Dealership Law (WFDL), Winmark gave the franchisees 90 days' notice of termination which would have rendered the Franchise Agreements terminated on October 22, 2014. However, before the termination became effective, Plaintiffs commenced this action alleging that Winmark violated Wis. Stat. §§ 135.03 and 135.04 by not providing the franchisees with 60 days to cure the default and that the criminal matter did not constitute good cause to terminate the Franchise Agreements. Plaintiffs also alleged breach of contract and sought a preliminary injunction preventing Winmark from enforcing the termination of the Franchise Agreements. On October 8, 2014, a hearing was held on Plaintiffs' Motion for Preliminary Injunction. On October 10, 2014, the Court granted Plaintiffs' Motion for Preliminary Injunction. On October 24, 2014,

Winmark filed an Answer and Counterclaim seeking, among other things, dismissal of Plaintiffs' claims, declaratory judgment that Winmark had good cause to terminate the franchises, damages for the franchisee's underpayment of royalties in one store, damages in excess of \$75,000 in violation of the in-term non-competition clause and an injunction enjoining Plaintiffs from being involved in a competing clothing business. On November 3, 2014, Winmark rescinded the termination of the Franchise Agreements. In March 2015, Winmark and Plaintiffs entered into a Settlement Agreement pursuant to which Winmark agreed not to terminate the franchises based on the shareholder's plea of no contest to 3 counts of misdemeanor theft by fraud, agreed that the children of the shareholders were not currently bound by any non-competition provision under the Franchise Agreements and, in settlement of Winmark's monetary claim related to one of the stores, agreed that commencing January 1, 2015, Plaintiffs would pay 5% in royalties through the June 2015 renewal date. On March 13, 2015, the case was dismissed with prejudice pursuant to a stipulation of dismissal signed by all of the parties to the case.

Other than this action, no litigation is required to be disclosed in this Item.

#### Item 4

#### BANKRUPTCY

No bankruptcy information is required to be disclosed in this Item.

#### Item 5

#### INITIAL FEES

You must pay to Winmark "Initial Fees" to cover the cost of goods and services that Winmark provides to you before your Store opens. The Initial Fees include the Initial Franchise Fee and the initial cost of Winmark's point-of-sale system and proprietary software. Each component of the Initial Fees is described below:

Initial Franchise Fee. If you are opening a single Store, you must pay an "Initial Franchise Fee" of \$25,000 to Winmark. The Initial Franchise Fee is \$15,000 if you are currently opening a second or subsequent Store or if you are an existing franchisee of one of Winmark's other franchised concepts. You must sign a separate Franchise Agreement for each Store, and you must pay the Initial Franchise Fee for each Store in a lump sum to us when you sign the Franchise Agreement. The Initial Franchise Fee is non-refundable.

Point-of-Sale (POS) System. You must use in your Store the point-of-sale system ("POS System") which Winmark has selected for your Business System, and you must enter into a Computer Software License Agreement with Winmark for use of Winmark's proprietary software program (the "Proprietary Software"). The initial cost of the POS System and Proprietary Software will range from \$20,000 to \$23,300 for each Store, which includes a DRS Maintenance Fee. This amount is not refundable. You will generally purchase the POS System and Proprietary Software immediately before you attend Winmark's second week of training. See Item 11 for additional information regarding the POS System and Proprietary Software.

The total amount for your Initial Fees will depend on the goods and services that Winmark provides to you.

Item 6

**OTHER FEES**

<b>Type of Fee</b>	<b>Amount (See Note 1)</b>	<b>Due Date</b>	<b>Remarks</b>
Continuing Fee	4% of your "Gross Sales" See Note 2	On or before Wednesday of each week for the previous week	See Note 3
Marketing Fee	\$1,500 per year	Due January 1 of each year	See Note 4
Cooperative Advertising	Maximum amount is 5% of your Gross Sales	Established by Winmark or franchisees	See Note 5
Local Marketing Expenses	Minimum amount, when combined with cooperative advertising expenses, is 5% of your Gross Sales.	Minimum amount must be spent during each calendar year.	See Note 6
Advertising Fee	If Winmark imposes this fee, you will pay up to 2% of your Gross Sales	If Winmark imposes this fee, it will be due before Wednesday of each week for the previous week	See Note 7
Transfer Fee	\$10,000	Before completion of transfer	See Note 8
Audit Expenses	Cost and expenses related to audit	After inspection or audit	Payable only if understatement is greater than 2%
Renewal Fee	\$10,000	30 days before renewal of Franchise Agreement	
DRS Maintenance Fee	The fee for the term of this Franchise Agreement is \$1,000. Upon renewal the then-current rate for the fee will be applied.	The fee will be due upon placement of order of POS System, and upon renewal of the Franchise Agreement	See Note 9
Technology Fee	Currently \$0	Periodically, if established	See Note 10
Remodeling Expenses	Will vary under circumstances	When incurred	See Note 11

Type of Fee	Amount (See Note 1)	Due Date	Remarks
Insurance	Will vary under certain circumstances	When Winmark requests reimbursement	Payable to Winmark if you fail to pay insurance premium and Winmark pays it for you
Inventory	Will vary under circumstances	When incurred	See Note 12
Interest Expenses	Lesser of 18% per year or maximum rate permitted by law	When due	Payable if Continuing Fee or other amounts due Winmark are not timely paid
Lease Payment	Will vary under certain circumstances	When due	Payable if you sign a lease agreement for the equipment used in your store
Costs and Attorneys' Fees	Will vary under circumstances	When incurred	Winmark may recover costs and reasonable attorneys fees if you lose in a dispute with Winmark

Notes:

- (1) Except where otherwise noted, all fees are payable to Winmark, are uniformly imposed and are nonrefundable.
- (2) "Gross Sales" means the total revenues you receive from the sale of goods and services, whether by cash or by check, credit card or trade, in connection with the Store, less customer refunds and returns and sales or similar taxes. Gross Sales includes any sales permitted through the Internet. Gross sales do not include wholesale transactions from Music Go Round® franchisees to other Music Go Round® franchisees in good standing with Winmark.

In certain situations, other franchisees may be paying a lower percentage rate for continuing fees than you are. All new franchisees are required to pay the percentage rate stated in this disclosure document. However, a franchisee with an earlier Franchise Agreement may have been required to pay a lower percentage rate than the stated amount or may be required to pay less upon renewal of their Franchise Agreement. In the future, Winmark may change the continuing fees for new and renewing franchisees unless your Franchise Agreement specifically grants you the right to renew your Franchise Agreement at a lower rate.

- (3) Winmark requires you to allow us to withdraw continuing and other fees directly from your bank account.

- (4) Your initial payment will be prorated based on the effective date of your Franchise Agreement and invoiced immediately. Winmark may, with a minimum of 60 days' prior written notice, increase the yearly Marketing Fee. Said fee will not increase more than \$1,000 during the term of the Franchise Agreement.
- (5) Winmark or local Music Go Round® franchisees may establish an advertising cooperative in your area. The local advertising cooperative will establish the amount of cooperative advertising fees. If a Company-owned store is a member of your cooperative, it will have voting power equal to that of franchised stores. Company-owned stores will not have controlling power in any local cooperative. There are currently no Company-owned Music Go Round® stores.
- (6) To the extent your annual contributions to cooperative advertising programs are less than 5% of the Gross Sales for your Store, you must conduct additional advertising and marketing activities in your local geographic area. Your local advertising activities, however, will not eliminate your obligations to contribute to cooperative advertising programs. If you do not spend at least 5% of Gross Sales for the calendar year for cooperative or local advertising, Winmark may require that you pay Winmark the difference between what you should have spent for advertising during the calendar year and what you actually spent, with the money to be spent on advertising initiatives in your market in the subsequent year at Winmark's discretion.
- (7) Winmark may, with 60 days' notice, increase your minimum advertising expenditures up to a total of 6% of your Store's Gross Sales. Of the 6%, up to one-third (or 2% of Gross Sales) will be paid in the form of an "Advertising Fee" to Winmark for deposit in an "Advertising Fund" to be managed by Winmark. The balance of the 6% minimum advertising requirement must be used for cooperative advertising and local advertising.
- (8) This fee is payable when the Franchise Agreement or substantial portion of the assets of the Store or any controlling interest in the franchisee is transferred.
- (9) This fee is for upgrades to the antivirus and data base engine software that supports the DRS software and is payable when you initially order your POS System and upon renewal of your Franchise Agreement.
- (10) As of the date of this Disclosure Document, Winmark does not charge a technology fee. Winmark may, however, with a minimum of 60 days prior written notice, establish a periodic technology fee for technology-related services provided by Winmark including, but not limited to, services related to Winmark's extranet platform, current and future training platforms, and current and future social and digital media management platforms. As Winmark does not charge a technology fee at this time, Winmark has not determined the frequency or amount of the fee (if established), but estimates that the amount of the fee will be between \$500 and \$2,500 per year, per Store. If a technology fee is established, Winmark will not increase the technology fee by more than 10% each year.

- (11) You must modernize your Store upon notice from Winmark, although Winmark cannot require you to do so more than once every 5 years. The modernization must conform to the standards that Winmark requires at that time for similarly situated new Music Go Round® Stores. The scope of modernization may range from simply repainting the Store to completely refurbishing the entire Store, including replacement of fixtures, sign supplies, equipment and POS System. Winmark cannot estimate the current costs for a modernization project because the scope and extent of the modernization will vary based on the then current brand standards, the condition of the Store and the cost of labor and materials at that time. You may make these payments in whole or in part to Winmark-approved third parties and/or Winmark preferred vendors. Before you modernize your Store, you must submit your modernization plans to Winmark for our approval.
- (12) You will need to replenish your Store inventory (both new and used items) from time to time. Your quarterly investment for inventory will vary significantly, depending on such factors as seasonal changes in demand and your Store sales, although these costs generally range from \$80,000 to \$110,000.

Item 7

ESTIMATED INITIAL INVESTMENT

**YOUR ESTIMATED INITIAL INVESTMENT**

TYPE OF EXPENDITURES See Note 1	AMOUNT See Note 2	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
INITIAL FRANCHISE FEE (See Note 3)	\$25,000 See Note 3	Lump sum	When you sign the Franchise Agreement	Winmark
FIXTURES AND SUPPLIES	\$20,000 to \$27,000 See Note 4	Lump sum See Note 4	Before opening See Note 4	Third-party suppliers
SIGNS	\$8,000 to \$14,000 See Note 5	Lump sum	Before opening	Third-party suppliers
SECURITY SYSTEM AND/OR CAMERAS	\$1,000 to \$4,000 See Note 6	Lump sum See Note 6	Before opening See Note 6	Third-party suppliers
POINT-OF-SALE (POS) SYSTEM	\$20,000 to \$23,300 See Note 7	Lump sum See Note 7	Upon placement of order - before training See Note 7	Winmark
LEASEHOLD IMPROVEMENTS	\$9,000 to \$11,000 See Note 8	As incurred	Before opening	Third-party contractors and architects
BUILD-OUT	\$25,000 to \$40,000 See Note 9	As incurred	Before opening	Third-party contractors and architects
DEPOSITS AND BUSINESS LICENSES	\$5,000 to \$9,000 See Note 10	Lump sum	Before opening	Landlord, utility companies and government agencies



<b>TYPE OF EXPENDITURES</b> See Note 1	<b>AMOUNT</b> See Note 2	<b>METHOD OF PAYMENT</b>	<b>WHEN DUE</b>	<b>TO WHOM PAYMENT IS TO BE MADE</b>
OPENING INVENTORY	\$110,000 to \$120,000 See Note 11	As incurred	Prepaid at time of order before opening	Third-party suppliers and consumers
MISCELLANEOUS PRE-OPENING EXPENSES	\$30,000 to \$50,000 See Note 12	As incurred	Before opening	Third-party suppliers and utility companies
RENT – FIRST 3 MONTHS	\$12,500 to \$20,000 See Note 13	As incurred	As incurred	Landlord
ADDITIONAL FUNDS - 3 MONTHS	\$30,000 to \$35,000 See Note 14	As incurred	As incurred	Winmark, employees and third-party suppliers
TOTAL See Note 15	\$295,500 to \$378,300			

Notes:

- (1) The size of a Music Go Round® Store ranges from 3,000 to 4,000 square feet. For several items discussed below, your cost will increase as the number of square feet increases.
- (2) Except where otherwise noted, all fees that you pay to Winmark are nonrefundable. Third-party lessors, contractors, and suppliers will decide if payments to them are refundable.
- (3) The Initial Franchisee Fee for new Music Go Round® franchisees is \$25,000. The Initial Franchise Fee is \$15,000 for a second or subsequent store or for an existing franchisee of one of Winmark’s other franchised concepts.
- (4) Your investment in fixtures and supplies necessary to operate the Store is highly variable. Your exact investment depends on several factors, including the size and condition of the premises, inventory levels, transportation costs, financing costs and similar factors beyond Winmark’s or your control. The cost will increase as the number of square feet increases.
- (5) This item is for interior and exterior signs for the Store. All signs must meet Winmark’s standards and comply with your landlord’s requirements as well as any local government regulations. You must purchase all interior and exterior signs through Winmark’s approved, preferred third-party suppliers.
- (6) We require that you purchase a security system that includes security cameras, motion detectors, entrance security and glass breakage detectors. You must purchase a minimum of 3 to 4 cameras depending on the size of your Store.

- (7) You must use in your Store the POS System which Winmark has selected for the Business System. (See Item 11.) You must obtain a license for the Proprietary Software from Winmark. The estimated amount includes the \$6,000 software license fee you pay Winmark for the Proprietary Software. It also includes the \$1,000 DRS Maintenance Fee. It does not include sales tax and shipping costs. You must obtain the computer hardware components through Winmark.
- (8) You must lease the premises for your Store. Rent is addressed in Note 13 below. Typical locations for your Store are smaller free standing locations and strip shopping malls. You will need to make certain leasehold improvements to the leased premises for your Store to comply with Winmark's approved plans and standards. The estimated cost of leasehold improvements could include: carpeting, slat wall, lighting, and décor. The exact cost will depend upon several factors, including the condition of the premises, whether you elect to do more than the minimum required renovations, the landlord's agreement to reimburse you for certain improvements and other economic factors.
- (9) The build-out cost refers to the physical labor expense of building the store location to Winmark's approved brand standards. This may include installation of slat wall, wall standards, counter configuration, building store fixturation, installing flooring, painting, etc. The exact cost will depend upon several factors, including the condition of the premises, cost of contracting and permitting.
- (10) This amount includes utility and security deposits and business licenses. Deposits are generally refundable, but license fees are not.
- (11) This amount assumes your opening inventory will include both new and used musical instruments, speakers, amplifiers, music-related electronics and related accessories. The maximum amount assumes that you will open your Store in the fall and will have an additional supply of inventory to meet customer demands during this period. Winmark strongly recommends that you have a minimum of \$80,000 in used inventory when you open your Store and encourages you to have a much larger amount of used inventory. This amount does not reflect amounts needed to replenish inventory during the initial stage of operation. Winmark will refuse to allow you to open your Store if you have less than \$70,000 in used inventory. In addition, Winmark recommends that you have a minimum of \$30,000 in new inventory when you open your Store.
- (12) This amount includes lodging, meals and travel expenses for one person attending the initial training program and the cost for participation in an online financial management course (currently \$395) during the initial training program (see Item 11), telephone and high speed internet hook-up, legal expenses, initial financing costs, freight costs, building permits, pre-opening and buy day labor expenses, pre-opening and buy day advertising expenses and website development costs.
- (13) This amount estimates the rent expense you will incur during the first 3 months of Store operations. Rent is estimated to be approximately \$50,000 to \$100,000 per year depending on factors such as size, condition and location of the leased premises. At

times, franchisees are able to negotiate 2-4 months free rent with the landlord upon commencement of the lease. What you pay in rent will depend on local rental rates.

- (14) This amount estimates the expenses you will incur during the first 3 months of Store operations, including initial wages and fringe benefits, insurance premiums, advertising, taxes, office, paper and cleaning supplies, and interest payments on any business loans. It does not include inventory costs beyond the opening inventory costs identified in the Table and does not include your compensation during this 3-month period. Your costs will depend on factors such as how much you follow Winmark's systems and procedures, your management skills and experience, local economic conditions, the local market for Music Go Round® products, the prevailing wage rate, competition and the sales level reached during the initial period.
- (15) This total is an estimate of your pre-opening initial investment and the expenses you will incur during the first 3 months of Store operations. This total is based on Winmark's estimate of nationwide average costs and prevailing market conditions and Winmark's 33 years of experience in the franchise retail business and our 28 years of experience in this business. You should review this amount carefully with a business advisor before deciding to purchase the franchise.

#### Item 8

#### RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You must license the Proprietary Software and purchase the computer hardware components for the POS System from us. Your purchase (or license) of the Proprietary Software and purchase of computer hardware components will represent less than 7% of the cost to establish your Store. The cost of the computer hardware components reflects Winmark's costs related to those items. Winmark does not mark up the cost of the computer hardware components to secure any additional revenue. Winmark does, however, charge a handling fee of approximately 4% on computer hardware component purchases.

Most of Winmark's officers own an interest in Winmark, the franchisor and, as further described in this Item 8, Winmark is an approved supplier of certain items to the Music Go Round® franchise system. Winmark's officers may also own an interest in other approved or "recommended" suppliers that: (1) is held indirectly through a mutual fund, 401(k) plan or similar mechanism by which the officer does not have the ability to manage the ownership of individual company stock or other interests; or (2) represents fewer than 1,000 units or shares of a supplier entity and less than 1% of the total outstanding equity interest in that supplier. Except as described in the 2 preceding sentences, Winmark's officers do not own an interest in an approved or "recommended" supplier.

To insure a uniform image and quality of products and services throughout the Music Go Round® system, you must maintain Winmark's quality standards. Although you will not lease your real estate from Winmark, you must obtain Winmark's consent to the location of your Store and Winmark will review the lease to insure it contains provisions designed to protect

Winmark's interests (see Item 11). You must comply with Winmark's then-current approved standards in constructing and equipping your Store. You must use equipment (including hardware and certain software programs for the POS System), signs, fixtures, furnishings, products, supplies and advertising and sales promotion materials which meet Winmark's standards. In addition, you may sell from your Store only those categories of products and services that Winmark approves. Winmark periodically publishes for franchisees a list identifying approved product categories for use in a Music Go Round® store. Winmark may periodically update and alter these categories of products and services you may sell at Music Go Round® stores. Winmark does not establish standards for specific musical instruments, speakers, amplifiers, music-related electronics and related accessories and other items sold in your Store. You may purchase products within an approved category from any legal and available source of supply.

While Winmark will provide you with a list of "recommended" suppliers for various items, Winmark does not currently maintain a list of approved suppliers nor does it maintain any criteria for approving suppliers of inventory. Any supplier who is able to provide items meeting Winmark's standards (if any) is, in effect, an approved supplier. Winmark may verify that the item the supplier provides meets Winmark's standards (if any). Winmark will provide you with a list of approved, preferred or designated suppliers of services. We do not provide material benefits to you based on your purchase of particular products or services or use of particular suppliers.

Third party vendors charge franchisees directly for products or services. We may offer services in the future, for which we may charge. Winmark has negotiated or will negotiate programs with a number of manufacturers and suppliers so that franchisees may benefit from volume purchasing, prepaid freight programs, favorable terms of purchase and return of defective merchandise, and stock balancing assistance.

In operating your Store, you will purchase used goods from your customers or other sources. These used goods do not need to meet any standards so long as these goods fall within an approved category of goods and are not determined unsafe upon reasonable inspection.

Winmark ordinarily establishes general standards for flooring, fixtures, signs, computer hardware and non-proprietary software used in your Store. Winmark periodically modifies or adjusts these standards as needed. Winmark will make these standards available for your inspection at Winmark's corporate headquarters (subject to your execution of a confidentiality agreement).

Winmark is an "approved supplier" (i.e., a supplier that provides items meeting Winmark's general standards for those items) for certain items used in your Store. These items include advertising and sales promotion materials, and periodically other classes of products and supplies that you may use in operating your Store. Except for the Proprietary Software and computer hardware components discussed above (for which Winmark is generally the only source of supply), you may purchase any products, equipment, advertising, and promotional materials and other items from Winmark or any other manufacturer or supplier who can provide items meeting Winmark's standards (if any). You must, however, purchase your exterior and

interior signs, carpet and flooring from an approved supplier designated by Winmark. In addition, you must use an approved supplier designated by Winmark for broadcast media placement and online advertising for your pre-opening and first year marketing activities.

During Winmark's last fiscal year, Winmark derived revenues of \$3,437,658 from the sale of products, equipment and other items subject to Winmark's standards (including revenues of \$2,776,987 from the sale of computer hardware components, computer software and licensing of the Proprietary Software to the franchisees of all of its franchised brands and revenues of \$660,671 from inventory sold to Play It Again Sports® franchisees through the Play It Again Sports® buying group), or 4% of Winmark's total revenues of \$78,216,200, as stated in Winmark's Consolidated Statement of Operations for the year ended December 25, 2021. Revenues received from the sale of computer hardware components, computer software and licensing of the Proprietary Software to Music Go Round® franchisees alone during the year ended December 25, 2021 were \$40,235.

You must purchase and maintain, at your expense, comprehensive general liability insurance in an amount Winmark will designate periodically, but at least \$1 million per occurrence and \$2 million in the aggregate. This insurance must insure Winmark, you and any other person Winmark designates from liability for all damage or injury. You must also purchase business interruption insurance, business personal property insurance, money and securities insurance, and building insurance. In addition, you must maintain any other insurance that the law requires.

Although Winmark provides certain administrative, technical, and advisory services and data to a limited number of suppliers, Winmark does not receive a fee from any suppliers as a result of transactions with franchisees. Winmark may receive a rebate from the vendor of the Constant Contact marketing program for franchisee participation, however, any rebate received for participation by a Music Go Round® franchisee will be deposited directly into the Music Go Round® marketing fund to be used for the development of advertising and marketing materials. Winmark may receive a rebate for 30% of the billed revenue for Constant Contact or an estimated total of approximately \$5,700 per year.

Winmark estimates that the purchase or lease of equipment (including computer hardware and certain software), signs, fixtures, furnishings, products, supplies, and advertising and sales promotion materials (see Item 11 for information on advertising and sales promotion materials) which meet Winmark's standards (including those standards establishing general categories of goods and services that you may offer in your Store) will represent approximately 50% to 60% of the cost to establish your Store and 45% to 65% of the cost to operate your Store.

Winmark is not currently aware of any purchasing or distribution cooperatives in the Music Go Round® system that offer to you certain products used in your Store.

Item 9

**FRANCHISEE’S OBLIGATIONS**

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

<b>Obligation</b>		<b>Section in Agreement</b>	<b>Disclosure Document Item</b>
a.	Site selection and acquisition/lease	Sections 7(A) and 8(O) of Franchise Agreement	Item 11
b.	Pre-opening purchases/lease	Sections 6(D) and 8(D), (O) and (P) of Franchise Agreement	Items 5, 7, and 8
c.	Site development and other pre-opening requirements	Section 8(B) of Franchise Agreement	Items 5, 7, and 11
d.	Initial and ongoing training	Sections 7(D) and 8(L) of Franchise Agreement	Items 7 and 11
e.	Opening	Section 15(A)(1) of Franchise Agreement	Items 5 and 11
f.	Fees	Sections 2(B)(4), 4, 5, 6, 8(P), 8(Q) and 14(C)(6) of Franchise Agreement	Items 5, 6, 7 and 11
g.	Compliance with standards and policies/Operating Manual	Sections 8(C), (I) and (N) of Franchise Agreement	Items 11 and 16
h.	Trademarks and proprietary information	Sections 3 and 9 of Franchise Agreement	Items 13 and 14
i.	Restrictions on products/services offered	Sections 1 and 8(D) and (P) of Franchise Agreement	Items 8, 11 and 16
j.	Warranty and customer service requirements	Section 8(D) of Franchise Agreement	Not Applicable
k.	Territorial development and sales quotas	Section 1(B) of Franchise Agreement	Item 12
l.	Ongoing product/service purchases	Section 8(D) of Franchise Agreement	Items 8 and 11
m.	Maintenance, appearance and remodeling requirements	Sections 2(B)(3) and 8(B) and (E) of Franchise Agreement	Item 11
n.	Insurance	Section 10 of Franchise Agreement	Items 6 and 8
o.	Advertising	Section 6 of Franchise Agreement	Items 6, 7 and 11
p.	Indemnification	Section 11 of Franchise Agreement	Not Applicable
q.	Owner’s participation/management/staffing	Sections 7(D) and 8(A) and (J) of Franchise Agreement	Items 11 and 15

Obligation		Section in Agreement	Disclosure Document Item
r.	Records and reports	Sections 12(A) and (B) of Franchise Agreement	Item 6
s.	Inspections and audits	Section 12(C) of Franchise Agreement	Item 6
t.	Transfer	Sections 13 and 14 of Franchise Agreement	Items 6 and 17
u.	Renewal	Section 2(B) of Franchise Agreement	Items 6 and 17
v.	Post-termination obligations	Section 17 of Franchise Agreement	Item 17
w.	Non-competition covenants	Section 18 of Franchise Agreement	Item 17
x.	Dispute resolution	Sections 18(D) and 19 of Franchise Agreement	Item 17
y.	Additional stores	Additional Store Addendum to Music Go Round® Franchise Agreement	Items 1, 5 and 7
z.	Owner/Shareholder/Spouse Guarantee	Sections 9(A), 12(C), 14(B), 18(A), (B) and (C) and 19(C) of Franchise Agreement and Exhibit C to Franchise Agreement	Item 15

### Item 10

### FINANCING

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

### Item 11

### FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

**Except as listed below, Winmark is not required to provide you with any assistance.**

Pre-opening Assistance. Before you open your Store, Winmark will:

- (1) Provide assistance in your evaluation of a site for the Store and leasing issues related to the Store site (Franchise Agreement - Section 7(A)).
- (2) Provide you with specifications for the layout and design of the Store (Franchise Agreement - Section 7(B)).
- (3) Provide you with a list of the standard fixtures, equipment, supplies, signs and initial inventory to be used in the Store (Franchise Agreement - Section 7(C)).

- (4) Provide the mandatory training program described below (Franchise Agreement - Section 7(D)).
- (5) Provide you with hard or electronic copies of the confidential Manuals. You must keep the Manuals confidential and return them when the Franchise Agreement terminates (Franchise Agreement - Section 7(F)).
- (6) Assist you in developing a business plan for your Store (Franchise Agreement - Section 7(G)).
- (7) Provide pre-opening assistance consisting of 1-2 days, typically 3-5 weeks prior to your actual store opening (Franchise Agreement - Section 7(E)).
- (8) Provide Store opening assistance on the day before and the day of the initial opening of your Store. Winmark need not provide this assistance if you are an existing franchisee and are opening an additional Store (Additional Store Addendum - Section 2). Winmark is not liable for damages arising out of your failure to open your Store by a particular date (Franchise Agreement - Section 7(E)).

Ongoing Assistance. During the operation of your Store, Winmark will:

- (1) Provide field consultants who conduct periodic evaluations of your Store and provide to you written reports to assist you in Store operations (Franchise Agreement - Section 7(H)).
- (2) Provide, at your written request, advisory services relating to Store operations (Franchise Agreement - Section 7(H)).
- (3) Periodically make available all changes to the Business System generally made available to all franchisees (Franchise Agreement - Section 7(H)).
- (4) Periodically furnish you with updated and revised material for your confidential Manuals, which is also available on the brand extranet site (Franchise Agreement - Section 7(H)).
- (5) Develop advertising and marketing materials (Franchise Agreement - Section 7(H)).

Marketing Programs. Winmark establishes and conducts various marketing programs as follows.

You must pay Winmark a Marketing Fee of \$1,500 per year payable on January 1 of each year. Winmark may, with a minimum of 60 days' prior written notice, increase the yearly Marketing Fee. Said fee will not increase more than \$1,000 during the term of the Franchise Agreement. Winmark will use all Marketing Fees to conduct advertising research and public relations campaigns, develop websites and other online media programs, develop marketing



materials such as television, radio, digital, social and print advertising production and promotional materials for use in each franchisee's local market, and implement advertising and promotional campaigns. Winmark may contract with outside marketing agencies and production companies to produce certain advertising, marketing and promotional materials. You may develop advertising and marketing materials for your own use, at your own cost, if you follow the Brand Style Guidelines and your materials are factually correct and accurately depict the Trademarks and communicate the brand position and character that Winmark has established for Music Go Round® Stores. If you develop advertising or marketing materials, you must provide a copy of the materials to Winmark for our review and approval (in writing) before you use the advertising or marketing materials. If you desire to advertise or market on the Internet or in apps, you must follow Winmark's Internet Code of Conduct and the Brand Style Guidelines.

When developing marketing strategy and allocating the use of Marketing Fees, Winmark may consult with our Music Go Round® Franchisee Advisory Council (the "FAC"). Winmark appoints franchisees to serve as members of the FAC. All FAC members must be in good standing and remain in good standing during their term. Each member serves on the FAC for a term determined by Winmark. The FAC serves in an advisory capacity to, among other objectives, provide advice on advertising, research and promotional activities to Winmark as well as other issues Winmark or the franchisees may raise. Winmark has the power to form, change or dissolve the FAC.

Each new Music Go Round® franchisee must pay the Marketing Fee. The Marketing Fee for the first year of your Business will be prorated from the effective date of your Franchise Agreement. Other franchisees pay the same amount or, for some franchisees under earlier versions of the Music Go Round® Franchise Agreement, a lesser amount, for a Marketing Fee. In addition, Winmark-owned units must also pay the Marketing Fee on the same basis as franchisees. Winmark administers the use of Marketing Fees collected from franchisees. Winmark does not prepare a financial statement as to the collection and use of Marketing Fees, nor are the Marketing Fees audited. Winmark will, however, provide to you (at your request) an accounting of the Marketing Fee expenditures for Winmark's most recently completed fiscal year. Winmark does not receive an administrative fee to cover related sales promotion, marketing and administrative expenses.

During Winmark's 2021 fiscal year, Winmark spent 100% of the Marketing Fees Winmark collected on production of advertising and marketing programs as outlined above.

Winmark is not obligated to spend any amount of the Marketing Fee on advertising in your territory. Winmark will carry over for future use Marketing Fees not spent in any fiscal year. Winmark does not use Marketing Fees for advertising principally directed at the sale of franchises.

You also must participate in and contribute to the local advertising cooperative established in the Designated Market Area (DMA) where your Store is located, if the DMA contains 2 or more unaffiliated franchisees. You will not be obligated to contribute more than 5% of the Gross Sales for your Store to your local advertising cooperative.

Each local advertising cooperative must adopt written advertising cooperative bylaws which follow the format Winmark has approved. You may request a copy of the bylaws of the cooperative for your market area from the cooperative president or Winmark. Each cooperative must follow voting procedures that are consistent with the general operating rules Winmark has established. The members of the local cooperative and their elected officials will administer the local cooperative. Winmark strongly recommends that advertising cooperatives prepare annual financial statements and make those financial statements available to all franchisees in that advertising cooperative. Winmark has the power to establish advertising cooperatives and the bylaws, policies and rules under which the advertising cooperatives will operate.

Although Winmark has not established an “Advertising Fund” as of the issuance date of this disclosure document, Winmark reserves the right to do so. You will be required to contribute to any Advertising Fund established by Winmark. Winmark would likely use the Advertising Fund to provide advertising and promotional materials and services to you as well as conduct advertising or promotional campaigns. Because Winmark has not yet established the Advertising Fund, Winmark cannot determine with certainty the intended use of funds in the Advertising Fund, although Winmark will not use advertising funds to sell additional franchises. Winmark will administer the Advertising Fund. Winmark will not prepare a financial statement as to the collection and use of the Advertising Fund, nor will the Advertising Fund be audited. Winmark will provide you with an annual unaudited statement of the receipts and disbursements of the Advertising Fund. If Winmark establishes the Advertising Fund, Winmark will not be obligated to spend any amount on advertising in the area or territory where you are located. If Winmark establishes the Advertising Fund, you must pay an Advertising Fee of up to 2% of Gross Sales. Other franchisees may pay greater, lesser or no Advertising Fee. In addition, any future Winmark-owned units will also pay the Advertising Fee on the same basis as franchisees. Winmark will carry over for future use Advertising Fees not spent in any fiscal year. If Winmark establishes the Advertising Fund, Winmark will likely receive an administrative fee to cover related sales promotion, marketing and administrative expenses.

Point-of-Sale System. You must install a computerized point of sale system (“POS System”) purchased through Winmark Corporation. This system is periodically modified in response to business operations, marketing conditions, and changes in technology. As of March 1, 2022, the POS System includes the following minimum components:

One dedicated Business Server with the minimum of two Desktop Computers (“register station”) for use with your required software as described below. The number of register stations you need will be determined by Winmark based on the size and location of your Store and other operational requirements. The following are the major components of the required POS System:

- Winmark configured Business Server
- Winmark configured Register station / POS computers
- Flat-Panel LED Touch Screen Monitor (one required for each register station)
- Gigabit Ethernet Network Switch
- Firewall device
- CDE Smart Switch (if using multiple internet Credit Card Terminals)

- Keyboard, Video, and Mouse Switchbox (one required)
- Uninterruptible Power Supply / Battery Backup (one required for the Business Server and each register station)
- Thermal Receipt Printer (one required for each register station)
- Thermal Label Printer (one required)
- Report Printer (optional)
- Check Printer (optional)
- Cash Drawer (one required for each register station)
- Barcode Scanner (one required for each register station)
- Pole Display Device (one required for each register station)
- Data Recycling System (DRS)
- Server Operating System License
- Workstation Operating System License (one required for each register station)
- Remote Software
- Imaging Software
- Antivirus Software
- Database Software

Another required component to the POS System, which must be obtained from a local internet service provider (ISP), is a broadband internet connection:

- DSL, Cable or other Dedicated high-speed internet connection with minimum download speeds of 20 MB and upload speeds of 5 MB
- A separate phone/data connection line at your store for remote dial-in connection
- Microsoft Internet Explorer (Internet Browser)
- E-mail Address

The initial cost of purchasing the POS System from Winmark currently ranges from \$20,000 to \$23,300 (see Item 7).

The DRS software is owned by Winmark. You must obtain a license for it from Winmark. Winmark will provide to you ongoing maintenance, repairs and updates to the DRS software (Software Agreement, Section 1(E)). Winmark charges franchisees a DRS Maintenance Fee of \$1,000 for upgrades to the antivirus and data base engine software that supports the DRS software. This fee will be due upon the purchase of your POS System, and upon renewal of your Franchise Agreement (see Item 6).

There are currently no annual costs for any optional or required maintenance update, upgrading or support contracts. Winmark reserves the right, however, to charge a reasonable fee for any ongoing maintenance and repairs, upgrades and support services relating to DRS, including the hardware and software components of the entire POS System. There are no contractual limitations on the frequency and cost of this requirement (Software Agreement, Section 1(E) and Franchise Agreement, Section 8(P)). Technology is constantly changing. Winmark may require you to update your POS System every 5 years or more often depending on

changes in technology and Winmark's current standards. Winmark cannot estimate the annual costs of any optional or required maintenance and support contracts because Winmark has, through the date of this disclosure document, provided these services at no cost to franchisees.

Winmark, or a third-party vendor that Winmark selects, will provide you with DRS and the rest of the POS System components. Winmark currently has independent access to certain operational and financial information and data produced by your POS System. There are no contractual limitations on Winmark's right to access the information and data (Franchise Agreement, Section 8(P)).

Although as of the issuance date of this Disclosure Document Winmark does not do so, Winmark reserves the right to charge a periodic technology fee for technology-related services provided by Winmark including, but not limited to, services related to Winmark's extranet platform, current and future training platforms, and current and future social and digital media management platforms (Franchise Agreement, Section 8(Q)). Winmark estimates that, if established, the amount of the technology fee will be between \$500 and \$2,500 per year, per Store. If a technology fee is established, Winmark will not increase the technology fee by more than 10% each year.

Site Selection. If you already have a potential site for a Music Go Round® Store, you may propose the location to Winmark. We may consent to the site after we have independently evaluated it. If you do not have a proposed site, Winmark will furnish you with its general site selection and evaluation criteria. Winmark will review and approve the area where a franchisee may select a site and will provide you with a map of the approved area. You are solely responsible, however, for locating and obtaining a site in the approved area which meets Winmark's standards and that is acceptable to Winmark. Winmark does not own or lease and sublease the Store location to its franchisees. You will deal directly with the Landlord when leasing the premises for your Music Go Round® Store.

You must obtain Winmark's consent to the proposed site for your Store. The general site selection criteria on which Winmark bases its approval and which you should consider include traffic patterns, ease of ingress and egress, local competition, physical attractiveness of the facility, reputation of the shopping area, population of the surrounding area, demographic surveys and buyer behavior information, size and rental cost of property and similar factors. Winmark typically will approve a site within 48 hours after receiving a site approve request from its franchisees. You should determine if there are acceptable sites in your proposed development area prior to executing the Franchise Agreement. If Winmark and you cannot agree on a site for your Store, Winmark may allow you to consider sites within another development area in or near your Exclusive Area.

Development Time. The typical length of time between Winmark's acceptance of the Franchise Agreement and the opening of your business is approximately 9 months. Once the Franchise Agreement is executed, by its terms you will have up to 9 months to open your Store. The factors that may affect the store opening process may include permitting delays, construction and build-out delays, sign, equipment and inventory acquisition, lease negotiations and financing

or staffing issues. You will be in default of your Franchise Agreement if you fail to open your Store within the 9 month period.

**Training.** Winmark conducts a 3 part training program at Winmark’s training center in Minneapolis, through online training sessions, and at the local store level. The training program is typically offered 11 times per year. The first session of the training program, New Franchisee Orientation Training (NFOT), covers topics relevant to managing and operating a privately-owned retail business. Topics include real estate matters, business plan development, inventory management, purchasing, buying used product, employment law, retail accounting and legal guidelines, retail fundamentals, Winmark’s preferred vendor program and other topics Winmark may select. NFOT classes will take place over a period of 5 days. At NFOT, you will be required to participate in an online financial management course conducted by Winmark’s third party vendor. This course will educate you on how to understand your financial statements and utilize the information to build your business. You can attend the second session of the training program, Concept Training, after you have signed a lease for a retail site, secured business financing, completed online financial management training, and purchased \$5,000 of used gear. Winmark conducts Concept Training over a period of 5 days. Concept Training focuses on the specifics of operating a Store and includes instruction on marketing and advertising new and used products, staffing, point-of-sale computer systems, preferred vendor programs, store management and other topics Winmark may select. The third session of training will take place after you complete Concept Training and will include at least 2 days of in-store training at a Music Go Round® Store of Winmark’s choosing. This session allows you to work with actual customers and experience day-to-day operations in an existing Store. Winmark will not allow you to open your Store unless you successfully complete all 3 sessions of the training program to Winmark’s satisfaction. If you are an existing Winmark franchisee and are opening an additional Store, Winmark may require you to attend Winmark’s training program.

## TRAINING PROGRAM

### First Session (New Franchisee Orientation Training)

Subject	Hours of Classroom Training	Hours of “Hands-On” Training	Location
Business Planning	1	4	Minneapolis, MN and/or Online
Real Estate	1.5	0	Minneapolis, MN and/or Online
Legal Structure & Financing	2	0	Minneapolis, MN and/or Online
Store Development & Trade Look Standards	3	0	Minneapolis, MN and/or Online
Accounting & Bookkeeping	2	0	Minneapolis, MN and/or Online

<b>Subject</b>	<b>Hours of Classroom Training</b>	<b>Hours of “Hands-On” Training</b>	<b>Location</b>
Introduction to Advertising & Local Marketing	3.5	0	Minneapolis, MN and/or Online
Service Vendor Overview	3.5	0	Minneapolis, MN and/or Online
Extranet Review	0	1	Minneapolis, MN and/or Online
Employment Law	3	0	Minneapolis, MN and/or Online
Introduction to Buying Used Product	2	0	Minneapolis, MN and/or Online
Product Knowledge	1.5	4	Woodbury, MN and/or Online
<b>TOTALS</b>	<b>23</b>	<b>9</b>	

### **Second Session (Concept Training)**

<b>Subject</b>	<b>Hours of Classroom Training</b>	<b>Hours of “Hands-On” Training</b>	<b>Location</b>
Store Operations	1.5	0	Minneapolis, MN and/or Online
Marketing & Social Media	2	4	Minneapolis, MN and/or Online
DRS Computer Training	1	4.5	Minneapolis, MN and/or Online
Buyer Certification	2.5	0	Minneapolis, MN and/or Online
Employee Management	2	0	Minneapolis, MN and/or Online
Loss Prevention	2	0	Minneapolis, MN and/or Online
Customer Service/Sales	4	0	Minneapolis, MN and/or Online
Financial Management	1.5	0	Minneapolis, MN and/or Online
Business Plan Updates	1.5	0	Minneapolis, MN and/or Online

<b>Subject</b>	<b>Hours of Classroom Training</b>	<b>Hours of “Hands-On” Training</b>	<b>Location</b>
Inventory Management	2	0	Minneapolis, MN and/or Online
Reporting/E-commerce	2.5	0	Minneapolis, MN and/or Online
<b>TOTALS</b>	<b>22.5</b>	<b>8.5</b>	

The instructional materials for each subject includes the Music Go Round® Operations Manual, the electronic DRS User’s Guide and Guide to DRS Reports, the Buyer Certification Manual, lecture, classroom discussion, hands-on demonstration and practice training in existing Music Go Round® Stores.

Natasha Allen, Director of Training and New Store Development for Retail Brands, is responsible for the training department. Natasha joined Winmark in 2012 as a New Store Development Manager and was promoted to Style Encore® Operations Manager in late 2014. She was promoted to Area Operations Manager in 2017, then was promoted again to Senior Area Operations Manager in 2020. Most recently, Natasha was promoted to Director of Training and New Store Development for the Retail Brands in October 2021 in which she oversees training for all retail brands. Eric Miller joined Winmark 2019 in the Plato’s Closet® brand as an Operations Manager. In October of 2020, Eric moved to Play It Again Sports® Operations. Eric was promoted to Sr. Operations Manager with Play it Again Sports® in June 2021, and in October 2021 was promoted to Director of Operations for Music Go Round and Sr. Operations Manager with Play It Again Sports®. Mr. Miller is responsible for conducting the training programs for new Music Go Round® franchisees. Other Winmark employees may also participate in providing and conducting aspects of the training program.

After you complete Concept Training, you must attend in-store training at an existing Music Go Round® store that Winmark selects. During this 2-3 day training session, you will participate in the product buying and selling process, general operations and merchandise, and receive insight on marketing and promotions, employee relations and product knowledge.

Winmark does not charge a fee for the training program. You are, however, responsible for travel and living expenses that you and your representatives (if any) incur while attending the training program and the cost for participating in the online financial management course. See Item 7 for additional information on those expenses. Winmark provides remedial training programs when we consider it beneficial to a significant number of franchisees. Winmark currently recommends, but does not require, franchisees to attend these remedial training programs. Winmark currently does not charge a fee for remedial training programs, although we may do so in the future.

Brand Operations Manual. Winmark provides you with an electronic copy of its confidential Music Go Round® Operations Manual. The current Operations Manual, as of March 1, 2022, is divided into the following subjects:

<b>Subject</b>	<b>Number of Pages</b>
General Information	1
Company Structure	6
Store Operations	38
Inventory Management	13
Employee Management	12
Advertising & Marketing	11
<b>TOTAL</b>	<b>81</b>

In addition, Winmark will provide electronic access to the following guides:

<b>Title</b>	<b>Number of Pages</b>
Loss Prevention Manual	47
Visual Merchandising Guide	70
Store Standards Manual	10
Buyer Certification Manual	45

Winmark will also provide you with access to the electronic DRS User’s Guide and Guide to DRS Reports. The current DRS User’s Guide, as of March 1, 2022, is divided into the following subjects:

<b>Subject</b>	<b>Number of Pages</b>
Overview	25
Miscellaneous	4
Registers	98
Maintenance	93
Reports	65
Order/Receiving	38
Closing	17
Configuration	26
Help	6
Accounting Export Interface	71
Release Notes	52
Glossary	4
Index	13
<b>TOTAL</b>	<b>512</b>



The Guide to DRS Reports, as of March 1, 2022, is divided into the following subjects:

Subject	Number of Pages
Overview	7
Inventory Reports	44
Sales Reports	28
Misc. Reports	16
Ord/Rec Reports	10
Cycle Count Menu Reports	20
Closing Reports	33
TOTAL	158

Winmark Remote, the Music Go Round® extranet, Winmark’s tool resource and reporting site, provides a location for additional support items covering all aspects of the Music Go Round® business. Content is continuously updated to meet the changing business environment.

Item 12

TERRITORY

You will receive an “Exclusive Territory” surrounding the location of the Store when granted a Music Go Round® franchise. Exhibit A to the Franchise Agreement describes the Exclusive Territory. Computer modeled mapping which factors in population density and average household income and consumer traffic patterns will determine the boundaries of the Exclusive Territory, which is typically a 3 to 5 mile radius around your Store. Winmark will designate a development area within your Exclusive Territory. You can select a site for your Store within this development area, subject to Winmark’s approval of that site. The Exclusive Territory for Stores located in urban areas (metropolitan areas with a population in excess of 250,000 persons) generally will have a minimum population of 75,000 to 100,000 persons. The Exclusive Territory for Stores located in all other areas generally will have a minimum population of 50,000 persons. Winmark will not establish another franchised or company-owned Music Go Round® Store at a physical location in your Exclusive Territory. Winmark has established a Music Go Round® e-commerce site on the Internet under which you can post products for sale to the public. Winmark reserves the right to distribute products through alternative channels of distribution, including the Internet (or any other existing or future form of electronic commerce), using the Trademarks inside or outside of the Exclusive Territory so long as these activities are not solely for Winmark’s benefit but provide some benefit (as described in the Franchise Agreement) to Music Go Round® franchisees. Winmark also reserves the right to distribute products through alternative channels of distribution or establish franchised or company-owned businesses selling similar products or services under a trademark different from the Trademarks inside or outside of the Exclusive Territory.

You do not need to achieve a certain sales volume or market penetration to retain the Exclusive Territory under the Franchise Agreement. You may relocate the Store only with Winmark’s written consent, which Winmark will not unreasonably withhold. Winmark will

approve relocation within the Development Area if the retail area demographics meet our requirements and the financial model continues to work in the new location. In addition to the criteria listed above, Winmark will approve relocation outside the Development Area but inside the Exclusive Territory if we determine that the new location's proximity to other Music Go Round® stores will not impact their store sales or customer base. Winmark will only allow a relocation outside of the Exclusive Territory if there are no viable locations within the Exclusive Territory and the new location is a reasonable distance from the existing Exclusive Territory so not to affect the existing customer base or interfere with the Exclusive Territory or sales of other franchisees.

You may advertise outside your Exclusive Territory and may serve customers from outside your Exclusive Territory. Likewise, Winmark and other Music Go Round® franchisees may, without any compensation to you, advertise within your Exclusive Territory and may serve customers who reside within your Exclusive Territory without compensation to you. You may not use alternative channels of distribution, including the Internet (unless pursuant to the ecommerce site referred to in the first paragraph of this Item), catalog sales, telemarketing or other direct marketing marketing methods to make sales inside or outside your Exclusive Territory unless specifically authorized by Winmark.

Winmark will not grant to you any options, rights of first refusal or similar rights to acquire additional franchises within a particular territory. Except as disclosed in this Item 12 or as specifically allowed by the Franchise Agreement, Winmark cannot alter your territory rights.

Item 13

TRADEMARKS

Winmark grants you the right to operate a Store under the name Music Go Round®, a federally registered trademark. You must also use other trademarks, service marks, trade names and commercial symbols (collectively, "Trademarks") which Winmark develops or requires to identify your Store and its goods and services.

The following schedule lists only the principal Trademarks that Winmark licenses you to use:

<b>Trademark, Service Mark or Design</b>	<b>U.S. Reg. No.</b>	<b>Principal/ Supplemental Register</b>	<b>Date of Registration</b>	<b>Comment</b>
MUSIC GO ROUND	1,857,397	Principal	10/04/94	Section 8/15 Affidavit filed; Renewed
MUSIC GO ROUND and design	1,938,398	Principal	11/28/95	Section 8/15 Affidavit filed; Renewed

<b>Trademark, Service Mark or Design</b>	<b>U.S. Reg. No.</b>	<b>Principal/ Supplemental Register</b>	<b>Date of Registration</b>	<b>Comment</b>
PRO CUSTOM	2,352,130	Principal	5/23/00	Section 8/15 Affidavit filed; Renewed
MUSIC GO ROUND and design	2,413,870	Principal	12/19/00	Section 8/15 Affidavit filed; Renewed
REUSE.RECYCLE.ROCK.	3,761,853	Principal	3/16/10	Section 8/15 Affidavit filed; Renewed

Your use of the Trademarks and any goodwill is to Winmark's exclusive benefit and you retain no rights in the Trademarks. You retain no rights in the Trademarks when the Franchise Agreement expires or terminates. You may make changes or substitutions to the use of the Trademarks only if Winmark directs you to do so.

There are no currently effective determinations of the Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court, or any pending infringement, opposition or cancellation proceeding, or any pending material litigation, involving any Trademarks that are relevant to Music Go Round® operations in this state. There are currently no agreements in effect that significantly limit Winmark's rights to use or license the use of any Trademarks listed in this Item 13 in any manner material to the franchise. Winmark is unaware of any superior rights or infringing uses which could materially affect your use of the Trademarks.

Winmark is not required to protect you against infringement or unfair competition claims arising out of your use of the Trademarks, or to participate in your defense or indemnify you. Winmark reserves the right to control any trademark litigation and will take the action Winmark believes appropriate if a third party infringes Winmark's Trademarks. You must notify Winmark promptly if you become aware of any infringement or unauthorized use of the Trademarks and cooperate with any action that Winmark takes. Winmark will pay the cost and expense of all litigation Winmark incurs, including attorneys' fees, specifically related to the Trademarks. However, Winmark is not required to take affirmative action when notified of these uses or claims. If any party claims that its rights to use any of the Trademarks are superior and Winmark confirms that claim, you must, at your expense, immediately make the changes and use the substitutions to the Trademarks as Winmark requires.

#### Item 14

#### PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

There are no patents or copyrights currently registered or pending which are material to the Music Go Round® franchise offered, although Winmark does claim copyright protection for each of its Music Go Round® Manuals and for various sales promotion and other materials

periodically published or located on its website. You must keep confidential during and after the term of the Franchise Agreement all information contained in the Manuals. You cannot duplicate or provide any information contained in the Manuals to any party other than, during the term of the Franchise Agreement, those of your employees who need to know that information. When the Franchise Agreement terminates, you must return to Winmark all copies of each Manual and all other material Winmark has copyrighted or designated as confidential.

The Proprietary Software is the proprietary property of Winmark. (See Item 11.) You must keep confidential during and after the term of the Software License Agreement all information relating to the Proprietary Software. You cannot duplicate the Proprietary Software, although you can maintain one extra copy for backup purposes. When the Software License Agreement terminates, you must return all copies of the Proprietary Software to Winmark or destroy all copies of Proprietary Software.

Winmark does not contract with individual franchisees to protect the copyrights, to protect individual franchisees against infringement or unfair competition claims arising out of the franchisee's use of the copyrights, or to participate in the franchisee's defense or indemnify the franchisee. Winmark reserves the right to control any copyright litigation and will be the sole judge as to whether any suit will be brought or settled when any person or entity infringes Winmark's copyrights.

#### Item 15

#### OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS

If you are an individual, you must personally manage the Store unless you receive Winmark's prior consent to delegate your authority to manage the Store. If you operate more than one Store, you may delegate your management duties for additional Stores to one or more managers. Winmark requires Store Managers for franchisees operating multiple stores to attend the second session of the new store training program.

Although Winmark does not prohibit you from being employed by a company other than the Music Go Round® business, your primary job responsibility must be the operation of the Store. If you are a corporate entity or a partnership, one individual must retain at least 50% of the equity and voting interest in the corporation entity or partnership and will be obligated to personally manage and operate the Store.

Each individual who owns a 10% or greater interest in the franchisee entity is considered a principal owner and all principal owners and their spouses must sign the Personal Guaranty attached to the Franchise Agreement. These people agree to discharge all obligations of the franchisee to Winmark under the Franchise Agreement and are bound by all its provisions, including maintaining the confidentiality of proprietary information described in Item 14.

In addition, the franchisee, all Personal Guarantors and the owners of any part of the franchise entity must abide by the noncompete covenants described in Item 17. In addition, all of

your employees who have managerial duties at the Store, as well as all corporate officers and directors of a corporate franchisee entity (all partners in a partnership), must sign a written agreement to maintain the confidentiality of Winmark's trade secrets described in Item 14.

#### Item 16

#### RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer and sell only those goods and services that Winmark has approved. You also must offer all goods and services that Winmark designates as required for all franchisees. Winmark may, at its discretion, add new goods and services, based on its evaluation of various factors, including customer demands, the geographic location of your Store and any other factor which Winmark deems important to the operation of your Store. Winmark's right to modify the approved list of goods and services to be offered at a Music Go Round® Store is not limited.

You may offer the sale of the approved goods and services from your Store location to any person. Unless specifically authorized by Winmark, you may only deliver merchandise or offer services at a site other than your Store location to customers residing in your Exclusive Territory or to locations within your Exclusive Territory.

You may not sell or accept in trade any music records or cassette tapes or any products you believe may be stolen or are knowingly counterfeit. You may use only approved advertising and promotional materials.

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 Agreement (1)	Summary
a.	Length of the franchise	Section 2(A); Section 3 of Software License Agreement	Franchise Agreement: 10 years. Software License Agreement: Coterminous with Franchise Agreement.
b.	Renewal or extension of the term	Section 2(B)	If you meet the renewal requirements set forth in the Franchise Agreement, you can renew the Franchise Agreement for additional 10 year period(s).
c.	Requirements for you to renew or extend	Section 2(B)	Provide advance notice in writing, sign then current Franchise Agreement, pay renewal fee, remodel, meet all current brand standards, secure extension of lease and be in compliance with current Franchise Agreement during the term of the Agreement. You may be asked to sign a Franchise Agreement with materially different terms and conditions than your original Franchise Agreement.
d.	Termination by you	Section 16(A)	If you are complying with the Franchise Agreement, and Winmark fails to cure a material default within 30 days after Winmark's receipt of written notice, subject to state law.
e.	Termination by Winmark without cause	Not Applicable	
f.	Termination by Winmark with cause	Sections 15(A) and (B); Section 3 of Software License Agreement	Franchise Agreement: Winmark can terminate the Franchise Agreement only if you default. Software License Agreement: Winmark can terminate the Software License Agreement only if you default under the Software License Agreement or if the Franchise Agreement terminates.
g.	"Cause" defined – curable defaults	Sections 15(A) and (B)	You have 30 days to cure a violation of any material provision of the Franchise Agreement, non-payment of amounts owed to Winmark or any applicable local advertising cooperative, failure to abide by Winmark's standards and requirements in operating the Store, an assignment of assets to creditors and the expiration or termination of the Store's lease.

<b>Provision</b>		<b>Section in Agreement (1)</b>	<b>Summary</b>
h.	“Cause” defined – non-curable defaults	Sections 15(A) and (B); Section 3 of Software License Agreement	<p>Franchise Agreement: Failure to open the Store within 9 months after you sign the Franchise Agreement, insolvency, conviction of felony or violation of a statute which harms the Store’s reputation, the abandonment of the Store, intentionally falsify any information provided to Winmark, repeated defaults even if cured, defaults which cannot be cured, repeatedly deceives Store customers, defaults which impair the goodwill associated with Winmark’s trademarks, uncured defaults in any other agreement with Winmark, our subsidiaries or affiliates, frequent and/or severe complaints from customers and/or employees, failure to fully cooperate and timely complete audit and violation of the in-term covenant not to compete.</p> <p>Software License Agreement: If the Franchise Agreement terminates, you breach any term of the Software License Agreement or you become insolvent.</p>
i.	Your obligations on termination/non-renewal	Section 17; Section 3 of Software License Agreement	<p>Franchise Agreement: Pay all amounts due Winmark, return manuals and other materials to Winmark, disconnect the telephone number or assign it to Winmark, redecorate the Store premises, return or destroy all copies of the Proprietary Software, disconnect any Store-related Internet web site, and remove all signs containing any Trademarks (also see r, below).</p> <p>Software License Agreement: All of your rights in the Proprietary Software terminate and you must return all copies of the Proprietary Software to Winmark.</p>
j.	Assignment of contract by Winmark	Section 14(A); Section 8(C) of Software License Agreement	Assignee must fulfill Winmark’s obligations under the agreement assigned.
k.	“Transfer” by you – defined	Section 14(C); Section 8(C) of Software License Agreement	<p>Franchise Agreement: Includes any transfer of the Store, or its assets, your interest in the Franchise Agreement or any significant (“controlling interest”) ownership change.</p> <p>Software License Agreement: You cannot transfer your interest in the Software License Agreement.</p>
l.	Winmark’s approval of transfer by you	Section 14(C)	Winmark has the right to consent to all transfers of the Franchise Agreement but will not unreasonably withhold consent.

<b>Provision</b>		<b>Section in Agreement (1)</b>	<b>Summary</b>
m.	Conditions for Winmark's approval of transfer	Section 14(C)	New franchisee must qualify and complete training, pay transfer fee, you must pay all amounts owed to Winmark and be in good standing, new franchisee assumes existing Agreement or (at Winmark's option) signs then-current agreement, Winmark has determined that the purchase price and payment terms will not adversely affect the new franchisee's operation of the Store, if the transfer is financed by you, you agree that all of the new franchisee's obligations under promissory notes, agreements or security interests in the Store are subordinate to the new franchisees obligation to pay fees owed to Winmark under the Franchise Agreement and you agree to observe all post-termination obligations under Franchise Agreement (also see r, below).
n.	Winmark's right of first refusal to acquire your business	Section 13	Winmark can match any offer for your business.
o.	Winmark's option to purchase your business	Not Applicable, except as indicated in n, above	
p.	Your death or disability	Section 13(B)	You can transfer stock to other shareholders without offering Winmark a right of first refusal; if assignee is your spouse or child, no transfer fee is required.
q.	Non-competition covenants during the term of the franchise	Section 18(A)	No direct or indirect involvement in any business involving the selling, leasing, renting or exchanging of new or used musical instruments, stereo equipment, speakers, amplifiers, music-related electronics or related accessories, any business involving the promotion of musical concerts or shows, or any other related business that is competitive with or similar to a Music Go Round® Store other than the one authorized in the Franchise Agreement, subject to state law.
r.	Non-competition covenants after the franchise is terminated or expires	Sections 18(B) and (C)	No competing business for 2 years within 10 miles of the Store or any other Music Go Round® Store. If the franchisee is in breach of this provision, the non-competition period will be extended for a period of time equal to the time the franchisee operated a competing business, subject to state law.
s.	Modification of the agreement	Sections 3(C), 8(N) and 20(A) and (B)	No modifications generally, but Manuals, list of authorized Trademarks and required goods subject to change.



Provision		Section in Agreement (1)	Summary
t.	Integration/merger clause	Section 20(G); Section 8 of Software License Agreement	Only the terms of the Franchise Agreement and Software License Agreement are binding (subject to state law). Any other promises may not be enforceable. Nothing in the Franchise Agreement, Software License Agreement or any related document is intended to disclaim the representations made in this Franchise Disclosure Document.
u.	Dispute resolution by arbitration or mediation	Section 19(A); Section 5 of Software License Agreement	Franchise Agreement: Except for certain claims, all disputes must be arbitrated in Minneapolis, Minnesota (subject to state law).  Software License Agreement: Winmark's liability for any claim related to any software or service provided will be limited to the lesser of Licensee's actual damage or loss or the initial fee paid for the software.
v.	Choice of forum	Sections 18(D) and 19; Section 8(A) of Software License Agreement	Franchise Agreement: All disputes that are subject to arbitration must be arbitrated in Minneapolis, Minnesota. Other claims may be decided by any court of competent jurisdiction (subject to state law).  Software License Agreement: Any action related to the Software License Agreement may be brought in any court in Minneapolis, Minnesota.
w.	Choice of law	Section 20(D); Section 8(A) of Software License Agreement	Franchise Agreement: Apply law of the state where the Store is located (subject to state law).  Software License Agreement: Apply Minnesota law (subject to state law).

(1) Unless otherwise noted, section references are to the Franchise Agreement.

### Item 18

#### PUBLIC FIGURES

Winmark currently does not use any public figure to promote its franchise, although Winmark reserves the right to engage a public figure for endorsements in the future. No public figure is involved in the management or control of Winmark.

## Item 19

### FINANCIAL PERFORMANCE REPRESENTATIONS

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

The following is a financial performance representation titled "Music Go Round® Unaudited Statement of Average Annual Sales and Gross Profit." The gross profit figures in this Item 19 do reflect the cost of sales but do not reflect the operating expenses that must be deducted from the gross profit figures to obtain your net income or profit. The best source of cost and expenses data may be from franchisees and former franchisees, some of whom may be listed in Exhibit A.

#### MUSIC GO ROUND® UNAUDITED STATEMENT OF AVERAGE ANNUAL SALES AND GROSS PROFIT

The following statement of average annual sales and gross profits includes annual gross sales and gross profits as reported by the 36 franchised Music Go Round® Stores located in the United States that commenced operations during the years 1996 through 2020. This statement includes information from only those franchised Music Go Round® Stores located in the United States that had been in operation by the same franchisee or owners for the 12 month period ended December 25, 2021, with the understanding that some of these Stores had temporary closures as a result of COVID-19 as further described below. No other franchised Music Go Round® Stores are included in this statement due to insufficient history of operations (not in operation for the 12 month period ended December 25, 2021 or transferred during this period). The financial statements Winmark receives from franchisees for these stores are unaudited, and Winmark does not audit or independently verify, or express an opinion regarding, these statements. There were 36 franchised Music Go Round® Stores which had been in operation by the same franchisee or owners for the 12 month period ended December 25, 2021. All 36 Stores are reflected in the average. This financial performance representation does not include information for the 1 Music Go Round® Store that transferred in 2021. No Stores closed in 2021 after being open less than 12 months.

Due to governmental regulations and other restrictions related to COVID-19 in many jurisdictions during 2021, some of our Stores were forced to temporarily close for extended periods of time during the year. The temporary closures and COVID-19 regulations and restrictions impacted the Store sales. During the temporary in-store closures, some Stores continued to operate by offering curbside and/or online sales. Despite these temporary closures, as of the date of this Disclosure Document, we do not anticipate that COVID-19 has or will significantly change our business model or the way our Business System operates. For purposes

of clarification, the 36 Stores includes all Stores that were temporarily closed as a result of COVID-19.

Statement of average gross sales and gross profits of the 36 franchised Music Go Round® Stores for the fiscal year ended December 25, 2021, as reported by Music Go Round® franchisees to Winmark:

Year Opened <sup>(1)</sup>	# Stores Reported	# and % of Stores Attaining or Exceeding Average Gross Sales <sup>(2)</sup>	# and % of Stores Attaining or Exceeding Average Gross Profit <sup>(3)</sup>	2021 Average Gross Sales <sup>(4)</sup>	2021 Median Gross Sales	2021 Average Gross Profit <sup>(5)</sup>	2021 Median Gross Profit	Average Gross Profit Percentage <sup>(6)</sup>	Sales Range <sup>(7)</sup>
2020	3	1 / 33%	1 / 33%	985,445	643,735	488,592	310,087	49.58%	630,844 – 1,681,754
2019	4	0 / 0%	0 / 0%	677,138	757,947	301,329	337,098	44.50%	377,148 – 815,510
2018	3	1 / 33%	1 / 33%	882,885	768,176	410,239	346,985	46.47%	693,573 – 1,186,904
2017	1	1 / 100%	1 / 100%	1,494,329	1,494,329	714,887	714,887	47.84%	1,494,329 – 1,494,329
2015	3	1 / 33%	1 / 33%	1,003,200	920,979	465,172	432,400	46.37%	823,044 - 1,265,576
2014 & Prior	22	12 / 55%	12 / 55%	1,291,816	1,268,191	620,943	588,966	48.07%	285,412 – 2,888,206
Total Store Average	36	16 / 44%	16 / 44%	1,145,484	1,051,135	546,471	492,711	47.71%	

- (1) None of the reporting Stores opened in 2016.
- (2) This percentage represents Stores Attaining or Exceeding Average Gross Sales as a percentage of Number of Stores Reported. This percentage is calculated based on the Total Store Average Gross Sales of the 36 Stores reported (\$1,145,484).
- (3) This percentage represents Stores Attaining or Exceeding Average Gross Profit as a percentage of Number of Stores Reported. This percentage is calculated based on the Total Store Average Gross Profit of the 36 Stores reported (\$546,471).
- (4) “Gross Sales” means all revenues the franchisee receives from the sale of goods and services, whether by cash or by check, credit card or trade, in connection with the Store, less sales tax and customer refunds and returns.
- (5) The Average Gross Profit equals Gross Sales less Cost of Goods Sold. Gross Profit does not reflect any expenses related to the operation of a Music Go Round® Store other than the Cost of Goods Sold.
- (6) This figure represents Average Gross Profit as a percentage of Average Gross Sales.

(7) As reported by Music Go Round® franchisees to Winmark.

The Statement of Sales Ranges by quartile for the 36 franchised Music Go Round® Stores open at December 25, 2021 and had been in operation for at least 12 months by the same franchisee or owners for the 12 month period ended December 25, 2021 are as follows:

Quartile <sup>(1)</sup>	# of Stores	2021 Gross Sales Range by Quartile	2021 Quartile Average Gross Sales	2021 Quartile Median Gross Sales	# and % of Stores Attaining or Exceeding Quartile Average Gross Sales	2021 Quartile Average Gross Profit	2021 Quartile Median Gross Profit	# and % of Stores Attaining or Exceeding Quartile Average Gross Profit	Quartile Average Gross Profit Percentage <sup>(2)</sup>
1 <sup>st</sup>	9	1,494,329 – 2,888,206	1,914,344	1,758,573	4 / 44%	926,740	845,754	3 / 33%	48.41%
2 <sup>nd</sup>	9	1,102,968 – 1,378,817	1,255,242	1,265,576	6 / 67%	600,655	589,126	4 / 44%	47.85%
3 <sup>rd</sup>	9	737,278 – 999,301	844,817	815,510	3 / 33%	389,328	373,991	4 / 44%	46.08%
4 <sup>th</sup>	9	285,412 – 722,281	567,532	636,095	6 / 67%	269,162	302,790	6 / 67%	47.43%

(1) “Quartile” refers to that portion of the total number of Stores open that represents 25%. For example, the first Quartile identified those Stores which were in the top 25% of all Stores in Gross Sales.

(2) This figure represents Average Gross Profit as a percentage of Average Gross Sales.

Based on information reported by the 36 Music Go Round® Stores which had been in operation by the same franchisee or owner for the 12 month period ended December 25, 2021, the following chart sets forth the number of Stores, Average and Median Gross Sales, the lowest and highest Gross Sales amount in each range and the percentage of total number of Stores that fell within certain ranges of Average Gross Sales for 2021:

2021 Range of Average Gross Sales	# of Stores falling within noted range	Average Gross Sales Stores within noted range	# and % of Stores attaining or exceeding Average Gross Sales Stores within noted range	Gross Sales for lowest Store within noted range	Gross Sales for highest Store within noted range	Median Gross Sales for Stores within noted range	% of total number of Stores (34) within noted range
0 - \$250,000	0	0	0 / 0%	0	0	0	0%
\$250,001 - \$500,000	3	381,358	1 / 33%	285,412	481,514	377,148	8.33%
\$500,001 - \$1,000,000	15	771,138	7 / 47%	630,844	999,301	768,176	41.67%
\$1,000,001 - \$2,000,000	15	1,417,199	6 / 40%	1,102,968	1,966,585	1,365,463	41.67%
\$2,000,001 - \$3,000,000	3	2,422,765	1 / 33%	2,037,511	2,888,206	2,342,576	8.33%
>\$3,000,000	0	0	0 / 0%	0	0	0	0%

These results relate to specific Music Go Round® Stores located in the United States.

**Some Stores have sold or earned these amounts. Your individual results may differ. There is no assurance that you will sell or earn as much.**

Winmark has written substantiation in our possession to support the information appearing in this Item 19, and will make the written substantiation available to prospective franchisees upon reasonable request.

Other than the preceding financial performance representations, Winmark does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor’s management by contacting Renae Gaudette, Chief Operating Officer at Winmark Corporation, 605 Highway 169 N, Suite 400, Minneapolis, MN 55441, 763/520-8500, the Federal Trade Commission, and the appropriate state regulatory agencies.

Item 20

OUTLETS AND FRANCHISEE INFORMATION

**TABLE NUMBER 1  
Systemwide Store Summary<sup>(1)</sup>  
For Years 2019 to 2021**

Store Type	Year	Stores at the Start of the Year	Stores at the End of the Year <sup>(2)</sup>	Net Change
<b>Franchised</b>	2019	34	37	+3
	2020	37	37	0
	2021	37	37	0
<b>Company-Owned</b>	2019	0	0	0
	2020	0	0	0
	2021	0	0	0
<b>Total Stores</b>	2019	34	37	+3
	2020	37	37	0
	2021	37	37	0

- (1) The numbers do not include information for any other franchise programs offered by Winmark as described in Item 1. Store information for each of these franchise programs is disclosed in a separate disclosure document.
- (2) The numbers are as of Winmark’s fiscal year end for each of the last 3 years (December 28, 2019, December 26, 2020 and December 25, 2021).

**TABLE NUMBER 2**  
**Transfers of Stores From Franchisee to New Owners (Other than Winmark)**  
**For Years 2019 to 2021**

State	Year	Number of Transfers
<b>Colorado</b>	2019	0
	2020	1
	2021	0
<b>Michigan</b>	2019	0
	2020	0
	2021	1
<b>Minnesota</b>	2019	0
	2020	1
	2021	0
<b>South Dakota</b>	2019	0
	2020	1
	2021	0
<b>TOTAL</b>	2019	0
	2020	3
	2021	1

**TABLE NUMBER 3**  
**Status of Franchised Stores<sup>(1)</sup>**  
**For Years 2019 to 2021**

State	Year	Stores at the Start of the Year	Stores Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations/ Other Reasons	Stores at the End of the Year <sup>(2)</sup>
<b>California</b>	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
<b>Colorado</b>	2019	4	0	0	0	0	0	4
	2020	4	0	0	0	0	0	4
	2021	4	0	0	0	0	0	4
<b>Florida</b>	2019	0	1	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
<b>Georgia</b>	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
<b>Indiana</b>	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1

State	Year	Stores at the Start of the Year	Stores Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations/ Other Reasons	Stores at the End of the Year <sup>(2)</sup>
<b>Kentucky</b>	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
<b>Maryland</b>	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
<b>Massachusetts</b>	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
<b>Michigan</b>	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
<b>Minnesota</b>	2019	6	0	0	0	0	0	6
	2020	6	0	0	0	0	0	6
	2021	6	0	0	0	0	0	6
<b>Missouri</b>	2019	3	0	1	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
<b>Nebraska</b>	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
<b>New Mexico</b>	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
<b>North Carolina</b>	2019	1	1	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
<b>Ohio</b>	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
<b>Pennsylvania</b>	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
<b>Texas</b>	2019	1	2	0	0	0	0	3
	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
<b>Virginia</b>	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1

State	Year	Stores at the Start of the Year	Stores Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations/ Other Reasons	Stores at the End of the Year <sup>(2)</sup>
Wisconsin	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
TOTAL	2019	34	4	1	0	0	0	37
	2020	37	0	0	0	0	0	37
	2021	37	0	0	0	0	0	37

- (1) The numbers do not include information for any other franchise programs offered by Winmark as described in Item 1. Store information for each of these franchise programs is disclosed in a separate disclosure document.
- (2) The numbers are as of Winmark's fiscal year end for each of the last 3 years (December 28, 2019, December 26, 2020 and December 25, 2021).

**TABLE NUMBER 4**  
**Status of Company-Owned Stores**  
**For Years 2019 to 2021**

State	Year	Stores at the Start of the Year	Stores Opened	Store Required From Franchisees	Stores Closed	Stores Sold to Franchisees	Stores at the End of the Year <sup>(1)</sup>
TOTAL	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0

- (1) The numbers are as of Winmark's fiscal year end for each of the last 3 years (December 28, 2019, December 26, 2020 and December 25, 2021).

**TABLE NUMBER 5**  
**Projected Openings**  
**As of December 25, 2021**

State	Franchise Agreements Signed But Store Not Opened	Projected New Franchised Stores in the Next Fiscal Year	Projected New Company-Owned Stores in the Next Fiscal Year
TOTAL	0	0	0

A list of all Music Go Round® franchises is included in the disclosure document as Exhibit A.



Included in this disclosure document as Exhibit B is the name, city and state and business telephone number of every franchisee who had a store transferred, terminated, not renewed or who otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently completed fiscal year or who have not communicated with Winmark within the 10-week period before the issuance date of this disclosure document.

If you buy a Music Go Round® franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

During the last three fiscal years, no current or former franchisees have signed confidentiality clauses that restrict them from discussing with you their experiences as a franchisee in our franchise system. You may want to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

The Music Go Round® Franchisee Advisory Council is sponsored by us, but its members are nominated by franchisees. You can reach the organization at c/o Paul Telford, 9163 E Stockton Blvd, Suite 310, Elk Grove, CA 95624, telephone - (916) 714-4327, and email - [paul@droflet.net](mailto:paul@droflet.net).

There are no trademark-specific franchise associations required to be disclosed in this Item.

#### Item 21

### FINANCIAL STATEMENTS

The following audited consolidated financial statements of Winmark are included in this disclosure document as Exhibit C: the consolidated balance sheets of Winmark as of December 25, 2021 and December 26, 2020, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 25, 2021, together with the Report of Independent Registered Public Accounting Firm from Grant Thornton LLP dated March 8, 2022, relating to the aforementioned consolidated financial statements.

#### Item 22

### CONTRACTS

The Music Go Round® Franchise Agreement (including a Computer Software License Agreement, Personal Guaranty and Additional Store Addendum) is attached to this disclosure document as Exhibit D. The Winmark Bank Draft Authorization is attached to this disclosure document as Exhibit E.

Item 23

RECEIPTS

Attached as the last pages of this disclosure document are detachable Receipts.

**EXHIBIT A**

List of Stores

Music Go Round  
as of December 25, 2021

Franchisee	Store Address	City	ST	ZIP	Store Phone
<b>CALIFORNIA</b>					
Telford, Paul	9163 E Stockton Blvd Ste 310	Elk Grove	CA	95624	916-714-4327
Centers, Ron	944 W Robinhood Dr	Stockton	CA	95207	209-473-6868
<b>COLORADO</b>					
Coates, Brian	18541 E Hampden Ave #128	Aurora	CO	80013	303-627-0007
Camp, Alex	410 W Fillmore St	Colorado Springs	CO	80907	719-471-3831
Barrios, Brandon	2925 S College Ave	Fort Collins	CO	80525	970-204-9262
Arnold, Jason	8055 W Bowles Ave Unit 2C	Littleton	CO	80123	303-932-8277
<b>FLORIDA</b>					
Setchel, David	5108 15th St E, 204	Bradenton	FL	34203	941-896-9138
<b>GEORGIA</b>					
Perkins, Jeff & Ann	3675 Satellite Blvd Ste 100	Duluth	GA	30096	770-931-9190
<b>INDIANA</b>					
Beeman, MaryBeth	8470 Castleton Corner Dr	Fishers	IN	46250	317-436-8286
<b>KENTUCKY</b>					
Carlson, Doug	3640 S Hurstbourne Pkwy	Louisville	KY	40299	502-495-2199
<b>MASSACHUSETTS</b>					
Chernin, Phil	810 Worcester St	Natick	MA	01760	508-647-6874
<b>MARYLAND</b>					
Ritz, Jim	10118 York Rd	Cockeysville	MD	21030	410-666-3996
<b>MICHIGAN</b>					
Johnson, Kevin	2791 Oak Valley Dr	Ann Arbor	MI	48103	734-662-1080
Krett, Keith	376 John R Rd	Troy	MI	48083	248-585-9441
<b>MINNESOTA</b>					
Bantam, Ben & Tilotta, Frank	14025 Grand Ave S	Burnsville	MN	55337	952-435-3003
Filipovich, Steve	105 E Central Entrance	Duluth	MN	55811	218-727-1420
Thomson, James	11319 Hwy 7	Minnetonka	MN	55305	952-856-2706
Bantam, Ben & Tilotta, Frank	1722 N Lexington Ave	Roseville	MN	55113	651-487-5600
McAllister, Jeff	933 7th St W	Saint Paul	MN	55102	651-695-9630
Thomson, James	1705 Weir Dr	Woodbury	MN	55125	651-714-1460
<b>MISSOURI</b>					
Dierker, Kevin	4442 S Lindbergh Blvd	St Louis	MO	63127	314-270-9518
Coughlin, Jerry	1057 Regency Parkway	St. Charles	MO	63303	636-395-7243
<b>NORTH CAROLINA</b>					
Thompson, Anthony	855 Bass Pro Lane	Cary	NC	27513	919-650-3544
Moore, Tim	1622 Stanley Rd, Ste 112	Greensboro	NC	27407	336-854-4460
<b>NEBRASKA</b>					
Kloefkorn, Rob	6900 "O" St Suite 104	Lincoln	NE	68510	402-466-5550
<b>NEW MEXICO</b>					
Chavez, Lawrence	7116 Menaul Blvd	Albuquerque	NM	87110	505-875-0100
<b>OHIO</b>					
Johnson, Kevin	2630 Bethel Rd	Columbus	OH	43220	614-457-9328
Johnson, Kevin	1329 Stoneridge Dr	Gahanna	OH	43230	614-473-0100
Wagner, Gary	4119 Talmadge Rd	Toledo	OH	43623	419-214-0560
<b>PENNSYLVANIA</b>					
Donatucci, Paul	4341 Old William Penn Hwy	Monroeville	PA	15146	412-856-8742
McDonnell, Harry	677 Kidder Street	Wilkes-Barre	PA	18702	570-823-8733

Music Go Round  
as of December 25, 2021

<b>TEXAS</b>					
Orenstein, Matthew	7115 Blanco North	Castle Hills	TX	78216	210-276-0000
Boswell, David	6006 SW Blvd	Ft Worth	TX	76109	817-763-8188
Ramsey, Anthony	418 Sawdust Rd	The Woodlands	TX	77380	281-651-2605
<b>VIRGINIA</b>					
Villafranca, Alain	2720 N Mall Dr	Virginia Beach	VA	23452	757-962-0108
<b>WISCONSIN</b>					
Moriarti, Skott & Siegel, Ken	7425 W Holmes Ave	Greenfield	WI	53220	414-281-2777
Moriarti, Skott & Siegel, Ken	5708 75th St	Kenosha	WI	53142	262-697-7625

**EXHIBIT B**

List of Terminated Franchises

**MUSIC GO ROUND**  
**LIST OF TERMINATED FRANCHISEES AS OF 12/25/21 AND FRANCHISEES  
WHO HAVE NOT COMMUNICATED WITH WINMARK WITHIN THE 10-WEEK PERIOD  
BEFORE THE ISSUANCE DATE OF THIS DISCLOSURE DOCUMENT**

<b>NAME</b>	<b>FIRST</b>	<b>HOME CITY</b>	<b>STATE</b>	<b>LAST KNOWN BUSINESS PHONE</b>	<b>REASON</b>
Wilson	Peter	Troy	MI	248-585-9441	Transferred

\*Store Never Opened

If you buy a Music Go Round® franchise, your contact information may be disclosed to other buyers when you leave the System.

**EXHIBIT C**

Winmark's Audited Consolidated Financial Statements



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**GRANT THORNTON LLP**  
200 S. Sixth St., Suite 1400  
Minneapolis, MN 55402

**D** +1 612 332 0001  
**F** +1 612 332 8361

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Winmark Corporation

### Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Winmark Corporation (a Minnesota corporation) and subsidiaries (the “Company”) as of December 25, 2021 and December 26, 2020, the related consolidated statements of operations, shareholders’ equity (deficit) and cash flows for each of the three years in the period ended December 25, 2021, 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 December 25, 2021 and December 26, 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 25, 2021, 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 the 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.

**Critical audit matters**

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involve our especially challenging, subjective, or complex judgments. We determined that there are no critical matters.

*Grant Thornton LLP*

We have served as the Company's auditor since 2006.

Minneapolis, Minnesota  
March 8, 2022

**WINMARK CORPORATION AND SUBSIDIARIES**  
Consolidated Balance Sheets

	<u>December 25, 2021</u>	<u>December 26, 2020</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 11,407,000	\$ 6,659,000
Restricted cash	30,000	25,000
Receivables, less allowance for doubtful accounts of \$600 and \$800	1,103,400	1,581,900
Net investment in leases - current	2,890,600	8,687,500
Income tax receivable	667,500	221,200
Inventories	325,200	106,600
Prepaid expenses	1,008,600	995,200
Total current assets	17,432,300	18,276,400
Net investment in leases — long-term	229,300	4,573,600
Property and equipment:		
Furniture and equipment	3,406,600	3,575,800
Building and building improvements	2,952,100	2,952,100
Less - accumulated depreciation and amortization	(4,381,800)	(4,195,100)
Property and equipment, net	1,976,900	2,332,800
Operating lease right of use asset	2,982,000	3,226,300
Goodwill	607,500	607,500
Other assets	418,300	435,900
Deferred income taxes	3,252,700	1,890,700
	\$ 26,899,000	\$ 31,343,200
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Current Liabilities:		
Notes payable, net of unamortized debt issuance costs of \$17,400 and \$13,900	\$ 4,232,600	\$ 4,236,100
Accounts payable	2,099,000	1,769,600
Accrued liabilities	2,001,000	2,624,000
Discounted lease rentals	—	1,096,600
Deferred revenue	1,645,000	1,657,400
Total current liabilities	9,977,600	11,383,700
Long-term Liabilities:		
Notes payable, net of unamortized debt issuance costs of \$61,100 and \$54,800	43,376,400	17,632,700
Discounted lease rentals	—	574,000
Deferred revenue	6,863,500	7,050,900
Operating lease liabilities	4,810,100	5,307,400
Other liabilities	954,800	773,200
Total long-term liabilities	56,004,800	31,338,200
Commitments and Contingencies	—	—
Shareholders' Equity (Deficit):		
Common stock, no par value, 10,000,000 shares authorized, 3,635,806 and 3,756,028 shares issued and outstanding	—	9,281,800
Retained earnings (accumulated deficit)	(39,083,400)	(20,660,500)
Total shareholders' equity (deficit)	(39,083,400)	(11,378,700)
	\$ 26,899,000	\$ 31,343,200

*The accompanying notes are an integral part of these consolidated financial statements.*

**WINMARK CORPORATION AND SUBSIDIARIES**  
Consolidated Statements of Operations

	<b>Fiscal Year Ended</b>		
	<b>December 25, 2021</b>	<b>December 26, 2020</b>	<b>December 28, 2019</b>
Revenue:			
Royalties	\$ 60,779,300	\$ 46,286,200	\$ 51,421,800
Leasing income	11,148,300	14,484,000	16,055,800
Merchandise sales	3,100,100	2,215,400	2,618,800
Franchise fees	1,496,900	1,444,500	1,540,900
Other	<u>1,691,600</u>	<u>1,631,700</u>	<u>1,661,600</u>
Total revenue	78,216,200	66,061,800	73,298,900
Cost of merchandise sold	2,940,500	2,103,900	2,469,700
Leasing expense	1,850,300	2,622,600	2,031,100
Provision for credit losses	(206,600)	(79,300)	(78,300)
Selling, general and administrative expenses	<u>22,295,800</u>	<u>21,203,100</u>	<u>25,745,300</u>
Income from operations	51,336,200	40,211,500	43,131,100
Interest expense	(1,453,900)	(1,737,500)	(1,731,100)
Interest and other income (expense)	<u>(15,000)</u>	<u>43,400</u>	<u>67,400</u>
Income before income taxes	49,867,300	38,517,400	41,467,400
Provision for income taxes	<u>(9,947,400)</u>	<u>(8,694,100)</u>	<u>(9,318,100)</u>
Net income	<u>\$ 39,919,900</u>	<u>\$ 29,823,300</u>	<u>\$ 32,149,300</u>
Earnings per share - basic	<u>\$ 10.87</u>	<u>\$ 8.02</u>	<u>\$ 8.37</u>
Earnings per share - diluted	<u>\$ 10.48</u>	<u>\$ 7.72</u>	<u>\$ 7.84</u>
Weighted average shares outstanding - basic	<u>3,671,980</u>	<u>3,719,485</u>	<u>3,840,638</u>
Weighted average shares outstanding - diluted	<u>3,810,480</u>	<u>3,863,264</u>	<u>4,100,629</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**WINMARK CORPORATION AND SUBSIDIARIES**  
Consolidated Statements of Shareholders' Equity (Deficit)  
Fiscal years ended December 25, 2021, December 26, 2020 and December 28, 2019

	Common Stock		Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount		
BALANCE, December 29, 2018	3,907,686	\$ 4,425,600	\$ (9,234,100)	\$ (4,808,500)
Repurchase of common stock	(150,000)	(5,081,000)	(18,947,100)	(24,028,100)
Stock options exercised	190,172	10,918,300	—	10,918,300
Compensation expense relating to stock options	—	1,666,400	—	1,666,400
Cash dividends	—	—	(3,449,100)	(3,449,100)
Comprehensive income (Net income)	—	—	32,149,300	32,149,300
BALANCE, December 28, 2019	3,947,858	11,929,300	519,000	12,448,300
Repurchase of common stock	(300,000)	(12,215,500)	(36,772,000)	(48,987,500)
Stock options exercised	108,170	8,252,800	—	8,252,800
Compensation expense relating to stock options	—	1,315,200	—	1,315,200
Cash dividends	—	—	(14,230,800)	(14,230,800)
Comprehensive income (Net income)	—	—	29,823,300	29,823,300
BALANCE, December 26, 2020	3,756,028	9,281,800	(20,660,500)	(11,378,700)
Repurchase of common stock	(225,839)	(19,037,300)	(25,180,200)	(44,217,500)
Stock options exercised	105,617	8,320,000	—	8,320,000
Compensation expense relating to stock options	—	1,435,500	—	1,435,500
Cash dividends	—	—	(33,162,600)	(33,162,600)
Comprehensive income (Net income)	—	—	39,919,900	39,919,900
BALANCE, December 25, 2021	3,635,806	\$ —	\$ (39,083,400)	\$ (39,083,400)

*The accompanying notes are an integral part of these consolidated financial statements.*

**WINMARK CORPORATION AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows

	<b>Fiscal Year Ended</b>		
	<b>December 25, 2021</b>	<b>December 26, 2020</b>	<b>December 28, 2019</b>
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 39,919,900	\$ 29,823,300	\$ 32,149,300
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	430,600	484,700	400,100
Provision for credit losses	(206,600)	(79,300)	(78,300)
Compensation expense related to stock options	1,435,500	1,315,200	1,666,400
Deferred income taxes	(1,362,000)	(1,223,700)	(1,815,300)
Loss from disposal of property and equipment	—	200	1,900
Deferred initial direct costs	(2,100)	(18,300)	(92,600)
Amortization of deferred initial direct costs	18,900	105,900	550,000
Operating lease right of use asset amortization	244,300	368,900	345,400
Tax benefits on exercised stock options	2,479,600	872,900	1,218,900
Change in operating assets and liabilities:			
Receivables	478,500	87,600	(116,400)
Principal collections on lease receivables	9,915,400	14,829,200	19,421,400
Income tax receivable/payable	(2,925,900)	(596,200)	(1,151,300)
Inventories	(218,600)	(20,600)	21,600
Prepaid expenses	(13,400)	(27,100)	(66,500)
Other assets	17,600	56,600	(9,900)
Accounts payable	329,400	754,600	(336,800)
Accrued and other liabilities	(948,500)	(691,400)	(661,600)
Rents received in advance and security deposits	(1,046,600)	(1,954,000)	(197,300)
Deferred revenue	(199,800)	(867,200)	(601,800)
Net cash provided by operating activities	<u>48,346,200</u>	<u>43,221,300</u>	<u>50,647,200</u>
<b>INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(74,700)	(45,100)	(169,400)
Purchase of equipment for lease contracts	(208,400)	(4,114,000)	(9,009,000)
Net cash used for investing activities	<u>(283,100)</u>	<u>(4,159,100)</u>	<u>(9,178,400)</u>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from borrowings on line of credit	—	46,600,000	18,800,000
Payments on line of credit	—	(46,600,000)	(18,800,000)
Proceeds from borrowings on notes payable	30,000,000	—	—
Payments on notes payable	(4,250,000)	(3,750,000)	(3,250,000)
Repurchases of common stock	(44,217,500)	(48,987,500)	(24,028,100)
Proceeds from exercises of stock options	8,320,000	8,252,800	10,918,300
Dividends paid	(33,162,600)	(14,230,800)	(3,449,100)
Proceeds from discounted lease rentals	—	1,157,000	944,400
Net cash used for financing activities	<u>(43,310,100)</u>	<u>(57,558,500)</u>	<u>(18,864,500)</u>
<b>NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	4,753,000	(18,496,300)	22,604,300
Cash, cash equivalents and restricted cash, beginning of period	6,684,000	25,180,300	2,576,000
Cash, cash equivalents and restricted cash, end of period	<u>\$ 11,437,000</u>	<u>\$ 6,684,000</u>	<u>\$ 25,180,300</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>			
Cash paid for interest	\$ 1,388,900	\$ 1,738,400	\$ 1,705,600
Cash paid for income taxes	\$ 11,555,100	\$ 9,552,500	\$ 11,122,300
Non-cash landlord leasehold improvements	\$ —	\$ —	\$ 2,139,000

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Balance Sheets to the total of the same amounts shown above:

	<b>Fiscal Year Ended</b>		
	<b>December 25, 2021</b>	<b>December 26, 2020</b>	<b>December 28, 2019</b>
Cash and cash equivalents	\$ 11,407,000	\$ 6,659,000	\$ 25,130,300
Restricted cash	30,000	25,000	50,000
Total cash, cash equivalents and restricted cash	<u>\$ 11,437,000</u>	<u>\$ 6,684,000</u>	<u>\$ 25,180,300</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

## **1. Organization and Business:**

Winmark Corporation and subsidiaries (the Company) offers licenses to operate franchises using the service marks Plato's Closet®, Once Upon A Child®, Play It Again Sports®, Style Encore® and Music Go Round®. In addition, the Company sells point-of-sale system hardware to its franchisees and certain merchandise to its Play It Again Sports franchisees. The Company also operates a middle-market equipment leasing businesses under the Winmark Capital® mark and operated a small-ticket financing business under the Wirth Business Credit® mark until November 2020. The Company has a 52/53-week fiscal year that ends on the last Saturday in December. Fiscal years 2021, 2020 and 2019 were 52-week fiscal years.

## **2. Significant Accounting Policies:**

### ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Winmark Capital Corporation, Wirth Business Credit, Inc. and Grow Biz Games, Inc. All material inter-company transactions have been eliminated in consolidation.

### ***Cash Equivalents***

Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased. Cash equivalents are stated at cost, which approximates fair value. As of December 25, 2021 and December 26, 2020, the Company had \$70,400 and \$77,100, respectively, of cash located in Canadian banks. The Company holds its cash and cash equivalents with financial institutions and at times, such balances may be in excess of insurance limits.

### ***Receivables***

The Company provides an allowance for doubtful accounts on trade receivables. The allowance for doubtful accounts was \$600 and \$800 at December 25, 2021 and December 26, 2020, respectively. If receivables in excess of the provided allowance are determined uncollectible, they are charged to expense in the year the determination is made. Trade receivables are written off when they become uncollectible (which generally occurs when the franchise terminates and there is no reasonable expectation of collection), and payments subsequently received on such receivable are credited to the allowance for doubtful accounts. Historically, receivables balances written off have not exceeded allowances provided.

### ***Restricted Cash***

The Company is required by certain states to maintain initial franchise fees in a restricted bank account until the franchise opens. The use of these funds by the Company is restricted until the franchise opens. Cash held in escrow totaled \$30,000 and \$25,000 at December 25, 2021 and December 26, 2020, respectively.

### ***Investment in Leasing Operations***

The Company uses the direct finance method of accounting to record income from direct financing leases. At the inception of a lease, the Company records the minimum future lease payments receivable, the estimated residual value of the leased equipment and the unearned lease income. Initial direct costs related to lease originations are deferred as part of the investment and amortized over the lease term. Unearned lease income is the amount by which the total lease receivable plus the estimated residual value exceeds the cost of the equipment.

#### ***Leasing Income Recognition***

Leasing income for direct financing leases is recognized under the effective interest method. The effective interest method of income recognition applies a constant rate of interest equal to the internal rate of return on the lease.

For sales-type leases in which the equipment has a fair value greater or less than its carrying amount, selling profit/loss is recognized at commencement. For subsequent periods or for leases in which the equipment's fair value is equal to its carrying amount, the recording of income is consistent with the accounting for a direct financing lease.

For leases that are accounted for as operating leases, income is recognized on a straight-line basis when payments under the lease contract are due.

Generally, when a lease is more than 90 days delinquent (when more than three monthly payments are owed), the lease is classified as being on non-accrual and the Company stops recognizing leasing income on that date. Payments received on leases in non-accrual status generally reduce the lease receivable. Leases on non-accrual status remain classified as such until there is sustained payment performance that, in the Company's judgment, would indicate that all contractual amounts will be collected in full.

#### *Leasing Expense*

Leasing expense includes the cost of financing equipment purchases, the cost of equipment sales as well as depreciation expense for operating lease assets.

#### *Initial Direct Costs*

The Company defers initial direct costs incurred to originate its leases in accordance with applicable accounting guidance. The initial direct costs deferred are part of the investment in leasing operations and are amortized using the effective interest method. Initial direct costs include commissions and other incremental costs related to originating a lease.

#### *Lease Residual Values*

Residual values reflect the estimated amounts to be received at lease termination from sales or other dispositions of leased equipment to unrelated parties. The leased equipment residual values are based on the Company's best estimate.

#### *Allowance for Credit Losses*

The Company maintains an allowance for credit losses at an amount that it believes to be sufficient to absorb losses inherent in its existing lease portfolio as of the reporting dates. Leases are collectively evaluated for potential loss. The Company's methodology for determining the allowance for credit losses includes consideration of the level of delinquencies and non-accrual leases, historical net charge-off amounts and review of any significant concentrations.

A provision is charged against earnings to maintain the allowance for credit losses at the appropriate level. If the actual results are different from the Company's estimates, results could be different. The Company's policy is to charge-off against the allowance the estimated unrecoverable portion of accounts once they reach 121 days delinquent.

#### *Inventories*

The Company values its inventories at the lower of cost, as determined by the weighted average cost method, and net realizable values. Inventory consists of computer hardware and related accessories.

#### *Impairment of Long-lived Assets*

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying amount of the asset exceeds expected undiscounted future cash flows, the Company measures the amount of impairment by comparing the carrying amount of the asset to its fair value.

#### *Property and Equipment*

Property and equipment is stated at cost. Depreciation and amortization for financial reporting purposes is provided on the straight-line method. Estimated useful lives used in calculating depreciation and amortization are: three to five years for computer and peripheral equipment, five to seven years for furniture and equipment and the shorter of the lease term or useful life for leasehold improvements. Major repairs, refurbishments and improvements which significantly extend the useful lives of the related assets are capitalized. Maintenance and repairs, supplies and accessories are charged to expense as incurred.

#### *Goodwill*

The Company reviews its goodwill for impairment at its fiscal year end or whenever events or changes in circumstances indicate that there has been impairment in the value of its goodwill. No impairment was noted during fiscal years ended 2021, 2020 and 2019. Goodwill of \$607,500 in the consolidated balance sheets at December 25, 2021 and December 26, 2020 is all attributable to the Franchising segment.

#### *Use of Estimates*



The preparation of financial statements in conformity with generally accepted U.S. accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The ultimate results could differ from those estimates.

### ***Advertising***

Advertising costs are charged to selling, general and administrative expenses as incurred. Advertising costs were \$348,200, \$273,900 and \$402,700 for fiscal years 2021, 2020 and 2019, respectively.

### ***Accounting for Stock-Based Compensation***

The Company recognizes the cost of all share-based payments to employees, including grants of employee stock options, in the consolidated financial statements based on the grant date fair value of those awards. This cost is recognized over the period for which an employee is required to provide service in exchange for the award.

The Company estimates the fair value of options granted using the Black-Scholes option valuation model. The Company estimates the volatility of its common stock at the date of grant based on its historical volatility rate. The Company's decision to use historical volatility was based upon the lack of actively traded options on its common stock. The Company estimates the expected term based upon historical option exercises. The risk-free interest rate assumption is based on observed interest rates for the expected term. The Company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. For options granted, the Company amortizes the fair value on a straight-line basis. All options are amortized over the vesting periods, which are generally four years beginning from the date of grant.

### ***Revenue Recognition – Franchising***

The following is a description of the principal sources of revenue for the company's franchising segment. The Company's performance obligations under franchise agreements consist of (a) a franchise license, including a license to use one of our brands, (b) a point-of-sale software license, (c) initial services, such as pre-opening training and marketing support, and (d) ongoing services, such as marketing services and operational support. These performance obligations are highly interrelated so we do not consider them to be individually distinct and therefore account for them under ASC 606 as a single performance obligation, which is satisfied by providing a right to use our intellectual property over the estimated life of the franchise. The disaggregation of the Company's franchise revenue is presented within the Revenue lines of the Consolidated Statements of Operations with the amounts included in Revenue: Other delineated below. For more detailed information about reportable segments, see Note 13 – "Segment Reporting".

#### *Royalties*

The Company collects royalties from each retail franchise based upon a percentage of retail store gross sales. The Company recognizes royalties as revenue when earned.

#### *Merchandise Sales*

Merchandise sales include the sale of point-of-sale technology equipment to franchisees and the sale of a limited amount of sporting goods to certain Play It Again Sports franchisees. Merchandise sales, which includes shipping and handling charges, are recognized at a point in time when the product has been shipped to the franchisee. Shipping and handling costs associated with outbound freight are accounted for as a fulfillment cost and included in cost of merchandise sold.

#### *Franchise Fees*

The Company collects initial franchise fees when franchise agreements are signed. The Company recognizes franchise fee revenue over the estimated life of the franchise, beginning with the opening of the franchise, which is when the Company has performed substantially all initial services required by the franchise agreement and the franchisee benefits from the rights afforded by the franchise agreement. The Company had deferred franchise fee revenue of \$6,555,300 and \$6,823,100 at December 25, 2021 and December 26, 2020, respectively.

#### *Marketing Fees*

Marketing fee revenue is included in the Revenue: Other line of the Consolidated Statements of Operations. The Company bills and collects annual marketing fees from its franchisees at various times throughout the year. The

Company recognizes marketing fee revenue on a straight line basis over the franchise duration. The Company recognized \$1.3 million in marketing fee revenue for each of the fiscal years ended December 25, 2021, December 26, 2020 and December 28, 2019.

#### *Software License Fees*

Software license fee revenue is included in the Revenue: Other line of the Consolidated Statements of Operations. The Company bills and collects software license fees from its franchisees when the point-of-sale system is provided to the franchisee. The Company recognizes software license fee revenue on a straight line basis over the franchise duration. The Company recognized \$0.3 million in software license fee revenue for each of the fiscal years ended December 25, 2021, December 26, 2020 and December 28, 2019. The Company had deferred software license fees of \$1,608,200 and \$1,655,100 at December 25, 2021 and December 26, 2020, respectively.

#### *Contract Liabilities*

The Company's contract liabilities for its franchise revenues consist of deferred revenue associated with franchise fees and software license fees described above.

#### *Commission Fees*

The Company capitalizes incremental commission fees paid as a result of obtaining franchise agreement contracts. Capitalized commission fees of \$0.5 million and \$0.5 million are outstanding at December 25, 2021 and December 26, 2020, respectively and are included in Prepaid expenses and Other assets of the Consolidated Balance Sheets.

Capitalized commission fees are amortized over the life of the franchise and are included in selling, general and administrative expenses. During the fiscal years ended December 25, 2021, December 26, 2020 and December 28, 2019, the Company recognized \$95,200, \$102,600 and \$107,200 of commission fee expense, respectively.

#### *Income Taxes*

The Company accounts for incomes taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits in income tax expense.

#### *Sales Tax*

The Company's accounting policy is to present taxes collected from customers and remitted to government authorities on a net basis.

#### *Discounted Lease Rentals*

The Company may utilize its lease rentals receivable and underlying equipment as collateral to borrow from financial institutions at fixed rates on a non-recourse basis. In the event of a default by a customer, the financial institution has a first lien on the underlying leased equipment, with no further recourse against the Company. Proceeds from discounting are recorded on the balance sheet as discounted lease rentals. As customers make payments, lease income and interest expense are recorded and discounted lease rentals are reduced by the effective interest method.

#### *Earnings Per Share*

The Company calculates earnings per share by dividing net income by the weighted average number of shares of common stock outstanding to arrive at the Earnings Per Share — Basic. The Company calculates Earnings Per Share — Diluted by dividing net income by the weighted average number of shares of common stock and dilutive stock equivalents from the potential exercise of stock options using the treasury stock method.

The following table sets forth the presentation of shares outstanding used in the calculation of basic and diluted earnings per share (“EPS”):

	<b>Year Ended</b>		
	<b>December 25, 2021</b>	<b>December 26, 2020</b>	<b>December 28, 2019</b>
Denominator for basic EPS — weighted average common shares	3,671,980	3,719,485	3,840,638
Dilutive shares associated with option plans	138,500	143,779	259,991
Denominator for diluted EPS — weighted average common shares and dilutive potential common shares	3,810,480	3,863,264	4,100,629
Options excluded from EPS calculation — anti-dilutive	20,294	14,822	10,262

### ***Fair Value Measurements***

The Company defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company uses three levels of inputs to measure fair value:

- Level 1 — quoted prices in active markets for identical assets and liabilities.
- Level 2 — observable inputs other than quoted prices in active markets for identical assets and liabilities.
- Level 3 — unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

Due to their nature, the carrying value of cash equivalents, receivables, payables and debt obligations approximates fair value.

### ***Recently Issued Accounting Pronouncements***

The Company reviewed all recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a significant impact on our consolidated financial statements.

### ***Reclassifications***

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation. Such reclassifications did not impact net income or shareholders’ equity (deficit) as previously reported.

### **3. Investment in Leasing Operations:**

In May 2021, the Company made the decision to no longer solicit new leasing customers in its middle-market leasing business and will pursue an orderly run-off of this leasing portfolio.

In August 2020, the Company made the decision to no longer originate financing transactions in its small-ticket financing business. The Company sold the small-ticket portfolio in November 2020 for its approximate carrying value of \$0.7 million.

Investment in leasing operations consists of the following:

	<u>December 25, 2021</u>	<u>December 26, 2020</u>
Direct financing and sales-type leases:		
Minimum lease payments receivable	\$ 3,387,500	\$ 12,536,300
Estimated unguaranteed residual value of equipment	1,316,100	2,950,100
Unearned lease income, net of initial direct costs deferred	(418,100)	(1,439,500)
Security deposits	(1,122,500)	(2,169,000)
Equipment installed on leases not yet commenced	<u>—</u>	<u>1,634,400</u>
Total investment in direct financing and sales-type leases	3,163,000	13,512,300
Allowance for credit losses	<u>(63,600)</u>	<u>(270,200)</u>
Net investment in direct financing and sales-type leases	3,099,400	13,242,100
Operating leases:		
Operating lease assets	626,200	599,100
Less accumulated depreciation and amortization	<u>(605,700)</u>	<u>(580,100)</u>
Net investment in operating leases	<u>20,500</u>	<u>19,000</u>
Total net investment in leasing operations	<u>\$ 3,119,900</u>	<u>\$ 13,261,100</u>

As of December 25, 2021, the \$3.1 million total net investment in leases consisted of \$2.9 million classified as current and \$0.2 million classified as long-term. As of December 26, 2020, the \$13.3 million total net investment in leases consisted of \$8.7 million classified as current and \$4.6 million classified as long-term.

As of December 25, 2021 and December 26, 2020, no customers had leased assets totaling more than 10% of the Company's total assets.

Future minimum lease payments receivable under lease contracts and the amortization of unearned lease income, net of initial direct costs deferred, is as follows as of December 25, 2021:

<u>Fiscal Year</u>	<u>Direct Financing and Sales-Type Leases</u>	
	<u>Minimum Lease Payments Receivable</u>	<u>Income Amortization</u>
2022	3,162,200	399,500
2023	221,800	18,500
2024	<u>3,500</u>	<u>100</u>
	<u>\$ 3,387,500</u>	<u>\$ 418,100</u>

The activity in the allowance for credit losses for leasing operations during 2021, 2020 and 2019, respectively, is as follows:

	<u>December 25, 2021</u>	<u>December 26, 2020</u>	<u>December 28, 2019</u>
Balance at beginning of period	\$ 270,200	\$ 580,600	\$ 861,200
Provisions charged to expense	(206,600)	(79,300)	(78,300)
Recoveries	—	(11,800)	21,900
Deductions for amounts written-off	—	<u>(219,300)</u>	<u>(224,200)</u>
Balance at end of period	<u>\$ 63,600</u>	<u>\$ 270,200</u>	<u>\$ 580,600</u>

The Company's investment in direct financing and sales-type leases ("Investment In Leases") and allowance for credit losses by loss evaluation methodology are as follows:

	<u>December 25, 2021</u>		<u>December 26, 2020</u>	
	<u>Investment In Leases</u>	<u>Allowance for Credit Losses</u>	<u>Investment In Leases</u>	<u>Allowance for Credit Losses</u>
Collectively evaluated for loss potential	\$ 3,163,000	\$ 63,600	\$ 13,512,300	\$ 270,200
Individually evaluated for loss potential	—	—	—	—
Total	<u>\$ 3,163,000</u>	<u>\$ 63,600</u>	<u>\$ 13,512,300</u>	<u>\$ 270,200</u>

The Company's key credit quality indicator for its investment in direct financing and sales-type leases is the status of the lease, defined as accruing or non-accrual. Leases that are accruing income are considered to have a lower risk of loss. Non-accrual leases are those that the Company believes have a higher risk of loss. The following table sets forth information regarding the Company's accruing and non-accrual leases. Delinquent balances are determined based on the contractual terms of the lease.

	<b>December 25, 2021</b>				
	<b>0-60 Days Delinquent and Accruing</b>	<b>61-90 Days Delinquent and Accruing</b>	<b>Over 90 Days Delinquent and Accruing</b>	<b>Non-Accrual</b>	<b>Total</b>
Total investment in leases	<u>\$ 3,163,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,163,000</u>

  

	<b>December 26, 2020</b>				
	<b>0-60 Days Delinquent and Accruing</b>	<b>61-90 Days Delinquent and Accruing</b>	<b>Over 90 Days Delinquent and Accruing</b>	<b>Non-Accrual</b>	<b>Total</b>
Total investment in leases	<u>\$ 13,512,300</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,512,300</u>

The Company leases high-technology and other business-essential equipment to its leasing customers. Upon expiration of the initial term or extended lease term, depending on the structure of the lease, the customer may return the equipment, renew the lease for an additional term, or purchase the equipment. Due to the uncertainty of such outcome at the end of the lease term, the lease as recorded at commencement represents only the current terms of the agreement. As a lessor, the Company's leases do not contain non-lease components. The residual values reflect the estimated amounts to be received at lease termination from sales or other dispositions of leased equipment to unrelated parties. The leased equipment residual values are based on the Company's best estimate. The Company's risk management strategy for its residual value includes the contractual obligations of its customers to maintain, service, and insure the leased equipment, the use of third party remarketers as well as the analytical review of historical asset dispositions.

Leasing income as presented on the Consolidated Statements of Operations consists of the following:

	<b>Year Ended December 25, 2021</b>	<b>Year Ended December 26, 2020</b>	<b>Year Ended December 28, 2019</b>
Interest income on direct financing and sales-type leases	\$ 1,755,200	\$ 3,651,700	\$ 7,602,600
Selling profit (loss) at commencement of sales-type leases	1,829,800	2,117,500	2,470,300
Operating lease income	2,017,300	2,346,500	2,525,600
Income on sales of equipment under lease	4,799,400	5,246,000	2,855,400
Other	746,600	1,122,300	601,900
Leasing income	<u>\$ 11,148,300</u>	<u>\$ 14,484,000</u>	<u>\$ 16,055,800</u>

#### 4. Receivables:

The Company's current receivables consisted of the following:

	<b>December 25, 2021</b>	<b>December 26, 2020</b>
Trade	\$ 29,300	\$ 16,700
Royalty	1,013,800	1,518,000
Other	60,300	47,200
	<u>\$ 1,103,400</u>	<u>\$ 1,581,900</u>

As part of its normal operating procedures, the Company requires Standby Letters of Credit as collateral for a portion of its trade receivables.

## **5. Shareholders' Equity (Deficit):**

### ***Dividends***

In 2021, the Company declared and paid quarterly cash dividends totaling \$1.60 per share (\$5.9 million) and a \$7.50 per share special cash dividend (the "2021 Special Dividend"). The 2021 Special Dividend totaled \$27.3 million and was paid by cash on hand.

In 2020, the Company declared and paid quarterly cash dividends totaling \$0.80 per share (\$3.0 million) and a \$3.00 per share special cash dividend (the "2020 Special Dividend"). The 2020 Special Dividend totaled \$11.3 million and was paid by cash on hand.

In 2019 the Company declared and paid quarterly cash dividends totaling \$0.90 per share (\$3.4 million).

### ***Repurchase of Common Stock***

In 2021, the Company purchased 225,839 shares of our common stock for an aggregate purchase price of \$44.2 million.

In December 2019, the Company's Board of Directors authorized the repurchase of up to 300,000 shares of our common stock for a price of \$163.00 per share through a tender offer (the "2020 Tender Offer"). The 2020 Tender Offer began on the date of the announcement, December 17, 2019 and expired on January 16, 2020. Upon expiration, the Company purchased 300,000 shares for a total purchase price of approximately \$49.0 million, including fees and expenses related to the Tender Offer. The 2020 Tender Offer was financed in part by net borrowings under the Line of Credit. (See Note 6 – "Debt").

In February 2019, the Company's Board of Directors authorized the repurchase of up to 150,000 shares of our common stock for a price of \$159.63 per share through a tender offer (the "2019 Tender Offer"). The 2019 Tender Offer began on the date of the announcement, February 28, 2019 and expired March 28, 2019. Upon expiration, the Company accepted for payment 150,000 shares for a total purchase price of approximately \$24.0 million, including fees and expenses related to the 2019 Tender Offer. The 2019 Tender Offer was financed in part by net borrowings under the Line of Credit. (See Note 6 – "Debt").

Under a previous Board of Directors' authorization, as of December 25, 2021 the Company has the ability to repurchase an additional 304,765 shares of its common stock. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing.

### ***Stock Option Plans and Stock-Based Compensation***

The Company had authorized up to 750,000 shares of common stock for granting either nonqualified or incentive stock options to officers and key employees under the Company's 2001 Stock Option Plan (the "2001 Plan"). The 2001 Plan expired on February 20, 2011. The Company had authorized up to 700,000 shares of common stock for granting either nonqualified or incentive stock options to officers and key employees under the Company's 2010 Stock Option Plan (the "2010 Plan"). The 2010 Plan expired on February 24, 2020. The Company had also sponsored a Stock Option Plan for Nonemployee Directors (the "Nonemployee Directors Plan"), which had reserved a total of 350,000 shares for issuance to directors of the Company who are not employees.

At the April 29, 2020 Annual Shareholders Meeting, the Company's shareholders approved a new stock option plan, the 2020 Stock Option Plan (the "2020 Plan"). The 2020 Plan (as described more completely in the Company's definitive Proxy Statement filed with the United States Securities and Exchange Commission on March 10, 2020) provides for the issuance of up to 100,000 shares of common stock plus (i) the number of common stock authorized and unissued under the 2010 Plan (as of April 29, 2020, 125,465 shares), and (ii) the number of shares of common stock authorized and unissued under the Nonemployee Director Plan (as of April 29, 2020, 24,500 shares) in the form of either nonqualified or incentive stock option grants. Participants in the 2020 Plan may include employees, officers, directors, consultants and advisors of the Company.

Grants under the 2020 Plan are (as they were under the 2001 Plan, 2010 Plan and Nonemployee Directors Plan) made by the Compensation Committee of the Board of Directors at a price of not less than 100% of the fair market value on the date of grant. If an incentive stock option is granted to an individual who owns more than 10% of the voting rights of the Company's common stock, the option exercise price may not be less than 110% of the fair market value on the date of

grant. The term of the options may not exceed 10 years, except in the case of nonqualified stock options, whereby the terms are established by the Compensation Committee. Options may be exercisable in whole or in installments, as determined by the Compensation Committee.

Stock option activity under the 2001 Plan, 2010 Plan, 2020 Plan and Nonemployee Directors Plan (collectively, the “Option Plans”) as of December 25, 2021 was as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Intrinsic Value
Outstanding, December 29, 2018	639,380	\$ 84.12	5.61	\$ 47,808,100
Granted	54,800	170.14		
Exercised	(190,172)	57.41		
Forfeited	(24,450)	138.13		
Outstanding, December 28, 2019	479,558	101.78	5.79	45,283,200
Granted	45,100	163.87		
Exercised	(108,170)	76.29		
Forfeited	(23,000)	148.16		
Outstanding, December 26, 2020	393,488	113.19	5.61	27,864,900
Granted	72,600	226.96		
Exercised	(105,617)	78.78		
Forfeited	(4,850)	158.48		
Outstanding, December 25, 2021	355,621	\$ 146.03	6.32	\$ 39,320,571
Exercisable, December 25, 2021	219,266	\$ 114.16	4.73	\$ 28,004,239

The fair value of options granted under the Option Plans during 2021, 2020 and 2019 were estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions and results:

	Year Ended		
	December 25, 2021	December 26, 2020	December 28, 2019
Risk free interest rate	1.13 %	0.45 %	1.85 %
Expected life (years)	6	6	6
Expected volatility	25.51 %	25.03 %	19.30 %
Dividend yield	3.13 %	2.33 %	1.38 %
Option fair value	\$ 37.90	\$ 28.25	\$ 30.96

The total intrinsic value of options exercised during 2021, 2020 and 2019 was \$16.2 million, \$8.4 million and \$22.7 million, respectively. The total fair value of shares vested during 2021, 2020 and 2019 was \$9.0 million, \$9.1 million and \$8.6 million, respectively.

All unexercised options at December 25, 2021 have an exercise price equal to the fair market value on the date of the grant.

Compensation expense of \$1,435,500, \$1,315,200 and \$1,666,400 relating to the vested portion of the fair value of stock options granted was expensed to “Selling, General and Administrative Expenses” in 2021, 2020 and 2019, respectively. As of December 25, 2021, the Company had \$4.0 million of total unrecognized compensation expense related to stock options that is expected to be recognized over the remaining weighted average vesting period of approximately 2.9 years.

## 6. Debt:

### *Line of Credit*

During 2019, the Company’s Line of Credit with CIBC Bank USA (formerly known as the PrivateBank and Trust Company) and BMO Harris Bank N.A. (the “Line of Credit”) was amended to, among other things:

- Provide the consent of the lenders for the 2020 Tender Offer;
- Amend the tangible net worth covenant calculation to remove the effect of the 2020 Tender Offer; and
- Allow the replacement of LIBOR.

During 2020, the Line of Credit was amended to, among other things:

- Decrease the aggregate commitments from \$40.0 million to \$25.0 million;
- Remove BMO Harris Bank N.A. as a lender under the Credit Agreement;
- Extend the termination date from July 19, 2021 to August 31, 2024;
- Amend the tangible net worth covenant requirement to be reset as of September 26, 2020;
- Permit the Company to issue up to \$25.0 million in additional term notes to one or more affiliates or managed accounts of Prudential Investment Management, Inc.;
- Provide the consent of CIBC Bank USA for the 2020 Special Dividend;
- Amend the fixed charge coverage ratio definition to remove the effect of the 2020 Special Dividend.

During 2021, the Line of Credit was amended to, among other things:

- Permit the Company to issue up to \$30.0 million in additional term notes to one or more affiliates or managed accounts of PGIM, Inc. (formerly Prudential Investment Management, Inc.) (collectively, “Prudential”);
- Remove the tangible net worth covenant minimum requirement, amend the fixed charge coverage ratio definition, and amend the restricted payments covenant to allow the Company more flexibility with respect to shareholder distributions and/or common stock repurchases as long as certain conditions are met (as defined within the amendment);
- Amend the provisions that allow for the replacement of LIBOR as an interest rate option in connection with borrowings under the Line of Credit.

The Line of Credit has been and will continue to be used for general corporate purposes. During 2020 and 2019, the Line of Credit was used to finance in part the 2020 Tender Offer and 2019 Tender Offer (as indicated above in Note 5). Borrowings under the Line of Credit are subject to certain borrowing base limitations, and the Line of Credit is secured by a lien against substantially all of the Company’s assets, contains customary financial conditions and covenants, and requires maintenance of minimum levels of debt service coverage and maximum levels of leverage (all as defined within the Line of Credit). As of December 25, 2021, the Company was in compliance with all of its financial covenants, there were no borrowings outstanding under the Line of Credit and the Company’s additional borrowing availability under the Line of Credit was \$25.0 million.

The Line of Credit allows the Company to choose between two interest rate options in connection with its borrowings. The interest rate options are the Base Rate (as defined) and the LIBOR Rate (as defined) plus an applicable margin of 0% and 2.0%, respectively. Interest periods for LIBOR borrowings can be one, two, three, six or twelve months, as selected by the Company. The Line of Credit also provides for non-utilization fees of 0.25% per annum on the daily average of the unused commitment.

### ***Notes Payable***

The Company has a Note Agreement (the “Note Agreement”) with Prudential.

During 2019, the Note Agreement was amended to, among other things, provide the consent of Prudential for the 2020 Tender Offer and to amend the tangible net worth covenant calculation to remove the effects of the 2020 Tender Offer.

During 2020, the Note Agreement was amended to, among other things, amend the tangible net worth covenant requirement to be reset as of September 26, 2020, provide the consent of Prudential for the declaration and payment of the 2020 Special Dividend and to approve the fixed charge coverage ratio definition to remove the effect of the 2020 Special Dividend.



During 2021, the Note Agreement was amended to, among other things:

- Provide for the issuance of \$30.0 million in new senior secured notes;
- Remove the tangible net worth covenant minimum requirement, amend the fixed charge coverage ratio definition, and amend the restricted payments covenant to allow the Company more flexibility with respect to shareholder distributions and/or common stock repurchase as long as certain conditions are met (as defined within the amendment).

During 2021, the Company issued \$30.0 million of Series C notes, with the proceeds to be used for general corporate purposes, including share repurchases and dividends. As of December 25, 2021, with the \$10.5 million in principal outstanding from the \$25.0 million Series A notes issued in May 2015 and \$7.2 million in principal outstanding from the \$12.5 million Series B notes issued in August 2017, the aggregate principal outstanding under the Note Agreement was \$47.7 million.

The final maturity of the Series A and Series B notes is 10 years from the issuance date. The final maturity of the Series C notes is 7 years from the issuance date. For the Series A notes, interest at a rate of 5.50% per annum on the outstanding principal balance is payable quarterly, along with required prepayments of the principal of \$500,000 quarterly for the first five years, and \$750,000 quarterly thereafter until the principal is paid in full. For the Series B notes, interest at a rate of 5.10% per annum on the outstanding principal balance is payable quarterly, along with required prepayments of the principal of \$312,500 quarterly until the principal is paid in full. For the Series C notes, interest at a rate of 3.18% per annum on the outstanding principal balance is payable quarterly until the principal is paid in full. The Series A, Series B and Series C notes may be prepaid, at the option of the Company, in whole or in part (in a minimum amount of \$1.0 million), but prepayments require payment of a Yield Maintenance Amount, as defined in the Note Agreement.

The Company's obligations under the Note Agreement are secured by a lien against substantially all of the Company's assets (as the notes rank pari passu with the Line of Credit), and the Note Agreement contains customary financial conditions and covenants, and requires maintenance of minimum levels of fixed charge coverage and maximum levels of leverage (all as defined within the Note Agreement). As of December 25, 2021, the Company was in compliance with all of its financial covenants.

In connection with the Note Agreement, the Company incurred debt issuance costs, of which unamortized amounts are presented as a direct deduction from the carrying amount of the related liability.

As of December 25, 2021, required prepayments of the notes payable for each of the next five years and thereafter are as follows:

2022	\$ 4,250,000
2023	4,250,000
2024	4,250,000
2025	2,750,000
2026	1,250,000
Thereafter	30,937,500
Total	<u>\$ 47,687,500</u>

## 7. Accrued Liabilities:

Accrued liabilities at December 25, 2021 and December 26, 2020 are as follows:

	<u>December 25, 2021</u>	<u>December 26, 2020</u>
Accrued compensation and benefits	\$ 1,085,800	\$ 1,051,800
Rent related liabilities	497,600	437,400
Accrued interest	162,200	157,200
Accrued purchases of goods and services	175,100	97,800
Other	80,300	879,800
	<u>\$ 2,001,000</u>	<u>\$ 2,624,000</u>

## 8. Discounted Lease Rentals:

The Company utilized certain lease receivables and underlying equipment as collateral to borrow from financial institutions on a non-recourse basis. As of December 26, 2020, \$1.1 million of the \$1.7 million liability balance was current.

## 9. Contract Liabilities:

The Company's contract liabilities for its franchise revenues consist of deferred revenue associated with franchise fees and software license fees. The table below presents the activity of the current and noncurrent deferred franchise revenue during fiscal years 2021 and 2020, respectively:

	<u>December 25, 2021</u>	<u>December 26, 2020</u>
Balance at beginning of period	\$ 8,708,300	\$ 9,575,500
Franchise and software license fees collected from franchisees, excluding amount earned as revenue during the period	1,583,700	860,100
Fees earned that were included in the balance at the beginning of the period	(1,783,500)	(1,727,300)
Balance at end of period	<u>\$ 8,508,500</u>	<u>\$ 8,708,300</u>

The following table illustrates future estimated revenue to be recognized for the next five fiscal years and fiscal years thereafter related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 25, 2021:

<u>Contract Liabilities expected to be recognized in</u>	<u>Amount</u>
2022	\$ 1,645,000
2023	1,473,700
2024	1,276,000
2025	1,059,600
2026	855,200
Thereafter	2,199,000
	<u>\$ 8,508,500</u>

## 10. Operating Leases:

As of December 25, 2021, the Company leases its Minnesota corporate headquarters in a facility with an operating lease that expires in December 2029. Our lease includes both lease (fixed payments including rent) and non-lease components (common area or other maintenance costs and taxes) which are accounted for as a single lease component as we have elected the practical expedient to group lease and non-lease components for all leases. The lease provides us the option to extend the lease for two additional five year periods. The lease renewal option is at our sole discretion; therefore, the renewals to extend the lease term are not included in our right of use asset and lease liabilities as they are not reasonably certain of exercise. The weighted average remaining lease term for this lease is 8.0 years and the discount rate is 5.5%. As our lease does not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. The Company recognized \$1,178,400, \$1,195,000 and \$1,358,000 of rent expense for the periods ended December 25, 2021, December 26, 2020 and December 28, 2019, respectively.

Maturities of operating lease liabilities is as follows as of December 25, 2021:

<u>Operating Lease Liabilities expected to be recognized in</u>	<u>Amount</u>
2022	\$ 742,900
2023	763,300
2024	784,400
2025	806,000
2026	828,200
Thereafter	2,624,400
Total lease payments	6,549,200
Less imputed interest	(1,260,500)
Present value of lease liabilities	<u>\$ 5,288,700</u>

Of the \$5.3 million operating lease liability outstanding at December 25, 2021, \$0.5 million is included in Accrued liabilities in the Current liabilities section of the Consolidated Balance Sheets.

For leases that contain predetermined fixed escalations of the minimum rent, we recognize the related rent expense on a straight-line basis from the date we take possession of the property to the end of the initial lease term. We record any difference between the straight-line rent amounts and amounts payable under the leases as an adjustment to the amortization of the operating lease right of use asset and operating lease liabilities.

Cash or lease incentives received upon entering into certain leases (“tenant allowances”) are recognized on a straight-line basis as a reduction to rent from the date we take possession of the property through the end of the initial lease term. In 2019, we recorded a \$2.1 million tenant allowance for non-cash landlord leasehold improvements received as a reduction to the operating lease right of use asset. The reduction in rent also causes a reduction in the amortization of the operating lease right of use asset through the end of the initial lease term.

The Company’s policy for leases with a term of twelve months or less is to exclude these short-term leases from our right of use asset and lease liabilities.

Supplemental cash flow information related to our operating leases is as follows for the periods ended December 25, 2021 and December 26, 2020:

	<u>Year Ended</u>	
	<u>December 25, 2021</u>	<u>December 26, 2020</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow outflow from operating leases	\$ 723,100	\$ 703,700

## 11. Income Taxes:

A reconciliation of the expected federal income tax expense based on the federal statutory tax rate to the actual income tax expense is provided below:

	<u>Year Ended</u>		
	<u>December 25, 2021</u>	<u>December 26, 2020</u>	<u>December 28, 2019</u>
Federal income tax expense at statutory rate (21%, 21%, 21%)	\$ 10,472,100	\$ 8,088,600	\$ 8,708,200
Change in valuation allowance	(1,914,400)	54,000	147,900
State and local income taxes, net of federal benefit	1,546,400	1,368,500	1,310,800
Permanent differences, including stock option expenses	(2,332,600)	(1,027,300)	(1,056,800)
Expiration of attributes	2,057,000	—	—
Adjustment to uncertain tax positions	163,400	85,100	(58,500)
Other, net	(44,500)	125,200	266,500
Actual income tax expense	<u>\$ 9,947,400</u>	<u>\$ 8,694,100</u>	<u>\$ 9,318,100</u>

Components of the provision for income taxes are as follows:

	<u>Year Ended</u>		
	<u>December 25, 2021</u>	<u>December 26, 2020</u>	<u>December 28, 2019</u>
Current:			
Federal	\$ 8,782,000	\$ 7,836,000	\$ 9,076,400
State	2,193,900	1,795,800	1,693,800
Foreign	333,500	286,000	363,200
Current provision	<u>11,309,400</u>	<u>9,917,800</u>	<u>11,133,400</u>
Deferred:			
Federal	(1,435,000)	(1,202,100)	(1,834,800)
State	73,000	(21,600)	19,500
Deferred provision	<u>(1,362,000)</u>	<u>(1,223,700)</u>	<u>(1,815,300)</u>
Total provision for income taxes	<u>\$ 9,947,400</u>	<u>\$ 8,694,100</u>	<u>\$ 9,318,100</u>

The tax effects of temporary differences that give rise to the net deferred income tax assets and liabilities are presented below:

	<u>December 25, 2021</u>	<u>December 26, 2020</u>
Deferred tax assets:		
Accounts receivable and lease reserves	\$ 15,500	\$ 66,600
Non-qualified stock option expense	1,405,400	1,581,900
Deferred revenue	1,663,500	1,885,400
Trademarks	32,600	36,100
Lease deposits	270,500	532,600
Loss from and impairment of equity and note investments	532,000	2,637,600
Foreign tax credits	376,200	185,000
Valuation allowance	(908,200)	(2,822,600)
Other	276,500	204,600
Total deferred tax assets	<u>3,664,000</u>	<u>4,307,200</u>
Deferred tax liabilities:		
Lease revenue and initial direct costs	(362,200)	(2,330,700)
Depreciation and amortization	(49,100)	(85,800)
Total deferred tax liabilities	<u>(411,300)</u>	<u>(2,416,500)</u>
Total net deferred tax assets	<u>\$ 3,252,700</u>	<u>\$ 1,890,700</u>

The Company has assessed its taxable earnings history and prospective future taxable income. Based upon this assessment, the Company has determined that it is more likely than not that its deferred tax assets will be realized in future periods and no valuation allowance is necessary, except for the deferred tax assets related to the loss from and impairment of equity and note investments (which are capital losses for tax purposes) and the foreign tax credits. As a result, valuation allowances of \$0.9 million and \$2.8 million as of December 25, 2021 and December 26, 2020, respectively, have been recorded.

The amount of unrecognized tax benefits, including interest and penalties, as of December 25, 2021 and December 26, 2020, was \$821,700 and \$621,100, respectively, primarily for potential state taxes.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense for all periods presented. The Company had accrued approximately \$144,500 and \$111,000 for the payment of interest and penalties at December 25, 2021 and December 26, 2020, respectively.

The following table summarizes the activity related to the Company's unrecognized tax benefits:

	<u>Total</u>
Balance at December 28, 2019	\$ 499,000
Increases related to current year tax positions	144,500
Expiration of the statute of limitations for the assessment of taxes	(133,400)
Balance at December 26, 2020	<u>510,100</u>
Increases related to current year tax positions	190,000
Subtractions for tax positions of prior years	(22,900)
Balance at December 25, 2021	<u>\$ 677,200</u>

The Company and its subsidiaries file income tax returns in the U.S. federal, numerous state and certain foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2017. We expect various statutes of limitation to expire during the next 12 months. Due to the uncertain response of taxing authorities, a range of outcomes cannot be reasonably estimated at this time.

## 12. Commitments and Contingencies:

### *Employee Benefit Plan*

The Company provides a 401(k) Savings Incentive Plan which covers substantially all employees. The plan provides for matching contributions and optional profit-sharing contributions at the discretion of the Board of Directors. Employee contributions are fully vested; matching and profit sharing contributions are subject to a five-year service vesting schedule. Company contributions to the plan for 2021, 2020 and 2019 were \$348,200, \$324,000 and \$343,500, respectively.

### *Litigation*

The Company is exposed to a number of asserted and unasserted legal claims encountered in the normal course of business. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

## 13. Segment Reporting:

The Company currently has two reportable business segments, franchising and leasing. The franchising segment franchises value-oriented retail store concepts that buy, sell, trade and consign merchandise. The leasing segment includes the Company's equipment leasing business. Segment reporting is intended to give financial statement users a better view of how the Company manages and evaluates its businesses. The Company's internal management reporting is the basis for the information disclosed for its business segments and includes allocation of shared-service costs. Segment assets are those that are directly used in or identified with segment operations, including cash, restricted cash, accounts receivable, prepaid expenses, inventory, property and equipment, investment in leasing operations and goodwill. Unallocated assets include corporate cash and cash equivalents, current and deferred tax amounts, operating lease right of use assets and other corporate assets. Inter-segment balances and transactions have been eliminated. The following tables summarize financial information by segment and provide a reconciliation of segment contribution to operating income:

	Year ended		
	December 25, 2021	December 26, 2020	December 28, 2019
Revenue:			
Franchising	\$ 67,067,900	\$ 51,577,800	\$ 57,243,100
Leasing	11,148,300	14,484,000	16,055,800
Total revenue	<u>\$ 78,216,200</u>	<u>\$ 66,061,800</u>	<u>\$ 73,298,900</u>
Reconciliation to operating income:			
Franchising segment contribution	\$ 44,832,100	\$ 31,880,200	\$ 35,169,900
Leasing segment contribution	6,504,100	8,331,300	7,961,200
Total operating income	<u>\$ 51,336,200</u>	<u>\$ 40,211,500</u>	<u>\$ 43,131,100</u>
Depreciation and amortization:			
Franchising	\$ 243,900	\$ 285,300	\$ 281,600
Leasing	186,700	199,400	118,500
Total depreciation and amortization	<u>\$ 430,600</u>	<u>\$ 484,700</u>	<u>\$ 400,100</u>
		As of	
		December 25, 2021	December 26, 2020
Identifiable assets:			
Franchising		\$ 4,907,800	\$ 4,848,300
Leasing		3,600,500	14,462,600
Unallocated		18,390,700	12,032,300
Total		<u>\$ 26,899,000</u>	<u>\$ 31,343,200</u>

Revenues are all generated from United States operations other than franchising revenues from Canadian operations of \$4.9 million, \$4.0 million and \$4.7 million in each of fiscal 2021, 2020 and 2019, respectively. All long-lived assets are located within the United States.

**EXHIBIT D**

Music Go Round® Franchise Agreement (and exhibits)

MUSIC GO ROUND®  
FRANCHISE AGREEMENT

BETWEEN

WINMARK CORPORATION  
605 Highway 169 N, Suite 400  
Minneapolis, Minnesota 55441  
(763) 520-8500

AND

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
Name(s) of Franchisee

\_\_\_\_\_  
Street

\_\_\_\_\_  
City State Zip Code

(\_\_\_\_\_) \_\_\_\_\_  
Area Code Telephone

FRANCHISED LOCATION:

\_\_\_\_\_  
Street

\_\_\_\_\_  
City State Zip Code

(\_\_\_\_\_) \_\_\_\_\_  
Area Code Telephone

MUSIC GO ROUND®  
FRANCHISE AGREEMENT

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MUSIC GO ROUND®  
FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT is made and entered into this \_\_\_\_ day of \_\_\_\_\_, 20\_\_, by and between WINMARK CORPORATION, a Minnesota corporation (“Franchisor”), and \_\_\_\_\_ (“Franchisee”).

BACKGROUND:

A. Franchisor franchises musical instrument resale stores known as “Music Go Round” stores (“Music Go Round® Stores”) which feature quality used and new musical instruments, speakers, amplifiers, music-related electronics and related accessories. Franchisor uses and licenses certain trademarks, including “Music Go Round,” and may hereafter adopt, use and license additional or substitute trademarks, service marks, logos and commercial symbols in connection with the operation of Music Go Round® Stores (collectively, the “Marks”). Music Go Round® Stores use Franchisor’s methods, procedures, standards, specifications and the Marks (all of which are collectively referred to as the “Business System”), which Franchisor may periodically improve, further develop or otherwise modify.

B. Franchisee has had an adequate opportunity to be thoroughly advised of the provisions of this Agreement and Franchisor’s Disclosure Document and has had sufficient time and opportunity to evaluate and investigate the Business System and the procedures and financial requirements associated with the Business System as well as the competitive market in which it operates.

C. Franchisee desires to operate a Music Go Round® Store which will conform to the uniform requirements and quality standards of the Business System.

AGREEMENTS:

The Franchisor and Franchisee agree as follows:

1. GRANT OF FRANCHISE; FRANCHISED LOCATION

A. Grant of Franchise. Subject to the provisions stated below, Franchisor grants to Franchisee a personal and non-exclusive license and franchise to operate a Music Go Round® Store using the Marks as designated by Franchisor from time to time (the “Store”) in conformity with Franchisor’s Business System at a location within the development area specified in Exhibit A attached hereto. The specified area identified in Exhibit A is referred to as the “Development Area.” Franchisee will operate the Store under the Business System in strict compliance with the provisions of this Agreement and only at a location within the Development Area approved by Franchisor (the “Franchised Location”).

B. Franchisee’s Protected Area; Rights Reserved By Franchisor. During the term of this Agreement, Franchisor will not establish for its own account or franchise others the right to operate a Music Go Round® Store from a permanent location within the area specified in Exhibit A. The exclusive area identified in Exhibit A, which includes the Development Area, is referred to as the “Exclusive Territory.” Franchisee understands, however, that Franchisor, its affiliates or their licensees may sell any products or services under trademarks or other commercial symbols other than the Marks inside or outside of the Exclusive Territory. Notwithstanding anything provided for in this Agreement, Franchisor, its affiliates or their licensees also may sell products or services under the Marks inside or outside of the Exclusive

Territory: through other channels of distribution, including the Internet (or any similar form of electronic commerce developed in the future), as long as such activities are not for the sole benefit of Franchisor but provide some benefit to Music Go Round® franchisees in general. The rights and privileges granted to Franchisee under this Agreement are personal in nature, and may not be used at any location other than the Franchised Location. Franchisee will not relocate the Store without Franchisor's prior written consent and will not open any other Music Go Round® Store in the Exclusive Territory. Franchisee will not have the right to subfranchise or sublicense any of its rights under this Agreement. Franchisee will not use the Franchised Location for any purposes other than the operation of a Music Go Round® Store. Termination or expiration of this Agreement shall constitute a termination or expiration of the rights and license granted herein to Franchisee.

## 2. TERM OF FRANCHISE; RENEWAL RIGHTS

A. Term. The term of this Agreement will be for ten (10) years commencing on the date of this Agreement, unless terminated sooner in accordance with the terms hereof.

B. Renewal. Franchisee will have the right to renew its Music Go Round® franchise for the Franchised Location for continuing ten (10) year terms provided Franchisee meets the following conditions:

1. Franchisee has given Franchisor written notice at least one hundred eighty (180) days before the end of the term of this Agreement of its intention to renew;

2. Franchisee has complied with all of the material provisions of this Agreement, including the payment of all monetary obligations owed by Franchisee to Franchisor and its affiliates and suppliers, and has complied with Franchisor's material operating and quality standards and procedures during the term of the Franchise Agreement;

3. Franchisee has at its expense made such reasonable capital expenditures necessary to remodel, modernize and redecorate the Store premises and to replace and modernize the supplies, fixtures, and equipment used in Franchisee's business so that Franchisee's business reflects the then-current physical appearance of new Music Go Round® Stores and meets all current brand standards;

4. Franchisee has paid a Renewal Fee of Ten Thousand Dollars (\$10,000) to Franchisor at least thirty (30) days before the initial (and any renewal) term of this Agreement expires;

5. Franchisee, at Franchisor's option, executes the Franchise Agreement then being used by Franchisor; provided, however, that Franchisee will be required to pay the Renewal Fee in lieu of the Initial Franchise Fee stated in such Franchise Agreement, and that such Franchise Agreement may not contain any further rights of renewal, but may contain royalty rates and advertising contributions (which may be different than those contained in this Agreement), and an altered Exclusive Territory; and

6. Franchisee is able to secure a renewal or extension of the lease for the Franchised Location or is able to secure a new location within the Development Area which has been accepted by Franchisor, such acceptance not to be unreasonably withheld.

### 3. OWNERSHIP AND USE OF MARKS

A. Ownership. Franchisor is the exclusive owner of all right, title and interest in and to the Marks and Business System, and all past, present or future goodwill of Franchisee's Music Go Round® Store and of the business conducted at the Franchised Location that is associated with or attributable to the Marks. Franchisee's use of the Marks and the Business System will inure to the benefit of Franchisor. Franchisee disclaims all right, title and interest in or to such goodwill and the Marks and the Business System, and acknowledges and agrees that such goodwill and the Marks and the Business System are the exclusive property of Franchisor. Any and all improvements by Franchisee relating to the Marks and Business System will become the sole property of Franchisor who has the exclusive right to register and protect all such improvements in its name. Franchisee will execute any document required by Franchisor to transfer or assign any such improvements relating to the Marks and the Business System to Franchisor.

B. Use. Franchisee's right to use and identify with the Marks and Business System applies only to the operation of the Store at the Franchised Location, and exists concurrently with the term of this Agreement and only so long as Franchisee is in complete compliance with Franchisor's quality and operating standards. Franchisee will have the right to use the Marks and Business System only in the manner Franchisor directs and approves in writing. Franchisee will not have or acquire any rights in any of the Marks or Business System other than the right of use as governed by this Agreement. If, in the judgment of Franchisor, Franchisee's acts infringe upon or harm the goodwill, standards of uniformity or quality, or business standing associated with the Marks and Business System, Franchisee will immediately, upon written notice from Franchisor, modify or discontinue its use of the Marks and Business System in the manner Franchisor directs in writing. Franchisee will not during or after the term of this Agreement do anything directly or indirectly which would infringe upon, harm, mislead or contest Franchisor's rights in the Marks or Business System, or the goodwill associated with the Marks or the Business System. Franchisee cannot advertise any liquidation or going-out-of-business sales or similar types of activity.

C. Promotion. Franchisee will operate the Store so that it is clearly identified and advertised as a Music Go Round® Store. The style, form and use of the words "Music Go Round" in any advertising, written materials or supplies must, however, have Franchisor's prior written approval, which approval will not be unreasonably withheld. Franchisee will use the name "Music Go Round" and the other Marks which now or hereafter may form a part of the Business System, on all paper supplies, business cards, letterhead, envelopes, uniforms, advertising materials, signs or other articles in the identical combination and manner as Franchisor may require in writing. Franchisee will comply with all trademark, trade name, service mark and copyright notice marking requirements.

D. Identity. Franchisee will not use the words "Music Go Round" in its corporate or partnership name. Franchisee will clearly indicate on its business checks, purchase orders, business cards, receipts, promotional materials and other written materials that Franchisee is the owner of the Store and that Franchisee is a Music Go Round® franchisee. Franchisee will display a sign which is clearly visible to the general public indicating that the Store is independently owned and operated.

E. Substitutions. If at any time Franchisor determines it advisable or necessary, Franchisee will, upon receiving written notice from the Franchisor, immediately, at its expense, make such changes and amendments or discontinuations of or to any or all of the Marks as Franchisor may require. Franchisee will not make any changes, amendments or discontinuations of or to the use of any of the Marks and Business System unless directed by Franchisor in writing.

F. Litigation. Franchisee will not, without Franchisor's prior written consent, defend or enforce any of the Marks in any court or other proceedings for or against imitation, infringement, any claim of prior use, or for any other allegation. Franchisee will, however, immediately notify Franchisor of any

claims or complaints made against Franchisee respecting the Marks and will, at its expense, cooperate in all respects with Franchisor in any court or other proceedings involving the Marks. Franchisor will pay the cost and expense of all litigation Franchisor incurs, including attorneys' fees, specifically relating to the Marks. Franchisor and its legal counsel will have the right to control and conduct any litigation relating to the Marks.

G. Crisis Communication. Franchisor will have the sole and absolute discretion to determine what steps will be taken in instances of a crisis that impacts the Music Go Round® brand and may cause harm or injury to the Music Go Round® Marks, Business System, reputation or image.

H. Affixing Notice. Franchisee hereby covenants and agrees that it will affix in a conspicuous location in or upon the Franchised Location, a sign containing a form of notice substantially in the following form, or such other form as Franchisor may require:

“We are pleased to inform you that this is an independent locally owned and operated franchise business.”

#### 4. INITIAL FRANCHISE FEE

Franchisee will pay Franchisor a non-refundable Initial Franchise Fee of Twenty Five Thousand Dollars (\$25,000), which will be fully earned and payable on the date of this Agreement. The Initial Fee payable by Franchisee is payment to Franchisor for the costs that it will incur to get Franchisee into business including costs Franchisor incurs for training, site evaluation, business overhead costs, travel costs, and for the other initial services Franchisor provides hereunder.

#### 5. CONTINUING FEE

A. Continuing Fee. Franchisee will, for the term of this Agreement, pay to Franchisor a Continuing Fee equal to four percent (4%) of Franchisee's Gross Sales (as defined below). Franchisee's obligation to pay Franchisor the Continuing Fee under the terms of this Agreement will remain in full force and effect until this Agreement has expired or is terminated or transferred under the provisions herein.

B. Payment. Franchisee will sign electronic transfer of funds authorizations, and/or other documents or instruments as Franchisor designates or Franchisor's bank requires for Franchisor to draw on Franchisee's account, so that Franchisor may electronically collect (draft on Franchisee's account by electronic withdrawal) the Continuing Fees due from Franchisee under Section 5(A) of this Agreement or other fees due from Franchisee to Franchisor. Franchisee will report to Franchisor (in a form and by a method designated by Franchisor) on or before Wednesday of each week its Gross Sales for the previous week. A week is defined as Sunday through Saturday. For the purpose of clarification, the form and method of reporting the Gross Sales (and other) information may include Franchisor's weekly electronic retrieval of this information directly from Franchisee's POS System. If Franchisee does not report its Gross Sales on a timely basis using the form and method designated by Franchisor, Franchisor may estimate Franchisee's Gross Sales and prepare an estimate of Continuing Fees owed for that week. On Thursday of each week, Franchisor will electronically collect from Franchisee all Continuing Fees due for the previous week as described above. Franchisee shall thereafter maintain a balance in its account sufficient to allow Franchisor to collect the amounts owed to Franchisor when due. Franchisee agrees that Franchisor has the right to require Franchisee to pay by electronic transfer of funds regardless of whether Franchisor imposes the same requirement on other franchisees. Any unpaid Continuing Fee or other amounts past due and owing to Franchisor will bear interest at the rate of eighteen percent (18%) per annum or the maximum rate permitted by law, whichever is less. Franchisee will pay Franchisor for any and all costs Franchisor incurs in collecting any unpaid and past due Continuing Fees, including reasonable attorneys' fees.

C. Gross Sales. The term “Gross Sales” means the total amount of all revenues Franchisee receives from the sale of goods and services (including, but not limited to, lessons, equipment/instrument repair and rentals), whether for cash or by check, credit card or trade, in connection with the Store, less customer refunds and returns. Gross Sales will include any sales permitted through the Internet and wholesale transactions involving any party other than a Music Go Round® franchisee who is in good standing with Franchisor. Gross Sales will not include sales tax collected from customers and actually paid to appropriate tax authorities.

## 6. ADVERTISING AND MARKETING

A. Cooperative Advertising. Franchisee will participate in, support and contribute a proportionate share, but no more than an amount equal to five percent (5%) of the Gross Sales for the Store, of the cost of cooperative advertising programs either designated by Franchisor or approved by a majority of the advertising cooperative membership (provided a majority includes at least two (2) unaffiliated franchisees). Franchisor reserves the right to designate advertising cooperative markets, to establish advertising cooperatives and to establish the bylaws, policies and other rules under which such cooperatives will operate. If an advertising cooperative is formed and Franchisee does not participate, Franchisee is still obligated to pay the advertising cooperative fees required of members and to abide with the cooperative’s bylaws, policies and other rules.

B. Local Marketing Expenditures. To the extent Franchisee’s annual contributions to cooperative advertising programs described in Section 6(A) above are less than five percent (5%) of the Gross Sales for the Store, or if the Franchisee cannot participate in any regional cooperative advertising program because such a program has not been established in Franchisee’s geographic area, Franchisee will then be obligated to conduct advertising and marketing activities in Franchisee’s local geographic area; provided that Franchisee’s local marketing activities will not reduce, eliminate or otherwise impact Franchisee’s obligations under Section 6(A) above. Franchisee’s local marketing expenditures will include advertising, merchandising, sales promotion and other forms of marketing at the local level. On or before January 31 of each year, Franchisee will provide Franchisor with an accounting of the monies that it has spent for approved regional cooperative advertising and local marketing for the preceding calendar year (January through December). If Franchisee has failed to spend at least five percent (5%) of its Gross Sales for the calendar year for approved regional cooperative advertising or local marketing, Franchisee may be required to deposit with Franchisor the difference between what it should have spent for advertising and marketing during the calendar year and what it actually spent for advertising and marketing during the calendar year. Franchisor will spend such amount for any type of advertising or marketing that Franchisor deems appropriate for Franchisee’s business, although Franchisor will use reasonable efforts to spend such amounts in Franchisee’s local geographic area.

C. Marketing Fee. In addition to Franchisee’s local advertising obligations described in Section 6(B) above, Franchisee will pay to Franchisor an annual Marketing Fee of One Thousand Five Hundred Dollars (\$1,500) which will be payable on the first day of January of each year. Franchisee’s initial payment will be prorated based on the effective date of the Franchise Agreement and invoiced immediately. Franchisor may, with a minimum of 60 days’ prior written notice, increase the yearly Marketing Fee. Said fee will not increase more than \$1,000 during the term of this Agreement. Franchisor will use the Marketing Fee to conduct advertising research and public relations campaigns, develop websites and other online media programs, develop marketing materials such as television, radio, Internet and print advertising production and promotional materials, for use in each franchisee’s local market, and implement advertising and marketing campaigns.

D. Future Advertising Programs. Franchisee acknowledges and agrees that as the Music Go Round® franchise system continues to expand and mature, it will be necessary to revise Franchisee’s

advertising obligations. Franchisee therefore agrees that Franchisor may, upon sixty (60) days' written notice, increase Franchisee's minimum advertising expenditures (as described in Section 6(B) above) up to a total of six percent (6%) of Franchisee's Gross Sales and require Franchisee to pay to Franchisor, on such terms and at such time as Franchisor may from time to time require, for deposit in an "Advertising Fund" an "Advertising Fee" of up to two percent (2%) of Franchisee's Gross Sales. In such event, Franchisee's advertising obligations under Section 6(A) (and, if appropriate, Section 6(B)) above will be reduced to four percent (4%) of the Gross Sales for the Store. All Advertising Fees will be placed in an Advertising Fund administered by Franchisor. Reasonable disbursements from the Advertising Fund will be made solely for the payment of expenses incurred in connection with the general promotion of the Marks and the Business System including the cost of formulating, developing and implementing advertising and promotional campaigns; and the reasonable costs of administering the Advertising Fund, including accounting and other professional expenses and the actual costs of salaries and fringe benefits paid to Franchisor's employees or contractors engaged in administration of the Advertising Fund. Although Franchisor will strive to manage the Advertising Fund in such a manner that benefits franchisees uniformly, taking into account regional and/or local advertising costs and forms of media available, Franchisor cannot insure that any individual franchisee will benefit directly or on a pro rata basis from the future placement of any such advertising in its local market. Without limiting the generality of the foregoing, Franchisor is under no obligation to administer or distribute the Advertising Fund according to any particular geographic area or territory, whether in Canada, the United States, or otherwise, and furthermore is under no obligation to do so within the Exclusive Territory. Franchisor shall determine the methods of advertising, media employed and contents, terms and conditions of advertising campaigns and promotional programs. Franchisor will provide Franchisee an annual unaudited statement of the receipts and disbursements of the Advertising Fund.

E. Approved Advertising and Marketing Materials. Franchisee will use only approved advertising and marketing materials. If Franchisee desires to use any unapproved advertising or marketing materials bearing the name "Music Go Round" or other Marks, Franchisee must obtain written approval from Franchisor before using any such materials.

F. Promotion. Franchisee will use its best efforts to promote and advertise its Music Go Round® business and will participate in all advertising and marketing programs Franchisor establishes. Franchisee will participate, at its own expense, in the Music Go Round® national (electronic) gift card program and approved e-mail marketing program. Franchisee may be required to participate in a Franchisor approved loyalty program. Franchisee will have the right to advertise and sell its products at whatever prices Franchisee determines.

G. Media Placement. Franchisee will use the approved vendors designated by Franchisor for broadcast media placement and online advertising for its pre-opening and first year marketing activities.

## 7. FRANCHISOR'S OBLIGATIONS

A. Location. Franchisor will provide Franchisee with assistance respecting site location and evaluation for the Store to ensure consistency with the Business System standards. Franchisee acknowledges that any assistance (including site selection and project oversight) provided by Franchisor or its nominee in relation to the selection or development of the Store is only for the purpose of determining compliance with the Business System standards and does not constitute a representation, warranty, or guarantee, express, implied or collateral, regarding the choice and location of the Store, that the development of the Store is free of error, nor that the franchised business is likely to achieve any level of volume, profit or success.

B. Lay-Out and Design. Franchisee shall construct and equip the Store in accordance with the time table or schedule specified by, and in conformity with the standard layout plans, specifications and

motif provided by Franchisor. Following receipt of such materials from Franchisor, the responsibility and cost of customizing specific plans, specifications and drawings to the Store (upon prior approval of Franchisor) and all costs and expenses pertaining to the construction and equipping of the Store shall be borne exclusively by Franchisee. Franchisor shall have the right to inspect the construction and development of the Store at all reasonable times to ensure conformity with applicable standards.

C. Equipment, Supplies and Inventory. Franchisee agrees to use in the operation of the franchised business only those service providers, manufacturers, brands or types of fixtures, equipment (including without limitation, computer, cash register systems), and signs that Franchisor will designate and approve. Franchisee may purchase approved brands or types of fixtures, equipment and signs only from suppliers approved by Franchisor, which may include Franchisor or its affiliates. Franchisee further agrees to place or display at the Store (interior and exterior) only such signs, emblems, lettering, logos and display materials that are from time to time approved in writing by Franchisor, which approval may be given or withheld by Franchisor.

D. Training. Franchisor will, at its expense, provide a three-part training program in Minneapolis, Minnesota, online, or at such other location Franchisor designates to educate, familiarize and acquaint Franchisee with the business of operating a Music Go Round® Store. The first session of the training program will include instruction on general business issues related to the ownership of a privately owned retail business, such as, by way of example only, real estate matters, personnel issues, business plan development, inventory management, used product purchasing, Franchisor's preferred vendor program and other topics Franchisor may select. The period of this session will be at Franchisor's discretion but generally will be for not less than five (5) days and will be scheduled by Franchisor. The second session of the training program may include instruction on sales and marketing, inventory purchasing, computer operation, store management and other topics Franchisor may select. The period of this session will be at Franchisor's discretion but generally will be for at least five (5) days and will be scheduled by Franchisor in its sole discretion. The third session of the training program will take place at an existing Music Go Round® Store that Franchisor selects. The period of this in-store training session will be at Franchisor's discretion but generally will be for not less than two (2) days. During this third session, Franchisee will receive "hands-on" training in operating a Music Go Round® Store. Franchisee (or such other trainees required by Franchisor) must successfully complete all sessions of the training program. If Franchisee (or such other trainees required by Franchisor) fails to successfully complete all sessions, he/she will not be permitted or authorized to manage Franchisee's business and Franchisor may terminate this Agreement pursuant to Section 15. Franchisee will be responsible for travel costs, room and board, the salaries, fringe benefits and other expenses Franchisee and its employees and designated trainees incur in attending all sessions of the training program.

E. Opening Assistance. Franchisor will assist in scheduling the opening of the Store. Franchisee will not open or commence business operations until Franchisee has received written approval from Franchisor. Franchisor's approval may be withheld if Franchisee fails to meet minimum inventory requirements, training and/or marketing requirements or brand standards established by Franchisor. Franchisor will, at no charge, provide pre-opening assistance prior to Franchisee's Store opening. Franchisor will also provide assistance with the store opening around the time of grand opening.

F. Operations Manual. Franchisor will provide Franchisee with an electronic copy of the Operations Manual and one or more other confidential manuals (collectively, the "Manuals") wherein Franchisor will describe its operational policies, standards, requirements and practices as such things are modified and amended by Franchisor from time to time. The Manuals may also include computer software, information available on an Internet/Extranet site and other electronic media that Franchisor may change from time to time. Franchisee will comply with all provisions of the Manuals. Franchisor reserves the right to revise the Manuals at any time.

G. Additional Initial Assistance. Franchisor will assist Franchisee in the development of a business plan. Franchisor and Franchisee may also agree that Franchisor provide management assistance and other services, in addition to the usual initial assistance and supervision Franchisor provides to all franchisees, for additional agreed upon compensation.

H. Ongoing Assistance. During the operation of Franchisee's business, Franchisor will: (1) inspect the Store as often as Franchisor deems necessary and provide written reports to Franchisee on operations; (2) provide, upon the written request of Franchisee, advisory services pertaining to operation of Franchisee's business; (3) periodically make available to Franchisee all changes, improvements and additions to the Business System to the same extent as made available to other franchisees; (4) provide Franchisee with all supplements and modifications to the Manuals; and (5) develop advertising production materials. Any evaluation or inspection Franchisor conducts is not intended to exercise, and does not constitute, control over Franchisee's day-to-day operation of the Business or to assume any responsibility for Franchisee's obligations under this Agreement.

## 8. OPERATION OF THE FRANCHISEE'S BUSINESS

The Marks and Business System licensed to Franchisee represent valuable goodwill distinctive of Franchisor's business and reputation. Franchisor will periodically develop uniform standards of quality and service regarding the business operations of the Store so as to protect (for the benefit of all franchisees and Franchisor) the distinction, valuable goodwill and uniformity represented and symbolized by the Marks and Business System. To ensure that all franchisees will maintain the uniform requirements and quality standards for goods and services associated with the Music Go Round® Stores and with the Marks and Business System, Franchisee will maintain the uniformity and quality standards Franchisor reasonably requires for all products and services and agrees to the following provisions:

A. Managerial Responsibility. During the term of this Agreement, the parties who have signed this Agreement on behalf of Franchisee will personally manage and operate the Store and will not, without Franchisor's prior written consent, delegate its authority and responsibility with respect to management and operation. If Franchisee is a corporate entity or a partnership, one individual will retain at least fifty percent (50%) of the equity and voting interest in such corporation or partnership and will be obligated to personally manage and operate the Store.

B. Design and Appearance of Premises. The design and appearance of the exterior and interior of the Store, including signage, are part of the Business System. It is essential to the integrity of Franchisor's Business System that as great a degree of uniformity as possible be maintained among the various premises of Music Go Round® franchisees. Without limitation to anything provided for in this Agreement, Franchisee agrees that: (1) no alteration or addition will be made to the premises without Franchisor's prior written consent; (2) the painting and decor will be maintained in such manner and form as Franchisor may require; (3) Franchisee will follow Franchisor's instructions with respect to layout and character of interior fixtures and furnishings; and (4) only such signs, emblems, logos, lettering, and artwork as Franchisor may require or periodically provide will be displayed on the Store premises. Franchisee must follow Franchisor's current standards regarding the design and appearance of the premises.

C. General Operation. Franchisee will use the Marks and Business System in strict compliance with the standards, operating procedures, specifications, requirements and instructions required of all Music Go Round® franchisees, which Franchisor may periodically amend and supplement. Any required standards exist to protect Franchisor's interests in the Business System and the Marks and not for the purpose of establishing any control or duty to take control over those matters that are reserved to Franchisee. The required standards generally will be set forth in the Operations Manual or other written materials. The Operations Manual also will include guidelines or recommendations in addition to required



standards. In some instances, the required standards will include recommendations or guidelines to meet the required standards. Franchisee may follow the recommendations or guidelines or some other suitable alternative, provided Franchisee meets and complies with the required standards. In other instances, no suitable alternative may exist. In order to protect Franchisor's interests in the Business System and Marks, Franchisor reserves the right to determine if Franchisee is meeting a required standard and whether an alternative is suitable to any recommendations or guidelines.

D. Products and Services. Franchisee will sell only those categories of products and services Franchisor approves in writing and will offer for sale all categories of products and services required by Franchisor from time to time. Franchisee will conform to all quality and customer service standards prescribed by Franchisor in writing. Franchisee will purchase only such types, models or brands of fixtures, furniture, equipment, signs and supplies that Franchisor approves for Music Go Round® as meeting its specifications and standards, including specifications and standards for quality, design, warranties, appearance, function and performance. Franchisee acknowledges and agrees that such items shall be purchased only from sources, manufacturers or suppliers approved in writing by Franchisor (which sources or suppliers may include Franchisor or affiliates of Franchisor). FRANCHISOR DISCLAIMS ALL WARRANTIES, WHETHER EXPRESS OR IMPLIED, INCLUDING ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE IN CONNECTION WITH FRANCHISOR'S (AND/OR AN AFFILIATE'S) SALE OF ANY GOODS, EQUIPMENT, FURNITURE, SIGNS OR SUPPLIES TO FRANCHISEE. Franchisee agrees to execute any and all documents Franchisor reasonably requests, including letters of credit, security agreements, and financing statements, to provide collateral for amounts due to Franchisor for purchases of inventory and other items used in Franchisee's business. Franchisor's approval is not required with respect to new and used musical instruments, stereo equipment, speakers, amplifiers, music-related electronics and other accessories Franchisee purchases from its customers, provided, however, that Franchisee may not sell or offer for sale any goods which would be determined unsafe upon reasonable inspection.

E. Maintenance of Premises; Modernization. Franchisee will, at its expense, repair, paint and keep in an attractive, clean and sanitary condition the interior and exterior of the Store premises. Franchisee will ensure that all equipment will be kept in good working order and will meet Franchisor's quality standards. Franchisee will periodically make capital expenditures to remodel, modernize and redecorate the Store and to replace and modernize the furniture, fixtures, signs, supplies and equipment used in the Store so that the Store will reflect the then-current physical appearance of new Music Go Round® Stores. All remodeling, modernization or redecoration of the Store must be done pursuant to Franchisor's then-current standards and specifications and only with Franchisor's prior written approval. Franchisee agrees to commence remodeling activities within ninety (90) days after written notice from Franchisor, although Franchisee will not be required to remodel, modernize and redecorate the Store more than once every five (5) years during the term of this Agreement.

F. Compliance with Laws. Franchisee will, at its expense, comply with all applicable local, state, federal and municipal laws, ordinances, rules and regulations pertaining to the operation of the Store, including any and all licensing and bonding requirements, as well as the Americans with Disabilities Act ("ADA"), the Gramm-Leach-Bliley Act, the Fair Credit Reporting Act ("FCRA"), the Telephone Consumer Protection Act ("TCPA"), the Fair and Accurate Credit Transactions Act ("FACTA"), and the National Automated Clearinghouse Association ("NACHA") and associated regulations (collectively "Privacy Laws"). No Music, videos or television may be played in the Store unless the appropriate licenses are obtained. As stated in Section 8.I, below, participation in the in the Music Go Round® approved licensed music program is mandatory. Franchisee must comply with any applicable secondhand dealer laws or ordinances. In addition, to become knowledgeable regarding new or pending laws and other issues that may affect the operation of its business, Franchisee must join and maintain a membership in the state retailer's association where the Store is located.

If the California Consumer Privacy Act (“CCPA”), Cal. Civ. Code § 1798.100, *et seq.*, or any federal or state privacy law applies to the Franchised Business, whenever and to the extent Franchisee operates as a “Service Provider” under the CCPA or in a similar capacity under any federal or state privacy law, Franchisee represents, warrants, and covenants that:

1. Franchisee will not sell, make available or otherwise disclose any Customer Information to any third party for valuable consideration;
2. Franchisee will retain, use, or disclose Customer Information only for the specific purpose of performing the services specified in this Agreement, and not any commercial or noncommercial purpose other than providing the services specified in this Agreement;
3. Franchisee will not retain, use, or disclose Customer Information outside of the direct business relationship between Franchisee and Franchisor;
4. Franchisee will delete any Customer Information upon Franchisor’s request unless Franchisee can prove that such request is subject to an exception under applicable law; and

Franchisee certifies that it understands the restrictions in Paragraphs 1-4 of this section and will comply with them. Franchisee also acknowledges and agrees that Franchisor may modify the restrictions by written notice to Franchisee, including adding other similar privacy restrictions that may be required under other state or federal privacy laws.

G. Payment of Liabilities. Franchisee will timely pay all of its obligations and liabilities due and payable to Franchisor, suppliers, lessors and creditors.

H. Taxes. Franchisee will promptly pay all federal, state and local taxes arising out of the operation of Franchisee’s business. Franchisor will not be liable for these or any other taxes and Franchisee will indemnify Franchisor for any such taxes that may be assessed or levied against Franchisor which arise or result from Franchisee’s business.

I. Standardization. Franchisee will require its employees to wear such uniforms as Franchisor may designate and will comply with such programs of standardization as Franchisor may periodically develop to promote the common business image and to protect the goodwill associated with the Marks and Business System. Franchisee will participate in the Music Go Round® approved licensed music program.

J. Personnel. Franchisee will, at all times when open for business, have a person designated as a management person on duty who will be responsible for the business operations of Franchisee’s business. Franchisee will employ and maintain a sufficient number of adequately trained and competent employees to provide efficient service to Franchisee’s customers. Franchisee’s employees will not be deemed to be Franchisor’s employees for any purpose whatsoever, and nothing in any aspect of the Business System or the Marks in any way shifts any employee or employment related responsibility from Franchisee to Franchisor. Franchisee alone is responsible for hiring, firing, training, setting hours for and supervising all employees.

K. Hours of Operation. Franchisee's Store will be open for business seven (7) days a week. Franchisee's minimum hours of operation shall be M-F 10:00 a.m. to 8:00 p.m., Sat. 10:00 a.m. to 6:00 p.m. and Sun. 12:00 p.m. to 5:00 p.m. Franchisee may choose to be open additional hours. Franchisee will purchase items from its customers during all hours that it is open for business. The minimum hours of operation may be periodically amended by Franchisor and/or updated in the Operations Manual.

L. Additional Training Seminars. Franchisor may periodically conduct refresher courses, seminars and other programs for all Music Go Round® franchisees. Franchisee and/or its employees will be required to attend any such programs and will be responsible for any expenses incurred by them in attending such programs including the cost of transportation, lodging, meals and any wages.

M. Photographs. Franchisor will have the right to photograph the Store premises and, with prior written consent, Store employees at all reasonable times.

N. Operations Manual. To protect Franchisor's reputation and goodwill and to maintain uniform operating standards under the Marks and Business System, Franchisee will conduct its business according to Franchisor's Operations Manual and other confidential Manuals provided by Franchisor. Franchisee will receive an electronic or hard copy of each Manual. Franchisee will treat each Manual as confidential, and will use all reasonable efforts to maintain each Manual as secret and confidential. The Manuals will remain Franchisor's sole property. Franchisor may periodically revise the contents of the Manuals. Franchisee agrees to comply with each new or changed standard. Franchisee will insure that its copy of each Manual is kept current. In the event of any dispute as to the contents of any Manual, the terms of the master copy of such Manual Franchisor maintains will control. At Franchisor's option, Franchisor may post some or all of the Operations Manual and other confidential Manuals and materials on the Extranet to which Franchisee will have access. Any passwords or other digital identifications necessary to access the Operation Manual on the Extranet will be deemed secret and confidential. It is Franchisee's obligation to monitor and access the Extranet for any updates to the Operating Manual or system standards.

O. Lease. Franchisee's lease or sublease for the Store premises must be reviewed by Franchisor before its execution. Franchisee must provide Franchisor with an executed copy of any lease for the Store. Franchisor makes no guarantees concerning the success of the Store located on any site consented to by Franchisor. Franchisee must employ an independent real estate broker to assist Franchisee in locating a suitable site and negotiating a lease for such site. Franchisee's lease must contain provisions requiring that: (i) so long as this Agreement remains in effect, the premises will be used only for a Music Go Round® business; (ii) the landlord will provide Franchisor written notice of any Franchisee default and/or right to cure; and (iii) upon termination of this Agreement or the Lease, Franchisee must remove, at its sole expense, all signs and materials bearing the name "Music Go Round" and other Marks.

P. Point-of-Sale System. Franchisee will utilize in the Store the point-of-sale system (the "POS System") which Franchisor has developed and/or selected for the Business System, including all future updates, supplements and modifications. The POS System developed for use in Franchisee's business includes a proprietary software program owned by Franchisor (the "Proprietary Software"). Franchisee must license the Proprietary Software from Franchisor, which software will remain the confidential property of Franchisor. Franchisee and Franchisor will enter into Franchisor's standard form of Computer Software License Agreement attached hereto as Exhibit B (the "Software License Agreement") in connection with Franchisee's use of such software. Franchisor reserves the right to assign its rights, title and interest in the Proprietary Software or the Software License Agreement to a third party designated by Franchisor. In such event, Franchisee may be required to enter into a separate computer software license agreement specified by the third party supplier of the Proprietary Software. Franchisor also may access information and data produced by Franchisee's POS System. As further described in Section 5.B, Franchisor has the right to use the information obtained from Franchisee's POS System to determine the

weekly amounts owed for Continuing Fees. The computer hardware component of the POS System must conform with specifications Franchisor develops and must be configured as a package unit as Franchisor designates. The POS System includes one dedicated business server with a minimum of two desktop computers. The computer hardware component of the POS System must be purchased and configured through Franchisor. Franchisee will be required to utilize and, at Franchisor's discretion, pay for all future updates, supplements and modifications to the POS System. Franchisee may be required to update its POS System every five (5) years or less, depending on updates in technology and Franchisor's current standards. Franchisee will also be required to pay one DRS Maintenance Fee in the amount of \$1,000 for the term of this Agreement. It is Franchisee's responsibility to make sure that Franchisee is in compliance with all laws that are applicable to the POS System or other technology used in the operation of Franchisee's Business, including all data protection or security laws as well as PCI compliance.

Q. Technology Fee. Franchisor reserves the right to charge a periodic technology fee for technology-related services provided by Franchisor. Franchisor will provide a minimum of sixty (60) days written notice prior to implementation of such fee. If a technology fee is established, Franchisor will not increase the technology fee by more than 10% each year.

R. Participation in Internet Website. Franchisee must have high speed Internet access from the Store and an e-mail address. Franchisor will include Franchisee in the store location section of Franchisor's website [www.musicgoround.com](http://www.musicgoround.com). Franchisor will establish the rules from time to time under which franchisees will establish their own website or separately use the Internet, and Franchisee shall be required to strictly abide by all such rules and follow the then current form of Internet Code of Conduct. Franchisee is required to have a Store website and will pay all expenses associated with the development and operation of the website for Franchisee's individual Store. Franchisor will, at its discretion, determine the content and use of musicgoround.com website, and the core brand content and design of the franchisee store website templates. Franchisor will retain all rights relating to the musicgoround.com website and the individual stores' website template and domain name(s) (URL) and may alter or terminate the websites upon thirty (30) days' notice to Franchisee. Franchisee's general conduct on the Internet and specifically its use of the Marks on the Internet (including the domain name and any other Marks Franchisor may develop as a result of participation in the Internet) will be subject to the provisions of this Agreement and regulated by the Internet Code of Conduct or similar document. Franchisee must participate in ecommerce activities (as regulated in the Internet Code of Conduct) on its store website and have a separate online merchant account to accept credit card payments through the website. Franchisee acknowledges that certain information obtained through its participation in the Music Go Round® Internet and Extranet websites may be considered Confidential Information (as defined in Section 9 below), including access codes and identification codes. Franchisee's right to maintain any website used in operating the Store, participate in the Music Go Round® Internet or Extranet sites or otherwise use the Marks or Business System on the Internet will terminate when this Agreement expires or terminates. It is Franchisee's responsibility to ensure that its website and other web content complies with all applicable provisions of the current Web Content Accessibility Guidelines ("WCAG") and/or related laws.

S. Credit Card Processing. Franchisee must comply with all Franchisor and vendor credit card policies. In addition, Franchisee must comply with the Payment Card Industry Data Security Standards ("PCI DSS") as they may be revised and modified by the Payment Card Industry Security Standards Council or its successor organization, FACTA and any other card payment standards Franchisor may specify.

9. CONFIDENTIAL INFORMATION

A. Non-Disclosure of Confidential Information. Franchisee and those individuals who have signed the Personal Guaranty attached hereto as Exhibit C agree to use and permit the use of Franchisor's Confidential Information (as defined below) solely in connection with the operation of the Store. Franchisee and Personal Guarantors further agree that they will never, during the initial term or any renewal term of this Agreement, or any time after this or any renewal Franchise Agreement expires or terminates, or Franchisee's rights under this Agreement or any renewal Franchise Agreement are assigned or terminated, divulge or use any of Franchisor's Confidential Information for the benefit of any third party (including any person, business entity or enterprise of any type or nature), nor will Franchisee or Personal Guarantors directly or indirectly aid such third party to imitate, duplicate or "reverse engineer" any of Franchisor's Confidential Information. "Confidential Information" means all information, knowledge, trade secrets or know-how utilized by the Business System or which otherwise concerns Franchisee's or Franchisor's systems of operation, programs, services, products, customers, practices, materials, books, records, manuals, computer files, databases or software. Confidential Information includes (without limitation): all elements of the Business System and all products, services, equipment, technologies, policies, standards, requirements, criteria and procedures that now or in the future are part of the Business System; Franchisor's Operations Manual (including supplements to the Manual); all specifications, sources of supply, all procedures, systems, techniques and activities employed by Franchisor or Franchisee in the offer and sale of products and or services at the Store; all pricing paradigms established by Franchisor or by Franchisee; all of Franchisor's and/or Franchisee's sources (or prospective sources) of supply and all information pertaining to same (including wholesale pricing structures, the contents of sourcing agreements and identity of suppliers); Franchisor's specifications, and Franchisee's final plans, for the construction, build-out, design, renovation, décor, equipment, signage, furniture, fixtures and trade dress elements of the Store; the identity of, and all information relating to, the computer and DRS POS hardware and software utilized by Franchisor and Franchisee; all information pertaining to Franchisor's and Franchisee's advertising, marketing, promotion and merchandising campaigns, activities, materials, specifications and procedures; all customer lists, customer data and other records generated and/or otherwise maintained by the Store; Franchisor's Internet Code of Conduct, social media policy, internet/web protocols, procedures and content; Franchisor's training and other instruction programs and materials; all communications between Franchisor and Franchisee (including the financial and other reports Franchisee is required to submit to Franchisor under the Agreement); additions to, deletions from and modifications and variations of the components of the Business System and all other information, knowledge and know-how which Franchisor and its affiliates, now or in the future, designate as confidential.

Confidential Information will not, however, include information which Franchisee and Personal Guarantors can demonstrate came to their attention before Franchisor disclosed it to Franchisee (unless illegally or improperly procured by Franchisee or its Personal Guarantors before Franchisor's disclosure) or which, at or after the time of disclosure, has become a part of the public domain through publication or communication by others, but not through any act of Franchisee or Personal Guarantors.

Except as authorized in this Agreement, Franchisee and Personal Guarantors agree never to copy, duplicate, record or otherwise reproduce any of the Confidential Information, in whole or in part; otherwise share it with any other third party individual or entity; store it in a computer or other electronic format; or otherwise make it available to any third party by any other means whatsoever. Upon the expiration or termination of this Agreement, Franchisee and Personal Guarantors agree to return to Franchisor such Confidential Information as Franchisor requests (including customer lists and records; all training materials and other instructional content; financial and non-financial books and records; the Manual; and, computer databases, software and manuals) which are then in Franchisee's or Personal Guarantor's possession, or upon Franchisor's request, destroy all or certain Confidential Information and certify such destruction to Franchisor. It is specifically understood that all customer lists or information adduced by the Store is

Franchisor's property, not the property of Franchisee or Personal Guarantors. Franchisor may use this information to market to Franchisee's customers during and after the term of the Franchise Agreement. Franchisee will execute any document required by Franchisor to ensure that Franchisor will have access to that information.

Franchisee and Personal Guarantors must only divulge such Confidential Information to Franchisee's operational personnel as is necessary for each to perform his/her functions and then only on a "need to know" basis. Franchisee and Personal Guarantors agree to take all necessary precautions to insure that these individuals maintain the Confidential Information in confidence and comply with the confidentiality provisions of this Agreement. Franchisee's agreement to procure execution of a Confidentiality/Non-Competition Agreement from certain of Franchisee's owners, management and staff is set forth before in Section 9.B of this Agreement.

B. Confidentiality/Non-Competition Agreements. All of Franchisee's employees who have managerial duties with respect to the Store and who have access to confidential information of Franchisor, as well as all corporate officers, directors and shareholders if Franchisee is a corporation (all partners if Franchisee is a partnership), must sign Confidentiality/Non-Competition Agreements in a form satisfactory to Franchisor, agreeing to maintain the confidentiality, during the course of their agreement and thereafter, of all information Franchisor copyrights or designates as confidential and proprietary. Copies of the executed agreements will be provided to Franchisor upon request.

Franchisee agrees to vigorously and vigilantly prosecute to the fullest extent permitted by law breaches of any Confidentiality/Non-Competition Agreement executed pursuant to this provision, and acknowledge Franchisor's right, to be exercised as Franchisor alone determines, to enforce the terms of any such executed Confidentiality/Non-competition Agreement. If the substantive provisions of the Confidentiality/Non-Competition Agreement have been breached by an individual employed, engaged or otherwise serving the Store who has not executed a Confidentiality/Non-Competition Agreement Franchisee must nevertheless vigorously and vigilantly prosecute such conduct to the fullest extent permitted by law.

## 10. INSURANCE; BONDING

A. Insurance. Franchisee alone will be responsible for all loss or damage arising out of or relating to the operation of Franchisee's business or arising out of the acts or omissions of Franchisee or any of its agents, employees or contractors in the preparation and sale of products by Franchisee, and for all claims for damage to property or for injury or death of any persons directly or indirectly resulting therefrom. Franchisee agrees to indemnify and hold Franchisor harmless against and from any and all such claims, loss, and damage, including costs and reasonable attorneys' fees. Franchisee will obtain and maintain in force (under policies of insurance issued by a carrier that is rated A- or better by AM Best) and pay the premiums for public liability insurance with products/completed operations coverage and premises liability of no less than \$1,000,000 per occurrence and \$2,000,000 in the aggregate, and other insurance in such types and amounts as Franchisor may reasonably require. Such insurance policies will expressly protect both Franchisee and Franchisor and will require the insurer to defend both Franchisee and Franchisor in any action. In addition, each such insurance policy must name Franchisor as an additional insured, and provide that such policy will not be canceled, amended or modified except upon thirty (30) days' prior written notice to Franchisor. On an annual basis and upon Franchisor's request, Franchisee will furnish to Franchisor endorsements or other proof of insurance Franchisor requires evidencing that Franchisee has obtained and is maintaining in force all required insurance policies. Maintenance of the insurance requirement will not relieve Franchisee of the obligations of indemnification stated in Section 11 below. If Franchisee fails to obtain or maintain in force any insurance as required by this Section or to furnish any endorsements or other proof of insurance Franchisor requires hereunder, Franchisor may, in addition to all other available remedies, obtain such insurance or endorsements or proof of insurance, and Franchisee will promptly

reimburse Franchisor for all insurance premiums and other costs incurred in obtaining such insurance or endorsements or other proof of insurance. Franchisor recommends that Franchisee obtain employment practices liability insurance with a minimum limit of \$250,000 and a cyber liability/data breach policy with a minimum limit of \$50,000.

B. Bonding. Franchisee will comply with any and all bonding requirements which may be applicable to its Music Go Round® business.

#### 11. INDEPENDENT CONTRACTORS; INDEMNIFICATION

Franchisor and Franchisee are independent contractors. Neither Franchisor nor Franchisee will make any agreements, representations or warranties in the name of or for the other or that their relationship is other than franchisor and franchisee. Neither Franchisor nor Franchisee will be obligated by or have any liability under any agreements, representations or warranties made by the other. Franchisee alone will be responsible for all loss or damage arising out of or relating to the operation of Franchisee's business or arising out of the acts or omissions of Franchisee or any of its agents, employees or contractors in connection with the preparation and sale of products by Franchisee, and for all claims for damage to property or for injury or death of any persons directly or indirectly resulting therefrom. Franchisee acknowledges that the customer list of all retail or commercial customers shall be the sole and exclusive property of Franchisor and that Franchisee shall have no ownership rights or interest in the customer list. Franchisee will indemnify Franchisor against and will reimburse Franchisor for all obligations and damages arising out of the operation of Franchisee's business, including all costs Franchisor reasonably incurs in the defense of any such claim brought against it or in any action in which it is named as a party (including reasonable attorneys' fees), including without limitation any claims brought against it related to Franchisee's violations of Privacy Laws. Franchisor will have the right to defend any such claim against it. Franchisor will indemnify Franchisee against and reimburse Franchisee for any obligations or liability for damages attributable to agreements, representations or warranties of Franchisor, or caused by Franchisor's negligence or willful action, and for costs Franchisee reasonably incurs in the defense of any such claim brought against it or in any action in which it is named as a party, provided that Franchisor will have the right to participate in and, to the extent Franchisor deems necessary, to control any litigation or proceeding which might result in liability of or expense to Franchisee subject to such indemnification. The indemnities and assumptions of liabilities and obligations stated in this Agreement will continue in full force and effect following the expiration, termination or a transfer of this Agreement.

Nothing in this Agreement may be construed to create a partnership, joint venture, agency, employment or fiduciary relationship of any kind. None of Franchisee's employees will be considered to be Franchisor's employees. Neither Franchisee nor any of Franchisee's employees whose compensation is paid by Franchisee may in any way, directly or indirectly, expressly or by implication, be construed to be an employee of Franchisor 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 or federal governmental agency. Franchisor will not have the power to hire or fire Franchisee's employees. Franchisee will alone exercise day-to-day control over all operations, activities and elements of the Store. Franchisee is solely responsible for the safety and well-being of Franchisee's employees and the customers of the Store. Franchisee acknowledges and agrees that the various requirements, prohibitions, specifications and procedures of the Business System which Franchisee is required to comply with under this Agreement, whether set forth in the Manual or otherwise, do not directly or indirectly constitute, suggest, infer or imply that Franchisor controls any aspect or element of the day-to-day operations of the Store, which Franchisee alone controls, but only constitute standards Franchisee must adhere to when exercising control of the day-to-day operations of the Store. Franchisee may not, without Franchisor's written approval, have any power to obligate Franchisor for any expense, liabilities or other obligations, other than specifically provided in this Agreement.

12. SALES REPORTS, FINANCIAL STATEMENTS AND AUDIT RIGHTS

A. Sales Reports. Franchisee will maintain an accurate written record of daily Gross Sales and will deliver to Franchisor a signed and verified statement of the weekly Gross Sales of Franchisee's business using such forms and methods as Franchisor may require in writing. The weekly statement of Gross Sales must be provided to Franchisor on or before Wednesday of each week for the preceding week. Franchisor reserves the right to modify or substitute the required forms and methods and impose additional recordkeeping procedures.

B. Financial Statements. Franchisee will, at its expense, provide Franchisor with quarterly and annual financial statements and such other financial reports as Franchisor specifies using the forms and chart of accounts Franchisor requires. All financial information provided to Franchisor under this Section must be presented in the form Franchisor periodically requires in writing. Franchisee will deliver the quarterly financial information to Franchisor by the thirtieth (30th) day of the month following the end of the preceding quarter. The annual financial statement must be provided on or before March 1 of each year for the preceding calendar year.

C. Audit Rights. Franchisee will make all of its financial books and records (including the tax returns of Franchisee, its Personal Guarantors, and its shareholders) available to Franchisor or its designated representative at all reasonable times for review and audit by Franchisor or its designee. Franchisee will keep its financial books and records for each fiscal and calendar year in a secure place and will make them available for audit by Franchisor for at least five (5) years. If an audit conducted by Franchisor results in a determination that the Continuing Fees or other amounts paid to Franchisor are deficient (underpaid) by more than two percent (2%), Franchisee will pay Franchisor for the reasonable costs and expenses that it has incurred as a result of the audit. If pursuant to audits, the Continuing Fees have been deficient by more than two percent (2%) twice or more within any five (5) year period, this will be considered a material breach of this Agreement. In addition, Franchisee's failure to fully cooperate and timely complete the audit procedures is a material breach of the Franchise Agreement and Franchisee will pay all of Franchisor's costs and expenses Franchisor incurs resulting from Franchisee's lack of cooperation and untimeliness.



13. FRANCHISOR'S RIGHT OF FIRST REFUSAL TO PURCHASE

A. Restrictions. Franchisee will not sell, assign, trade, transfer, lease, sublease, or otherwise dispose of: (1) any interest in or any part of the Franchised Location or this Agreement, or (2) any controlling interest (whether through one or more related transactions) in Franchisee's business or the assets of Franchisee's business to any third party, without first offering the same to Franchisor in writing, at the same price and on the same terms as stated in the proposed third-party offer. Franchisee's written offer to Franchisor must contain all material provisions of the proposed sale or transfer. Upon Franchisor's receipt of written notice specifying the proposed price and terms of a proposed sale or transfer of Franchisee's business or interest therein, Franchisor will give Franchisee written notice within ten (10) business days thereafter if Franchisor has an interest in negotiating to purchase the business or interest being offered according to the proposed terms. If Franchisor commences negotiations to purchase Franchisee's business or interest therein as described herein, Franchisee may not sell the business or interest being offered to a third party for at least thirty (30) days or until Franchisor and Franchisee agree in writing that the negotiations have terminated, whichever comes first. If Franchisor waives its right to purchase, Franchisee may complete the sale or transfer of the business or interest therein according to the terms described in the written notice to Franchisor but not upon more favorable terms. Any such sale, transfer or assignment to a third party is subject to the provisions stated in Section 14 of this Agreement. Franchisor's nonacceptance of Franchisee's written offer will not affect or change Franchisee's obligations under this Agreement.

B. Corporate Franchisee. If Franchisee is a corporation, the shareholders cannot sell, assign, pledge or otherwise dispose of a controlling interest in the capital stock of Franchisee ("Capital Stock") (except to immediate family members of the controlling shareholder(s) or to a trust established for their benefit) until the Capital Stock has been first offered to Franchisor in writing under the same terms and conditions offered to any third party. A shareholder of Franchisee may, however, bequeath, sell, assign, trade or transfer his/her Capital Stock to the other shareholders of Franchisee corporation because of death or permanent disability without first offering it to Franchisor, provided Franchisee provides Franchisor with written notice of all such transactions. All shares of Capital Stock issued by Franchisee's corporation to its shareholders must bear the following legend on the reverse side of each issued and outstanding stock certificate:

The shares of capital stock represented by this certificate are subject to a written Franchise Agreement which grants Winmark Corporation a right of first refusal to purchase these shares of capital stock from the shareholder.

Nothing in this Section will be construed as prohibiting the shares of Capital Stock of a corporate Franchisee from being pledged as security to an institutional lender who has provided financing to or for the Store; provided the institutional lender accepts such security interest subject to Franchisor's reasonable conditions.

#### 14. ASSIGNMENT OF FRANCHISE AGREEMENT

A. By Franchisor. A sale, transfer or assignment by Franchisor of its interest in the Business System or the Marks or any parts thereof, and/or in the sale, transfer or assignment by Franchisor of this Agreement or any interest therein, may be completed without the consent of Franchisee. To the extent that the purchaser or transferee shall assume the covenants and obligations of Franchisor under this Agreement, Franchisor shall thereupon and without further agreement, be freed and relieved of all liability with respect to such covenants and obligations. Franchisee acknowledges that nothing in this Agreement shall prevent Franchisor from granting security over any of its assets, including the Marks and any other intellectual property, on terms required by any secured party from time to time, and Franchisee further acknowledges that any such secured party or any agents acting on behalf of such secured party shall not have any obligations to Franchisee by reasons only of such security interest.

B. Corporate Franchisee. This Agreement may be transferred or assigned by Franchisee to a corporation which is owned or controlled by Franchisee, provided Franchisee and all other shareholders of the assignee corporation owning at least ten percent (10%) of the Capital Stock thereof sign the Personal Guaranty attached hereto as Exhibit C and agree to be bound by the provisions of this Agreement. Franchisee will give Franchisor fifteen (15) days written notice before the proposed date of assignment or transfer of this Agreement to a corporation owned or controlled by Franchisee; however, the transfer or assignment of this Agreement will not be valid or effective until Franchisor has received the legal documents which its legal counsel deems necessary to properly document such transfer or assignment.

C. Conditions to Other Transfer or Assignment. Franchisee (and its partners and shareholders, if any) will not transfer (whether voluntary or involuntary), assign or otherwise dispose of, in one or more transactions, Franchisee's business, the Franchised Location, substantially all or all of the assets of Franchisee's business, this Agreement or any controlling interest in Franchisee (a "controlling" interest will include a proposed transfer of fifty percent (50%) or more of the Capital Stock of a corporate Franchisee) without Franchisor's prior written consent, except to trusts established for Franchisee's benefit. Franchisor will not unreasonably withhold its consent to a transfer, subject to any or all of the following conditions described below which Franchisor may, deem necessary:

1. All of Franchisee's accrued monetary obligations to Franchisor and suppliers will have been satisfied, and Franchisee is not in default under this Agreement;

2. Franchisee executes a written agreement in a form satisfactory to Franchisor, in which Franchisee covenants to observe all applicable post-term obligations and covenants contained in this Agreement;

3. The transferee-franchisee enters into a written agreement in a form satisfactory to Franchisor assuming and agreeing to discharge all of Franchisee's obligations and covenants under this Agreement for the remainder of its term or, at Franchisor's option, executes Franchisor's then-current standard form of franchise agreement which may not contain any further rights of renewal, but may contain royalty rates and advertising contributions(which may be different than those contained in this Agreement), and an altered Exclusive Territory;

4. The transferee-franchisee is not a competitor of Franchisor or the Business System and is approved by Franchisor and demonstrates to Franchisor's satisfaction that he/she meets Franchisor's managerial, financial, and business standards for new franchisees, possesses a good business reputation and credit rating, and has the aptitude and ability to conduct the franchised business. Franchisee understands that Franchisor may

communicate directly with the transferee-franchisee during the transfer process to respond to inquiries, as well as to ensure that the transferee-franchisee meets Franchisor's qualifications;

5. While Franchisor does not determine the purchase price, Franchisor has determined that the purchase price and payment terms will not adversely affect the transferee-franchisee's operation of the Store;

6. If Franchisee finances any part of the purchase price, Franchisee agrees that all of the transferee-franchisee's obligations under any promissory notes, agreements or security interests reserved in the Store are subordinate to the transferee-franchisee's obligations to pay Continuing Fees, Marketing Fees and any other amounts due to Franchisor under the Franchise Agreement;

7. The transferee-franchisee successfully completes Franchisor's training program; and

8. Franchisee pays Franchisor a transfer fee of Ten Thousand Dollars (\$10,000) for the costs Franchisor incurs, including the costs of any required training. There will be no transfer fee payable for transfers to immediate family members (i.e.: spouse or children).

#### 15. FRANCHISOR'S TERMINATION RIGHTS

A. Grounds. Franchisee will be in default, and Franchisor may, at its option, terminate this Agreement, as provided herein, if: (1) Franchisee fails to open and commence operations of the Store at such time as the premises are ready for occupancy or within nine (9) months of the execution of this Agreement, whichever occurs first; (2) Franchisee violates any material provision or obligation of this Agreement; (3) Franchisee or any of its managers, directors, officers or majority shareholders are convicted of, or plead guilty to or no contest to (a) a charge of violating any law which adversely impacts upon the reputation of the franchised business or (b) any felony; (4) Franchisee fails to conform to the material requirements of the Business System or the material standards of uniformity and quality for the products and services Franchisor has established in connection with the Business System; (5) Franchisee fails to timely pay Continuing Fees, Marketing or Advertising Fees, buying group (inventory) obligations or any other obligations or liabilities due and owing to Franchisor or fails to timely pay any advertising cooperative obligations; (6) Franchisee is insolvent within the meaning of any applicable state or federal law; (7) Franchisee makes an assignment for the benefit of creditors or enters into any similar arrangement for the disposition of its assets for the benefit of creditors; (8) Franchisee voluntarily or otherwise "abandons" (as defined below) the franchised business; (9) Franchisee is involved in any act or conduct which materially impairs the goodwill associated with the name "Music Go Round" or any of the Marks or the Business System; (10) Franchisee's lease for the Store premises expires or is terminated for any reason (unless Franchisee receives Franchisor's written consent and relocates within the Development Area to a site approved by Franchisor within sixty (60) days thereafter and Franchisee signs a new lease in compliance with Section 8(O)); (11) Franchisee defaults in any other agreement with Franchisor, its subsidiaries or affiliates, and does not cure such default in accordance with the terms of such other agreement; (12) Franchisee receives frequent and/or severe complaints from customers and/or employees concerning the Store; (13) Franchisee fails to fully cooperate and timely complete any audit authorized by Franchisor; or (14) Franchisee violates the in-term covenant not to compete. The term "abandon" means Franchisee's failure to operate the Store during regular business hours for a period of ten (10) consecutive days without Franchisor's prior written consent unless such failure is due to an act of God, war, strikes or riots.

B. Procedure. Except as described below, Franchisee will have thirty (30) days, or such longer period as applicable law may require, after its receipt from Franchisor of a written Notice of Termination within which to remedy any default hereunder, and to provide evidence thereof to Franchisor. If Franchisee fails to correct the alleged default within that time (or such longer period of time as applicable law may require), this Agreement will terminate without further notice to Franchisee effective immediately when the thirty (30) day period (or such longer period as applicable law may require) expires. Franchisor may terminate this Agreement immediately upon delivery of written notice to Franchisee, with no opportunity to cure, if the termination results from any of the following: (1) Franchisee repeatedly fails to comply with one or more material requirements of this Agreement; (2) the nature of Franchisee's breach makes it not curable; (3) Franchisee willfully and repeatedly deceives customers relative to the source, nature or quality of goods sold; (4) any default under items (1), (3), (6), (8), (9), (11), (12), (13) or (14) in Section 15(A) above; or (5) Franchisee willfully and materially falsifies any report, statement, or other written data furnished to Franchisor either during the franchise application process or after Franchisee is awarded a franchise. For purposes of Section 15(B)(1) of the Franchise Agreement, the word "repeatedly" means Franchisee's failure, on two or more separate occurrences during any twenty-four (24) month period, to comply with one or more material requirements of the Franchise Agreement, even if the default is subsequently cured within the applicable time period. Any report submitted pursuant to Section 12 will be conclusively deemed to be materially false if it understates Gross Sales by more than four percent (4%).

C. Applicable Law. If the provisions of this Section 15 are inconsistent with applicable law, the applicable law will apply.

#### 16. FRANCHISEE'S TERMINATION RIGHTS; NOTICE REQUIRED

A. Termination. Franchisee may terminate this Agreement if Franchisor violates any material obligation of Franchisor to Franchisee and fails to cure such violation within thirty (30) days after Franchisor's receipt of written notice from Franchisee; provided, however, that Franchisee is in substantial compliance with the Agreement at the time of giving such notice of termination. Franchisee's written notice will identify the violation and demand that it be cured.

B. Required Notice. A party must give the other party written notice of an alleged default under or violation of this Agreement after it has knowledge of, determines, or is of the opinion that there has been an alleged default under or violation of this Agreement. If there is failure to give written notice of an alleged default under this Agreement within one (1) year from the date that the nonbreaching party has knowledge of, determines or is of the opinion that there has been an alleged default, the alleged default will be deemed to be approved and waived, and the alleged default or violation will not be deemed to be a default under or violation of this Agreement.

#### 17. FRANCHISEE'S OBLIGATIONS UPON TERMINATION

A. Post-Term Duties. If this Agreement is terminated for any reason, Franchisee will: (1) within five (5) days after termination, pay all amounts due and owing to Franchisor or suppliers under this Agreement; (2) return to Franchisor by first class prepaid United States mail the Manuals and any other manuals, advertising materials, and all other printed materials relating to the operation of the franchised business; (3) assign to Franchisor or, at Franchisor's discretion, disconnect the telephone number for the Store; and (4) remove all signs and other materials bearing the name "Music Go Round" and other Marks; (5) comply with all post-termination obligations under the Software License Agreement, including the return of all copies of Franchisor's proprietary software; (6) disconnect any Internet website franchisee has established in connection with Franchisee's operation of the Store; and (7) comply with all other applicable provisions of this Agreement, including the non-compete provisions. Upon termination of this Franchise Agreement for any reason, Franchisee's right to use the name "Music Go Round" and the other Marks and

the Business System will immediately terminate. If Franchisee fails to remove all signs and other materials bearing the Marks, Franchisor may do so at Franchisee's expense.

B. Redecoration. If this Agreement is terminated for any reason, and Franchisee either remains in possession of the Franchised Location to operate a separate business not in violation of Section 18 below or enters into an agreement with a third party to allow such third party to directly operate a business at the Franchised Location, Franchisee will, at its expense, modify both the exterior and interior appearance of the business premises so that they will be easily distinguished from the appearance as a Music Go Round® Store. At a minimum, such changes and modifications to the premises will include: (1) repainting the premises with totally different colors; (2) removing all signs and other materials bearing the name "Music Go Round" and other Marks; (3) removing from the premises all fixtures which are indicative of Music Go Round® Stores; (4) discontinuing use of the approved employee uniforms and refraining from using any uniforms which are confusingly similar; and (5) discontinuing use of all packaging and confidential information regarding the operation of the Store.

#### 18. FRANCHISEE'S COVENANTS NOT TO COMPETE

A. During Term. Franchisee (and all Personal Guarantors and owners of all or part of Franchisee) will not, during the term of this Agreement, on their own account or as an employee, agent, consultant, partner, officer, director, or shareholder of any other person, firm, entity, partnership or corporation, own, operate, lease, franchise, conduct, engage in, be connected with, have any interest in, or assist any person or entity engaged in any business involving the selling, leasing, renting or exchanging of new or used musical instruments, stereo equipment, speakers, amplifiers, music-related electronics or related accessories, or any other related business that is competitive with or similar to a Music Go Round® Store.

B. After Termination. Franchisee (and all Personal Guarantors and owners of all or part of Franchisee) will not, directly or indirectly, for a period of two (2) years after this Agreement expires or is terminated (except for a termination as a result of a Franchisor's breach), on their own account or as an employee, agent, consultant, partner, officer, director, or shareholder of any other person, firm, entity, partnership or corporation, own, operate, lease, franchise, conduct, engage in, be connected with, have any interest in or assist any person or entity engaged in any business involving the selling, leasing, renting or exchanging of new or used musical instruments, stereo equipment, speakers, amplifiers, music-related electronics or related accessories, or any other related business that is competitive with or similar to a Music Go Round® Store which is located at the Franchised Location or within a ten (10) mile radius of the Franchised Location or any Music Go Round® Store. Franchisee expressly agrees that the two (2) year period and the ten (10) mile radius are the reasonable and necessary time and distance needed to protect Franchisor if this Agreement expires or is terminated for any reason.

C. Extension During Breach. Franchisee (and all Personal Guarantors and owners of all or part of Franchisee) acknowledge and agree that the two (2) year non-competition period set forth in Section 18.B above will be extended for a period of time equal to the time during which the Franchisee is in breach of any of the provisions of Section 18.B.

D. Injunctive Relief. Franchisee agrees that damages alone cannot adequately compensate Franchisor if there is a violation of these noncompetition covenants, and Franchisee stipulates that Franchisor would be irreparably harmed by such a violation and that preliminary and permanent injunctive relief is essential and must be entered for the protection of Franchisor. Preliminary and permanent injunctive relief will be entered by a court of competent jurisdiction enforcing the noncompetition covenants without Franchisor posting any bond or security, in addition to all other remedies that may be available to Franchisor at equity or law.

19. ARBITRATION; ENFORCEMENT

A. Arbitration Process. Except to the extent Franchisor elects to enforce the provisions of this Agreement by judicial process and injunction as provided pursuant to Section 19.D, all disputes, claims and controversies between the parties arising under or in connection with this Agreement or the making, performance or interpretation thereof (including claims of fraud in the inducement and other claims of fraud and the arbitrability of any matter) will be settled by arbitration in Minneapolis, Minnesota pursuant to the Federal Arbitration Act. The arbitrator(s) will have a minimum of five (5) years experience in franchising or distribution law and will have the right to award any type of relief except as limited by Section 19.C. The proceedings will be conducted under the commercial arbitration rules of the American Arbitration Association, to the extent such Rules are not inconsistent with the provisions of this arbitration provision. The decision of the arbitrator(s) will be final and binding on all parties. Claims in arbitration of different parties may not be joined. This Section will survive termination or non-renewal of this Agreement under any circumstances. Judgment upon the award of the arbitrator(s) may be entered in any court having jurisdiction thereof. During the pendency of any arbitration proceeding, Franchisee and Franchisor will fully perform their respective obligations under this Agreement.

B. Additional Proceedings. If, after Franchisor or Franchisee institutes an arbitration proceeding, one or the other asserts a claim, counterclaim or defense, the subject matter of which, under statute or current judicial decision is nonarbitrable for public policy reasons, the party against whom the claim, counterclaim or defense is asserted may elect to proceed with the arbitration of all arbitrable claims, counterclaims or defenses or to proceed to litigate all claims, counterclaims or defenses in a court having competent jurisdiction.

C. Punitive Damages. Franchisor and Franchisee acknowledge that judgment upon an arbitration award may be entered in any court of competent jurisdiction and will be binding, final and nonappealable. Franchisor and Franchisee (and their respective owners and guarantors, if applicable) agree to waive, to the fullest extent permitted by law, the right to or claim for any punitive or exemplary damages against the other and agree that in the event of a dispute between them, each will be limited to the recovery of actual damages sustained by it.

D. Enforcement of Franchise Agreement. Notwithstanding the other provisions of this Section 19, Franchisee recognizes that the failure of a single franchisee to comply with the terms of its Music Go Round® franchise agreement would cause irreparable harm to Franchisor or to some or all other Music Go Round® franchisees. Franchisor and Franchisee therefore agree that, in the event of a breach or threatened breach of Sections 3, 8, 9, 12, 13, 14, 17 and/or 18 of this Agreement by Franchisee or in the event of any conduct by Franchisee which is illegal or is dishonest or misleading to Franchisee's customers or prospective customers or may impair the goodwill associated with the Marks, Franchisor may obtain a temporary, preliminary, or permanent injunction restraining such breach or obtain a decree of specific performance, without showing or proving any actual damage and without posting any bond or other security. The foregoing equitable remedy will be in addition to, and not in lieu of, all other remedies or rights which Franchisor might otherwise have by virtue of any breach of this Agreement by Franchisee.

E. Attorney's Fees. The non-prevailing party will pay all costs and expenses, including reasonable attorney's fees, incurred by the prevailing party in any arbitration or action in court between Franchisor and Franchisee.

20. SEVERABILITY AND CONSTRUCTION

A. Severability. All provisions of this Agreement are severable and this Agreement will be interpreted and enforced as if all completely invalid or unenforceable provisions were not contained herein

and partially valid and enforceable provisions will be enforced to the extent valid and enforceable. If any applicable law or rule of any jurisdiction requires a greater prior notice period than is required hereunder, or if under any applicable law or rule of any jurisdiction, any provision of this Agreement is invalid or unenforceable, the prior notice required by such law or rule will be substituted for the notice requirements hereof, or such invalid or unenforceable provision will be modified to the extent required to be valid and enforceable. Such modifications to this Agreement will be effective only in such jurisdiction and will be enforced as originally made and entered into in all other jurisdictions.

B. Waiver. Franchisor and Franchisee may by written instrument unilaterally waive any obligation of or restriction upon the other under this Agreement. No acceptance by Franchisor of any payment by Franchisee and no failure, refusal or neglect of Franchisor or Franchisee to exercise any right under this Agreement or to insist upon full compliance by the other with its obligations hereunder, including any mandatory specification, standard or operating procedure, will constitute a waiver of any provision of this Agreement.

C. Cumulative Rights. The rights of Franchisor and Franchisee hereunder are cumulative and no exercise or enforcement by Franchisor or Franchisee of any right or remedy hereunder will preclude the exercise or enforcement by Franchisor or Franchisee of any other right or remedy hereunder or which Franchisor or Franchisee is entitled by law to enforce.

D. Governing Law. Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Section 1051 et seq.), this Agreement and the franchise relationship will be governed by the laws of the state in which the Franchised Location is located.

E. Binding Effect. This Agreement is binding upon the parties hereto and their respective executors, administrators, heirs, assigns and successors in interest.

F. Consents. Whenever a party's consent or approval is required under this Agreement, such consent or approval will not be unreasonably withheld or delayed.

G. Entire Agreement. The "Background" section is a part of this Agreement which, together with exhibits, represents the entire agreement of the parties. This Agreement supersedes and terminates any prior oral or written understandings or agreements between Franchisor and Franchisee relating to the subject matter of this Agreement. Nothing in this Agreement or any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document. No modification of this Agreement will be effective unless it is in writing and signed by Franchisor and Franchisee. The term "Franchisee" as used herein is applicable (where relevant) to one or more persons, a corporation or a partnership. References to "Franchisee," "assignees" and "transferees" which are applicable to an individual or individuals mean the principal owner or owners of the equity or operating control of Franchisee or any such assignee or transferee if Franchisee or such assignee or transferee is a corporation or partnership. If Franchisee consists of more than one individual, all individuals will be bound jointly and severally by the provisions of this Agreement.

21. NOTICES

All notices required under this Agreement must be in writing addressed to Franchisor at its corporate headquarters or to Franchisee at the Franchised Location or the last known address of Franchisee and will be deemed given: (i) if personally delivered on the date delivered, (ii) if sent in the United States mail, by certified mail, postage prepaid, three (3) business days after it is sent, (iii) if sent by a recognized overnight delivery service which requires a written receipt, one (1) business day after it is sent, or (iv) if sent electronically, on the date delivered to the authorized email address. You may change your notice address by giving written notice under this Section.

22. ACKNOWLEDGMENTS

A. Independent Investigation. Franchisee acknowledges that it has conducted an independent investigation of the business franchised hereunder, and recognizes that the business venture contemplated by this Agreement involves business risks and that its success will largely depend on Franchisee's ability as an independent business person. Franchisor expressly disclaims the making of, and Franchisee acknowledges that it has not received, any warranty or guarantee, express or implied, as to the potential volume, profits or success of the business venture contemplated by this Agreement.

B. Franchise Agreement. Franchisee acknowledges that it has received, read, and understood this Agreement and that Franchisor has fully and adequately explained the provisions of it to Franchisee's satisfaction and that Franchisee has had sufficient time and opportunity to consult with advisors of its own choosing about the potential benefits and risks of entering into this Agreement.

C. Other Franchises. Franchisee acknowledges that other franchisees of Franchisor have or will be granted franchises at different times and in different situations, and further acknowledges that the provisions of such franchises may vary substantially from those contained in this Agreement.

D. Receipt of Documents. Franchisee acknowledges that it received a copy of Franchisor's Franchise Disclosure Document, as required under federal and applicable state franchise disclosure law, at least fourteen (14) calendar days before signing this Agreement or any other binding agreement, or paying any fees to Franchisor or its affiliates. In addition, if Franchisor materially altered the provisions of this Agreement, including any attachments relating thereto, or any related agreements attached to the Franchisor's Franchise Disclosure Document (except as a result of negotiations Franchisee initiated), Franchisee acknowledges that it received a copy of this Agreement or the related agreement at least seven (7) calendar days before signing it.



IN WITNESS WHEREOF, Franchisor and Franchisee have signed this Agreement as of the day and year first above written.

FRANCHISOR DISCLAIMS ANY WARRANTY OR REPRESENTATION AS TO THE POTENTIAL SUCCESS OF FRANCHISEE'S BUSINESS OPERATIONS UNDER THIS AGREEMENT.

This is a legal document which grants specific rights to and imposes certain obligations upon Franchisor and Franchisee. Consult legal counsel to be sure that you understand your rights and duties. Please insert the name and address of your attorney: \_\_\_\_\_

“FRANCHISOR”

“FRANCHISEE”

WINMARK CORPORATION

If “Franchisee” is a corporation,

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

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

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

If “Franchisee” is one or more individuals,

\_\_\_\_\_  
[Name], Individually

\_\_\_\_\_  
[Name], Individually

\_\_\_\_\_  
[Name], Individually

EXHIBIT A  
TO FRANCHISE AGREEMENT

FRANCHISEE'S DEVELOPMENT AREA AND EXCLUSIVE TERRITORY

1. Description of Development Area:

2. Description of Exclusive Territory:

“FRANCHISOR”

WINMARK CORPORATION

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

“FRANCHISEE”

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

If “Franchisee” is one or more individuals,

\_\_\_\_\_  
[Name], Individually

\_\_\_\_\_  
[Name], Individually

\_\_\_\_\_  
[Name], Individually

EXHIBIT B  
TO FRANCHISE AGREEMENT  
COMPUTER SOFTWARE LICENSE AGREEMENT

MUSIC GO ROUND®

COMPUTER SOFTWARE LICENSE AGREEMENT

This AGREEMENT is made and entered into as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_, by and between WINMARK CORPORATION (“Winmark”), and \_\_\_\_\_ (“Licensee”).

BACKGROUND:

Winmark owns certain software and related documentation. Licensee is a Music Go Round® franchisee pursuant to a franchise agreement Licensee entered into with Winmark (the “Franchise Agreement”). Licensee wishes to use certain software in its franchised business under the provisions stated below.

AGREEMENTS:

1. SOFTWARE LICENSE.

A. Grant of License. Winmark grants Licensee a nonexclusive license to use the software identified on Schedule A attached to this Agreement. Collectively, all software licensed under this Agreement, and all modifications, updates and other works derivative of or to such software, and any related documentation or materials provided, is referred to as the “Software.”

B. Initial Software License Fee. Licensee will pay Winmark an Initial Software License Fee of Six Thousand Dollars (\$6,000). This fee must be paid before Winmark delivers the Software to Licensee. Licensee will be solely responsible for all taxes relating to the Initial Software License Fee, excluding taxes measured by Winmark’s net income.

C. Scope of License. Licensee may use the Software only on a single computer or on a network of computers at the franchised business site or sites identified on Schedule A attached hereto or in Winmark’s acceptance of Licensee’s order. Unless Winmark otherwise agrees in writing, a single license fee entitles Licensee to use the Software on a network at one site with no more than five workstations. Winmark reserves the right to charge an additional license fee for use of the Software on a network at one site with more than five workstations or for use at more than one site.

D. Licensee’s Agreements. Licensee agrees:

1. Not to disassemble, decompile or otherwise reverse engineer the Software, nor to create, access or generate the source code of the Software.

2. Not to modify the Software, nor to develop or create, or assist any other party in developing or creating, any computer programs which are derived from, based upon, or contain features or functions similar to, the Software.

3. To use the Software only in Licensee’s internal operation of the franchise business under the terms of the Franchise Agreement.

4. Not to disclose to any other party any part of or any information relating to the Software, nor to permit access to the Software except by Licensee's employees in the operation of the franchised business.

5. Not to assign, sublicense, loan or otherwise provide to any third party the Software, whether or not merged into other programs or materials.

6. Not to copy the Software, although Licensee may make one copy of the Software for backup purposes if Licensee reproduces all copyright and other proprietary notices in such copy.

E. Repairs; Updates; Etc.

1. For so long as Winmark owns and requires Licensee to use the Software, Winmark will provide ongoing maintenance and repair services for the Software, except as set forth in Section 1.E.2 or 1.E.3. below, owned by Winmark so that the Software will perform substantially as described in documentation Winmark has provided. Such maintenance and repair services include Licensee's right to receive any fixes and minor enhancements to the Winmark Software which Winmark may periodically develop, as well as any other maintenance or repair services Winmark offers in its discretion.

2. Winmark agrees to support a previous version or release of the Software for six months following the release of a new version or release of the Software. If an error is identified in a previous version or release during that six month period, Winmark's responsibilities will be the following:

(i) If the error is categorized by Winmark as critical to the intended function of the Software, Winmark will attempt to issue a temporary modification or workaround. If a temporary modification is not possible, and the error is not resolved by the latest version or release of the Software, Winmark will use commercially reasonable efforts to expedite the availability of its next scheduled version or release of the Software; or

(ii) If the error is categorized by Winmark as not critical to the intended function of the Software, Winmark may, in its discretion based on the severity and nature of the error, attempt to issue a temporary modification or workaround. If a temporary modification is not possible, and the error is not corrected in the latest version or release, Winmark will use commercially reasonable efforts to incorporate the correction in its next scheduled version or release of the Software.

3. Winmark shall have no obligation to provide support services for any failure or defect in the Software caused by:

(i) The improper use, alteration, or damage of the Software by Licensee or persons not authorized by Winmark;

(ii) Modifications to the Software not made by Winmark;

(iii) Application or other software not provided or approved by Winmark; or

(iv) Use of the Software on hardware that has not been approved or configured by Winmark.

4. Winmark may, in its sole discretion, periodically release new versions, new releases, updates, modifications or enhancements respecting the Software. Licensee will install any new versions, new releases, fixes, updates, modifications or enhancements which Winmark designates as mandatory.

5. Winmark is not obligated to provide Licensee with other services, including installation, support, training or other services relating to the Software. Further, Winmark is not obligated to provide maintenance, repair, installation, support, training or other services in relation to software distributed, but not owned, by Winmark.

6. Winmark may charge a reasonable fee for its services, including its maintenance and repair services, as well as for any updates, modifications and enhancements to the Software which it elects to release.

## 2. PROPRIETARY RIGHTS.

A. Confidentiality. The Software is the confidential and proprietary property of Winmark or its vendors. Licensee will hold the Software in confidence and safeguard it from disclosure to third parties and will use the Software only as intended by this Agreement. Licensee will notify Winmark promptly of any unauthorized access, copying or use of the Software and will reasonably assist Winmark in prosecuting any resulting claims or proceedings.

B. Ownership. Winmark retains all title and rights, including all copyright rights, to the Software, including all modifications, updates and other works derivative of or to the Software, all of which will be subject to the provisions of this Agreement. Any configuration or deployment of the Software shall not affect or diminish Winmark's rights, title and interest in and to the Software. If Licensee suggests any new features, functionality, or performance for the Software that Winmark subsequently incorporates into the Software, such new features, functionality, or performance shall be the sole and exclusive property of Winmark.

## 3. TERM AND TERMINATION.

A. Term and Termination. This Agreement will continue until terminated. Winmark may terminate this Agreement upon written notice to Licensee if Licensee breaches any term of this Agreement, the Franchise Agreement or any other agreement with Winmark, or if Licensee becomes insolvent. This Agreement will automatically terminate, without any further action of the parties, upon termination of the Franchise Agreement for any reason.

B. Consequences of Termination. Upon termination of this Agreement, all licenses and rights Winmark has granted under this Agreement will terminate and Licensee will have no rights to use, sell or transfer its interest in the software. Licensee agrees to immediately return to Winmark all copies of the Software, or to destroy all Software.

4. LIMITED WARRANTY; DISCLAIMERS.

Winmark warrants to Licensee that the media on which the Software is recorded will be free from material defects in materials or workmanship under normal use for a period of ninety (90) days after delivery of the media. If during such period the media should be defective, Licensee may return the media for replacement without charge. Licensee's sole remedy in the event of a defect is expressly limited to replacement of the media. ALL SOFTWARE, INCLUDING ALL WINMARK SOFTWARE, IS PROVIDED ON AN "AS IS" BASIS. However, Winmark acknowledges its Software maintenance and repair obligations stated in Section 1 (E). THESE WARRANTIES ARE IN LIEU OF, AND WINMARK EXPRESSLY DISCLAIMS, ALL OTHER WARRANTIES RELATING TO THIS AGREEMENT OR THE SOFTWARE, WHETHER EXPRESS, IMPLIED OR STATUTORY, INCLUDING THE IMPLIED WARRANTIES OF TITLE, NONINFRINGEMENT, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. WINMARK DOES NOT WARRANT THAT THE OPERATION OF THE SOFTWARE WILL BE UNINTERRUPTED OR ERROR FREE, THAT ALL DEFECTS WILL BE CORRECTED OR THAT THE SOFTWARE WILL MEET LICENSEE'S REQUIREMENTS.

5. LIMITATION OF LIABILITY.

WINMARK'S LIABILITY FOR ANY CLAIM RELATED TO ANY SOFTWARE OR SERVICE PROVIDED WILL BE LIMITED TO THE LESSER OF LICENSEE'S ACTUAL DAMAGE OR LOSS OR THE INITIAL FEE PAID FOR THE SOFTWARE. WINMARK WILL NOT BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING LOST PROFITS OR LOSS OF OR DAMAGE TO DATA INCURRED BY LICENSEE OR A THIRD PARTY, WHETHER IN AN ACTION IN CONTRACT OR TORT, EVEN IF WINMARK HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

6. INFRINGEMENT.

A. Infringement Claims. Winmark does not have actual knowledge of any claim that the Winmark Software infringes upon a third party's patent, copyright or other proprietary right. If a third party asserts such an infringement claim against Licensee, Licensee will immediately notify Winmark in writing. Winmark will have the right (but not the obligation) to defend any such claim, at Winmark's expense, and Licensee will cooperate with Winmark with respect to such defense. In the event of any such claim, Licensee will, at Winmark's direction, immediately discontinue using the Software. Winmark will either modify the Software so as to render it non-infringing or replace the Software with such other non-infringing Software as Winmark may furnish to Licensee. In either case, Winmark will do so only if the modified or replacement Software performs substantially the same functions as the infringing Software. So long as Licensee complies with the terms hereof, Winmark will indemnify Licensee for any loss, damage, cost or expense related to such claim.

B. Limitations. Winmark will not be liable to Licensee if an infringement claim is based on use of the Software in combination with any product, software or system not delivered by Winmark, or Licensee's unauthorized use or modification of the Software. Winmark will not have any obligations regarding any infringement of any non-Winmark Software.

7. THIRD PARTY SOFTWARE.

Winmark may install and resell to you certain software not owned by Winmark (“Third Party Software”). Any Third Party Software, including related documentation, is subject to a separate license from the owner or provider of such Third Party Software. Licensee understands and agrees that, by signing this document, Licensee will be bound by all provisions of the license governing the use of such Third Party Software. Licensee agrees to indemnify and hold Winmark harmless from any and all losses or claims arising out of any license governing the use of any Third Party Software.

8. GENERAL.

A. Governing Law. This Agreement will be governed by Minnesota law. Any action related to this Agreement may be brought in any court located in Minneapolis, Minnesota, and the parties consent and submit to the personal jurisdiction and venue of any such court. Winmark will be entitled to temporary and permanent injunctive relief, without posting a bond or other security, to restrain any actual or threatened violation of the provisions of this Agreement, in addition to any other remedies Winmark may have. Winmark may recover its costs and expenses (including reasonable attorneys’ fees) incurred in enforcing its rights under this Agreement.

B. Scope of Agreement; Conflicting Terms. This Agreement will govern all orders for Software, and all Software Winmark provides. No purchase order, invoice or other similar form may vary the terms of this Agreement. Any term thereof that is inconsistent with or additional to the terms of this Agreement will not be binding on Winmark.

C. Assignment. Neither this Agreement nor any rights granted hereunder may be sold, leased, assigned, or otherwise transferred in whole or in part, by Licensee, and such attempted assignment shall be void and of no affect without the advance written consent of Winmark. Winmark may assign this Agreement and any and all of its rights and obligations hereunder without the consent of Licensee.

D. Binding Effect. This Agreement will be binding upon and will benefit the parties hereto and their respective successors and assigns, subject to the limitations provided herein.

E. Export Controls. Licensee agrees to comply fully with all relevant export laws and regulations of the United States, including but not limited to the U.S. Export Administration Regulations (collectively, “U.S. Export Controls”). Without limiting the generality of the foregoing, Licensee expressly agrees that it shall not, and shall cause its representatives to agree not to, export, directly or indirectly, re-export, divert, or transfer the Software to any destination, company or person restricted or prohibited by U.S. Export Controls.

F. Waivers. The failure of either party to enforce or exercise any term of or any right under this Agreement does not represent a waiver of such term or right and will not affect that party’s right later to enforce or exercise it. No modification or waiver of any of the provisions of this Agreement will be binding upon Winmark or Licensee unless it is in writing and is executed by the party against whom such modification or waiver is sought to be enforced.



G. Severability. If any provision contained in this Agreement is held invalid, such provision will not affect any other provision and the remainder of this Agreement will continue in full force and effect.

H. Entire Agreement. This Agreement is the complete and exclusive statement of the agreement of the parties regarding the subject matter hereof, and supersedes all prior or contemporaneous agreements, oral or written, and all other communications between the parties relating to the subject matter hereof. Nothing in this Agreement or any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document.

I. Survival. The provisions of this Agreement which by their nature extend beyond the termination hereof will survive and remain in effect until all obligations are satisfied.

“WINMARK”

“LICENSEE”

WINMARK CORPORATION

If “Licensee” is a corporation,

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

By \_\_\_\_\_

By \_\_\_\_\_

Its \_\_\_\_\_

Its \_\_\_\_\_

If “Licensee” is one or more individuals,

\_\_\_\_\_  
[Name], Individually

\_\_\_\_\_  
[Name], Individually

\_\_\_\_\_  
[Name], Individually

Schedule A

Software

Software

Data Recycling System (DRS) point-of-sale and inventory management software (the Proprietary Software) - Winmark's proprietary software which is specifically designed to track various aspects of your store, including inventory, customer tracking, vendor purchase orders and daily sales reports.

Site

Store #: \_\_\_\_\_

Address:

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

For Office Use Only  
Winmark Corporation

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

“LICENSEE”

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

If “Licensee” is one or more individuals,

\_\_\_\_\_  
[Name], Individually

\_\_\_\_\_  
[Name], Individually

\_\_\_\_\_  
[Name], Individually

EXHIBIT C  
TO FRANCHISE AGREEMENT

PERSONAL GUARANTY AND AGREEMENT TO  
BE BOUND PERSONALLY BY THE PROVISIONS  
OF THE FRANCHISE AGREEMENT AND  
COMPUTER SOFTWARE LICENSE AGREEMENT

Each individual who directly or indirectly owns a 10% or greater interest in Franchisee is considered a Principal Owner. All Principal Owners and their spouses must execute the following Personal Guaranty.

In consideration of Franchisor's execution of this Franchise Agreement and Computer Software Agreement (the "Agreements"), and for other good and valuable consideration, the undersigned jointly and severally: (1) guarantee Franchisee's payment of all amounts due Franchisor and Franchisee's performance of the covenants and obligations in the Agreements, and any other agreements entered into by Franchisee and Franchisor; and (2) agree to be personally bound by every provision contained in the Agreements including the non-compete and confidentiality provisions and agree that this Personal Guaranty will be construed as though the undersigned executed each of the Agreements containing the identical provisions of the Agreements. If Franchisee shall default in making any payments or in the observance or performance of any obligations under the Agreement, the undersigned hereby covenant and agree to pay to Franchisor forthwith upon demand all amounts not so paid by Franchisee and all damages that may arise in consequence of any such non-observance or non-performance.

Without in any way restricting or limiting the guarantee given by the undersigned as set out above or any other rights and remedies to which Franchisor may be entitled, each of the undersigned jointly and severally covenant and agree to indemnify and save Franchisor harmless against any and all liabilities, losses, suits, claims, demands, costs, fines and actions of any kind or nature whatsoever to which Franchisor shall or may become liable for, or suffer, by reason of any breach, violation or non-performance by Franchisee of any term or condition of the Agreements, or any other agreement made between Franchisee and Franchisor.

Notwithstanding any assignment for the general benefit of creditors or any bankruptcy or any other act of insolvency by Franchisee and notwithstanding any rejection, disaffirmation or disclaimer of the Agreements, the undersigned shall continue to be fully liable hereunder. Any settlement made between Franchisor and/or Franchisee and/or any party from whom the right to occupy the Franchised Location has been obtained and/or any other persons as Franchisor may see fit to deal with, or any determination made pursuant to the Agreements which is expressed to be binding upon Franchisee, shall be binding upon the undersigned.

In the enforcement of any of its rights against the undersigned, Franchisor may in its discretion proceed as if the undersigned was the primary obligor under the Agreements, or any other agreement made between Franchisee and Franchisor.

A. Each of the undersigned waives:

(1) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed;

(2) protest and notice of default to any party respecting the indebtedness or nonperformance of any obligations hereby guaranteed; and

(3) any right he/she may have to require that an action be brought against Franchisee or any other person as a condition of liability.

B. Each of the undersigned consents and agrees that:

(1) he/she will provide any payment or performance required under the Agreements upon demand if Franchisee fails or refuses to do so;

(2) such liability will not be contingent or conditioned upon Franchisor's pursuit of any remedies against Franchisee or any other person; and

(3) such liability will not be diminished, relieved or otherwise affected by Franchisee's insolvency, bankruptcy or reorganization, the invalidity, illegality or unenforceability of all or any part of the Agreements, or the amendment or extension of the Agreements with or without notice to the undersigned.

IN WITNESS WHEREOF, each of the undersigned has signed this Guaranty on the same day and year as the Agreements were signed.

PERSONAL GUARANTORS

\_\_\_\_\_  
Individually

\_\_\_\_\_  
Address

\_\_\_\_\_  
Individually

\_\_\_\_\_  
Address

\_\_\_\_\_  
Individually

\_\_\_\_\_  
Address

\_\_\_\_\_  
Individually

\_\_\_\_\_  
Address

EXHIBIT D  
TO FRANCHISE AGREEMENT

ADDITIONAL STORE ADDENDUM TO  
MUSIC GO ROUND® FRANCHISE AGREEMENT

ADDITIONAL STORE ADDENDUM TO  
MUSIC GO ROUND® FRANCHISE AGREEMENT

This Addendum is entered into as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_, by and among Winmark Corporation (“Franchisor”), and \_\_\_\_\_ (“Franchisee”).

BACKGROUND:

Franchisor and Franchisee are, on this day, entering into a Music Go Round® Franchise Agreement (the “Franchise Agreement”), whereby Franchisee will be granted the right to develop and operate a Music Go Round® store at the location stated in the Franchise Agreement (the “Store”). Franchisee currently owns one or more existing stores franchised under one of Franchisor’s concepts. Franchisor and Franchisee agree to the following modifications to the Franchise Agreement.

AGREEMENTS:

In consideration of the foregoing, the parties agree as follows:

1. Initial Franchise Fee. Subject to the provisions stated herein, Section 4 of the Franchise Agreement is amended to provide that Franchisee will pay an Initial Franchise Fee of Fifteen Thousand Dollars (\$15,000), which will be due and payable on the date of the Franchise Agreement.

2. Franchisor’s Obligations. Franchisor and Franchisee agree that Franchisor may, but will not be required to, provide location, training or opening assistance as described in Sections 7(A), (D) and (E) of the Franchise Agreement.

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

IN WITNESS WHEREOF, the parties have executed this Addendum as of the day and year first above written.

FRANCHISOR:

FRANCHISEE:

WINMARK CORPORATION

\_\_\_\_\_  
(Name of Corporation)

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

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

or  
(Individuals)

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

**EXHIBIT E**

Bank Draft Authorization

WINMARK CORPORATION  
(MUSIC GO ROUND® BRAND)

Store # \_\_\_\_\_

*AUTHORIZATION AGREEMENT FOR PREAUTHORIZED PAYMENTS*

The undersigned Account Holder hereby authorizes Winmark Corporation (“Winmark”) to initiate debit entries to the accounts indicated below in the amounts Winmark will determine weekly for continuing fees, periodic marketing fees and other fees assessed pursuant to Account Holder’s Music Go Round® Franchise Agreement. The undersigned Account Holder authorizes the depository named below to debit the same to such account each week.

Bank Name, Location & Phone	Bank Routing Number <sup>(a)</sup>	Type of Account <sup>(b)</sup>	Account Number <sup>(c)</sup>
_____			
_____			
_____			

(a) Preencoded nine digit number at bottom left of check  
(b) Checking or Savings  
(c) Preencoded number at bottom middle of check

This authorization is to remain in full force and effect until the depository listed above has received written notification from both Winmark and the undersigned Account Holder that the Franchise Agreement has terminated or Winmark has agreed to receive payments by alternative means.

The undersigned Account Holder agrees to be responsible for, and to pay on demand, all costs or charges relating to the handling of the debit entries pursuant to this authorization. The undersigned Account Holder agrees to indemnify Winmark and the Bank for any loss or cost arising in the event that any such debit shall be dishonored, whether with or without cause and whether intentionally or inadvertently. In addition, Account Holder shall pay Winmark a fee of \$30.00 for each debit that is dishonored.

If Account Holder is a corporation:

Corporation Name: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Signature: \_\_\_\_\_  
Its: \_\_\_\_\_  
Federal Tax ID Number: \_\_\_\_\_  
Address: \_\_\_\_\_  
City: \_\_\_\_\_ State: \_\_\_\_\_  
Zip: \_\_\_\_\_ Phone: \_\_\_\_\_  
Date: \_\_\_\_\_

If Account Holder is an individual:

Printed Name: \_\_\_\_\_  
Signature: \_\_\_\_\_  
Address: \_\_\_\_\_  
City: \_\_\_\_\_ State: \_\_\_\_\_  
Zip: \_\_\_\_\_ Phone: \_\_\_\_\_  
Date: \_\_\_\_\_

Winmark Corporation Contact Information:

Account Services Administrator  
Winmark Corporation  
605 Highway 169 N, Suite 400  
Minneapolis, MN 55441  
(763) 520-8436 or (800) 645-7299 ext. 436

**Note: Please attach a voided check to the completed copy of this form when returned.**



**EXHIBIT F**

Franchisee Questionnaire

## FRANCHISEE QUESTIONNAIRE

As you know, Winmark Corporation (the "Franchisor") and you are preparing to enter into a Franchise Agreement for the operation of a Music Go Round® franchised business (the "Franchise"). The purpose of this Questionnaire is to determine whether any statements or promises were made to you that the Franchisor has not authorized and that may be untrue, inaccurate or misleading. Please review each of the following questions carefully and provide honest responses to each question. Your answers are important to us and we will rely on them.

### Acknowledgments and Representations.

1. Did you receive a copy of Franchisor's Disclosure Document at least fourteen calendar days prior to signing the Franchise Agreement?  No  Yes. If no, please comment: \_\_\_\_\_
2. Have you received, studied and reviewed carefully the Franchisor's Disclosure Document and Franchise Agreement? Check one:  No  Yes. If no, please comment: \_\_\_\_\_
3. Did you receive a copy of your Franchise Agreement at least seven calendar days prior to the date on which your Franchise Agreement was executed? Check one:  No  Yes. If no, please comment: \_\_\_\_\_  
\_\_\_\_\_
4. Do you understand that any training, support, guidance or tools we provide to you as part of the franchise are for the purpose of protecting the Music Go Round® brand and trademarks and to assist you in the operation of your business and not for the purpose of controlling or in any way intended to exercise or exert control over your decisions or day-to-day operations of your business, including your sole responsibility for the hiring, wages and other compensation (including benefits), training, supervision and termination of your employees and all other employment and employee related matters? Check one:  No  Yes. If no, please comment: \_\_\_\_\_
5. Was any oral, written or visual claim or representation made to you which contradicted the disclosures in the Disclosure Document? Check one:  No  Yes. If yes, please state in detail the oral, written or visual claim or representation: \_\_\_\_\_  
\_\_\_\_\_
6. New and Additional Stores only: Except as stated in Franchisor's Disclosure Document, was any oral, written or visual claim or representation made to you which stated, suggested, predicted or projected your sales, expenses, income or profit levels. Check one:  No  Yes. If yes, please state in detail the oral, written or visual claim or representation: \_\_\_\_\_  
\_\_\_\_\_  
(If more space needed, continue on a separate sheet and attach).
7. New and Additional Stores only: Do you understand and acknowledge that the Initial Franchise Fee is non-refundable? Check one:  No  Yes

**NOTE: IF THE RECIPIENT IS A CORPORATION, PARTNERSHIP, OR OTHER ENTITY, EACH OF ITS PRINCIPALS MUST EXECUTE THIS ACKNOWLEDGMENT.**

Signed: \_\_\_\_\_

Print Name (and Title): \_\_\_\_\_

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

APPROVED ON BEHALF OF  
WINMARK CORPORATION

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

Signed: \_\_\_\_\_

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

Print Name (and Title): \_\_\_\_\_

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

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

If your Franchise Agreement is governed by the laws of the State of Maryland, then your answers to these questions shall not act as a release, estoppel or waiver of your rights under the Maryland Franchise Registration and Disclosure Law.

**EXHIBIT G**

List of State Administrators/Agents for Service of Process

**CALIFORNIA**

Commissioner of the Department of Financial  
Protection and Innovation  
320 West 4<sup>th</sup> Street, Suite 750  
Los Angeles, CA 90013-1105  
1-866-275-2677

**HAWAII**

Commissioner of Securities of the  
State of Hawaii  
Department of Commerce and  
Consumer Affairs  
Business Registration Division  
Securities Compliance Branch  
335 Merchant Street, Room 203  
Honolulu, Hawaii 96813  
Ph# (808) 586-2722

**ILLINOIS**

Attorney General State of Illinois  
500 South Second Street  
Springfield, Illinois 62706

**INDIANA**

Agent -  
Indiana Secretary of State  
201 State House  
200 W. Washington Street  
Indianapolis, Indiana 46204  
(317) 232-6531

Administrator -  
Indiana Securities Commissioner  
302 West Washington, Room E-111  
Indianapolis, Indiana 46204  
(317) 232-6681

**MARYLAND**

Agent to Receive Service of Process  
Maryland Securities Commissioner  
Securities Division  
200 St. Paul Place  
Baltimore, Maryland 21202-2020

or

State Administrator  
Office of the Attorney General  
Securities Division  
200 St. Paul Place  
Baltimore, Maryland 21202

**MICHIGAN**

Michigan Dept. of Attorney General  
Consumer Protection Division  
G. Mennen Williams Bldg, 1<sup>st</sup> Fl  
525 West Ottawa Street  
Lansing, Michigan 48933

**MINNESOTA**

Commissioner of Commerce  
Minnesota Department of Commerce  
85-7<sup>th</sup> Place East, Suite 280  
St. Paul, Minnesota 55101

**NEW YORK**

New York Department of State  
1 Commerce Plaza  
99 Washington, Ave., 6<sup>th</sup> Floor  
Albany, New York 12231  
518-473-2492

NYS Department of Law  
Investor Protection Bureau  
28 Liberty St. 21<sup>st</sup> Fl  
New York, New York 10005  
212-416-8222

**NORTH DAKOTA**

North Dakota Securities Department  
5th Floor, State Capital  
600 East Boulevard  
Bismarck, North Dakota 58505

**RHODE ISLAND**

Administrator  
R.I. Dept. of Bus. Regulation  
Securities Division  
1511 Pontiac Avenue  
Cranston, Rhode Island 02920

**SOUTH DAKOTA**

Division of Insurance  
Securities Regulation  
124 S. Euclid, Suite 104  
Pierre, South Dakota 57501  
(605) 773-3563

**VIRGINIA**

Clerk, State Corporation Commission  
Tyler Building, 1<sup>st</sup> Floor  
1300 East Main Street  
Richmond, Virginia 23219

**WASHINGTON**

Director of Dept. of Financial Institutions  
Securities Division  
150 Israel Rd SW  
Tumwater, WA 98501  
(360) 902-8760

**WISCONSIN**

Commissioner of Securities  
Department of Financial Institutions  
4822 Madison Yards Way, North Tower  
Madison, Wisconsin 53705

**EXHIBIT H**

State Specific Addenda

CALIFORNIA ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

For prospective franchisees subject to California statute, the following information modifies the corresponding disclosures in the Music Go Round® Franchise Disclosure Document.

1. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION, ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION at [www.dfpi.ca.gov](http://www.dfpi.ca.gov).

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. Section 31125 of the California Corporations Code requires the Franchisor to give the Franchisee a disclosure document, in a form and containing such information as the commissioner may by rule or order require, prior to a solicitation of a proposed material modification of an existing franchise.

4. Item 3 is amended to provide that neither Winmark nor any other 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 Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association.

5. Item 6 of the FDD is amended to add the following sentence under the “Amount” column of “Interest Expenses” which are payable if Continuing Fee or other amounts due Winmark are not timely paid:

The maximum interest rate in California is 10%.

6. Item 17 of the FDD is amended to include the following provisions:

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

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

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.

Section 11 of the Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

The Franchise Agreement requires binding arbitration. The arbitration will occur at Minneapolis, Minnesota. The non-prevailing party will pay all costs and expenses, including reasonable attorney's fees, incurred by the prevailing party in any arbitration. This provision may not be enforceable under California law.

The Franchise Agreement requires that arbitration take place in Minneapolis, Minnesota. Prospective franchisees are encouraged to consult legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure 1281, and the Federal Arbitration Act) to any provisions of an agreement restricting venue to a forum outside the State of California.

7. Item 19 of the FDD is amended to include the following provision:

The earnings claims figure(s) does (do) not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from the gross revenue or gross sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your franchise business. Franchisees or former franchisees, listed in the offering circular, may be one source of this information.

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

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

CALIFORNIA ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE AGREEMENT

In consideration of the execution of the Franchise Agreement, Franchisor and Franchisee agree to amend the Franchise Agreement to provide as follows:

1. Section 11 of the Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

2. Section 15 of the Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 *et seq.*).

3. Section 18.B of the Franchise Agreement contains a covenant not to compete which extends beyond the term of the franchise. This provision may not be enforceable under California law.

4. Section 19 of the Franchise Agreement requires binding arbitration. The arbitration will occur in Minneapolis, Minnesota. The non-prevailing party will pay all costs and expenses, including reasonable attorney's fees, incurred by the prevailing party in any arbitration. This provision may not be enforceable under California law.

5. Section 19 of the Franchise Agreement requires that arbitration take place in Minneapolis, Minnesota. Prospective franchisees are encouraged to consult legal counsel to determine the applicability of federal and state laws to any provisions of an agreement restricting venue to a forum outside the State of California.

6. Section 20.B of the Franchise Agreement is amended to include the following:

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

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

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Franchisor's Initials

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Franchisee's Initials



HAWAII ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

1. The Disclosure Document is amended to include the following information:

A. The states in which this registration is effective:

California, Hawaii, Illinois, Indiana, Maryland,  
Minnesota, New York, North Dakota, Rhode Island,  
South Dakota, Virginia, Washington and Wisconsin

B. The states in which this proposed registration is or will be shortly on file:

California, Hawaii, Illinois, Indiana, Maryland,  
Minnesota, New York, North Dakota, Rhode Island,  
South Dakota, Virginia, Washington and Wisconsin

C. The states, if any, which have refused, by order or otherwise, to register these franchises:

None

D. The states, if any, which have revoked or suspended the right to offer these franchises:

None

E. The states, if any, in which the proposed registration of these franchises has been withdrawn:

None

2. Items 5 and 7 of the Franchise Disclosure Document are amended to include the following information:

For Hawaii franchisees, the State of Hawaii requires us to defer payment of the Initial Franchise Fees until we have completed our pre-opening obligations and you have opened your Store for business. This financial assurance requirement was imposed because of Winmark's current financial condition.

3. Item 17 of the Franchise Disclosure Document provides, in part, that you have no interest upon termination of or refusal to renew or extend the Franchise Agreement. Item 17 is amended to provide that, upon termination or refusal to renew the Franchise Agreement, the Franchisee will be compensated for the fair market value of certain assets of the Franchised Business, as more fully described in Haw. Rev. Stat. § 482E-6(3).

HAWAII ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE AGREEMENT

In consideration of the execution of the Franchise Agreement, Franchisor and Franchisee agree to amend the Franchise Agreement to provide as follows:

1. Section 4 of the Franchise Agreement is amended to include the following:  
  
Payment of all Initial Franchise Fees to Franchisor by Hawaii franchisees will be deferred until Franchisor has met its pre-opening obligations and Franchisee has opened the Store.
2. Section 17 of the Franchise Agreement provides, in part, that Franchisee has no interest upon termination of or refusal to renew or extend the Franchise Agreement. Section 17 is amended to provide that, upon termination or refusal to renew the Franchise Agreement, the Franchisee will be compensated for the fair market value of certain assets of the Franchised Business, as more fully described in Haw. Rev. Stat. § 482E-6(3).
3. In all other respects, the Franchise Agreement will be construed and enforced according to its terms.

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Franchisor's Initials

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Franchisee's Initials

ILLINOIS ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

Item 5 of the Franchise Disclosure Document is revised to include the following provisions:

All Initial Franchise Fees paid to Winmark by Illinois franchisees are required to be placed in escrow. The Illinois Attorney General imposed the escrow requirement because of Winmark's financial condition. Winmark has entered into an Escrow Agreement with US Bank, N.A. dated July 9, 2015. You should make your checks for the Initial Franchise Fees described in Item 5 payable to "Winmark Corporation, US Bank as Depository." This Escrow Agreement is on file with the Franchise Examiner, Office of the Attorney General, 500 South 2<sup>nd</sup> Street, Springfield, Illinois 62706.

Item 17 of the Franchise Disclosure Document is revised to include the following provisions:

The Illinois Franchise Disclosure Act, Section 4, prohibits any agreement that specifies jurisdiction or venue of any lawsuit in a place outside of the state of Illinois. The Act does permit agreements to require you to arbitrate outside the state of Illinois. The Act prohibits choice of law provisions that would require the application of any laws except the laws of the state of Illinois (Section 41). You may have other rights under the Illinois Franchise Disclosure Act or other laws of the state of Illinois. To the extent that the Franchise Agreement is inconsistent with Illinois law, the inconsistent terms of the Franchise Agreement will not be enforced and the terms of the applicable Illinois law will apply.

ILLINOIS ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE AGREEMENT

In consideration of the execution of the Franchise Agreement, Franchisor and Franchisee agree to amend the Franchise Agreement as follows:

1. Section 4 is amended to include the following:

All Initial Franchise Fees paid to Franchisor by Illinois franchisees will be placed in escrow at US Bank, N.A. until Franchisor has met its pre-opening obligations and Franchisee has opened the Store.

2. Section 19 is amended to include the following:

Any provision in a franchise agreement that designates jurisdiction or venue in a forum outside of Illinois is void provided that a franchise agreement may provide for arbitration in a forum outside of Illinois.

3. Section 20.D of the Franchise Agreement is amended to provide that Illinois law will govern the Franchise Agreement and any related agreement which specifically states that the governing law provision stated in the Franchise Agreement will govern.

4. Section 20.G of the Franchise Agreement is amended by deletion of the second sentence and the addition of the following:

This Agreement and the Disclosure Document delivered to Franchisee in connection with this Agreement supercede and terminate any prior oral or written understandings or agreements between Franchisor and Franchisee relating to the subject matter of this Agreement and such Disclosure Document.

5. Section 22.A of the Franchise Agreement is amended by deletion of the second sentence in such provision.

6. Section 22.D of the Franchise Agreement is amended by the deletion of such provision.

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

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

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(Franchisor’s Initials)

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(Franchisee’s Initials)

ILLINOIS ADDENDUM TO  
MUSIC GO ROUND®  
COMPUTER SOFTWARE LICENSE AGREEMENT

In consideration of the execution of the Computer Software License Agreement (the “Software Agreement”), Franchisor and Franchisee agree to amend the Software Agreement as follows:

1. Section 8(A) of the Software Agreement is amended to provide that the Illinois Franchise Disclosure Act will govern the Software Agreement.
2. In all other respects, the Software Agreement will be construed and enforced with its terms.

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
(Winmark’s Initials)

\_\_\_\_\_  
(Licensee’s Initials)

MARYLAND ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

1. Item 5 of the Franchise Disclosure Document is revised to include the following provision:

Based upon the franchisor's financial condition, the Maryland Securities Commissioner has required a financial assurance. Therefore, all initial fees and payments owed by franchisees shall be deferred until the franchisor completes its pre-opening obligations under the franchise agreement.

2. Item 17 of the Franchise Disclosure Document is revised to include the following provisions:

Termination by Winmark. The Franchise Agreement provides for termination if you are insolvent under any applicable state or federal law. This provision may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 et seq.).

Limitation of Actions. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

Dispute Resolution by Arbitration. This Franchise Agreement provides that disputes are resolved through arbitration. A Maryland franchise regulation states that it is an unfair or deceptive practice to require a franchisee to waive its right to file a lawsuit in Maryland claiming a violation of the Maryland Franchise Law. In light of the Federal Arbitration Act, there is some dispute as to whether this forum selection requirement is legally enforceable.

MARYLAND ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE AGREEMENT

In consideration of the execution of the Franchise Agreement, Franchisor and Franchisee agree to amend the Franchise Agreement as follows:

1. Section 4 of the Franchise Agreement is amended to include the following:

Based upon Franchisor's financial condition, the Maryland Securities Commissioner has required a financial assurance. Therefore, all initial fees and payments owed by Franchisee shall be deferred until Franchisor completes its pre-opening obligations under the Franchise Agreement.

2. Section 16.B of the Franchise Agreement is amended to provide that any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

3. Section 19.A of the Franchise Agreement is amended to include the following:

This Franchise Agreement provides that disputes are resolved through arbitration. A Maryland franchise regulation states that it is an unfair or deceptive practice to require a franchisee to waive its right to file a lawsuit in Maryland claiming a violation of the Maryland Franchise Law. In light of the Federal Arbitration Act, there is some dispute as to whether this forum selection requirement is legally enforceable.

4. Section 22 of the Franchise Agreement is amended to provide that any disclaimers or acknowledgments by Franchisee under this Section are not intended to nor shall act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

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

Dated this \_\_\_ day of \_\_\_\_\_, 20\_\_.

FRANCHISOR:

FRANCHISEE:

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

MARYLAND ADDENDUM TO  
MUSIC GO ROUND®  
COMPUTER SOFTWARE LICENSE AGREEMENT

In consideration of the execution of the Computer Software License Agreement (the “Software Agreement”), Winmark and Franchisee agree to amend the Software Agreement as follows:

1. Section 8(A) of the Software Agreement is amended to provide that a Maryland franchisee may bring an action relating to the Software Agreement in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
2. In all other respects, the Software Agreement will be construed and enforced with its terms.

\_\_\_\_\_  
Winmark’s Initials

\_\_\_\_\_  
Licensee’s Initials



**NOTICE REQUIRED  
BY  
STATE OF MICHIGAN**

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

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

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

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

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

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

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

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

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

Any questions regarding this notice should be directed to the Department of Attorney General, State of Michigan, G. Mennen Williams Building, 525 Ottawa Street, P.O. Box 30212, Lansing, Michigan 48909, telephone (517) 373-7117.

MINNESOTA ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

Item 13 of the Franchise Disclosure Document is revised for Minnesota franchisees to include the following language:

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

Item 17 of the Franchise Disclosure Document is revised for Minnesota franchisees to include the following language:

With respect to franchises governed by Minnesota law, Winmark 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 for non-renewal of the franchise agreement.

\_\_\_\_\_  
Franchisee's Initials

\_\_\_\_\_  
Winmark's Initials

MINNESOTA ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE AGREEMENT

In consideration of the execution of the Franchise Agreement, Franchisor and Franchisee agree to amend the Franchise Agreement as follows:

1. Section 3 of the Franchise Agreement is revised to include the following language:

Franchisor will indemnify a Minnesota Franchisee for damages for which such Franchisee is held liable in any proceeding arising out of the use of the “Music Go Round” mark, provided that Franchisee has used the mark properly and has notified Franchisor of any claim against Franchisee within ten (10) days of Franchisee’s knowledge of such claim. Franchisor will have sole control of any litigation involving the Marks. Franchisor’s indemnification obligation will not apply to any franchisee residing outside the state of Minnesota who purchases a franchise to be located outside of Minnesota.

2. Section 15.C of the Franchise Agreement is revised to include the following language:

With respect to franchises governed by Minnesota law, Franchisor will comply with Minnesota Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require that, except in certain specified cases, Franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice for non-renewal of the Agreement.

3. Section 18 of the Franchise Agreement is revised by deleting the second sentence in Section 18.D in its entirety and substituting the following in lieu thereof:

Franchisee therefore agrees that in case of any alleged breach or violation of this Section by it, Franchisor may seek injunctive relief in addition to all other remedies that may be available to Franchisor at equity or law.

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

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Franchisor’s Initials

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Franchisee’s Initials

NEW YORK ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

The following information applies to franchises and franchisees subject to New York statutes and regulations. Item numbers correspond to those in the main body.

1. Winmark represents that this Disclosure Document does not knowingly omit any material fact or contain any untrue statement of material fact.

2. The following paragraphs are added at the beginning of Item 3:

Except as described below, neither Winmark, nor any predecessor, person identified in Item 2 above, or any affiliate offering franchises under Winmark's principal trademark:

A. Has any administrative, criminal or civil action pending against it, him or her alleging: a felony; a violation of any franchise, antitrust or securities law; fraud, embezzlement, fraudulent conversion, restraint of trade, misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations, also including pending actions which are incidental to the business that 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 ten year period immediately preceding the date of this Disclosure Document has been convicted of a misdemeanor 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, misappropriation of property, or unfair or deceptive practices or comparable allegations.

C. Is subject to any currently effective injunctive or restrictive order or decree relating to the franchise or under any federal, state or Canadian franchise, securities, antitrust, trade regulation or trade practice law as a result of 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 replaces Item 4:

Neither Winmark nor any predecessor, affiliate, officer or general partner of Winmark has, during the 10-year period immediately before the date of the

Disclosure Document: (a) filed as debtor (or had filed against it), a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the 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 that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after the officer or general partner of Winmark held this position in the company or partnership.

NORTH DAKOTA ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

Item 17 of the Franchise Disclosure Document provides that binding arbitration of any disputes will take place in Minneapolis, Minnesota. Item 17 is amended to provide that Winmark and you will agree to the site of arbitration.

NORTH DAKOTA ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE AGREEMENT

In consideration of the execution of the Franchise Agreement, Franchisor and Franchisee agree to amend the Franchise Agreement as follows:

1. Section 18.B of the Franchise Agreement is amended by the addition of the following sentence at the end of such provision:

Covenants not to compete such as those mentioned above are generally considered unenforceable in the State of North Dakota.

2. Section 19.A of the Franchise Agreement is amended to provide that Franchisor and Franchisee will agree to the site of arbitration.
3. Section 19.C of the Franchise Agreement is deleted in its entirety.
4. In all other respects, the Franchise Agreement will be construed and enforced with its terms.

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Franchisor's Initials

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Franchisee's Initials



RHODE ISLAND ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

The following applies to franchises and franchisees subject to Rhode Island statutes and regulations. Item numbers correspond to those in the main body.

1.        Item 17.

§ 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.”

RHODE ISLAND ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE AGREEMENT

In consideration of the execution of the Franchise Agreement, Franchisor and Franchisee agree to amend the Franchise Agreement as follows:

1. Section 19 of the Franchise Agreement is amended to include the following:

§ 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.”

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

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Franchisor's Initials

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Franchisee's Initials

RHODE ISLAND ADDENDUM TO  
MUSIC GO ROUND®  
COMPUTER SOFTWARE LICENSE AGREEMENT

In consideration of the execution of the Computer Software License Agreement (the “Software Agreement”), Franchisor and Franchisee agree to amend the Software Agreement as follows:

1. Section 8(A) of the Software Agreement is amended to include the following:

§ 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.”

2. In all other respects, the Software Agreement will be construed and enforced with its terms.

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Winmark’s Initials

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Licensee’s Initials

SOUTH DAKOTA ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

Items 5 and 7 of the Franchise Disclosure Document are amended to include the following information:

For South Dakota franchisees, the State of South Dakota requires us to defer payment of the Initial Franchise Fees until we have completed our pre-opening obligations and you have opened your Store for business. This financial assurance requirement was imposed because of Winmark's current financial condition.

SOUTH DAKOTA ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE AGREEMENT

In consideration of the execution of the Franchise Agreement, Franchisor and Franchisee agree to amend the Franchise Agreement as follows:

1. Section 4 is amended to include the following:

All Initial Franchise Fees paid to Franchisor by South Dakota franchisees will be deferred until Franchisor has met its pre-opening obligations and Franchisee has opened the Store.

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

\_\_\_\_\_  
(Franchisor's Initials)

\_\_\_\_\_  
(Franchisee's Initials)

VIRGINIA ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

Item 5 of the Franchise Disclosure Document is revised to include the following provision:

The Initial Franchise Fee and other initial payments made to Winmark by Virginia franchisees are required to be placed in escrow until Winmark has completed its pre-opening obligations under the Franchise Agreement. The Virginia State Corporation Commission's Division of Securities and Retail Franchising imposed the escrow requirement because of Winmark's financial condition. Winmark has entered into an Escrow Agreement with US Bank National Association dated April 18, 2016. You should make your checks for the Initial Franchise Fees described in Item 5 payable to "U.S. Bank f/b/o Winmark Corporation." This Escrow Agreement is on file with the Virginia State Corporations Commission, Division of Securities and Retail Franchising, Tyler Building, 1300 East Main Street, Richmond, VA 23219-3630.

Item 17 of the Franchise Disclosure Document is revised to include the following provision:

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.

VIRGINIA ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE AGREEMENT

In consideration of the execution of the Franchise Agreement, Franchisor and Franchisee agree to amend the Franchise Agreement as follows:

1. Section 4 of the Franchise Agreement is amended to include the following:

All Initial Franchise Fees paid to Franchisor by Virginia franchisees will be placed in escrow at US Bank National Association until Franchisor has met its pre-opening obligations.

2. Section 15 of the Franchise Agreement is amended by the addition of the following language:

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.

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

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Franchisor's Initials

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Franchisee's Initials

WASHINGTON ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

The following information applies to franchises and franchisees subject to the Washington Franchise Investment Protection Act, RCW 19.100. Item numbers correspond to those in the main body:

1. Item 5.

All Initial Franchise Fees paid to Winmark by Washington franchisees are required to be placed in an escrow impound account. The Director of the Department of Financial Institutions imposed the impound requirement because of Winmark's financial condition. Winmark has entered into an Impound Agreement with US Bank, N.A. dated July 7, 2015. You should make your checks for the Initial Franchise Fees described in Item 5 payable to "Winmark Corporation, US Bank as Depository." This Impound Agreement is on file with the Department of Financial Institutions, Securities Division, 150 Israel Rd SW, Tumwater, WA 98501.

2. Item 6.

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

3. Item 17.

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

4. Item 17.

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

5. Item 17.

A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or



limit the statute of limitation period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

6. Item 17.

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

7. Item 17.

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

8. Item 17.

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

WASHINGTON ADDENDUM TO MUSIC GO ROUND®  
FRANCHISE AGREEMENT, FRANCHISEE QUESTIONNAIRE,  
AND RELATED AGREEMENTS

In consideration of the execution of the Franchise Agreement, Franchisor and Franchisee agree to amend the Franchise Agreement as follows:

1. Section 4 of the Franchise Agreement is amended to include the following:

All Initial Franchise Fees paid to Franchisor by Washington franchisees will be placed in impound at US Bank, N.A. until Franchisor has met its pre-opening obligations and Franchisee has opened the Store.

2. Section 8.J of the Franchise Agreement is amended to include the following:

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

3. Section 9.B of the Franchise Agreement is amended to include the following:

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

4. Section 14.C of the Franchise Agreement is amended to include the following:

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

5. Section 15 of the Franchise Agreement is amended to include the following:

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

6. Section 19.A of the Franchise Agreement is amended to include the following:

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or

mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

7. Section 20.B of the Franchise Agreement is amended to include the following:

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

8. Section 20.D of the Franchise Agreement is amended to include the following:

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

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

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Franchisor's Initials

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Franchisee's Initials

WISCONSIN ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE DISCLOSURE DOCUMENT

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

1. Item 17.

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

2. Item 17.

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

WISCONSIN ADDENDUM TO  
MUSIC GO ROUND®  
FRANCHISE AGREEMENT

This Addendum shall pertain to franchises sold in the State of Wisconsin and shall be for the purpose of complying with Wisconsin statutes and regulations. Notwithstanding anything which may be contained in the body of the Franchise Agreement to the contrary, the Agreement shall be amended as follows:

1. Section 15 of the Franchise Agreement is amended by the addition of the following language:

For all franchises sold in the State of Wisconsin, Franchisor shall provide Franchisee at least ninety (90) days' prior written notice of termination, cancellation, or substantial change in competitive circumstances. The notice shall state all the reasons for termination, cancellation, or substantial change in competitive circumstances and shall provide that Franchisee has sixty (60) days in which to rectify any claimed deficiency. If the deficiency is rectified within sixty (60) days, the notice shall be void. If the reason for termination, cancellation, or substantial change in competitive circumstances is non-payment of sums due under the franchise, Franchisee shall be entitled to written notice of such default, and shall have not less than ten (10) days in which to remedy such default from the date of delivery or posting of such notice.

2. Ch. 135, Stats., the Wisconsin Fair Dealership Law, supercedes any provision of this Franchise Agreement or a related document between Franchisor and Franchisee inconsistent with the law.

3. In all other respects, the Franchise Agreement will be construed and enforced according to its terms.

\_\_\_\_\_  
Franchisor's Initials

\_\_\_\_\_  
Franchisee's Initials

**EXHIBIT I**

State Effective Dates Page

## State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

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

<b>State</b>	<b>Effective Date</b>
California	PENDING
Hawaii	PENDING
Illinois	March 16, 2022
Indiana	PENDING
Maryland	PENDING
Michigan	March 15, 2022
Minnesota	PENDING
New York	PENDING
North Dakota	PENDING
Rhode Island	PENDING
South Dakota	March 16, 2022
Virginia	PENDING
Washington	PENDING
Wisconsin	PENDING

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

**EXHIBIT J**

Receipts



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 we offer you a franchise, we must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us or our affiliate in connection with the proposed franchise sale. Iowa and New York require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days (14 calendar days in Iowa) before execution of the franchise or other agreement or the payment of 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 we do not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and those state administrators listed on Exhibit G.

The franchisor is Winmark Corporation, located at 605 Highway 169 N, Suite 400, Minneapolis, MN 55441. Its telephone number is (763) 520-8500. Our franchise sellers involved in offering and selling the franchise to you are Cat Eckstaedt, Brandon Kuhlert, Brad Gosney and Shannon Hoppe, Winmark Corporation, 605 Highway 169 N, Suite 400, Minneapolis, MN 55441, (763) 520-8500, or is listed below (with address and telephone number), or will be provided to you separately before you sign a Franchise Agreement:

Issuance Date: March 15, 2022

We authorize the respective state agencies identified in Exhibit G to receive service of process for us in the particular state.

I have received a Music Go Round® disclosure document that had an Issuance Date of March 15, 2022, and included the following Exhibits: List of Stores (Exhibit A), List of Terminated Franchises (Exhibit B), Winmark’s Audited Consolidated Financial Statements (Exhibit C), Music Go Round® Franchise Agreement and exhibits (Exhibit D), Bank Draft Authorization (Exhibit E), Franchisee Questionnaire (Exhibit F), List of State Administrators/Agents for Service of Process (Exhibit G), State Specific Addenda (Exhibit H), State Effective Dates Page (Exhibit I) and Receipts (Exhibit J).

**FRANCHISEE (For a Corporation)**

Date Received: \_\_\_\_\_  
Corp. Name: \_\_\_\_\_  
State of Incorporation: \_\_\_\_\_  
By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE (For an Individual)**

Date Received: \_\_\_\_\_  
Signed: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
City: \_\_\_\_\_ State: \_\_\_\_\_  
Phone: ( ) \_\_\_\_\_ Zip: \_\_\_\_\_

**(Additional Individual Franchisee)**

Date Received: \_\_\_\_\_  
Signed: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
City: \_\_\_\_\_ State: \_\_\_\_\_  
Phone: ( ) \_\_\_\_\_ Zip: \_\_\_\_\_

Copy for Franchisee

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 we offer you a franchise, we must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us or our affiliate in connection with the proposed franchise sale. Iowa and New York require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days (14 calendar days in Iowa) before execution of the franchise or other agreement or the payment of 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 we do not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and those state administrators listed on Exhibit G.

The franchisor is Winmark Corporation, located at 605 Highway 169 N, Suite 400, Minneapolis, MN 55441. Its telephone number is (763) 520-8500. Our franchise sellers involved in offering and selling the franchise to you are Cat Eckstaedt, Brandon Kuhlert, Brad Gosney and Shannon Hoppe, Winmark Corporation, 605 Highway 169 N, Suite 400, Minneapolis, MN 55441, (763) 520-8500, or is listed below (with address and telephone number), or will be provided to you separately before you sign a Franchise Agreement:

Issuance Date: March 15, 2022

We authorize the respective state agencies identified in Exhibit G to receive service of process for us in the particular state.

I have received a Music Go Round® disclosure document that had an Issuance Date of March 15, 2022, and included the following Exhibits: List of Stores (Exhibit A), List of Terminated Franchises (Exhibit B), Winmark’s Audited Consolidated Financial Statements (Exhibit C), Music Go Round® Franchise Agreement and exhibits (Exhibit D), Bank Draft Authorization (Exhibit E), Franchisee Questionnaire (Exhibit F), List of State Administrators/Agents for Service of Process (Exhibit G), State Specific Addenda (Exhibit H), State Effective Dates Page (Exhibit I) and Receipts (Exhibit J).

FRANCHISEE (For a Corporation)

Date Received: \_\_\_\_\_
Corp. Name: \_\_\_\_\_
State of Incorporation: \_\_\_\_\_
By: \_\_\_\_\_
Print Name: \_\_\_\_\_
Title: \_\_\_\_\_

FRANCHISEE (For an Individual)

Date Received: \_\_\_\_\_
Signed: \_\_\_\_\_
Print Name: \_\_\_\_\_
Address: \_\_\_\_\_
City: \_\_\_\_\_ State: \_\_\_\_\_
Phone: ( ) \_\_\_\_\_ Zip: \_\_\_\_\_

(Additional Individual Franchisee)

Date Received: \_\_\_\_\_
Signed: \_\_\_\_\_
Print Name: \_\_\_\_\_
Address: \_\_\_\_\_
City: \_\_\_\_\_ State: \_\_\_\_\_
Phone: ( ) \_\_\_\_\_ Zip: \_\_\_\_\_

Copy for Winmark Corporation

Please mail a hard copy of this receipt to the address listed on the front page of this disclosure document or send to llonnee@winmarkcorporation.com by email (PDF) or by fax to (763) 520-8410.