

THE FRANCHISE RELATIONSHIP		
PROVISION	SECTIONS IN AGREEMENT	SUMMARY
s. Modification of the agreement	FA: 25.3 & 25.8	Requires writing signed by both parties (except we may unilaterally change Manual or reduce scope of restrictive covenants). Other modifications to comply with state laws.
	ADA: 11.7	Requires writing signed by both parties. Other modifications to comply with state laws.
t. Integration/merger clause	FA: 25.8	Only the terms of the Franchise Agreement and ADA (if applicable) and their attachments are binding (subject to state law). Any representations or promises made outside the Disclosure Document, Franchise Agreement and ADA may not be enforceable. Nothing in the Franchise Agreement, ADA or any related agreements is intended to disclaim any of the representations we made in this Disclosure Document. 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 (a) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (b) 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.
	ADA: 11.7	
u. Dispute resolution by arbitration or mediation	FA: 23	Subject to state law, all disputes must be mediated or arbitrated before litigation, except for certain disputes involving our intellectual property or compliance with restrictive covenants or post-term obligations.
	ADA: 9	Subject to state law, all disputes must be mediated and then arbitrated before litigation.
v. Choice of forum	FA: 23	Subject to state law, all mediation, arbitration and litigation must take place in county where we maintain our principal place of business at time dispute arises (currently, Buncombe County, North Carolina).
	ADA: 9	Subject to state law, all mediation, arbitration and litigation must take place in county where we maintain our principal place of business at time dispute arises (currently, Buncombe County, North Carolina).
w. Choice of law	FA: 25.1	Subject to state law, North Carolina law governs.
	ADA: 11.1	Subject to state law, North Carolina law governs.

## ITEM 18 PUBLIC FIGURES

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

## ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS

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

### Defined Terms

For purposes of this financial performance representation, the following terms have the meanings given to them below:

“**Adjusted Net Profit**” means the financial performance metric calculated as Net Profit minus Imputed Fees & Costs. It does not account for Excluded Expenses.

**“Cost of Goods Sold”** or **“COGS”** means costs incurred for: beverages; consumable supplies; retail products; and shipping materials.

**“Company-Owned Outlet”** means any Bathhouse that is owned by: (a) us; (b) any affiliate of ours; or (c) any person listed in Item 2 of this Disclosure Document if that person, or any other person listed in Item 2, is also involved with managing the facility.

**“Excluded Expenses”** means and includes the following expenses that have been excluded from this FPR and are not factored into the calculation of Net Profit or Adjusted Net Profit: (a) amortization; (b) depreciation; (c) cash over/short (to cover unexpected cash drawer deficits/surpluses); (d) income or property taxes; and (e) owner draws, salary, benefits and personal expenses.

**“FPR”** means the financial performance representation set forth in Item 19 of this Disclosure Document.

**“Franchised Outlet”** means any Bathhouse that is owned by a franchisee.

**“Gross Sales”** means all gross sums collected from all goods and services sold, plus all other sums collected from the operation of the Bathhouse including advertising revenue, sponsorship fees and business interruption insurance proceeds. Gross Sales excludes: (a) sales or use taxes; (b) amounts refunded to customers; (c) revenue from the sale of furniture, fixtures and equipment in the ordinary course of business; and (d) tips paid to and retained by staff members as a gratuity.

**“Imputed Fees & Costs”** means and includes the following fees and costs that either: (a) are incurred by Franchised Outlets but not Company-Owned Outlets; or (b) are incurred by Company-Owned Outlets at prices or rates lower than the prices or rates incurred by Franchised Outlets:

- (1) *Brand Fund Fees* – calculated as 2% of Gross Sales.
- (2) *Royalty Fees* – calculated as 7% of Gross Sales.
- (3) *Local Marketing Commitment* or *LMC* – calculated as the difference between (a) the Local Marketing Commitment imposed on Franchised Outlets (currently \$2,000 per month) and (b) the total expense actually incurred by a Company-Owned Outlet during the Measuring Period for Marketing.
- (4) *Technology Fees* – calculated as \$1,000 per month.

**“Measuring Period”** means the 12-month period that begins January 1, 2023 and ends December 31, 2023.

**“Net Profit”** means the financial performance metric calculated as Gross Sales minus (a) COGS and (b) Operating Expenses. It does not account for Excluded Expenses or Imputed Fees & Costs.

**“Operating Expenses”** means and includes the following ordinary and recurring expenses:

- (1) *Admin/General* – includes: bank charges; dues and subscriptions; employee expense reimbursements; interest paid on debt; licenses; merchant processing fees; postage; professional services (legal, accounting, etc.); travel; website hosting, maintenance and updating costs; and miscellaneous charges and expenses.
- (2) *Insurance* – includes premiums for insurance policies, including general liability insurance (including business interruption insurance), property insurance, professional liability insurance, cyber liability insurance and workers’ compensation insurance. Our affiliate currently maintains cyber insurance, which we do not require you to purchase. If you decline to purchase cyber insurance, your insurance premium may be less.
- (3) *Labor* – includes: salaries, wages and bonuses for management and staff; payroll tax; employee training costs; and paid-time off. Labor does not include owner draws, distributions or personal expenses.
- (4) *Laundry* – includes amounts paid to an outside laundry service to clean towels and linens.

- (5) *Marketing* – includes advertising and marketing expenses, including: billboard ads; branding; creative design and content development for website; costs for promotional materials; digital/social media marketing; and printing costs.
- (6) *Rent* – includes monthly rent, CAM charges and related taxes.
- (7) *Repairs and Maintenance* – includes maintenance and repairs for building and equipment.
- (8) *Supplies* – includes: cleaning supplies; office supplies; pool supplies; linens; and miscellaneous supplies.
- (9) *Utilities* – includes payments to utilities companies for: electricity; gas; phone and Internet; security monitoring; trash and recycling; and water.

**“Qualifying Outlet”** means any Company-Owned Outlet or Franchised Outlet that was open and operating throughout the entire Measuring Period.

### **System Statistics**

As of December 31, 2023 (the last day of the Measuring Period) there was 1 Company-Owned Outlet open and operating (which is a Qualifying Outlet) and 0 Franchised Outlets open and operating. For purposes of this FPR, each Bathhouse may be referred to as an “outlet”. The table below summarizes the outlet statistics and the number of Qualifying Outlets whose data has been included in this FPR.

2023 Outlet Statistics					
Outlet Type	Statistics for 2023				Qualifying Outlets
	Open as of Jan 1, 2023	Opened	Closed	Open as of Dec 31, 2023	
Company-Owned	1	0	0	1	1
Franchised	0	0	0	0	0
Total	1	0	0	1	1

Because there were no Franchised Outlets open and operating during the Measuring Period, this FPR is limited to data from our 1 Company-Owned Outlet that was open and operating throughout the Measuring Period. Our Company-Owned Outlet is approximately 4,100 square feet in size and includes: (a) 2 communal HOT.COLD.RELAX.® rooms; (b) 2 private HOT.COLD.RELAX.® rooms; and (c) 1 infrared sauna/room. There are no material differences between the operations of the Qualifying Outlet and the franchised business offered under this Disclosure Document.

### **Financial Performance Representation**

The table below presents the historical financial results achieved by 1 Company-Owned Outlet during the Measuring Period. The financial metrics presented include: Gross Sales; COGS; Operating Expenses; Net Profit; Imputed Fees & Costs; and Adjusted Net Profit.

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2023 Financial Performance Representation – January through June (1 Company-Owned Outlet)							
Financial Performance Metric		Jan	Feb	Mar	Apr	May	Jun
<b>GROSS SALES</b>		<b>\$154,246</b>	<b>\$145,729</b>	<b>\$140,363</b>	<b>\$122,683</b>	<b>\$127,686</b>	<b>\$127,173</b>
<i>Cost of Goods Sold</i>		5.61%	4.35%	4.27%	6.10%	3.26%	4.54%
<i>Operating Expenses</i>	Admin/General	6.12%	6.19%	7.22%	9.03%	7.51%	7.55%
	Insurance	0.47%	0.50%	1.91%	0.59%	0.57%	0.57%
	Labor	13.08%	14.80%	25.51%	18.91%	18.94%	18.36%
	Laundry	4.65%	4.40%	5.03%	4.83%	4.63%	4.86%
	Marketing	2.69%	1.21%	1.91%	5.80%	4.28%	5.85%
	Rent	4.54%	4.80%	4.98%	5.23%	5.48%	5.50%
	Repairs/Maintenance	0.31%	0.34%	0.05%	1.52%	0.75%	1.71%
	Supplies	1.24%	1.31%	1.03%	0.86%	0.95%	1.66%
	Utilities	1.83%	2.82%	1.86%	3.87%	1.81%	3.51%
	<b>Total</b>	<b>34.93%</b>	<b>36.37%</b>	<b>49.50%</b>	<b>50.64%</b>	<b>44.92%</b>	<b>49.57%</b>
<b>NET PROFIT</b>		<b>\$91,715 (59.46%)</b>	<b>\$86,381 (59.27%)</b>	<b>\$64,878 (46.22%)</b>	<b>\$53,066 (43.25%)</b>	<b>\$66,167 (51.82%)</b>	<b>\$58,360 (45.89%)</b>
<i>Imputed Fees &amp; Costs</i>	Royalty Fees	7%	7%	7%	7%	7%	7%
	Brand Fund Fees	2%	2%	2%	2%	2%	2%
	LMC	N/A	N/A	N/A	N/A	N/A	N/A
	Technology Fees	0.65%	0.69%	0.71%	0.82%	0.78%	0.79%
	<b>Total</b>	<b>9.65%</b>	<b>9.69%</b>	<b>9.71%</b>	<b>9.82%</b>	<b>9.78%</b>	<b>9.79%</b>
<b>ADJUSTED NET PROFIT</b>		<b>\$76,833 (49.81%)</b>	<b>\$72,265 (49.59%)</b>	<b>\$51,245 (36.51%)</b>	<b>\$41,024 (33.44%)</b>	<b>\$53,676 (42.04%)</b>	<b>\$45,915 (36.10%)</b>

2023 Financial Performance Representation – July through December & Annual (1 Company-Owned Outlet)								
Financial Performance Metric		Jul	Aug	Sep	Oct	Nov	Dec	Annual
GROSS SALES		\$136,658	\$119,745	\$145,114	\$143,832	\$159,339	\$189,656	\$1,712,224
Cost of Goods Sold		3.99%	5.20%	4.72%	6.07%	5.76%	4.09%	4.83%
Operating Expenses	Admin/General	7.11%	8.60%	6.81%	6.55%	6.55%	5.90%	7.00%
	Insurance	0.53%	0.61%	0.50%	0.50%	0.62%	0.52%	0.65%
	Labor	18.98%	24.24%	24.79%	16.73%	14.66%	13.29%	18.21%
	Laundry	4.51%	4.49%	4.57%	4.55%	4.35%	3.83%	4.53%
	Marketing	7.95%	9.55%	7.68%	3.87%	3.23%	2.49%	4.53%
	Rent	5.12%	5.84%	4.82%	4.86%	4.39%	3.69%	4.87%
	Repairs/Maintenance	1.89%	0.57%	1.26%	2.19%	0.00%	2.31%	1.09%
	Supplies	1.42%	1.31%	1.01%	2.23%	0.90%	1.00%	1.24%
	Utilities	1.87%	4.32%	1.65%	3.63%	1.17%	1.58%	2.41%
	Total	49.38%	59.53%	53.09%	45.11%	35.87%	34.61%	44.53%
NET PROFIT		\$63,721 (46.63%)	\$42,238 (35.27%)	\$61,224 (42.19%)	\$70,205 (48.81%)	\$92,985 (58.36%)	\$116,264 (61.30%)	\$867,205 (50.65%)
Imputed Fees & Costs	Royalty Fees	7%	7%	7%	7%	7%	7%	7%
	Brand Fund Fees	2%	2%	2%	2%	2%	2%	2%
	LMC	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Technology Fees	0.73%	0.84%	0.69%	0.70%	0.63%	0.53%	0.70%
	Total	9.73%	9.84%	9.69%	9.70%	9.63%	9.53%	9.70%
ADJUSTED NET PROFIT		\$50,422 (36.90%)	\$30,461 (25.44%)	\$47,164 (32.50%)	\$56,260 (39.12%)	\$77,645 (48.73%)	\$98,195 (51.78%)	\$701,105 (40.95%)

Notes:

1. **Source of Data:** We prepared the FPR for the Company-Owned Outlet based on data generated from internally prepared financial statements for our affiliate.
2. **Imputed Fees & Costs:** Franchisees are required to pay royalty fees, brand fund fees and technology fees. They must also spend at least \$2,000 per month on local advertising. Our Company-Owned Outlet is not subject to these fees and minimum expenditure requirements. For this reason, the FPR presents 2 sets of Net Profit figures including: (1) “Net Profit” which is calculated based on actual expenses incurred by the Company-Owned Outlet and does not account for Imputed Fees and Costs; and (2) “Adjusted Net Profit” which is calculated in

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a manner that takes into account all Imputed Fees & Costs. Imputed Fees & Costs are discussed in more detail in Notes 3, 4, 5 and 6 below.

3. **Imputed Royalty and Brand Fund Fees:** The Company-Owned Outlet did not pay royalty fees or brand fund fees during the Measuring Period. For “Imputed Fees & Costs”, we included the total amount of royalty fees and brand fund fees the Company-Owned Outlet would have incurred if it was a Franchised Outlet.
4. **No Imputed Local Marketing Commitment:** Franchisees must spend at least \$2,000 per month (\$24,000 per year) on local advertising and marketing. During the Measuring Period, our Company-Owned Outlet incurred \$77,564 for local advertising and marketing expenses, which exceeds the \$24,000 minimum annual expenditure imposed on franchisees. Because our Company-Owned Outlet’s actual expenditure exceeded the minimum required expenditure imposed on franchisees, we have not imputed any additional amount for local advertising and marketing.
5. **Imputed Technology Fees:** Franchisees must pay us a technology fee of \$1,000 per month (\$12,000 per year) for various software and technology that we provide. During the Measuring Period, our Company-Owned Outlet did not pay us technology fees, but it did incur approximately \$5,500 in expenses for the same software and technology covered by the technology fee. For purposes of this FPR, we excluded the \$5,500 in expenses actually incurred by the Company-Owned Outlet from “Operating Expenses” and included that standard monthly technology fee of \$1,000 per month in “Imputed Fees & Costs”.
6. **No Imputed Retail Costs:** Company-Owned Outlets purchase inventory and other retail products from our affiliates at the same prices charged to franchisees. As a result, we did not impute any additional costs for purchases made by Company-Owned Outlets from our affiliates.

**Some Bathhouses have earned this amount. Your individual results may differ. There is no assurance that you will earn as much.**

Written substantiation for this financial performance representation will be made available to you upon your reasonable written request.

Other than the preceding financial performance representation, we do not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor’s management by contacting our President at 230 Short Coxe Ave., Asheville, North Carolina 28801 or by phone (828) 276-3005, the Federal Trade Commission, and the appropriate state regulatory agencies.

## ITEM 20 OUTLETS AND FRANCHISEE INFORMATION

**TABLE 1 - SYSTEM-WIDE OUTLET SUMMARY FOR YEARS 2021 TO 2023**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2021	0	0	0
	2022	0	0	0
	2023	0	0	0
Company-Owned	2021	1	1	0
	2022	1	1	0
	2023	1	1	0
Total Outlets	2021	1	1	0
	2022	1	1	0
	2023	1	1	0