

s. Modification of the agreement	Article 13 and Sections 6.3, 19.2, and 19.3	No modifications unless signed by the party against whom enforcement is sought, but we may unilaterally revise the Manuals, modify our System, and reduce the scope of your non-compete covenant.
t. Integration/merger clause	Section 19.19	Only the terms of the Franchise Agreement and other contracts that you sign in connection with such agreement are intended to be binding (subject to state law). We do not intend for any other promises or representations to be enforceable. This is not intended to disclaim, or require you to waive reliance on, any representation made in this Franchise Disclosure Document, except with respect to specific contract terms and conditions stated in this Franchise Disclosure Document that you voluntarily waive during the course of franchise-sale negotiations.
u. Dispute resolution by arbitration or mediation	Articles 17	Many types of disputes must be mediated or arbitrated in Cass County, North Dakota.
v. Choice of forum	Section 19.11	Litigation must be brought in the courts of record of the State of North Dakota, Cass County, or the District Court of the United States, District of North Dakota. But we may seek injunctive relief in any jurisdiction that has jurisdiction over you. The parties waive their right to a jury trial. All the foregoing terms are subject to state laws.
w. Choice of law	Section 19.10	Except to the extent the Lanham Act, Copyright Act, or Federal Arbitration Act governs, North Dakota law applies, subject to state laws.

NOTE: The provision in the Franchise Agreement which terminates your Franchised Business upon your bankruptcy may be unenforceable under federal bankruptcy law Title 11, United States Code Section 101.

ITEM 18. PUBLIC FIGURES

We do not currently use any public figure to promote our franchise system, but we reserve the right to do so in the future.

ITEM 19. FINANCIAL PERFORMANCE REPRESENTATION

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 information pertains to historic performance of a subset of existing franchised locations.

BASES AND ASSUMPTIONS

	<u>Average</u>	<u>High</u>	<u>Low</u>	<u>Percent</u> <u>Above</u> <u>Average</u>	<u>Percent</u> <u>Below</u> <u>Average</u>
First Quartile	3,169,082	4,029,826	2,602,380		
Second Quartile	1,949,318	2,198,561	1,739,233		
Third Quartile	1,532,513	1,717,062	1,297,623		
Fourth Quartile	986,191	1,259,999	709,490		
Overall	1,875,313	4,029,826	709,490	38.5%	61.5%
Median	1,728,148				

Note: The first and third quartiles represent six schools, the second and fourth quartiles represent seven.

We had 26 franchised locations that operated for all of 2023, with a 27th location opening midyear. Of the 26 locations, three operated under ELEVATE SALON INSTITUTE brand and 23 operated under THE SALON PROFESSIONAL ACADEMY brand. Title IV schools are those which qualify under federal regulations for their students to receive federal financial aid in the form of Pell Grants and student loans. As Title IV schools or schools in the process of qualifying for Title IV, all of the franchisees are required to have their financial statements audited by an independent auditor, which is reflected in the revenue data reported above (results for four of the schools are for the fiscal year ended June 30, 2024, one is for the fiscal year ended October 31, 2023, one is for the fiscal year ended November 30, 2023, and 20 are for the fiscal year ended December 31, 2023). Under US Department of Education requirements, schools have six months to complete their audits, so the data reported reflects the most recent completed audited information available as of the date of this FDD.

The table above reports all revenue generated by the schools during their fiscal year. Location revenue includes multiple revenue streams, including: (a) tuition and kit income that is typically paid for through Title IV, but also paid for: (1) privately, (2) through military benefits, (3) via other government grants, (4) private loans or (5) fully by the student or their family; and (b) service and retail revenue ("S&R Revenue"). S&R Revenue consists of fees paid by student salon area ("Clinic") clients for services and retail purchases by clients. The franchised schools generate S&R Revenue by operating on-site Clinics that are open to the public, which function like salons or spas to give hands on training to their students. In these Clinics, students perform actual cosmetology services (such as hair styling, coloring, facials and other beauty treatments) under the supervision of educators at the school and facilitate the sale of retail products such as shampoo, conditioner and facial creams, together resulting in an additional, important revenue stream to the schools.

All of the top quartile schools qualified for Title IV for the period covered by their audit, with all six schools in this quartile generally following the SPEC business model. Six of the seven schools in the second quartile qualified for Title IV for the period covered by their audit, with all but one of the schools in this quartile generally following the SPEC business model. Five of the six schools in the third quartile qualified for Title IV for the period covered by

their audit, with all the schools in this quartile generally following the SPEC business model. All of the schools in the fourth quartile qualified for Title IV for the period covered by their audit, with five of the seven schools in this quartile generally following the SPEC business model.

Median: In the period covered by their audit, ten (38.5%) B&W franchised locations had total Revenue above the overall average of \$1,875,313. In the period covered by their audit, sixteen (61.5%) B&W franchised locations had total Revenue below the overall average of \$1,875,313. Variability in performance is driven by a number of factors, including but not limited to compliance with the franchisor's system, the size of the school and its Clinic, overall enrollment, and the local competitive landscape.

Service & Retail Revenue					
	<u>Average</u>	<u>High</u>	<u>Low</u>	<u>Percent Above</u>	<u>Percent Below</u>
				<u>Average</u>	<u>Average</u>
First Quartile	610,080	833,241	418,622		
Second Quartile	354,752	400,893	301,406		
Third Quartile	260,711	290,897	242,448		
Fourth Quartile	137,811	178,209	92,409		
Overall	333,565	833,241	92,409	42.3%	57.7%
Median	296,152				

Note: The first and third quartiles represent six schools, the second and fourth quartiles represent seven.

All of the top quartile S&R Revenue schools qualified for Title IV for the period covered by their audit, with all six schools in this quartile generally following the SPEC business model. Six of the seven schools in the second quartile qualified for Title IV for the period covered by their audit, with all but one of the schools in this quartile generally following the SPEC business model. Five of the six schools in the third quartile qualified for Title IV for the period covered by their audit, with all the schools in this quartile generally following the SPEC business model. All of the schools in the fourth quartile qualified for Title IV for the period covered by their audit, with four of the seven schools in this quartile generally following the SPEC business model.

Median: In the period covered by their audit, eleven (42.3%) B&W franchised locations had S&R Revenue above the overall average of \$333,565. In the period covered by their audit, fifteen (57.7%) B&W franchised locations had S&R Revenue below the overall average of \$333,565. Variability in performance is driven by a number of factors, including but not limited to compliance with the franchisor's system, the size of the school and its Clinic, overall enrollment, and the local competitive landscape.

Service & Retail Revenue as a % of Total Revenue				<u>Percent</u>	<u>Percent</u>
	<u>Average</u>	<u>High</u>	<u>Low</u>	<u>Above</u>	<u>Below</u>
First Quartile	28.0%	37.2%	23.2%		
Second Quartile	21.7%	22.9%	19.5%		
Third Quartile	15.7%	16.6%	14.6%		
Fourth Quartile	9.9%	13.7%	4.0%		
Overall	17.8%	37.2%	4.0%	50.0%	50.0%
Median	18.0%				

Note: The first and third quartiles represent six schools, the second and fourth quartiles represent seven.

S&R Revenue as a percentage of total revenue ranged from 23.2% to 37.2% for schools in the first quartile. All of the schools in the first quartile generally follow the SPEC business model. S&R Revenue as a percentage of total revenue ranged from 19.5% to 22.9% for schools in the second quartile. Six of the seven schools in the second quartile generally follow the SPEC business model. S&R Revenue as a percentage of total revenue ranged from 14.6% to 16.6% for schools in the third quartile. All of the schools in the third quartile generally follow the SPEC business model. S&R Revenue as a percentage of total revenue ranged from 4.0% to 13.7% for schools in the fourth quartile. Four of the seven schools in the fourth quartile generally follow the SPEC business model. Several of the least compliant schools in the system are in the bottom quartile for S&R Revenue and/or S&R Revenue as a percentage of total revenue. Overall, S&R Revenue averaged 17.8% of total revenue earned by the 26 franchised locations that operated throughout 2023.

Median: In the period covered by their audit, thirteen (50.0%) B&W franchised locations had S&R Revenue percentage of total revenue above the overall average of 17.8%. In the period covered by their audit, thirteen (50.0%) B&W franchised locations had S&R Revenue percentage of total revenue below the overall average of 17.8%. Variability in performance is driven by a number of factors, including but not limited to compliance with the franchisor's system, the size of the school and its Clinic, overall enrollment, and the local competitive landscape.

Your individual results may differ. There is no assurance that you will do as well. If you rely upon our figures, you must accept the risk of not doing as well. Written substantiation for the financial performance representation will be made available to the prospective franchisee upon reasonable request. Other than the preceding financial performance representations, we do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income from us, our employees or our representatives, you should report it to the franchisor's management by contacting Jill Krahm at SPEC, 4377 15th Avenue South, Fargo, ND 58103, 888-478-6856 (or JKrahm@SPECfranchise.com), the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20. OUTLETS AND FRANCHISEE INFORMATION**SYSTEMWIDE OUTLET SUMMARY
FOR YEARS 2022 TO 2024****TABLE 1**

OUTLET TYPE	YEAR	OUTLETS AT THE START OF THE YEAR TSPA/ESI/SPA	OUTLETS AT THE END OF THE YEAR TSPA/ESI/SPA	NET CHANGE TSPA/ESI/SPA
FRANCHISED	2022	28/7/0	27/7/0	-1/0/0
	2023	27/7/0	29/7/0	+2/0/0
	2024	29/7/0	29/5/0	0/-2/0
COMPANY- OWNED	2022	0/0/0	0/0/0	0/0/0
	2023	0/0/0	0/0/0	0/0/0
	2024	0/0/0	0/0/0	0/0/0
TOTAL OUTLETS	2022	28/7/0	27/7/0	-1/0/0
	2023	27/7/0	29/7/0	+2/0/0
	2024	29/7/0	29/5/0	0/-2/0

TRANSFER OF OUTLETS FROM FRANCHISEES TO NEW OWNERS (OTHER THAN THE FRANCHISOR)**FOR THE YEARS 2022 TO 2024****TABLE 2**

STATE	YEAR	NUMBER OF TRANSFERS TSPA/ESI/SPA
COLORADO	2022	0/0/0
	2023	0/1/0
	2024	0/0/0
TOTAL OUTLETS	2022	0/0/0
	2023	0/1/0
	2024	0/0/0