

FRANCHISE DISCLOSURE DOCUMENT



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We are **Paniq Franchising, Inc.**, a California corporation. We offer franchises to qualified individuals to own and operate a Paniq Room franchise under the "**Paniq Room**" names, logos, and Service Marks. Our franchisees offer services and merchandise to the public related to themed escape games in which people are locked in a room with other participants and use elements of the room to solve a set of puzzles, find clues, and escape the room within a set time limit - and similar interactive game and team development systems. Each franchise location typically includes three to four different themes from which to select. This is called the "Method of Operation." A Co-Branded franchise is a Paniq Room franchise operated in connection with another compatible concept.

The Initial Franchise Fee ranges from **\$15,000** to **\$25,000** with the lower amount applying for conversion of existing escape rooms to the Paniq Room system. The total estimated initial investment necessary to begin operation of a Paniq Room franchise ranges from **\$350,000** to **\$3,000,000**. Refer to Items 5, 6 and 7 of this Disclosure Document for a full explanation regarding the Initial Franchise Fee, other Fees and the Total Investment.

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 governmental agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Patrick Strausz at 3393 Barham Boulevard, Los Angeles, California 90068 or 323-380-6271. The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

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

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How To Use This Franchise Disclosure Document

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

<u>QUESTION</u>	<u>WHERE TO FIND INFORMATION</u>
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit K.
How much will I need to invest?	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.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit A includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Paniq Room business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be Paniq Room franchisee?	Item 20 or Exhibit K lists current and former franchisees. You can contact them to ask about their experiences
What else should I know?	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 F.

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

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

- 1. Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in [State]. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in [State] than in your own state.
- 2. 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.
- 3. Operating History:** The Franchisor is at an early stage of development and has a limited operating history. This franchise is likely to be a riskier investment than a franchise in a system with a longer operating history. 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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1. THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

We are **Paniq Franchising, Inc.** We do business under the names “**Paniq Room**,” “**PanIQ Room**,” and “**Paniq Escape Room**” (the “Service Marks”). We do not intend to do business under any other names. **Paniq Franchising, Inc.** is called “Us” or “We” in this Franchise Disclosure Document, “You” means the purchaser of a franchise from us, and includes owners or partners of a corporation, partnership or other legal entity that purchases a franchise.

We are a California corporation that was formed in October 20, 2016 as a limited liability company but was converted to a corporation on June 4, 2018. Our principal place of business is 3393 Barham Boulevard, Los Angeles, California 90068. Our telephone number is 323-380-6271. A list of state regulatory authorities and our agents for service of process are listed in Exhibit B.

We offer franchises in specified territories related to themed escape games in which people are locked in a room with other participants and use elements of the room to solve a set of puzzles, find clues, and escape the room within a set time limit and similar interactive game and team development systems. These are available to the public and use our Method of Operation and Service Marks in the process. A Co-Branded franchise is operated in connection with another compatible concept purchased with the Co-Branding Addendum to the Franchise Agreement.

We also offer to franchisees the option to sign an Area Development Addendum for the development of multiple franchise locations within a specific geographic area. For each future unit franchise, the area developer may be required to sign a form of franchise agreement that is different from the form of franchise agreement included in the Franchise Disclosure Document being used to offer the area development franchise.

We retain the right to own or operate Paniq Room businesses and franchises.

The Franchisor first began offering franchises

We do not have any parents or predecessors. We have not operated any businesses of the type being offered under this Disclosure Document. We do not have any affiliates.

The contact information for these companies is further set forth in Item 20, below. These “Paniq Room” operations are similar to the franchised business being offered under this Disclosure Document. We anticipate that each of these companies will sign franchise agreement with us for each of these locations.

We have created franchise programs that use and promote the Service Marks and related escape room interior and exterior trade-dress, standards, specifications and procedures for quality, efficient service and uniformity of products and services, procedures and computer software for inventory and game management, training, advertising, promotional programs and ongoing assistance.

The market for escape room games and related products and services is small and developing. The escape room game market is not seasonal. Our escape room game target market is 18 to 70 year old individuals and businesses that desire interactive team building opportunities. The principal sources of direct competition for our franchised escape room locations are similar escape games businesses, interactive game parlors, and team building enterprises, some of which are part of existing franchise chains. Traditional entertainment and interactive distraction businesses are sources of indirect competition.

We are not aware of any legal regulations that relate specifically to our industry apart from those that apply to

all businesses. Before purchasing a franchise, you should investigate regulations and requirements that may apply to the geographic area in which you are interested in locating your franchise and should consider both the effect and cost of compliance. You must comply with general employment laws and regulations. These requirements can affect a broad scope of your operations, including location selection, facility standards, and hiring of personnel, among other things. Among the laws, codes and regulations normally applicable to service businesses are federal, state, county, city, parish, borough, municipality or other local laws. These laws and regulations may address topics including wage and hour, occupational health and safety, equal employment opportunity and disabilities, environmental, fire, building and construction, sanitation and waste disposal, licensing, bonding, insurance, building codes, fire, safety, hours of business, and similar requirements. These may or may not be applicable to your franchise business.

We produce and sell innovative advertising and sales promotion materials. We attempt to negotiate group discount rates for the benefit of our franchisees for wholesale supplies, merchandise, and services.

2. BUSINESS EXPERIENCE

CEO – AKOS GABOSSY:

Mr. Gabossy has served as our CEO since our inception. He has been the cofounder of our affiliates since their inceptions. Since July 2010 Akos has been managing director of Dillion Consulting LTD and since January 2011 he has been CEO of KACKAC Corporation in Budapest, Hungary.

CHIEF OPERATIONS OFFICER – LASZLO MIGALINA:

Mr. Migalina has been COO for us since our inception. From January 2010 to December 2015 he was a free-lance web developer in Hollywood, California.

DIRECTOR OF FRANCHISE DEVELOPMENT – PATRIK STRAUZ:

Mr. Strausz has been the Director of Franchise Development for us since our inception. From September 2011 to April 2014 he was an operator at KACKAC Corporation in Budapest, Hungary.

3. LITIGATION

No litigation is required to be disclosed in this Item.

4. BANKRUPTCY

No bankruptcy is required to be disclosed in this Item.

5. INITIAL FEES

You will be required to pay an Initial Franchise Fee of **\$25,000**. It is paid in consideration of our sales expenses, administrative overhead, return on investment, and start-up costs related to the execution of the Franchise Agreement and the opening of the Franchise Premises and for our lost or deferred opportunity to sell franchises in the Franchise Territory to others. Contemporaneously with the execution of the Franchise Agreement, you must pay us the Initial Franchise Fee. This fee is for a Paniq Room with 3 themes. Each additional theme franchisee would like to add costs an additional \$5,000.

Area Development Addendum

If you sign an Area Development Addendum (“ADA”) and become an area developer (“Area Developer”), you will pay us the full \$25,000 Initial Franchise Fee for your first franchise and for each of the franchises to be developed within your development area (the “Development Fee”). The number of franchises to be developed will be expressed in a development schedule determined by a number of factors such as: the size of your development area, the population of the development area, and your financial capacity and expertise in developing businesses. You will sign a franchise agreement for each additional franchise in the development area. You will be required to sign our then-current franchise agreement for each additional franchise in your development area. The Development Fee is paid in a lump sum at the time the ADA is signed, is not refundable and will not be credited against any other fees paid to us or our affiliates. We base our qualifications on whether or not we will also offer you’re the opportunity to become an area developer, based on your financial resources, your experience in the industry, your business experience, as well as your marketing and sales plans.

Conversion and Co-Branding Promotion

We offer a special **\$15,000** initial-fee promotion to the owners of existing escape room or interactive game businesses who desire to either add or convert compatible concepts to the Paniq Room franchise system. We reserve the right to terminate this promotion at any time. You must execute of our standard Franchise Agreement and convert to our methods of operation, décor, signage, and systems. In this Franchise Disclosure Document, this type of co-branded location is referred to as a “Co-branded franchise.”

We may offer franchises at a reduced rate to prospective franchisees who in our opinion possess the knowledge and experience to conduct business with minimal assistance from us or who are purchasing multiple franchises.

Initial Franchise Fee is not refundable in whole or in part under any circumstances other than those listed above.

6. OTHER FEES

INDIVIDUAL UNIT FRANCHISES*

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
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Monthly Continuing Service and Royalty Fee	You will pay to us 6% of your Gross Monthly Revenue for the preceding month as a monthly Continuing Service and Royalty Fee.	The Continuing Service and Royalty Fee will be paid by the 10 th day of each month.	Payments will begin on and will be prorated from the date the Franchise opens for business. This payment may be made by automatic account withdrawal or other automatic processes we specify in the Operations Manual.
Monthly National Advertising and Development Fee	You will pay to us 1% of your Gross Monthly Revenue for the preceding month as a National Advertising and Development Fee.	The National Advertising and Development Fee will be paid by the 10 th day of each month.	Payments will begin on and will be prorated from the date the Franchise opens for business. This payment may be made by automatic account withdrawal or other automatic processes we specify in the Operations Manual. See Item 11 for a detailed discussion about our advertising fund
Additional Training	Currently up to \$250 per day plus expenses	Before training	We may charge you for training newly-hired personnel; for refresher training courses; for our periodic conventions; and for additional or special assistance or training you need or request. For all training sessions and conferences, you must pay for your trainees' and representatives' salaries and benefits, and for their travel, lodging and meal expenses. This payment may be made by automatic account withdrawal or other automatic processes we specify in the Operations Manual.
Franchise Convention Fee	\$500	Prior to Convention	Payable to us.
Owners' Manual Replacement Fee	\$250	As Incurred	Payable to us if you lose or destroy the Owners' Manual
Relocation Assistance	Cost of relocation	At time of assistance	If you need our assistance to relocate, a relocation fee will be assessed.
Product and Service Purchases	See Item 8	See Item 8	You must buy products and services from us, our affiliates, and designated and approved vendors whose items meet our standards and specifications. We may permit you to buy from other suppliers to the industry.

Testing of Products or Approval of new Suppliers	Not to exceed \$1,000	When billed	This covers the costs of testing new products or inspecting new suppliers you propose to us.
Audit	Cost of inspection	15 days after billing	Due if you do not give us reports, supporting records or other required information, or if you understate required Continuing Support and Royalty payments or Fund contributions by more than 2%.
Interest	Lesser of 1.5% per month or highest commercial contract interest rate law allows	15 days after billing	Due on all overdue amounts.
Maintenance and Refurbishing Reimbursement	Actual Costs	15 days after billing	If, after we notify you, you do not undertake efforts to correct deficiencies in Franchise Premises appearance, then we can undertake the repairs and you must reimburse us.
Insurance Reimbursement	You must reimburse our costs	15 days after billing	If you fail to obtain insurance, we may obtain insurance for you and you must reimburse us.
Insufficient Funds	\$50	As incurred	Due if you have insufficient funds in your EDTA to cover a payment, or if you pay by check, a check is returned for insufficient funds.
Cost of Enforcement	All costs including reasonable attorneys' fees	Upon demand	You must reimburse us for all costs in enforcing obligations if we prevail, under both the Franchise Agreement and Area Developer Agreement.
Management Fee	\$250 per person per day (plus costs and expenses)	As incurred	Due when we (or a third party) manage your franchise your managing owner's death or disability, or after your default or abandonment.
Indemnification	Will vary	As incurred	You must reimburse us if we are held liable for claims from your operation of your franchise.
Transfer	The greater of 10% of the sale price (in the event your business is sold to a third party) or \$5,000	Before transfer	Paid when you sell your franchise. This fee will reimburse us for our reasonable legal, accounting, credit check, and investigation expenses that result from the transfer.

Renewal	\$5,000	Upon renewal	In addition, you must refurbish, remodel, and replace the Franchise Premises, fixtures, and equipment to conform to the then current Operations Manual and Method of Operation. There will be no limitation on the amount that we may require you to spend on refurbishing, remodeling and replacement.

Late Charges	Prime plus 10% , Bank America Main Branch in Los Angeles, California	While amounts owed remain unpaid	You will not be compelled to pay late charges at a rate greater than the maximum allowed by applicable law. This payment may be made by automatic account withdrawal or other automatic processes we specify in the Operations Manual.
Fines for Non-Compliance with Franchise Agreement	From \$1 to \$500 per occurrence as outlined in the Operations Manual	As Incurred	You will not be compelled to pay fines at a rate greater than the maximum allowed by applicable law. This payment may be made by automatic account withdrawal or other automatic processes we specify in the Operations Manual.

*All fees are imposed by and payable to us. All fees are non-refundable.

Reports. By the **10th** day of each month, our system wide computer accounting and records programs will deliver to us an itemized report of your business activities for the preceding month. The report will be in the form we designate. Royalty and National Advertising and Development Fees due based upon the Gross Revenue for the preceding month will be paid based upon the report. We may require you to prove that you have paid the required local advertising expenditures. "Revenue" means all receipts generated by the Franchise from any source, including sales (based upon the "suggested retail prices" expressed in the Operations Manual, without regard to discounts), rentals, exchanges, repairs, services, labor, service charges, service contracts, etc., and excludes refunds and sales taxes. Credit transactions will be included in Revenue as of the date of the transaction without deduction for uncollected credit accounts. The proceeds from any business interruption insurance or eminent domain recovery you receive will be included in "Revenue." "Gross Monthly Revenue" means the total Revenue for any calendar month.

Automatic Payment Processes: We may require that payments may be required to be made by automatic account withdrawal or other automatic processes we reasonably specify in the Operations Manual, such as check, cash, certified check, money order, credit or debit card, automatic pre-authorized payment plan, electronic funds transfer or the Internet. If we attempt a draw or other process that is returned unsatisfied for any reason, we may charge you a **\$50** fee for each unsatisfied attempt.

Audits. You must periodically submit to us your sales reports, quarterly and annual financial statements, and tax returns. We may audit your books, business records, sales reports, financial statements, merchant processing accounts and records, and tax returns at any time. The audits will be conducted at our expense, unless you understate by more than **2** percent the Gross Revenue for any reported period or periods. Your failure to report Gross Revenue for any period will be deemed a willful understatement by more than **2** percent. In the event of a willful understatement, you must reimburse us for audit costs including the charges of any independent accountant and the travel expenses, room, board, and compensation of our employees incurred in connection with the audit.

Collection Costs. You will cover all collection costs, including reasonable attorney fees, if we are required to retain an attorney or collection agency to collect delinquent payments you owe to us.

7. ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

For A Compact Unit With 3 Themes

Type of Expenditure	Amount (Low-High Range)	Method of Payment	When Due	To Whom Payment is to Be Made
Initial Franchise Fee	\$25,000	Lump sum	Upon signing of your Franchise Agreement	To Us
Real Property Lease and Pre-Opening Rent	\$50,000 - \$250,000	As arranged	As incurred	To a third party
Deposits, Prepaid Expenses	\$25,000 - \$150,000	As arranged	As incurred	Third parties
Business Licenses (& cost of permitting)	\$5,000 - \$50,000	As arranged	As incurred	Third Parties and Us
Insurance	\$5,000 - \$30,000	As arranged	As incurred	To us or a third party
Training Expenses	\$5,000 - \$30,000	As arranged	As incurred	To Us
Miscellaneous Expenses	\$25,000 - \$150,000	As arranged	As incurred	To Us
Construction of Leasehold Improvements	\$100,000 - \$1,200,000	As arranged	As incurred	Contractors
Fixtures and equipment	\$60,000 - \$800,000	As arranged	As incurred	Suppliers and Us
Inventory and Supplies	\$5,000 - \$40,000	As arranged	As incurred	Suppliers and Us
Grand Opening Advertising	\$10,000 – \$50,000	As arranged	As incurred	Third parties
Architectural and Engineering	\$10,000 - \$50,000	As arranged	As incurred	Architectural and engineering firms
Attorneys and Accountants	\$5,000- \$25,000	As arranged	As incurred	Attorneys and accountants
Additional Funds (3 months)	\$20,000 - \$150,000	As arranged	As incurred	Employees, suppliers, utilities, lessor, etc.
Total	\$350,000 - \$3,000,000			

1. We anticipate that you will rent the Business's premises. It is possible, however, that you might choose to buy, rather than rent, real estate on which a building suitable for the Business already is constructed or could be constructed. Real estate costs depend on location, size,

visibility, economic conditions, accessibility, competitive market conditions, and the type of ownership interest you are buying. Because of the numerous variables that affect the value of a particular piece of real estate, this estimated initial investment table does not reflect the potential cost of purchasing real estate.

2. Estimated costs of obtaining required licenses and permits to operate your business. Some costs may vary depending on the location of the Franchised Business.
3. Opening inventory of products and supplies will vary based on expected volume of business and size of storage areas in the leasehold.
4. This is the minimum you must spend in "Grand Opening" advertising and promotions before and during the 30-day period following the commencement of operations.
5. This estimates any leasehold improvement costs that you may incur in preparing a site to open as a Franchised Business.
6. This estimates the travel, lodging, and food expenses that may be incurred during the initial training program.
7. This estimates the cost of retaining an attorney or accountant prior to opening the Franchised Business with regard to review of the Franchise Agreement, review of any lease, or any other legal or financial document.

Except as noted in Item 5, all fees paid to us are non-refundable. Amounts made to third parties may be refundable, depending upon the contracts made between them and you.

We do not finance these initial expenses. This table estimates your initial expenses. This estimate is based on our experience and the experience of our predecessor. Your actual costs may depend on several factors, including how well you follow our directions or suggestions, your business skill and experience, local economic conditions, prevailing wage rates, competition, the local market for your products, the location and condition of your leased premises,

Area Development. As outlined in Item 5, the Initial Franchise Fee is \$25,000 for each franchise you purchase. According to the Area Development Addendum ("ADA"), you as an Area Developer receive the right to develop a specified number of franchises within a designated development area. You will pay to us initial franchise fees for each franchise in accordance with the schedule described in Item 5. The Initial Franchise Fee for each franchise in your development area is paid at the time you sign the ADA. Subsequently, you execute the relevant franchise agreement for each franchise to be developed. An Area Developer will incur the above Estimated Initial Investment for each store they establish under an Area Development Addendum.

8.

RESTRICTIONS ON SOURCES OF PRODUCTS & SERVICES

It is essential to the proper marketing of our products and to the preservation and promotion of our reputation and acceptance by the public that uniform standards of quality and appearance are maintained; that uniform quantities, volumes, and types of services and products are offered; and that goods displaying our commercial symbols are of uniform size, quality, texture, strength, finish, and appearance. Therefore, you will at all times dispense, serve, sell, and offer for sale to the public only services, articles, and products that meet the

reasonable specifications and standards we, from time to time, designate in writing. We may offer or designate others to offer certain equipment, products, supplies, or services and we may become approved suppliers or the only approved supplier(s) for such items. You must purchase any products and supplies only from us or our approved suppliers. Neither we nor our officers currently do not own an interest in any approved supplier. You are required to obtain all escape room theme designs and products from us or sources we approve and according to our specifications. The themes must be updated and new ones must be purchased from franchisor yearly beginning the third year of operation or as otherwise specified in the Operations Manual. Currently, we offer our own line of name branded escape room game products and merchandise and we believe these give our franchise system strong consumer appeal and a definite competitive advantage over other businesses. You are required to obtain all game room fixtures, furnishings, and equipment from us or sources we approve and according to our specifications. Our criteria for approving suppliers is not made available to franchisees. We may, in the future, negotiate purchase agreements with vendors on the approved suppliers list.

We will lend to you a copy of our Operations Manual at the mandatory training course described in Section 11, below. From time to time we may amend the Operations Manual, including changes that may affect minimum requirements for your franchise operations. You will strictly follow the requirements of the Operations Manual as we amend it from time to time; its requirements are incorporated as part of the Franchise Agreement. You will carry out immediately all changes at your cost, unless we otherwise specify. We may designate your business format and sales and distribution guidelines, as specified from time to time in the Operations Manual. The Operations Manual is confidential and our exclusive property.

There are no other obligations for you to purchase or lease according to specifications or from approved suppliers. Except as explained above, we have no required specifications, designated suppliers, or approved suppliers for goods, services, or real estate related to your franchise business.

The Operations Manual contains escape room game layout and equipment standards, fixtures and furnishings, health and safety requirements, specifications, standards, operating procedures, accounting and bookkeeping methods, marketing ideas, art work, game techniques, advertising layouts, product specifications, operation requirements, public relations guidelines, and other rules that we may prescribe from time to time.

All specifications that we require of you and lists of approved suppliers will be included in the Operations Manual. We will upon request provide them to approved suppliers and suppliers seeking approval. We will use our best judgment to set and modify specifications to maintain the integrity and quality of our franchise system.

With advance written notice, you may request our approval to obtain products, equipment, supplies or materials from sources that we have not previously approved. We may require you to give us sufficient information, photographs, drawings, samples, and other data to allow us to determine whether the items from these other sources meet our specifications and standards, as established from time to time. These specifications and standards will relate to quality, durability, value, cleanliness, texture, composition, strength, finish and appearance, and the suppliers' capacity and facility to supply your needs in the quantities, at the times, and with the reliability necessary for efficient operation. We may require that samples from any supplier be delivered to a designated independent testing laboratory for testing before approval and use. You will reimburse us for the actual cost of the tests. We will license any supplier that can meet or exceed our quality control requirements and standards, for a reasonable license fee, to produce and deliver our products to you but to no other person. Our confidential standards, requirements, designs, systems and formulas will be revealed to potential suppliers only after we have received reasonable evidence that the proposed supplier is trustworthy and reputable; has the capacity to consistently follow our standards, requirements and testing procedures; will maintain the confidentiality of the designs, systems and formulas; and will adequately supply your reasonable needs. We will not unreasonably withhold approval of a supplier you propose. We will notify you in writing of the approval or disapproval of any supplier you propose within **30** days of your request.

From time to time we or our agents may inspect any approved manufacturer's, supplier's or distributor's facilities and products to assure proper production, processing, packaging, storing, and transportation. Permission for inspection will be a condition of our continued approval of any manufacturer, supplier or distributor. Should we find from any inspection that a manufacturer, supplier or distributor fails to meet our specifications and standards, we will give written notice describing this failure to you and to the manufacturer, supplier or

distributor, with a notice that unless the failure or deficiency is corrected within 30 days, the manufacturer, supplier or distributor will no longer be approved.

We may derive income from providing our products to you. This income results from the difference in the amount we pay for the products and the amount we charge you for them. We estimate that approximately 6 to 15 percent of our total revenues will be from products purchased from us, or entities affiliated with us, by our franchisees. In fiscal year 2023, this represented approximately \$437,143 of our total revenues as shown on our audited financial statements. We estimate that purchases from us or from approved suppliers will be from 65 to 75 percent of the total purchases you make to establish and from 25 to 35 percent of the total purchases you make to operate your franchise. We may receive rebates, price adjustments, or discounts on products or services sold to you by recommended or approved suppliers.

You are required to purchase a computer and point of sale system that will integrate and work to run software and related online linkages, pursuant to the system requirements and configurations outlined in the Operations Manual. You must purchase and use the hardware and software we designate to connect to the Paniq Room franchise database. You must maintain active and up-to-date antivirus software.

Our franchise auditors may inspect your franchise business operations and your daily sales results may be audited by us. You are required to sell all services and packages as outlined in the Operations Manual and subject to our approved pricing structures as outlined in the Operations Manual, which sets the prices at which franchisees can offer products and services. We have the right to unilaterally set the prices at which franchisees can offer any products and services.

You will participate in and cooperate with us in all gift card and customer service programs we establish or adopt as outlined in the Operations Manual. You will use the customer loyalty and gift card programs we designate to capture customer contact information, track purchases, reward repeat purchases or issue cash value for gift redemption in any Paniq Room Escape room. We will settle balances owed inter-store through an automatic reconciliation process and issue credit or debit notes for amounts owed and due.

At our request, you will use reasonable efforts to secure the names, addresses and other information we reasonably require of your clients and customers and will allow us to use the information. You will not divulge your customer names, addresses or other information, with or without remuneration, to any third party. You will respond promptly to each customer inquiry or complaint and resolve all reasonable complaints to the customer's satisfaction.

We attempt to negotiate volume purchase arrangements with suppliers or purchasing cooperatives for the benefit of our franchises, including volume pricing on products, equipment, and game related items.

Unless you have received our prior written approval, you may not sell or dispense any products, services or activities other than those specifically recognized and approved by us as part of the franchise system and as specified for Paniq Room game operations. You may not offer distilled spirits, beer or wine. You may not install or use any vending machines, juke boxes, games, or musical devices in your franchise without our prior written approval.

We currently provide material benefits to franchisees based on use of designated or approved sources including the right to renew your franchise rights and to obtain additional franchises.

You are required to obtain and keep in force by advance payment of premium appropriate liability insurance. The insurance will include, at a minimum, the following:

Liability Coverage	Limits (minimum)		What It Covers
	Occurrence	Aggregate	
General Liability	1,000,000	2,000,000	Negligence – Think Slip & Fall; Bodily Injury & Third-Party Property Damage
Products/Completed Operations	1,000,000	2,000,000	Products You Sell – Merchandise - You don't have any Completed Operations

Personal and Advertising Injury	1,000,000	Included	Libel Slander Defamation of Character/ Copyright Infringement
Damage to Rented Premises	100,000	Included	
Medical Expense	1,000	Included	Non-Adversarial coverage to prevent lawsuits for minor accidents. Money that is available to pay small medical bills or property damage without the victim having to file a lawsuit.
Umbrella/Excess			Sits on top of Primary General Liability- Increases both Per Occurrence & Aggregate Limits
Hired, Non-Owned Auto (HNOA)	1,000,000 CSL		Covers the business if it is sued for an accident involving an auto that was being used for a business trip on behalf of the business and the vehicle is not owned by the business; rental cars and employee/owner cars.
Vacant General Liability	1,000,000	2,000,000	Covers liability while the buildout is in progress
Property Coverage	Limits		
Tenant Improvements & Betterments (TIB)	location specific	location specific	Covers the improvements that are made to the rented building. If you moved out this would be all the improvements that you could not take with you
Business Personal Property (BPP)	location specific	location specific	Covers everything you could take with you if you moved out.
Business Income & Extra Expense (BIEE)	location specific	location specific	If the business is unable to operate because of a Covered Cause of Loss the BI can cover income including profit and payroll. Extra Expense coverage for additional expenses that are the result of the Loss. There various options and the limits are determined by the business owner.
Flood	location specific	location specific	Not available for a room that is below grade on all four sides. Coverage and limits can vary depending on the location and whether or not it is in a flood plain and what type of rating the location has on a flood map.
Workers Comp	1,000,000/1,000,000/1,000,000		Required in most but not all states; however, not purchasing it is a very bad idea.
Crime			Covers employee theft of money. Typically does NOT cover third parties who have permission; think CPAs who can write checks.
Builders Risk	location specific	location specific	Covers property while the buildout is in progress

The insurance will not be limited in any way because of any insurance we maintain. Maintenance of the required insurance will not diminish your liability to us under the indemnities contained in this Agreement. The policy or policies will insure against our vicarious liability for actual and (unless prohibited by applicable law) punitive damages assessed against you.

We may require you to increase the minimum limits of and types of coverage to keep pace with regular business practice and prudent insurance custom.

The insurance will insure us, you, and our respective subsidiaries, owners, officers, directors, partners, members, employees, servants, and agents against any loss, liability, products liability, personal injury, death or property damage that may accrue due to your operation of the Franchise. Your policies of insurance will contain a separate endorsement naming us as an additional named insured.

9. FRANCHISEE'S OBLIGATIONS

These tables list your principal obligations under the franchise and other agreements. They will help you find more detailed information about your obligations in these agreements and in other items of this Disclosure Document.

INDIVIDUAL UNIT FRANCHISE AGREEMENT

<u>OBLIGATION</u>	<u>SECTION IN AGREEMENT</u>	<u>DISCLOSURE DOCUMENT ITEM</u>
a. Site selection and acquisition or lease	Sections 1.1, 1.2, 1.3, 1.4, 1.5 & 4.2	Items 6 & 12
b. Pre-opening purchases and leases	Sections 4.1, 5.1 & 8.2	Items 7 & 8
c. Site development and other pre-opening requirements	Sections 1.3, 1.4, 2.9, 3.1, 4.1, 4.2 & 5.1	Items 7, 8 & 12
d. Initial and ongoing training	Sections 3.1 & 3.2	Items 6 & 11
e. Opening	Sections 4 & 5.1	Item 11
f. Fees	Sections 2, 3.2 & 7.1	Items 5, 6 & 17

<u>OBLIGATION</u>	<u>SECTION IN AGREEMENT</u>	<u>DISCLOSURE DOCUMENT ITEM</u>
g. Compliance with standards & policies/ Operations Manual	Sections 5 & 6.3	Items 11 & 17
h. Trademarks and proprietary information	Recitals & Sections 1.1, 5.1, 5.3, 5.4, 5.5, 5.6, 6.5, 9.2 & 9.10; Abandonment of Name form	Items 13, 14 & 17
i. Restrictions on products and services offered	Sections 1.2, 1.6, 5.1, 5.2, 5.5, 5.6, 5.7, 5.10, 6.3, 6.5	Items 8, 12, 13, 16 & 17
j. Warranty and customer service requirements	Sections 5.1, 5.2 & 5.5	Item 11
k. Territorial development and sales quotas	Sections 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.9, 5.1, & 5.5	Items 7 & 12
l. Ongoing product & service purchases	Sections 2.9, 5.1, 5.2, 5.5, 5.8, 5.10 & 8.2	Items 7 & 8
m. Maintenance, appearance and remodeling requirements	Sections 1.4, 5.1, 5.2, 5.5 & 6.5	Items 7, 11 & 17
n. Insurance	Section 8.2	Item 7
o. Advertising	Sections 1.6, 2.3, 2.4, 2.6, 5.1, 5.2, 5.3, 5.4, 5.5 & 6.5	Items 9 & 11
p. Indemnification	Sections 6.7 & 8.1	Item 6
q. Owner's participation/ management/ staffing	Sections 1.7, 2.9, 3, 4.1, 5, 6.5, 6.8, 7, 9.3, 9.6, 9.9, 9.12 & 9.16	Items 11, 15 & 17
r. Records and reports	Sections 2.7, 5.1, 5.2 & 5.5	Items 6, 11 & 17
s. Inspections and audits	Sections 2.8, 5.1, 5.2 & 5.5	Items 6, 11 & 17
t. Transfer	Section 7	Item 17
u. Renewal	Section 6.1	Item 17
v. Post-termination obligations	Sections 5.6, 5.7, 6.5, 6.6, 6.8, 9.9, 9.12	Item 17
w. Non-competition covenants	Sections 5.6, 5.7, 6.5, 6.8, 9.9 & 9.12	Item 17
x. Dispute resolution	Sections 9.7 & 9.8	Item 17

10. FINANCING

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

11.

FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTERS SYSTEMS, AND TRAINING

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

Pre-Opening Obligations

BEFORE YOU OPEN YOUR FRANCHISE, WE WILL:

- 1) Designate your Franchise Territory. (Franchise Agreement, Section 1.1)
- 2) Approve or disapprove a site for your franchise location. We will analyze your market area, to help determine site feasibility and to help in selection of the franchise location. In analyzing a proposed site, we examine its general location, traffic patterns, parking, size, physical characteristics, proximity to competing businesses, lease terms, sign visibility, neighborhood economic profile, population density and accessibility. The exact determination of the location for the franchise premises will depend upon our approval and your and our market analysis, market penetration plans, and franchise placement strategies and prior franchise commitments. You must obtain our prior written approval for the site of the franchise premises and your lease related to it. Our response to your request for approval of a site will be given within 30 days after we receive your written request. This applies for both single unit franchise agreements and for every unit to be developed under an Area Development Addendum.

We bear no liability for any consequences of any franchise site you chose. We do not guarantee success for any location you select. We will not be liable for any consequences of your choice of any franchise site. Any site recommendation or approval we make is not a representation that any particular site is available or legally appropriate for use as a franchise site. It is your responsibility to investigate all applicable zoning, licensing, leasing and other requirements for any proposed site. Your location must conform to any specific state or local regulations and requirements related to radiation protection. You must ensure that the site you select complies with all local requirements. You will pay all out of pocket expenses for travel, meals, and lodging we incur to help you locate sites and to negotiate a lease for you. You will bear all other site selection and negotiation expenses. We typically do not lease to franchisees a premises that we own.

Before you enter a lease or purchase agreement for the Franchise Premises, you will submit the lease or purchase documents to us for review. Lease documents must include an assignment of the lease in a form we approve, under which we may assume the lease as provided in Section 4 of the Franchise Agreement. (Franchise Agreement, Sections 1.1 and 1.3).

- 3) Approve or disapprove your franchise premises site-plan. We will furnish to you a schedule of interior finishes and equipment packages for the franchise premises. All costs for site-specific plans will be your responsibility. Site plans, and any modifications to them, must be approved in writing by us before construction. All approvals will be solely within our discretion to maintain a uniform image and décor, consistent with our franchise system concepts. (Franchise Agreement, Sections 1.4 and 5.1).
- 4) Provide you the Operations Manual and various selling aids. The Operations Manual contains our specifications, standards, operating procedures, accounting and bookkeeping methods, marketing ideas, customer service requirements, inventory requirements and control techniques, plans, fixture and décor

requirements, co-branding requirements, opening public relations, and other rules that we may prescribe and identify as part of the Operations Manual. The table of contents for our Operations Manual as of the date of this Disclosure Document is found in Exhibit C. (Franchise Agreement, Section 5.1).

Time to Open

The typical length of time between the signing of the franchise agreement or first payment of consideration for the Franchise and the opening of the Franchise for business is about 120 days. You are expected to complete the mandatory training and commence your franchise business operations within 270 days after you sign the franchise agreement. Factors that may affect this time are finding and negotiating for the Franchise Premises, arranging for the training session, remodeling and equipping the Franchise Premises, obtaining initial inventory, financing and business permit requirements, and your personal operational needs. Any failure caused by a war or civil disturbance, a natural disaster, a labor dispute, shortages or other events beyond your reasonable control will be excused for a time that is reasonable under the circumstances. If we cannot agree upon a site with you, we have the right, at our discretion, to terminate the franchise agreement.

If the training and commencement of operation obligation is not fulfilled, we may terminate the franchise agreement by refunding not less than one-half of the Initial Franchise Fee. (Franchise Agreement, Section 4.1).

Obligations After Opening

DURING THE OPERATION OF YOUR FRANCHISE BUSINESS, WE WILL:

- 1) Provide ongoing assistance, for your training, advertising, sales assistance, and use of the Operations Manual. (Franchise Agreement, Section 3.2). Among other things, this may include, payroll calculations, sales audits, sales performance reports for employees, marketing plan development, management training, franchise financial analysis and franchise future projections of income.
- 2) Administer our franchise advertising programs and formulate and conduct national and regional promotion programs.
- 3) Inspect the Franchise Premises from time to time and conduct activities to ensure compliance with the terms of the Franchise Agreement and Operations Manual to assure consistent quality and service throughout our franchise system. (Franchise Agreement, Section 5.2).
- 4) Inspect the facilities of your manufacturers, suppliers, and distributors from time to time and notify you and the manufacturers, suppliers, and distributors in writing of any failure to meet our specifications and standards. (Franchise Agreement, Section 5.1).
- 5) Establish pricing guidelines from time to time that must be adhered to by franchisee.
- 6) We may provide other supervision, assistance, or services although we are not bound by the Franchise Agreement or any related agreement to do so. These may include, among other things, advertising materials, literature, additional assistance in training, secret shopper programs, promotional materials, bulletins on new escape room games and products, merchandise, fixtures, furnishings and equipment, and new sales and marketing developments and techniques. We do not provide assistance with hiring and training franchisee's employees; establishing and assisting with administrative and accounting procedures; and resolving operational problems encountered by franchisee.

Advertising

Advertising Funds

We currently have no local franchisee advertising cooperative that collects and administers advertising funds. The funds are not audited. Annual financial statements of the funds are available for your review once they have been prepared, usually within 60 days after the end of the relevant period.

Summary of Advertising Fund Contributions and Expenses for Fiscal Year 2023

Expenses:	Corporate overhead (including 15% management)	\$0	0%
	Production and market level advertising	\$0	0%
	Administrative expenses	\$4,227	0.6%
	Media placement	\$701,717	99.4%
Total expenses:		\$705,944	100%
Advertising fund contributions:		\$56,737	8.04%
Excess of expenses over contributions:		\$649,207	1144.2%

We will administer the fund. We will make an accounting of the financial statements of the operation of any regional advertising funds annually and will make such accounting available to you upon request.

Locations that we and our affiliates operate will contribute to the advertising fund in the same manner as our franchisees. While all advertising materials may note that franchises are available from us, approximately 5% of the National Advertising and Development Fees or assessments we collect from our franchisees may be used for advertising that is principally a solicitation for the sale of franchises.

We may receive payment for providing advertising goods or services to our franchisees.

We are not required to spend any amount on advertising in the area or territory where you are located. Any National Advertising and Development Fees not spent in the fiscal year in which they accrue will be carried over for use in future years.

Promotional Materials and Other Advertising Information

We or our designee will direct all advertising programs used to promote the products and services offered by franchise escape room locations. We will have sole discretion over all creative concepts, materials and media used in these programs. These may relate to joint or individual promotion of the Paniq Room concepts as we deem appropriate for our franchise system as a whole. Advertisements generally will be in both print and broadcast media, initially with local and regional coverage. We may use an outside advertising agency to create advertising. We may make available to you, from time to time, approved advertising and promotional plans and materials at our cost. (Franchise Agreement, Sections 2.3 and 2.4)

You will be required to insert a regular (white pages) listing in the main telephone directories serving the geographical area in which your Franchise is located. Any telephone directory advertisement must be approved by us in advance. (Franchise Agreement, Section 2.4)

We will supply to you an Advertising Manual which will contain samples of local advertisements we approve. You will use only the advertising materials contained in the Advertising Manual, and may not, without our prior written consent, place any advertisement, in any media, which materially varies from the form and content of the approved advertisements in the Advertising Manual. (Franchise Agreement, Section 2.4).

Other than the telephone directory listing, if you elect to use your own advertising materials, any such material must be approved by us prior to its use. We will have 15 days to approve or disapprove of the material. If we do not approve of the material, you may not use the material to advertise.

Advertising Cooperatives

At any time, we may create or modify advertising regions for the purpose of establishing regional advertising, marketing and promotional programs. If an advertising cooperative is established in your region, you will be required to participate in the cooperative. We will promptly notify you and our other franchisees, of the establishment, modification, geographical boundaries and governing rules for regional advertising regions. We may require all franchisees located within each geographic region to meet periodically for the purpose of creating and establishing regional advertising programs. Each franchisee's escape rooms location and each escape room we own and operate will be entitled to one vote at these meetings. For the purpose of this subsection, each escape room we own will be deemed to be a franchisee.

If at any meeting of the franchisees in an advertising region, 65 percent of the franchisees vote to contribute to a regional advertising program, all franchisees within that region will be obligated to make a contribution to a regional advertising fund in the amount established by the vote (the "Regional Advertising Fund"). No advertising region may require any franchisee in that region to make a contribution to a Regional Advertising Fund in excess of 2 percent of that franchisee's Gross Revenue.

Each Regional Advertising Fund will be administered by representatives elected by each region, at a meeting we call for this purpose. (Franchise Agreement, Section 2.4).

Advertising Council

No advertising council exists at this time.

Operations Manual Table of Contents

The Operations Manual is confidential and remains our property. It contains mandatory and suggested standards, specifications, fixtures, furnishings, equipment, health and safety requirements, standards and procedures. We may modify the Operations Manual, but the modifications will not alter your basic status and rights under the franchise agreement. The revisions may include advancements and developments in our standards, fixtures, furnishings, equipment, sales, marketing, operational techniques, and other items and procedures used for the operation of the franchise. (Franchise Agreement, Section 5.1). It consists of 125 pages. The current Table of Contents is found in Exhibit C to this Disclosure Document.

Training

Within 60 days after you sign the Franchise Agreement, you and any designated full-time manager (up to four persons) must attend and complete the Initial Training Program to our satisfaction or we may terminate the Franchise Agreement. You are encouraged to attend the training session as soon as possible after executing the Franchise Agreement and before incurring any costs or expenses related to the opening of the Franchise. We will not be liable for your costs or expenses if we terminate the Franchise Agreement because you or the manager fails to complete the mandatory training to our satisfaction. If you are a corporation, a partnership or a limited liability company, one of those two people must be one of your principal owners. If you or your principal owners will not be directly involved in the supervision of the franchise business, you must employ a designated manager who also has completed the Initial Training Program to our satisfaction. (Franchise Agreement, Section 3.1).

We do not schedule training on any regular recurring basis; we schedule training based on the number of franchisees which need training at any given time and our logistic needs, such as scheduling, travel, etc. We strive to make training available when convenient for the trainees. The Initial Training Program will be held at our offices, at our affiliates' locations, or at other mutually agreed upon locations. See Items 6 and 7, above, for a discussion of the costs and expenses associated with the Initial Training Program. (Franchise Agreement, Section 3). The current training schedule includes:

TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
Introduction to Paniq Room	0 hours	2 hour	Los Angeles, California, affiliate locations, or other agreed upon sites
Understanding Paniq Room & it's Services (test teams)	0 hours	12 hour	Los Angeles, California, affiliate locations, or other agreed upon sites
Permits and Coding Compliance	0 hours	0.5 hour	Los Angeles, California, affiliate locations, or other agreed upon sites
Billing and Collections Procedures	0 hours	2 hours	Los Angeles, California, affiliate locations, or other agreed upon sites
Advertising	0 hours	2 hours	Los Angeles, California, affiliate locations, or other agreed upon sites
Regulatory Compliance	0 hours	1 hours	Los Angeles, California, affiliate locations, or other agreed upon sites
Bookkeeping	0 hour	0.5 hour	Los Angeles, California, affiliate locations, or other agreed upon sites
Do's and Don'ts	0 hours	2 hours	Los Angeles, California, affiliate locations, or other agreed upon sites
Marketing and advertising	0 hours	2 hours	Los Angeles, California, affiliate locations, or other agreed upon sites
Totals	0 hours	24 hours	

The relevant background of our trainer Patrick Strausz is disclosed in Item 2, above. Patrick Strausz has 6 years of experience in the development of the business, and has been employed by Franchisor for 6 years. On occasion, we may use other qualified trainers to assist in the training course under the direction and supervision of Mr. Strausz.

The training materials are the Operations Manual, the training manual, and our forms, and our game, sales, and marketing guides, and the advertising manual.

At the time the Franchise opens for business and upon not less than thirty days prior written notice to us, we will provide the full-time services of a trainer at the Franchise Premises for up to 2 work days to assist with

employee training, computer software and form use, escape room decor, merchandise display, sales assistance, and use of the Operations Manual. We will bear the trainer's expenses for this assistance.

At your option and upon not less than thirty days' prior written notice to us, you or your managers and employees may receive additional training at our training center or at other agreed upon locations. All expenses of this training will be borne by you, including but not limited to your travel, lodging, meals, compensation, and our reasonable costs and expenses including a reasonable training fee at our then current rates. You will not receive any compensation for services rendered by the trainee during this or any other training. (Franchise Agreement - Section 3.2).

From time to time we may provide refresher training programs or seminars and may require that you and your managers attend and complete them to our satisfaction. These programs and seminars will be held at locations we designate and will be provided without charge to you. You will be exclusively responsible for paying all travel, living and other expenses and compensation of attending these programs and seminars. Each year, you and the designated managers of your Franchise will be required to attend up to **12** hours of programs and seminars, depending upon program and seminar availability. (Franchise Agreement - Section 3.2).

COMPUTER SYSTEMS

You will be required to acquire, prior to the opening of your franchise escape rooms location, and to exclusively use during the operation of the franchise, a computer system, the components of which are specifically identified below. They will be used to produce sales reports, game control, and post sales tax, refunds, credits and allowances. You should maintain the system in good working order at all times, and upgrade or update it during the term of the Franchise Agreement as we will require from time to time. It will be your responsibility to enter into contracts for the maintenance, support, upgrades and updates to your computer system with suppliers you chose but, we may suggest sources to you. (Franchise Agreement - Section 5.8).

You purchase, lease, or otherwise acquire, from sources of your choice and at your expense, computer hardware and software (including but not limited to programs, software, computer terminals, scanners, security cameras, camcorders and cash registers). These must be totally compatible with and strictly conform to all requirements, standards, and specifications we set in the Operations Manual. You must have these systems in operation when you open your franchise for business. We have no obligation to maintain, repair, upgrade or update your computer hardware or software.

You must use the latest version of Windows operating system, Square System, Paniq Room Booking and Back-end System, and Paniq Room Photo App. The POS System specifications include a cash drawer and receipt printer and is designed to handle service and product sales, credit card and scrip transactions, and business operations and management functions. The principal function of the POS system is to access the network server in our corporate office. This connects your franchise with our central network database. Another purpose of the system is to ensure all sales are properly reported for auditing and control purposes. In addition, you must have adequate firewall and anti-virus protection and a static IP address.

You must purchase and use the hardware and software we designate to connect to the Paniq Room franchise database. You must keep this system up-to-date.

You must maintain active and up-to-date antivirus software. This software costs approximately \$100 to \$250 per year.

You are required to purchase the latest POS system software upgrades and the annual support contract. The initial purchase price and support contract costs of the computer hardware and software is about \$6,000. Paniq Room software is produced, sold and maintained through our offices.

The PC / IT maintenance is handled by a third party IT company. The cost of PC / IT maintenance ranges from \$55 per hour to \$150 per hour depending on the scope of the repairs or maintenance you need.

All of the hardware items may be purchased from and maintained by any supplier you select, but, we may suggest sources to you. These include: one or more iPads and stand, cash drawer, card readers, and printer.

We require independent access to your computer systems for reporting purposes. You are required to upgrade your computer systems to keep pace with technological advances, as expressed in updates to the Operations Manual. There are no contractual limits on the frequency or cost of these upgrades. The computer systems and software are used to generate receipts and reservations for the customer, and daily sales and reservation reports for you. The computer system collects and generates sales, reservations, and availability, rate, and operating information and data. There are no contractual limits on our access to the information and data stored in your computer systems.

E-Problem Disclaimer: Computer systems are vulnerable in varying degrees to computer viruses, bugs, power disruptions, communication line disruptions, Internet access failures, Internet content failures, the Year 2000 and similar date related problems, and attacks by hackers and other unauthorized intruders ("E-Problems"). We have taken reasonable steps so that E-Problems will not materially affect our business. We do not guarantee that information or communication systems that we or others supply will not be vulnerable to E-Problems. It is your responsibility to protect yourself from E-Problems. You should also take reasonable steps to verify that your suppliers, lenders, landlords, customers, and governmental agencies on which you rely, have reasonable protection from E-problems. This may include taking reasonable steps to secure your systems (including firewalls, password protection, and anti-virus systems), and to provide backup systems.

12. TERRITORY

FRANCHISE PREMISES AND TERRITORY

You will receive a defined territory (the "Franchise Territory") defined by zip codes, political, geographical or similar boundaries or outlined in a map attached to the Franchise Agreement as an Exhibit. You will operate your Franchise from a location in the Franchise Territory approved by us (the "Franchise Premises"). You must receive our permission before relocating the Franchise Premises within your Franchise Territory. You will be able to relocate the Premises if the lease for the site expires or terminates and it is not your fault, or if the site is destroyed, condemned or otherwise rendered unusable, or if you and we otherwise agree. (Franchise Agreement, Sections 1.1, 1.2, 1.3 and 1.5) The Franchise Territory will be identified before you sign the Franchise Agreement. It generally will have a population of the lesser of 15 mile radius from the location of your business or 150,000 persons depending upon the demographics and competitive environment of the area and our then current Franchise placement standards. Population estimates will be based upon federal or state census counts and other locally available and reliable information, such as chamber of commerce statistics. Among the factors we consider in determining the location of your franchise are: the 1-3-5 mile demographics, annual household income, average education level of local demographics, traffic counts, cost per square foot, tenant improvement allowance per square foot, ingress and egress to the location, customer parking, distance to major freeways or highways and distance to other franchise and competing locations.

While the Franchise Agreement is in effect and you are not in default, we will not establish nor license anyone other than you to establish any Paniq Room facility or any substantially similar competitive businesses under a different trademark or trade name in the Franchise Territory.

Certain franchise promotions and sales of escape room game packages will require you to provide services to the clients and customers of other franchise escape room locations. As expressed from time to time in the Operations Manual, You will honor all sales and promotions we have approved and you will offer full service to

all customers and clients whether or not the sale or promotion was made at your Franchise Premises. We will require our other franchisees escape rooms to honor all of your promotions and sales that have been approved by us.

A typical franchise location consists of a leased retail space with from **1,200** to **2,500** square feet of space. The exact determination of the Franchise Territory and Franchise Premises will depend upon your approval and our market analysis, market penetration plans and franchise placement strategies and prior franchise commitments. You must obtain our prior written approval for the site of the Franchise Premises and your lease related to it. When the exact location for the franchise is decided, the Franchise Agreement will be updated to identify the Franchise Premises.

We will help analyze your market area, help determine site feasibility, and assist in the selection of the franchise location, subject to your approval. While we agree to use our experience and expertise to assist in the selection of locations, we do not guarantee success for the location selected by you or accept any responsibility for any consequences of your choice of the franchise site.

We may establish company-owned or franchised operations using our method of operation, trade names or service marks that will compete with you. We have not established and do not intend to establish other franchises or company-owned outlets selling similar products or services under a different method of operation, trade name or service mark.

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.¹

RELOCATION

You must receive our written permission before you relocate your franchise. If you chose to move, you will have to move to a location that does not conflict with any of our existing Franchisees approved territories. We will allow a location to relocate in the event of a landlord raising the rent of a location above fair market value rates, if an existing location is experiencing chronic maintenance issues, if an existing location is not making the revenues expected; but only if there is no legal complications with the landlord of the building they are trying to vacate. Any relocation will be at your sole expense. You must satisfy our then current franchise placement and demographics criteria, as expressed in the Operations Manual.

CONTINUATION OF YOUR FRANCHISE

There are no other circumstances that permit us to modify or alter your territorial rights during the term of your franchise agreement.

FIRST RIGHT OF PURCHASE AND RIGHT OF FIRST REFUSAL

Unless we otherwise specifically agree in writing, you have no options, rights of first refusal or similar rights to acquire additional franchises within the Franchise Territory or in contiguous territories.

OUR USE OF THE SERVICE MARKS AND OUR PRODUCTS AND SERVICES

We retain all rights not specifically granted to you in the Franchise Agreement. This includes our right to use or license the use of our service marks and trademarks to others. Neither we nor our affiliates are restricted from participating in other distribution methods, whether or not within the Franchise Territory, including Internet, other forms of media now or in the future developed, wholesale and mail order channels under marks and product configurations different than those offered through your franchise. We reserve the right to market, solicit sales, and sell, lease, rent or otherwise dispose of franchise products and services to any person or customer we want. These include national accounts, commercial customers, franchisees, end users or any other customer we may select. We may exercise our right directly or indirectly by or through independent contractors that may include franchisees, dealers, and brokers.

We retain the sole right to market on the Internet, including all use of web sites, domain names, URL's, linking, meta-tags, advertising, auction sites, e-commerce, and co-branding arrangements. You will provide us content for our Internet marketing, and follow our Intranet and Internet usage requirements. We also retain the sole right to use the Service Marks on the Internet, including on web sites, as domain names, directory addresses, meta-tags, and in connection with linking, advertising, co-branding, and other arrangements. We retain the right to approve any linking or other use of our web site. You may not establish a presence on or market using the Internet except as we may specify, and only with our prior written consent. We intend that any franchisee web site be accessed only through our home page. Subject to the terms of use on our web site, we may gather, develop and use in any lawful manner information about any visitor to the web site, including but not limited to your customers, franchisees or prospective franchisees regardless of whether they were referred to you via the web site or were otherwise in contact with you.

We may purchase or be purchased by, or merge or combine with, competing businesses, wherever located.

Some of our Franchises may be placed at a location where another, separate business is operated under another business name, such as a business or financial consultation office or accountant's office. If the Franchise Premises is at that type of location, it will be deemed "co-branded" for the purposes of the Franchise Agreement.

Franchisee will not be compensated by us for any soliciting or accepting orders from inside the franchisee's territory.

YOUR USE OF THE SERVICE MARKS AND OUR PRODUCTS AND SERVICES

Except as follows, you may not establish or operate any other franchise establishment without executing a separate Franchise Agreement for that facility.

Except with our prior written permission, you may not do business, operate or place advertisements using our trade names or service marks in or originating from any area other than the Franchise Territory. You may not advertise in any media whose primary circulation is outside the Franchise Territory, except with our prior written permission and the prior written consent of any of our franchisees whose territory is reached by that media. All Internet marketing is part of our marketing programs described in the Operations Manual (which includes an Advertising Manual) and defined in the Franchise Agreement, and must be coordinated through us and approved by us. You may not market independently on the Internet or acquire an independent Internet domain name or web site.

Only we may place national or regional advertising.

All issues related to local customers who deal with several of our franchisees and local opportunities that could involve more than one franchise will be addressed and resolved by the franchisees in the involved local area, subject to our right to give reasonable direction and oversight and approval.

We have not established and do not intend to establish other franchises or company-owned outlets selling similar products or services under a different method of operation, trade name or service mark. We are not contractually restricted from doing so.

You do not receive the right to acquire additional franchises or to grant sub-franchises. There is no minimum sales quota upon which your rights to the Franchise Territory depend.

AREA DEVELOPMENT ADDENDUM

You may be granted the right to develop a specified number of franchises within a designated area. If so, your first franchise agreement will have an Area Development Addendum. Your designated development area and the number of franchises you may develop within the development area will vary in size and dimensions, based upon population, growth trends, affluence of nearby population, topographics, geographics, density, and demographics. We must approve the location of every unit and any territory for those units. We will have 30 days within which to approve or disapprove a unit or territory.

We will not establish nor license anyone other than you to establish any PanIQ Room facility in your development area from the date of the ADA until expiration or termination of the development schedule set forth in the ADA. If the ADA is for co-branded locations, we will not establish nor license anyone other than you to establish any PanIQ Room co-branded facility in the development area from the date of the ADA until expiration or termination of the development schedule set forth in the ADA, however, we may establish or grant franchises for PanIQ Room stand-alone franchises in your development area. You will not be granted the right to solicit or accept orders from consumers outside of your territory, nor do you have the right to use other channels of distribution, such as the Internet, catalog sales, telemarketing, or other direct marketing, to make sales outside of your territory.

If you fail to sign individual franchise agreements for or to develop franchises in your development area in accordance with the schedule agreed upon in the ADA or if you fail to comply with the terms and conditions of any individual franchise agreement between you and us, or make an attempt to transfer or assign a franchise agreement or the ADA in violation of their transfer provisions, you are deemed in default. Upon default, we, in our discretion, may do one of the following:

- a. Terminate the relevant franchise agreement and Area Development Addendum and all rights granted under the Area Development Addendum without affording you any opportunity to cure the default, effective immediately upon receipt of written notice by you of this default; or
- b. Reduce the number of units granted to you in the Area Development Addendum; or
- c. Terminate the territorial exclusivity granted to you, or reduce the area of territorial exclusivity granted to you under the Area Development Addendum.

The time limit to open each franchise in the development area will be designated from the date of the initial franchise agreement. If no acceptable site is found and approved by the parties for a site and the relevant franchise store opened for business within the time period specified, the ADA will terminate without notice by either party to the other on the expiration date, and no portion of any payment you paid to us will be refundable or returned to you.

Except as described in this Item 12, there are no other circumstances that permit us to modify your territorial rights. Area Developers will not be compensated by us for any soliciting or accepting orders from inside the Area Developer's territory.

13. TRADEMARKS

We grant you the right to operate your franchise under the service mark "**PanIQ Room**" and related names, marks, and logos. You also will be granted the right to use other current or future service marks that we may from time to time designate in the confidential Operations Manual. The "service marks," will include any trade names, trademarks, service marks and logos we use to identify your franchise escape rooms location.



Our affiliate Paniq Entertainment LLC obtained registration of the "**Paniq Room**" logo on the Principal Register of the United States Patent and Trademark Office on March 17, 2015. (Registration Number 4,703,495 – related to hosting social entertainment events, namely, room escape game, for others). It has since assigned the ownership of the logo to us.

We also claim common law rights to the names and marks "**Paniq Room**," "**PanIQ Room**," "**Panic Escape Room**," and the Paniq Room logos. These names and marks are part of our franchise system. We do not have a federal registration for some of our principal trademarks. Therefore, these trademarks do not have many legal benefits and rights as a federally registered trademark. If our right to use any of these marks is challenged, you may have to change to alternate trademarks, which may increase your expenses.

Franchisor has filed all required affidavits with the United States Patent and Trademark Office. No principal trademark registration has been renewed. There are no presently effective determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court, any pending interference, opposition or cancellation proceeding and any pending material litigation involving the service marks in any state.

There are no agreements currently in effect that limit our rights to use or license the use of the service marks. We know of no infringing uses that could materially affect your use of the service marks.

You must follow our rules when you use the service marks. You cannot use the service marks as part of your corporate, partnership or other entity name. You may not use our service marks in connection with the sale of an authorized product or service or in a manner we have not authorized in writing.

You must immediately notify us of any apparent infringement of, or challenge to your use of, any of the service marks, or any claim by any person of any rights in any of our service marks. You must not communicate with any person other than us and our legal counsel in connection with any such infringement, challenge or claim. We have the sole discretion to take such action as we may deem appropriate to protect our service marks and to exclusively control any litigation, Patent and Trademark Office proceeding, or other proceeding arising out of any such infringement challenge or claim or action otherwise relating to our service marks. You must execute such comments, render such assistance, and do such acts and things as may in the opinion of our counsel be necessary or advisable to protect and maintain our interests in connection with any such litigation or proceeding, to otherwise protect and maintain our interests in our service marks.

The Franchise Agreement does not require us to indemnify you for expenses or damages if you are a party to an administrative or judicial proceeding involving a trademark licensed by us to you.

The service marks are our sole and exclusive property. You must follow our rules when you use the service marks. You may not use the service marks in any manner we have not authorized in writing.

All goodwill associated with the service marks, including any goodwill that might be deemed to have arisen through your activities, will accrue directly and exclusively to our benefit, except as otherwise provided by applicable law.

You may not use or give others permission to use the service marks, or any colorable imitation of them, combined with any other words or phrases.

We may change or modify any part of the service marks from time to time at our sole discretion. You will accept, use, and protect, for the purposes of the franchise, all changes and modifications as if they were a part of the service marks at the time the franchise agreement is executed. You will bear all costs and expenses which may be reasonably necessary because of these changes or modifications. Under no circumstances will we be liable to you for any damages, costs, losses, or detriments related to these changes or modifications.

14. PATENTS, COPYRIGHT & PROPRIETARY INFORMATION

We do not own rights in, or licenses to, any patents or copyrights material to the franchise system. We intend to affix a statutory notice of copyright to Our Operations Manual, to most of our advertising, and to our products, and to all modifications and additions to them. There are no determinations, agreements, infringements or obligations currently affecting these notices or copyrights. You have no rights to the copyrighted material. You are granted the right and are required to use the copyrighted items only with your operation of the franchise during the term of your franchise agreement.

We need not protect or defend copyrights, although we intend to do so if it is in the System's best interests. We may control any action we choose to bring, even if you voluntarily bring the matter to our attention. We need not participate in your defense or indemnify you for damages or expenses in a proceeding involving a copyright.

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

Although we have not filed applications for copyright registration, all copyrighted materials are our property. You must contact us immediately if you learn of any unauthorized use of our proprietary information. You must also agree to not contest our rights to and interest in our copyrights and other proprietary information.

We have no patents material to your franchise.

15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

We recommend that you, or one of your owners if you are a corporation or partnership, participate fully in the actual day to day operation of the franchise business. Managers you employ to help you to operate the franchise must successfully complete the mandatory training program described in Item 11. The manager and all of your owners must agree to be bound by the confidentiality and non-compete provisions of the franchise agreement.

Each of your owners must assume and agree to discharge all of your obligations under the franchise agreement.

16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

We require that you use, offer and sell only those products, goods and services that we approve in writing. You must offer all products, goods and services that we designate as required by our franchisees. We reserve the right, without limitation, to modify, delete, and add to the authorized products, goods and services.

17. RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

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.

THE FRANCHISE RELATIONSHIP

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
a. Length of Franchise Term	Section 1.1	10 years
b. Renewal or Extension of the Term	Section 6.1	If you are in good standing, You may renew for periods of 5 years under the terms of our then current franchise agreement forms.
c. Requirements for Franchisee to Renew or Extend	Section 6.1	Give notice at least 6 and not more than 9 months before expiration of the initial term; faithfully perform under the initial agreement; refurbish, remodel, or replace the Franchise Premises and replace obsolete equipment; sign general release; sign a new agreement (that may contain terms materially different from those contained in the franchise agreement attached to this disclosure document); and go through retraining.
d. Termination by Franchisee	Section 6.2	You may terminate the Franchise Agreement if you comply with the provisions of the Franchise

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
		Agreement and if we breach any material provision and fail to cure or reasonably to begin to cure that breach within 30 days after receipt of written notice from you. Termination will be effective 10 days after you deliver to us a written declaration of termination for failure to cure within the allowed period.
e. Termination by Franchisor Without Cause	None	
f. Termination by Franchisor With Cause	Section 6.3	We can terminate only if you default.
g. "Cause" Defined – Curable Defaults	Section 6.3(A)	You have 30 days to cure any default not listed in Section 6.3 (B).
h. "Cause" Defined – Noncurable Defaults	Section 6.3 (B)	Bankruptcy and insolvency, abandonment, repeated default, misrepresentations, levy of execution, criminal conviction, noncompliance with laws, non-payment of fees, repeated under reporting of sales, disclosure of information.
i. Franchisee's Duties and Obligations on Termination or Nonrenewal.	Section 6.5	De-identification, return of manuals, release of phone numbers and listings, de-identification of premises, payment of sums owed, confidentiality, and non-competition. At Our option, assign your lease and sell all Franchise related equipment, furnishings, and inventory to us, at the depreciated book value (straight line depreciation over five years) for equipment and furnishings and at your invoice cost for products inventory less a 10 percent restocking charge. We will not be liable for any payment to you for intangibles, including, without limitation, goodwill.
j. Assignment of Contract by Franchisor	Section 7.1	There are no restrictions on our right to transfer.
k. "Transfer" by Franchisee - Definition	Section 7.1	Restrictions apply if you sell, transfer, assign, encumber, give, lease, or sublease (collectively

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
		called "transfer") the whole or any part of: the franchise agreement, substantial assets of the franchise, or ownership or control of You.
l. Franchisor's Approval of Transfer by Franchisee	Section 7.1	We have the right to approve all transfers.
m. Conditions for Franchisor Approval of Transfer	Section 7.1	The transferee must qualify as a franchisee, he must assume your obligations, You may not be in default, the transferee must successfully complete the mandatory training, the current transfer fee will not be more than \$5,000, the transferee must sign a new franchise agreement on our then current terms, and you must release us.
n. Franchisor's Right of First Refusal to Acquire Franchisee' Business	Section 7.3	If you receive an offer, we will have the right to purchase on the same terms and conditions as offered to you, 30 day notice and right to decide.
o. Franchisor's Option to Purchase Franchisee's Business	None	
p. Death or Disability of Franchisee	Section 7.2	Within 180 days, your heirs, beneficiaries, devisees or legal representatives may apply to continue to operate the franchise, or transfer Franchise interest.
q. Non-Competition Covenants During the Term of the Franchise	Sections 5.6 & 5.7	You may not disclose confidential information or compete.
r. Non-Competition Covenants After the Franchise is Terminated or Expires	Sections 5.6, 5.7 & 6.8	No competition is allowed for 730 days in or within 100 miles of you Franchise Territory or 100 miles of any other Paniq Room operation or within any part of the United States of America.
s. Modification of the Agreement	Sections 5.5 and 9.7	We may modify the Operations Manual. Modifications to the language of the Franchise Agreement require the signed written agreement of the parties.

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
t. Integration/Merger Clause	Sections 5.1, 5.5 and 9.7	Any representations or promises outside of the Franchise Disclosure Document and other agreements may not be enforceable.
u. Dispute Resolution by Arbitration or Mediation	6.5 and 9.7	Dispute related to post- termination purchase price is required to be arbitrated. All disputes are subject to be mediated.
v. Choice of Forum	Section 9.7	Arbitration and litigation must be in Los Angeles, California (subject to applicable state law).
w. Choice of Law	Section 9.7	California law applies except to the extent governed by the United States Trademark Act (subject to applicable state law).

Provision	Section in Area Development Addendum	Summary
a. Length of the franchise term	N/A	N/A
b. Renewal or extension of the term	N/A	N/A
c. Requirements for franchisee to renew or extend	N/A	N/A
d. Termination by franchisee	Section 4	You may terminate the Franchise Agreement and Area Development Addendum if you comply with the provisions of the Franchise Agreement and if we breach any material provision and fail to cure or reasonably to begin to cure that breach within 30 days after receipt of written notice from you. Termination will be effective 10 days after you deliver to us a written declaration of termination for failure to cure within the allowed period.
e. Termination by franchisor without cause	N/A	None.
f. Termination by franchisor with cause	Section 4	We can terminate only if you default. We have the right to terminate any and all single unit franchise agreements for default of the Area Development Addendum.

g. "Cause" defined – curable defaults	N/A	N/A
h. "Cause" defined – non-curable defaults	N/A	N/A
i. Franchisee's obligations on termination/non-renewal	N/A	N/A
j. Assignment of contract by franchisor	N/A	N/A
k. "Transfer" by franchisee – defined	N/A	N/A
l. Franchisor approval of transfer by Franchisee	Section 6(d)	We will not unreasonably withhold our approval of an assignment or transfer to proposed assignees or transferees who are of good moral character and have sufficient business experience aptitude and financial resources and otherwise meet our then applicable standards for area developers and are willing to assume all of your obligations and to execute and be bound by all provisions of our then current form of franchise agreement and Area Development Addendum, for a term equal to the remaining term of this Area Development Addendum
m. Conditions for franchisor approval of transfer	Section 6(d)	As a condition to granting our approval of any assignment or transfer, we may require you or the assignee or transferee to pay to us an assignment fee to defray expenses we incur in connection with the assignment or transfer, including but not limited to administrative costs, overhead, legal and accounting expenses, credit and other investigation charges and evaluation of the assignee or transferee and the terms of the assignment or additional costs related to the transfer not to exceed \$10,000 for the first franchise if multiple locations are sold to a single buyer in a single transaction, not to exceed \$500 for the second and each additional franchise sold in that transaction. We may require you and your owners to execute a general release in our favor in a form satisfactory to us as a condition to our approval of any propose assignment of this

		Addendum.
n. Franchisor's right of first refusal to acquire franchisee's business	Section 6(e)	We will have the right, for a period of 30 days from the date we receive the offer from you if you decide to sell, transfer, or dispose of all or part of your rights under the Addendum, exercisable by written notice to you, to purchase all of your rights under this Addendum at the price and on the terms and conditions contained in the offer.
o. Franchisor's option to purchase franchisee's business	Section 6(e)	We will have the right, for a period of 30 days from the date we receive the offer, exercisable by written notice to you, to purchase all of your rights under this Addendum at the price and on the terms and conditions contained in the offer.
p. Death or disability of franchisee	N/A	N/A
q. Non-competition covenants during the term of the franchise	N/A	N/A
r. Non-competition covenants after the franchise is terminated or expires	N/A	N/A
s. Modification of the agreement	N/A	N/A
t. Integration/merger clause	N/A	N/A
u. Dispute resolution by arbitration or mediation	N/A	N/A
v. Choice of forum	N/A	N/A
w. Choice of law	N/A	N/A

18. PUBLIC FIGURES

No public figure is involved in our franchise program at the present time.

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 only be given if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. Except as explained above, 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 Akos Gabossy, 3393 Barham Boulevard, Los Angeles, California 90068; 323-380-6271; the Federal Trade Commission; and the appropriate state regulatory agencies.

20. OUTLETS AND FRANCHISE INFORMATION

Table No. 1
SYSTEM-WIDE OUTLET SUMMARY
As of December 31, 2021, 2022, and 2023

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2021	3	5	2
	2022	5	6	1
	2023	6	9	3
Company-Owned	2021	6	4	-2
	2022	4	6	2
	2023	6	9	3
Total Outlets	2021	9	9	0
	2022	9	12	3
	2023	12	18	6

* These outlets are owned by our Affiliates. Our Affiliates are identified in Item 1 and owned by persons listed in Item 2, above.

Table No. 2
FROM FRANCHISEES TO NEW OWNERS (other than the Franchisor)
As of December 31, 2021, 2022, and 2023

<u>Column 1</u> <u>State</u>	<u>Column 2</u> <u>Year</u>	<u>Column 3</u> <u>Number of Transfers</u>
California	2021	0
	2022	0
	2023	0
Other States	2021	1
	2022	0
	2023	0
Totals*	2021	1
	2022	0
	2023	0

Table No. 3
STATUS OF FRANCHISED OUTLETS
As of December 31, 2021, 2022, and 2023

<u>Column 1</u> <u>State</u>	<u>Column 2</u> <u>Year</u>	<u>Column 3</u> <u>Outlets at the Start of the Year</u>	<u>Column 4</u> <u>Outlets Opened</u>	<u>Column 5</u> <u>Terminations</u>	<u>Column 6</u> <u>Non-Renewals</u>	<u>Column 7</u> <u>Reacquired by Franchisor</u>	<u>Column 8</u> <u>Ceased Operation – Other Reasons</u>	<u>Column 9</u> <u>Outlets at End of Year</u>
California	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	1	0	0	0	0	2
Florida	2021	0	1	0	0	0	0	1
	2022	1	0	0	0	1	0	0
	2023	0	0	0	0	0	0	0
Illinois	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Georgia	2021	0	0	0	0	0	0	0
	2022	0	1	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Massachusetts	2018	0	0	0	0	0	0	1
	2022	0	1	0	0	0	0	1
	2023	1	1	0	0	0	0	2
Nevada	2021	0	1	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Texas	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
New Jersey	2021	0	0	0	0	0	0	0
	2022	0	1	0	0	0	0	1
	2023	1	0	0	0	0	0	1
New York	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	1	0	0	0	0	1
Totals	2021	3	2	0	0	0	0	5
	2022	5	2	0	0	1	0	6

	2023	6	3	0	0	0	0	9
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Table No. 4
STATUS OF COMPANY-OWNED OUTLETS*
As of December 31, 2021, 2022, and 2023

<u>Column 1</u> <u>State</u>	<u>Column 2</u> <u>Year</u>	<u>Column 3</u> <u>Outlets at the</u> <u>Start of the Year</u>	<u>Column 4</u> <u>Outlets</u> <u>Opened</u>	<u>Column 5</u> <u>Outlets Reacquired</u> <u>from Franchisees</u>	<u>Column 6</u> <u>Outlets Closed</u>	<u>Column 7</u> <u>Outlets Sold to</u> <u>Franchisees</u>	<u>Column 8</u> <u>Outlets at End of</u> <u>Year</u>
California	2021	2	0	0	1	0	1
	2022	1	0	0	0	0	1
	2023	1	1	0	0	0	2
Florida	2021	1	0	0	0	1	0
	2022	0	1	0	0	0	1
	2023	1	0	0	0	0	1
Illinois	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
Indiana	2021	0	0	0	0	0	0
	2022	0	1	0	0	0	1
	2023	1	0	0	0	0	1
Texas	2021	1	0	0	0	0	1
	2022	1	1	0	0	0	2
	2023	2	0	0	0	0	2
New York	2021	1	0	0	0	0	1
	2022	1	0	0	1	0	0
	2023	0	1	0	0	0	1
Washington	2021	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2023	0	1	0	0	0	1
Totals	2021	6	0	0	1	1	4
	2022	4	3	0	1	0	6
	2023	6	3	0	0	0	9

* These outlets are owned by our Affiliates. Our Affiliates are identified in Item 1 and owned by persons listed in Item 2, above.

Table No. 5
PROJECTED FRANCHISE OUTLET OPENINGS AS OF DECEMBER 31, 2023

<u>Column 1 State</u>	<u>Column 2</u> <u>Franchise Agreements</u> <u>Signed But Outlet Not</u> <u>Opened</u>	<u>Column 3 Projected</u> <u>New Franchised</u> <u>Outlets in the Next Fiscal Year</u>	<u>Column 4</u> <u>Projected New Company-</u> <u>Owned Outlets in the Current</u> <u>Fiscal Year</u>
Claire, Ireland	1	0	0
TOTALS	1	0	0

Exhibit K includes a complete listing of all of our current franchisees and the addresses and telephone numbers of all of their operations as of **December 31, 2023**.

There are no affiliates, only franchisees and corporate stores.

No franchisee had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during our most recently completed fiscal year or has not communicated with us within **10** weeks of the date of this Disclosure Document. If you buy this franchise, your

contact information may be disclosed to other buyers when you leave the franchise system.

During the last three fiscal years, we have not signed confidentiality clauses with any of our current or former franchisees, which restrict such franchisees from communicating with prospective franchisees concerning their experience in the franchise system. However, we sign agreements with current and former franchisees that include confidentiality clauses that protect our intellectual property and our proprietary information. The confidentiality clauses in these agreements may also relate to specific negotiated franchise agreement terms and conditions.

There are no trademark-specific franchisee organizations associated with the franchise system being offered in this Franchise Disclosure Document.

21. FINANCIAL STATEMENTS

Attached in Exhibit A are our audited financial statements dated December 31, 2023, December 31, 2022, and December 31, 2021. Our fiscal year-end is December 31.

22. CONTRACTS

Attached are sample copies of the following agreements you may have to sign when you purchase your franchise.

Exhibit D:	Standard Franchise Agreement, with Exhibits
Exhibit E:	Conditional Assignment of Phone Number
Exhibit F:	Abandonment, Relinquishment, and Termination of Assumed Business Name
Exhibit G:	State Law Addendum
Exhibit H:	Warranties and Disclaimers by Prospective Franchisee
Exhibit I:	Confidentiality Agreement
Exhibit J:	Electronic Debit Authorization Form

23. RECEIPTS

Attached to this Disclosure Document are two Acknowledgments of Receipt. They are duplicates that evidence your receipt of this Disclosure Document: one is to be retained by you, the other by us (Exhibit L).

Exhibit A

Paniq Franchising, Inc.

AUDITED FINANCIAL STATEMENTS

The following are our audited financials dated December 31, 2023 December 31, 2022 and December 31, 2021. Our fiscal year end is December 31. We have not been in business for three years or more and cannot include all the financial statements required by the Rule for our last three fiscal years.

Paniq Franchising, Inc.

(A California Corporation)

**Financial Statements with Report of Independent Auditors
December 31, 2023, December 31, 2022, and December 31, 2021**

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Report of Independent Auditors

To the Member(s) of
Paniq Franchising, Inc.

Opinion

We have audited the accompanying financial statements of Paniq Franchising, Inc. (the Company), a California corporation, which comprise the balance sheets as of December 31, 2023, December 31, 2022 and December 31, 2021 and the related statements of operations, changes in members' equity and cashflow for the year ended December 31, 2023, December 31, 2022 and December 31, 2021 and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023, December 31, 2022 and December 31, 2021 and the results of its operations and its cashflows for the years ended then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after August 6, 2024.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

DA Advisory Group PLLC

Troy, MI
August 6, 2024

Paniq Franchising, Inc.
BALANCE SHEETS
As of December 31, 2023, 2022, and 2021

	2023	2022	2021
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 172,503	\$ 218,167	\$ 3,765
Accounts receivable	418,257	589,968	295,574
Inventory asset	16,662	9,144	-
Accrued income	26,988	11,235	-
Prepaid expenses and other	38,850	3,270	-
Total current assets	<u>673,260</u>	<u>831,784</u>	<u>299,339</u>
Fixed assets:			
Furniture & fixtures	1,490,405	669,693	20,000
Start-up cost	68,056	-	-
Vehicles	26,716	83,129	26,715
Leasehold improvements	1,671,105	376,531	-
Less: Accumulated depreciation	<u>(376,253)</u>	<u>(203,467)</u>	<u>(5,788)</u>
Total fixed assets	<u>2,880,029</u>	<u>925,886</u>	<u>40,927</u>
Noncurrent assets:			
Loan receivables - related parties	3,406,887	6,788,293	4,516,908
Intellectual property, net	152,630	156,858	175,000
Goodwill	221,056	-	-
Investments	15,951	84,539	84,101
Security deposits	277,886	274,275	121,345
Organizational costs, net	<u>1,308,432</u>	<u>761,729</u>	<u>65,126</u>
Total other assets	<u>5,382,842</u>	<u>8,065,694</u>	<u>4,962,480</u>
Total noncurrent assets	<u>8,262,871</u>	<u>8,991,580</u>	<u>5,003,407</u>
Total assets	<u><u>\$ 8,936,131</u></u>	<u><u>\$ 9,823,364</u></u>	<u><u>\$ 5,302,746</u></u>
LIABILITIES AND MEMBERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 1,452,149	\$ 1,888,362	\$ 586,798
Other current liabilities	4,538	5,084	4,616
Capital lease current	5,298	-	-
Notes payable, current portion	69,744	24,521	5,298
Deferred franchising revenue	-	-	81,900
Credit cards	<u>27,311</u>	<u>799</u>	<u>8,425</u>
Total noncurrent liabilities	<u>1,559,040</u>	<u>1,918,766</u>	<u>687,037</u>
Noncurrent liabilities			
Notes payable, less current portion	611,067	40,169	20,751
Accrued expenses	91,955	1,228,870	-
Capital lease	10,155	-	-
Other liabilities	<u>21,414</u>	<u>23,299</u>	<u>-</u>
Total other current liabilities	<u>734,591</u>	<u>1,292,338</u>	<u>20,751</u>
Total liabilities	<u>2,293,631</u>	<u>3,211,104</u>	<u>707,788</u>
Members' equity			
Total members' equity	<u>6,642,500</u>	<u>6,612,260</u>	<u>4,594,958</u>
Total liabilities and members' equity	<u><u>\$ 8,936,131</u></u>	<u><u>\$ 9,823,364</u></u>	<u><u>\$ 5,302,746</u></u>

see accompanying notes

Paniq Franchising, Inc.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2023, 2022 and 2021

	2023	2022	2021
REVENUE			
Owned store revenue	\$ 2,101,878	\$ 30,007	\$ -
Management fee income	109,311	185,250	320,700
Marketing fee income	385,342	478,524	220,243
Franchise fee income	5,893	111,900	121,900
Other service income	113,226	898,228	266,340
IT service income	24,723	27,564	24,250
Sales of product income	437,143	-	-
Royalty fee income	356,905	348,128	91,714
Other revenue	<u>(33,533)</u>	<u>(11,966)</u>	<u>-</u>
Total revenue	3,500,888	2,067,635	1,045,147
OPERATING EXPENSES			
Total operating expenses	<u>3,778,396</u>	<u>2,322,531</u>	<u>1,296,386</u>
OTHER INCOME			
Exchange gain / (loss)	346,976	(386,085)	(155,590)
Other miscellaneous income	11,860	-	-
Interest earned	43,895	47,228	10,374
Other investment income foreign branch	<u>(969)</u>	<u>438</u>	<u>(59,141)</u>
Total other income	<u>401,762</u>	<u>(338,419)</u>	<u>(204,357)</u>
OTHER EXPENSES			
Loss on asset	98,573	-	-
Other miscellaneous expense	-	-	-
Penalties & settlements	230	-	-
Profit / loss on asset sale	<u>8,379</u>	<u>-</u>	<u>-</u>
Total other expenses	<u>107,182</u>	<u>-</u>	<u>-</u>
Net other income	<u>294,580</u>	<u>(338,419)</u>	<u>(204,357)</u>
Net Income (Loss)	<u><u>\$ 17,072</u></u>	<u><u>\$ (593,315)</u></u>	<u><u>\$ (455,596)</u></u>

see accompanying notes

Paniq Franchising, Inc.
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31, 2023, 2022 and 2021

	Total Members' Equity
BALANCE, DECEMBER 31, 2020	\$ 398,097
Member contributions	4,652,457
Member distributions	-
Net loss	<u>(455,596)</u>
BALANCE, DECEMBER 31, 2021	<u>\$ 4,594,958</u>
Member contributions	2,610,617
Member distributions	-
Net loss	<u>(593,315)</u>
BALANCE, DECEMBER 31, 2022	<u>\$ 6,612,260</u>
Prior period adjustment	13,168
Member contributions	-
Member distributions	-
Net income	<u>17,072</u>
BALANCE, DECEMBER 31, 2023	<u>\$ 6,642,500</u>

see accompanying notes

Paniq Franchising, Inc.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023, 2022 and 2021

	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss)	\$ 17,072	\$ (593,315)	\$ (455,596)
Adjustments for non cash expenses:			
Depreciation	196,820	197,679	5,343
Revenue accruals	(5,893)	(111,900)	(121,900)
Amortization	75,940	44,595	-
Interest income accrued	(43,895)	(47,228)	(10,374)
Exchange gain/loss	(346,976)	386,085	155,590
Bad debts	272,852	22,971	35,151
Foreign exchange income	969	(438)	59,141
Other income	-	-	(536)
Change in:			
Accounts receivable	171,711	(294,394)	(53,060)
Accruals and other liabilities	(1,100,924)	911,324	4,615
Accounts payable	(436,213)	1,301,564	574,349
Accrued income	(15,753)	(11,235)	-
Deferred revenue	-	(81,900)	81,900
Prepaid and other assets	(191,338)	5,290	-
Security deposit	(3,611)	(152,930)	(121,344)
Credit cards	26,512	(7,626)	8,425
Net cash provided by (used in) operating activities	(1,382,727)	1,568,542	161,704
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of intangibles	-	-	(50,000)
Organization cost capitalized, net of amortization	(546,703)	(696,603)	(68,208)
Purchases of fixed assets	(2,126,929)	(1,082,638)	(14,926)
Net cash used in investing activities	(2,673,632)	(1,779,241)	(133,134)
CASH FLOWS FROM FINANCING ACTIVITIES			
Notes payable	616,121	38,641	(5,298)
Contribution	-	2,610,617	4,652,457
Prior period adjustment	13,168	-	-
Notes receivable	3,381,406	(2,224,157)	(4,672,515)
Net cash provided by (used in) financing activities	4,010,695	425,101	(25,356)
Net change in cash and cash equivalents	\$ (45,664)	\$ 214,402	\$ 3,214
Cash and cash equivalents at beginning of year	218,167	3,765	551
Cash and cash equivalents at end of year	<u>\$ 172,503</u>	<u>\$ 218,167</u>	<u>\$ 3,765</u>
Total cash and cash equivalents	<u>\$ 172,503</u>	<u>\$ 218,167</u>	<u>\$ 3,765</u>

see accompanying notes

Paniq Franchising, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2023, 2022 and 2021

1. Organization

Paniq Franchising, Inc ("The Company") was organized in 2016 in the State of California. As a Franchisor the Company is subject to all the laws, rules, and regulations of each state. Some states have more stringent regulations than others. The Company was organized as a corporation under the laws of the State of California. The principal purpose of the Company is to offer and sell franchisees that provide live room escape game entertainment and to provide franchisees with game design, supplies, and building design that create living escape room puzzles. Additionally, the Company has 2 owned stores in Austin and Indianapolis. The Company began operations on January 13, 2017.

For the period ended December 31, 2023, 2022 and 2021 total capital contributions were \$0, \$2,610,617 and \$4,652,457 respectively and total distributions were \$0 for all three years.

2. Summary of accounting policies and nature of operations

Basis of accounting and presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) establishes GAAP, which are contained in the Accounting Standards Codification (ASC).

Use of estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported revenues and expenses. Actual results could vary from the estimates that were used.

Revenue recognition

Initial franchise fees are recorded as income when the company provides substantially all the initial services agreed upon in the franchise agreement or when the franchise has commenced operations, whichever comes first. If the fee is received over a period and the Company has no reasonable basis for estimating the collectability of the fee, the Company uses the installment method of recognition of the initial fee as revenue. Income will principally be comprised of revenues earned by the Company as part of the franchise sales to customers. Additional revenues earned by the Company are expected from the sales of products, marketing materials, and other services to the franchisees and royalties.

The Company recognizes its franchise revenues in accordance with Accounting Standards Codification (ASC) topic 606, which requires that franchise fees from area franchise sales be recognized, net of an allowance for uncollectible amounts, only when all material services or conditions relating to the sale have been substantially performed or satisfied by the franchisor. Generally, these services include training and supporting approving franchisee's site.

Cash and cash equivalents.

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash balances at times may exceed federally insured limits; however, the Company believes such banks to be high credit quality institutions. As of December 31, 2023, the balances were fully insured.

Paniq Franchising, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2023, 2022 and 2021

2. Summary of accounting policies and nature of operations (continued)

Accounts receivable

Accounts receivable will consist of amounts due for franchise sales and will be carried at their estimated collectible amounts and trade credit will be generally extended on a short-term basis; thus, trade receivables do not bear interest. Trade accounts receivable are to be periodically evaluated for collectability based on past credit history with customers and their current financial condition.

The Company uses the reserve method of accounting for bad debts for financial reporting purposes and the direct write-off method for income tax purposes. Trade accounts receivable are charged against the allowance account when such receivables are deemed to be uncollectible. Management considers all trade accounts receivable at December 31, 2023, 2022 and 2021 to be collectible and no allowance considered necessary at this time.

Property, plant & equipment

The Company has adopted ASC 360 – Property, Plant and Equipment. Property and equipment are stated at historical cost. Depreciation is provided using straight-line method based on the estimated useful lives of the related assets (generally three to seven years).

Analysis for impairment

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based on comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based upon the fair value of impaired assets. In management's opinion, there is no impairment of the Company's long-lived assets at December 31, 2023, 2022 and 2021.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and for the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments

Accounting standards require certain assets and liabilities to be reported at fair value in financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets which the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as

Paniq Franchising, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2023, 2022 and 2021

2. Summary of accounting policies and nature of operations (continued)

interest rates and yields curves, that are observable at commonly quoted intervals. All of the Company's investments are in money market funds and are valued using Level 2 input.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs are used to measure fair value into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of inputs to these fair value measurements requires judgement and considers factors specific to each asset.

The Company's financial instruments consist of cash, contracts receivable, accounts payable, accrued expenses, and other short-term assets and liabilities. These financial instruments approximate their fair values principally because of the short-term maturities of these instruments and classified as Level 1.

Federal income taxes

The Company is structured as a C Corp and is subject to income taxes in the U.S. Significant judgment is required in determining our provision for income taxes. The Company monitors the realizability of deferred tax assets taking into account all relevant factors at each reporting period. In completing the assessment of realizability of deferred tax assets, there is consideration of history of income (loss) measured at pre-tax income (loss) adjusted for permanent book-tax differences on a jurisdictional basis, volatility in actual earnings, excess tax benefits related to stock-based compensation in recent prior years, and impacts of the timing of reversal of existing temporary differences. At this time, the Company does have a loss carryforward that they are able to use in future years, but an assessment and calculation is not applicable at this time.

Revenue recognition policy

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2014- 09, "Revenue from Contracts with Customers (Topic 606)". The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded in U.S disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the new standard effective January 1, 2019, the first day of the Company's fiscal year using the modified retrospective approach.

As part of the adoption of the ASU, the Company elected the following transition practical expedients: to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (i) to apply the standard only to contracts that are not completed at the initial date of application. Because contract is minimal, there is not a significant impact as a result of electing these practical expedients. No retrospective adjustments were necessary.

Paniq Franchising, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2023, 2022 and 2021

2. Summary of accounting policies and nature of operations (continued)

The Company derives its revenues primarily from awarding new franchisees and supporting those franchisees. Revenues are recognized when control of these products or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products and services.

Revenue from performance obligations satisfied at a point in time consists of sales of services from franchises. These services are sold to individuals and businesses.

Performance obligations

For performance obligations related to the sale of franchise services, control transfers to the customer at a point in time. The Company's principal terms of sale are upon delivery of the services, as incurred.

Upon signing a franchise agreement, the franchisee is required to pay a non-refundable initial franchise fee. This requires the Company to provide certain pre-opening services to the franchisee. These pre-opening services include a) Assistance in selection of a site for the franchisee's location b) assistance in obtaining and preparing the facilities for intended use c) training of the franchisee's personnel and the franchisee d) preparation and distribution of manuals e) bookkeeping, IT and advisory services f) inspection, testing and establishing a quality control program. The overall pre-opening services in most cases are equal or in excess of the initial franchise fee and they are recognized immediately. Since the Company is a nonpublic franchisor, it has elected to use the practical expedient available in FASB Accounting Standards Update No. 2021-02 dated January 2021. The practical expedient permits franchisors that are not public business entities to account for pre-opening services provided to a franchisee as distinct from the license if the services are consistent with those included in a predefined list within the guidance.

Royalties

The franchise agreement requires the franchisee to pay a royalty fee of 6 percent of the gross sales at the franchisee's location. These are recognized as revenue when the franchisee has provided the service to the consumer. Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. No write-offs were made in the reporting period.

Development and advertising fee

The franchise agreement requires the franchisee to pay a development and advertising fee of 5 percent of the gross sales at the franchisee's location. These are recognized as revenue when the franchisee has provided the service to the consumer. Advertising expenses incurred during the years ended December 31, 2023, 2022 and 2021 were \$701,717, \$665,326 and \$253,981 respectively.

3. Sales and agreements

The Company began offering franchises in 2017 and had 19 franchisees at December 31, 2023, December 31, 2022 and December 31, 2021. The Company enters into franchise agreements with its franchisees. The Company's franchise agreements require the Company to provide various items to the franchisees,

Paniq Franchising, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2023, 2022 and 2021

3. Sales and agreements (continued)

including, but not limited to marketing and operational support. Further the Company generates revenue from owned stores and the revenues are shown separately in financial statements. The total revenue from in-house stores was \$2.1 million, \$30k and \$0 during the years ended December 31, 2023, 2022 and 2021 respectively.

4. Long-term debt

The company has long-term debt as of December 31, 2023, as follows:

Note payables (2):	\$15,453
1 Original amount of \$31,788 bearing interest rate 0% and maturing in November 2026. The note is payable in monthly installments of \$441.51. The note is collateralized by a vehicle.	
Total long-term debt	\$15,453
Less current maturities	(5,298)
Long term debt, less current maturities	\$10,155

Maturities of long-term debt are as follows:

For the Year Ended December 31, 2023

2024	5,298
2025	5,298
2026	4,857
	\$15,453

For the Year Ended December 31, 2022

2023	\$24,521
2024	16,283
2025	16,283
2026	7,603
	\$64,690

For the Year Ended December 31, 2021

2022	5,298
2023	5,298
2024	5,298
2025	5,298
2026	4,857
	\$26,049

Paniq Franchising, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2023, 2022 and 2021

5. Related parties

The following is a summary of transactions between the Company and its related parties that occurred in FY23, FY22 and FY21:

Related party name	FY23 transactional value	FY22 transactional value	FY21 transactional value
Paniq Entertainment, LLC (vendor)	257,067	20,621	14,448
Paniq Franchising Inc. Hungarian Branch (vendor)	–	64,926	64,926
Paniq Franchising, Kft (vendor)	3,464,907	1,795,934	465,371

These transactions were mainly related to purchases and sales of products. Further the balances (if open) for each of the above parties on 12/31/2023, 12/31/2022 and 12/31/2021 stated as:

Related party name	12/31/2023	12/31/2022	12/31/2021
Loan Receivables: Loan receivables / payables (Paniq Entertainment)	257,982	6,208	14,791
Loan Receivables: Loan receivables to Paniq Franchising Kft	4,489,422	2,557	4,476,374
Loan receivables to Paniq Franchising, Inc Hungarian Branch	–	6,762,803	–

6. Contingencies

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in a particular matter or changes in approach such as a change in settlement strategy in dealing with the matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

7. Subsequent events

Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Company through August 6, 2024 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would impact the financial statements presented.

Exhibit B
Paniq Franchising, Inc.

List of State Regulatory Authorities and Registered Agents

NAMES AND ADDRESSES OF STATE REGULATORY AUTHORITIES AND REGISTERED AGENTS IN STATES

STATE	REGISTERED AGENTS	REGULATORY AUTHORITIES
CALIFORNIA	California Commissioner of Corporations: Los Angeles: 320 West 4th Street, Suite 750 Los Angeles, CA 90013-2344 (213) 576-7505 Sacramento: 2101 Arena Boulevard Sacramento, California 95834 (916) 445-7205 San Diego: 1350 Front Street San Diego, CA 92101-3697 (619) 525-4233 San Francisco: 71 Stevenson Street, Suite 2100 San Francisco, CA 94105 (415) 972-8559	Corporations Commissioner Department of Financial Protection and Innovation 320 West 4th Street, Suite 750 Los Angeles, CA 90013-1105 (213) 576-7505
CONNECTICUT	Connecticut Department of Banking 260 Constitution Plaza Hartford, CT 06103 (860) 240-8233 or (860) 240-8232	Banking Commissioner 260 Constitution Plaza Hartford, CT 06103 (860) 240-8233 or (860) 240-8232
FLORIDA	[Not Applicable]	Senior Consumer Complaint Analyst Department of Agriculture and Consumer Services Division of Consumer Services Mayo Building, Second Floor Tallahassee, Florida 32399-0800 (850) 922-2770
HAWAII	Commissioner of Securities of the Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, HI 96813-2921 (808) 548-2021	Commissioner of Securities 335 Merchant Street, Room 203 Honolulu, HI 96813-2921 (808) 586-2722
ILLINOIS	Illinois Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465	Chief, Franchise Bureau Illinois Attorney General 100 W. Randolph Street Chicago, IL 60601 (312) 814-3892
INDIANA	Secretary of State Administrative Offices of the Secretary of State 201 State House Indianapolis, IN 46204 (317) 232-6681	Securities Commissioner Securities Division Room E-111 302 West Washington Street Indianapolis, IN 46204 (317) 232-6681
IOWA	[Not Applicable]	Director of Regulated Industries Unit Iowa Securities Bureau 340 East Maple Des Moines, Iowa 50319-0066 (515) 281-4441

STATE	REGISTERED AGENTS	REGULATORY AUTHORITIES
MARYLAND	Maryland Securities Commissioner 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360	Office of the Attorney General Division of Securities 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360
MICHIGAN	Michigan Department of Commerce, Corporations and Securities Bureau 525 W. Ottawa 670 Law Building Lansing, MI 48913 (517) 373-7117	Franchise Administrator Consumer Protection Division Antitrust and Franchise Unit Michigan Department of Attorney General 670 Law Building Lansing, MI 48913 (517) 373-7117
MINNESOTA	Minnesota Commissioner of Commerce 85 7 th Place East, Suite 500 St. Paul, MN 55101-2198 (651) 296-6328	Deputy Commissioner Minnesota Department of Commerce 85 7 th Place East, Suite 500 St. Paul, MN 55101-2198 (651) 296-6328
NEBRASKA	[Not Applicable]	Staff Attorney Department of Banking and Finance 1200 N Street Suite 311 P.O. Box 95006 Lincoln, Nebraska 68509 (402) 471-3445
NEW YORK	Secretary of State of the State of New York 162 Washington Street Albany, NY 12231	Assistant Attorney General Bureau of Investor Protection and Securities New York State Department of Law 120 Broadway, 23rd Floor New York, NY 10271 (212) 416-8211
NORTH DAKOTA	North Dakota Securities Commissioner Fifth Floor 500 East Boulevard Bismarck, ND 58505	Franchise Examiner Office of Securities Commissioner 600 East Boulevard, 5th Floor Bismarck, ND 58505 (701) 328-4712
OREGON	Director of Oregon Department of Insurance and Finance Corporate Securities Section Labor and Industries Building Salem, OR 97310 (503) 378-4387 OREGON AGENT CORPORATION 1011 COMMERCIAL ST NE STE 210 Salem, OR 97301	Department of Consumer and Business Services Division of Finance and Corporate Securities Labor and Industries Building Salem, OR 97310 (503) 378-4387
RHODE ISLAND	Director of Rhode Island Department of Business Regulation Division of Securities Suite 232 Providence, RI 02903 (401) 222-3048	Associate Director and Superintendent of Securities Division of Securities 233 Richmond Street, Suite 232 Providence, RI 02903-4232 (401) 222-3048
SOUTH DAKOTA	Director of South Dakota Division of Securities c/o 500 East Capitol Pierre, SD 57501 (605) 773-4823	Franchise Administrator Division of Securities c/o 118 West Capitol Pierre, SD 57501-5070 (605) 773-4013

STATE	REGISTERED AGENTS	REGULATORY AUTHORITIES
TEXAS	[Not Applicable]	Secretary of State Statutory Document Section P.O. Box 12887 Austin, TX 78711 (512) 475-1769
UTAH	[Not Applicable]	Division of Consumer Protection Utah Department of Commerce 160 East Three Hundred South P.O. Box 45804 Salt Lake City, Utah 84145-0804 (801) 530-6601
VIRGINIA	Clerk of the State Corporation Commission 1300 E. Main Street Richmond, VA 23219 (804) 371-9672	Chief Examiner/Investigator State Corporation Commission Division of Securities and Retail Franchising 1300 E. Main Street Richmond, VA 23219 (804) 371-9051
WASHINGTON	Securities Administrator Department of Financial Institutions Securities Division 150 Israel Road SW Tumwater, WA 98501 (360) 902-8760	Administrator Dept. of Financial Institutions Securities Division P.O. Box 9033 Olympia, WA 98507-9033 (360) 902-8760
WISCONSIN	Wisconsin Commissioner of Securities P.O. Box 1768 345 W. Washington Avenue, 4 th Floor Madison, WI 53703 (608) 261-9555	Franchise Administrator Securities and Franchise Registration Wisconsin Securities Commission 345 W. Washington Avenue, 4 th Floor Madison, WI 53703 (608) 261-9555
FEDERAL TRADE COMMISSION		Franchise Rule Coordinator Division of Marketing Practices Bureau of Consumer Protection Pennsylvania Avenue at 6th Street, NW Washington, D.C. 20580 (202) 326-3128
ALBERTA, CANADA	N/A	Rob Phillips Executive Director, Consumer Services Branch Alberta Government Services, Consumer Programs 3 rd Floor, Commerce Place 10155 – 102 Street Edmonton, Alberta, Canada T5J 4L4 (780) 422-8177

Exhibit C

Paniq Franchising, Inc.

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FRANCHISE AGREEMENT

Paniq Franchising, Inc.

3393 Barham Boulevard
Los Angeles, California 90068

323-380-6271

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FRANCHISE AGREEMENT

THIS AGREEMENT has been entered this ____ day of _____, 20___. It is by and between **Paniq Franchising, Inc.**, a California Limited Liability Company, ("We, Us") and_, ("You"). For purposes of this Agreement "you" may include an individual, corporation, partnership, limited liability company or other legal entity. "You" includes any corporation, partnership, limited liability company, individual, combination of individuals, or other legal entity that owns a majority interest of you, or in which you own a majority interest. The term "you" will include all persons who succeed to your interest by transfer or by operation of law.

We have certain rights to, have registered in various jurisdictions, and intend to continue to develop names, trademarks, service marks, logos, commercial symbols, and styles. These include, but are not limited to, "**Paniq Room**," "**PaniQ Room**," "**Panic Escape Room**" and the **Paniq Room** logos (collectively the "Service Marks"). We own valuable goodwill and have valuable expertise, confidential information, methods, procedures, techniques, uniform standards, operations manuals, inventory control guidelines, systems, layouts, merchandise, and materials. These are connected with the operation, promotion, and advertising of businesses that offer services and merchandise to the public related to themed escape games in which people are locked in a room with other participants and use elements of the room to solve a set of puzzles, find clues, and escape the room within a set time limit - and similar interactive game and team development systems (the "Method of Operation").

You want to operate a PaniQ Escape Room franchise and to use our Method of Operation and Service Marks.

You have read this Agreement and our Franchise Disclosure Document. You understand and accept the terms, conditions and covenants contained in this Agreement. They are necessary to maintain our high standards of quality, service and uniformity at all franchises. They protect and preserve the goodwill of the Service Marks and the confidentiality and value of the Method of Operation.

If you operate your Franchise below the standards we require, customers who patronize that location will be less likely to patronize other Paniq Room locations. This would damage the business of others. It will be difficult for us to obtain new franchisees for escape rooms if a prospective purchaser observes that you do not maintain the required standards.

You acknowledge that this Agreement was accompanied by a Franchise Disclosure Document, which you received at (1) the first personal meeting with us (in Maryland, New York, and Rhode Island); or (2) 14 calendar days before signing any franchise or related agreement or making any payment with the franchisor or an affiliate in connection with the franchise sale. In addition, you acknowledge either:

- receipt of this Agreement containing all substantive terms at the time of delivery of the Franchise Disclosure Document; or
- if we unilaterally or materially altered the terms and conditions of our standard franchise agreement or any related agreements attached to the Franchise Disclosure Document, you acknowledge that you received a complete and final copy of this Agreement and its exhibits not less than **7** calendar days before you signed this Agreement.

You have read this Agreement and our Franchise Disclosure Document. You understand and accept the terms, conditions and covenants contained in this Agreement. They are necessary to maintain our high standards of quality, service and uniformity at all franchises. They protect and preserve the goodwill of the Service Marks and the confidentiality and value of the Method of Operation.

You realize that entering into this Agreement will obligate you to operate your franchised business in strict accordance and conformity with the standards, specifications and procedures as set forth in the Operations Manual that we will loan to you. You furthermore realize that there is a risk in owning any business venture

including this one and that running a business can be very hard work. If you operate your Franchise below the standards we require, customers who patronize that franchise location will be less likely to patronize other escape room locations in our franchise system. This would damage the business of others. It will be difficult for us to obtain new franchisees if a prospective purchaser observes that you do not maintain the required standards.

You acknowledge that the terms of our prior franchise offerings may have materially differed from the terms of this Agreement.

We expressly disclaim the making of and you acknowledge that you have not received or relied upon, any warranty or guaranty, express or implied, as to the revenues, profits or success of the business venture contemplated by this Franchise Agreement, except those representations specifically disclosed in our Franchise Disclosure Document. You acknowledge that you have read this Agreement and our Franchise Disclosure Document and that you have no knowledge of any representations by us, or our officers, directors, shareholders, employees or agents that are contrary to the statements made in our Franchise Disclosure Document or to the terms of this Agreement. We do not furnish nor do we authorize our salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of any of our franchise operation that is inconsistent with disclosures in our Franchise Disclosure Document. Actual results vary from unit to unit and we cannot estimate the results of any particular franchise.

THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, the parties agree as follows:

1) GRANT OF FRANCHISE AND FRANCHISE TERRITORY

1.1 **Grant of Franchise and Franchise Territory.** We grant to you, and you accept from us, the franchise, license, and privilege to use the Service Marks, the Method of Operation, and merchandise bearing the Service Marks, for **10** years from the date of this Agreement. This grant solely is for the operation by you of one Paniq Room franchise in the geographical territory identified in the attached Exhibit 1 ("the Franchise Territory"). Co-branding is permitted between our Paniq Room concept and other compatible concepts. If either the Franchise Territory or the location for your franchised operations has not been determined when this Agreement is executed, you are responsible for selecting the site for your franchise within the area designated in Exhibit 1. The Franchise Territory and your franchise site must be in the United States of America, legally available pursuant to state and federal franchise and business opportunity disclosure and registration laws and pursuant to our contractual commitments (including those with our other franchisees) and in compliance with our franchise placement, market development and demographic criteria.

During the term of this Agreement, you must change at least one theme in your Franchised Business after the first three years of your term, as well as changing one additional theme after that every other year after the third year.

During the term of this Agreement, we agree not to establish, or license anyone else to establish, any business using the applicable Service Marks or the Method of Operation within the Franchise Territory without your prior written consent. However, we may purchase or be purchased by, or merge or combine with, competing business, wherever located.

We will designate your Franchise Territory. We will analyze your market area, to help determine site feasibility and to help in selection of the franchise location. In analyzing a proposed site, we examine its general location, distance from warehouse, traffic patterns, parking, size, physical characteristics, proximity to competing businesses, lease terms, sign visibility, neighborhood economic profile, population density and accessibility. The exact determination of the location for the franchise premises will depend upon our approval and your and our market analysis, market penetration plans and franchise placement strategies and existing franchise commitments. You must obtain our prior written approval for the site of the franchise premises and your lease related to it. Our response to your request for approval of a site will be given within 30 days after we receive your written request.

If you and we cannot agree on a site for your franchise premises, we may terminate this Agreement by refunding to you the Initial Franchise Fee and any amounts paid for purchases of products and supplies from us or our affiliates (you must return the products and supplies to us or our affiliates). Some of our franchises may be placed at a location where another, separate business is operated under another business name. If the Franchise Premises is at that type of location, it will be deemed "co-branded" for the purposes of this Agreement. [Exhibit 2 to this Agreement is the "Co-Branding Addendum" for operation of the Franchise Premises.]

1.2 **One Location for Franchise Premises.** You will operate the Franchise at only one location within the Franchise Territory. All land, buildings, and improvements at the location, including parking, are called the "Franchise Premises." Relocation of the Franchise Premises will require our prior written approval. Among other things, we may require as a condition to our approval of your relocation or of your purchase of additional franchises from our existing franchisees or affiliates, or your purchase of additional franchises from us that you sign a general release, in a form we prescribe, following applicable law, to release us from any claims you may have against us.

1.3 **Assistance in Site Location.** You are responsible for finding the location of the Franchise Premises within the Franchise Territory. If you request assistance in selecting a site for the Franchise Premises, we will provide reasonable assistance in finding a location acceptable to you. We do not guarantee success for any location you select. We will not be liable for any consequences of your choice of any franchise site. Any site recommendation or approval we make is not a representation that any particular site is available or legally appropriate for use as a franchise site. It is your responsibility to investigate all applicable zoning, licensing, leasing and other requirements for any proposed site. You must ensure that the site you select complies with these requirements.

You acknowledge and agree that any location we select or approve, and any lease we approve will be approved solely on the basis and with the understanding that it meets our minimum acceptable criteria. The criteria are not a representation or guarantee that the location will be successful or that the terms of the lease are reasonable. You acknowledge that you are responsible for reviewing and determining the appropriateness and desirability of the lease and of the location. We will have no liability with respect to the selection or approval of a location or any lease for the Premises, nor liability with respect to any site recommendations we make.

You will pay all out-of-pocket expenses for travel, meals, and lodging we incur to help you locate sites and to negotiate a lease for you. You will bear all other site selection and negotiation expenses.

Before you enter a lease or purchase agreement for the Franchise Premises, you will submit the lease or purchase documents to us for approval. Lease documents must include the Franchise Premises Lease Agreement Rider attached in Exhibit 3 or otherwise include an assignment of the lease in a form we approve, pursuant to which we may assume the lease as provided in Section 4, below.

If you request, we in our sole discretion may find and develop premises to lease to you for your Franchise. If you lease premises from us, the lease may provide for reasonable compensation and profit to us for our primary liability and responsibility under the lease.

1.4 **Franchise Premises Development.** You will be responsible to construct, remodel, furnish, decorate and equip the Franchise Premises.

A. We will furnish to you standard construction plans and a schedule of interior finishes and equipment packages for the Franchise Premises. Final construction and site plans must be prepared by an architect we approve. All costs for site-specific plans will be your responsibility. Site plans, and any modifications to them, must be approved in writing by us prior to construction. All approvals will be solely within our discretion to maintain a uniform image and decor, consistent with our franchise system concepts.

B. Any construction and remodeling must be done by a licensed and bonded contractor whom we approve in advance in writing in a sound and workman-like manner in compliance with applicable codes

and regulations.

C You will comply with the standards and specifications we establish for architectural design, escape room layout, equipment, furnishings and fixtures, among other things. Modifications or variations require our prior written consent.

D You will comply within a time we deem reasonable with any requirement we impose to modify the Franchise Premises layout, furnishings, fixtures, equipment, decorations, and decor. In any calendar year, such modifications will not result in direct out-of-pocket costs to you of more than **\$5,000**.

E All equipment will conform to our equipment specifications as adopted from time to time. If we require any changes in or additions to equipment, you will modify, replace or add to your existing equipment at your sole expense.

1.5 **Relocation of the Franchise Premises.** You will not relocate the Franchise Premises without our prior written approval. Any relocation will be at your sole expense. This Agreement will govern your operations at any replacement Franchise Premises. You may decide to relocate the Franchise Premises for the following reasons:

- If the lease for the site of the Franchise Premises expires or terminates and cannot be renewed during the term of this Agreement,
- the site is destroyed, condemned or otherwise rendered unusable,
- in your and our judgment there is a change in character of the location of the Franchise Premises sufficiently detrimental to your business potential to warrant its relocation, or
- you reasonably decide to relocate the Franchise Premises for cause.

If so, you may relocate the Franchise Premises to another site within the Franchise Territory, if:

- i) You are not in breach of this Agreement;
- ii) Your lease was not ended by the lessor because of your breach of the lease agreement;
- iii) You evidence to our satisfaction your ability to obtain and commence operations at the new location within a time we deem reasonable after you vacate the original location;
- iv) You develop, construct, remodel, furnish, decorate and equip, at your sole expense, the new location according to our then current specifications and standards; and
- v) You pay all reasonable out-of-pocket expenses we incur because of the relocation. The term "Franchise Premises" will include the relocated business site;
- vi) You satisfy our then current franchise placement and demographics criteria, as expressed in the Operations Manual.

1.6 **You Will Not Advertise Outside Territory.** Except with our prior written permission, you will not place under any circumstances advertisements using the Service Marks in or originating from any area other than the Franchise Territory. Except as authorized in Section 2 of this Agreement, only we may place national or regional advertising.

1.7 **Rights We Reserve.** We retain all rights not specifically granted to you under this Agreement. Except as otherwise provided in this Agreement, we retain the right, in our sole discretion and without granting any right to you:

- A To use or license the use of the Service Marks or any other trademarks, service marks, logos or commercial symbols in connection with the sale of any services or products other than those directly

contemplated being used, offered, or sold by you under this Agreement. We expressly reserve the right to sell, or earn rebates and fees from the sale by others licensed or authorized by us to sell, proprietary products on a wholesale basis that will not carry a Paniq Room brand.

- B. To operate and grant to others the right to operate Paniq Room businesses outside the Franchise Territory on such terms and conditions as we deem appropriate.
- C. To sell products or services anywhere, including within the Franchise Territory, through channels of distribution other than the Paniq Room retail business currently reserved to you in the Franchise Territory, including Internet, other forms of media now or in the future developed, wholesale and mail order channels. The Internet is a channel of distribution reserved exclusively to us, and you may not independently market on the Internet or conduct e-commerce except as otherwise allowed by us in the Operations Manual.
- D. To establish, operate, own or franchise any business, including competitive businesses, outside of the Franchise Territory.

1.8 **Nonexclusive.** We reserve the right to market, solicit sales, and sell, lease, rent or otherwise dispose of franchise products and services to any person or customer we want. These include national accounts, commercial customers, franchisees, end users or any other customer we may select. We may exercise our right directly or indirectly by or through independent contractors that may include franchisees, dealers, and brokers. We will not place nor authorize anyone else to place a Paniq Room escape room operation in the Franchise Territory. You acknowledge that we have made no other representation concerning exclusivity in any geographic territory or for any customer segment. You acknowledge that certain promotions and sales of escape room game packages will require you to provide services to the clients and customers of other Paniq Room operations. As expressed from time to time in the Operations Manual, you will honor all sales and promotions we have approved and you will offer full service to all Paniq Room customers and clients whether or not the sale or promotion was made at your Franchise Premises. We will require other Paniq Room escape rooms to honor all of your promotions and sales that have been approved by us.

We may advise or offer guidance to you relative to your prices for the goods and services you offer for sale that in our judgment constitute good business practices. This guidance will be based on our experience and the experience of our franchisees and an analysis of the costs of the products and services and the prices charged by our competitors.

We will, to the extent permitted by relevant law, establish price ceilings or minimum or maximum allowable prices on the products and services you offer and sell. Except as so specified by us or as otherwise required in this Agreement and in the Operations Manual, you may determine the prices at which you sell products and services, as well as the terms and conditions of sale.

2) PAYMENT OF FEES AND OTHER FINANCIAL REQUIREMENTS

2.1 **Initial Franchise Fee.** The Initial Franchise Fee is **\$25,000**. It is paid in consideration of our sales expenses, administrative overhead, return on investment, and start-up costs related to the execution of this Agreement and the opening of the Franchise Premises and for our lost or deferred opportunity to sell franchises in the Franchise Territory to others. Contemporaneously with the execution of this Agreement, you have paid to us the Initial Franchise Fee.

Except as provided in Sections 3 & 4, below, none of the Initial Franchise Fee is refundable.

2.2 **Monthly Continuing Service and Royalty Fee.** You will pay to us a Continuing Service and Royalty Fee equal to **6** percent of the total Gross Revenue derived from the franchise. The Continuing Service and Royalty Fee is paid monthly in the manner prescribed from time to time in the Operations manual. In addition, you agree that we may develop and impose fines for your failure to comply with our requirements as outlined in the Operations Manual. You agree to pay these fines when we apply them to you.

This payment may be required to be made by automatic account withdrawal or other automatic processes we reasonably specify in the Operations Manual, such as check, cash, certified check, money order, credit or debit card, automatic pre-authorized payment plan, electronic funds transfer or the Internet. If we attempt a draw or other process that is returned unsatisfied for any reason, we may charge you a **\$50** fee for each unsatisfied attempt.

We reserve the right to require you to process some or all membership applications and payment plans submitted by your customers, together with the related automatic account withdrawal, automatic payment, credit and debit card payment, automatic pre-authorized payment plan, electronic funds transfer and other forms of direct or Internet payment, through us or through other service providers and using processes we designate and outline in the Operations Manual. We may take Continuing Service and Royalty Fee, National Advertising and Development Fees, product purchase and other payments you owe to us out of the automatic payments made by your customers and remit to you the balance. The companies we designate to process memberships and related payment arrangements may include companies that are affiliated with us or in which we or our owners otherwise have ownership or control. If we elect, the designated companies may charge you not more than 5% for the service and will allocate and distribute payments received to you, while delivering to us all related royalty, advertising and other fees as outlined in this Agreement and pursuant to the processes we outline in the Operations Manual.

2.3 Monthly National Advertising and Development Fee. You will pay to us a National Advertising and Development Fee equal to **1** percent of the total Gross Revenue derived from the franchise. The National Advertising and Development Fee is paid monthly in the manner prescribed from time to time in the Operations Manual.

This payment may be required to be made by automatic account withdrawal or other automatic processes we reasonably specify in the Operations Manual, such as check, cash, certified check, money order, credit or debit card, automatic pre-authorized payment plan, electronic funds transfer or the Internet. If we attempt a draw or other process that is returned unsatisfied for any reason, we may charge you a **\$50** fee for each unsatisfied attempt.

We may use all contributions and earnings from the National Advertising and Development Fee we receive from you in local, regional, national, internet, and international advertising for:

- maintaining, administering, researching, directing, and preparing advertising and promotional materials (including, among other things, the costs of preparing and conducting television, radio, magazine, and newspaper advertising campaigns, public relations programs and press releases);
- direct mail and outdoor billboard advertising;
- marketing research and development, marketing surveys and public relations activities;
- development and maintenance of internet or e-commerce programs;
- marketing materials;
- decor and promotional materials
- artwork; advertising services;
- training related to marketing, customer service, and sales augmentation;
- production and distribution of periodic newsletters to provide you with industry news, suggestions, and advice on franchise operations; and
- our reasonable salaries, accounting, collection, legal, and other costs related to the above.

Our internal artwork, advertising, promotion and newsletter production costs and associated administrative costs are paid from the National Advertising and Development Fees. These will be calculated at our cost as established from time to time.

We will use your National Advertising and Development Fee to place advertising in geographic areas, in media, at times and using products and services we deem to be in the best interest of our franchisees and our franchise system.

We will direct all regional and national advertising programs. We will have sole discretion over the creative concepts, materials, endorsements, placement, and allocation of moneys from the National Advertising and Development Fee. The National Advertising and Development Fee will be used to maintain, administer, direct, prepare, and review national, regional, or local advertising materials and programs as we will in our sole discretion deem proper. We are under no obligation to administer the National Advertising and Development Fee to ensure that expenditures are proportionate to contributions of franchisees for any given market area or that you or any other franchisee benefits directly or proportionately from the development or placement of advertising. We will not be obligated to expend all or any part of the National Advertising and Development Fee during any specific period of time. Upon your written request, we will provide to you the most recent annual accounting of our National Advertising and Development Fee receipts and expenditures.

A You are Not A Third Party Beneficiary of National Advertising and Development Fees. We will have the sole right to enforce the obligations of you and all our other franchisees, who contribute National Advertising and Development Fees. Neither you nor any other of our franchisees who are obligated to contribute National Advertising and Development Fees will be deemed a third party beneficiary with respect to National Advertising and Development Fees or have any right to enforce any obligation to contribute National Advertising and Development Fees.

B Restrictions Upon Use of National Advertising and Development Fee Proceeds. We may not expend any portion of the National Advertising and Development Fee to defray our general operating expenses, salaries, administrative costs, or overhead except as directly relating to the administration or operation of our franchise advertising.

C Discretion in Use of National Advertising and Development Fee. In our sole subjective discretion exercised in good faith, we will determine the cost, form of media, content, format, production, timing (including regional or local concentration and seasonal exposure), location and all other matters relating to franchise advertising, public relations, marketing, market research and promotional campaigns. In our sole discretion, we will have the right to expend the National Advertising and Development Fee in any geographic area that we, in good faith, deem appropriate, regardless of the geographic distribution of our franchises. We may use portions of the National Advertising and Development Fee as we deem appropriate as a contribution to joint or collective advertising campaigns of the suppliers of franchise equipment, inventory and supplies.

2.4 **Advertising Fund and Standards.**

We have organized an Advertising Fund (the "Fund") in which we will place the National Advertising and Development Fees we receive from our franchisees. You recognize the value of advertising and the importance of the standardization of advertising and promotion to the furtherance of the goodwill and the public image of the Paniq Room system and the Method of Operation. The Fund will be administered by us. We will direct all regional and national advertising programs. We will have sole discretion over the creative concepts, materials, endorsements, placement, and allocation of moneys from the Fund. The Fund will be used to maintain, administer, direct, prepare, and review national, regional, or local advertising materials and programs as we will in our sole discretion deem proper. It also will be used to cover our costs of collecting and administering the National Advertising and Development Fees we collect from our franchisees, including incurred legal fees. The Fund will be used to pay for joint marketing programs, including programs with our suppliers, sister corporations and co-branding partners. We are under no obligation to administer the Fund to ensure that expenditures are proportionate to contributions of franchisees for any given market area or that any franchise benefits directly or proportionately from the development or placement of advertising. We will not be obligated to expend all or any part of the Fund during any specific period of time. Upon your written request, we will provide to you the most recent annual accounting of the Fund:

We will administratively segregate all Advertising Fund Payments paid to us by our franchisees. All payments to the Advertising Fund will be deposited in our general operating account; will be commingled with our general operating funds; and will be deemed to be our asset, subject however to our obligation to expend it in accordance with the terms of this Agreement.

We will furnish to you annual financial statements of the Advertising Fund. Our books and records relating to the Advertising Fund will be available for your inspection during our normal business hours, upon reasonable notice.

If the Fund has excess money, we may borrow from the Fund and will pay interest to the fund equal to the rate at which we may borrow on our line of credit or, if none exists, at the prime rate. If the Fund borrows money from us, it will be charged and will pay interest to us on the same basis.

Although we intend the Fund to be of perpetual duration, we maintain the right to terminate the Fund. The Fund will not be terminated, however, until all monies in the Fund have been expended.

An accounting of Fund contribution and expenditures will be prepared annually and will be made available to you upon request. Such accounting may include an audit of the contributions to and expenditures of the Fund prepared by an independent certified public accountant selected by us, at the Fund's expense.

The Fund may be used for marketing, advertising, public relations, production and media expenses related to promotion of the Service Marks, our franchise system and our products and services. The Fund may also be used for operational, administrative, office, rent, automobile, and collection expenses. We will not use any part of the Advertising Fund for franchise sales, but may include references to the availability of franchises in materials produced and placed in media by the Fund.

We may create an advertising advisory board made up of Paniq Room franchisees. These franchisees will make recommendations on your behalf as to types of advertising, promotion and public relations. We will use these and other recommendations which we feel are appropriate when drafting a budget and program each year for the Fund.

We anticipate that all contributions and earnings of the Fund will be expended for the advertising and promotional purposes during the taxable year within which the contributions and earnings are received. If, however, excess amounts remain in the Fund at the end of such taxable year, all expenditures in the following taxable year(s) will come first from earnings and contributions from the prior year and next out of earnings in the current year.

We will have the sole right to enforce the obligations of you and all our other franchisees, who contribute to the Advertising Fund. Neither you nor any other of our franchisees who are obligated to contribute to the Advertising Fund will be deemed a third party beneficiary with respect to the Fund or have any right to enforce any obligation to contribute to the Fund.

We will make disbursements from the Advertising Fund for the purpose of national, regional or local advertising, public relations, marketing, market research and promotional campaigns designed to promote and enhance the value of the Service Marks and general public recognition and acceptance of the Service Marks. The Fund may also be used to support the administration and operation of the Advertising Fund, including operational, administrative, office, rent, automobile, and collection expenses. We will be entitled to reimbursement from the Fund for our actual administrative expenses incurred in connection with the administration of the Fund, which will not exceed 15% of the annual gross contribution to the Fund, and such other actual costs and expenses as may be incurred in connection with the programs paid for by the Fund.

A. Establishment of Advertising Programs. At any time and from time to time, we will have the right to create or modify advertising regions for the purpose of establishing regional advertising, marketing and promotional programs. We will promptly notify you and our other franchisees, of the establishment, modification and geographical boundaries of regional advertising regions. We may require all franchisees located within each geographic region to meet periodically for the purpose of creating and establishing regional advertising programs. Each open and operating franchise and each escape room we own and operate will be entitled to one vote at these meetings. For the purpose of this subsection, each escape room we own will be deemed to be a franchise.

If at any meeting of the franchisees in an advertising region, **65** percent of the franchises vote to contribute to a regional advertising program, all franchises within that region will be obligated to make a contribution to a regional advertising fund in the amount established by the vote (the "Regional Advertising Fund"). No advertising region may require any franchisee in that region to make a contribution to a Regional Advertising Fund in excess of **2** percent of that franchisee's Gross Revenue.

We will administer each Regional Advertising Fund in the same manner and upon the same terms and conditions as the National Advertising and Development Fees established above and as the Fund. We may require that each Regional Advertising Fund be administered pursuant to standards and procedures outlined in the Operations Manual by representatives elected by each region, at a meeting we call for this purpose.

We may, but are not required to, attempt to expend the Advertising Fund in geographic areas so as to equitably reflect the contributions made to the Advertising Fund by you and all similarly situated franchisees. You acknowledge that if we chose to do so, geographic allocations cannot be effected with precision, and we will not be liable to you, or our other franchisees for failure to make geographic allocations or to do so with precision. We will have the right to expend all, or any portion of, the Advertising Fund for the following purposes:

1. for regional or local co-op advertising or promotional programs provided, however, that such programs will be available to all similarly situated franchisees; and,
2. if in our sole judgment, you or any other franchisee is located in a geographic territory not adequately serviced by our national or regional advertising programs, we may rebate all or a portion of the Advertising Fund Payment paid by that franchisee for use by that franchisee for local advertising. Expenditures by that franchisee will be in addition to the local advertising requirements set forth in this Agreement.

B. Obligation to Deliver Price Lists. You will deliver to us current price lists of all goods and services you sell in, at or through your Franchise. We will have the right to rely upon the accuracy of the price lists, and may use the information to advertise, market and promote the Franchise, and the goods and services you sell. At any time, you may amend, modify or change the price list by notifying us in writing. Price changes will not be effective for a period of **30** days after the notification, to enable us to modify advertising or promotional materials we use to advertise your goods or services. You will adhere to the price lists while they are effective. You may not sell any membership rights at a price less than that we specify from time to time in the Operations Manual.

C. We May Advertise "Suggested Retail Prices". In national or regional advertising programs, we may include "suggested retail prices" for the goods or services sold by you and our other franchisees. We will include within all our advertising the phrase "available at participating locations only" or other cautionary language to advise the consumer that the suggested retail prices may not be adhered to by all our franchisees. We may compel you to charge "suggested retail prices" to the extent permitted by state and federal laws and regulations.

D Discount Programs. From time to time we may develop and market special discount or free coupon programs. You will have the right, but not the obligation, to participate in these programs. We will notify you of the creation and provisions of a discount or coupon program. Within 5days after receipt of the notice, you will advise us whether or not you wish to participate in that program. If you notify us that you wish to participate, you will adhere to all provisions of the program. If you elect to be excluded from a program, we will have the right to advise consumers, by advertising, sales solicitation or otherwise, that you are not a participant. You will not be entitled to the benefits of that program. We will establish the discount or coupon programs in our sole discretion, and will not have any obligation to consult or confer with you or any other of our franchisees with respect to the nature, content or amount of any discount or coupon established pursuant to any program.

We may develop and market special promotional items which will be made available to you at our cost plus a reasonable mark up. You will maintain a representative inventory of such promotional items to meet public demand. You will have the right to purchase alternative promotional items provided that alternative goods conform to our specifications and quality standards. You must fully and accurately participate in, honor, accept and redeem all promotional and marketing materials that we authorize.

We may establish and require you to join, participate in, and pay into, Multi-Area Marketing Programs. "Multi-Area Marketing Programs" include regional, national or international programs designed to increase business, such as multi-area customers, Internet, directory, affinity, vendor, and co-branding programs. These programs may require your cooperation (including refraining from certain channels of marketing and distribution), participation (including payment of commissions or referral fees), and adherence to maximum pricing to the extent permitted by law. All these programs are our confidential information.

E Your Obligation to Advertise Locally and to Participate in Internet and Social Media Marketing. You will submit to us all advertising copy and other advertising and promotional materials, public relations programs and press releases, radio and television advertising, specialty and novelty items, signs, boxes, bags and papers before you use them in your local advertising program. You will not use any advertising copy, public relations program, press release or other promotional material until we approve it. As a condition of our approval, you must permit us and our other franchisees that we authorize to use your materials without compensation to you. Your failure to conform to our provisions or requirements and subsequent non-action by us to require you to cure or remedy your failures and defaults will not be deemed a waiver of future or additional failures and defaults by you under this provision or any other provision of this Agreement.

You will advertise your franchise in a dignified manner to enhance our franchise system's reputation for quality and integrity. At any time and from time to time, we may require you to submit to us advertising copy, promotional materials, public relations programs and press releases you use in your local advertising programs. If, after review of any material, we, in good faith, believe that it is not in keeping with our franchise system's reputation of quality and integrity, or degrades or debases the good will or reputation of the franchise system, we will promptly notify you. You will immediately cease using any such material.

All Internet marketing is part of our marketing programs described in the Operations Manual and defined below, and must be coordinated through us and approved by us. You may not market independently on the Internet or acquire an independent Internet domain name or web site. You may not independently market using any digital, electronic or computerized form or any form of media now or in the future developed (e.g. materials to be made available through the internet, interactive electronic transmissions, etc.). For the purposes of this Agreement, "Internet" means any of one or more local or global interactive communications media, that is now available, or that may become available, and successor technology to the internet and or wireless communication, and includes web sites and domain names and social media, and the successor technology to internet, web sites, web page or wireless communication and social media. Unless the context otherwise indicates, Internet includes, but is not limited to, online document completion and purchasing systems, and methods of accessing limited access electronic networks, such as Intranets, Extranets, and WANs.

You specifically acknowledge and agree that placing any information related to the Franchise or the Franchise Premises on a web site will be deemed "advertising" under this Agreement and will be subject to (among other things) our approval. (As used in this Agreement, the term "web site" means an interactive electronic document, contained in a network of computers linked by communications software that you operate or authorize others to operate and that refers to the franchise, proprietary marks, us or the Method of Operation. The term web site includes, but is not limited to, Internet and World Wide Web home pages and social media.) In connection to any web site, you agree to the following:

1. We will allow you to establish a web page as part of our web site.
2. You will not establish or use any other web site or web page without our prior written approval.
3. Before establishing the web page or any other web site, you will submit to us a sample of the content, format and information in the form and manner we may reasonably require.
4. In addition to any other applicable requirements, you will comply with our standards and specifications for web sites as prescribed by us from time to time in the Operations Manual or otherwise in writing or on a franchisee forum intranet system. By "Intranet" we mean all communications systems utilized by us to communicate with you and our other franchisees, or by which you report data or information to us, or receive data, information or other materials from us. This includes, as applicable, as many different systems or processes as may in fact be used from time to time, including any banking remote or Internet access system.
5. If you propose any material revision to the web page or site or any of the information contained in the web site, you will submit the revision to us for our prior written approval.
6. You may only offer approved products or services on your web page or site. Any web site changes made without our approval will put you in default of this Franchise Agreement.
7. We retain the sole right to market on the Internet, including all use of web sites, domain names, URL's, linking, meta-tags, advertising, auction sites, e-commerce, and co-branding arrangements. You will provide us content for our Internet marketing, and follow our Intranet and Internet usage requirements. We also retain the sole right to use the Service Marks on the Internet, including on web sites, as domain names, directory addresses, meta-tags, and in connection with linking, advertising, co-branding, and other arrangements. We retain the right to approve any linking or other use of our web site. You may not establish a presence on or market using the Internet except as we may specify, and only with our prior written consent. We intend that any franchisee web site be accessed only through our home page. All Internet marketing is a part of Multi-Area Marketing Programs, and must be coordinated through us and approved by us.
8. If you want to independently advertise or promote in any media (including the Internet), you must obtain our prior written approval, except when using materials and media previously approved by us.
9. Subject to the terms of use on our web site, we may gather, develop and use in any lawful manner information about any visitor to the web site, including but not limited to your customers, franchisees or prospective franchisees regardless of whether they were referred to you via the web site or were otherwise in contact with you.
10. We have established or may establish in the future an intranet or comparable on-line facility. You must use it in the manner we require. You understand and agree that we may elect to provide certain assistance, deliver information and materials or otherwise communicate with you via the Internet or the intranet. At your sole expense, you will maintain and update as

needed all computer system requirements and services necessary to access the Internet and the intranet in the manner we require. You are required to have DSL or other high speed Internet service to your business or home office where you will be able to access downloads from us of advertising materials, operations manual revisions, training materials and corporate news.

F You Are to Use Local Advertising Materials We Supply. We will have the right to approve or disapprove the content of all of your advertising. We will supply to you an Advertising Manual which will contain samples of local advertisements we approve. You will use only the advertising materials contained in the Advertising Manual, and may not, without our prior written consent, place any advertisement, in any media, which materially varies from the form and content of the approved advertisements in the Advertising Manual.

G Use of National Advertising and Development Fees for Co-Op Advertising. From time to time, we may use portions of the National Advertising and Development Fee for co-op advertising programs. The terms and conditions required for participation in any co-op advertising program will be specified in the Operations Manual.

H Varying Advertising Contributions. You understand that certain of our other franchisees do or will operate under different agreements with us. These franchisees may be required to contribute National Advertising and Development Fees, if at all, at rates that differ from the rate provided in this Agreement or based on formulae that differ from the formulae provided in this Agreement. We do not represent that you or other franchisees will contribute to or benefit from franchise advertising equally.

I Your Grand Opening Expenditures. Within 30 days after commencement of the Franchise, You will conduct a grand opening advertising program in accordance with the provisions of the Operations Manual. You will spend not less than \$2,000 for advertising and promotional materials, in connection with the grand opening program.

J Trademark and Copyright Notices. You will use the Service Marks in strict conformity to the Operations Manual, and will include in any advertisement, or promotional materials which use the Service Marks, trademark notices as are required by the Operations Manual. All copyrighted materials we supply to you or otherwise used by you in connection with the Franchise will contain copyright notices as required by the Operations Manual.

2.5 **"Revenue" Defined.** "Revenue" means all receipts generated by the Franchise from any source, including, but not limited to, sales, rentals, vending, exchanges, repairs, services, viewings, labor, service charges, service contracts, etc., and excludes discounts, refunds and sales taxes. Credit transactions will be included in Revenue as of the date of the transaction without deduction for uncollected credit accounts. The proceeds from any business interruption insurance or eminent domain recovery you receive will be included in "Revenue." "Gross Monthly Revenue" means the total Revenue for any calendar month.

If the Franchise Premises is located in the premises of a beauty escape room, spa, or other co-branded location, the exact basis and calculation of Gross Revenue will follow the requirements and procedures we outline in the Operations Manual to take into consideration the needs and requirements of the co-branded location although Revenue will be limited to franchise related receipts. The exact basis and calculation of gross receipts will follow the requirements and procedures outlined in the Operations Manual to take into consideration the needs and requirements of the co-branded location. You will obtain and keep, or make arrangements for us to have access to a complete and accurate set of books and records of the operation of all businesses operating at and all business done through the co-branded location although gross receipts will be limited to franchise related sales.

2.6 **You Will Pay Taxes and Indebtedness.** You will pay all taxes, assessments, liens, encumbrances, accounts, and other debts, regardless of their nature, assessed against you, the Franchise Premises, or inventory, materials, fixtures, and equipment used in the Franchise. Payment will be made when due and before delinquent except when being contested in good faith by appropriate proceedings. If we are charged with any tax by the authorized taxing authority of any state or political subdivision, including taxes on

sales made to or licenses granted to you, or sales made by you at the Franchise Premises, you will pay these taxes. You will pay to us promptly and when due the amount of all sales taxes, personal property taxes and similar taxes imposed upon, required to be collected, or on account of collection by us of the Initial Franchise Fee, the Continuing Service and Royalty Fee, or any other payments you make to us pursuant to this Agreement.

You acknowledge that one of the benefits accruing to you and all of our other franchisees is the economy of mass purchasing power made available through us. Your failure to pay or repeated delay in making prompt payment in accordance with the terms of the invoice or statements rendered to you for payments due, or misdirection of supplies or other abuses will result in a loss of credit standing and goodwill and a loss of benefits derived to us and other franchisees using the Method of Operation. You expressly agree to promptly make all product purchase payments on invoices and statements rendered to you in accordance with the terms of the invoices and statements and to make timely remittances of rent as required on your lease. You authorize us to communicate with all the lease holders, suppliers, distributors, manufacturers and vendors with whom you do business and you authorize them to communicate with us regarding all aspects of your purchases from and dealings with them. You authorize us to instruct the suppliers, distributors, manufacturers and vendors (and you instruct them to comply with our instruction) to immediately cease sales and deliveries to you upon the occurrence of any default by you under this Agreement.

2.7 Continuing Service and Royalty Fees, National Advertising and Development Fees, and Other Sums To Be Paid Promptly. You will not set off any claim for damages or money due to you from us against any payments to be paid by you to us under this Agreement or any related agreement between the parties. No endorsement or statement on any check or payment of any sum less than the full sum due from you to us will be construed as an acknowledgment of payment in full or as an accord and satisfaction. We will have the right to accept any check or payment without prejudice to our rights to recover the balance due or to pursue any other remedy available to us.

A late charge will be added to any sums to be paid under this Agreement that remain unpaid after the date due. The late charge will equal the **Prime Interest Rate** then in effect at the main branch of Bank of America in Los Angeles, California, plus **10** percent. These late charges will not exceed any limits placed upon late charges by applicable local laws.

Our acceptance of late charges will not constitute a waiver of the breach created by your non-payment of any amount when due. Notwithstanding the payment of any late charges, we may exercise any rights or remedies granted by this Agreement upon your breach or any rights or remedies otherwise granted by law.

Nothing contained in this Agreement obligates us to accept any payments after due or to commit to extend credit to or otherwise finance your operation of the Franchise. You acknowledge that failure to pay all amounts when due will constitute grounds for termination of this Agreement.

Upon your failure to pay us as and when due, we may, at our election, deduct the unpaid sums from any monies or credit we hold for your account. You agree that you will not withhold payment of any amounts due to us on the grounds of any alleged non-performance by us, or in the event of any dispute or a claim by you, or for any other reason whatsoever.

2.8 Records. You will keep a complete and accurate set of books and records of the operation of the Franchise, produce quarterly financial statements in accordance with generally accepted accounting practices for each calendar quarter and furnish copies of these statements to us within 30 days after the end of each quarter.

In addition to information we obtain from your computer systems, we may require you to furnish to us, as outlined in the Operations Manual on or before the **10th** of each month, an itemized report of the Gross Revenue for the prior calendar month. This report must be certified by you to be true and correct. The report will be in the form and will include such supporting documentation as we may reasonably demand from time to time. Royalty and National Advertising and Development Fees due based upon the Gross Revenue for the preceding

month will accompany the report. If you fail to deliver any report in a timely fashion, we may unilaterally estimate the Royalty and National Advertising and Development Fees you owe and we may draw such fees from your accounts pursuant to automatic account withdrawal or other automatic processes we reasonably specify in the Operations Manual. The estimates will be based upon your historically reported Gross Revenue and our experience with other franchised and company owned locations. These withdrawals will be adjusted to reflect actual amounts owed, once reasonably determined. If the Franchise Premises is in a co-branded location, you will maintain and keep, or make arrangements for us to have access to, a complete and accurate set of books and records of the operation of all business done through the co-branded location, although Revenue will be limited to franchise related receipts.

You will keep records of all business done and Revenue received through the Franchise. These records will include, but are not limited to, order sheets, cash register tapes, sales and rental agreement forms, daily sales summaries, tax returns, financial statements, and invoices. You will date, file in consecutive order, retain for a period of **5** years, and make available to us for inspection and audit all of your records.

Our right to inspect will include the right to examine your books, tax returns, escape room game tax reports, and records of other businesses owned, in whole or in part, or operated by you to determine whether all revenue to be reported by you has been properly reported and that appropriate fees and contributions have been paid. We may establish a uniform list of accounts and a uniform bookkeeping system for all of our franchisees. You agree to maintain your books and records in the manner we require. You agree to maintain your books and records in the manner we require. You will submit to us financial and operational reports and information as we may require to (i) provide you with consultation and advice in accordance with this Agreement; (ii) monitor your compliance with the obligations to pay fees on actual Gross Revenue; (iii) monitor performance under this Agreement generally and your purchases, revenue, operating costs, expenses and profitability; (iv) develop chain-wide statistics; (v) develop new operating procedures; (vi) develop new proprietary products, remove unsuccessful authorized products, including unsuccessful proprietary products, and improve and enhance the Method of Operation; and (vii) implement changes in the Method of Operation to respond to competitive and marketplace changes.

You will submit to us a list of all shareholders, members, partners or other owners of the franchise business and the respective interests held by each as of the end of each fiscal year. Provided, however, if your shares are publicly traded, the list of shareholders required will include only those owning **5** percent or more of the shares outstanding. The required report will be submitted to us within **90** days after the end of your fiscal year.

2.9 Audits. We may audit your reports, books, statements, business records, cash control devices, and tax returns at any time during normal business hours. Audits will be conducted at our expense unless you understate the Gross Revenue for any reported period or periods by more than **2** percent or unless you fail to deliver any required report of Gross Monthly Revenue or any required financial statement in a timely manner. In the event of an understatement or failure to deliver, you will reimburse us for all audit costs. These will include, among other things, the charges of any independent accountant and the travel expenses, room, board, and compensation of our employees incurred in connection with the audit. You will immediately pay all Continuing Service and Royalty Fees, National Advertising and Development Fees, Local Advertising Contributions and late payment charges that the audit determines are owed. These payments will not prejudice any other remedies we may have under this Agreement or by law.

2.10 You are to Pay all Franchise Costs. All the costs of the Franchise, including opening and operating costs, will be your sole obligation. We will have no costs, liability or expense whatsoever with respect to your opening and operation of the Franchise. You will not use or employ the Service Marks in performing any activity or incurring any obligation or indebtedness in a manner that could result in making us liable for them. You are responsible for any employee wages and compensation, payroll taxes and other required withholding, worker's compensation and benefits. You will control your own employees and contractors. You will take all steps necessary to maintain a safe and healthy environment for your workers and customers.

You will pay all of the operating expenses of your franchise business in a timely manner. You understand and agree that your failure to do so could materially harm the reputation of Method of Operation and of the Service Marks and our ability and the ability of our franchisees to obtain favorable purchase, lease or finance terms. If you have a bona fide dispute with any supplier or vendor which you believe justifies non-payment or partial payment, you must promptly notify the supplier or vendor of the particulars of your claim and diligently pursue resolution of the claim or prosecution of appropriate legal action. Any trade debt which remains unpaid for more than 30 days after the date it is due will constitute a breach of this Agreement unless, before the end of the 30-day period (i) you and the supplier or vendor agree to alternative payment terms; or (ii) you initiate appropriate legal action to contest the trade debt. We will have no liability for your debts or obligations to third parties.

2.11 **Attendance at Conventions.** We may hold conventions for the franchisees that make up our franchise escape rooms location. They may be held at a different location each time. The convention may include programs on sales and marketing techniques, performance specifications, advertising programs, training suggestions, and committee elections, among other things. Your attendance at each convention is strongly encouraged. You will bear all expenses of attending, including travel, lodging, meals and entertainment.

2.12 **Application of Payments.** We have the right, in our sole discretion, to apply any payment from you to any past due indebtedness you owe to us or our affiliates, whether from fee payments, purchases, late payment charges, or for any other reason. This section will apply regardless of how you may designate a particular payment is to be applied. For the purposes of this Agreement, and all other instruments and agreements relating to it, we will have the right to treat any payment received from you as payment on account. We may apply any monies received from you in the following priority:

- a) to the payment of any sales or use taxes required to be paid in connection with any dealings between you and us pursuant to this Agreement;
- b) to the payment of interest on overdue amounts;
- c) to the payment of accrued late charges;
- d) to the payment of overdue or outstanding amounts;
- e) to the payment of current Continuing Service and Royalty Fees;
- f) to the payment of current Marketing Fund contributions;
- g) to the payment of the purchase price for all or any items you purchase from us or Paniq Room Suppliers,
- h) to the payment of rent and any other amounts payable by you to us, and
- i) to the payment of all attorney's fees and costs of collection associated with the collection of any sum,

in any order that we, in our discretion, decide and notwithstanding any contrary designations by you as to the application your payments.

3) **TRAINING**

3.1 **Mandatory Training.** We will provide a mandatory training course for you or your franchise managers at a location we will designate. This training course will cover all aspects of the operation of the Franchise, including financial controls, marketing techniques, service methods, deployment of labor, and maintenance of quality standards. You or the manager will complete the course no later than 2 weeks prior to

opening the Franchise for business. You must ask us to schedule a training session for you or the manager at least **30** days before the session is to start. You or the manager must complete this mandatory training program to our exclusive satisfaction or we may terminate this Agreement and retain some or all of the Initial Franchise Fee. You are encouraged to begin training before incurring any costs or expenses related to the planned opening of the Franchise. We will not be liable for any costs or expenses you incur if we terminate this Agreement because you or your manager fails to satisfactorily complete the mandatory training course.

You will pay the transportation, board and lodging expenses you or the manager incur related to this training. The training course will be approximately 24 hours long.

If the Franchise is managed by any persons other than you, you will notify us of these managers. Each manager you hire must successfully complete the mandatory training program within one month after being hired. You will bear all costs of the training, including a reasonable training fee at our then current rates. Each of your employees will complete a training program as prescribed in the Operations Manual. All training programs for your employees will be conducted under the direction of you or your designated manager who has successfully completed the mandatory training course. Many small businesses fail when the owner does not take an active day-to-day role in the operation and management of the business. If you do not act as the daily manager at the business location you must have in your employ a manager who runs your day to day operations. We strongly recommend that all individual franchisees and all partners and owners of franchisee entities devote their full time and best efforts to the day to day operation of the franchise with no operational or management commitments in other businesses except other franchises offered by us.

Individuals:

If you will be operating your franchise as an individual, you must [we strongly recommend that you] devote your full time and best efforts to the day to day operation of your franchise with no operational or management commitments in other businesses except other franchises offered by us.

Partnerships:

If you will be operating your franchise as a partnership, one or more partners must participate in the actual day to day operation of your franchise or you must have in your employ a manager who runs your day to day operations. The partner or partners who are in charge of running your franchise or your manager must have successfully completed our training course.

Corporations, Limited Liability Companies:

If you will be operating your franchise as a corporation, limited liability company, or other legal entity, you must have in your employ a general manager. This general manager can be you, any member of your board, an officer of your corporation or member of your limited liability company. The general manager who is in charge of running your franchise must have successfully completed our training course.

Managers/Training:

No matter what form of business you decide to use, the person assigned to running the day to day operations of the business must have completed our training course and must, in our view, have a sufficient command of the English language to serve customers and conduct business with us, with suppliers and with other parties. Anyone in your employ who is a manager or crew leader of your franchise operations must also have completed our required training course.

3.2 Supplemental Training. At the time the Franchise is ready to be opened for business and upon not less than 30 days prior written notice to us, we will provide the full-time services of a trainer at the Franchise Premises for up to 2 work days to assist with employee training, form use, escape room decor, merchandise display, sales assistance, and use of the Operations Manual. We will bear the trainer's expenses for this assistance.

At your option and upon not less than 30 days' prior written notice to us, you may receive additional training at our training center or at other agreed upon locations. All expenses of this training will be borne by you, including but not limited to your travel, lodging, meals, compensation, and our reasonable costs and expenses including a reasonable training fee at our then current rates.

This additional training consists of visits to our franchises, work experience, and observation of franchise operations. The duration of training is negotiable depending upon your needs.

You will not receive any compensation for services rendered by the trainee during this or any other training.

From time to time we may provide refresher training programs or seminars and may require that you or your managers attend and complete them to our satisfaction. These programs and seminars will be held at locations we designate and will be provided without charge to you. You will be exclusively responsible for paying all travel, living and other expenses and compensation of attending these programs and seminars. Each year, you or the designated managers of your Franchise will be required to attend up to 12 hours of programs and seminars, depending upon program and seminar availability.

4) COMMENCEMENT OF OPERATIONS

4.1 **Time to Complete Training and Commence Operation.** You or your manager will complete to our exclusive satisfaction the mandatory training defined above and commence full and continuous operation of the Franchise within 270 days after execution of this Agreement. Prior to commencing operation, you will procure all necessary licenses, permits and improvements and purchase initial inventory. Any failure to commence operation caused by a war or civil disturbance, a natural disaster, a labor dispute, shortages or other events beyond your reasonable control will be excused for a period of time that is reasonable under the circumstances.

If this commencement of operation obligation is not fulfilled, we may terminate this Agreement and retain some or all of the Initial Franchise Fee.

4.2 **You Are to Obtain Permits and Licenses.** Prior to commencing business operations, you will obtain all local permits and licenses necessary to operate the Franchise, including all equipment permits and employee training required by relevant state laws, if any.

4.3 **Lease Assumption and Real Property Security Assignments.** Unless otherwise agreed in writing, any lease you enter into will provide that you may assign that lease to us without penalty or charge. The lease will further provide that upon termination or expiration of this Agreement, we will have an option, exercisable within 30 days after termination or expiration, to be substituted for you in all respects under the lease and to sublease the premises to another franchisee. You will deliver to us a true copy of the lease and any additions or amendments to it promptly after they are executed.

If you own the premises used for the operation of the Franchise, you will not mortgage, pledge, or otherwise assign as security the premises during the term of this Agreement without our prior written approval. Upon termination or expiration of this Agreement, you will give us a reasonable and good faith opportunity to lease the premises and to continue business operations there. The fair value of and fair terms for the lease and for all related equipment, fixtures, signs, equipment leases and personal property will be determined in Los Angeles, California by three appraisers. Each party must select one appraiser. The two appraisers chosen must then select a third appraiser. Each party will pay for its own appraiser and each party will pay half for the third appraiser. The parties may then present evidence of the value of the lease and fair terms for the transaction. The appraisers must exclude from their decision any amount or factor for the "goodwill" or "going concern" value. The decision of the majority of the appraisers will be conclusive. Any time within **30** days after receiving the appraisers' decision, at our option we may enter into the lease at the price and upon the terms determined by the appraisers.

Any lease or sublease of the Franchise Premises will contain substantially the following provisions: (see the Franchise Premises Lease Rider attached in Exhibit 3)

- A. Anything contained in this lease to the contrary notwithstanding, lessor agrees that without lessor's consent, this lease and your right, title and interest, may be assigned by you to us, without cost or penalty;
- B. You agree that lessor may, upon our written request disclose to us, all reports, information or data in lessor's possession respecting sales made in, upon or from the leased premises;
- C. Lessor will give written notice to us (concurrently with the giving of notice to you) of any breach by you under the lease. We will have the right, in our sole discretion, to cure any breach at your expense. Notice will be sent to the address we may, from time to time, specify in writing to lessor;
- D. A provision reserving to us the right, at our election, to receive an assignment of the leasehold interest upon termination or expiration of the franchise grant;
- E. A provision which expressly permits the lessor of the premises to provide us all sales and other information lessor may have related to the operation of the Franchised Premises, as we may request;
- F. A provision which requires the lessor concurrently to provide us with a copy of any written notice of deficiency under the lease sent to you and which grants to us, in our sole discretion, the right (but not obligation) to cure any deficiency under the lease, should you fail to do so within **15** business days after the expiration of the period in which you had to cure any such default;
- G. A provision which evidences your right to display the Proprietary Marks in accordance with the specifications required by the Confidential Operations Manual, subject only to the provisions of applicable law;
- H. A provision that the premises be used for the operation of your franchise facility; and
- I. A provision that expressly states that any default by you under the lease will be considered a default by you under this Agreement and any default by you under this Agreement will be considered a default by you under the lease.
- J. You will not extend, renew or cancel the lease without our prior written consent, which consent will not be unreasonably withheld.

If we cure any breach by you under the lease or sublease, the total amount of all costs and payments we incur in effecting the cure will be immediately due and owing by you to us.

5) FRANCHISE STANDARDS OF OPERATION

5.1 Operations Manual. Minimum Inventory. Supplies. Decor. Plans and Specifications. and Public Relations. Our industry is highly competitive. Continuous efforts to maintain, update and improve the Method of Operation are essential. The developments we will make for the benefit of our Franchise System as a whole are contemplated throughout the term of this Agreement. The continuous development of the Method of Operation in this manner is an important and beneficial aspect of the relationship you want to have with us. We agree to lend to you a copy of our Operations Manual once you have paid to us the Initial Franchise Fee, in full. The Operations Manual describes the Method of Operation, including specifications, standards, operating procedures, accounting and bookkeeping methods, marketing ideas, inventory requirements and control techniques, plans and specifications, fixture and decor requirements, co-branding requirements, fines for your failure to comply with our requirements, opening public relations and other rules that we may prescribe from time to time and identify as part of the Operations Manual. The Operations Manual is and will remain confidential and our exclusive property. You will not disclose, copy or duplicate any part of the Operations

Manual for any reason. Nothing in this Agreement may be construed as an incorporation of the Operations Manual or as making the Operations Manual part of this Agreement. Any representations or promises outside of the Franchise Disclosure Document and other agreements may not be enforceable.

Among other things, the Operations Manual may contain information, requirements and standards related to:

- Planning and consulting
- Site selection assistance
- Permitting and zoning assistance
- Facility design assistance
- Tenant build-out assistance
- Furnishing and fixture design and standards
- Equipment standards and assistance
- Computer programs for point of sale, marketing, accounting, scheduling and reporting
- Inventory management assistance and training
- Written operations standards and assistance
- Initial and ongoing operational training
- Management and employee training
- Marketing and advertising
- Standards, ongoing training and ongoing support
- Insurance guidance and standards
- Warranty programs

The Operations Manual includes materials in whatever form (including electronic) we provide to you that describe the guidelines, advice, and requirements regarding the operation of your franchise, including user manuals and related instruction materials. It includes amendments, supplements, and new documents made and identified by us as part of the Operations Manual. The Operations Manual may be delivered to you by hard paper copy, computer diskette, CD-ROM, via an intranet or other downloading mechanism to your computer or via another medium chosen at our discretion.

The Operations Manual, in part, may consist of confidential:

- A. Manual or manuals;
- B. Any intranet or password protected portion of an Internet site;
- C. Any other embodiment of the Method of Operations, including notices of new standards and techniques including all media identified by us as part of the Operations Manual; or
- D. Any amendments, supplements, derivative works, and replacements; whether embodied in electronic or other media.

We develop minimum requirements for product preparation, merchandise, inventory, supplies, stationery, business forms, advertising, decor, plans and specifications, materials, fixtures, and signs, among other things. These requirements are outlined in the Operations Manual. You will purchase all initial inventory items and additional items specified in the Operations Manual. We may amend the Operations Manual, including changes which may affect minimum requirements for your franchise operations. You will strictly adhere to the requirements of the Operations Manual as we amend. You will implement immediately all changes at your cost, unless we otherwise specify. We reasonably may restrict you from producing, stocking, and selling certain services and goods, from time to time, as specified in the Operations Manual.

You may purchase some equipment, inventory, and supply items from us at our then current prices. If you desire to purchase any items from us, payment must be made when you place your order. The items we offer include among other things equipment, merchandise, and supplies that bear the Service Marks. You may offer

these items only at the Franchise Premises to retail customers. You must purchase items that bear the Service Marks from us or suppliers we approve from time to time.

Proprietary items and supplies may be private labeled by us. We retain the right to make a reasonable profit on any items, supplies and materials you buy from us. We may also make a reasonable profit on supplies we purchase in bulk quantities and sell to you.

We may obtain money, goods, services, or other benefits from persons and entities with whom you do business, on account of that business with you. These may include rebates, refunds, commissions, co-operative payments, or discounts. We will accumulate them, annually account to our franchise escape rooms location for them and either add them to the Advertising Fund, use them for programs that benefit all franchisees such as conventions, use them to provide supplemental training and promotional services to our franchisees, or return them at reasonable times to all our franchisees pro rata, based upon the volume of related business.

Any products and goods sold, licensed, or leased by or through us to you will be sold, licensed, or leased in accordance with the terms expressly set forth in the Operations Manual or as otherwise provided for in writing by us or the manufacturer of the products and goods. **EXCEPT AS EXCLUSIVELY SET FORTH IN WRITING AND SIGNED BY US, WE MAKE NO EXPRESS OR IMPLIED WARRANTIES WITH RESPECT TO THE PRODUCTS AND GOODS, AND ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT RESTRICTED TO, THE IMPLIED WARRANTY OF TITLE AND THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, ARE EXPRESSLY DISCLAIMED. UNDER NO CIRCUMSTANCES WILL OUR LIABILITY IN CONNECTION WITH ANY PRODUCTS OR GOODS EXCEED THE DOLLAR AMOUNT OF THE PURCHASE PRICE OR LICENSE FEE PAID BY YOU FOR THE PRODUCTS OR GOODS. IN NO EVENT WILL WE BE LIABLE TO ANY PARTY, INCLUDING BUT NOT LIMITED TO, YOU AND YOUR CUSTOMERS, FOR ANY TORT DAMAGES OR INDIRECT, SPECIAL, GENERAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS OR ANTICIPATED PROFITS AND LOSS OF GOODWILL, ARISING IN CONNECTION WITH THE USE (OR INABILITY TO USE) THE PRODUCTS OR GOODS FOR ANY PURPOSE WHATSOEVER, EVEN IF WE ARE AWARE OR HAVE BEEN ADVISED OF THE POSSIBILITY OF POTENTIAL LOSS OR DAMAGES.**

We will not be liable to you if we are unable to deliver equipment, inventory or supply items to you because of any loss, damage, or delay caused by strikes, riots, fire, insurrection, war, elements, embargoes, failure of carriers, inability to obtain transportation facilities, forces majeure, acts of God or of the public enemy, or any other cause beyond our control.

You will purchase all products, supplies and materials required for the operation of the Franchise from manufacturers, suppliers or distributors approved by us. All specifications that we require of you and lists of approved suppliers will be included in the Operations Manual. We will use our best judgment to set and modify specifications in order to maintain the integrity and quality of the franchise system.

You must sell, offer for sale, distribute or deliver only such services or products that meet the specifications and standards of quality and quantity in the Operations Manual. You must sell or offer to sell all approved items and services. You must refrain from deviating from our standards and specifications and must discontinue selling or offering for sale any such items as we may, in our discretion, disapprove in writing at any time.

You are required to maintain an inventory of authorized and approved equipment and supplies sufficient in quantity to satisfy customer demand.

Restrictions On Resale Of Products. You, your family, employees, partners, principals, members, managers, directors and shareholders may not resell the products, supplies or equipment that you buy from us that are used in the operation of your franchised business.

With advance written notice, you may request our approval to obtain products, supplies or materials from sources that we have not previously approved. We may require you to give us sufficient information,

photographs, drawings, samples, and other data to allow us to determine whether the items from these other sources meet our specifications and standards, as established from time to time. These specifications and standards will relate to quality, aroma, texture, composition, absorbency, strength, finish and appearance, and the suppliers' capacity and facility to supply your needs in the quantities, at the times, and with the reliability necessary for efficient operation. We may require that samples from any supplier be delivered to a designated independent testing laboratory for testing prior to approval and use. You will reimburse us for the actual cost of the tests. We will license any supplier that can meet or exceed our quality control and confidential formula requirements and standards, for a reasonable license fee, to produce and deliver products to you but to no other person. Our confidential manufacturing requirements, equipment, designs, systems and formulas will be disclosed to potential suppliers only after we have received reasonable evidence that the proposed supplier is trustworthy and reputable; has the capacity to consistently adhere to our standards, requirements and testing procedures; will maintain the confidentiality of the designs, systems and formulas; and will adequately supply your reasonable needs. We may require a Confidentiality, Non-Use and Non-Disclosure Agreement signed by the proposed supplier prior to release of any confidential information. We will not unreasonably withhold approval of a supplier you propose. We will notify you in writing of the approval or disapproval of any supplier you propose.

From time to time we or our agents may inspect any proposed or approved manufacturer's, supplier's or distributor's facilities and products to assure proper production, processing, packaging, storing, and transportation. Permission for inspection will be a condition of our continued approval of any manufacturer, supplier or distributor. Should we determine from any inspection that a manufacturer, supplier or distributor fails to meet our specifications and standards, We will give written notice describing this failure to you and to the manufacturer, supplier or distributor, together with a notice that unless the failure or deficiency is corrected within **30** days, the manufacturer, supplier or distributor will no longer be approved.

5.2 **Standards to Be Maintained.** You will follow the Method of Operation and maintain standards of product preparation, merchandising, and service that we prescribe.

- A You will operate the Franchise in a clean, orderly, and respectable manner in strict compliance with this Agreement and the Operations Manual. The Franchise Premises will be used only as a Franchise operating under this Agreement. You will only use signs, fixtures, equipment, materials, food products, inventory, decor, plans, and services that conform to our specifications to conduct the Franchise.
- B You will maintain signs approved by us on the Franchise Premises. These signs must comply with local sign ordinances, regulations, and bylaws. The signs will describe the premises only as a Paniq Room Franchise.

Subject to local law, illuminated outdoor signs will be lighted 24 hours a day, seven days a week.

- C We may enter upon the Franchise Premises at reasonable times to verify your compliance with the terms of this Agreement. To do so, we may:
 - (1) Inspect the Franchise Premises;
 - (2) Observe your operation of the franchise business for any consecutive or intermittent periods we deem necessary;
 - (3) Interview your personnel, customers, vendors, and co-branded partners; and
 - (4) Inspect and copy any books, records and documents related to the operation of the franchise, the co-branded location, and any other franchise information we may require.

You and anyone acting as your agent will cooperate fully with us and our agents in connection with these inspections, observations, and interviews. You expressly waive any rights of privacy or

confidentiality you have with your personnel, customers, vendors, and co-branded partners in reference to these inspections, observations, and interviews.

- D You will comply with all applicable ordinances, regulations, bylaws, laws, and statutes. You will not permit unlawful activities on the Franchise Premises and will not sell, exchange, offer, hold, show, rent, or permit to be sold, exchanged, offered, held, shown, or rented any material or service you know or reasonably suspect to have been obtained in violation of law or to be otherwise illegal.

You will secure and maintain in full force all required licenses, permits, and certificates related to the operation of the Franchised Business and will operate the Franchised Business in full compliance with all applicable laws, ordinances, and regulations, including without limitation, all government laws and ordinances related to occupational hazards and health; EEOC laws; Americans with Disabilities Act; copyright laws protecting owners of artistic works; consumer protection; trade regulations; workers' compensation; unemployment insurance and withholding; and payment of federal and state income taxes, social security taxes, and sales, use, and property taxes. You will furnish to us within **120** days after the receipt of equipment, a copy of the receipt for payment of all use taxes, personal property taxes, and like taxes and assessments.

- E You will not install or use any vending machines, juke boxes, games or musical devices on the Franchise Premises without our prior written approval.
- F You will not sell or dispense any products or services or activities other than those we specifically recognize and approve in writing.
- G We may employ professional shopping services to monitor your compliance with this Agreement. You will repurchase merchandise and otherwise fully reimburse these shopping services for goods, services, and other items they receive, lease, or buy from you in the process of verifying compliance. You will hold us harmless from any such charges incurred by any shopping service. We will pay all other charges made by the shopping services.
- H You, at your expense, will maintain the interior and exterior of the Franchise Premises and equipment and furnishings in good repair, attractive appearance, and sound operating condition in compliance with the Operations Manual. At our request, you will make necessary repairs to the Franchise Premises in order to maintain uniform appearance and to protect the reputation of the Service Marks. You will commence all repairs and changes within a reasonable time after notice from us, and you will proceed with due diligence until completion. You will not make any change in the layout and decor of the Franchise Premises without our prior written approval.

If you do not maintain the Franchise Premises as required, after notice to you, we at our option, may make the necessary maintenance and repairs and charge the cost to you. If we make or direct the making of repairs, we will not incur any liability to you, including but not limited to, liability for interruption of your business during the course of making the maintenance and repairs.

- I You will keep your franchise open for business every day of the year, except holidays we designate, during the hours specified or approved in writing by us or required by the lease of the premises on which the Franchise is operated. We may change these requirements from time to time as designated in the Operations Manual.
- J At all times you will insure that your copy of the Operations Manual (including the Advertising Manual) and any other manuals given to you are kept current and up to date with amendments and updates we provide to you. In the event of any dispute as to the contents of the Operations Manual, the terms of our master copies maintained at our principal place of business will be controlling.
- K You will participate in and cooperate with us in all gift card and customer service programs we establish or adopt from time to time pursuant to processes, procedures, and rules outlined in the

Operations Manual. You will use the customer loyalty and gift card programs we designate to capture customer contact information, track purchases, reward repeat purchases or issue cash value for gift redemption. We will settle balances owed inter-store through a monthly reconciliation process and issue credit or debit notes for amounts owed and due.

At our request, you will use reasonable efforts to secure the names, addresses and other information we reasonably require of your clients and customers and will allow us to use the information. You will not divulge your customer names, addresses or other information, with or without remuneration, to any third party. You will respond promptly to each customer inquiry or complaint and resolve all reasonable complaints to the customer's satisfaction.

5.3 **Service Marks, Operations Manual, and Method of Operation Are Our Exclusive Property.** You agree that the Service Marks, Operations Manual, and Method of Operation are our sole and exclusive property. Except the Franchise granted to you in this Agreement, nothing in this Agreement or any other agreement will give you or others any right, title, or interest whatsoever in or to the Service Marks, Operations Manual, or Method of Operation. Your license to use the Service Marks is non-exclusive. We, in our sole discretion, may operate under the Service Marks and may grant licenses to others to use the Service Marks on any terms and conditions we deem appropriate. In those states and nations where applicable, you agree to execute on request all documents necessary to record you as a registered user of the Service Marks. You will not use the Service Marks as part of any electronic mail address or in any electronic mail message except in accordance with the Operations Manual and only for the purposes of the Franchise.

You will immediately notify us of any infringement of, or challenge to, your use of the Service Marks or any marks identical to or confusingly similar to the Service Marks, including any claims of infringement or unfair competition. While we will make reasonable efforts to protect your rights to use the Service Marks, we will have sole discretion to take or not to take action, as we deem appropriate. If we undertake the defense or prosecution of any litigation or administrative action involving you or any litigation or administrative action involving the Service Marks, you agree to execute any and all documents and to do all acts and things that in the opinion of our counsel are necessary or advisable to carry out the defense or prosecution. This may be done either in our name or in your name, as we will elect. We will not be required to participate in your defense or indemnify you for expenses or damages if you are a party to an administrative or judicial proceeding involving the Service Marks or if the proceeding is resolved unfavorably to you. Instead, at any time, you will modify or discontinue use of any franchise names or Service Marks, or will use one or more substitute names or marks, if we so direct in writing at any time. Our sole obligation in this event will be to reimburse you for your tangible costs in complying with our direction (i.e., cost of changing signs, stationery, etc.). Under no circumstances will we be liable to you for any other damages, costs, losses, rights, or detriments related to any modification, discontinuance, or substitution. All obligations or requirements imposed upon you relating to the Service Marks will apply with equal force to any modified or substituted names or marks.

You will not contest, directly or indirectly: Our ownership, title, right, or interest in the Service Marks, the Operations Manual, or the Method of Operation; or our exclusive right to register, use, or license others to use the Service Marks, Operations Manual, and Method of Operation. You will not advertise or use the Service Marks without following our then current guidelines and requirements. These may include, but will not be limited to, the placement of appropriate (C) or (R) copyright and registration marks, or the designations TM or SM, where applicable.

Any and all goodwill associated with the Service Marks, including any goodwill that might be deemed to have arisen through your activities, will accrue directly and exclusively to our benefit, except as otherwise provided by applicable law. You appoint us as your agent and attorney-in-fact to amend or cancel any Registered User or Business Name filings obtained by you or on your behalf that involve or pertain to the Service Marks.

You will prepare all products offered at the Franchise Premises in strict compliance with the Operations Manual and will apply the Service Marks to these products as we specifically direct.

You will not use the Service Marks on products or services that come from any source other than us or sources we approve in writing except for products you prepare or produce pursuant to the Operations Manual and the Method of Operation.

We make no representation or warranty, express or implied, as to the use, exclusive ownership, validity or enforceability of the Service Marks.

We and you will use reasonable best efforts to continuously improve the products, processes and services used in the Method of Operation and to develop new products, processes and services for use as part of the Method of Operation. All the improvements, inventions and developments you make, develop or create for use in the Method of Operation will be our property and we alone will hold any patent, trademark registration or other form of protection for those improvements, inventions, developments, processes, methods and practices.

5.4 **You Will Not Use Names or Marks in Combination.** Except as provided in this Agreement, you will not use or give others permission to use the Service Marks, or any colorable imitation of them, combined with any other words or phrases. You and your owners, officers, and agents will not form or participate in the formation of any company, firm, corporation, or other entity having a name containing the words of the Service Marks. You may not combine or associate with any name or symbol of the Service Marks with any other name or word in any advertising or sign. The Service Marks must be used in exact conformity with specifications we set in the Operations Manual.

5.5 **Service Marks, Operations Manual, and Method of Operation May Be Changed.** You acknowledge that the Service Marks, Operations Manual, and Method of Operation, including any future amendments or modifications to them, have substantial value, and that the conditions, restrictions, covenants not to compete, and other limitations imposed by this Agreement are necessary, equitable, and reasonable for the general benefit of you, Us, and others enjoying any lawful economic interest in the Service Marks, Operations Manual, and Method of Operation.

You understand and agree that the Method of Operation must not remain static if it is to meet presently unforeseen future changes in technology, competitive circumstances, demographics, consumer trends, social trends and other marketplace variables and to best serve the interests of you, us and our other franchisees. We may add to, subtract from, change or modify any part of the Service Marks, Operations Manual, or Method of Operation from time to time at our sole discretion. This may include changes to the products, equipment, signage, trade dress, décor, design, appearance, operations, programs, services, methods, standards, forms, policies and procedures of the Method of Operation or abandoning the Method of Operation altogether in favor of another system in connection with a merger, acquisition, or other business reason. You will accept, use, and protect, for the purposes of this Agreement, all additions, subtractions, changes and modifications as if they were a part of the Service Marks, Operations Manual, and Method of Operation at the time this Agreement is executed. You will bear all costs and expenses which may be reasonably necessary as a result of such changes or modifications. Under no circumstances will we be liable to you for any damages, costs, losses, or detriments related to of these changes or modifications.

Complete and detailed uniformity of the Service Marks, Operations Manual, and Method of Operation under the varying conditions to be experienced by our franchisees may not be possible or practicable. Therefore we reserve the right, at our discretion, to accommodate your special needs, or those of any other of our franchisees. These needs may result from the peculiarities of a particular site or location, density of population, business potential, populations of trade area, existing business practices, requirements of local law or local customers, landlord requirements, or any other condition which we deem to be important to the successful operation of the franchisee's business. From time to time, we may allow certain franchisees to depart from normal system standards and routines to experiment with or test new products, equipment, designs, and procedures. In no event will any variance or testing be deemed a waiver of any of our rights, or an excuse for you to not perform any of your duties under this Agreement. We may require you at any time to commence full compliance with the Operations Manual and the Method of Operation. We will not be required to grant any variance to you under any circumstances. You will not require us to disclose or grant to you a like or similar variation. Any representations or promises outside of the Franchise Disclosure Document and other agreements may not be

enforceable.

5.6 **You Will Not Communicate Confidential Information.** You specifically acknowledge that you will receive valuable specialized and confidential information, including information regarding our operational, sales, promotional, and marketing methods and techniques, operating procedures, processes, practices, lists of suppliers, customer lists, manuals, marketing and sales techniques and strategies, and the Method of Operation. Unless required by court order or applicable law, you agree not to copy, download to internet, intranet, modem, fax, e-mail, mail or send any confidential material or divulge any material directly or indirectly to any other person or enterprise outside of our franchise system. During the term of this Agreement and after it expires or is terminated, you will never communicate, fax, e-mail, post on an internet electronic bulletin board, divulge or use in any other manner, either for your benefit or the benefit of any other person, persons, partnerships, associations, companies or corporations any confidential or proprietary information, knowledge or know-how concerning the Method of Operation or any information we have communicated to you in written, verbal or electronic form, including intranet passwords, for the operation of your franchised business.

You will assure that all communications and media connections with us and with your customers and access to financial information (especially bank account and credit card information) are at all times kept secure. This includes wireless, cable, internet, broadband or other communications and media connections. Your security measures must be in compliance with all legal requirements and, particularly, with all security requirements of the relevant banks and issuing credit card companies.

The Method of Operation includes valuable proprietary and confidential information. Unless required by court order or applicable law, you agree to not communicate or divulge the contents of our Operations Manuals or any other information related to the Method of Operation or to the operation of the Franchise or our franchise system to any person or entity except those we authorize in writing to receive the information. You agree that these contents and information are confidential. They are our exclusive property, and you may only use them in the Franchise subject to the provisions and duration of this Agreement. You agree to fully and strictly adhere to all security procedures we prescribe for maintaining the confidentiality of the information. You agree to disclose information to your employees only to the extent necessary to perform the franchise business. You will not reverse engineer, decompile or disassemble any items embodying the Method of Operation or our confidential information.

The Method of Operation is a technologically advanced program of accounting, identification procedures, management systems, techniques and business operations and systems that would, if used by other persons, firms or entities, give a substantial competitive advantage which we presently enjoy. Any and all information, knowledge and know how, not generally known about the Method of Operation and our products, services, standards, specifications, systems, procedures and techniques, including information, manuals, contracts, customer data, supplier data, financial data, price lists, methods, techniques, processes, compilations, formulas, programs or patterns related the operation of a franchise and its products and services and any other information or material that we may designate as confidential, will be deemed confidential for purposes of this Agreement. This will not apply to information which you can demonstrate came to your attention prior to disclosure by Us, or which is or has become a part of the public domain through publication or communication by others. Our confidential information is licensed, not sold, to you. You will not reverse engineer, decompile, or disassemble any item that embodies confidential information. The Operations Manual may contain guidelines to protect confidential information and trade secrets, including limited access to the information on a need-to-know basis, locking of offices and computer files, placement of appropriate legends on materials, limited access for copying and scanning, password protection, and encryption. You will conduct periodic meeting with your managers and employees to instruct them on their responsibilities to maintain the confidentiality of our information, including severance interviews with terminated employees in which they acknowledge in writing their post-employment confidentiality obligations.

You will require as a condition of the employment of your employees and anyone else providing services to you that they maintain and protect our confidential and proprietary information, including the signing of a confidentiality agreement. You must follow our security procedures, which may include the execution of approved nondisclosure agreements, and Intranet and Internet usage agreements. You will be responsible to

enforce these covenants and agreements by your employees. These covenants are for the benefit of us and our franchise system and are enforceable by us. If you become aware of any actual or threatened violations of

these covenants by any of your employees and anyone else providing services to you, you will promptly and fully advise us in writing of all related facts known to you. You will cooperate with us in all ways we reasonably request to prevent or stop any violation. This may include institution or permitting to be instituted in your name any demand, suit or action that we determine is advisable. The demand, suit or action may be maintained and prosecuted by us and you at your expense.

You will assure that you and all your agents, employees, consultants, partners, owners, members, officers, directors, and shareholders and other persons in your control, to whom any information is communicated, will keep, preserve, and protect all confidential information.

This section contains prohibitions based upon an understanding that you, your key employees, your officers, your partners, your employees, members and stockholders (as applicable) will possess knowledge of business and operating methods and confidential information, disclosure of which would prejudice our interests and our other franchisees.

If you engage in any escape room, game, or similar business within **2** years of the expiration, termination or transfer of this Agreement, you will prove to us that you have not used our confidential information in that business. This **2** year period is not intended to limit the duration of your obligation to preserve the confidentiality of the information and to not use the information after expiration, termination or transfer of this Agreement.

5.7 Conflicting or Competing Interests. You will diligently, faithfully, and honestly perform your obligations pursuant to this Agreement. You will use your best efforts to develop, promote, and enhance your Franchise. You will not engage in any activity or business enterprise that conflicts with these obligations.

At all times the Franchise must be under your direct supervision. You will devote a substantial enough amount of time and energy to properly operate the Franchise. What constitutes proper operation will be in our sole reasonable discretion. In your absence, the Franchise must be under the direct supervision of a manager who has successfully completed the required training programs and who devotes the necessary time during business hours to the management of the Franchise.

Absentee ownership is not in the best interest of either you or us and will be grounds for termination of the Franchise without express written consent.

In express consideration for and during the term of this Agreement, neither you nor your owners, shareholders, members, partners, directors, officers, employees, consultants, distributors, or agents, nor the members of your or their immediate families or households (who have access to or knowledge of the Operations Manual or Method of Operation), will directly or indirectly participate as an owner, shareholder, member, partner, director, officer, employee, consultant, franchisor, franchisee, distributor, advisor or agent, or serve in any other capacity in any business (including business information) engaged or to be engaged in the sale or rental at wholesale or retail or on the Internet of escape room game products or services or any business that offer products and services that are essentially the same as, or substantially similar to, the products and services that are part of the Method of Operation. We may waive this covenant only in writing. During all of these periods, you agree to promptly and fully disclose to our Chief Executive Officer any business opportunity coming to your attention, or conceived or developed in whole or in part by you, which relates to our business.

You will assure that you and your owners, directors, officers, partners, shareholders, members, employees, consultants, and agents, during the term of this Agreement and for a period of **2** years after expiration or termination of this Agreement, do not:

- A. divert or directly or indirectly attempt to divert any of our business or any of our customers to any competing establishment;
- B. employ or seek to employ any person we employ or any other person who is at that time operating or employed by or at any of our franchises or otherwise directly or indirectly induce these persons to leave their employment; or

- C. do or perform, directly or indirectly, any other act injurious or prejudicial to our goodwill associated with the Service Marks and Method of Operation.

The running of the periods of time specified by this Section will be tolled and suspended for any period of time during which a court or arbitrator determines you to have been in violation of this Section.

If, for any reason, any provision set forth in this Subsection is determined to exceed any lawful scope or limit as to duration, geographic coverage, or otherwise, it is agreed that the provision will nevertheless be binding to the full scope or limit allowed by law or by a court of law. The duration, geographic coverage and scope allowable by law or court of law shall apply to this Agreement.

The provisions relating to interests in any other business will not apply to your ownership of outstanding securities of any corporation whose securities are publicly held and traded. Provided that you hold these securities for investment purposes only and that your total holdings do not constitute more than five percent (5%) of the outstanding securities of the corporation.

You will obtain written covenants from your owners, shareholders, members, partners, directors, officers, employees, consultants, distributors, and agents in a form satisfactory to us that these persons will comply with the provisions of this Section.

You and we stipulate that, in light of all of the facts and circumstances of the relationship between you and us, the covenants, restrictions and agreements referred to in this Section (including without limitation their scope, duration and geographic extent) are fair and reasonably necessary for the protection of our confidential information, goodwill and other protectable interests. If a court of competent jurisdiction should decline to enforce any of those covenants and agreements, you and we request the court to reform these provisions to restrict your use of confidential information, non-solicitation, ability to compete with us, and any other covered topics to the maximum extent, in time, scope of activities, and geography, the court finds enforceable under applicable law.

5.8 Computer Systems. You will install and use cash registers and accounting, and inventory and escape room game control computer systems approved by us. We will provide written specifications for these systems in the Operations Manual. You will purchase, lease, or otherwise acquire, from sources of your choice and at your expense, computer hardware and software (including but not limited to programs, computer terminals, Internet and other network access providers, website vendors, video conferencing, and cash registers) which will be totally compatible with and will strictly conform to all requirements, standards, and specifications we may set from time to time, including coordinated with consolidated systems used at co-branded locations. You must have these systems in operation at the Franchise Premises prior to opening for business.

You must comply with any separate software or other license agreement that we or our designee uses in connection with providing these services to you.

You are required to have DSL or other high speed Internet service with a static IP address to your business so that you can access downloads from us of advertising materials, operations manual revisions, training materials, product access and preparation; communication; email; web site access; and corporate news. Your computers and access must also accommodate our remote access to your computer systems, software and records. You will comply with all our requirements regarding Internet, Intranet and computer use contained in the Operations Manual.

You will, at your sole expense, continuously maintain (i) an active e-mail account and e-mail address with an established internet service provider, keep us informed of your current e-mail address and manage your e-mail account so that it does not become full or otherwise incapable of accepting new messages, and (ii) an electronic data exchange service designated by us to enable us to remotely retrieve sales, inventory and other operating data for the Franchise as frequently as we deem necessary. You, on behalf of yourself and, as applicable, your

directors, officers, managers, employees, consultants, representatives and agents, waive any claim that our retrieval of data from your electronic records violates any person's rights of privacy.

E-PROBLEM DISCLAIMER: Computer systems are vulnerable in varying degrees to computer viruses, bugs, power disruptions, communication line disruptions, Internet access failures, Internet content failures, the Year 2000 problem and similar date-related problems, and attacks by hackers and other unauthorized intruders ("E-Problems"). We do not guarantee that information or communication systems that we or others supply will not be vulnerable to E-Problems. It is your responsibility to protect yourself from E-Problems. You should also take reasonable steps to verify that your suppliers, lenders, landlords, customers, and governmental agencies on which you rely, have reasonable protection from E-problems. This may include taking reasonable steps to secure your systems (including firewalls, password protection, and anti-virus systems), and to provide backup systems.

5.9 **Working Capital Requirements.** At all times during the term of this Agreement, you will maintain and employ as much working capital as may be required to enable you to properly and fully perform all your duties, obligations, and responsibilities.

5.10 **Terms of Product Sales.**

- A To receive products, you must deliver to us a purchase order that specifies the products. All orders you submit are subject to acceptance at our corporate headquarters in Los Angeles, California. We reserve the right to reject any order that is not credit approved or does not conform with the provisions of this Agreement. All orders accepted for delivery will be governed exclusively by the terms and conditions of this Agreement. Unless we agree in writing, no additional or different terms and conditions appearing on the face or reverse side of any order you issue will become part of that order. Our acknowledgment of your purchase order will not be acceptance of any additional or different terms and conditions.
- B Shipments are subject to availability. Upon notice to you, we may schedule and reschedule any order, at our discretion. We may decline any order for credit reasons or because the order specifies an unreasonably large quantity or makes an unreasonable shipment request.
- C We will use commercially reasonable efforts to meet any scheduled shipment date. However, we will not be liable for delays in meeting a scheduled shipment date for any reason. If products are scarce, we will allocate them equitably, at our discretion, among our customers.
- D Unless otherwise agreed, the products will be shipped only to your approved facility and only after receipt of an order from you.
- E We may refuse to ship or delay the shipment of any products on order if you become delinquent in payment of your obligations, exceed established credit lines, fail to meet our other credit or financial requirements or fail to provide financial information when we request. No cancellation, refusal or delay will terminate this Agreement.
- F All products will be delivered to you F.O.B. origin upon transfer to a common carrier. You will pay all transportation, insurance, rigging and drayage charges.
- G On delivery of products to carrier, title (or with respect to Licensed Programs licensed, not sold, title only to the media on which the Licensed Program is delivered) will pass to you and you will assume responsibility for promptly advising the carrier and insurer of the loss, for filing a claim and for recovery of any sums owed by them to you. Upon request, we will cooperate with you to establish a claim.

- H You grant to us a security interest in the products and proceeds of as security for your obligations under this Agreement. Upon request, you will execute and file all instruments or documents necessary to perfect any security interest. You acknowledge that we may file a copy of this Agreement as a financing statement for that purpose.
- I You will maintain sufficient inventories of products and employ sufficient help to operate your business at a level of capacity and market penetration commensurate with the reasonable demands of the marketplace.
- J You will represent fairly all products you purchase from Us.
- K You will comply with all of the obligations and requirements imposed upon you by the manufacturers or distributors of the products.
- L You will use commercially reasonable efforts and good faith to promote, demonstrate and sell the products.
- M You will provide to us forecasts of your projected purchases of products.
- N The products are subject to the manufacturer's standard warranty. We disclaim all warranties, including the implied warranties of merchantability and fitness for a particular purpose. No representation, affirmation of fact, statement regarding capacity or suitability, that is not in this Agreement, will be a warranty by us for any purpose.
- O We will not be liable for any loss or damage claimed to have resulted from the use, operation or performance of the products, whatever the form of action. Our maximum liability to you, whether based upon contract, warranty, tort or otherwise, will not exceed the actual amount you pay to us for the specific product that causes the damages. These limitations of liability will not apply to claims for personal injury caused by our negligence. We will not be liable to you for special, indirect, incidental or consequential damages or from any damages resulting from loss of use, data or profits.

5.11 **Employees and Contracted Staff.** You are exclusively responsible to train and make sure your employees and independent contractors meet the standards, specifications and procedures outlined in the Operations Manual. You will hire only efficient, competent, sober and courteous employees for the conduct of the franchise business and will pay their wages, commissions, piece work and any other compensation justly due with no liability on our part.

- A. You will control your own employees and independent contractors. We will not have the power to hire, fire, direct, supervise, or discipline them. You will maintain employee records to show clearly that you and your employees are not our employees.
- B. You must comply with all state and federal laws in respect to your employees. You acknowledge that you have had ample opportunity to investigate these and other laws applicable to your business with your own independent legal counsel before signing this Agreement. You must indemnify and hold us legally harmless from any of your violations of such laws.
- C. You must pay special attention to federal and state wage and hour laws with respect to your employees. You must comply with all such laws and pay your employees properly. You are responsible for any employee wages and compensation, payroll taxes and other required withholding, worker's compensation and benefits. You are responsible for any employee wages and compensation, payroll taxes and other required withholding, worker's compensation and benefits.
- D. You are exclusively responsible to monitor the scheduling, performance, efficiency, and efficacy of your employees and independent contractors and to

- make adjustments to improve the results of their efforts.
- E. If you decide to share employees or independent contractors with other franchisees, then you will indemnify and hold legally harmless us (and our affiliates, officers, directors, employees and agents) from any claims, losses, attorney fees and damages resulting from such activities. You acknowledge that this provision does not constitute an endorsement to share employees with other franchisees.
 - F. You are responsible to train and to make sure your employees and independent contractors meet the standards, specifications and recommendations outlined in the Operations Manual, including those related to appearance, customer service, background checks, and drug testing (as applicable). You are required to hire and maintain sufficient staff in order to handle customer volume at all times. You will ensure that your employees present a neat and clean appearance and render friendly, efficient, sober and courteous service to your customers.
 - G. All employees and independent contractors whose duties include customer service must have sufficient literacy and fluency in the English language to serve the public.
 - H. You may not hire any employee or independent contractor who has been found guilty of any charges of fiduciary misconduct, any form of unlawful sexual conduct, any felony of any kind, or any similar charges that reflect negatively on the person's moral turpitude and character.
 - I. All revenues generated under this Agreement from all business activities of the Franchise must be paid directly to you and not directly to your employee or independent contractor.

6) RENEWAL, TERMINATION AND STEP-IN RIGHTS

6.1 Renewal of Franchise.

If you are not in breach, you may renew the Franchise for periods of 5 years under the terms of our then-current Franchise Agreement forms. "Then-current" as used in this Agreement and our Franchise Disclosure Document will mean the form then currently provided to prospective franchisees, or if none is being provided, the form we select in our sole discretion which previously has been delivered to and executed by a franchisee of ours. You will exercise your renewal option by giving written notice to us. The notice must be given at least six months, but no earlier than nine months, before the end of the franchise term established by this Agreement.

You will pay to us a \$5,000 fee for renewal of the Franchise. The renewed Franchise Agreement will be evidenced by you signing the Franchise Agreement forms we then are using (with appropriate modifications to reflect the fact that the agreement relates to the grant of a renewal franchise). These forms may vary materially from this Agreement. Continuing Service and Royalty Fees, National Advertising and Development Fees, Local Advertising Contributions and other fees will be set at the then prevailing rates and terms. Your failure or refusal to execute the Renewal Franchise Agreement forms within thirty days after delivery to you may be regarded as an election by you not to renew. Upon renewal, the Franchise Premises must remain located in the geographical territory designated in this Agreement. The Franchise Territory may be modified and its geographic area may be reduced to meet our then current franchise market penetration and demographic standards and co-branding requirements.

You will refurbish, remodel, and replace the Franchise Premises, fixtures, and equipment to conform to the then current Operations Manual and Method of Operation. There will be no limitation on the amount that we may require you to spend on refurbishing, remodeling and replacement. You must make all capital expenditures reasonably required to renovate and modernize the Franchise Premises and its signs and equipment to reflect the design and décor image of our franchises we are then requiring of new or renewing franchisees. These expenditures will be in an amount necessary to make the Franchise Premises modern and fresh and to resolve wear and tear. If renovation or modernization of the Franchise Premises is not feasible, you may relocate to a

new site, subject to our prior written approval. Our approval will not be unreasonably withheld, provided that the relocation does not infringe on any other Paniq Room location.

You must execute a general release, in a form we prescribe, following applicable law, to release us from any claims you may have against us.

Before renewal, you or your designated manager will attend and successfully complete any retraining program we prescribe in writing. This will be done at your expense, including travel, meals, lodging, and our then current training fee.

We may refuse to renew this Agreement if you fail to satisfactorily comply with this Agreement. The determination of satisfactory compliance will be within our exclusive discretion in good faith. If we refuse to renew, you must continue to perform under this Agreement until its expiration.

Continuation. You have no automatic right to continue operation of the Franchise following expiration or termination of this Agreement. If you continue to operate the Franchise with our express or implied consent, following the expiration or termination of this Agreement, the continuation will be a month-to-month extension of this Agreement. This Agreement will then be terminable by either party upon **30** days written notice. Otherwise, all provisions of this Agreement will apply while operations continue. Upon termination of this Agreement under this section, all post-termination covenants and obligations in this Agreement will apply.

6.2 **Termination by You.** Franchisee may not under any circumstances terminate this Agreement.

6.3 **Termination by Us.**

- A The following provisions are in addition to all other remedies available to us at law or in equity. We will have the option to cure your breaches at your expense. If you breach or default in any of the terms of this Agreement, we have the right to appoint a receiver to take possession, manage and control assets, collect profits, and pay the net income for the operation of the Franchise as ordered by a court of jurisdiction. The right to appoint a receiver will be available regardless of whether waste or danger of loss or destruction of the assets exists, and without the necessity of notice to you.
1. You irrevocably nominate, constitute and appoint the person serving from time to time as our CEO to be your attorney-in-fact so to act in your name and on your behalf.
 2. At our election and without waiving any claims for default or breach and without prior notice to you or resort to legal process, we may enter upon the Franchise Premises using the reasonable force as is necessary in the circumstances, without being guilty of trespass or liable to you or the property owner for the entry, for the purposes of securing the return of our property, the performance of your obligations of discontinuance and the protection of our rights upon expiration or termination of this Agreement.
 3. We may claim and recover damages from you for any material breach, including ongoing Continuing Service and Royalty Fees, National Advertising and Development Fees and other payments required by this Agreement. The Continuing Service and Royalty Fees payable will be computed as an average of the Continuing Service and Royalty Fees payable by you for the last six months that you conducted the Franchise. If the Franchise has been operating and paying Continuing Service and Royalty Fees for less than six months, the average will be of the monthly Continuing Service and Royalty Fees payable by you during the period of operation. The calculated Continuing Service and Royalty Fees will be due for the balance of the term of this Agreement, or until we establish a new Paniq

Room franchisee in the Territory and that new franchisee pays Continuing Service and Royalty Fees for a month equal to or greater than the calculated monthly Continuing Service and Royalty Fees due from you.

If any payments to us, our affiliates or approved vendors are late by more than 15 business days, we may suspend your ability to access forms, software, web sites, Internet or Intranet, or limit your continued operation of the franchise and order all product deliveries withheld from you until the payments are received.

You agree that this Agreement and any other agreements between you and us may be terminated, at our election, in the event of any material breach by you of any franchise agreement or any other agreement between us and you, upon the notice, if any, specified in the franchise agreement or the other agreement. If you or any of your shareholders, partners, or officers violate any material provision of any other franchise or other agreement with us, that breach will be considered a breach of this Agreement and of the other agreements. We then may terminate or otherwise enforce this Agreement and the other agreements.

We may terminate this Franchise Agreement and any other franchise agreement and related agreements between the parties if you breach any term or provision of this Agreement and do not cure the breach (or reasonably begin to cure and diligently pursue the cure until the breach is remedied) within 30 days after receipt of our written "Notice to Cure." Termination will occur immediately upon delivery to you of our written declaration of termination for failure to cure within the allowed time frame.

- B Automatic Termination. Among other things, you agree that it will be a default constituting a substantial breach of a material provision of this Agreement pursuant to relevant law, thus establishing good cause for termination, and that this Franchise Agreement and any other related agreements and franchise agreements between the parties will terminate automatically upon delivery of written notice of termination to you, if you or your owner(s), officer(s), or key employee(s):
- (1) Become insolvent, make a general assignment for the benefit of creditors, have a receiver appointed to administer or take possession of any part of the franchised business or your assets, or admit to not being able to meet your obligations as they become due or become bankrupt, or become subject to any chapter of the United States Bankruptcy Code, unless you:
(i) timely undertake to reaffirm the obligations under this Agreement; (ii) timely comply with all conditions as legally may be imposed by us upon such an undertaking to reaffirm this Agreement; and (iii) timely comply with such other conditions and provide such assurances as may be required in relevant provisions of the United States Bankruptcy Code; provided, however, that we and you acknowledge that this Agreement constitutes a personal service contract and that we have relied to a degree and in a manner material to this Agreement upon the personal promises of you and/or your directors, officers, shareholders or partners, as the case may be, to participate personally on a full-time basis in the management and operation of the franchised business, and, consequently, we and you agree that any attempt by any other party, including the trustee in bankruptcy or any third party, to assume or to accept an assignment of this Agreement will be void.
 - (2) Fail to operate the Franchise continuously and actively for five consecutive days or for any shorter period after which it is reasonable under the facts and circumstances to conclude that you do not intend to continue the Franchise or maintain a suitable Franchise location.

- (3) Fail to comply with any requirement of this Agreement or of any related agreement between the parties within twelve months after having received two **30-day** or **5-day** Notices to Cure deficiencies in performance of the same or any other requirement pursuant to Subsection (A) above, whether or not your failures to comply are corrected after we deliver notice to you.
- (4) On more than two occasions fail to report monthly Revenue on time, understate monthly Revenue by more than 2 percent, or distort other material information.
- (5) Make or have made any material misrepresentation or misstatement on the franchise application or with respect to ownership of the Franchise. If you misrepresented yourself and you are a competitor of ours or a competitor of an affiliate of ours, we may keep the entire initial franchise fee, cancel training, and terminate this Agreement.
- (6) Allow the Franchise or Franchise Premises to be seized, taken over, or foreclosed by a creditor, lienholder, or lessor; let a final judgment against you to remain unsatisfied for thirty days (unless a supersedeas or other appeal bond is filed); or allow a levy of execution upon the Franchise or upon any property used in the Franchise, that is not discharged by means other than levy within five days of the levy.
- (7) Are convicted of a felony or a sex crime, are required to register as a sex offender, have been convicted of a crime of moral turpitude, are on probation or parole, or are convicted of any criminal misconduct relevant to the operation of the Franchise.
- (8) Within a period of ten days after notification of noncompliance, fail to comply with any federal, state, or local law or regulation applicable to the operation of the Franchise.
- (9) Fail to pay any Franchise, Royalty, or National Advertising and Development Fees or other amounts owed pursuant to this Agreement within five days after receipt of written notice that the fees or amounts are overdue.
- (10) Operate the Franchise in a manner that creates an imminent danger to public health or safety.
- (11) Do not keep information related to the Franchise confidential except to employees or persons authorized to know.
- (12) Fail to obtain agreements from your employees to keep information confidential.
- (13) Attempt to unilaterally repudiate this Agreement or the performance or observance of any of its terms, conditions, covenants, provisions or obligations by any conduct evidencing your intention to no longer comply with or be bound by this Agreement.

6.4 **Time Frames Subject to Applicable Laws.** The provisions of this Agreement may state periods of notice less than those required by applicable law. They may provide for termination, cancellation, nonrenewal or the like other than according to applicable law. They will be extended or modified to comply with applicable law. We will not, however, be precluded from contesting the validity, enforceability or application of such laws or regulations in any mediation, action, arbitration, hearing or dispute relating to this Agreement or the termination of it.

6.5 **You Will Discontinue Use of Service Marks, Operations Manual, and Method of Operation on Termination of Agreement.** Substantial damages that are difficult to determine at the date of execution of this Agreement will accrue to us if you do not comply with any of the following requirements upon expiration or termination of this Agreement. Upon expiration or termination of this Agreement, you will:

- A Immediately cease using the Service Marks (or any names or marks deceptively similar to them), the Operations Manual and the Method of Operation. We will have the right, title and interest to any sign

or sign faces bearing the Service Marks. You acknowledge our right to access the Franchise Premises if we elect to take possession of any sign or sign faces bearing The Service Marks.

- B Return to us all copies of the Operations Manual. Return to us all records, files, instructions, correspondence, and materials in your possession or control related to the Method of Operation. You will give us a complete and accurate summary of your advertisers, customers and leads, including their names, addresses, telephone numbers and related file records. You will assist us in every way possible to bring about a complete and effective transfer of your franchise business to us or to our designated franchisee.
- C Authorize telephone, Internet, email, electronic network, directory, and listing entities, to transfer all numbers, addresses, domain names, locators, directories, and listings to us or to our designee. You will notify them of the termination of your right to use the Franchise names and Service Marks. You authorize the transfer of your telephone numbers and directory listings and Internet addresses, domain names and locators to us or our designated franchisees. You appoint us as your agent and attorney-in-fact to effect the transfer of these telephone numbers, directory listings, domain names and Internet directories to us. You agree that we will be treated as the subscriber for the telephone numbers and directory listings. We will have full authority to instruct the applicable telephone, directory and listing companies on the use and disposition of the telephone listings and numbers. You release and indemnify these companies from any damage or loss because they follow our instructions.
- D Make reasonable modifications to the interior and exterior of any retained premises to reduce your identification as a part of our franchise system. These modifications will include but will not be limited to reasonable alterations to eliminate any possibility of confusion between the Franchise Premises and any other Paniq Room location. Until all modifications and alterations are completed, you will maintain a conspicuous sign in a form we specify stating that you are no longer associated with us. You will advise all customers or prospective customers coming to the Franchise Premises or telephoning you that you are no longer associated with us.
- E Pay to us within 7 days all Continuing Service and Royalty Fees, National Advertising and Development Fees, and other sums you owe. These sums will include all damages, costs and expenses, including reasonable attorney's fees and collection costs, we incur because of your breach. These sums will include all costs and expenses, including reasonable attorney fees, we incur in obtaining injunctive, appellate, or other relief to enforce the provisions of this Agreement. Termination or expiration of this Agreement will not prejudice to any other rights or remedies that we have in law or in equity, including, without limitation, the right to recover benefit of the bargain damages, including lost revenue for the duration of the term of this Agreement.
- F Abide by all provisions of the restriction upon communication of confidential information set forth above and the post-termination Covenant Not to Compete set forth below. You will immediately return to us all our confidential information you have received, including any items that embody the confidential information. You acknowledge that you have no continuing ownership interest in the confidential information.
- G At our option, do some or all of the following:
 - (1) Remove all Franchise related equipment, furnishings, and inventory from the Franchise Premises;
 - (2) Sell the equipment, furnishings, and inventory to us, at the depreciated book value (straight line depreciation over five years) for equipment and furnishings and at your invoice cost for inventory less a 10 percent restocking charge. We will not be liable for payment to you for intangibles, including, without limitation, goodwill;

(3) Assign to us the lease for the Franchise Premises and ownership and control of any website you own or control; and

(4) Sell to us your interest in the Franchise, the Franchise Premises and all related equipment, fixtures, signs, real estate leases, equipment leases and personal property. Unless we state in writing that we do not intend to exercise this right, the parties must agree upon a purchase price and terms within five business days after termination of this Agreement. If not, a fair value and fair terms will be determined in Los Angeles, California by three appraisers. Each party must select one appraiser. The two appraisers chosen must then select a third appraiser. Each party will pay for its own appraiser and each party will pay half for the third appraiser. The parties may then present evidence of the value of the Franchise and fair terms for the purchase at a hearing. The appraisers must exclude from their decision any amount or factor for the "goodwill" or "going concern" value of the Franchise. The decision of the majority of the appraisers will be conclusive. Any time within thirty days after receiving the appraisers' decision, at our option we may purchase the Franchise and your assets at the price determined by the appraisers, payable in 60 equal monthly payments including 6 percent per annum interest.

H. Upon termination for any reason, you will return to us all proprietary and confidential materials, including client lists, keys, codes, signage, advertising and marketing materials, uniforms, service agreements and other forms, printed files, clients lists and account information, security codes, cards and passes, picture identification badges and the like as described in the Operations Manual. If you fail to return or cease use of any of these items, we may enter your business premises without being guilty of trespass or any other tort to remove and retain the items. You will pay to us, on demand, any expenses we incur in trying to remove or collect such items or in attempting to have you cease use of them. Your failure to immediately return all keys and security codes or passes to us may result in us changing locks, keys and codes at client premises at your expense.

6.6 **We May Assign Territory Upon Termination.** Upon expiration or termination of this Agreement, we may immediately license or franchise the Franchise Territory to another person or may operate a Paniq Room business within the Franchise Territory.

6.7 **Our Step-In Rights.** The parties want to prevent any interruption of the Franchise that would cause harm to the Franchise and to our franchise system and lessen their value. Therefore, you authorize us to step in to operate the Franchise for as long as we believe necessary and practical in our exclusive judgment. We may do so without waiving any other rights or remedies that we may have. Cause for interruption may include our reasonable determination that: you are incapable of operating the Franchise; you are absent or incapacitated because of illness or death; you have failed to pay when due any real property, equipment rent or lease payments, suppliers, or inventory payments; you have failed to pay to us when due any franchise, royalty, advertising, or other fee; you have failed to pay when due any taxes or assessments against the Franchise or property used in the Franchise; you have failed to pay when due any liens or encumbrances placed upon or against your business property; or we decide that significant operational problems require us to operate the Franchise for a time. We may exercise our step-in rights if you are ill or disabled, you, your lender, or the SBA requests our assistance or agrees to our proffered support and supervision, directly or indirectly or through its contract agents.

All Revenue from our operation of the Franchise will be for your exclusive account. We will pay from that Revenue all expenses, debts and liabilities we incur during our operation of the Franchise. This will include our personnel and administrative costs, plus 15 percent to cover our overhead expenses. In addition, we will have the option, but not the obligation, to pay for you any claims owed by you to any creditor or employee of the Franchise. You will reimburse us upon demand, including at the rate set forth above for overdue amounts.

We will keep in a separate account all Revenue generated by the operation of the Franchise, less the expenses of operation.

We will have no obligation to retain any employee of the Franchise, nor to honor any contractual employment commitments you previously made. If we elect to retain any employee, employment will be pursuant to a new employment agreement between us and the employee. Employment will commence on the first business day on which we carry on business through the Franchise. Any claim by an employee for unpaid salary, vacation pay, or other benefits will be your responsibility.

Upon our exercise of these Step-In Rights, you agree to hold us harmless for all of your acts, omissions, damages, or liabilities arising during our operation of the franchise.

Our operation of the Franchise will not operate as an assignment to us of any lease or sublease of franchise property. We will have no responsibility for payment of any rent or other charges owing on any lease for franchise property, except as the charges relate to the period of our operation of the Franchise.

In addition to our right to step- in or to terminate this Agreement, and not in lieu of that right or any other rights against you, in the event that you will not have cured a default under this Agreement within the 30 days after receipt of the written "Notice to Cure" from us, we may, at our option, enter upon the Franchise Premises and exercise complete authority with respect to the operation of the business until we determine that your default has been cured and that there is compliance with the requirements of this Agreement. You specifically agree that a designated representative of ours may take over, control, and operate the business. You will pay us a service fee of not less than \$200 per day plus all travel expenses, room and board and other expenses reasonably incurred by our representative so long as it will be required by the representative to enforce compliance. In addition, if you breach any provision of this Agreement that is curable and we give you notice of the breach, in addition to curing the breach you must pay us a Cure Fee of \$1,000 to help defray our administrative and corporate costs related to the breach and remedy.

You agree to pay our reasonable legal and accounting fees and costs we incur because of our exercise of these Step-In Rights.

6.8 You and Your Owners Not to Compete on Expiration, Termination or Transfer of Agreement. This covenant will apply for 730 days after termination, expiration or transfer of this Agreement. In express consideration for this Agreement, you will assure that you and your owners, shareholders, partners, directors, officers, employees, and agents, and the members of their immediate families or households (who have actual knowledge of or access to the Operations Manual or Method of Operation), will not directly or indirectly participate as an owner, shareholder, director, partner, officer, employee, consultant, franchisor, franchisee, distributor, advisor or agent, or serve in any other capacity in any business engaged directly or indirectly in the offer, sale, rental, Internet dissemination, or promotion of escape room game products, fixtures, furnishings, equipment, or services or any business that offers products or services that are essentially the same as, or substantially similar to, the products and services that are part of the Method of Operation. This covenant applies within the Franchise Territory and within a 100 mile radius of the Franchise Territory and within 100 miles of any location where we operate or have granted the franchise to operate a Paniq Room business, and at any location within the United State of America.

You acknowledge and confirm that the time, content and geographical restrictions contained in this Section are fair and reasonable. They are not the result of overreaching, duress, or coercion of any kind by us. You further acknowledge and confirm that your observance of the covenants contained in this Agreement will not cause you any undue hardship, financial or otherwise, and that enforcement of each of the covenants contained in this Agreement will not impair your ability to obtain employment commensurate with your abilities and on terms fully acceptable to you, or otherwise to obtain income required for the comfortable support of your family and the satisfaction of your creditors. Your knowledge of the Method of Operation would cause our franchise system serious injury and loss if you use the knowledge to the benefit of a competitor or to compete with us or our franchisees.

The running of the periods of time specified by this Section will be tolled and suspended for any period of time during which a court or arbitrator determines you to have been in violation of this Section.

If, for any reason, any provision set forth in this Subsection exceeds any lawful scope or limit as to duration, geographic coverage, or otherwise, it is agreed that the provision will nevertheless be binding to the full scope or limit allowed by law or by a court of law. The duration, geographic coverage and scope allowable by law or court of law shall apply to this Agreement.

7) TRANSFER

7.1 Sale or Assignment.

A Your rights and obligations under this Agreement are exclusive to you. Whether voluntarily or involuntarily, neither you, your owners, partners nor others claiming an interest in the Franchise will sell, transfer, assign, encumber, give, lease, or sublease, or allow any other person to conduct business in or through (collectively called "transfer") the whole or any part of: this Agreement, the Franchise Premises, substantial assets of the Franchise business, or ownership or control of you or to fractionalize any of the rights granted to you pursuant to this Agreement. Any attempted transfer without our prior written consent will be a breach of this Agreement. Our consent will not be unreasonably withheld. We need not consent to any transfer to a competitor of ours. We need not consent to any transfer before the date the Franchise opens for business.

Because we will have a strong and vested interest in the financial viability and ongoing management abilities of the transferee, we need not consent to any transfer if we reasonably believe the purchase price is excessive or if we believe based upon a review of the transferee's operational and business plans that the transferee's business operations might not be beneficial on a cash flow or financial basis

We enter this Agreement, in part, in reliance upon the individual or collective character, skill, attitude, business ability and financial capacity of you (or your shareholders, members or partners, if you are a corporation, limited liability company, partnership or other entity).

You recognize that there are many subjective factors that comprise the process by which we select a suitable franchise owner. Our consent to a transfer by you will remain a subjective determination. Before the effective date of a transfer we approve:

- (1) The transferee must assume your Franchise obligations. You will remain bound by your covenants in this Agreement to not disclose confidential information and to not compete with us or our franchisees.
- (2) You will pay all ascertained or liquidated debts concerning the Franchise.
- (3) You may not be in breach of this Agreement or any other agreement between the parties. Our consent to the transfer will not constitute a waiver of any claims we may have against you.
- (4) The transferee will pay for and complete to our exclusive satisfaction the training programs we then require of new franchisees or otherwise show to our satisfaction sufficient ability to successfully operate the Franchise.
- (5) You or the transferee will pay a Transfer Fee according to our then current Transfer Fee Schedule. This fee will reimburse us for our reasonable legal, accounting, credit check, and investigation expenses that result from the transfer. The Transfer Fee will be the greater of 10% of the sale price (in the event you sell your franchise to a third party) or \$5,000.
- (6) You will pay us a 10 percent commission on the gross transfer price (excluding the price of real property), if we obtain the transferee for you.

- (7) The transferee will execute all documents we then require of new franchisees. This includes a new Franchise Agreement in the form we then are using. The new Franchise Agreement may contain economic and general terms that are materially different from those contained in this Agreement. The term of the new agreement will be for the unexpired term of this Agreement or for a new full term as we will elect. You must ask us to provide the prospective purchaser with our current form of disclosure document required by the applicable federal or provincial/state registration and disclosure laws, and a receipt for this document will be delivered to us; provided however, we will not be liable for any representations you make apart from those contained in our disclosure document.
- (8) The transferee will meet our standards for quality of character, financial capacity, and experience required of a new or renewing franchisee. You will provide information we require to prove the transferee meets our standards.
- (9) You and your owners, members, partners, officers, and directors will execute a general release in our favor. The release must be in a form we prescribe, following applicable law, to release us from any claims you may have against us and our representatives, subsidiaries and affiliates and our officers, directors, attorneys, shareholders and employees in their corporate and individual capacities. This will include claims arising under federal, state and local laws, rules and ordinances arising out of, or connected with, the offer, sale and performance of this Agreement or any other agreement between the parties.
- (10) If the entire Initial Franchise Fee has not yet been paid in full, it must be paid in full despite the due date for payment established by this Agreement.
- (11) If the lease or sublease for the Franchise Premise requires, the lessor or sublessor must have consented to the assignment or sublease of the Franchise Premises to the transferee. All fixtures and equipment at the Franchise Premises must be inspected and certified by a qualified professional inspector to be in good working order and free of operational defects. It will be your responsibility to bring all fixtures and equipment to proper working order before the transfer takes place. The transferee must agree in writing with any third party leasing company to accept any outstanding lease on equipment or other furnishings or you will resolve such leases and remove that equipment or furnishings from the Franchise Premises.
- (12) You will enter into an agreement to subordinate, to the transferee's obligations to us (including the payment of all franchise fees), any obligations of the transferee to make installment payments of the purchase price to you. The form of this subordination is subject to our approval.
- (13) Upon our granting of approval for the transfer, you will:
 - ensure that the transfer is effected in compliance with the requirements of all federal, state, and local laws, including applicable tax and bulk sales legislation, and with the applicable requirements of the lease of the Franchise Premises;
 - deliver to the purchaser the Operations Manual and all other manuals and materials we provided to you for use in the Franchise, including all materials bearing the Trademarks and our advertising, promotional and training materials, order books and bookkeeping and reporting forms.
- (14) We have the right, but not the obligation and without any liability to you, to make available for inspection by any proposed transferee identified by you of all or any part of this

Agreement and of our records related to our relationship with you and to your activities and performance under this Agreement. You specifically consent to such disclosure and agree to hold us harmless from any claim, loss or injury that might result from inspection of our records by your intended transferees.

- B. With our prior written consent, you may transfer your rights and obligations under this Agreement to a corporation or other entity in which you continuously own a majority of the issued and outstanding shares of each class of stock or other evidence of ownership. The entity must be newly organized with its activities confined exclusively to act as the franchisee under this Agreement. The entity must contemporaneously agree in writing to be bound by the terms of this Agreement. You must contemporaneously agree in writing to guarantee the obligations of the entity and to remain personally liable in all respects under this Agreement. You and all other owners shall personally and unconditionally guarantee the obligations of the new entity and you will remain personally subject to and bound by all terms, conditions, restrictions and prohibitions contained in this Agreement. You as an owner of the entity agree to separately and personally, for you and for you successors, heirs and personal representatives, shall act as surety for the full and faithful performance of all of the obligations, commitments and payments required of the entity. In that capacity, you agree that we do not have to pursue any remedies we may have against the entity, but rather, may proceed directly and primarily against you with or without joining the entity as principal or as a named party in any proceeding.

You will be in breach of this Agreement if you at any time dispose of any interest sufficient to reduce your ownership in the entity to less than a majority of any class of stock or other evidence of ownership. From time to time, at our request, you will provide to us a current list of all your owners, shareholders, members, directors, officers, partners, and employees, with a summary of their respective interests in you.

- C. We may transfer this Agreement. If we do, it will be binding upon and inure to the benefit of our successors and assigns. Specifically, you agree that we may sell our assets, the Service Marks, or the Method of Operation outright to a third party, may go public, may engage in a placement of some or all of our securities, may merge, acquire other entities or be acquired by other entities, or may undertake a refinancing, recapitalization, re-organization, leveraged buyout or other economic or financial restructuring. As for any or all these sales, assignments and dispositions, you waive any claims, demands or damages arising from or related to the loss of the Service Marks (or any variation of them) or the loss of association with or identification as part of our franchise system.

We will not be required to remain in any particular form of business or to offer to you products, whether or not bearing our Service Marks.

- D. You may offer your securities or partnership interests to the public, by private offering, or otherwise, only with our prior written consent. Consent may not be unreasonably withheld. All materials required for the offering by federal or state law will be submitted to us for review before filing with any government agency. Any materials to be used in any exempt offering will be submitted to us for review prior to their use. No offering by you will imply (by use of the Service Marks or otherwise) that we are participating in an underwriting, issuance, or offering of your securities. You and all other participants in the offering must fully indemnify us concerning the offering. For each proposed offering, you will reimburse us for our reasonable costs and expenses associated with reviewing the proposed offering, including, legal and accounting fees. You will give us at least sixty days written notice before the effective date of any offering or other transaction covered by this subsection.
- E. You may not grant a sub-franchise or transfer less than all of your rights under this Agreement.

- F Our consent to a proposed Transfer will not be a waiver of any claims we may have against you (or your owners), nor will it be a waiver of our right to demand exact compliance with this Agreement. Our consent to a transfer will not constitute or be interpreted as consent for any future or other transfer.
- G You will comply with and help us to comply with any laws that apply to the Transfer, including state and federal laws governing the offer and sale of franchises.

7.2 **Your Death or Disability.**

- A Besides the Step-In Rights described above, the following will apply in case of your death or incapacity if you are an individual, or of any general partner of you if you are a partnership, or of any member or shareholder owning 50 percent or more of you if you are a limited liability company or corporation or other entity. Within 180 of the event, the heirs, beneficiaries, devisees or legal representatives of that individual, partner, member or shareholder will:
 - (1) Apply to us for the right to continue to operate the Franchise for the duration of the term of this Agreement. The right to continue will be granted upon the fulfillment of all of the conditions set forth in Subsection (A) of the section entitled "Sale or Assignment by You," above (except that no transfer fee will be required). Or,
 - (2) Transfer your interest according to the provisions of that Subsection. If a proper and timely application for the right to continue to operate has been made and rejected, the 180 days within which to transfer will be computed from the date of rejection. For purposes of this Subsection, on an application for the right to continue to operate, our silence through the 180 days following the event of death or incapacity will be deemed an acceptance made on the last day of the period.
 - (3) If a suitable transferee purchaser is not found within 180 days from the date of death or permanent incapacity, we may at our sole option enter into a contract to purchase the Franchise. Unless we state in writing that we do not intend to exercise this right, the parties must agree upon a purchase price and terms within twenty business days after notice from us. If not, a fair value and fair terms will be determined in Los Angeles, California by three appraisers. Each party must select one appraiser. The two appraisers chosen must then select a third appraiser. Each party will pay for its own appraiser and each party will pay half for the third appraiser. The parties may then present evidence of the value of the Franchise and fair terms for the purchase. The appraisers may include in their decision a factor for the "goodwill" or "going concern" value of the Franchise. The decision of the majority of the appraisers will be conclusive. Any time within **30** days after receiving the appraisers' decision, at our option, it may purchase the Franchise and your assets at the price and upon the terms determined by the appraisers. Terms of payment will be **10%** of the purchase price payable upon contract signing, the balance payable in **60** equal monthly payments of principal payments with interest calculated at the prime rate, published by your principal bank at time of each monthly principal payment.
- B If the provisions of this Subsection have not been fulfilled within the time provided, at our option, all rights licensed to you under this Agreement will immediately terminate and revert to us.

7.3 **First Right of Purchase.** You will give us the right of first purchase before soliciting offers from a third party if you choose to sell your franchise business. You agree to notify us in writing if you desire to sell or transfer any interest in you or in your franchised business. We will elect to exercise our option to purchase within **30** business days after our receipt of your written notification. If we offer you an amount that you do not agree to, you may try to sell to a third party, but on no better terms for the purchaser than we offered to you. If you later receive an offer from a third party purchaser on better terms than we offered to you, you are obligated to re-offer to us pursuant to the subsection entitled "First Right of Refusal". You are obligated before any

transfer to a third party to comply with all criteria set forth in the subsections entitled "Sale or Assignment" and "First Right of Refusal." If you do not complete a transaction with a third party within **6** months, you agree we will again have the right of first purchase before any subsequent contemplated transaction.

We may elect to purchase all of your franchise business regardless of your intent to sell, assign, or transfer a lesser interest. We can pay the purchase price in cash up front or 120 equal monthly payments that amortize the principal amount with interest calculated at prime plus 1% as of the date of purchase. The choice of payment type is in our sole discretion.

7.4 First Right of Refusal. If you receive a bona fide offer from a third party acting at arm's length to purchase the Franchise, a majority interest in ownership of you, or substantially all of the assets of the Franchise, which offer is acceptable to you or to your owners, we will have the right to purchase at the bona fide price on the same terms and conditions as offered to you. We may substitute cash for any other form of consideration contained in the offer. Our credit will be deemed to be equal to the credit of any proposed purchaser. At our option, we may pay the entire purchase price at closing. Within **6** days after receipt by you of an acceptable bona fide offer, you will notify us in writing of the terms and conditions of the offer. We may exercise this right to purchase within **30** days after receipt of notice from you. If the interest which is the subject of the offer involves less than all of the ownership interest, then in our sole option, our right of first refusal will apply to the entire ownership interest. In such case, the consideration to be received, as set forth in the offer, shall be divided by the percentage interest subject to the offer and the resulting quotient shall be the price to be paid of the entire ownership interest. Terms and conditions for the purchase of the entire ownership interest shall be as similar to the terms and conditions set forth in the offer as practicable, except for the substitute provisions noted above in this section.

If we do not exercise our right to purchase within the **30** days, you may make the proposed transfer to a third party. The transfer will not be at a lower price nor on more favorable terms than disclosed to us. Any transfer will be subject to our prior written permission described in the section entitled "Sale or Assignment by you," above. If the Franchise is not transferred by you within **6** months from the date it is offered to Us, or if any material change is made in the terms of the proposed sale, then you must reoffer to transfer to us before a transfer to a third party.

8) INDEMNITY. INSURANCE. CONDEMNATION AND CASUALTY

8.1 Indemnity. You will indemnify and hold us harmless from all fines, suits, proceedings, claims, demands, actions, losses, attorney fees and damages arising out of or connected with the Franchise and the business activities, acts or omissions of you and your employees and agents, including those brought against you and us jointly alleging that you and we were negligent or otherwise liable. We will not be liable to you or to any other person because of your act, omission, neglect, or breach. If it is established that both you and we were negligent or otherwise liable, you and we will contribute to the relevant award based upon the adjudication and assigned respective degree of fault. You will indemnify us for any loss, cost or expense, including attorney's fees, that may be sustained by us because of the acts and omissions of your vendors or suppliers or arising out of the design or construction of the Franchise Premises.

This indemnification will include use, condition, or construction, equipping, decorating, or operation of the Franchise Premises, including sale of any food products, service or merchandise sold from the Franchise Premises. Any loss, claims, costs, expenses, damages, or liabilities shall include, without limitation, those arising from latent or other defects in the Franchise Premises, whether or not discoverable by us, and those arising from the death or injury to any person, or arising from damage to the property of you or us, and our respective agents and employees, or any third person, firm, or legal entity.

You will defend us at your own expense in any legal or administrative proceeding subject to this Subsection. The defense will be conducted by attorneys we approve. Our approval will not be unreasonably withheld. You will immediately pay and discharge any liability rendered against us in any proceeding, including any settlement that we approve in writing. You will not settle any claim against us without our prior written approval. In our sole discretion and upon prior written notice to you, we may settle or defend any claims against us at your expense,

including attorney fees that we pay or incur in settling or defending. Promptly upon demand, you will reimburse us for any and all legal and other expenses we reasonably incur in investigating, preparing, defending, settling, compromising or paying any settlement or claim, including monies that we pay or incur in settling or defending such proceeding.

All references in this Agreement that provide that you will indemnify or defend us or that you will name us under any insurance policy will also mean that our affiliates, directors, officers, and employees will be also and equally indemnified, defended or named.

8.2 **Insurance.** Upon commencement of franchise operations, and during the term of this Agreement, you will obtain and keep in force by advance payment of premium appropriate fire and extended coverage, vandalism, malicious mischief, general liability, and products liability insurance. This insurance will be in an amount sufficient to replace the Franchise Premises and your personal property upon loss or damage. This insurance will be written by an insurance company satisfactory to us in accordance with our standards and specifications in the Operations Manual. The insurance will include, at a minimum, the following:

- A Comprehensive general liability insurance, including products liability, completed operations, Dram Shop or host liquor liability (if alcoholic beverages are served), property damage, contractual liability, independent contractors liability, owned and non-owned automobile coverage, and personal injury coverage with a combined single limit of at least **\$1,000,000**, including umbrella coverage:

General Liability Insurance	\$1000,000	Per Occurrence
	\$1,000,000	In the Aggregate
Business Property Insurance	\$75,000	Per Month
Flood Insurance	To cover building and property	Not less than Per Occurrence
Wind Insurance	To cover building and property	Not less than Per Occurrence
Business Income/Extra Expense	\$12,500	Per Month
Valuable Papers and Records	\$25,000	Per Occurrence
Accounts Receivable	\$25,000	Per Occurrence
Comprehensive Crime and Employee Dishonesty Insurance	\$10,000	Per Occurrence
Optional: Business Interruption Insurance	\$50,000	Per Month

- B Workers' compensation and employer's liability insurance, and other insurance required by statute or rule of the state in which the franchise is located and operated.
- C. Business interruption and lost profit insurance.
- D. Employer Practice liability insurance.

Other than property The insurance will insure us, you, and our respective subsidiaries, owners, officers, directors, partners, members, employees, servants, and agents against any loss, liability, products liability, personal injury, death or property damage that may accrue due to your operation of the Franchise. Your policies of insurance will contain a separate endorsement naming us as an additional named insured. The insurance will not be limited in any way because of any insurance we maintain. The insurance will not be subject to cancellation except upon **20** days' written notice to us. Certificates of your insurance policies will be kept on deposit with us. Maintenance of the required insurance will not diminish your liability to us under the indemnities contained in this Agreement.

All insurance policies you obtain will contain a blanket waiver of the insurer's rights of subrogation in respect of or against us and our officers, agents, employees, and representatives; and will not contain any insured vs. insured exclusion clause, but will contain a severability clause providing that each policy will be treated as though a separate insurance policy had been issued to each named insured.

We may require you to increase the minimum limits of and types of coverage to keep pace with regular business practice and prudent insurance custom.

If you fail to comply with any of the requirements of this Subsection, we may, but are not obligated to, purchase insurance at your expense to protect our interests. This insurance may, but need not, also protect your interest. The coverage we obtain might not pay any claim you make or any claim made against you. You may later cancel the insurance we obtain by providing evidence that you have obtained proper coverage elsewhere. You are responsible for the cost of any insurance purchased by us pursuant to this paragraph. This coverage may be considerably more expensive than insurance you can obtain on your own and might not satisfy your needs. You will pay us upon demand the premium cost of this insurance with a late payment charge on the unpaid balance at the rate established in this Agreement.

You will promptly report all claims or potential claims against you, the Business, or us in writing when you become aware of them. You will give immediate written notice to us of any claims or potential claims you make to your insurers.

We may, at our sole discretion, upon not less than 90 days prior written notice to you, secure a policy of insurance which will provide defined insurance coverage to all or any part of our franchise system. This policy may replace or supplement the insurance coverage you are required to maintain. You will pay the relevant insurance premium to us or the designated insurance provider, as we direct.

Nothing contained in this Agreement will be construed as a representation or warranty by us that the insurance coverage we specify will insure you against all insurable risks or amounts of loss which may or can arise out of or in connection with the operation of your franchise business. It is your sole responsibility to ensure that adequate insurance coverage is obtained for your business.

Your procurement and maintenance of the insurance specified above will not relieve you of any liability to us under any indemnity requirement of this Agreement.

8.3 **Condemnation.** You will give us notice of any proposed taking through the exercise of the power of eminent domain. Notice will be given within ten days of your first knowledge of the proposed taking. If the Franchise Premises or a substantial part of it is to be taken, the Franchise Premises may be relocated within the franchise territory or elsewhere with our prior written approval. The relocated premises may not infringe on the protected rights of any other franchise pursuant to our specifications and contractual obligations. Relocation must be completed and franchise business operations recommenced within a reasonable time after the closing of the initial Franchise Premises (but in any event, within one year after the closing of the Franchise Premises). The new franchise location will become the Franchise Premises licensed under this Agreement. If a condemnation takes place and a new franchise location does not open, for whatever reason, then this Agreement will terminate upon thirty days written notice from us to you.

8.4 **Casualty.** If the Franchise Premises is damaged by fire or other casualty, you will expeditiously repair the damage. If the damage or repair requires the closing of the Franchise, you will:

- A continue to pay Royalty and National Advertising and Development Fees based upon those paid for the preceding 12 month period or based upon any business interruption recovery you receive, whichever is greater,
- B immediately notify us,
- C repair or rebuild the Franchise Premises following our specifications, and

- D reopen the Franchise for continuous business operations when practicable (but in any event, within one year after closing of the Franchise Premises). You will give us not less than 30 days advance notice of the date of reopening.

If the Franchise Premises does not reopen within one year, this Agreement will terminate upon 30 days written notice from us to you.

9) **NOTICE AND MISCELLANEOUS**

9.1 **Notices.** All notices required by this Agreement will be in writing. They may be sent by certified or registered mail, postage prepaid and return receipt requested. They may be delivered personally at any location and receipted. They may be delivered by Federal Express, or other reputable air courier service, requesting delivery with receipt on the most expedited basis available. They may be sent by prepaid facsimile or electronic mail (provided that the sender confirms the facsimile or electronic mail by sending an original confirmation copy by expedited delivery service or certified or registered mail within **3** business days after transmission). Notices may be delivered to you at the Franchise Premises, to us at our headquarters in Los Angeles, California, or to other locations specified in writing. Notices sent by mail will be deemed to have been delivered and received **3** business days following the date of mailing or one business day after placement with Federal Express, or other reputable air courier service, requesting delivery on the most expedited basis available. Any notice by certified mail shall be deemed to have been given at the date and time of mailing.

9.2 **Business Name.** You will execute any documents we may from time to time direct, to be retained by us until this Agreement ends, to evidence that you abandon, relinquish, and terminate your right or interest you may claim in or to the Service Marks and the name **Paniq Room**.

9.3 **We and You Are Not Joint Venturers, Partners, or Agents.** You are and will remain an independent contractor. You and we are not and will never be considered joint venturers, partners, employees, or agents one for the other. Neither will have the power to bind nor obligate the other except as otherwise outlined in this Agreement. No representation will be made by either party to anyone that would create any apparent agency, employment, or partnership. Each will hold the other safe and harmless from each other's debts, acts, omissions, liabilities, and representations. You acknowledge that you are not in a fiduciary relationship with us.

In all public and private records, documents, relationships, and dealings, you will show that you are an independent owner of the Franchise. You will prominently indicate on your letterheads and business forms that you are our licensed franchisee by using language saying that you operate an independently owned Franchise. You will prominently display, by posting of a sign within public view, on or in the Franchise Premises, a statement that clearly indicates that your franchise business is independently owned and operated by you as a franchisee and not as our agent.

You will maintain employee records to show clearly that you and your employees are not our employees. The liability of you and your owners, shareholders, members or partners will be both joint and several. A breach of this Agreement by you or by any shareholder, member or partner will be a breach by all of the shareholders, members or partners and also by you.

The liability of you and your owners, shareholders, members or partners will be both joint and several. A breach of this Agreement by you or by any shareholder, member or partner will be a breach by all of the shareholders, members or partners and also by you.

9.4 **Waiver.** A waiver of any breach of any provision, term, covenant, or condition of this Agreement will not be a waiver of any subsequent breach of the same or any other provision, term, covenant, or condition.

Any waiver of any provision of this Agreement must be set forth in writing and signed by the party granting

the waiver. Any waiver we grant will not prejudice any other rights we may have, and will be subject to our continuing review. We may revoke any waiver, in our sole discretion, at any time and for any reason, effective upon delivery to you of 10 days prior written notice of revocation. Customs or practices of the parties in variance with the terms of this Agreement will not constitute a waiver of our right to demand exact compliance with the terms of this Agreement. Our delay, waiver, forbearance, or omission to exercise any power or rights arising out of any breach or default by you of any of the terms, provisions, or covenants of this Agreement, will not affect or impair our rights and will not constitute a waiver by us of any right or of the right to declare any subsequent breach or default. Our subsequent acceptance of any payment due to us will not be deemed to be a waiver by us of any preceding breach by you of any terms, covenants or conditions of this Agreement.

By written notice, we unilaterally may waive any obligation of you, your owners, or the Guarantors.

Our consent, whenever required, may be arbitrarily withheld if you are in breach of this Agreement. Unless otherwise expressly provided to the contrary, our consent, acceptance, approval or authorization you may be required to obtain may be given or withheld by us in our sole discretion, and on any occasion where we are required or permitted to make any judgment, determination or use our discretion, including any decision as to whether any condition or circumstance meets our standards or satisfaction, we may do so in our sole subjective judgment and discretion

9.5 **Time Is of the Essence.** Time and strict performance are of the essence of this Agreement. ("Time is of the Essence" is a legal term that emphasizes the strictness of time limits. In this Agreement, it means it will be a material breach of this Agreement to fail to perform any obligation within the time required or permitted by this Agreement.)

9.6 **Documents.** You and your partners, shareholders, members, officers, and owners agree to execute and deliver any documents that may be necessary or appropriate during the term and upon expiration or termination of this Agreement to carry out the purposes and intent of this Agreement. These documents will include a Relinquishment of Assumed Business Name form which must be executed by you contemporaneously with the execution of this Agreement. Contemporaneous execution by you will be a condition precedent to the legal effect and validity of this Agreement and each document.

Any material violation or breach of any of these documents or of any other Franchise or related agreement between the parties will be a material violation of this Agreement and of all the other documents and agreements. The non-breaching party may enforce or terminate this Agreement and any or all of the other documents and agreements as provided for enforcement or termination of this Agreement.

If you are a partnership, all general partners will sign the documents. If you are a corporation or limited liability company or other entity, all shareholders or members and all officers will personally guarantee your faithful performance.

You will assure that each of your owners, shareholders, general partners, members, directors, officers, managers, employees, consultants, distributors and agents will not compete with Us; will not attempt to divert customers to competing businesses; will not induce the employees of us or of our franchisees to leave their employment; and will keep, preserve, and protect confidential information as required by this Agreement.

9.7 **Construction.**

- A. **Entire Agreement.** This document, including any exhibits attached to this Agreement and the documents referred to in this Agreement, will be construed together and constitute the entire agreement between the parties. It supersedes all prior or contemporaneous agreements, understandings, communications and negotiations, whether written or oral, with respect to the subject matter of this Agreement. There are no other oral or implied understandings between the parties with respect to the subject matter of this Agreement. Nothing in the Agreement is intended

to disclaim the representations we made in the franchise disclosure document that we delivered to you. Except as expressly and otherwise provided in this Agreement, this Agreement may not be modified, nor may any rights be waived or abridged, orally or by course of dealing, but only by a written instrument signed by the parties. The words "this Agreement" include any future modifications unless otherwise suggested by the context. No salesperson, representative, or other person has the authority to bind or obligate us in any way, except our CEO or a vice president at our home office by an instrument in writing.

No previous communications, negotiations, course of dealing or usage in the trade not specifically set forth in this Agreement will be admissible to explain, modify, or contradict this Agreement. The parties intend to confer no benefit or right on any person or entity not a party to this Agreement and no third party will have the right to claim the benefit of any provision of this Agreement as a third party beneficiary of that provision.

- B. Format. All words in this Agreement include any number or gender as the context or sense of this Agreement requires. The words "will" and "must" used in this Agreement indicate a mandatory obligation. This Agreement has been prepared in the "you/we" format to simplify it and to facilitate our compliance with state and federal franchise disclosure laws. The rule of construction that a written agreement is construed against the party preparing or drafting such agreement will specifically not be applicable to the interpretation of this Agreement.

Neither this Agreement nor any uncertainty or ambiguity will be construed or resolved against the drafter of this Agreement, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all the parties. We and you intend that if any provision of this Agreement is susceptible to two or more constructions, one of which would render the provision enforceable and the other or others of which would render the provision unenforceable, then the provision shall be given the meaning that renders it enforceable.

- C. Captions and Headings. All captions and headings are for reference purposes only and are not part of this Agreement. The recitals set forth in this Agreement are specifically incorporated into and constitute a part and terms of this Agreement. If there is any typographical, word processing, printing or copying error in this Agreement, the error will be interpreted and corrected consistent with the following order of interpretation:
1. The content and expressed intent and exhibits of our Franchise Disclosure Document(s) previously delivered to you.
 2. The content and expressed intent of franchise agreements we have executed with our other franchises reasonably contemporaneous to this Agreement.
- D. Severability. If, any part of this Agreement is declared invalid, that declaration will not affect the validity of the remaining portion which will remain in full force and effect as if this Agreement had been executed with the invalid portion omitted. The parties declare their intention that they would have executed the remaining portion of this Agreement without including any part, parts, or portions which may be declared invalid in the future. Provided, however, that if we determine that the finding of invalidity materially and adversely affects the basic consideration of this Agreement, we may, at our option, terminate this Agreement.
- E. Implied Covenants. If applicable law implies a covenant of good faith and fair dealing in this Agreement, the parties agree that covenant will not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement. If applicable law implies such a covenant, the parties acknowledge and agree that:

1. This Agreement (and the relationship of the parties which is inherent from this Agreement) grants us the discretion to make decisions, take actions or refrain from taking actions not inconsistent with our explicit rights and obligations under this Agreement that may favorably or adversely affect your interests;
 2. We will use our business judgment in exercising our discretion based on our assessment of our own interests and balancing those interests against the interests of the owners of other Paniq Room businesses generally (including us, our franchisees and parties related to us) and specifically without considering the individual interests of you or any other particular franchisee;
 3. We will have no liability to you for the exercise of our discretion in this manner, so long as our discretion is not exercised in bad faith toward you; and
 4. In the absence of bad faith, no trier of fact in any judicial or arbitration proceeding will substitute its judgment for the business judgment we exercise.
- F. **Joint and Several.** If, at any time during the term of this Agreement, you consist of two or more persons (whether acting in partnership or otherwise and whether or not all have signed this Agreement), the rights, privileges and benefits granted to you in this Agreement may only be exercised and enjoyed jointly; and your obligations, liabilities and responsibilities under this Agreement will be joint and several obligations of each such person.
- G. Any representations or promises outside of the Franchise Disclosure Document and other agreements may not be enforceable.

9.8 **Enforcement.** From time to time there may be controversies about this Agreement, its interpretation, or performance or breach by the parties.

A. **Mediation.** If a dispute arises between the parties, prior to taking any legal action, the parties agree to participate in at least 8 hours of mediation in accordance with the Mediation Procedures of the American Arbitration Association or of any similar organization that specializes in the mediation of commercial franchise business disputes. The Parties agree to equally share the costs of mediation. Injunctive relief and or claims of specific performance sought pursuant to or authorized by this Agreement, are not subject to, nor can be avoided by, the mediation or arbitration terms of this Agreement, and may be brought in any court of competent jurisdiction.

B. **Injunctive Relief and Specific Performance.** Either party may obtain in any court of competent jurisdiction specific performance and injunctive relief to restrain a violation by the other party of any term or covenant of this Agreement. Nothing contained in this Agreement will bar us or you to obtain specific performance of the provisions of this Agreement and injunctive relief against threatened conduct that will cause you or us loss or damages under customary equity rules, including applicable rules for obtaining restraining orders and preliminary injunctions.

C. **Governing Law and Venue.** You acknowledge that we have appointed and intend to appoint many franchisees on terms and conditions similar to those set forth in this Agreement. It mutually benefits those franchisees, you and us if the terms and conditions of these license agreements are uniformly interpreted. This Agreement is accepted by us in the State of California. This Agreement and the relationship between the parties, any dispute between you (or your officers, directors, shareholders, members, partners or other owners) and us, whether arising under this Agreement or from any other aspect of the parties' relationship, will be interpreted under the laws of the State of California and will be governed by the substantive laws of California without regard to California choice of law provisions. Provided that any law of the State of California that regulates the sale of franchises or business opportunities or governs the relationship of a franchisor and its franchisees will not apply unless its jurisdictional requirements are met independently without reference to this section. California laws will prevail, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C.

Sections 1051, et seq.) and except in those states whose franchise laws require exclusive application of those laws. This choice of laws will not include and does not extend the scope of application of the California franchise or business opportunity laws except as they may otherwise apply pursuant

to their terms and definitions. No franchise, business opportunity, anti-trust, "implied covenant", unfair competition, fiduciary or any other doctrines of law, statute, law or regulation of California or any other state is intended to be made applicable to this Agreement unless it would otherwise apply absent this paragraph. The foregoing will not be construed as a waiver of any of your rights under any applicable franchise registration, disclosure, or relationship law of another territory, state, or commonwealth.

Any portion of this Agreement that requires enforcement in any other state, and is enforceable under the laws of that state but not of California, will be construed and enforced according to the laws of that state.

The parties have negotiated regarding a forum in which to resolve any disputes arising between them and have agreed to select a forum in order to promote stability in their relationship. Therefore, if a claim is asserted in any legal proceeding involving you (or your officers, directors, shareholders, members, partners or other owners) and us, the parties agree that all issues or disagreements between them will be mediated, arbitrated, tried, heard, and decided in the county in which our headquarters is then located (currently **Los Angeles, California**) which you agree is the most convenient venue for these purposes. You acknowledge and agree that this location for venue is reasonable and the most beneficial to the needs of and best meets the interest of, all of the members of the Paniq Room franchise system.

D. Remedies. You recognize the unique value and secondary meaning attached to the Method of Operation, the Service Marks and our standards of operation and trade practices. You agree that any noncompliance with the terms of this Agreement or any unauthorized or improper use of the Method of Operation or the Service Marks will cause irreparable damage to us and our franchisees. You agree that if you engage in any unauthorized or improper use, during or after the period of this Agreement, we will be entitled to both permanent and temporary injunctive relief from any court of competent jurisdiction in addition to any other remedies prescribed by law.

Our and your rights under this Agreement are cumulative, and the exercise or enforcement of any right or remedy under this Agreement will not preclude exercise or enforcement of any other right or remedy which a party to this Agreement is entitled by law to enforce. No right or remedy conferred upon us is exclusive of any other right or remedy in this Agreement or provided by law or equity. Each will be cumulative of every other right or remedy.

We may employ legal counsel or incur other expense to collect or enforce your obligations or to defend against any claim, demand, action or proceeding because of your failure to perform your obligations. Legal action may be filed by or against us and that action or the settlement of it may establish your breach of this Agreement. If any such event occurs, we may recover from you the amount of our reasonable attorney fees and all other expenses we incur in collecting or enforcing that obligation or in defending against that claim, demand, action or proceeding.

You agree that the existence of any claims you may have will not constitute a defense to the enforcement by us of any of the confidentiality requirements and covenants not to compete described in this Agreement. You acknowledge that any violation of the confidentiality requirements and covenants not to compete would result in irreparable injury to us for which no adequate remedy at law may be available and you accordingly consent to the issuance of an injunction prohibiting any conduct by you in violation of the terms of the covenants not to compete.

You agree that each of the confidentiality requirements and covenants not to compete described in this Agreement will be constructed as independent of any other covenant or provision. If all, parts or any portion of any covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which we are a party, you expressly agree to be bound by any lesser covenant subsumed within the terms of that covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in this Agreement. Each of the covenants described in this Agreement is a separate and independent covenant in each of the separate counties and states in the United States in which we transact business. To the extent that any covenant may be determined to be judicially unenforceable in any county or state, that covenant will not be affected with respect to any other county or state.

You understand and acknowledge that we will have the right, in our sole discretion, to reduce the scope of any covenants, confidentiality requirements or covenants not to compete set forth in this Agreement that apply to you or to any other of our franchisees. We may do so without your consent, effective immediately upon your receipt of written notice. You agree that you will comply with any covenant that pertains to you as we so modify it.

You acknowledge we will suffer immediate and irreparable harm that will not be compensable by damages alone if you repudiate or breach any of the provisions of any part of this Agreement that relates to the confidentiality or protection of confidential information and trade secrets or your covenants to not compete against us or our franchise system or your threats or attempts to do so. For this reason, under those circumstances, we, in addition to and without limitation of any other rights, remedies or damages available to us at law or in equity, will be entitled to obtain temporary, preliminary and permanent injunctions in order to prevent or restrain the breach, and we will not be required to post a bond as a condition for the granting of this relief. You also agree that a violation of any of our your confidentiality or non-competition covenants will entitle us, in addition to all other remedies available at law or equity, to recover from you any and all funds, including, without limitation, wages, salary, and profits, which will be held by you in constructive trust for us, received by you in connection with such violation.

You specifically acknowledge the receipt of adequate consideration for the confidentiality and non-competition covenants contained in this Agreement and that we are entitled to require you to comply with these covenants. Those covenants will survive termination or expiration of this Agreement. You represent that if this Agreement expires or is terminated, whether voluntarily or involuntarily, you have experience and capabilities sufficient to enable you to find employment or otherwise earn a livelihood in areas which do not violate this Agreement and that our enforcement of a remedy by way of injunction will not prevent you from earning a livelihood.

Except with respect to the parties' obligation to indemnify each other as outlined in this Agreement, we and you and our respective principals waive to the fullest extent permitted by law any right to or claim for any punitive, exemplary, special and consequential damages against the other (including lost profits incurred as a result of any termination of this Agreement) and agree that, in the event of a dispute between you and us, the party making a claim will be limited to equitable relief and to recovery of any direct or general damages it sustains.

Limitations: Any judicial proceeding between two or more of the parties shall be governed by the following limitations:

1. Such judicial proceeding will be considered unique as to its facts and may not be brought as a class action. You and each of your owners waive any right to proceed against us by way of class action. The court will not be precluded from making its own independent determination of the issues in question, notwithstanding the similarity of issues in any other judicial or arbitration proceeding involving any other franchisee. Each party waives the right to claim that a prior disposition of the same or similar issues preclude such independent determination.
2. The parties agree that a judicial proceeding will be tried before the court sitting without a jury, notwithstanding any State or Federal constitutional or statutory rights. Each party waives any right to have any action tried by jury.
3. Except with respect to obligations regarding use of the Service Marks, the Operations Manual and confidential information, the parties waive, to the fullest extent permitted by law, any right to or claim for any punitive or exemplary damages against any other party and agree that the party making any claim directly or indirectly arising from or relating to this Agreement will be limited to recovery of actual and consequential damages sustained.

E. **Attorney Fees.** The prevailing party in any insolvency proceeding, bankruptcy proceeding, suit, or action to enforce this Agreement will recover its arbitration, proceeding, and court costs and reasonable attorney fees. These will be set by the proceeding or court, including costs and attorney fees on appeal or review from the arbitration, proceeding, suit, or action. "Prevailing party" means the party who recovers the greater relief in the proceeding as determined by the trier of fact based upon an assessment of which party's major arguments or positions taken in the proceedings could fairly be said to have prevailed over the other party's major arguments or positions on major disputed issues. Attorney fees will include, without limitation, fees incurred in the following: (a) post judgment motions; (b) contempt proceedings; (c) garnishment, levy, and debtor and third party examinations; (d) discovery; and (e) bankruptcy litigation. This subsection is intended to be expressly severable from the other provisions of this Agreement, is intended to survive any judgment and is not to be deemed merged into the judgment.

9.9 **Other Agreements.** If you or any of your shareholders, partners, or officers violate any material provision of any other franchise or similar agreement with Us, that breach will be considered a breach of this Agreement and of the other agreements. We then may terminate or otherwise enforce this Agreement and the other agreements. Whenever this Agreement requires that you [and we] enter into a release, such as for a transfer, renewal or purchase of an additional franchise, the release will be in substantially the following form:

You (and your owners, members, partners, officers, and directors) agree to the following general release, subject to and following laws applicable in your jurisdiction, to release us from any claims you may have against us:

In consideration of the mutual covenants and understandings set forth in this release agreement, you release and discharge us and our respective current and former owners, partners, directors, officers, employees and agents from all obligations, duties, covenants and responsibilities to be performed under the franchise agreement with us related to the franchise and the franchise premises ("your Prior Franchise Agreement").

You release and forever discharge us and our current and former owners, partners, directors, officers, members, employees and agents from any and all claims, demands, actions or causes of action of every name, nature, kind and description whatsoever, whether in tort, in contract or under statute, arising directly or indirectly out of the offer of, negotiation of, execution of, performance of, nonperformance, or breach of your Prior Franchise Agreement and any related agreements between you and us and out of any other action or relationship between you and us arising prior to the date of the release agreement.

You and we will represent that this release has been read and that it is fully understood and voluntarily accepted. The purpose of this release is to make a full, final and complete settlement of all claims, known or unknown, arising directly or indirectly out of your Prior Franchise Agreement and the relationship between you and us prior to the date of the transfer [renewal] agreement including, but not limited to, economic loss.

It is expressly understood and agreed that this release is intended to cover and does cover not only all known losses and damages but any further losses and damages not now known or anticipated but which may later develop or be discovered, which arise under your Prior Franchise Agreement prior to the date of the transfer [renewal] agreement, including all effects and consequences.

These releases are intended to waive, release and discharge all claims against us, other than these expressly reserved:

any future claims we may have against you for: your past, present and future violations of the post-termination covenants contained in the Prior Franchise

Agreement and [fill in blank as appropriate]

[any future claims you may have against us for:] [fill in blank as appropriate] [and relating in any way to your prior franchise agreement, any transfer agreement, or our acts prior to the execution of this release.]

with the express waiver of any statute, legal doctrine or other similar limitation upon the effect of general releases. In particular, the parties waive the benefit of any applicable statutory provision such as by illustration, California Civil Code Section 1542, which states:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

You will waive the benefit of both statute and any other legal doctrine or principle of similar effect in any jurisdiction, recognizing that while there may be new or different facts of which we are unaware at the time that this release is executed, we have nevertheless weighed the advantages and disadvantages of entering into this Release, and while we may be unaware of relevant facts, we are also aware that not every eventuality or condition can be anticipated and that we prefer the current certainty of this Release to the possibility of discovering new or different facts in the future.

9.10 **Agreement Binding on Successors and Assigns.** This Agreement benefits and binds the respective heirs, executors, administrators, successors, and assigns of the parties.

9.11 **Execution in Counterparts and Our Acceptance.** This Agreement will be binding upon you at the time you sign it and deliver it to us. This Agreement will not be binding upon us until we accept it in writing by one of our principal officers at our home office. If we do not accept it within **60** days, this Agreement will no longer be binding upon you. Delivery of the executed signature page of this Agreement by facsimile or electronic mail transmission will constitute effective and binding execution and delivery of this Agreement.

9.12 **Approval by Shareholders, Members or Partners.** If you are a corporation, limited liability company, partnership or other entity, we will not be bound until your shareholders, members or partners read and approve this Agreement, agree to the restrictions on them (including restrictions on the transfer of their interest in the Franchise and the restrictions and limitations on their ability to compete with Us), and jointly and severally guarantee your performance under this Agreement. We may request a copy of the Resolution approved by your partners, members, shareholders, owners or directors as confirmation of your fulfillment of this requirement and authorizing your execution of this Agreement.

Your ownership certificates will have conspicuously endorsed upon them a statement that they are subject to, and that further assignment or transfer of them is subject to, the restrictions imposed upon assignments by this Agreement.

If You are an entity with more than one owner, the partnership agreement, shareholders agreement, limited liability operating agreement or other similar agreement for the entity ("Owners Agreement") must contain the following provisions which will supersede any contrary provisions in that agreement:

- A. Your owners ("Owners") agree to submit any dispute they cannot resolve relating to the operation and management of the franchise business to arbitration by our CEO or his designee. If the arbitration submission is accepted by our CEO, it must be held at our headquarters or at another location the Owners and the arbitrator agree. The decision of the arbitrator will be final and subject to enforcement by the courts of competent jurisdiction. If the submission to arbitration is not accepted by our CEO, the Owners must resolve their disputes in accordance with the other provisions of this Franchise Agreement.

- B. The term "operations and management" includes, but is not limited to, questions relating to:
1. Allocations of management responsibilities between the Owners;
 2. Contributions to capital for purposes of business operations, repairs and remodeling;
 3. The reasonable salaries of the Owners;
 4. Marketing efforts;
 5. The termination of the employment of an Owner;
 6. Procedures for making and implementing management decisions;
 7. Whether an Owner has performed duties with respect to the operation or management of the franchise business.
- C. Unless the Owners and the arbitrator agree in writing otherwise, "operation and management" does not include questions relating to:
1. Allocations, computations or distributions of profit or loss;
 2. Accounting issues;
 3. Elections of officers of the entity;
 4. Investments of cash not necessary for the operation of the business;
 5. Determining whether an Owner is disabled or incompetent within the meaning of the Owners Agreement;
 6. The fair market value of the Owners' interests in the entity;
 7. Whether an event has occurred, which gives rise to a right to buy the interest of an Owner other than a right resulting from an Owner's default determined to exist under B, above;
 8. Whether an Owner has met his obligations to purchase the interest of any current or former Owner;
 9. Matters relating to the winding up of the entity after a dissolution;
 10. Matters relating to the legal validity of the Owners Agreement.
- D. The Owner's agreement must provide that the Owner or Owners who are to be responsible for on premises operation of the franchise business must own 50% or more of the capital interests in the entity and that the Owners of the entity must have voting rights proportionate to their interests in capital.
- E. The Owners agree to notify us in writing of their intent to enter into, modify or amend any Owners Agreement. Notice must be given at least 10 business days before they enter into that agreement, modification or amendment. The purpose of this notice is to enable us to review it for compliance with this section.
- F. Inclusion of these provisions in the Owner's Agreement will be a condition to our consent to the transfer of the franchise to an entity.

9.13 **Personal Guarantee**. The undersigned Guarantors are all of your partners, members, shareholders or owners. They jointly, severally, irrevocably, and unconditionally guarantee to us the due and punctual observance and performance by you of all of your obligations under this Agreement and any other agreement to which we and you are parties. Each Guarantor agrees to guarantee us against all liability, loss, harm, damage, costs, and expenses (including attorney fees) that we may incur because of your failure to observe your obligations. The liabilities and obligations of each Guarantor will not be released, discharged, or affected by our release or discharge of or dealing with you under any of these agreements; or by anything we do, suffer, or allow to be done in relation to you; or by change, alteration, or modification of any of the agreements; or by any compromise, arrangement, or plan of reorganization affecting you; or by your bankruptcy or insolvency; or by any other act or proceeding in relation to you or any of the agreements by which any Guarantor might otherwise be released. The liabilities and obligations of each Guarantor pursuant to this Guarantee will be continuing in nature and will terminate only on the satisfaction of your obligations under this

Agreement. A fresh cause of action will arise in respect of each breach by you producing a liability of any Guarantor.

The Guarantors agree that it shall not be necessary for us or our assigns to institute suit or exhaust our legal remedies against you in order to enforce this guaranty. Guarantors agree that we may from time to time extend the time for performance or otherwise modify, alter, or change this Agreement, may extend the time for payment of all sums guaranteed, and may receive and accept notes, checks, and other instruments for the payment of money made by you and extensions or renewals without in any way releasing or discharging Guarantors from their obligations. This guaranty shall not be released, extinguished, modified, or in any way affected by our failure to enforce all the rights or remedies available to it under this Agreement. Our release of one or more Guarantor will not operate as a release of the other Guarantors.

9.14

Representations and Acknowledgments.

A. **Receipt of Disclosure Documents.** You acknowledge that you have received our complete Franchise Disclosure Document at the earlier of (1) the first personal meeting with us (in Maryland, New York and Rhode Island); or (2) 14 calendar days before signing any franchise or related agreement or making any payment with the franchisor or an affiliate in connection with the franchise sale. In addition, you acknowledge either:

1. receipt of this Agreement containing all substantive terms at the time of delivery of the Franchise Disclosure Document; or
2. if we unilaterally or materially altered the terms and conditions of our standard franchise agreement or any related agreements attached to the Franchise Disclosure Document, you acknowledge that you received a complete and final copy of this Agreement and its exhibits not less than 7 calendar days before you signed this Agreement.

B. **You Have Read and Understand this Agreement.** You acknowledge that you have had ample to read and have read this Agreement and our Franchise Disclosure Document. You understand and accept the terms, conditions and covenants contained in this Agreement. They are necessary to maintain our high standards of quality, service and uniformity at all franchises. They protect and preserve the goodwill of the Service Marks and the confidentiality and value of the Method of Operation. You have received advice from advisors of your own choosing regarding all pertinent aspects of this Franchise and the franchise relationship created by this Agreement. You also acknowledge that you believe you have made a good decision for yourself or your partners or your corporation based upon what you believe is your ability to run and control a business of your own.

C. **Varying Forms of Agreement.** You are aware that some of our present and future franchisees may operate under different forms of agreement and, consequently, that our obligations and rights in respect to our various present and future franchisees may differ materially in certain circumstances.

D. **Speculative Success.** The success of your franchise is speculative and depends, to a large extent, upon your ability as an independent businessperson. You recognize that the business venture contemplated by this Agreement involves business risks. We do not make any representation or warranty, express or implied, as to the potential success of the Franchise.

E. **Independent Investigation. No Projections or Representations.** You acknowledge that you have entered this Agreement after conducting an independent investigation of us and of the Franchise. Your success will be dependent upon your ability as an independent businessperson. You have not relied upon any representation as to gross revenues, volume, cost savings, potential earnings or profits which you in particular might realize. Except as outlined in Item 19 of our Franchise Disclosure Document, we expressly disclaim the making of, and you acknowledge that you have not received, any representation, warranty, or guarantee, express or implied, concerning the potential revenues, cost savings, volume, profits, or success of the business venture contemplated by this Agreement. You acknowledge that neither we, nor any of our officers,

directors, shareholders, employees, agents or servants, made any other representation about the business contemplated by this Agreement or that are not expressly set forth in this Agreement or our Franchise Disclosure Document to induce you to accept this Franchise and execute this Agreement. Any oral representations made by our representatives to you, whether or not set forth in earlier versions of our standard form franchise agreement, have either been ratified by us by including the representations in this document or have been disavowed by excluding them from this Agreement.

F. **No Review of Business Plans, Loan Applications.** Prior to your execution of this Agreement, we have not given you any advice or review of any of your business plans or third party loan applications related to your purchase of and proposed operation of the franchise. We do not receive or review business plans and loan applications before a franchisee signs the relevant franchise agreement. We have strongly recommended that you retain and work with your own independent accountant and financial advisors to fully review all financial aspects of your potential franchise investment for you. You acknowledge that we will not provide financial assistance to you and that we have made no representation that we will buy back from you any products, supplies, or equipment you purchase in connection with your franchise.

G. **Your Location and Market Area.** You acknowledge that we will not provide or designate locations for you. You have investigated the potential of the market area in which you are to establish and operate your franchise business and the laws and regulations applicable thereto (or will do so if you have not yet found a Franchise Premises). You agree and represent that that market area is reasonable, the Franchise Premises will be suitable for the operation of a franchise, and the Initial Franchise Fee represents fair consideration for the opportunity to establish and operate a franchise.

H. **Health and Full-Time Participation.** You acknowledge that a franchise business involves hard work and sometimes long hours, similar to most small businesses that are owner operated. We have not represented that this business is going to be easy for you, your partners, officers or directors. You or your majority owner if you are a corporation, limited liability company or partnership, must actively participate in the daily affairs of the business. You represent that you or your majority owner are in good health and able to devote your full time and best efforts in the day to day operations of your franchised business or that you have the business management skills necessary to successfully hire a general manager to run the day to day operations of your franchised business.

I. **Terrorism, Convictions, Immigration Status.** You represent to us, unconditionally and without reservation, that:

Neither you, nor your spouse, nor your children, nor your parents, nor any employee or prospective employee of the franchise business, nor anyone who has an interest in or who will manage the franchise, nor any of your partners or affiliates: supports terrorism, provides money or financial services to terrorists, including but not limited to those individuals and organizations on the current U.S. government lists of persons and organizations that support terrorism as provided for by law, such as the list of "Specially Designated Nationals" and "Blocked Persons" under the "USA Patriot Act" 18 USC Section 1900 et money or financial services from terrorists or institutions that support terrorists, including but not limited to those individuals and organizations on the current U.S. government lists of persons and organizations that support terrorism as provided for by law, such as the list of "Specially Designated Nationals" and "Blocked Persons" under the "USA Patriot Act" 18 USC Section 1900 et seq. is engaged in terrorism, or in any activity, organization or plan with or of any person or organization, including but not limited to those individuals and organizations on the current U.S. government lists of persons and organizations that support terrorism as provided for by law, such as the list of "Specially Designated Nationals" and "Blocked Persons" under the "USA Patriot Act" 18 USC Section 1900 et seq. is on the current U.S. government lists of persons and organizations that support terrorism as provided for by law, such as the list of "Specially Designated Nationals" and "Blocked Persons" under the "USA Patriot Act" 18 USC Section 1900, et seq.

Neither you nor any of these persons has engaged in or been convicted of fraud, corruption, bribery, money laundering, narcotics trafficking or other crimes, and each is eligible under applicable U.S.

immigration laws to communicate with and travel to the United States to fulfill your obligations under your agreements with us.

Neither you, nor your spouse, nor your children, nor your parents, nor anyone who has an interest in or who will manage the franchise, nor any employee or prospective employee of the franchise business, nor any of your partners or affiliates has engaged in or been convicted of fraud, corruption, bribery, money laundering, narcotics trafficking or other crimes, and each is eligible under applicable U.S. immigration laws to communicate with, lawfully reside in, and travel to the United States to fulfill your obligations under your agreements with us.

You, your spouse, your children, your parents, and anyone who has an interest in or who will manage the franchise, and all employees or prospective employees of the franchise business, and all of your partners or affiliates are in the United States lawfully, have legal residence in the United States, and are lawfully permitted to work in the United States.

You represent and warrant that to your actual and constructive knowledge: (i) neither you (including your directors, officers and managers), nor any of your affiliates, or any funding source for your franchise, are identified on the list at the United States Treasury's Office of Foreign Assets Control (OFAC); (ii) neither you nor any of your affiliates are directly or indirectly owned or controlled by the government of any country that is subject to an embargo imposed by the United States government; (iii) neither you nor any of your affiliates are acting on behalf of the government of, or is involved in business arrangements or other transactions with, any country that is subject to such an embargo; (iv) neither you nor any of your affiliates are on the U.S. Department of Commerce Denied Persons, Entities and Unverified Lists, the U.S. Department of State's Debarred Lists, or on the U.S. Department of Treasury's Lists of Specialty Designated Nationals, Specialty Designated Narcotics Traffickers or Specialty Designated Terrorists, as such lists may be amended from time to time (collectively, the Lists); (v) neither you nor any of your affiliates, during the term of this Agreement, will be on any of the Lists; and (vi) during the term of this Agreement, neither you nor any of your affiliates will sell products, goods or services to, or otherwise enter into a business arrangement with, any person or entity on any of the Lists. You agree to notify us in writing immediately upon the occurrence of any act or event that would render any of these representations incorrect.

You represent and warrant that:

Neither you nor any of your owners or agents conducts any activity, or has failed to conduct any activity, if such action or inaction constitutes a money laundering crime, including any money laundering crime prohibited under the International Money Laundering Abatement and Anti-Terrorist Financing Act ("**Patriot Act**") and any amendments or successors thereto.

Neither you, any of your owners nor any employee or agent is named as a "Specially Designated Nationals" or "Blocked Persons" as designated by the U.S. Department of the Treasury's Office of Foreign Assets Control (currently, this list is published under the Internet website address: www.treasury.gov/offices/enforcement/ofac/), and that you are neither directly nor indirectly owned or controlled by the government of any country that is subject to a United States embargo, nor do you or your owners or agents act directly or indirectly on behalf of the government of any country that is subject to a United States embargo. You agree that you will notify us in writing immediately of the occurrence of any event, which renders the foregoing representations and warranties of this subsection incorrect.

You understand and have been advised by legal counsel on the requirements of the applicable laws referred to above, including the United States Foreign Corrupt Practices Act (currently located at: www.usdoj.gov/criminal/fraud/fcpa.html), any local foreign corrupt practices laws and the Patriot Act (currently located at: www.epic.org/privacy/terrorism/usapatriot/), and you acknowledge the importance to us, the Method of Operation and the parties' relationship of their respective compliance with any applicable auditing requirements and any requirement to report or provide access to information to us or any government, that is made part of any applicable law or regulation. You will take all reasonable steps to require your consultants, agents and employees to comply with such laws prior to engaging or employing any such persons.

J. **We May Investigate.** We may conduct investigations and make inquiries of any person or persons we, in our reasonable judgment, believe appropriate concerning the credit standing, character, and professional and personal qualifications of you and your owners, shareholders, members and partners. You authorize us to conduct these investigations and to make these inquiries. We agree to comply with the requirements of laws that apply to these investigations and inquiries.

K. **Operations Manual.** You acknowledge that the Operations Manual is loaned to you by us and at all times the Operations Manual and any updated or amended pages remain our property and that the copyright in the Operations Manual and all associated materials is vested in us. You agree to return to us the Operations Manual and any updated or amended pages immediately upon written demand.

L. **Data Protection Laws: Personal Information.** You will: (i) comply with all applicable data protection laws; (ii) comply with all of our requirements regarding the data protection laws contained in the Operations Manual or otherwise; (iii) refrain from any action or inaction that could cause us or our affiliates to breach any applicable data protection law; (iv) do and execute, or arrange to be done and executed, each act, document and thing necessary or desirable to keep us and our affiliates in compliance with any applicable data protection law; (v) reimburse us and our affiliates for any and all costs incurred in connection with your breach of any data protection laws; and (vi) permit us and our affiliates to use any data or other information each of them gathers concerning you in connection with the establishment and operation of franchised and company owned locations by us or our affiliates.

Without limiting the foregoing, you consent to the disclosure by us of certain personal information concerning you and the Franchise and the Franchise Premises, namely your identity, including your name, address and telephone number, in our franchise disclosure documents, whether or not such disclosure is required by law, and in our other documents relating to the sale of franchises.

Further, you consent to the additional disclosure by us of certain personal information concerning you, the Franchise and the Franchised Premises, including historical performance of the Franchise, sales, revenues, expenses, costs, results of operations, and similar financial information and operating information, and any information regarding the expiration or termination of this Agreement, to a prospective transferee of your Franchise or of the Franchise Premises or any other purchaser of any other franchise from us.

M. **State Law Addendum.** Attached as an exhibit to this Agreement and incorporated by reference, as applicable, are additional terms and conditions applicable to franchisees and their principals based in certain states within the United States of America (the "State Law Addendum"). Each provision of the State Law Addendum will be effective only to the extent that the jurisdictional requirements of the applicable state law are applicable to the provisions of this Agreement are met independent of the State Law Addendum. If the State Law Addendum is deemed to be inconsistent with any terms or conditions of this Agreement (including its exhibits or attachments other than the applicable State Law Addenda), the terms of the State Law Addendum will control. 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.

N. **NO REPRESENTATIONS, PROJECTIONS, OR WARRANTIES.** WE HAVE NOT MADE ANY REPRESENTATIONS, PROMISES, GUARANTEES, PROJECTIONS, OR WARRANTIES OF ANY KIND TO YOU, YOUR OWNERS, OR THE GUARANTORS TO INDUCE THE EXECUTION OF THIS AGREEMENT OR CONCERNING THIS AGREEMENT EXCEPT AS SPECIFICALLY SET FORTH IN WRITING IN THIS AGREEMENT AND IN OUR FRANCHISE DISCLOSURE DOCUMENT THAT WE DELIVERED TO YOU. YOU ACKNOWLEDGE THAT NEITHER WE NOR ANY OTHER PARTY HAS GUARANTEED YOUR SUCCESS IN THE BUSINESS CONTEMPLATED BY THIS AGREEMENT.

You acknowledge that the information contained in the "Warranties and Disclaimers Form - Franchisee Closing Questionnaire" as filled out by you and your partners, is true, accurate, and complete as of the date of this

Agreement.

Some or all of our rights and obligations under this Agreement may be exercised and fulfilled by our

Area Developers who may in turn receive portions of your initial and ongoing franchise fee payments.

We may delegate to independent Area Developers performance of any of our duties, including ongoing support, supervision and inspections. Area Developers are given specific assignments by us and if an Area Developer has been assigned to a territory containing an individual unit license or franchise, any and all data ever received by us from licensees and franchisees, including but not limited to purchase applications, payment histories, sales reports, audit reports, performance evaluations, etc. will be shared with and made available on an ongoing basis to the Area Developer. Each Area Developer is required to keep all information and data confidential and to use it only for purposes related to the evaluation, service and support of licenses and franchises.

10) SIGNATURES

IN WITNESS, the parties have executed this Agreement on the day and year first above written.

("We/Us"): **Paniq Franchising, Inc.** (jointly and severally "you"):

By: _____
Title: _____

By: _____
Title: _____

IF YOU ARE A CORPORATION, LIMITED LIABILITY COMPANY OR OTHER ENTITY: THIS AGREEMENT MUST BE SIGNED BY A COMPANY OFFICER. ADDITIONALLY, THE AGREEMENT MUST BE GUARANTEED BY ALL OFFICERS AND OWNERS OF THE COMPANY AS INDIVIDUALS, ON THE GUARANTEE FORM ATTACHED TO THIS AGREEMENT.

The undersigned officer _____ being the _____ of _____, pursuant to authority granted to him at a duly called meeting of such company on the ____ day of _____, 201____, executes this instrument, by signing the name of the company, as an officer.

("We/Us"): **Paniq Franchising, Inc.** ("You"):

By: _____
Title: _____

By: _____
Title: _____

IF YOU ARE A PARTNERSHIP: THIS AGREEMENT MUST BE SIGNED BY ALL GENERAL PARTNERS. THE AGREEMENT MUST ADDITIONALLY BE GUARANTEED BY ALL GENERAL PARTNERS, AS INDIVIDUALS, ON THE GUARANTEE FORM ATTACHED TO THIS AGREEMENT.

The undersigned partner, _____, being a General Partner authorized to execute this Agreement on behalf of the partnership, executes this instrument by signing the name of the partnership by himself, as general partner of the partnership.

("We/Us"): **Paniq Franchising, Inc.** ("You"):

By: _____
Title: _____

By: _____
Title: _____

GUARANTOR(S):

_____	_____
_____	_____
_____	_____

EXHIBIT 1– FRANCHISE TERRITORY

1) **FRANCHISE TERRITORY:** The Franchise Territory is [the city limits as of _____, 20 of _____, _____.]

2) **FRANCHISE PREMISES:** The Franchise Premises is or will be located at _____.

The site of the Franchise Premises and the boundaries of the Franchise Territory are based on the physical location of the references used to describe the Franchise location or the boundaries of the territory on the date of this Agreement. If a street address is used to describe a location, the renumbering of the address will not serve to move the location. If a specified boundary of the Franchise Territory is described as a street, the center line of the street is intended; if the boundary is described as a political dividing line (such as a city limit), the line utilized by the appropriate political jurisdiction is intended. The area and physical location of any Franchise Premises location or of the Franchise Territory will not be altered by a subsequent movement of the references originally used to describe them. Also, it is only those points to the “inside” of the boundary that form a part of the Franchise Territory (for example, if a Franchise Territory is bounded on the north by Main Street, only the area south of the center line of Main Street is within the Franchise Territory).

For all calculations based upon a distance (for example, the boundaries of your Franchise Territory), the measurement will be made [in a straight line] [following the then current shortest driving distance in every possible direction measured by the centerline] between the nearest points; if any portion of an object is within the prescribed distance from a point, the entire object is considered to be within that distance.

OR

3) **DESIGNATED AREA:** If either the Franchise Territory or the Franchise Premises has not been determined when this Agreement is executed, you are responsible for selecting the site for your Franchise Premises within the following Designated Area: _____.

The Franchise Territory and your franchise site must be in the United States of America, legally available pursuant to state and federal franchise and business opportunity disclosure and registration laws and pursuant to our contractual commitments (including those with our other franchisees) and in compliance with our franchise placement, market development and demographic criteria.

Except as specifically outlined or forbidden in the relevant Franchise Agreement, there are no understandings oral or written concerning the future placement of escape rooms by any party and concerning any territory protections granted to you.

**EXHIBIT 2 TO STANDARD FRANCHISE AGREEMENT
CO-BRANDING ADDENDUM
(FOR FRANCHISEES AND OPERATORS OF OTHER CHAINS)**

Paniq Franchising, LLC, a California Limited Liability Company ("We/Us") and _____ (jointly and severally "you") are parties to a Franchise Agreement dated _____, 20____ (the "Franchise Agreement").

In consideration of the mutual covenants and commitments expressed in this Exhibit, we and you further agree as follows:

1. **Franchise agreement.** All of the terms defined in the Franchise Agreement shall have the same meaning when used in this Addendum. Except as modified by this Addendum, all provisions in the Franchise Agreement shall apply to the operation of the co-branded escape room.

2. **Grant of rights.** You currently operate a retail outlet associated with a multi-store chain, whose primary trademarks are: _____. We grant to you the right to operate a co-branded Paniq Room escape room to be operated in, within or adjacent to that chain outlet.

3. **Location and opening.** The co-branded escape room must be within or adjacent to your existing chain facility. The location shall be (fill in when known): _____. This co-branded escape room does not have any exclusive or designated area protection.

4. **Initial fee.** You hereby deposit with us the sum of \$ _____ to acquire the rights granted. There is no other initial fee for this Addendum. A separate franchise agreement and co-branding addendum must be signed and fee paid for each co-branded escape room.

5. **Modification of Franchise Agreement and standards.** Certain of the procedures set forth in the Franchise Agreement relating to obtaining a location, site surveys, plans, permits, fixtures, furniture, equipment and signs may not be directly applicable because you may utilize space within your existing chain outlet. Nevertheless, you will attempt to comply with the provisions of the Franchise Agreement that are reasonably applicable to its co-branded escape room, all co-branding requirements expressed in the Operations Manual, and all other relevant procedures, including submitting to us for our prior approval all remodeling plans and proposed lease or sublease agreements. If you are an operator, owner, or franchisee of the chain, you acknowledges that you must fully comply with the applicable operating agreements and standards relating to the chain, such as a franchise agreement and lease. In such event, you will supply us with copies of all contracts with the owner, landlord and operator of the chain. You may have entered into a separate agreement with the chain relating to reciprocal development or co-branding rights, and you will abide by the obligations in such separate agreement to the extent that these obligations are made known to it. Our training and assistance specified in the Franchise Agreement shall be of shorter duration at our discretion, taking into account the reduced franchise fee and your experience in operating an existing chain outlet. We and you may mutually agree to modify our standards and specifications to be consistent with the methods of operation of the chain outlet in which the escape room is located.

6. **Termination.** This Addendum may be terminated by us separately from the Franchise Agreement, on any of the bases for termination provided in the Franchise Agreement. If the chain outlet ceases to be operated by you, the Franchise Agreement shall terminate effective on the date of such cessation (unless expressly agreed in writing by us). In addition, if we decide, in our sole discretion to discontinue the co-branding program, you may be given three years' written notice of the termination of your rights. Upon termination or expiration, you will abide by all post-termination covenants in the Franchise Agreement, including its obligation to discontinue operation of the co-branded escape room.

The parties have executed this Addendum on _____, 20_____.

(“We/Us”) **Paniq Franchising, Inc.**

(jointly and severally “you”)

By: _____
Title: _____

Franchisee’s printed name(s)

Franchisee’s signature

Franchisee’s signature

(Address)

(City, State)

All owners of an entity Franchisee must sign. Attach additional pages if necessary.

EXHIBIT 3 TO THE FRANCHISE AGREEMENT

FRANCHISE PREMISES LEASE AGREEMENT RIDER

THIS RIDER has been entered this ____ day of _____, 20___. It is by and between _____, ("Landlord") and _____ (jointly and severally "Tenant").

RECITALS

On or about _____, 20___, Landlord and Tenant executed a lease agreement (the "Lease Agreement") by which Tenant leased from Landlord real property for Tenant's operations of a **Paniq Room** franchise at the following location: _____ (the "Franchise Premises").

On or about _____, 20___, Tenant and **Paniq Franchising, Inc.** (the "Franchisor") executed a franchise agreement (the "Franchise Agreement") for Tenant to operate a franchise at the Franchise Premises.

Landlord and Tenant desire to execute this addendum to the Lease Agreement to give Franchisor certain rights to the Franchise Premises as required by the Franchise Agreement.

THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, the parties agree as follows:

1. **Use of Franchise Premises.** Landlord acknowledges and agrees that the Franchise Premises may be used only for the operation of a Paniq Room facility. Landlord permits Tenant to use and display the Paniq Room service marks, trademarks, and commercial logos and all other marks and logos that Franchisor develops for a Paniq Room facility in the future.
2. **Landlord Reports and Disclosures to Franchisor.** Tenant acknowledges and agrees that Landlord may, upon Franchisor's written request, disclose to Franchisor all reports, information, or data in Landlord's possession respecting sales made in, upon, or from the Franchise Premises and Tenant's business operations.
3. **Assignment to Franchisor.** Anything contained in the Lease Agreement to the contrary notwithstanding, Landlord agrees that without Landlord's consent, the Lease Agreement and Tenant's right, title and interest, may be assigned by Tenant to Franchisor, without cost or penalty. Landlord grants to Franchisor the right, at Franchisor's election, to receive an assignment of the Lease Agreement and the leasehold interest in the Franchise Premises, upon termination or expiration of Tenant's Franchise Agreement.
4. **Tenant's Default: Notice to Franchisor.** Landlord will give written notice to Franchisor (concurrently with the giving of notice to Tenant) of any breach by Tenant under the Lease Agreement. Franchisor will have the right (but not obligation), in Franchisor's sole discretion, to cure any breach at Tenant's expense within **15** business days after the expiration of the period in which Tenant had to cure the default. Notice will be sent to the following address, or to the address Franchisor may, from time to time, specify in writing to Landlord:

PANIQ FRANCHISING, INC.
3393 Barham Boulevard
Los Angeles, California 90068
5. **Franchise Premises De-identification.** Upon termination, expiration, or non-renewal of the Lease Agreement, Tenant may de-identify the Franchise Premises. If Tenant fails to do so, Landlord gives Franchisor the express right to de-identify. De-identification consists of removal of all signs; modification or remodeling of all identifying architectural features; repainting as necessary to no longer use the color scheme used by Franchisor; and any other steps necessary (in Franchisor's reasonable discretion) to effectively distinguish the Franchise Premises from Franchisor's proprietary designs and marks.

6. **Renewal, Extension, or Cancellation of the Lease Agreement.** Landlord will not extend, renew, or cancel the Lease Agreement without Franchisor's prior written consent, which consent will not be unreasonably withheld.
7. **Competitors.** Landlord agrees that it will prohibit the establishment within Landlord's premises of any retail entity any part of whose business will be derived from the sale of escape room game or interactive game programs or services.
8. **Signatures.**

IN WITNESS, the parties have executed this Rider on the day and year first above written.

("Landlord"):

By: _____
Title: _____

("Tenant"):

By: _____
Title: _____

EXHIBIT 4 TO THE FRANCHISE AGREEMENT
FRANCHISE AGREEMENT ADDENDUM
AREA DEVELOPMENT

This Addendum is between **Paniq Franchising, Inc.**, a California corporation ("we, us") and _____ (jointly and severally "you").

The following additional provisions are agreed to by the parties with respect to the attached PaniQ Room Franchise Agreement of which this Addendum is a part (the "Franchise Agreement.") In the event of conflict, the provisions of this Addendum supersede the corresponding provisions of the Franchise Agreement.

We expressly disclaim the making of and you acknowledge that you have not received or relied upon, any warranty or guaranty, express or implied, as to the revenues, profits or success of the business venture contemplated by this Multiple Purchase Addendum and our standard Franchise Disclosure Document and franchise agreement, except as specifically disclosed in Item 19 and Exhibit A of the Franchise Disclosure Document. You acknowledge that you have read the Franchise Agreement and this Addendum and our Franchise Disclosure Document. You have no knowledge of any representations by us, or our officers, directors, shareholders, employees or agents that are contrary to the statements made in our Franchise Disclosure Document and the Franchise Agreement.

1. **AREA DEVELOPMENT FEE.** Concurrently with the execution of this Addendum, you will pay to us in cash or by certified check the sum of \$_____ which represents the current Initial Franchise Fee multiplied by the number of franchises required to be opened pursuant to the Minimum Development Obligation (the "Area Development Fee"). The Area Development Fee will be non-refundable, but will be credited against your Initial Franchise Fee, as described in each franchise agreement for each franchise opened pursuant to this Addendum; the aggregate amount of these credits will not exceed the Area Development Fee. The Development Fee constitutes payment only for the development rights we grant you under this Addendum. The Development Fee is fully earned by us and non-refundable.

If you and we agree to modify the Minimum Development Obligation (the "New Minimum Development Obligation"), you will, at that time, pay us an additional nonrecurring and nonrefundable Development Fee in an amount equal to the then-current initial franchise fee times the number of additional franchises to be developed based on the New Minimum Development Obligation. The basis of the New Minimum Development Obligation will be that a minimum of one new Franchise will be open and in operation every 2 months. If this pace does not deliver the number of total Franchises specified in the New Minimum Development Obligation within the original time frame designated in the original Minimum Development Obligation, then the New Minimum Development Obligation will be extended so as to allow for the development of the new total number of units, with a pace of development of one Franchise per two months. If you do not agree with the New Minimum Development Obligation, then we may develop additional Paniq Franchises within the Development Area either ourselves or through other franchisees, but you will maintain the right and obligation to own, open and operate the Franchises subject to the original Minimum Development Obligation.

2. **DEVELOPMENT AREA.** We grant to you, subject to the terms and conditions of the Franchise Agreement and this Area Development Addendum, the right to establish and operate franchises within the Development Area described in Exhibit "A" which is annexed to and by this reference made a part of this Addendum (the "Development Area"). This grant is upon the terms and subject to the conditions of this Addendum, our Franchise Disclosure Document, and the Franchise Agreement. Except as otherwise provided in the Franchise Agreement or this Addendum, we will not establish nor license anyone other than you to establish any Paniq facility in the Development Area from the date of this Area Development Addendum until expiration or termination of the Minimum Development Obligation set forth below. If this Addendum is for co-branded locations, we will not establish nor license anyone other than you to establish any Paniq co-branded facility in the Development Area from the date of the

Franchise Agreement until expiration or termination of the Minimum Development Obligation; however, we may establish or grant franchises for Paniq stand-alone franchises in the Development Area.

You have no right under this Area Development Addendum to assign or sub-license these rights to others.

If the Development Area is identified by city or other political subdivisions, political boundaries will be considered fixed as of the date of the Franchise Agreement, notwithstanding any political reorganization or change to the boundaries. The parties may depict the Development Area on a map attached in Exhibit A. However, if there is any inconsistency between the language in this text and the attached map, the language in this text of this Addendum will control. All street boundaries will be deemed to end at the street's centerline unless otherwise specified.

You acknowledge and agree that we may exercise any and all other rights that we now reserve in any Paniq franchise agreement, Area Development Addendum, and related documents. We and our affiliates may engage, and allow others to engage, in any activities we desire within and outside the Development Area, without any restrictions whatsoever, subject to only your rights under this Addendum and any franchise agreements with us then in effect.

3. YOUR DEVELOPMENT OBLIGATION

3.1 Minimum Development Obligation and Execution of Franchise Agreements

You agree to construct, equip, open and continue to operate within the Development Area not less than the cumulative number of franchises set forth in Exhibit "B" which is annexed to and by this reference made a part of this Addendum. This will be done within each of the time periods specified in Exhibit B (the "Minimum Development Obligation").

You will execute a separate Franchise Agreement for each franchise as follows:

After you have located a site for construction of a franchise, you will submit to us all information regarding the proposed site that we then require, in the form we from time to time specify, together with the terms of any proposed lease relating to the site. We may seek additional information as we deem necessary within 30 days of your submission of the prospective site. You will respond promptly to our requests for additional information. If we do not reject the site in writing within 30 days, or within 30 days after our receipt of the additional information, whichever is later, the site will be deemed approved. We will not unreasonably reject a proposed site. Promptly after approval of any site, we will transmit to you an Franchise Disclosure Document as may be required by applicable law and two execution copies of our then current franchise agreement for the approved site as we determine in good faith, in accordance with our then current policies and standards for similarly situated Paniq franchises. "Then-current," as used in this Addendum and applied to our FDD and Franchise Agreement will mean the form we then currently provide to prospective franchisees or area developers, or if not then being provided, then the form we select in our sole discretion which previously has been delivered to and executed by a franchisee of ours.

These franchise agreements will be modified by this Addendum as follows:

- (a) *Initial Franchise Fee* The initial franchise fee for each franchise will be reduced to ½ of the current initial franchise fee and must be paid on the effective date of the franchise agreement for that franchise.
- (b) *Franchise Territory*: The franchise territory of each franchise will consist of the site of the franchise and the entire geographic area within a 1-mile radius of the site unless otherwise specified in the franchise agreement.

- (c) *Initial Training:* You will pay for us to train of the general manager for each subsequent franchise. At least one general manager must have satisfactorily completed our training program and meet all qualifications as a full trained general manager. We set and change the standards and qualifications for meeting that status from time to time. All of your general managers must maintain their status based on our then-current standards. Approval for the development of subsequent franchises is contingent upon your completion of our general manager requirements. Our training does not address in any way the terms and conditions of employment; only franchise operations, opening and training.

Immediately upon receipt of the FDD, you will return to us a signed copy of the Acknowledgment of Receipt of the FDD. After the passage of any applicable disclosure period, you will execute and deliver to us two executed copies of the franchise agreement and the Initial Franchise Fee required following the franchise agreement, less the credit, if any, described above. Promptly upon receipt of these documents and fees, we will execute and return to you one copy of the franchise agreement. You will then obtain the site by purchase or lease, and return one copy of the executed lease or, if purchased, the deed evidencing your right to occupy the approved site. You will then commence construction and operation of the franchise following the terms of the franchise agreement. Notwithstanding the foregoing, if we are not legally able to deliver an FDD to you by reason of any lapse or expiration of our applicable state franchise registration, or because we are in the process of amending the registration, or for any reason beyond our reasonable control, we may delay approval of the site for your proposed franchise until such time as we are legally able to deliver an FDD.

It will be a condition precedent to our obligations, that you will have performed all of your obligations under and following all franchise and other agreements between you and us.

We will not be obligated to grant you a franchise for your second franchise until your first franchise is open, in full operation, and has achieved certification as a training franchise for your franchise organization. We will not be obligated to grant you a franchise for any additional franchise unless

- (i) each preceding franchise has been open and in operation for at least 1 month, unless otherwise specified;
 - (ii) is profitable based on the accounting system we specify;
 - (iii) is operated in full compliance with the relevant franchise agreement; and
 - (iv) has a fully trained general manager assigned to the franchise on a full-time capacity.
- You are solely responsible for the terms and conditions of the general manager's employment.

You agree to give us all information and materials we request to assess each proposed franchise site and your financial and operational ability to develop and operate each proposed franchise. We will not unreasonably withhold approval of any site you propose that meets our then-current criteria for population density and other demographic characteristics, visibility, traffic flow, competition, accessibility, parking, size and other physical and commercial characteristics. We have the absolute right to disapprove any site that does not meet these criteria and other criteria that we may develop over time. We agree to use reasonable efforts to review and approve the sites that you propose within 30 days after we receive all requested information and materials. If we approve a proposed site and your financial and operational ability to develop and operate the proposed franchise, then you must sign a separate franchise agreement for that franchise. If you are unable to obtain lawful possession of the proposed site within a reasonable time after we approve of the proposed site, then we may withdraw our approval. You may sign any lease or sublease for a site without our prior acceptance and without first signing and complying with the relevant franchise agreement. After you sign the franchise agreement, the terms and conditions of it will control the development and operation of that franchise, with the exception that it must be opened within the time limits specified in the Minimum Development Obligation.

This Addendum does not independently create a franchise relationship between you and us. Any franchise relationship between you and us is created solely by fully signed franchise agreements. This Addendum does not create a fiduciary relationship between you and us. We and you are and will be independent contractors and that nothing in this Addendum is intended to make either you or us a general or special agent, joint venturer, partner or employee of the other for any purpose. You agree to conspicuously identify yourself in all dealings with customers, suppliers, public officials, franchise personnel and others as the owner of the business under an area development agreement we have granted and to place such notices of independent ownership on such forms, business cards, stationery and advertising and other materials as we may require from time to time.

You will not execute any franchise agreement, or construct or equip any franchise with a view to transfer or assign that franchise agreement or franchise to independent third parties.

3.2 Effect of Failure to Meet Minimum Development Obligation. Strict compliance with the Minimum Development Obligation is of the essence. If you do not timely meet the Minimum Development Obligation, you will be in default. Any such default constitutes a material breach of this Addendum and we may:

- (a) Terminate this Addendum;
- (b) Have the right to operate or grant franchises to operate Paniq franchises within the Development Area;
- (c) Grant you an extension under the Minimum Development Obligation for such time period and for a nonrefundable extension fee equal to the balance of the Franchise Fees for the number of Paniq franchises remaining to be opened under the Minimum Development Obligation; or
- (d) Reduce the Development Area and the Minimum Development Obligation to a size and magnitude that we estimate you are capable of operating otherwise in accordance with this Addendum.

3.3 Force Majeure

If you are unable to meet the Minimum Development Obligation solely as the result of Force Majeure, including, but not limited to strikes, material shortages, fires, floods, earthquakes, and other acts of God, or by force of law (including, but not limited to any legal disability we have to deliver an FDD pursuant to Section 6.1 of this Addendum), which result in your inability to construct or operate franchise(s) in the Development Area, and which you could not by the exercise of due diligence have avoided, the development periods will be extended by the amount of time during which the Force Majeure exists.

3.4 You May Exceed Minimum Development Obligation

Subject to the terms and conditions of this Addendum and the Franchise Agreement, you may construct, equip, open and operate more franchises in the Development Area than required in the Minimum Development Obligation. You will execute a separate Franchise Agreement for each franchise.

If, within one year of your successful completion of the Minimum Development Obligation:

- a. we determine that it is desirable to establish additional franchises in the Development Area, and

- b. you are then in compliance with all terms and conditions of the Franchise Agreement and all other agreements between you and us, and
- c. you meet our then current standards for new or renewing franchisees,

you will have a right of first refusal to purchase additional franchise agreements to establish the additional franchises within the Development Area upon our then-current terms and conditions. In that event, we will submit to you the relevant FDD and franchise agreements and you will have 30 days after receipt to execute and return the agreements to us. If you do not exercise this right of first refusal, we thereafter may elect to establish additional franchises or grant franchise agreements to others to do so in the Development Area and we or any of our franchisees may construct, equip, open and operate additional franchises in the Development Area.

3.5 Exercise of Right of Additional Development

When we deliver to you our written notice to undertake additional development in the Development Area, we also will deliver to you a copy of our then-current FDD or its equivalent as may be required by applicable law and our then-current Area Development Addendum. "Then-current," as used in this Addendum and applied to our FDD and Franchise Agreement will mean the form we then currently provide to prospective franchisees or area developers, or if not then being provided, then the form we select in our sole discretion which previously has been delivered to and executed by a franchisee of ours. The new Area Development Addendum, which may vary substantially from this Addendum, will reflect your new development obligation consistent with our plan for additional development set forth in our notice to you. Within thirty days after you receive the FDD and the new area development addendum, but no sooner than immediately after any applicable waiting periods prescribed by law have passed, you will execute two copies of the area development addendum described in the FDD and return them to us. If you have executed and returned the copies and have satisfied the conditions set forth below, we will execute the copies and return one fully executed copy to you.

3.6 Conditions to Exercise of Right of Additional Development

Your right to additional development described above will be subject to your fulfillment of the following conditions precedent:

- (a) You will have fully performed all of your obligations under this Addendum and all franchise and other agreements between you and us.
- (b) You will have demonstrated to us, your financial capacity to perform the additional development obligations set forth in the new area development addendum. In determining if you are financially capable, we will apply the same criteria to you as we apply to prospective area developers at that time.
- (c) At expiration of the initial term of the Franchise Agreement, you will continue to operate in the Development Area not less than the aggregate number of franchises required by the then-current Minimum Development Obligation.

4. **DEFAULT AND TERMINATION.** Any material violation or breach of the Franchise Agreement or of any other franchise agreement between the parties or of any other agreement between the parties related to the Paniq franchise system will be deemed a material violation of the Franchise Agreement and of this Area Development Addendum, of all such other franchise agreements, and of all such other agreements. The non-breaching party then will be entitled to enforce the penalties of or to terminate the Franchise Agreement or this Area Development Addendum and any or all of such other franchise agreements and such other agreements as provided in the Franchise Agreement for enforcement or termination.

If the franchise represented by the Franchise Agreement is not opened by the date required in the Franchise Agreement, we will have the right to terminate the Franchise Agreement and this Area Development Addendum. We then may establish or license others to establish Paniq facilities in the Development Area.

Upon any other default under the Franchise Agreement or any other franchise agreement between the parties, we, in our discretion, may do any one of the following:

- a. Terminate the Franchise Agreement or this Area Development Addendum and all rights granted without affording you any opportunity to cure the default, except as otherwise described in the Franchise Agreement, effective immediately upon your receipt of written notice from us (except if the default is limited to the failure to open a subsequent franchise by the date established in the Minimum Development Obligation);
- b. Reduce the number of franchises granted to you in the Minimum Development Obligation, above;
- c. Terminate the Development Area granted to you, or reduce the area of the Development Area.

Upon termination, your right to open and operate all of your remaining franchises for franchises that have not yet been opened for business in the Development Area, and which we elect to not reserve for you to open in the Development Area pursuant to (b) and (c) above, is revoked and terminated. Thereafter we may construct, equip, open, own, establish, or operate and may license others to construct, equip, open, own, operate, or establish facilities in the Development Area subject only to the franchise territory established in each of your franchise agreements for your open franchises. This means that you will have no further right to construct, equip, own, open or operate additional Paniq franchises which are not, at the time of termination or expiration, the subject of a then existing franchise agreement between you and us which is in full force and effect.

No right or remedy conferred upon or reserved to us is exclusive of any other right or remedy provided or permitted by law or equity.

5. **TRAINING.** We will have no obligation to provide franchise training to you at our expense except pursuant to the Franchise Agreement which is your first franchise agreement under this Addendum.
6. **TRANSFER.**
 - a. We may transfer all or any part of our rights or obligations under this Area Development Addendum to any person or legal entity.
 - b. You understand and acknowledge that the rights and duties set forth in this Area Development Addendum are personal to you and are granted in reliance upon your personal qualifications. You represent to us that you have entered into this Area Development Addendum with the intention of complying with its terms and conditions and not for the purpose of resale or other transfer of the developmental rights.
 - c. Neither you nor any of your partners or shareholders will, without our prior written consent, directly or indirectly sell, assign, transfer, convey, give away, pledge, mortgage or otherwise encumber any interest in this Area Development Addendum. Any proposed assignment occurring by operation of law or otherwise, including any assignment by the trustee in bankruptcy, without our prior written consent will be a material default of this Area Development Addendum. You will not offer, sell, or negotiate the sale of Paniq franchises to any third party, either in your own name or in our name and on our behalf, or otherwise sub-franchise, share, divide or partition your rights under this Addendum or your rights to open and operate Paniq franchises. Nothing in this Addendum will be construed as granting you the right to do so.
 - d. If you are in full compliance with this Addendum, we will not unreasonably withhold our approval

of an assignment or transfer to proposed assignees or transferees who are of good moral character and have sufficient business experience aptitude and financial resources and otherwise meet our then applicable standards for area developers and are willing to assume all of your obligations and to execute and be bound by all provisions of our then current form of franchise agreement and Area Development Addendum, for a term equal to the remaining term of this Area Development Addendum. As a condition to granting our approval of any assignment or transfer, we may require you or the assignee or transferee to pay to us an assignment fee to defray expenses we incur in connection with the assignment or transfer, including but not limited to administrative costs, overhead, legal and accounting expenses, credit and other investigation charges and evaluation of the assignee or transferee and the terms of the assignment or additional costs related to the transfer not to exceed \$10,000 for the first franchise if multiple locations are sold to a single buyer in a single transaction, not to exceed \$500 for the second and each additional franchise sold in that transaction. We may require you and your owners to execute a general release in our favor in a form satisfactory to us as a condition to our approval of any propose assignment of this Addendum.

- e. If at any time you decide to sell, transfer or otherwise dispose of all or part of your rights under this Area Development Addendum, you must deliver a bona fide, executed written offer to purchase to us. We then will have the right, for a period of 30 days from the date we receive the offer, exercisable by written notice to you, to purchase all of your rights under this Addendum at the price and on the terms and conditions contained in the offer. We may substitute cash for any form of payment proposed in the offer. If we do not exercise this right of first refusal, you may accept the offer, subject to our prior written approval as provided in the Franchise Agreement.

7. **MISCELLANEOUS**. We make no warranties or guarantees upon which you may rely and we assume no liability or obligation to you or any third party to which we would not otherwise be subject, by providing any waiver, approval, advice, consent or services to you in connection with the Franchise Agreement or this Area Development Addendum, or by reason of any neglect, delay or denial of any request you make of us.

DATED this _____ day of _____, 201_.

("we/us"): **Paniq Franchising, Inc.**

("you"):

By: _____
Title: _____

By: _____
Title: _____
By: _____

Title: _____

By: _____

Title: _____

EXHIBIT A

DEVELOPMENT AREA

EXHIBIT B

Development Period	Franchise Openings	Dates Franchises Must Be Opened By	Cumulative Number of Franchises Open and in Operation
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			

EXHIBIT 5 TO THE FRANCHISE AGREEMENT
SBA ADDENDUM

THIS ADDENDUM ("Addendum") is made and entered into on _____, 20____, by and between _____ ("Franchisor"), located at _____, and _____ ("Franchisee"), located at _____.

Franchisor and Franchisee entered into a Franchise Agreement on _____, 201____, (such Agreement, together with any amendments, the "Franchise Agreement"). Franchisee is applying for financing(s) from a lender in which funding is provided with the assistance of the U. S. Small Business Administration ("SBA"). SBA requires the execution of this Addendum as a condition for obtaining the SBA-assisted financing.

In consideration of the mutual promises below and for good and valuable consideration, the receipt and sufficiency of which the parties acknowledge, the parties agree that notwithstanding any other terms in the Franchise Agreement or any other document Franchisor requires Franchisee to sign:

CHANGE OF OWNERSHIP

- If Franchisee is proposing to transfer a partial interest in Franchisee and Franchisor has an option to purchase or a right of first refusal with respect to that partial interest, Franchisor may exercise such option or right only if the proposed transferee is not a current owner or family member of a current owner of Franchisee. If the Franchisor's consent is required for any transfer (full or partial), Franchisor will not unreasonably withhold such consent. In the event of an approved transfer of the franchise interest or any portion thereof, the transferor will not be liable for the actions of the transferee franchisee.

FORCED SALE OF ASSETS

- If Franchisor has the option to purchase the business personal assets upon default or termination of the Franchise Agreement and the parties are unable to agree on the value of the assets, the value will be determined by an appraiser chosen by both parties. If the Franchisee owns the real estate where the franchise location is operating, Franchisee will not be required to sell the real estate upon default or termination, but Franchisee may be required to lease the real estate for the remainder of the franchise term (excluding additional renewals) for fair market value.

COVENANTS

- If the Franchisee owns the real estate where the franchise location is operating, Franchisor has not and will not during the term of the Franchise Agreement record against the real estate any restrictions on the use of the property, including any restrictive covenants, branding covenants or environmental use restrictions. If any such restrictions are currently recorded against the Franchisee's real estate, they must be removed in order for the Franchisee to obtain SBA-assisted financing.

EMPLOYMENT

- Franchisor will not directly control (hire, fire or schedule) Franchisee's employees. For temporary personnel franchises, the temporary employees will be employed by the Franchisee not the Franchisor.

As to the referenced Franchise Agreement, this Addendum automatically terminates when SBA no longer has any interest in any SBA-assisted financing provided to the Franchisee.

Except as amended by this Addendum, the Franchise Agreement remains in full force and effect according to its terms.

Franchisor and Franchisee acknowledge that submission of false information to SBA, or the withholding of material information from SBA, can result in criminal prosecution under 18 U.S.C. 1001 and other provisions, including liability for treble damages under the False Claims Act, 31 U.S.C. §§ 3729 – 3733.

Authorized Representative of FRANCHISOR:

By: _____

Print Name: _____

Title: _____

Authorized Representative of FRANCHISEE:

By: _____

Print Name: _____

Title: _____

Note to Parties: This Addendum only addresses “affiliation” between the Franchisor and Franchisee. Additionally, applicant Franchisee and the franchise system must meet all SBA eligibility requirements.

CONDITIONAL ASSIGNMENT OF PHONE NUMBER

_____ ("You") operate your franchise business at _____. In consideration of the granting of a franchise to you and other valuable consideration paid by **Paniq Escape Room LLC**, a California corporation ("Us"), you assign to us all telephone numbers and listings you use in the operation of the franchise. We assume the performance of all of the terms, covenants and conditions of your agreement with the Telephone Company concerning the telephone numbers and telephone listings with the full force and effect as if we had been originally issued the telephone numbers and telephone listings. We will hold this assignment, and will deliver it to the Telephone Company or other interested third parties only upon termination of the Franchise Agreement between us and you dated _____.

DATED this ____ day of _____, 20__.

("We/Us"): Paniq Franchising, Inc.	("You"):
By: _____	By: _____
Title: _____	Title: _____

Exhibit F to the PANIQ ROOM Franchise Disclosure Document

**Paniq Franchising, Inc. FRANCHISE AGREEMENT ADDENDUM
ABANDONMENT, RELINQUISHMENT, AND TERMINATION
OF ASSUMED OR FICTITIOUS BUSINESS NAME**

Pursuant to the provisions of relevant state laws concerning the registration and use of assumed or fictitious business names, the undersigned applicant, being a franchisee of **Paniq Franchising, Inc.**, submits the following to evidence its intent to abandon, relinquish and terminate its right to use the business name **Paniq Room**.

1. Name of Applicant who is Using the Assumed
or Fictitious Business Name:

a(an) individual/partnership/corporation organized
and doing business under the laws of the State of

2. Date When Original Assumed or Fictitious Business
Name was Filed by Applicant:

3. Address of Applicant's Registered Office in the
State of: _____

4. Please cancel the Applicant's registration to use
the name **Paniq Room**.

DATED: _____

Applicant

By: _____

Title: _____

FRANCHISE DISCLOSURE DOCUMENT STATE LAW ADDENDUM

The following modifications and additions are part of the Paniq Room Franchise Disclosure Document ("FDD") and Franchise Agreement ("FA") as required by relevant state laws.

These states have statutes which may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of the Franchise:

ARKANSAS (Stat. Section 70-807)
CALIFORNIA (Bus. & Prof. Code Sections 20000-20043)
CONNECTICUT (Gen. Stat. Section 42-133e et seq.)
DELAWARE (Code, tit.)
HAWAII (Rev. Stat. Section 482-E1)
ILLINOIS (815 ILCS 705/1-44)
INDIANA (Stat. Section 23-2-2.7)
MICHIGAN (Stat. Section 19.854(27))
MINNESOTA (Stat. Section 80C.14)
MISSISSIPPI (Code Section 75-24-51)
MISSOURI (Stat. Section 407.400)
NEBRASKA (Rev. Stat. Section 8-401)
NEW JERSEY (Stat. Section 56.10-1)
SOUTH DAKOTA (Codified Laws Section 37-5A-51)
VIRGINIA (Code 13.1-557-574, 13.1-564)
WASHINGTON (Code Section 19.100.180)
WISCONSIN (Stat. section 135.03)

These and other states may have court decisions which may supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of the Franchise.

California

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

OUR WEBSITE ADDRESS IS WWW.PANIQESCAPEROOM.COM. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT, ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT WWW.CORP.CA.GOV.

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.

FDD Item 5, FA Section 2

The Department has determined that we, the franchisor, have not demonstrated we are adequately capitalized and/or that we must rely on franchise fees to fund our operations. The Commissioner has imposed a fee deferral condition, which requires that we defer the collection of all initial fees from California franchisees until we have completed all of our pre-opening obligations and you are open for business. For California franchisees who sign a development agreement, the payment of the development and initial fees attributable to a specific unit in your development schedule is deferred until that unit is open.

FDD Item 17, FA Sections 5, 6, 7 and 9

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

(2) 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) 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.

(4) Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

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

(6) The Franchise Agreement provides that all issues or disagreements relating to the Franchise Agreement will be mediated, tried, heard and decided in California with the costs being borne by the non-prevailing party. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

(7) The Franchise Agreement requires application of the laws of the State of California. This provision may not be enforceable under California law.

(8) Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form and containing such information as the Commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

FDD Item 3

California 10 CCR Section 310.114.1(c)(3) requires disclosure regarding whether the franchisor, any person or franchise broker in Item 2 of the FDD 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 that association or exchange.

Negotiated Sales

Copies of any notice of negotiated sale of a franchise may be reviewed at <http://134.186.208.233/caleasi/pub/exsearch.htm>. Attached are copies of all notices of negotiated sale filed during the 12 months immediately preceding the effective date of the Disclosure Document.

All negotiated sales in California are subject to the following provisions as outlined in the California Administrative Code, Title 10, Chapter 3, Subchapter 2.6, Section 310.100.2:

1. The initial offer must be registered pursuant to the California Franchise Investment Law.
2. The prospective Franchisee because of its business or financial experience could be reasonably assumed to have the capacity to protect its own interest in the transaction. The income and net worth of the prospective Franchisee or its spouse may be included in determining the total income and net worth required by this paragraph. The net worth and income test may also be satisfied by a prospective franchisee corporation (or by a **50%** or

more shareholder of such prospective franchisee corporation) or a prospective franchisee partnership (or by a prospective franchisee general partner of such partnership). In making the determination, we may rely on the representations of the prospective franchisee with respect to its net worth and income provided we have no reason to doubt the representations.

3. If a negotiated sale is consummated, Notice of Negotiated Sale of Franchise in the form set forth in the regulations must be filed with the Commissioner within 15 business days after the negotiated sale.

WE CERTIFY AND DECLARE THAT ALL NOTICES HAVE BEEN FILED WITH THE COMMISSIONER AS REQUIRED BY THE NEGOTIATED SALES SECTION OF THE CALIFORNIA ADMINISTRATIVE CODE, TITLE 10, CHAPTER 3, SUBCHAPTER 2.6, SECTION 310.100.2(a).

Idaho

FDD Item 17, FA Section 9

Any condition in a franchise agreement executed by a resident of Idaho or a business entity organized under the laws of Idaho is void to the extent it purports to waive venue or jurisdiction of the Idaho court system. Venue and jurisdiction will be in Idaho if the franchisee is an Idaho resident or a business entity organized under the laws of Idaho.

Georgia

DISCLOSURES REQUIRED BY GEORGIA LAW

The State of Georgia has not reviewed and does not approve, recommend, endorse, or sponsor any business opportunity. The information contained in this disclosure has not been verified by the state. If you have any questions about this investment, see an attorney before you sign a contract or agreement.

If, for any reason, any provision set forth in the Franchise Agreement (including those related to in-term and post-term covenants against competition and non-disclosure and non-use of confidential information) exceeds any lawful scope or limit as to duration, geographic coverage, specificity, or otherwise, it is agreed that the provision will nevertheless be binding to the full scope or limit allowed by law or by a court of law. Indeed, the parties acknowledge their desire and intent that such provisions be modified by a court or arbitrator to comply with Georgia law if needed. The duration, geographic coverage and scope allowable by law or court of law will apply to this Agreement.

Illinois

Illinois law governs the franchise agreement(s).

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

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

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

You are required to provide names, addresses and other information about your customers to the Franchisor for its own unspecified use. In addition, the Franchisor may dictate your business format and your sales & distribution guidelines (see Item 8).

The franchisee acknowledges receipt of this Addendum.

It is agreed that the applicable foregoing state law addendum for the state of _____, if any, supersedes any inconsistent portion of the Franchise Agreement (to which this addendum is attached) of this same date, and of the Franchise Disclosure Document. All terms of the Franchise Agreement, including these State Law Addendum provisions for the relevant state, have been agreed to at the time the Franchise Agreement was signed. However, this addendum will have effect only if the Franchise Agreement or our relationship with you satisfies all of the jurisdictional requirements of the relevant state's franchise laws, without considering this addendum.

DATED this ___ day of _____, 201__.

("we/us"): **Paniq Franchising, Inc.**

("you"):

By: _____

By: _____

Title: _____

Title: _____

WARRANTIES AND DISCLAIMERS BY PROSPECTIVE FRANCHISEES

This Questionnaire does not apply to franchises who intend to operate the franchised business in the State of California.

Through the use of this Franchisee Closing Questionnaire, we desire to verify certain information about the sales process and to confirm that we and our employees have complied with applicable franchise disclosure laws. We further desire to confirm that you fully understand that the purchase of a Paniq Room franchise is a business decision involving the evaluation of many risks. Our policy is to verify and confirm that in making your decision you are not relying upon any oral statement, representation, promise or assurance made during the negotiations for the purchase of a Paniq Room franchise by any of our directors, officers, employees, agents, or representatives (each, a "Representative") that is not specifically reported in our then-current Franchise Disclosure Document, including all of the exhibits attached to it (the "Franchise Disclosure Document").

BACKGROUND AND GENERAL INFORMATION

1. Please state your name and address:

2. Please state the full name of each individual and entity that will be an owner of the Franchise and an owner of an entity that owns the Franchise:

3. What is the location of the Franchise you are purchasing?

4. Franchisee is (check applicable box[es]):

- ☐ An individual
- ☐ A corporation
- ☐ A limited liability company
- ☐ A general partnership
- ☐ A limited partnership

5. If Franchisee is other than or in addition to an individual, indicate the capacity in which the undersigned is authorized to act on behalf of the Franchisee (check applicable box):

- ☐ Officer (insert title): _____
- ☐ General Partner
- ☐ Other (please explain): _____

6. Have you received a copy of the most current Paniq Room Disclosure Document?

Yes ☐ No ☐

7. On what date did you receive the Disclosure Document? _____

I. PROPOSED OWNERSHIP INTEREST

The undersigned proposes to become (initial all that apply):

- _____ 1. An individual owner of the Franchise.
- _____ 2. A co-owner with _____.
- _____ 3. A shareholder holding _____% of the shares of a corporate franchisee. The corporate franchisee will be qualified to do business under the name of _____ in the State of _____.
- _____ 4. A partner holding _____% interest in a partnership franchisee. The Partnership will operate under the name of _____ in the State of _____.

II. FRANCHISE LOCATION AND RELATED WARRANTIES

A. Location

_____ I have applied for and am in the process of receiving a Franchise to a franchise to be located at _____ in the city of _____, State of _____ ("the Site").

B. Warranties

_____ I am exclusively responsible to locate and secure the franchise Site. You ("Paniq Room Franchising Company, LLC") have assisted me in Site location and negotiation. I have personally reviewed the Site and have had the opportunity to obtain independent professional advice and assistance to select and secure the Site. I have sought the assistance of independent legal, real estate, land use planning, zoning, architectural and accounting experts as I have formed my own opinion in selecting the Site. I understand that you do not guarantee the success of my franchise at the Site or at any other location.

C. Disclaimer of Reliance in Site Selection

_____ No Representative of you has made any representation about the value of the Site, or represented to me what amount of sales or net earnings the Site will or should generate as a franchise. I have received and read the Franchise Disclosure Document.

It contains written statements of the actual sales, costs or earnings of your franchise at other selected locations.

III. LEASE TERMS

A. Warranty

_____ I personally have reviewed the proposed lease or contract of purchase of the Site. I have had the opportunity to consult with independent legal, accounting and real estate experts to help form my own opinion of the acceptability of the lease or purchase contract to the Site.

B. Disclaimer

_____ I have not relied upon you, or your Representatives, or upon any representations or opinions expressed by them in agreeing to or in authorizing execution of the lease or contract to purchase of the Site.

C. Submission to you

_____ I will submit to you the lease or contract to purchase for approval before I execute it.

IV. FRANCHISE

A. Warranty

_____ I personally have read the Franchise Disclosure Document and Franchise Agreement. I have had the opportunity to consult with independent legal, accounting and franchise advisory experts before signing the Franchise Agreement.

B. Disclaimer

_____ I disclaim that you or anyone associated with you has made any oral or written statements or representations about the terms or conditions of the Franchise Agreement, except those contained in it. No officer, employee or agent of you has advised me of other terms or conditions effecting or modifying the Franchise Agreement.

C. Representations

1. Except as explicitly set forth in the Franchise Agreement or a written Addendum to it, no promises, agreements, contracts, commitments, representations, understandings, "side deals" or otherwise have been made to or with me with respect to any matter. This includes, but is not limited to, any representations or promises regarding advertising, marketing, Site location, operational assistance or other services, except as follows (if no exceptions, write "None"):

2. No oral, written or visual claim or representation, promise, agreement, contract, commitment, understanding or otherwise which contradicts or is inconsistent with the Disclosure Document or the Franchise Agreement has been made to me, except as follows (if no exceptions, write "None"):

3. Except as contained in your Franchise Disclosure Document – including Item 19, no oral, written, visual or other claim or representation has been made to me by any person or entity, which states or suggests any actual, average, projected or forecasted sales, gross receipts, operating costs, revenues, income, profits, expenses, cash flow, tax effects, earnings, or otherwise, that is not contained in the Franchise Disclosure Document, except as follows (if no exceptions, write "None"):

4. You acknowledge and agree that your decision to purchase a Paniq Room franchise is in no manner predicated upon any representations, assurances, warranties, guarantees or promises made by a Representative as to the likelihood of success of a Paniq Room franchise, except as follows (if no exceptions, write "None"):

5. You acknowledge that a Representative has not made any statement, promise or assurance concerning the likelihood of success that you should or might expect to achieve from developing and operating a Paniq Room franchise. If you believe that one of these statements, promises or assurances has been made, please describe the statement, promise or assurance in the space provided below or write "None".

6. You acknowledge that a Representative has not made any statement, promise or assurance concerning the advertising, marketing, training, support services or assistance that we will furnish you that is contrary to, or different from, the information contained in the Franchise Disclosure Document. If you believe that one of these statements, promises or assurances has been made, please describe the statement or promise in the space provided below or write "None".

7. You acknowledge that a Representative has not made any other statement, promise or assurance concerning any other matter related to a Paniq Room Escape room that is contrary to, or different from, the information contained in the Disclosure Document. If you believe that one of these statements, promises or assurances has been made, please describe the statement, promise or assurance in the space provided below or write "None".

VI. WARRANTIES REGARDING PARTICIPATION

____ A. I will personally participate in the management of the Franchise as set forth in the "Franchise Management Organizational Chart" as provided for in the Franchise Agreement. I will faithfully and fully perform all duties required of me under the Franchise Agreement and the Management Contract, if applicable.

____ B. I warrant that my purchase of the franchise is for my own account and is not made with a view to or for resale.

____ C. I acknowledge that my decision to obtain a franchise has been based upon the Franchise Disclosure Document and Franchise Agreement registered in the State of _____, and my own investigations, upon which I rely.

ACKNOWLEDGEMENT

By signing below, you acknowledge that you have personal knowledge of the foregoing and following facts and representations and that they are all true, complete, accurate, and correct:

1. You acknowledge that you received the Disclosure Document at least 14 calendar days before you signed a binding agreement with or made a payment to us or our affiliate in connection with the proposed franchise sale, or sooner if required by state law.

2. You acknowledge that you received the Franchise Agreement (if applicable) at least 7 calendar days before signing them.

3. You acknowledge that you have personally and carefully reviewed the Disclosure Document, that you understand all of the information in the Disclosure Document and that you have been advised by to have professional advisors of your own, including legal counsel, review the Disclosure Document and consult with you regarding the risks associated with the purchase and operation of a Paniq Room franchise.

4. You acknowledge that you have made your own independent determination as to whether you have the capital necessary to fund a Paniq Room franchise.

5. You recognize and understand that the success or failure of a Paniq Room franchise is subject to many variables, including, but not limited to, (a) geographic location; (b) competition from other businesses in the market; (c) advertising effectiveness based on

market saturation; (d) whether you assume the sales position or hire a sales manager; (e) your product and service pricing; (f) vendor prices on materials, supplies and inventory; (g) salaries and benefits to non-business personnel; (h) business personnel benefits (life and health insurance, etc.); (i) weather conditions; (j) employment conditions in the market; (k) inflation, and (l) lease terms and costs and other business factors. You acknowledge your willingness to undertake these business risks and that it is your responsibility to manage your Paniq Room franchise. You understand that the success or failure of your Paniq Room franchise depends primarily upon your efforts and not those of Paniq Room.

Neither we nor our Representatives have advised you to fill in and complete this Questionnaire except as based upon your personal knowledge and experience. You do so acknowledging that we may rely upon your complete candor, honesty, and truthfulness.

Dated this ____ day of _____, 20__.

An Individual

Address: _____

Telephone: _____



Paniq Franchising, Inc.

CONFIDENTIALITY, NON-DISCLOSURE, AND NONCOMPETE AGREEMENT

THIS AGREEMENT has been entered this _____ day of _____ 20____. It is by and between, **PANIQ FRANCHISING, INC.**, a California corporation, ("we, us") and _____ ("you").

We own proprietary ideas and other confidential information related to the ownership and operation of "**Paniq Room**" escape room game businesses that feature the sale to the public of services and merchandise related to themed escape games in which people are locked in a room with other participants and use elements of the room to solve a set of puzzles, find clues, and escape the room within a set time limit. Through rigorous testing and training, we have developed a unique and uniform concept of décor and service. We have certain rights to and intend to continue to develop products, services, valuable goodwill, expertise, proprietary ideas, confidential information, service marks, methods, procedures, techniques, guidelines, and materials connected with the operation, promotion, and advertising of our escape room games and related business operations (collectively these are called the "Method of Operation").

You and we desire to discuss the offer and sale of a franchise and potentially to enter into related commercial relationships. In the course of these discussions and our relationship it will be necessary for us to disclose Confidential Information to you.

THEREFORE, in consideration of the following mutual promises and covenants, the parties agree as follows:

1 PROTECTION OF CONFIDENTIALITY

- 1.1 **Confidential Information Defined.** In this Agreement, "Confidential Information" shall mean:
- a) Any information that relates to our proprietary ideas, trade secrets, business, products, technology, customers, finances, plans, proposals, or practices of us, including, but not limited to, plans and specifications for new products, discoveries, ideas, know-how, research and development, inventions, techniques, marketing strategies, customer lists, financing sources and suppliers, non-public financial information, budgets, data, and projections;
 - b) Our proprietary information and information we mark or designate as confidential;
 - c) Information, whether or not in written form and whether or not designated as confidential, which is known to you as being treated by us as confidential;
 - d) Information provided to us by third parties, which we are obligated to keep confidential.

The Confidential Information shall include information in any form in which such information exists, whether oral, written, film, tape, computer disk, digital, or other form of media.

1.2 **Our Exclusive Property.** You acknowledge and agree that our Method of Operation and all Confidential Information is and shall continue to be our sole and exclusive property, whether or not disclosed or entrusted to you in connection with your relationship with us. Nothing in this Agreement will give you or others any right, title, or interest whatsoever in or to them. The Confidential Information shall be considered our trade secrets and shall be entitled to all protections provided by applicable law to trade secrets.

1.3 **Conflicting or Competing Interests.** Neither you nor your owners, shareholders, members, partners, directors, officers, managers, employees, consultants, distributors, or agents, nor the members of your or their immediate families or households (who have access to or knowledge of the Confidential Information or Method of Operation), will directly or indirectly participate as an owner, shareholder, partner, director, officer, employee, consultant, distributor, or agent, or serve in any other capacity in any business (including business in formation) engaged or to be engaged in the offering or sale or rental of products or services that are the same as, or substantially similar to, the products and services that are part of the Method of Operation.

You will assure that you and your owners, shareholders, partners, directors, officers, employees, and agents, and the members of their immediate families or households (who have actual knowledge of or access to the Operations Manual or Method of Operation), will not directly or indirectly participate as an owner, shareholder, director, partner, officer, employee, consultant, franchisor, franchisee, distributor, advisor or agent, or serve in any other capacity in any business engaged directly or indirectly in the offer, sale, rental, Internet dissemination, or promotion of escape room game and similar products or services or any business that offers products or services that are essentially the same as, or substantially similar to, the products and services that are part of the Method of Operation. This covenant applies within a **100-mile** radius of any location where we operate or have granted the franchise to operate a Paniq Room business, and at any location within the United States of America.

2. COVENANT OF NON-DISCLOSURE You specifically acknowledge that you will receive valuable specialized and Confidential Information, including information regarding our operational, sales, promotional and marketing methods and techniques and the Method of Operation. You agree not to disclose Confidential Information to any third party and to limit disclosure within your association to designated employees approved by us. Disclosures to designated employees will be done on a “need to know” basis to the extent necessary for them to perform the duties of their employment with you. Unless required by court order or applicable law, you agree not to copy, download, send, or divulge any Confidential Information directly or indirectly to any other person or enterprise outside of our system. You will never communicate, divulge, or use in any manner, either for your benefit or the benefit of any other person, persons, partnerships, associations, companies or corporations any Confidential Information or proprietary information, knowledge or know-how concerning the Method of Operation or any information we have communicated to you in written, verbal or electronic form, including intranet passwords, for the operation of your business.

3 COVENANT OF NON-USE You agree not to use Confidential Information or the Method of Operation, except as authorized by us. You will obligate your owners, board of directors, your employees, and your agents to the same non-use covenant. We must approve in writing any use of Confidential Information or Method of Operation by you or your owners or your directors or employees.

4 RECIPROCAL OBLIGATION Should discussions between you and us require or entail disclosure of any of your confidential or proprietary information to us, we agree to the same obligations of confidentiality and non-use as are imposed on you by this Agreement.

5 MISCELLANEOUS

5.1 **Duration.** The obligations set forth in this Agreement will continue during and beyond the term of your relationship with us and for as long as you possess Confidential Information.

5.2 **Waiver.** A waiver of any breach of any provision, term, covenant, or condition of this Agreement will not be a waiver of any subsequent breach of the same or any other provision, term, covenant, or condition. Any waiver to this Agreement’s provisions must be made in signed writing by the granting party.

5.3 **Construction.** This document is the entire agreement between the parties. It supersedes all prior or contemporaneous written and oral agreements or understandings with respect to the subject matter of this Agreement. It may not be modified or amended except by signed written agreement. This Agreement benefits and binds the respective heirs, executors, administrators, successors, and assigns of the parties.

5.4 **Enforcement.** The prevailing party (the party who recovers the greater relief) in any arbitration, insolvency proceeding, bankruptcy proceeding, suit, or action to enforce this Agreement will recover its arbitration, proceeding, and court costs and reasonable attorney fees. These will be set by the arbitration, proceeding, or court, including costs and attorney fees on appeal or review from the arbitration, proceeding, suit, or action.

5.5 **Acknowledgments.** No person has made any other representation that is not expressly set forth in this Agreement to induce you to accept and execute this Agreement.

6 SIGNATURES IN WITNESS, the parties have executed this Agreement on the date written above.

("We/Us"): **Paniq Franchising, Inc.**

By: _____

Title: _____

("You): _____

By: _____

Title: _____

Exhibit J to the Paniq Room Franchise Disclosure Document

ELECTRONIC DEBIT AUTHORIZATION FORM

The undersigned (the "Franchisee") acknowledges that on or about _____, 20__, Franchisee and Paniq Franchising, Inc. (the "Franchisor") entered into a franchise agreement (the "Franchise Agreement") for the operation of a franchise.

To enable Franchisor to receive automatic payments pursuant to the Franchise Agreement and Franchisor's Operations Manual, Franchisee hereby authorizes (the "Authorization") Franchisor to withdraw funds from and otherwise initiate debit entries to Franchisee's checking account, indicated below, and the depository named below (the "Depository"), to debit the same to such account.

Depository Name: _____
Branch: _____
City State and Zip: _____
Transit/ABA#: _____
Bank Account Name: _____
Bank Account Number: _____
Tax ID for Account: _____

This Authorization is to remain in full force and effect until the underlying obligations of the Franchise Agreement have been satisfied in full or expressly released in writing by Franchisor. Franchisee expressly agrees that this Authorization will apply to any and all depositories and bank accounts which Franchisee opens during the term of the Franchise Agreement and any renewal terms. Without limiting the above, Franchisee acknowledges and agrees that if Franchisee closes any bank account, Franchisee will:

- 1) immediately notify Franchisor in writing;
- 2) open or otherwise establish another bank account;
- 3) execute and deliver to Franchisor all documents necessary for Franchisor to begin and continue making withdrawals from such bank account/depository by ACH debiting or other electronic means.

Franchisee expressly acknowledges and agrees that this Authorization will be the only written authorization needed from Franchisee in order to initiate debit entries/ACH debit originations to Franchisee's bank account(s) established with any depository in the future.

Name of Franchisee(s): _____

Escape room #: _____

Signature: _____
Print Name: _____
Title: _____
Date: _____

Notice to Franchisee

- 1) ATTACH ONE VOIDED CHECK HERE.
- 2) ENSURE TO COMPLETE ALL BLANK SPACES ABOVE.
- 3) RETURN 2 ORIGINAL COPIES OF THIS FORM TO FRANCHISOR IMMEDIATELY.

Exhibit K to the Paniq Room Franchise Disclosure Document

The following is a complete listing of all of our current franchisees and the addresses and telephone numbers of all of their operations as of **December 31, 2023**:

Domestic Locations

Kathy and Scott Simms: Nashville, Tennessee (615-854-6050) [no location as of December 31, 2019]
John Brandon: Austin, Texas (203-362-7689) [no location as of December 31, 2019]
PanIQ Trio LLC: 2551 N. Milwaukee Avenue, Chicago, Illinois 60647 (424-230-6190)
PanIQ Trio LLC: 2146 Mission Street, San Francisco, California 94110 (424-230-6190)
PanIQ Trio LLC: 670 10th Street NW, Atlanta, Georgia 30318 (424-230-6190)
MK PanIQ LLC: Boston, Massachusetts (maklaridani@hotmail.com) [no location as of December 31, 2019]
Paniq Room Long Beach LLC: 327 Pine Ave., Long Beach, CA 90802 (562) 544-6583
Puzzle Break Newton: 762 Beacon Street, Newton Centre, MA 02459 (617) 932-7943
Puzzle Break Long Island: 180 Michael Drive, Syosset, NY 11791 (516) 307-0888

International Locations

Gabarma Co. Ltd: Bay, Nassau, Bahamas (786-442-8842) [no location as of December 31, 2019]
PanIQ Room LLP: AscenHeights, Plot No. 25, Theme Park Avenue, Phase 7, Bahria Town, Rawalpindi, Pakistan (marifs71@gmail.com)

The following is a complete listing of all of our current Area Developer Franchisees and the addresses and telephone numbers of all of their operations as of **December 31, 2023: NONE**

The following is a complete listing of all of our former franchisees and the addresses and telephone numbers as of December 31, 2023:

PanIQ Room Phoenix, LLC – 1638 S. 7th Street, Phoenix, Arizona 85034 (480) 363-6566
PanIQ Room Boston, LLC – 3283 M Street NW, Washington, D.C. 20007 (202) 735-0485

EXHIBIT L

State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the states, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered, or exempt from registration, as of the Effective Date stated below:

<u>State</u>	<u>Effective Date</u>
California	June 4, 2018
Hawaii	N/A
Illinois	N/A
Indiana	N/A
Maryland	N/A
Michigan	N/A
Minnesota	N/A
New York	N/A
North Dakota	N/A
Rhode Island	N/A
South Dakota	N/A
Washington	N/A
Wisconsin	October 9, 2018

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 M

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 **Paniq Franchising, Inc.** offers you a franchise, it must provide this disclosure document to you **14** days before you sign a binding agreement or make a payment with the franchisor or an affiliate in connection with the proposed franchise sale.

If **Paniq Franchising, Inc.** does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and State law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agency listed in Exhibit B.

The names, principal business addresses, and telephone numbers of each franchise seller offering the franchise are:

Akos Gabossy, 3393 Barham Boulevard, Los Angeles, California 90068; 323-380-6271
Franchise Creator, 7300 N. Kendall Dr., Suite 340, Miami, Florida 33156 305-592-9229

See Exhibit B for our registered agents authorized to receive service of process.

Date of issuance: See effective date below.

I have received a Disclosure Document dated **August 9, 2024**. It is effective in various states as of the dates set forth on the FDD Cover Page.

This Disclosure Document included the following Exhibits:

- A. Audited Financial Statements
- B. List of State Agents for Service of Process and State Administrators
- C. Operations Manual Table of Contents
- D. Sample Franchise Agreement and its Exhibits
 - 1. Franchise Location
 - 2. Co-Branding Addendum
 - 3. Lease Rider
 - 4. Area Development Addendum
 - 5. SBA Addendum
- E. Conditional Assignment of Phone Number
- F. Abandonment, Relinquishment, and Termination of Assumed Business Name
- G. State Law Addendum
- H. Warranties and Disclaimers by Prospective Franchisee
- I. Confidentiality, Non-Disclosure, and Non-Compete Agreement
- J. Electronic Debit Authorization Form
- K. List of Franchisees and Certain Former Franchisees
- L. State Effective Dates
- M. Receipt

DATED this ____ day of _____, 20__.

Prospective Franchisee

IF A PARTNERSHIP, ALL GENERAL PARTNERS MUST EXECUTE THIS ACKNOWLEDGMENT. IF A CORPORATION OR LIMITED LIABILITY COMPANY, AN OFFICER AUTHORIZED TO RECEIVE THIS CIRCULAR ON BEHALF OF THE CORPORATION OR LIMITED LIABILITY COMPANY MUST EXECUTE THIS ACKNOWLEDGMENT.

KEEP THIS COPY FOR YOUR RECORDS.

EXHIBIT M

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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 **Paniq Franchising, Inc.** offers you a franchise, it must provide this disclosure document to you **14** days before you sign a binding agreement or make a payment with the franchisor or an affiliate in connection with the proposed franchise sale.

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DATED this ____ day of _____, 20__.

Prospective Franchisee

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Please sign this copy of the receipt, date your signature, and return it to Paniq Franchising, Inc., 3393 Barham Boulevard, Los Angeles, California 90068.