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## **PRIVILEGED AND HIGHLY CONFIDENTIAL** **ATTORNEY-CLIENT COMMUNICATION**

April 26, 2024

### **Via E-mail**

BrightStar Owner's Association, Legal Committee

### ***RE: Analysis of Material Changes to 2024 Franchise Disclosure Document***

Please allow this confidential memorandum to address and analyze the material changes in BrightStar Franchising, LLC's 2024 Franchise Disclosure Document ("2024 FDD") as compared to the 2023 Franchise Disclosure Document ("2023 FDD"). We have reviewed the 2024 FDD, the 2023 FDD, as well as the information supplied by BrightStar Franchising, LLC relating to the nature of the changes. Our review has identified the following changes:<sup>1</sup>

<b>Notable Changes on Cover Page:</b>	<ul style="list-style-type: none"><li>• Corporate address changed from Gurnee, Illinois to Bannockburn, Illinois</li><li>• Total investment estimates increased from \$111,000.00 - \$195,000.00 to \$112,000.00 - \$231,000.00 for a "standard-sized" market and from \$86,000.00 - \$164,000.00 to \$87,000.00 - \$206,000.00 for a "medium density" market</li><li>• Confidentiality, Non-Disclosure, and Non-Competition Agreement removed from exhibits, Expansion Option Agreement added as a new exhibit</li></ul>
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<sup>1</sup> Please note that this document identifies the material changes to the disclosure items listed in BrightStar's 2024 FDD. Trivial, formatting-related, or other non-material changes are not addressed.

<b>ITEM 1</b>	<ul style="list-style-type: none"><li>• Joint Commission Accreditation now required after one year of operation regardless of whether the agency has met the \$15,000/week threshold<ul style="list-style-type: none"><li>○ Previously this was only required upon meeting the weekly threshold</li></ul></li><li>• New information added about the optional Expansion Territory and related agreement</li></ul>
<b>ITEM 2</b>	<ul style="list-style-type: none"><li>• Andrew Ray moved to CEO, Shelly Sun now noted as “Founder and Executive Chairwoman”</li><li>• There is no longer a COO</li></ul>
<b>ITEM 3</b>	<ul style="list-style-type: none"><li>• Vanguard and Foreside actions removed from disclosures; three new actions listed (post-termination matters)</li></ul>
<b>ITEM 4</b>	<ul style="list-style-type: none"><li>• No material change</li></ul>
<b>ITEM 5</b>	<ul style="list-style-type: none"><li>• For additional territories, new requirement to meet “then-current expansion requirements”; discount on second territory reduced from 20% to 10%</li><li>• Expansion Option fee is \$10,000 (credited towards 2<sup>nd</sup> franchise fee if option is exercised)</li></ul>
<b>ITEM 6</b>	<ul style="list-style-type: none"><li>• Additional training cost disclosures made a range of up to \$100 more than the flat fee in 2023 FDD; BrightStar reserves the right to increase the fees as needed to reflect increased costs</li><li>• Branch Leadership Conference maximum registration fee increased from \$1,500 to \$2,000</li><li>• Insurance estimate range modified slightly</li><li>• Examination/Audit fee now applies to failure to use ABS to process billing</li><li>• New catch-all category of fee disclosures; however, charges expected to be more than \$25,000/year must be agreed upon unless more</li></ul>

	<p>than 75% of the existing franchisees adopt the change</p> <ul style="list-style-type: none"><li>• Local Marketing and local recruitment spend reduced from 2% to 1.5%<ul style="list-style-type: none"><li>○ Retention software estimated at \$165-\$378/month</li></ul></li><li>• Insurance requirements increased for agencies with over \$5M in revenue</li></ul>
<b>ITEM 7</b>	<ul style="list-style-type: none"><li>• Low-end estimate for lease expense increased slightly</li><li>• “Financial Acumen Training” removed</li><li>• “Learning Management Software” added</li><li>• Recruitment spend, EVV, Insurance, Additional Operating Funds estimates increased slightly</li><li>• If a territory becomes a “Jumbo Territory” containing more than 800,000 people, BrightStar may require an additional office if certain metrics are not met to serve such population</li><li>• Added language disavowing any joint employer liability</li></ul>
<b>ITEM 8</b>	<ul style="list-style-type: none"><li>• Added language indicating that the franchisee cannot own the real estate where the Agency operates (but that real estate may be owned by an affiliated entity)</li></ul>
<b>ITEM 9</b>	<ul style="list-style-type: none"><li>• No material changes</li></ul>
<b>ITEM 10</b>	<ul style="list-style-type: none"><li>• No changes</li></ul>
<b>ITEM 11</b>	<ul style="list-style-type: none"><li>• Added additional explanation of what BrightStart program includes</li><li>• Minor modifications to timing and sessions of training program</li><li>• Added disclaimers of joint employer liability</li></ul>

<b>ITEM 12</b>	<ul style="list-style-type: none"><li>• Added language identifying that you may not service National Accounts if you were not willing to undertake the actions needed to service such accounts previously</li></ul>
<b>ITEM 13</b>	<ul style="list-style-type: none"><li>• No material changes</li></ul>
<b>ITEM 14</b>	<ul style="list-style-type: none"><li>• No material changes</li></ul>
<b>ITEM 15</b>	<ul style="list-style-type: none"><li>• Modified to identify that a Franchisee only needs to be the “Control Person” during the first 2 years of operation</li><li>• Change to designated control person requires BrightStar’s approval</li><li>• Added disclaimer of joint employer liability</li></ul>
<b>ITEM 16</b>	<ul style="list-style-type: none"><li>• No changes</li></ul>
<b>ITEM 17</b>	<ul style="list-style-type: none"><li>• Removed language disclosing what constitutes “cause” for curable defaults to mean any underreporting (previously required more than 2% difference)</li><li>• Removed language disclosing what constitutes “cause” for non-curable defaults to mean having insufficient funds in your bank account 3 or more times (previously had one year limitation)</li><li>• Added language concerning Medium Density Market Addendum and Expansion Option</li></ul>
<b>ITEM 18</b>	<ul style="list-style-type: none"><li>• No changes</li></ul>
<b>ITEM 19</b>	<ul style="list-style-type: none"><li>• Updated numbers to reflect 2023 performance but no material changes otherwise</li></ul>
<b>ITEM 20</b>	<ul style="list-style-type: none"><li>• Updated numbers to reflect 2023 openings and closures but no material changes otherwise</li></ul>
<b>ITEM 21</b>	<ul style="list-style-type: none"><li>• No material changes</li></ul>

<b>ITEM 22</b>	<ul style="list-style-type: none"><li>Removed Confidentiality, Non-Disclosure and Non-Competition Agreement; added Expansion Option Agreement</li></ul>
<b>ITEM 23</b>	<ul style="list-style-type: none"><li>No material changes</li></ul>

Given that these disclosures apply to the pre-sale requirements set forth in the FTC Franchise Rule, 16 C.F.R. § 436, the changes identified herein do not materially affect current franchisees as it pertains to the franchise agreements currently in effect. Should you have any questions about any of the specific modified or added language noted above, please do not hesitate to contact us.

Sincerely,

/s/ Michael D. Braunstein

ROBERT ZARCO  
ROBERT EINHORN  
MICHAEL BRAUNSTEIN  
ALEC SHELOWITZ